

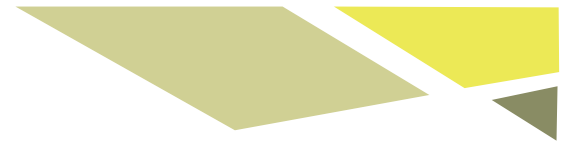


LANGEBERG LOCAL MUNICIPALITY

Long-Term Financial Plan – *Update 2026*



Prepared by
INCA Portfolio Managers
March 2025

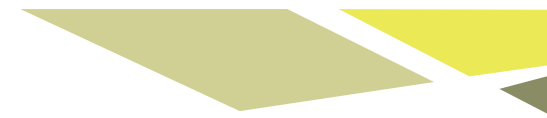


REPORT OVERVIEW – INTRODUCTION AND BACKGROUND

INCA Portfolio Managers (“IPM”) developed a Long-Term Financial Plan (“LTFP”) for Langeberg Local Municipality. The deliverable of that assignment was a report entitled Langeberg Local Municipality; Long Term Financial Plan: 2015/16– 2024/25; August 2015. The report was updated in 2019 and again in 2021, 2023 and 2024. This 2025 update aims to update the LTFP based on the latest available information and report on the findings.

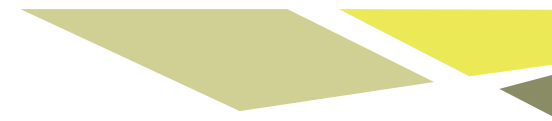
The objective of a Long-Term Financial Plan is to recommend strategies and policies that will maximise the probability of the municipality’s financial sustainability into the future. This is achieved by forecasting future cash flows and affordable capital expenditure based on the municipality’s historic performance and the environment in which it operates.

A summary of the demographic-, economic- and household infrastructure perspective was updated with the latest available information as published by S&P Global Market Intelligence. The historic financial analysis was updated with the information captured in the municipality’s audited financial statements of 30 June 2025. 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. The LTFM, as institutionalised in Langeberg LM, was calibrated against the municipality’s audited financial statements as well as the Adjustment Budget for the 3 years from 2025/2026 to 2027/2028.



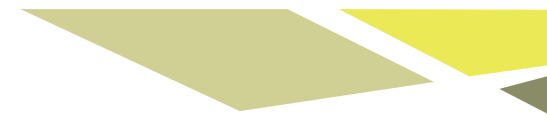
ABBREVIATIONS USED

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



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EXECUTIVE SUMMARY

KEY FINDINGS AND CONCLUSIONS DRAWN FROM THE 2025 LTFP UPDATE

HIGHLIGHTS FROM THE FY2024/25 FINANCIAL RESULTS

- Langeberg's liquidity position deteriorated. The current ratio declined to 1.51:1 in FY2024/25, from 1.77:1 in the prior year. When excluding debtors older than 30 days, the ratio weakened further to 1.19:1.
- Upon exclusion of capital grants, the municipality recorded an operating surplus of R7.2 million, a marginal improvement from R6.8 million posted in FY2023/24.
- Cash generated from operations (excluding capital grants) decreased significantly to R14.2 million during FY2024/25, down from R78 million in the prior year.
- From an efficiency perspective, electricity distribution losses deteriorated significantly to 16.89% in FY2024/25 (FY2023/24: 5.76%), and water distribution losses lessened from 18.7% to 10.59%.
- The municipality's total cash and cash equivalents declined by 34% in FY2024/25, down from R297.1 million in the prior year to R196.3 million.
- Gearing and debt-service-to-total-expenditure ratios remain low at 2.5% and 0.79%, respectively, underscoring a conservatively leveraged position.
- Repairs and maintenance expenditure decreased to R33.8 million, down from R41.7 million in FY2023/24. This resulted in repairs and maintenance spending representing approximately 3% of total operating expenditure. Ideally, this ratio should trend closer to the National Treasury norm of 8% (as a percentage of PPE and Investment Property).
- The total capital outlay over the review period amounted to R786.3 million, at an annual average of R98.3 million. The municipality's FY2024/25 capital programme was primarily funded through own cash reserves and funds (68%) and capital grants (32%).



LONG-TERM FINANCIAL PLAN UPDATE

Langeberg LM has budgeted for notable operating deficits over the MTREF period in the February Adjustment Budget. This is contrary to the historic performance in which operating surpluses were posted in each 6/8 years under review. Due to this, we are of the view that Langeberg will likely outperform the operating budget. This has been factored into the Base Case assumptions. Prior to making any adjustments to the latest Adjustment Budget, an MTREF Case was developed in order to assess the viability of the Budget. The MTREF Case provides an indication of the long-term outcome should the status quo be maintained and the budget be implemented as is. The result thereof was characterised by poor financial performance, cash generation as well as a strained liquidity position.

The MTREF Case serves to allow key strengths and weaknesses to be identified. This informs the Base Case assumptions as key target areas are identified. The first priority is to address the key weaknesses, whilst maintaining key strengths. The underlying causes of the unsustainable outcome have been addressed in the Base Case assumptions. The Base Case outcome reflects a sustainable long-term liquidity position underpinned by improved financial performance, healthy cash generation and a sustainable capital investment programme. Forecast growth in creditors has been curtailed, further supporting the healthy liquidity position. Other key improvements include reduced distribution losses as well as increased operational repairs and maintenance expenditure.

To develop a realistic Base Case model, the figures from the Adjustment Budget 2025/26 – 2027/28 were used. The objective of the model is to utilise realistic assumptions to support future financial sustainability. These assumptions have been discussed and agreed upon with the municipality. The following are the key assumptions:

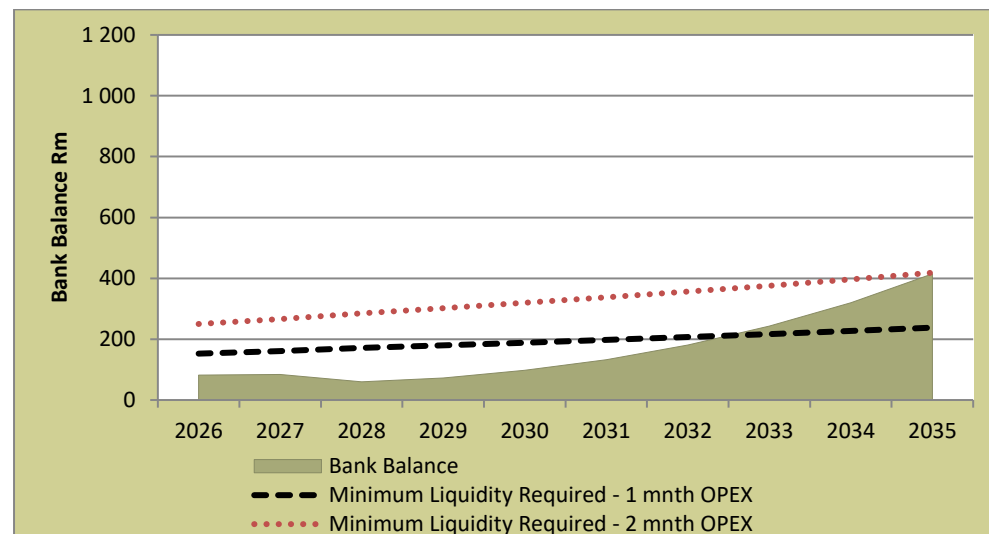
1. A collection rate of 95% is assumed to be maintained throughout the planning period.
2. A 2% cut in operating expenditure was modelled.
3. The MTREF capital investment programme was maintained as per the Adjustment Capital Budget for FY2025/26-FY2027/28, with growth beyond FY2027/28 assumed at 6% p.a.
4. No borrowings were included over the planning period.
5. Repairs and maintenance expenditure was increased to 4.0% of PPE & IP from 2.9% over 5 years.
6. Electricity losses were assumed at 8%, while water distribution losses were assumed at 15% throughout the planning period.
7. Tariff increases were included as put forward in the Adjustment Budget Document for FY2025/26-FY2027/28.
8. Creditors days were reduced in order to mitigate the forecast rise in creditors in the MTREF Case.
9. Economic data from the MERO report has been included in the LTFM forecasts.

LONG-TERM FINANCIAL MODEL OUTCOMES

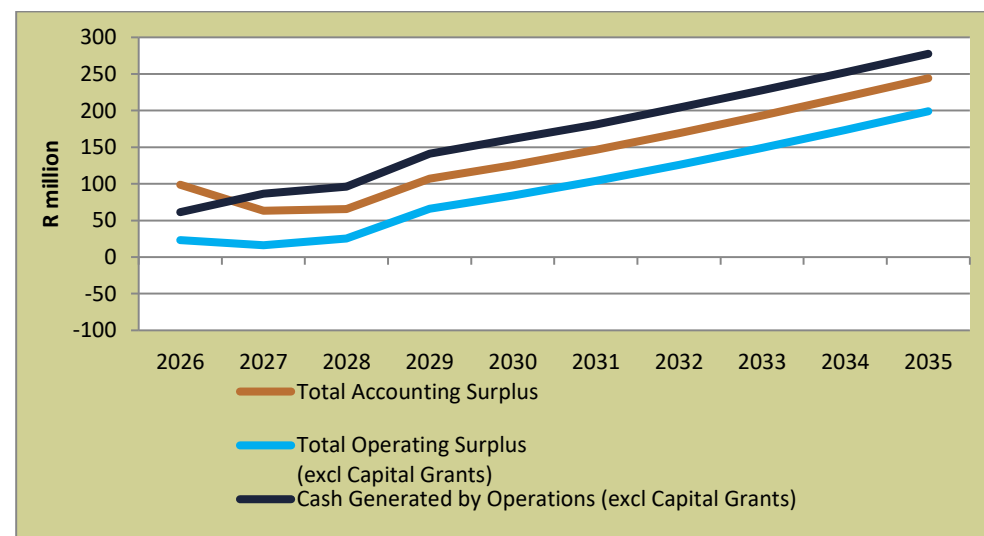
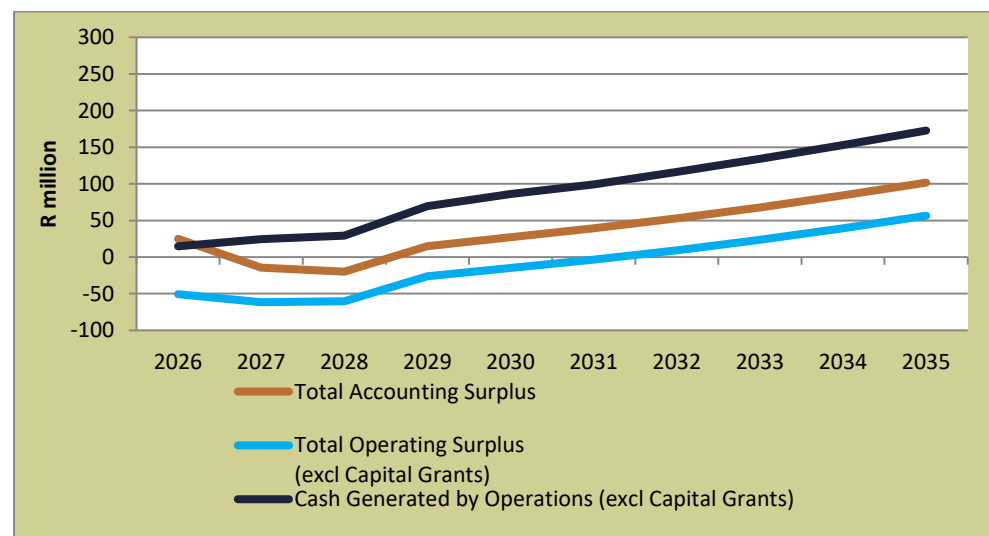
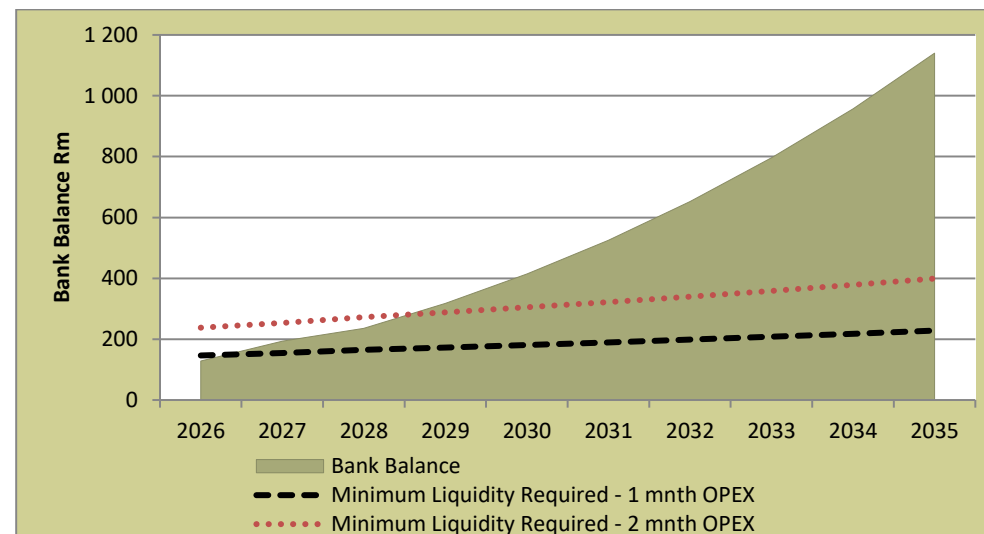
Based on these assumptions, key outcomes for the 10-year planning period are as follows:

Outcome	MTREF Case	Base Case
Average annual % increase in Revenue	7,2%	7,3%
Average annual % increase in Expenditure	7,2%	6,7%
Accounting Surplus accumulated during Planning Period (Rm)	R 379	R 1 432
Operating Surplus accumulated during Planning Period (Rm)	-R 88	R 966
Cash generated by Operations during Planning Period (Rm)	R 899	R 1 689
Average annual increase in Gross Consumer Debtors	12,9%	12,9%
Capital investment programme during Planning Period (Rm)	R 1 154	R 1 218
External Loan Financing during Planning Period (Rm)	R 0,0	R 0,0
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 415	R 1 140
No of Months Cash Cover at the end of the Planning Period (Rm)	2,3	6,7
Liquidity Ratio at the end of the Planning Period	1,3 : 1	6,2 : 1
Gearing at the end of the Planning Period	0,1%	0,1%
Debt Service to Total Expense Ratio at the end of the Planning Period	0,4%	0,0%

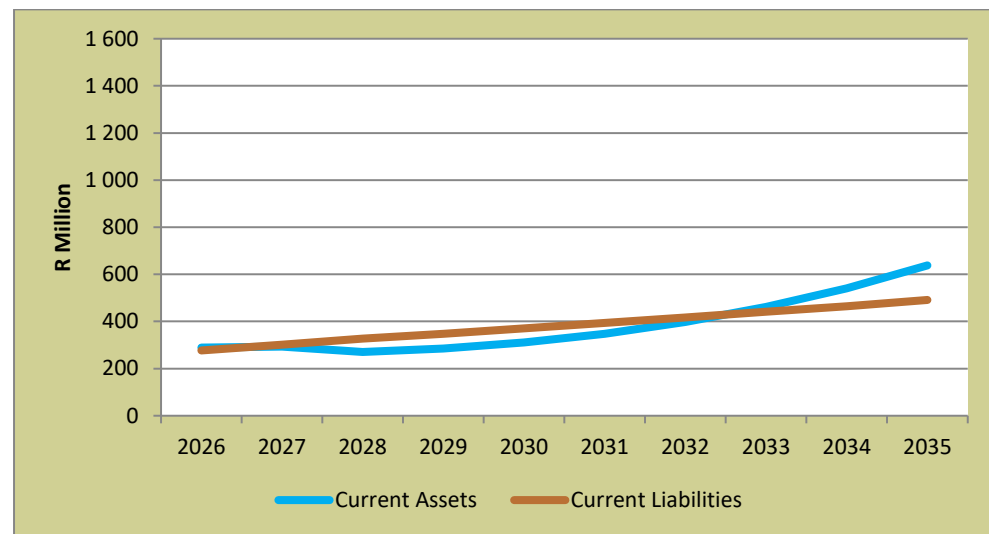
MTREF CASE SCENARIO



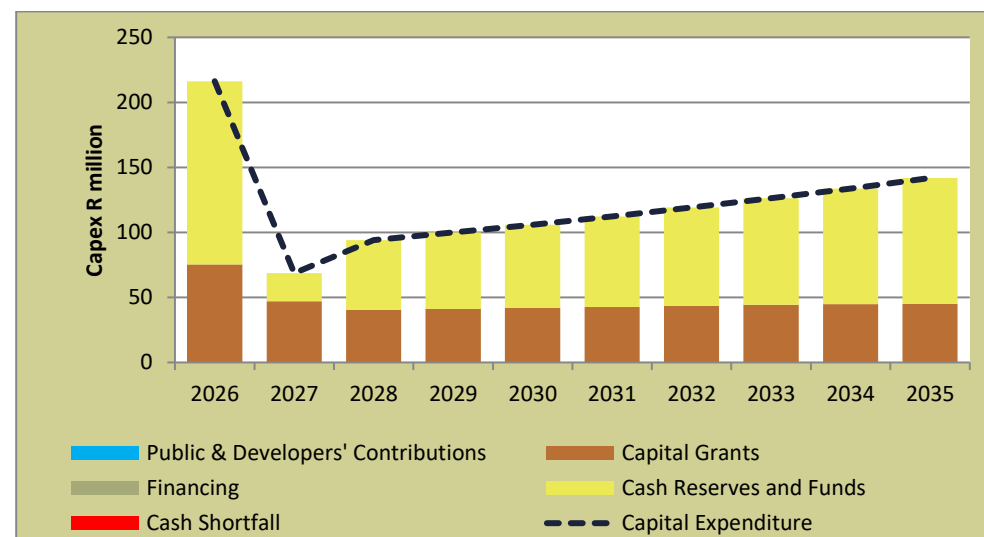
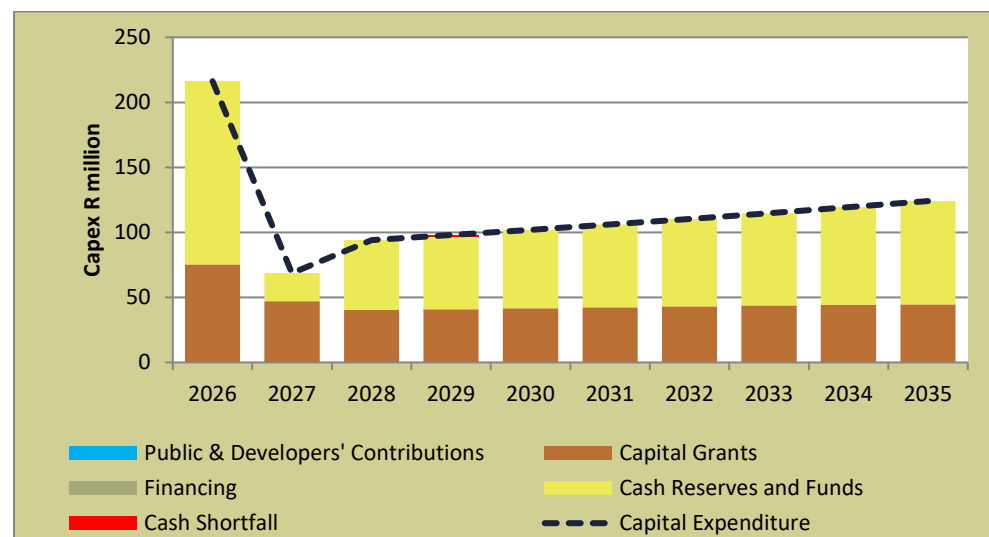
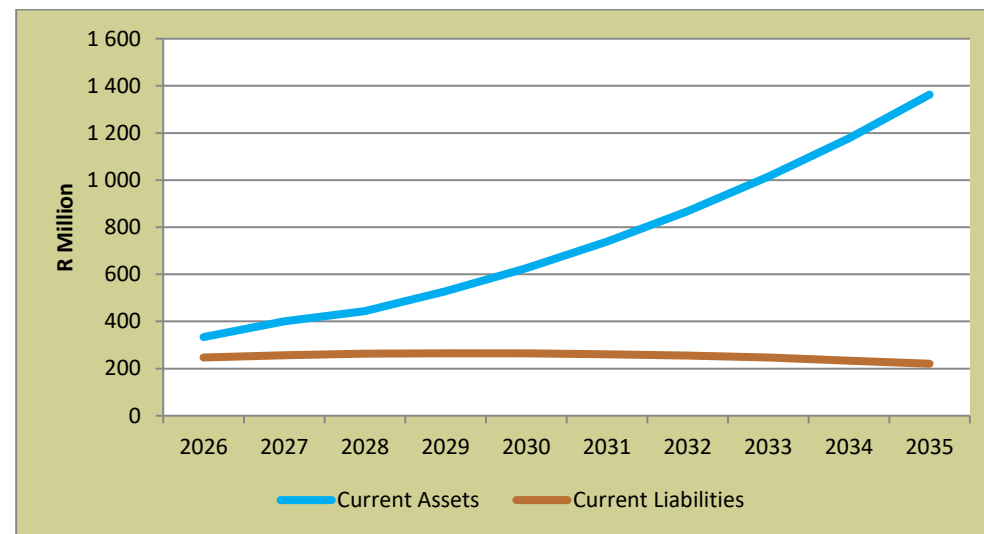
BASE CASE SCENARIO

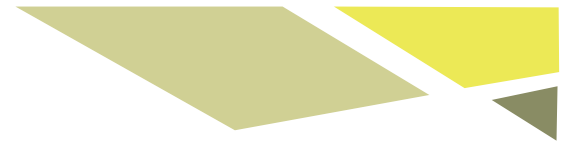


MTREF CASE SCENARIO



BASE CASE SCENARIO

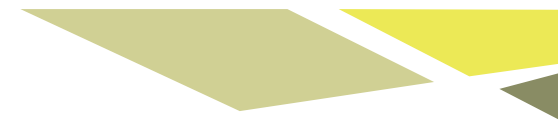




RECOMMENDATIONS

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

1. Strengthen critical repair and maintenance efforts, evaluating cost-effectiveness while emphasising efficiency with the aim of minimising service disruptions.
2. Maintain an optimised funding mix that maintains affordable utilisation of own cash as a supplement to capital grant funding. The introduction of external financing must be considered. This will be run as a scenario in the final LTFP Update with the draft budget for FY2026/27-FY2028/29.
3. Maintain a balanced approach for the long-term capital investment programme which prioritises investments that contribute to economic growth and revenue generation and prioritise timeous investment in bulk infrastructure. It is recommended that the capital prioritisation programme is informed by the affordable envelope presented in this report.
4. Formalise a capital investment prioritisation and tracking system to optimise management's capital investment decisions and mitigate the risk of underspending on capital projects.
5. Prevent a deterioration of the collection rate through the implementation of measures such as strict credit control, debt collection procedures etc. The Base Case collection rate of 95% must be maintained throughout the planning period.
6. Institutionalise the utilisation of a sophisticated tariff model to ensure that tariffs reflect the true cost of delivering the service, on an organisation-wide approach (also considering property rates and organisational overheads).
7. Update the long-term financial plan annually with the most recent information to remain a relevant and valuable strategic tool that serves as input to the annual budgeting process. Continue the ongoing utilisation of the long-term financial model to support strategic financial decision-making within the municipality.



DEMOGRAPHIC, ECONOMIC AND HOUSEHOLD INFRASTRUCTURE

- Langeberg LM's total population grew with 1.5% in 2025 equating to 127 282 in 2025 according to the 2025-26 Municipal Economic Review and Outlook (MERO; 2025-26). Langeberg's total population represents approximately 12.7% of the Cape Winelands District's total population of 1.03 million people.
- Of the 32 889 households in 2024, it should be noted that 18.5% of Langeberg's households are registered for indigent support (MERO; 2025-26).
- When considering households above the RDP threshold, the Langeberg LM, in comparison to the collective Cape Winelands district, provides better access to water (99.3% vs 98.9%), refuse removal (93.2% vs 86.5%), and sanitation (97.1% vs 96.5%) and electricity in comparison to the district (97.4% vs 97.2%), which is commendable.
- In terms of housing types, an examination of housing in Langeberg and the broader CWD shows that most households in these regions resided in formal housing in 2024 (70.5 per cent of households in Langeberg and 73.7 per cent of households in the CWD). However, the municipal area exhibited a marginally higher reliance on semi-formal and informal housing typologies than the District. In Langeberg, the aggregate share of backyard informal dwellings (6.6 per cent), flats (6.1 per cent) and townhouses (7.8 per cent) totals 20.5 per cent, surpassing the CWD aggregate of 13.5 per cent for the same categories (MERO; 2025-26).
- Langeberg's total Gross Value Add (GVA) amounted to R7.25 billion (constant 2015 prices) in 2024, accounting for 11.2% of the Cape Winelands District GVA of R64.9 billion (constant 2024 prices). According to the 2025-26 Municipal Economic Review and Outlook (MERO), analysis of the GDPR per capita of Langeberg reveals a trajectory of prolonged stagnation with significant socioeconomic implications. From 2014 to 2024, the economy of the municipal area entered a period of limited growth, with per person output increasing by a marginal 1.9 per cent.
- The local economy is largely primary and secondary sector driven, with agriculture (19% GVA contribution) and manufacturing (20% GVA contribution) forming the backbone of economic activity.
- Employment figures for Langeberg Municipality reveals that employment was lost during 2024, representing a decrease of 1.1% in 2024. The total number of employment opportunities increased to 52 018. Employment in the LM is underpinned primarily by the Finance (23.5%), Trade (22.1%), Community Services (17.9) sectors, and manufacturing (14.3%).
- It is evident that tourism visits have not yet returned to pre-pandemic levels. However, despite the lower number of visits, tourist spending has exceeded pre-pandemic levels, with the exception of 2019, which appears as an outlier—likely due to travel restrictions preventing tourists from returning to their places of origin, thus resulting in heightened spending.



1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long-Term Financial Model Outcomes

5 Future Revenues

6 Affordable Future Capital Investment

7 Scenario Analysis

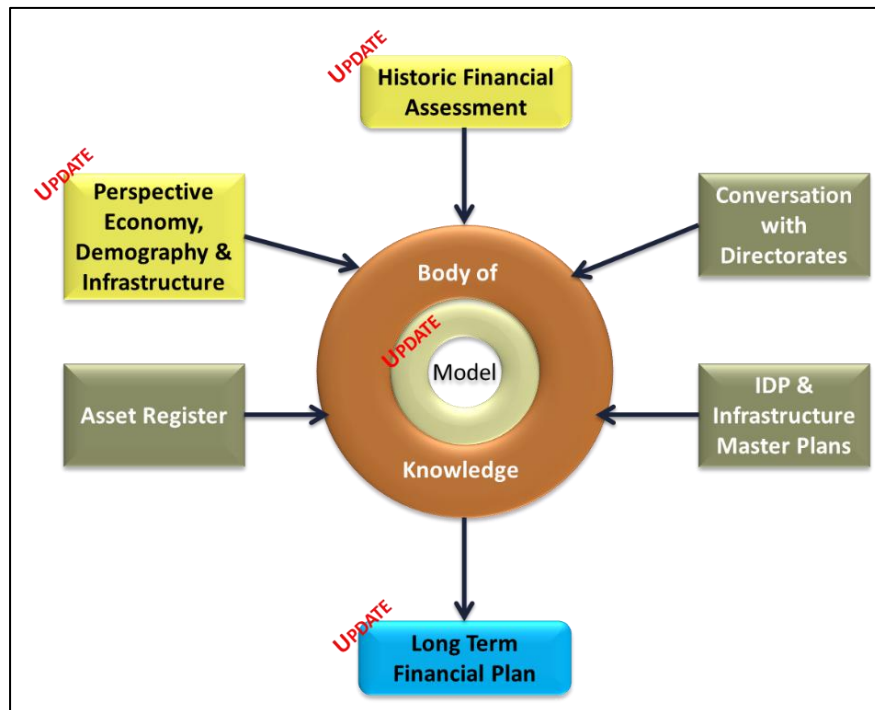
8 Ratio Analysis

9 Conclusions

PLANNING PROCESS

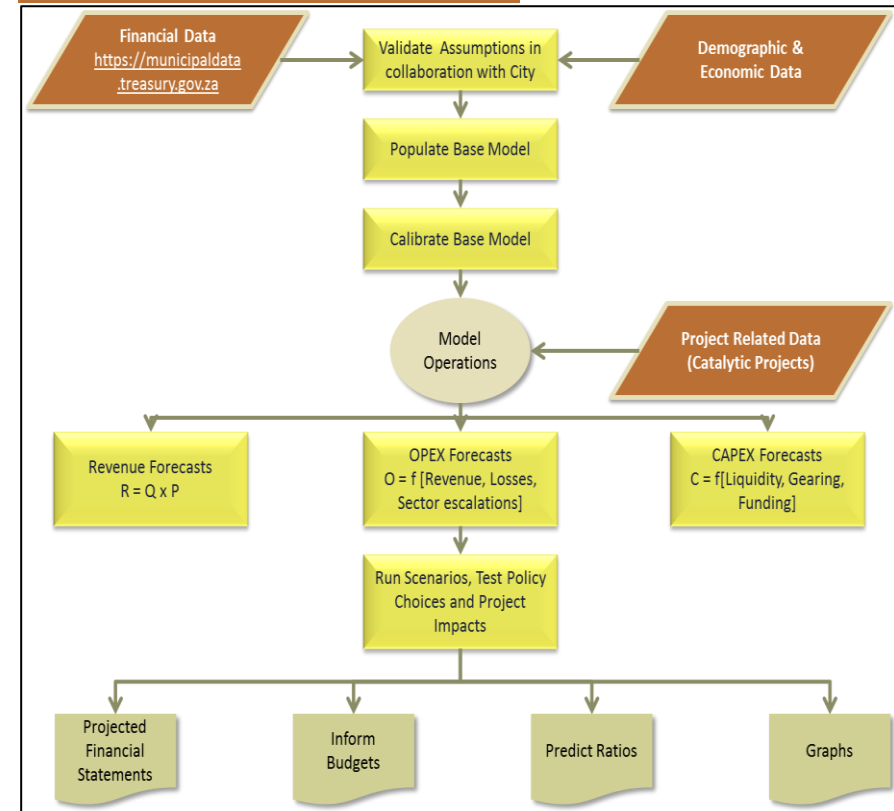
The diagram below illustrates the steps in the process that were followed in drafting the LTFP and the steps taken during this 2026 “LTFP Update”:

FIGURE 1: PLANNING PROCESS



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



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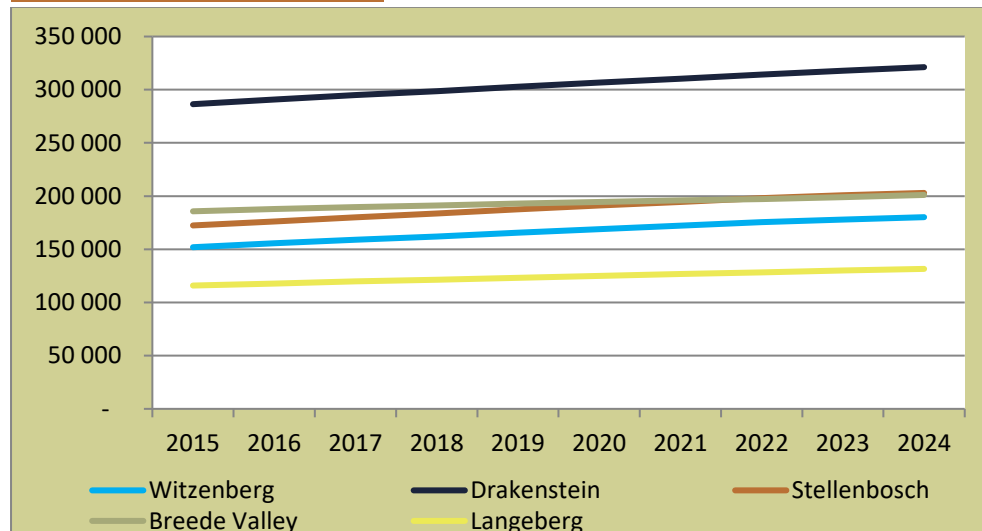
9 Conclusions

UPDATED PERSPECTIVES (DEMOGRAPHIC, ECONOMIC, HOUSEHOLD INFRASTRUCTURE)

DEMOGRAPHY

Langeberg LM's total population grew with 1.5% in 2025 equating to 127 282 in 2025 according to the 2025-26 Municipal Economic Review and Outlook (MERO; 2025-26). Langeberg's total population represents approximately 12.7% of the Cape Winelands District's total population of 1.03 million people. Over the past nine years (2015 – 2024), Langeberg's average population growth was in line with the growth rate of the district, amounting to 1.4%. While moderate population growth suggests manageable service delivery pressures, any acceleration, especially driven by lower-income in-migration, may heighten demand for basic services, housing, and infrastructure investment.

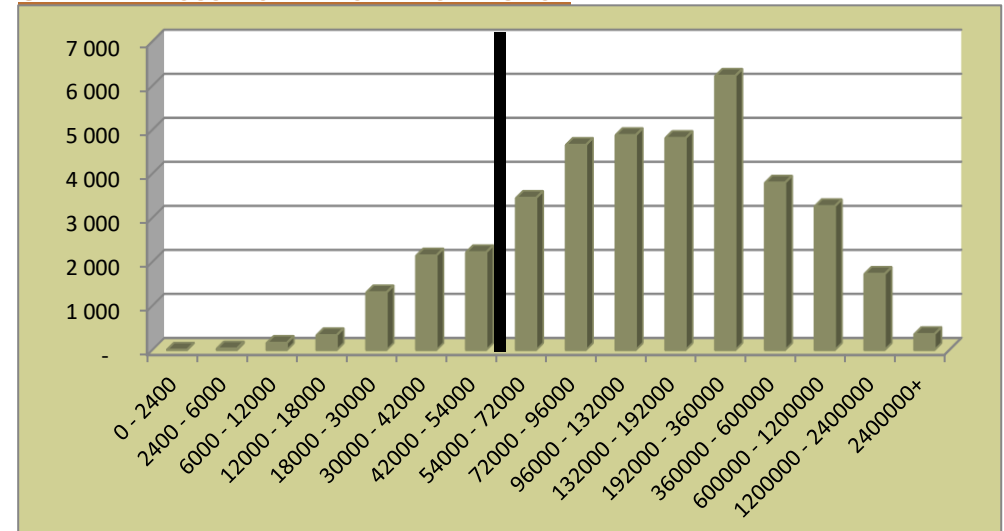
GRAPH 1: TOTAL POPULATION



Households earning less than R54 000 p.a. are indicative of the number of indigent households in the municipal area and reflect those who qualify for and/or are largely reliant on government grants as a source of income. According to the MERO, 6 088 households are registered for indigent support, a decline from 7 556 households in

2018. This equates to approximately 18.5% of the total of 32 889 households within Langeberg in 2024.

GRAPH 2: HOUSEHOLD INCOME DISTRIBUTION

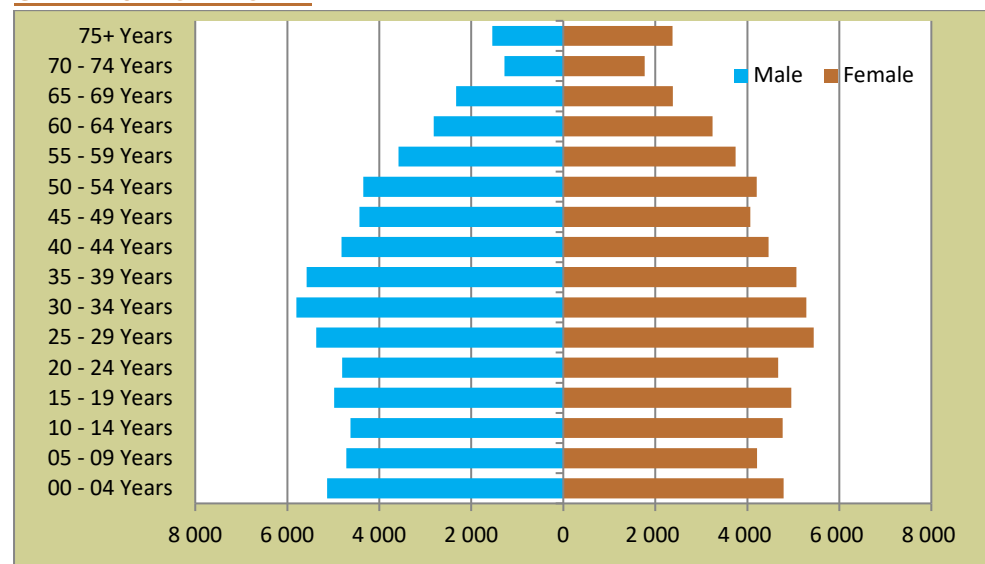


This significant proportion of households being registered for indigent support directly affects the municipality's financial performance, as no surplus margin is generated from the provision of services to these households. In addition, reliance on a smaller base of paying consumers increases financial risk. Should even a portion of this group default on payments for municipal services, the impact on revenue is proportionally greater than it would be if the paying base were broader. Consequently, the municipality's financial stability becomes more vulnerable due to its dependence on a limited number of revenue-contributing households.

While the proportion of the population living below the food poverty line (FPL) has shown a notable improvement, falling from 40.0 per cent in 2014 to 33.0 per cent in 2024, the more comprehensive lower-bound poverty line (LBPL) reveals a far more stubborn reality.

The share of the population that is below the LBPL has increased significantly over the past decade, from 39.5 per cent in 2014 to 51.6 per cent in 2019, before declining slightly to 49.9 per cent in 2024. This indicates that half the population continues to live in poverty (MERO; 2025-26).

GRAPH 3: AGE PROFILE

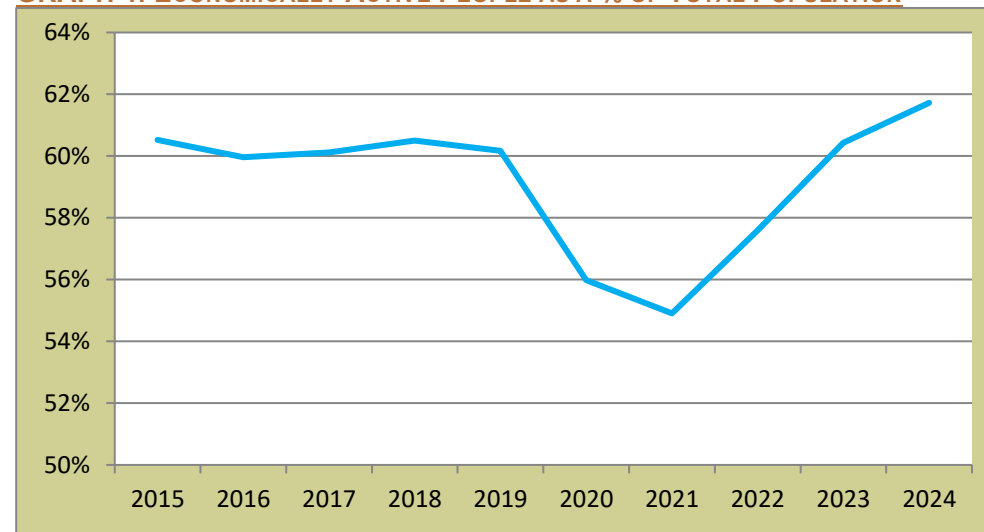


GRAPH 3 illustrates the age profile of Langeberg's population. The structure reflects a broad base, indicating a relatively youthful population, with a large proportion of individuals under the age of 35 years. Approximately 53.6% of the population falls within the 0–34-year age group, while the working-age population (15–64 years) constitutes the bulk of residents (67.2%). The largest age cohorts are concentrated between the 20–39-year brackets, highlighting the municipality's potentially strong labour force. Conversely, only a small proportion, around 7.6%, of the population is aged 65 years and older, suggesting that Langeberg is not yet a significant retirement destination, but rather an area characterised by a young, economically active demographic.

Related to the working age population, the economically active population as a percentage of the total population has increased to 61.7% in 2024 from 60.4% in

2023. It is positive to note that this marks the second consecutive year of growth in this indicator, following the sharp contraction experienced during 2020–2021.

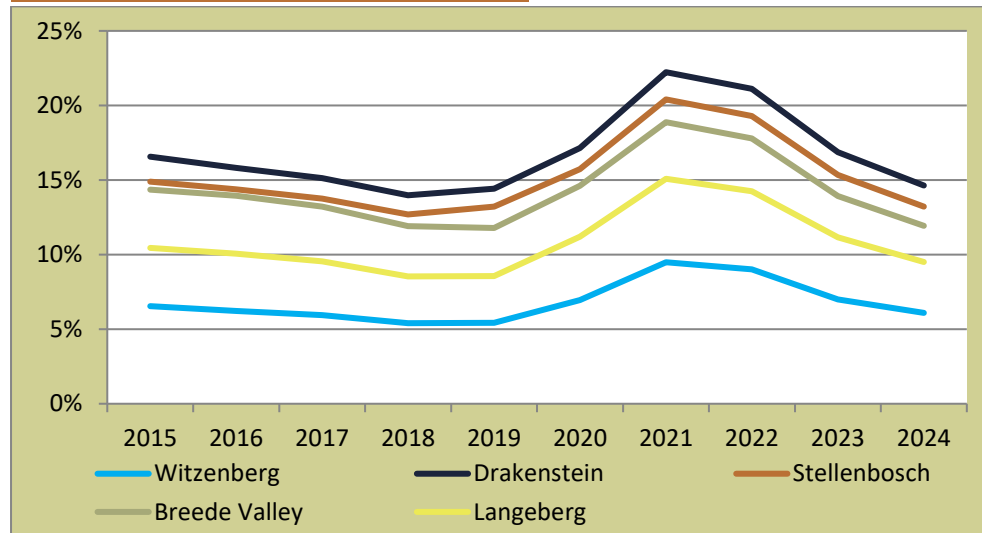
GRAPH 4: ECONOMICALLY ACTIVE PEOPLE AS A % OF TOTAL POPULATION



The observed improvement in economically active can directly be correlated with an improved official unemployment rate, as observed on the graph below.



GRAPH 5: OFFICIAL UNEMPLOYMENT RATE



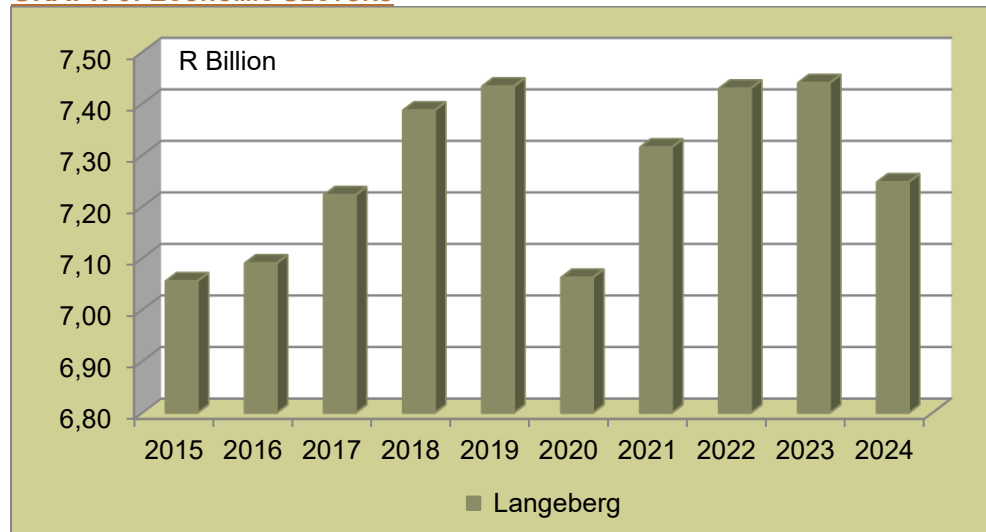
The continued downward trend experienced since 2021 is evident, with the unemployment rate declining to 9.5% in 2024. This marks the third consecutive year of improvement, following a sharp rise during the Covid-19 period when unemployment peaked at 15.1% in 2021. A commendable trend from the figure above, is that Langeberg is notably the LM with the second lowest unemployment rate (9.5%) in the district. Moreover, the level of unemployment is far lower than that experienced within the nation (32.6%) and province (20.9%) in 2024.

It must be noted that the official unemployment rate is based on a narrow definition, excluding discouraged jobseekers and those not actively seeking employment. Therefore, it is reasonable to assume that the true rate of unemployment is considerably higher when these groups are included.

ECONOMIC

Notwithstanding the positive economic growth recorded in the post-Covid period, Langeberg continues to operate within an environment of sluggish and uneven recovery. Various external and domestic pressures — including geo-political instability, persistently high inflation, and rising input costs — have constrained household disposable income. Consequently, the municipality must closely monitor the extent to which households can be levied going forward. A sustained decline in household income, coupled with rapid increases in municipal service costs, could place significant strain on the municipality's future revenue base and collection performance.

GRAPH 6: ECONOMIC SECTORS



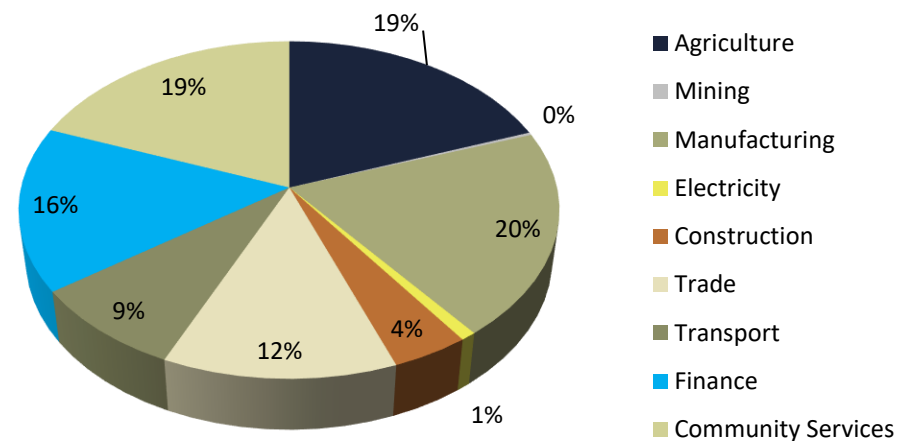
Langeberg's total Gross Value Add (GVA) amounted to R7.25 billion (constant 2015 prices) in 2024, accounting for 11.2% of the Cape Winelands District GVA of R64.9 billion (constant 2015 prices). The municipality's economy was severely impacted by the pandemic, recording a sharp contraction of 5% in 2020. A recovery followed in the subsequent two years, with growth of 3.6% in 2021 and 1.6% in 2022, reflecting the rebound in agricultural and trade activity. However, this recovery lost momentum, as the economy contracted by 2.6% in 2024, highlighting the fragility of growth within the local economy. According to the 2025-26 Municipal Economic

Review and Outlook (MERO), analysis of the GDP per capita of Langeberg reveals a trajectory of prolonged stagnation with significant socioeconomic implications. From 2014 to 2024, the economy of the municipal area entered a period of limited growth, with per person output increasing by a marginal 1.9 per cent.

There is growing concern over the sluggish pace of economic growth relative to population expansion. Over the past five years, population growth averaged approximately 1.17% per annum, while the economy contracted in 2024. Efforts to stimulate sustainable, inclusive growth through diversification and improved productivity will be essential to enhance living standards and economic resilience in the years ahead.

Langeberg's economy is moderately diversified as evidenced by a Tress Index of 44.4 in 2024 (MERO; 2025-26). The Tress Index measures economic concentration, where a higher value indicates a lower degree of diversification. The gradual upward trend in Langeberg's index over the past decade suggests that while the economy remains fairly broad-based, it has become increasingly concentrated in fewer key sectors.

GRAPH 7: ECONOMIC SECTORS



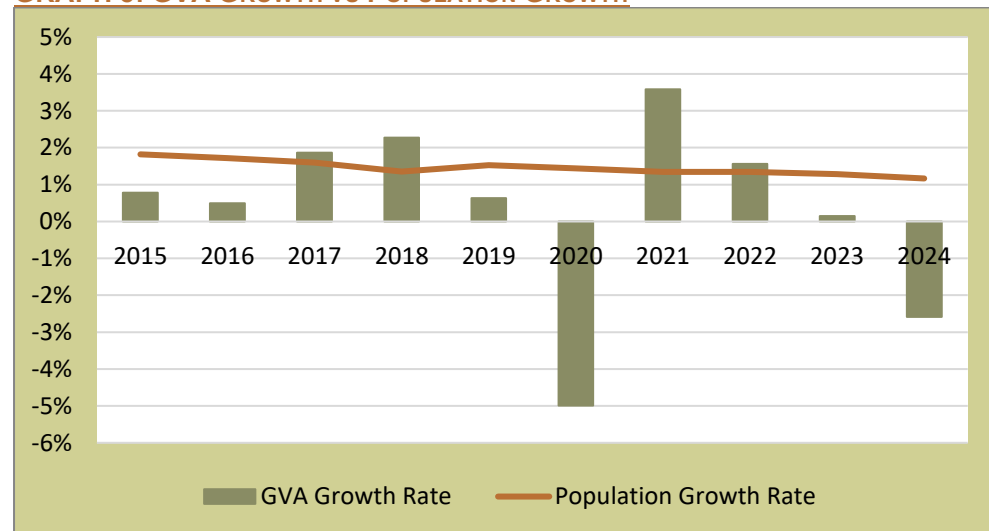
The local economy is largely primary and secondary sector driven, with agriculture and manufacturing forming the backbone of economic activity. In 2024, agriculture

contributed 19% and manufacturing 20% to total Gross Value Added (GVA). It should be mentioned that the significant contribution of these two industries are extremely advantageous to Langeberg's local economy, as their significant presence allows for logistical efficiency leading to greater economic "spin off" in other industries.

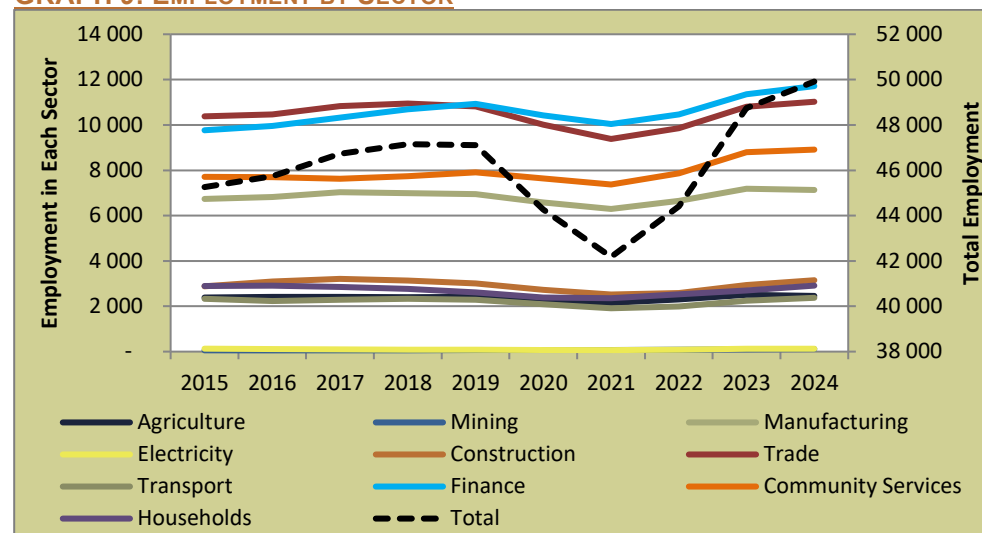
TABLE 1: CONTRIBUTION OF SUB-SECTORS TO GVA (CONSTANT 2015 PRICES)

Subsector	2014	2024
Agriculture	18,9%	19,4%
Mining	0,3%	0,2%
Manufacturing	18,9%	19,8%
Electricity	1,0%	0,8%
Construction	6,5%	4,1%
Trade	13,6%	12,4%
Transport	7,3%	8,4%
Finance	15,4%	15,8%
Community Services	18,1%	19,1%

GRAPH 8: GVA GROWTH VS POPULATION GROWTH



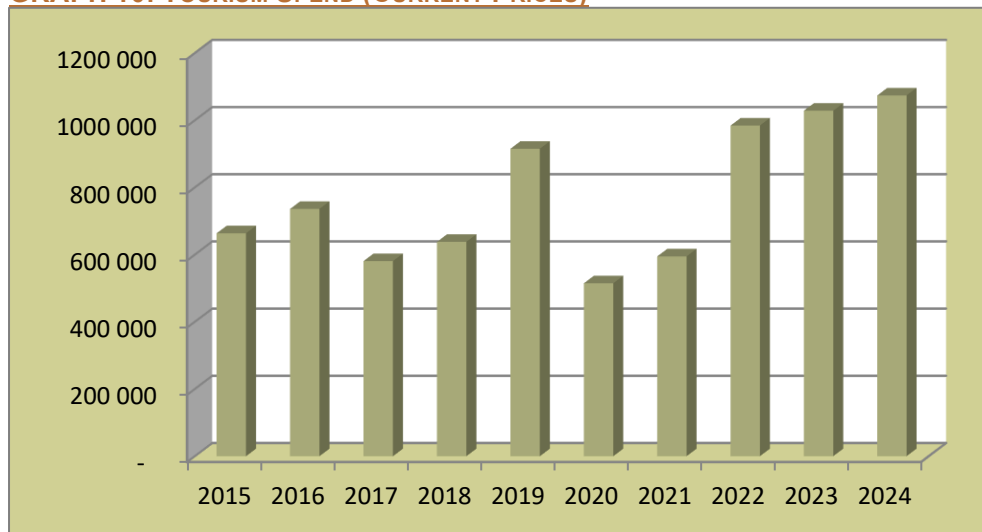
GRAPH 9: EMPLOYMENT BY SECTOR



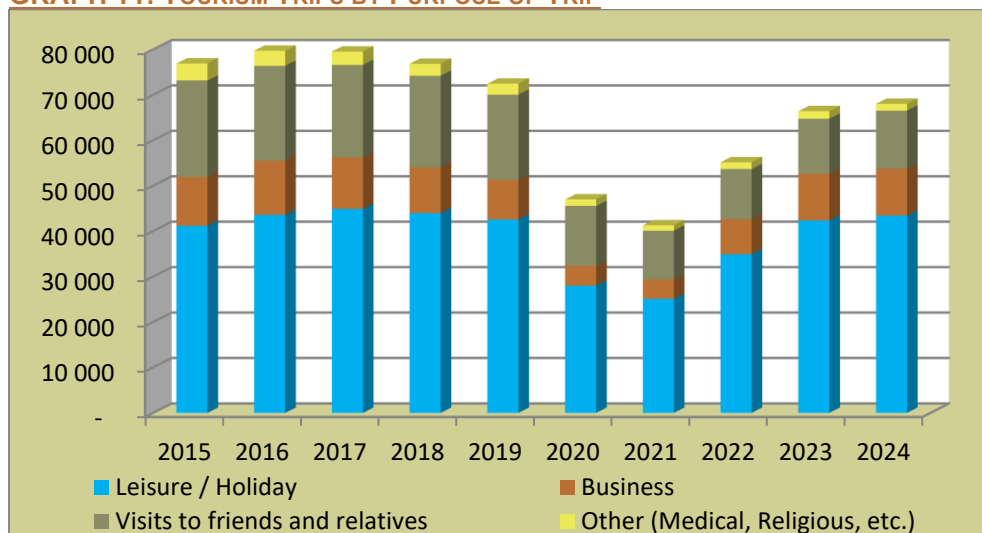
Employment figures for Langeberg Municipality reveals that employment was lost during 2024, representing a decrease of 1.1% in 2024. The total number of employment opportunities increased to 52 018.

Employment in the LM is underpinned primarily by the Finance (23.5%), Trade (22.1%), Community Services (17.9) sectors, and manufacturing (14.3%). These sectors remain the backbone of the local economy, demonstrating resilience despite broader economic challenges.

GRAPH 10: TOURISM SPEND (CURRENT PRICES)



GRAPH 11: TOURISM TRIPS BY PURPOSE OF TRIP



An analysis of the tourism sector would be incomplete without considering the number and purpose of tourism trips into Langeberg Municipality. The total number

Although tourism is not classified as a distinct economic sector, it plays a pivotal role as a cross-cutting driver of economic activity. The municipality is therefore encouraged to continue promoting tourism investment and events while ensuring that infrastructure and service delivery standards are maintained to strengthen Langeberg's attractiveness as a tourism destination.

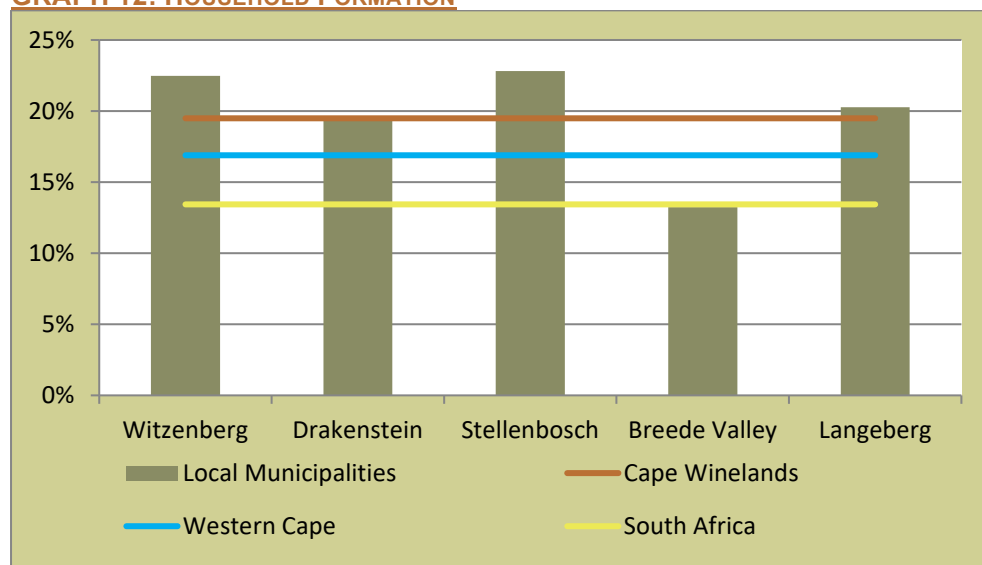
GRAPHS 10 AND 11 collectively illustrate the historical and current state of tourism within Langeberg Local Municipality, depicting tourism visits and tourist expenditure, respectively. From **GRAPH 10**, it is evident that tourism visits have not yet returned to pre-pandemic levels. However, **GRAPH 16** shows that, despite the lower number of visits, tourist spending has exceeded pre-pandemic levels, with the exception of 2019, which appears as an outlier—likely due to travel restrictions preventing tourists from returning to their places of origin, thus resulting in heightened spending.

HOUSEHOLD INFRASTRUCTURE

Langeberg's rate of household formation is higher than that of the Cape Winelands District and Western Cape Province, with the Langeberg municipal area including 32 889 households in 2024 (MERO; 2025-26).

Growth in the number of households — in conjunction with population growth — places increasing pressure on the municipality to expand and maintain the provision of basic services such as water, sanitation, and electricity. The municipality must therefore ensure that infrastructure investment keeps pace with household formation to avoid service delivery constraints in the medium to long term.

GRAPH 12: HOUSEHOLD FORMATION

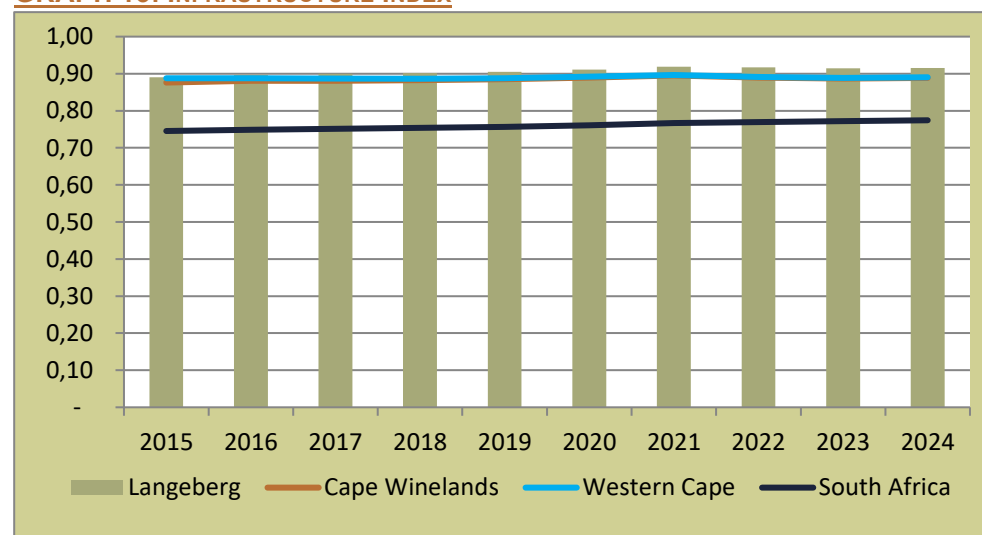


Langeberg has maintained a consistently high Infrastructure Index throughout the review period, improving marginally from 0.89 in 2015 to 0.91 in 2024. This stable performance reflects the municipality's ability to provide widespread access to basic municipal services and to keep pace with the rate of household formation. The Infrastructure Index serves as an indicator of access to services such as water, sanitation, electricity, and refuse removal, but it does not evaluate the quality,

reliability, or sustainability of these services. This distinction is important, as maintaining infrastructure and service quality amid fiscal and operational pressures remains a critical challenge.

It is encouraging to note that Langeberg's infrastructure index remains above the national (0.77) average, demonstrating the municipality's relative success in maintaining a well-developed service network. Sustaining this performance will require continued investment in infrastructure maintenance and capacity expansion, particularly in response to ongoing household and population growth.

GRAPH 13: INFRASTRUCTURE INDEX



The table on the following page compares service provision between Langeberg Local Municipality and the Cape Winelands District. When considering households above the RDP threshold, the Langeberg LM, in comparison to the collective Cape Winelands district, provides better access to water (99.3% vs 98.9%), refuse removal (93.2% vs 86.5%), and sanitation (97.1% vs 96.5%) and electricity in comparison to the district (97.4% vs 97.2%), which is commendable.



TABLE 1: HOUSEHOLD INFRASTRUCTURE PROVISION

Infrastructure	Langeberg	Cape Winelands
<i>Above RDP Level</i>		
Sanitation	97.1%	96.5%
Water	99.3%	98.9%
Electricity	97.4%	97.2%
Refuse Removal	93.2%	86.5%
<i>Below RDP or None</i>		
Sanitation	2.9%	3.5%
Water	0.7%	1.1%
Electricity	2.6%	2.8%
Refuse Removal	6.8%	13.5%

It should be noted that the provision of basic services is of paramount importance to the municipality's economic prosperity, as it creates a conducive environment for both business activity and household development, which in turn contribute to sustained economic growth. Failure to provide adequate basic services will inevitably undermine any strategic efforts aimed at improving the municipality's economic condition. However, as seen within the figures below, improvements have been made which the local municipality can be commended for.

In terms of housing types, an examination of housing in Langeberg and the broader CWD shows that most households in these regions resided in formal housing in 2024 (70.5 per cent of households in Langeberg and 73.7 per cent of households in the CWD). However, the municipal area exhibited a marginally higher reliance on semi-formal and informal housing typologies than the District. In Langeberg, the aggregate share of backyard informal dwellings (6.6 per cent), flats (6.1 per cent) and townhouses (7.8 per cent) totals 20.5 per cent, surpassing the CWD aggregate of 13.5 per cent for the same categories (MERO; 2025-26).



1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long-Term Financial Model Outcomes

5 Future Revenues

6 Affordable Future Capital Investment

7 Scenario Analysis

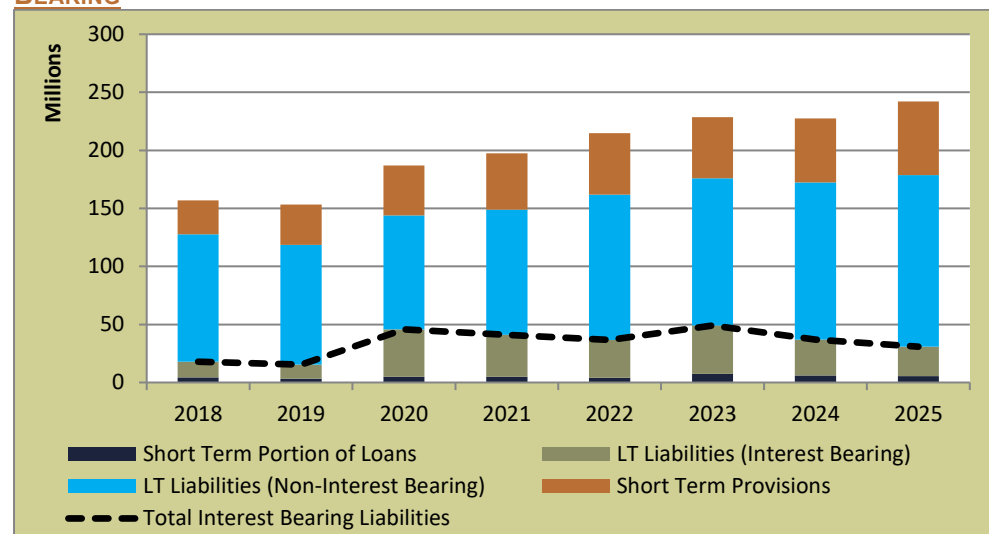
8 Ratio Analysis

9 Conclusions

UPDATED HISTORIC FINANCIAL ASSESSMENT

FINANCIAL POSITION

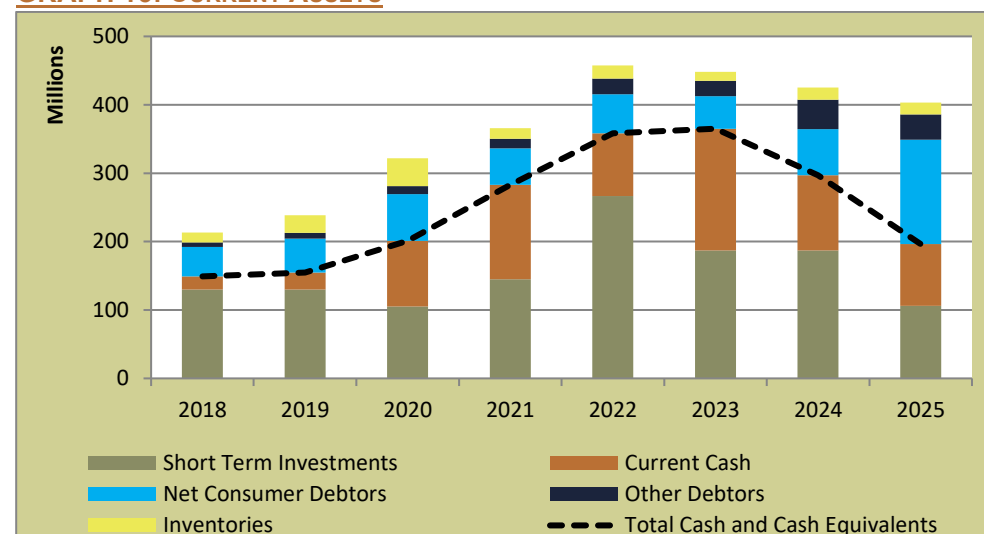
GRAPH 14: LONG-TERM LIABILITIES: INTEREST BEARING VS NON-INTEREST BEARING



When considering the findings in the above graph, it should firstly be noted that there were no additional loans undertaken during the year (green bar). The absence of new borrowings is reflected by the decline in interest-bearing long-term liabilities to R25.4 million (FYE2023/24: R30.9 million). Gearing and debt-service-to-total-expenditure ratios remain low at 2.5% and 0.79%, respectively, underscoring a conservatively leveraged position. Throughout the review period, the municipality's gearing ratio remained significantly below the NT norm of 45%, indicating that the municipality still has ample scope to access external financing within affordable parameters, as outlined in Chapter 7 of this report. It is therefore recommended that the municipality considers accelerating its borrowing programme to leverage this capacity and fund capital expenditure more effectively. It is noteworthy that Langeberg has not included any borrowings in the budgeted capital funding mix over the MTREF period. The inclusion of borrowings into the funding mix, coupled with the extent of capital grants expected to be received, would enable a material

acceleration of capital investment without compromising the municipality's sound liquidity position.

GRAPH 15: CURRENT ASSETS

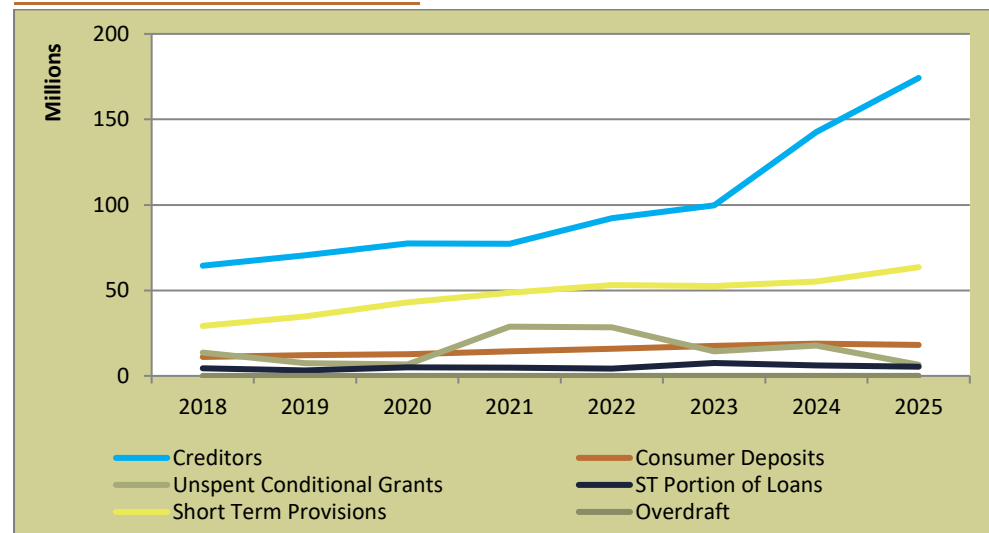


Current assets declined by 17% during FY2024/25, down to R599.54 million from R722.15 million in the prior year. This decrease was mainly driven by reductions in short-term investments and cash holdings, partially offset by a significant increase in consumer debtors, which rose to R152.4 million. It is noted that the rise in debtors was impacted by billing errors pursuant to the implementation of the new billing system. It is expected that these errors will not persist in future years. The decline in cash and investment balances underscores the need to strengthen liquidity management to ensure adequate cash reserves for operational sustainability.

As per the following graph, current liabilities increased by 22.3% during FY2024/25, rising to R267.8 million from R240.2 million in FY2023/24. The increase was primarily driven by a growth in trade and other payables, which escalated to R174.2 million,

alongside higher short-term provisions. The rising liability base, coupled with a weaker cash position, places pressure on the municipality's short-term solvency. Priority should be given to reducing the creditors balance and enhancing collection efficiency to stabilise liquidity over the medium term.

GRAPH 16: CURRENT LIABILITIES



The combined impact of movements in current assets and liabilities resulted in a deterioration of the municipality's liquidity position. The current ratio declined to 1.51:1 in FY2024/25, from 1.77:1 in the prior year, indicating that current assets are no longer expanding at the same pace as short-term obligations. When excluding debtors older than 30 days, the ratio weakened further to 1.19:1 (FY2024/25: 1.51:1), reflecting that a significant portion of current assets is not readily available to meet immediate obligations.

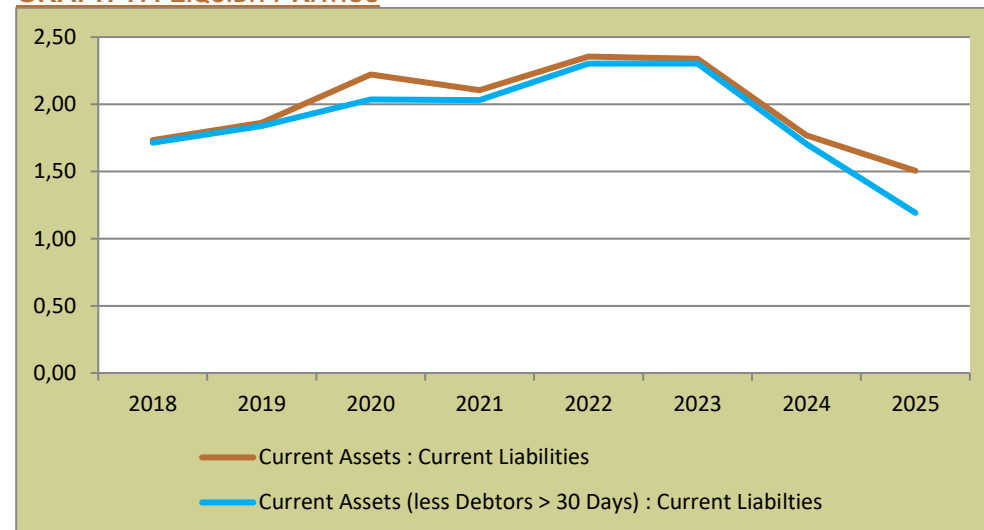
While the ratio remains above 1:1, the downward trend highlights increasing liquidity pressure and a narrowing cash buffer. The persistent growth in consumer debtors and trade payables, coupled with declining cash and investment balances, continues to weigh on short-term solvency. The improvement of the cash position and enhancement of collection efficiency must be prioritised to prevent further erosion of liquidity. Sustained improvements in financial performance and working capital

management would provide a much-needed boost to the municipality's liquidity position going forward.

TABLE 2: LIQUIDITY RATIOS

	2018	2019	2020	2021	2022	2023	2024	2025
Current Assets: Current Liabilities	1,73	1,86	2,22	2,10	2,35	2,34	1,77	1,51
Current Assets (less Debtors > 30 Days): Current Liabilities	1,71	1,84	2,04	2,03	2,30	2,30	1,71	1,19

GRAPH 17: LIQUIDITY RATIOS



Gross consumer debtors increased significantly by 94.9% during FY2024/25, rising to R278.8 million as at year-end, up from R143 million in the prior year. The provision for bad debts also increased by 66.5%, reaching R126.4 million to account for the growing portion of long-outstanding debt. Consequently, net consumer debtors increased by 127%, from R67.1 million in FY2023/24 to R152.4 million in FY2024/25. The collection rate declined to 82.7% (FY2023/24: 92.4%), reflecting reduced collection efficiency and rising arrear levels. This trend is concerning, as it indicates that a substantial portion of billed income remains uncollected despite growth in overall billing. As indicated, the decline in the collection rate was influenced

by billing errors related to the implementation of the new billing system. It is expected that this is likely to be a once-off event and will not persist into the future.

Electricity debtors remained the largest category of consumer debtors, accounting for approximately 55% of total net consumer debtors as at FYE2024/25, increasing significantly to R83.3 million from R37.1 million in the prior year. This was followed by water debtors, which rose sharply to R29 million (19% of the total), reflecting both higher consumption levels and weaker collection performance. Rates debtors increased to R17.8 million, representing 12% of the total, while refuse and sewerage debtors amounted to R11.5 million (8%) and R10.7 million (7%), respectively.

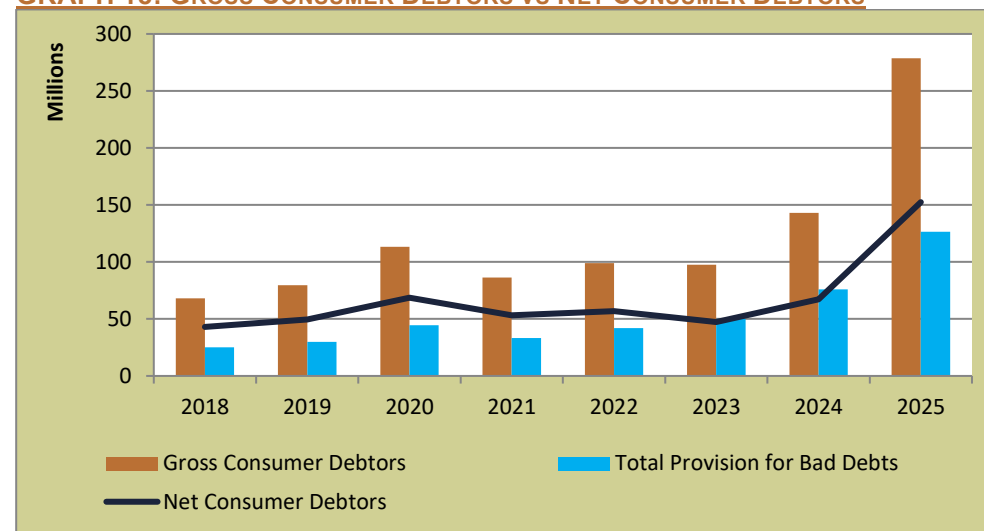
The substantial growth across all debtor categories indicates mounting affordability pressures on households and reduced collection efficiency across core service charges. Electricity and water debtors, together comprising nearly three-quarters of the total balance, continue to drive the overall growth in arrears.

The provision for bad debts of R126.4 million fell slightly short of the debtors older than 90 days balance of R129.9 million. While full coverage of long-outstanding debt is ideal, it is reasonable to conclude that the risk of non-payment was largely provided for during FY2024/25. Strengthening revenue management, improving billing accuracy, and enhancing debt recovery efforts remain key priorities to contain further growth in arrears and improve the municipality's liquidity position.

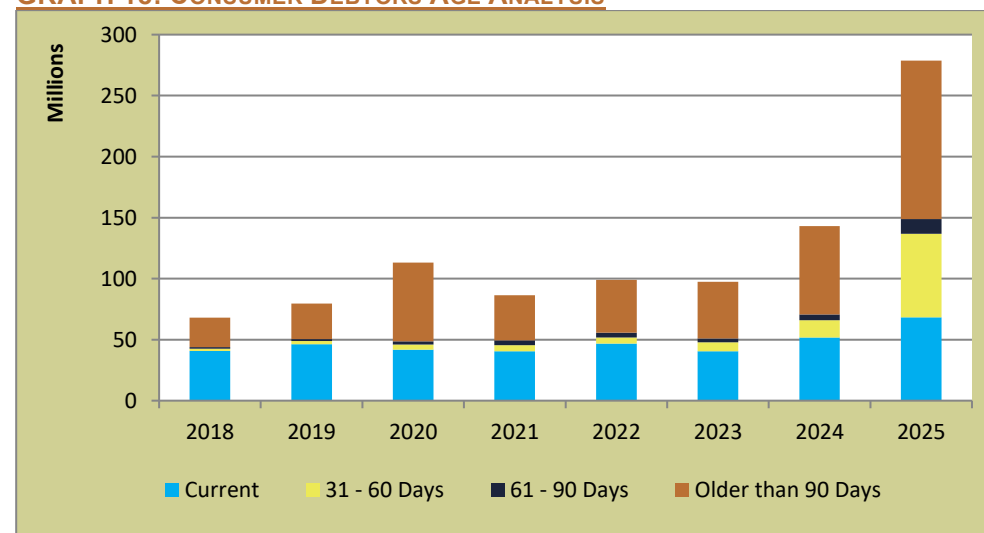
TABLE 3: DEBTORS RATIOS

	2019	2020	2021	2022	2023	2024	2025
Increase in Billed Income p.a. (R'm)	61	71	34	118	(33)	83	163
% Increase in Billed Income p.a.	14%	14%	6%	19%	-4%	12%	21%
Gross Consumer Debtors Growth	17%	42%	-24%	14%	-1%	47%	95%
Payment Ratio/Collection Rate (%)	95%	94%	103%	95%	98%	92%	823%

GRAPH 18: GROSS CONSUMER DEBTORS VS NET CONSUMER DEBTORS

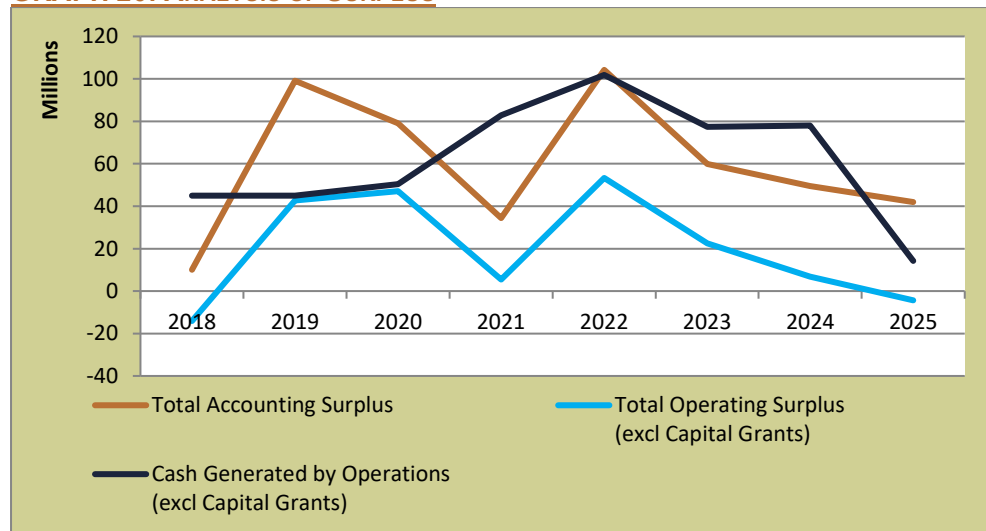


GRAPH 18: CONSUMER DEBTORS AGE ANALYSIS



FINANCIAL PERFORMANCE

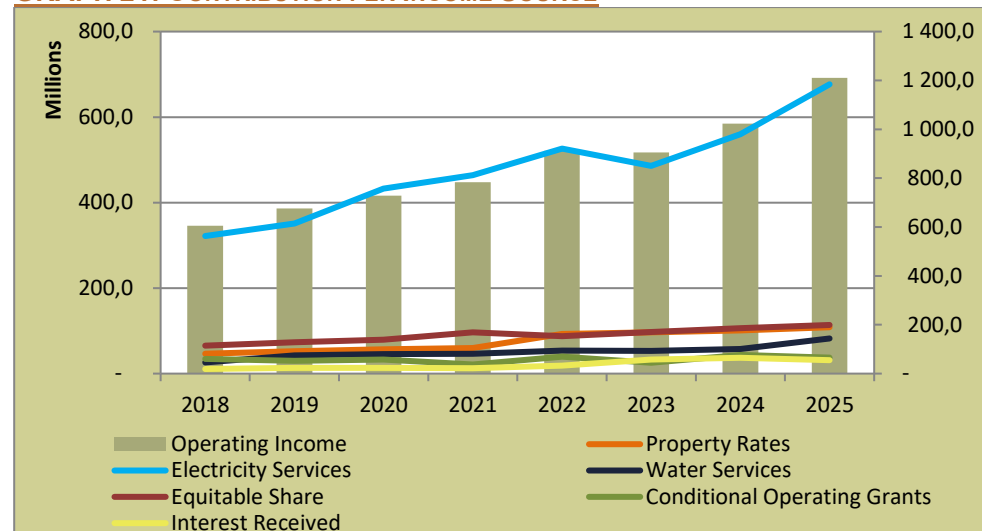
GRAPH 20: ANALYSIS OF SURPLUS



Total income increased by 17.9% during FY2024/25, rising to R1.26 billion from R1.07 billion in the prior year. Total operating expenditure grew by a slightly higher 19.5%, reaching R1.22 billion compared to R1.02 billion in FY2023/24. This resulted in a slight decline in the total accounting surplus to R47.5 million during FY2024/25, down from R49.5 million in the prior year. Upon the exclusion of capital grants, the municipality recorded an operating surplus of R7.2 million, a marginal improvement from R6.8 million posted in FY2023/24.

Cash generated from operations (excluding capital grants) decreased significantly to R14.2 million during FY2024/25, down from R78 million in the prior year. This decline suggests increased pressure on liquidity and is consistent with the decline in the collection rate. While the municipality has demonstrated consistent growth in total income and maintained a positive operating balance, enhanced expenditure management and improved billing and collection efficiency will be critical to ensure stronger and more sustainable cash generation going forward.

GRAPH 21: CONTRIBUTION PER INCOME SOURCE

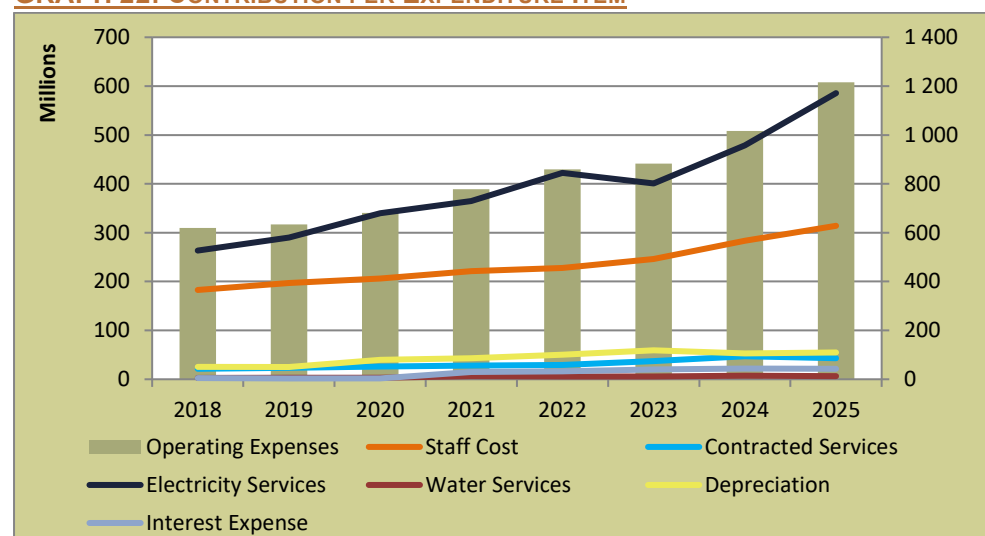


The strong growth in income during FY2024/25 was driven primarily by increases in water services (43%), electricity services (21%), and other operating income (36%). The growth in electricity revenue is particularly positive, following periods of slower growth linked to the national energy constraints and consumption volatility. Electricity services remained the predominant contributor to total revenue, accounting for approximately 55% of total operating income during FY2024/25. This was followed by property rates (9%), equitable share allocations (10.5%), and other operating income (12.5%). Total grants (equitable share and conditional grants combined) accounted for roughly 14.4% of total income, reflecting a moderate reliance on external transfers. This indicates that Langeberg Municipality remains largely self-sufficient, generating the bulk of its revenue from own sources — a key indicator of fiscal resilience.

With electricity services remaining Langeberg's main source of income, accounting for over half of total operating revenue, there remains a significant risk to the municipality's revenue stability should persistent load shedding or reduced consumption patterns re-emerge. To mitigate this risk, the municipality must work towards diversifying its revenue base by maximising income from alternative

sources such as property rates, water services, and other trading services. More importantly, stringent management of operating expenditure is essential, as this remains an area where the municipality has a degree of control. Cost containment and efficiency improvements should be prioritised to protect the operating surplus and liquidity position. Furthermore, it is recommended that the municipality undertake a detailed tariff review, supported by a comprehensive cost-of-service and tariff modelling exercise, to ensure that tariffs accurately reflect the true cost of providing municipal services. This will help ensure financial sustainability while maintaining affordability for consumers in the long term.

GRAPH 22: CONTRIBUTION PER EXPENDITURE ITEM



Total operating expenditure increased by 19.5% during FY2024/25, underpinned by growth in staff costs (15%) and electricity bulk purchases (22.5%). Electricity bulk purchases remained the predominant expenditure item in FY2024/25, accounting for 48% of total operating expenditure. This was followed by staff costs, which contributed 25.8%.

While the contribution of staff costs remains below the National Treasury norm of 40%, this figure must be viewed alongside contracted services, which often serve as an alternative to in-house capacity. Contracted services declined slightly during FY2024/25, down by 3.5%, reflecting success in implementing cost-containment measures. However, caution must be exercised to ensure that reduced contracted

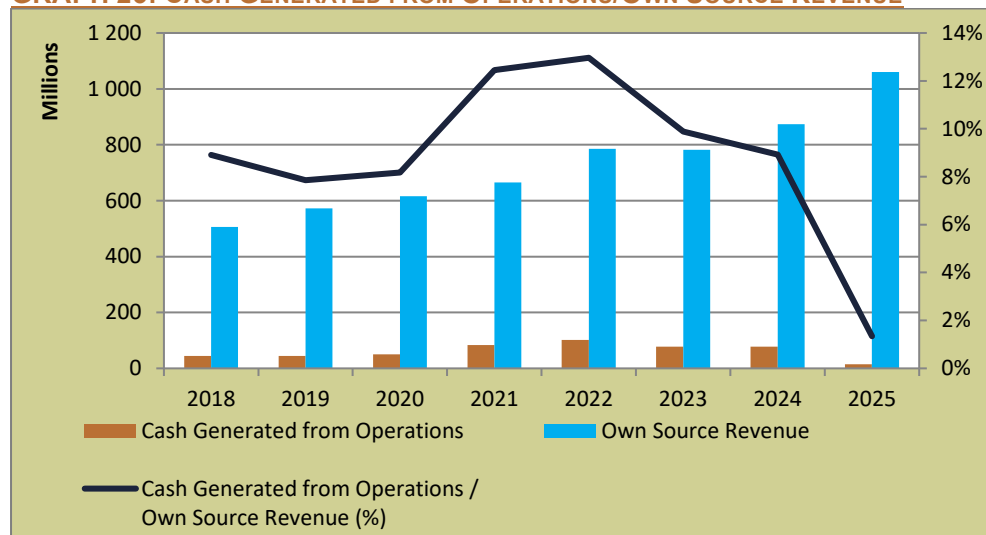
services spending does not negatively impact the municipality's service delivery or maintenance programmes.

Repairs and maintenance expenditure decreased to R33.8 million, down from R41.7 million in FY2023/24. This resulted in repairs and maintenance spending representing approximately 3% of total operating expenditure. Ideally, this ratio should trend closer to the National Treasury norm of 8% (as a percentage of PPE and Investment Property). While the municipality continues to allocate a portion of its capital budget towards the upgrading of existing assets, increased focus on preventative maintenance is encouraged to safeguard asset condition and prolong useful lives.

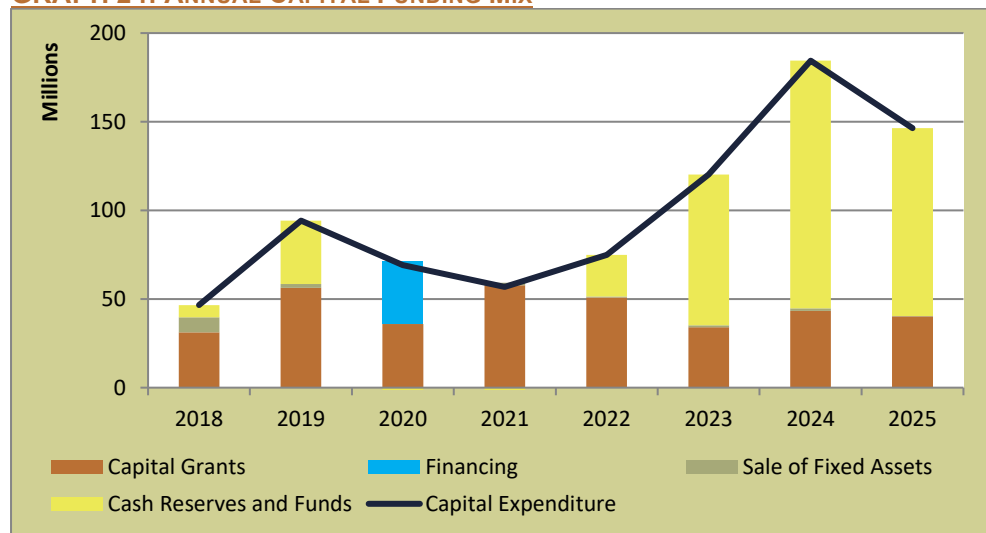
From an efficiency perspective, electricity distribution losses deteriorated significantly to 16.89% in FY2024/25 (FY2023/24: 5.76%), and water distribution losses lessened from 18.7% to 10.59%. While both electricity and water losses remain within their respective norm ranges as prescribed by NT, the drivers of the increase in losses should be identified and addressed.

CASH FLOW

GRAPH 23: CASH GENERATED FROM OPERATIONS/OWN SOURCE REVENUE



GRAPH 24: ANNUAL CAPITAL FUNDING MIX



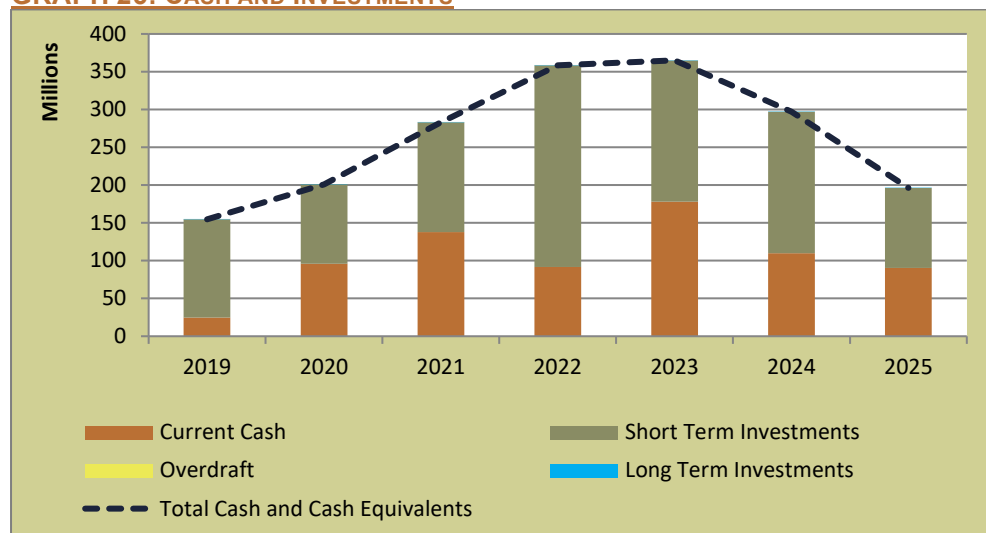
The total capital outlay over the review period amounted to R786.3 million, at an annual average of R98.3 million. The municipality's FY2024/25 capital programme was primarily funded through own cash reserves and funds (68%) and capital grants (32%). As discussed, the municipality's conservative stance on accessing debt financing has resulted in an underleveraged debt profile. It is appreciated that there is an aversion to borrowing within municipal structures, however, it is recommended that the undertaking of borrowings is considered in order to structure an optimal funding mix. The introduction of affordable borrowings creates scope to accelerate capital investment without compromising the liquidity position.

The growing reliance on internal funds to finance capital projects is, however, noteworthy. This trend, particularly the significant utilisation of own cash reserves since FY2022/23, may place pressure on the municipality's liquidity if not carefully managed. While self-financing provides greater autonomy and reduces debt servicing costs, it should ideally be balanced with external funding sources to preserve working capital and liquidity buffers.

Capital expenditure peaked at R178.3 million in FY2023/24, driven by the increased need for investment in roads infrastructure following the impact of floods during that period. This has since moderated slightly to R146.3 million in FY2024/25. This indicates a consistent commitment to asset maintenance and expansion.

Given the reliance on internal funding, it is recommended that the municipality closely monitor its cash flow position to ensure that operational liquidity is not compromised. The municipality may consider modest borrowings to fund future capital investment, provided that debt servicing remains within sustainable thresholds. Maintaining a healthy balance between internally generated funds and external financing will be key to ensuring the long-term sustainability of the capital investment programme.

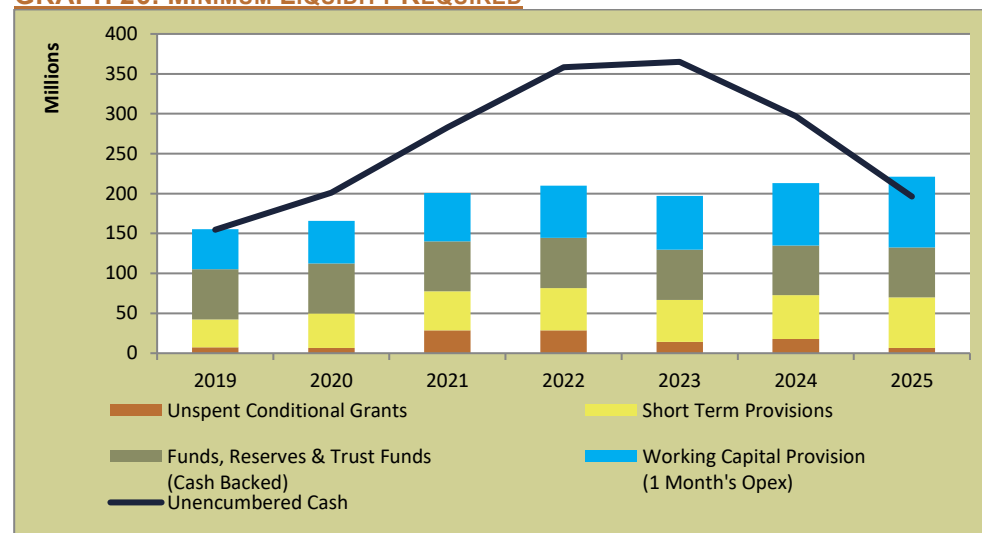
GRAPH 25: CASH AND INVESTMENTS



Total cash and cash equivalents declined by 34% in FY2024/25, down from R297.1 million in the prior year to R196.3 million. This decline followed a notable decrease in both current cash, which fell from R109.9 million to R90.2 million, and short-term investments, which dropped from R187.2 million to R106.1 million. The decrease indicates a weakening liquidity position during the year, reversing the strong growth trend observed between FY2021 and FY2023 when cash balances reached a peak of R365.0 million.

It is recommended that the municipality prioritises strengthening cash reserves through improved revenue collection and prudent expenditure control. The reliance on cash reserves to fund capital expenditure should remain limited until such time that liquidity improves. Sustaining a healthy cash position is essential to ensuring that the municipality can meet its short-term obligations and maintain operational stability.

GRAPH 26: MINIMUM LIQUIDITY REQUIRED



As per [TABLE 6](#) below, the municipality is required to maintain sufficient cash reserves to cover the minimum liquidity requirements that include unspent conditional grants, short-term provisions, funds, reserves and trust funds, as well as the working capital provision of one month's operating expenditure.

Langeberg's unencumbered cash and cash equivalents of R196.3 million were insufficient to meet the minimum liquidity requirement of R221.3 million during FY2024/25, resulting in a cash shortfall of R24.9 million. This represents a deterioration from the prior year's cash surplus of R84.1 million, highlighting a decline in the municipality's ability to meet its short-term obligations.

The cash coverage ratio (excluding working capital) weakened to 1.5:1 in FY2024/25, down from 2.2:1 in the previous year. When including the working capital provision, the cash coverage ratio further decreased to 0.9:1, below the National Treasury norm of 1–3 months. It is recommended that the municipality focuses on restoring and sustaining its liquidity levels through enhanced revenue collection, strict expenditure management, and limiting the use of cash reserves to fund capital projects.

TABLE 4: MINIMUM LIQUIDITY REQUIREMENTS

	2018	2019	2020	2021	2022	2023	2024	2025
Unspent Conditional Grants	13,7	7,4	6,6	28,8	28,5	14,3	17,7	6,5
Short Term Provisions	29,2	34,7	43,1	48,6	53,1	52,5	55,1	63,6
Funds, Reserves & Trust Funds (Cash Backed)	56,4	62,9	62,9	62,9	62,9	62,9	62,3	62,3
Total	99,3	105,1	112,6	140,3	144,5	129,7	135,1	132,4
Unencumbered Cash	149,1	154,7	201,0	283,1	358,4	365,0	297,1	196,3
Cash Coverage Ratio (excl Working Capital)	1,5	1,5	1,8	2,0	2,5	2,8	2,2	1,5
Working Capital Provision (1 Month's Opex)	49,5	50,5	53,1	60,3	65,3	67,2	77,9	88,9
Cash Coverage Ratio (incl Working Capital)	1,0	1,0	1,2	1,4	1,7	1,9	1,4	0,9
Minimum Liquidity Required	148,8	155,5	165,8	200,6	209,8	196,9	213,0	221,3
Cash Surplus/(Shortfall)	0,3	(0,8)	35,2	82,4	148,6	168,1	84,1	(24,9)

IPM SHADOW CREDIT SCORE

Note: The IPM Shadow Credit Score is based on the latest available information (2025 audited financial statements and previous audit reports)

Langeberg LM 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.

The Model calculates a credit score considering the following factors in order of weighting: Finance, Economic, Institutional, Socio Economic and Environmental. Although financial performance outweighs other factors, the other factors are by no means considered of less importance. Institutional strength and stability are as important to the sustainability of the municipality as the financial performance and having a sizeable economic base. The individual credit score of each municipality is calculated through scoring its performance against IPM's own predefined norms to derive a score.

Based on the FY2024/25 performance of Langeberg, the IPM credit model reflects a score of **5.5** which is comparable to a **High BBB+ to BBB-** on a national ratings scale. This credit score is relatively high compared to other municipalities, and it is at **Investment Grade** level - which means that Langeberg should be successful in accessing external borrowing at competitive rates.

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

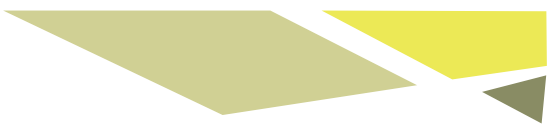
TABLE 5: IPM CREDIT MODEL OUTCOMES

Modules	2025 (5)
Financial	2,1
Institutional	3,5
Socio-Economic	2,2
Infrastructure	3,4
Environmental	3,7

The assessment indicates that the socio-economic and financial module are the municipality's main impediments to achieving higher credit scores. This could be linked to slow economic growth within the municipal area. Investment in productive assets that aim to create an enabling environment for economic growth may assist in improving this score over time. The municipality performed well in the infrastructure and environment module. This is linked to the maintenance of a high infrastructure index of 0.91, indicative of the ability to keep up with the rate of household formation. Langeberg has been able to consistently provide access to quality services throughout the review period.

The high score achieved under institutional capacity module had a positive impact on the credit score. Strong governance and prudent financial management remain the key factors to be considered. The municipality must maintain the clean audit report received from the Auditor General.

The high score achieved in the financial module is driven by a sustained healthy liquidity position, a strong collection rate and solid financial performance. Through implementing the recommendations included as part of this LTFP Update report, maintaining financial discipline and continuing to make wise financial decisions, the municipality will be able to improve this score further over time.



1 Planning Process

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LONG-TERM FINANCIAL MODEL OUTCOMES

MTREF CASE SCENARIO

This MTREF Case is designed to show the outcomes of the Long-Term Financial Model (LTFM) before making any adjustments to the current MTREF. For this, we assumed a 95% collection rate throughout the forecast period and did not make any changes to the capital investment program or funding mix. We also assumed that capital expenditure will grow by 4% per year after the MTREF period. Additionally, distribution losses were kept at the same levels as in FY2024/25.

The results of this scenario, shown in [TABLE 8](#), indicate a forecast decline in the municipality's financial performance. This poor financial outlook is mainly due to the assumptions made during the MTREF period as well as the recent downward trend in the municipality's financial performance. The Adjustment Budget suggests that capital expenditure will slow down, while no borrowings expected included over the MTREF period. According to [TABLE 8](#), the municipality's Gearing and Debt Service levels are expected to remain very low as the municipality did not budget to incur any borrowings over the period.

The cash position is expected to deteriorate, declining from R196.3 million as at FYE2024/25 to a forecast R59.9 million by the end of the MTREF period (FYE2027/28). Thereafter, the cash position is projected to recover to R415 million over the ten-year planning horizon. However, this improvement is not considered sufficient, as cash reserves remain below the minimum liquidity requirement of one month's opex, resulting in a constrained liquidity position.

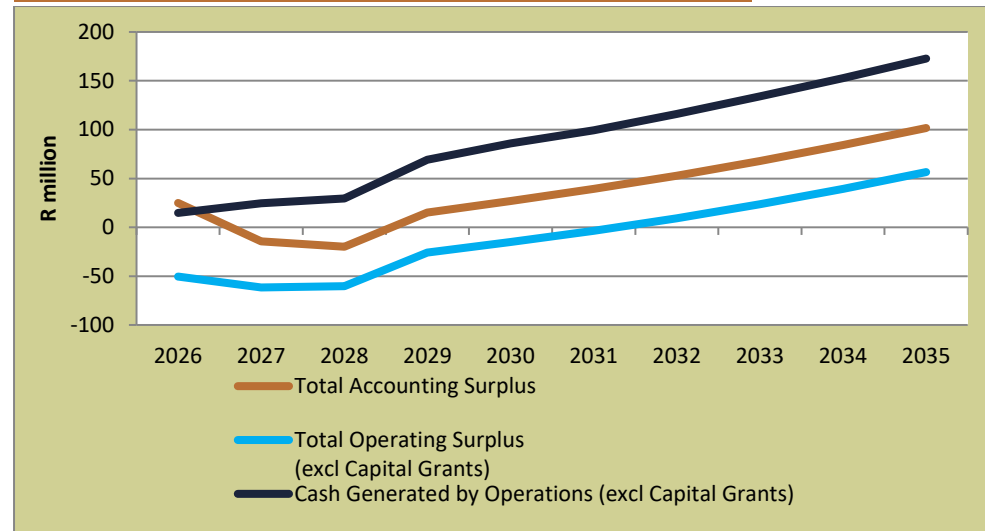
This outcome is driven by continued operating deficits, limited cash flow generated from operations, and a projected increase in creditor balances. Consequently, the liquidity ratio at the end of the planning period is forecast at 1.3:1, which remains below historic levels.

Overall, the MTREF Case scenario reflects poor financial performance and a strained liquidity position. The driving factors of the poor financial performance and the strained liquidity position have been addressed in arriving at the Base Case.

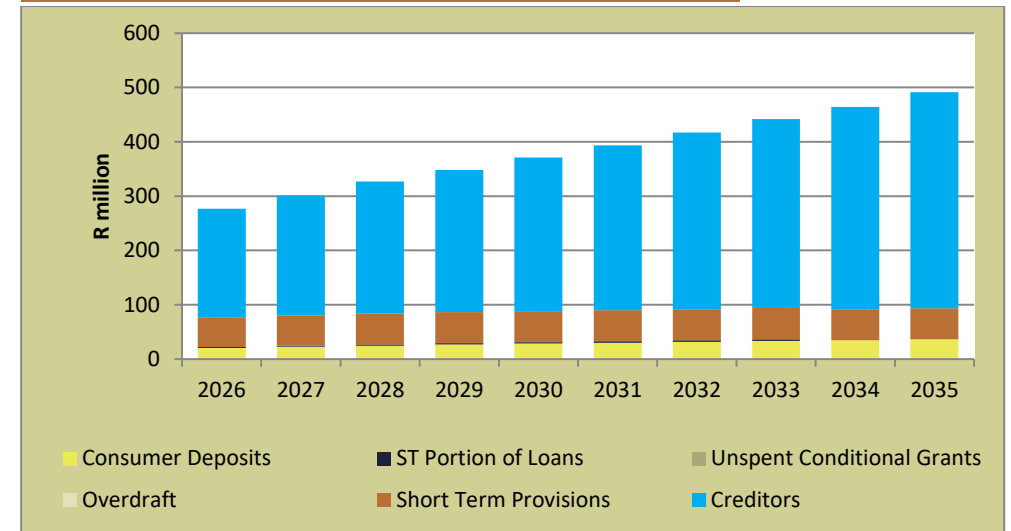
TABLE 8: MTREF CASE OUTCOMES

Outcome	MTREF Case
Average annual % increase in Revenue	7,2%
Average annual % increase in Expenditure	7,2%
Accounting Surplus accumulated during Planning Period (Rm)	R 379
Operating Surplus accumulated during Planning Period (Rm)	-R 88
Cash generated by Operations during Planning Period (Rm)	R 899
Average annual increase in Gross Consumer Debtors	12,9%
Capital investment programme during Planning Period (Rm)	R 1 154
External Loan Financing during Planning Period (Rm)	R 0,0
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 415
No of Months Cash Cover at the end of the Planning Period (Rm)	2,3
Liquidity Ratio at the end of the Planning Period	1,3 : 1
Gearing at the end of the Planning Period	0,1%
Debt Service to Total Expense Ratio at the end of the Planning Period	0,4%

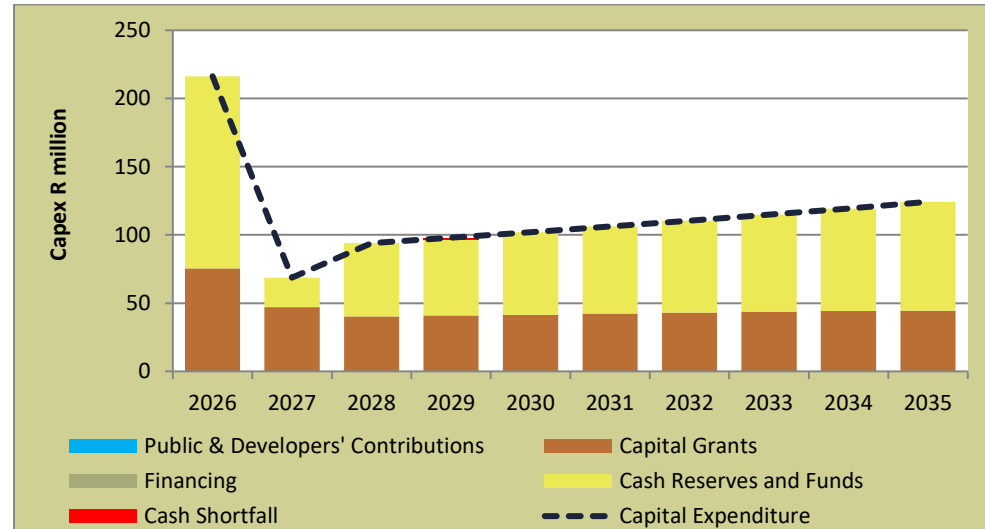
GRAPH 27: MTREF CASE SCENARIO: ANALYSIS OF SURPLUS



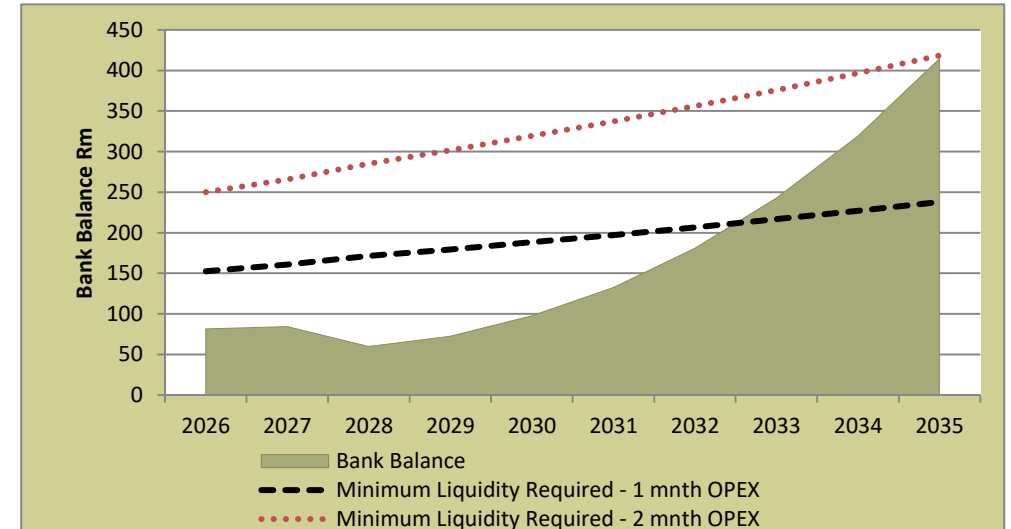
GRAPH 29: MTREF CASE SCENARIO: CURRENT LIABILITIES



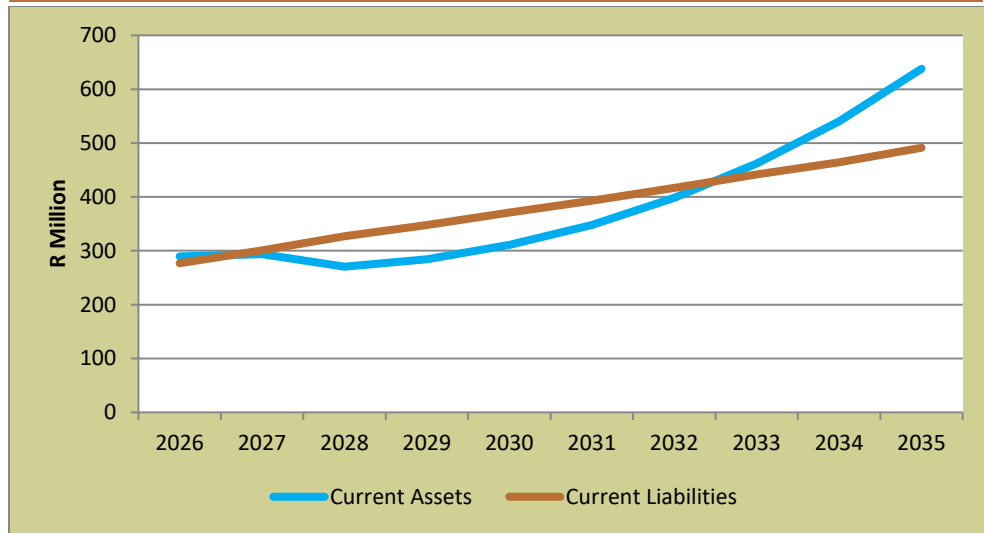
GRAPH 28: MTREF CASE: CAPITAL FUNDING MIX



GRAPH 30: MTREF CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY



GRAPH 31: MTREF CASE SCENARIO: CURRENT ASSETS VS CURRENT LIABILITIES



BASE CASE SCENARIO

The outcome of the MTREF Case, while sustainable, is marked by notable deteriorations in financial performance and liquidity from current levels. The decline in liquidity is primarily a product of the poor financial performance, cash generation as well as notable forecast growth in creditors. These key weaknesses will be addressed in the Base Case.

To develop a realistic Base Case model, the figures from the February Adjustment Budget 2025/26 – 2027/28 were used. The objective of the model is to utilise realistic assumptions to support future financial sustainability. The MTREF Case above reflects a sustainable long-term outcome. There are, however, areas that can be improved upon. These areas are addressed in the Base Case assumptions. The key assumptions are listed below:

1. A collection rate of 95% is assumed to be maintained throughout the planning period.
2. A 2% cut in operating expenditure was modelled.
3. The MTREF capital investment programme was maintained as per the Adjustment Capital Budget for FY2025/26-FY2027/28, with growth beyond FY2027/28 assumed at 6% p.a.
4. No borrowings were included over the planning period.
5. Repairs and maintenance expenditure was increased to 4.0% of PPE & IP from 2.9% over 5 years.
6. Electricity losses were assumed at 8%, while water distribution losses were assumed at 15% throughout the planning period.
7. Tariff increases were included as put forward in the Adjustment Budget Document for FY2025/26-FY2027/28.
8. Creditors days were reduced in order to mitigate the forecast rise in creditors in the MTREF Case.
9. Economic data from the MERO report has been included in the LTFM forecasts.

The outcomes of the Base Case are presented below:

TABLE 9: BASE CASE OUTCOMES

Outcome	Base Case
Average annual % increase in Revenue	7,3%
Average annual % increase in Expenditure	6,7%
Accounting Surplus accumulated during Planning Period (Rm)	R 1 432
Operating Surplus accumulated during Planning Period (Rm)	R 966
Cash generated by Operations during Planning Period (Rm)	R 1 689
Average annual increase in Gross Consumer Debtors	12,9%
Capital investment programme during Planning Period (Rm)	R 1 218
External Loan Financing during Planning Period (Rm)	R 0,0
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 1 140
No of Months Cash Cover at the end of the Planning Period (Rm)	6,7
Liquidity Ratio at the end of the Planning Period	6,2 : 1
Gearing at the end of the Planning Period	0,1%
Debt Service to Total Expense Ratio at the end of the Planning Period	0,0%

Financial performance is expected to improve markedly from the levels forecast in the MTREF Case above, which forecast operating deficits until FY2031/32. The Base Case expects operating surpluses throughout the planning period. This represents a marked improvement and can be attributed to the 2% cut of operating expenditure, and more so the assumed reduction in distribution losses. The lower levels of distribution losses presented in the Base Case were modelled following input from the municipality on its expectations for realistic future levels.

The forecast improvement in financial performance is expected to translate into a notable improvement in operational cash flows. A total of R1.68 billion in operational cash flows (excluding capital grants) is forecast over the planning period. Relative to the MTREF Case, in which a total of R899 million in operational cash flows is forecast, the Base Case presents a far more favourable outcome. This is underpinned by the improved financial performance as well as the 95% collection rate modelled throughout the planning period. Considering historic collection rates, this is deemed achievable.

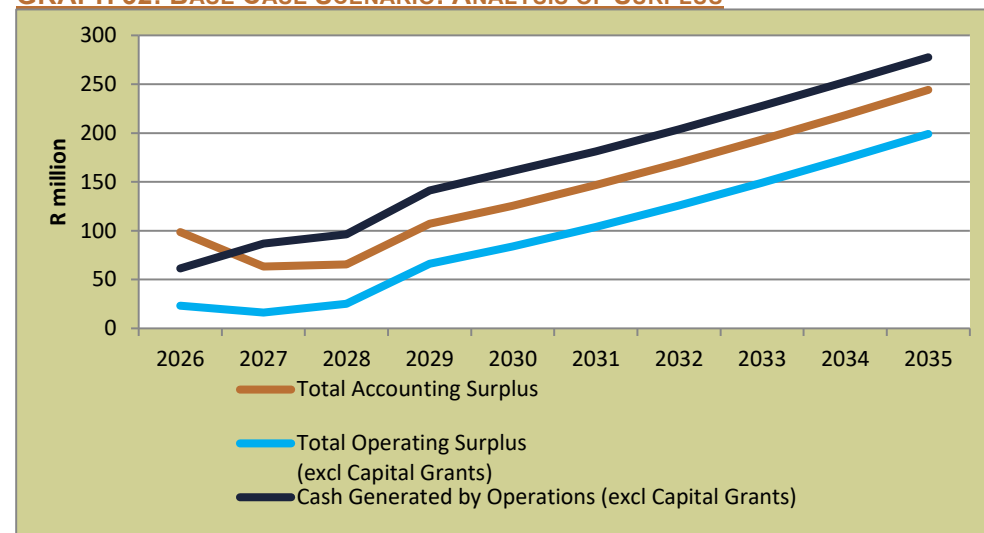
The liquidity position has weakened in recent years, with a notable deterioration observed during FY2024/25. While this was impacted by the significant reduction in the collection rate, considered an outlier due to system issues, the declining trend observed since FY2022/23 is of concern and remains a key area targeted for improvement.

The Base Case presents a favourable liquidity position, with year-on-year improvements forecast. [GRAPH 34](#) below illustrates the extent of the forecast improvement. The ever-widening gap between current assets and current liabilities highlights the continual strengthening of the liquidity position expected in the Base Case. While this is impacted by the expected growth in current assets over the forecast period, the impact of curtailing growth in current liabilities cannot be ignored. This is achieved through the assumed reduction in creditors days, resulting in a decline in current liabilities over the planning period. This, coupled with substantial forecast growth in cash and cash equivalents, expected to exceed R1.14 billion by the end of the planning period, is expected to culminate in a planning period end liquidity ratio of 6.2:1. This creates scope to accelerate the capital investment programme through own cash reserves. This will be assessed in the final LTFP Update to be developed with the Draft Budget for FY2026/27-FY2028/29.

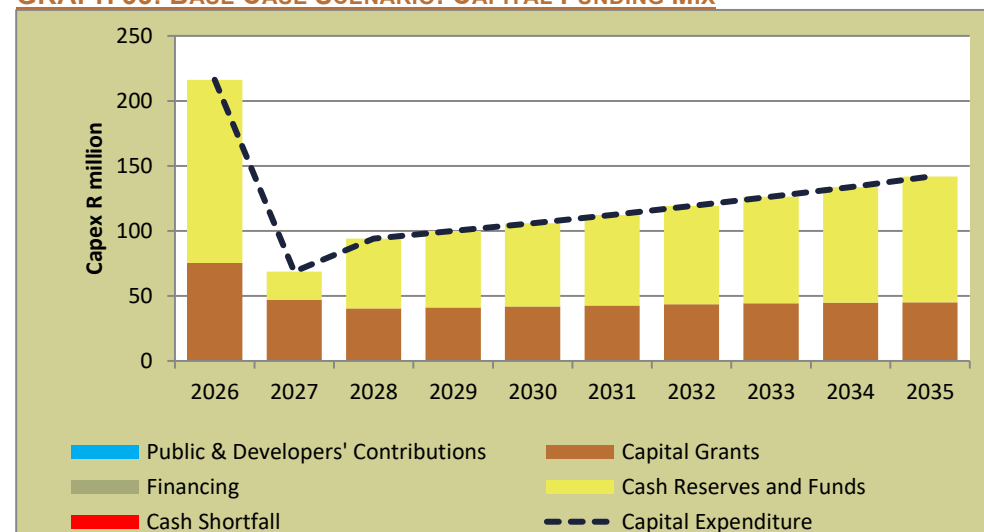
The Base Case capital investment programme will be discussed further in Section 6 of this report.

Overall, the Base Case presents a favourable long-term outcome characterised by a healthy long-term liquidity position underpinned by sound financial performance and cash generation. This supports an affordable capital investment programme and increased operational repairs and maintenance expenditure, aimed at maintaining the integrity of the municipality's asset base whilst also supporting improved service delivery within the municipality.

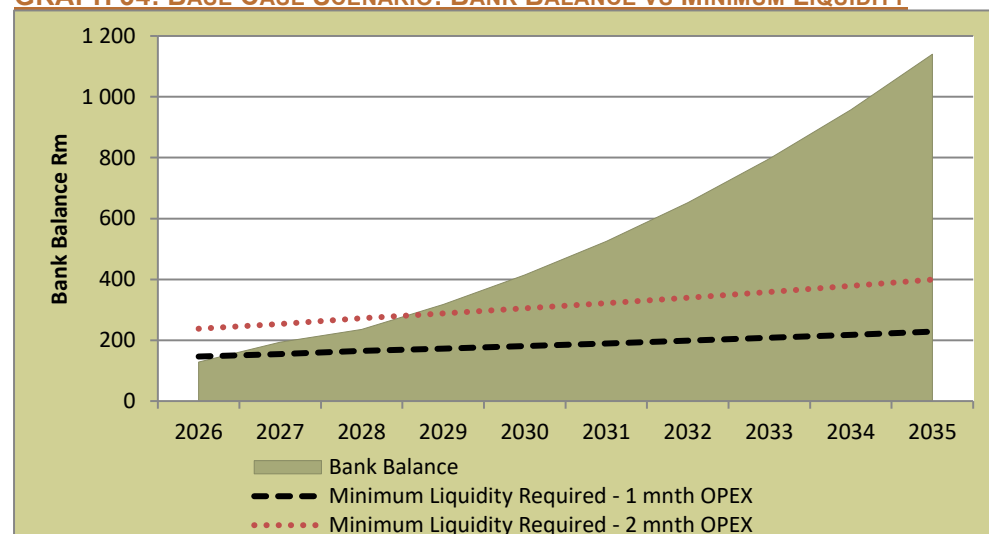
GRAPH 32: BASE CASE SCENARIO: ANALYSIS OF SURPLUS



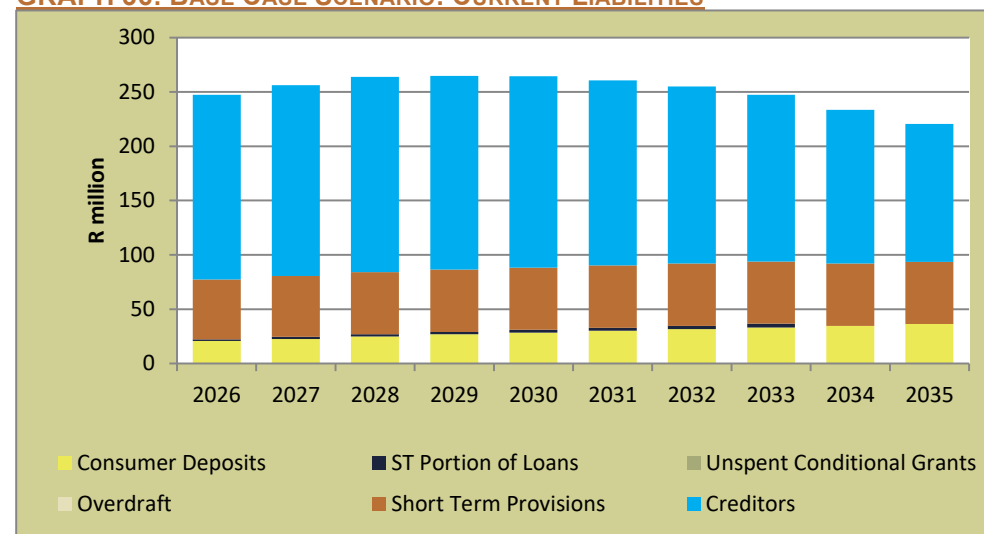
GRAPH 33: BASE CASE SCENARIO: CAPITAL FUNDING MIX



GRAPH 34: BASE CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY



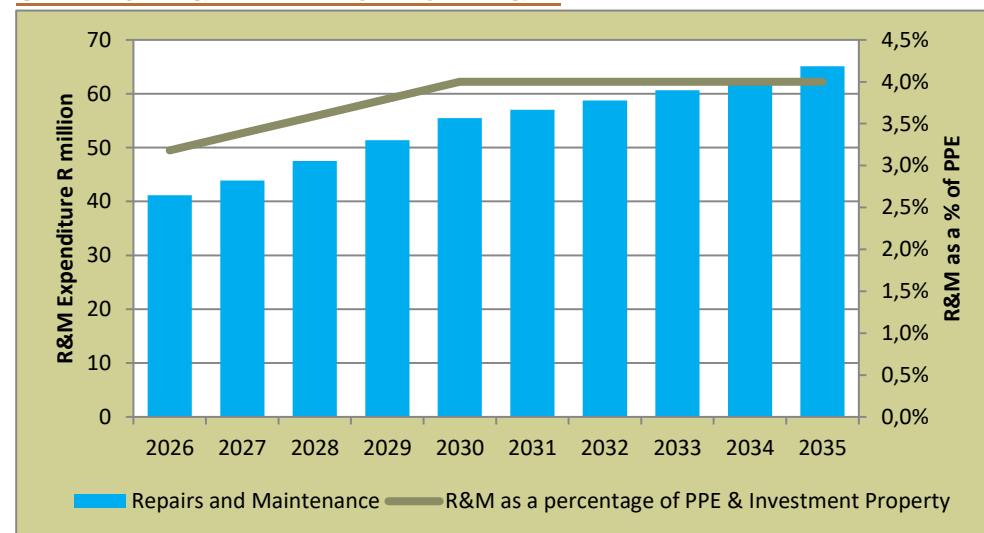
GRAPH 36: BASE CASE SCENARIO: CURRENT LIABILITIES

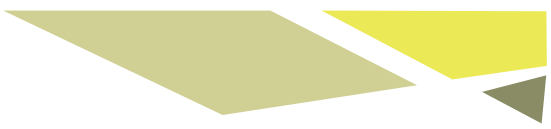


GRAPH 35: BASE CASE SCENARIO: CURRENT ASSETS VS CURRENT LIABILITIES



GRAPH 37: R&M EXPENDITURE TO PPE & IP





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2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

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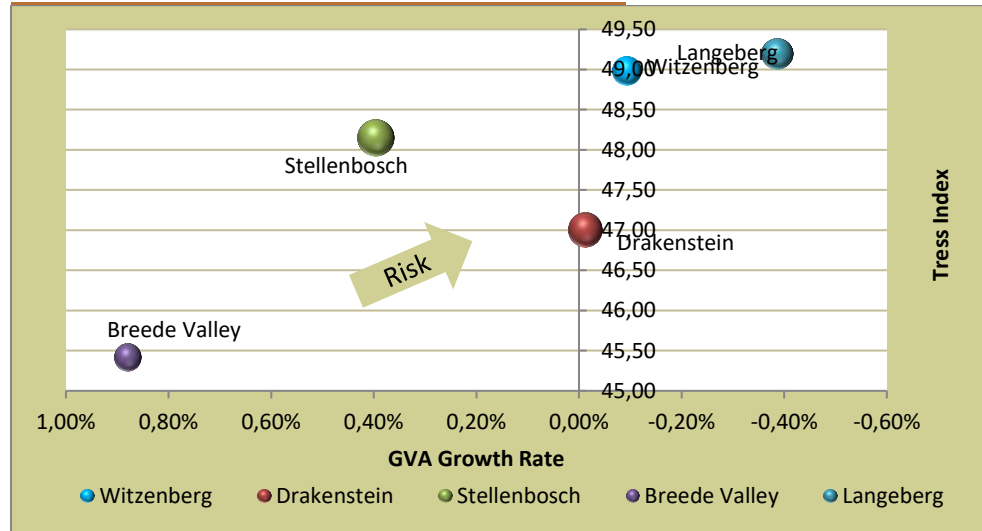
8 Ratio Analysis

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FUTURE REVENUES

MUNICIPAL REVENUE RISK INDICATOR (MRRI) = “MEDIUM”

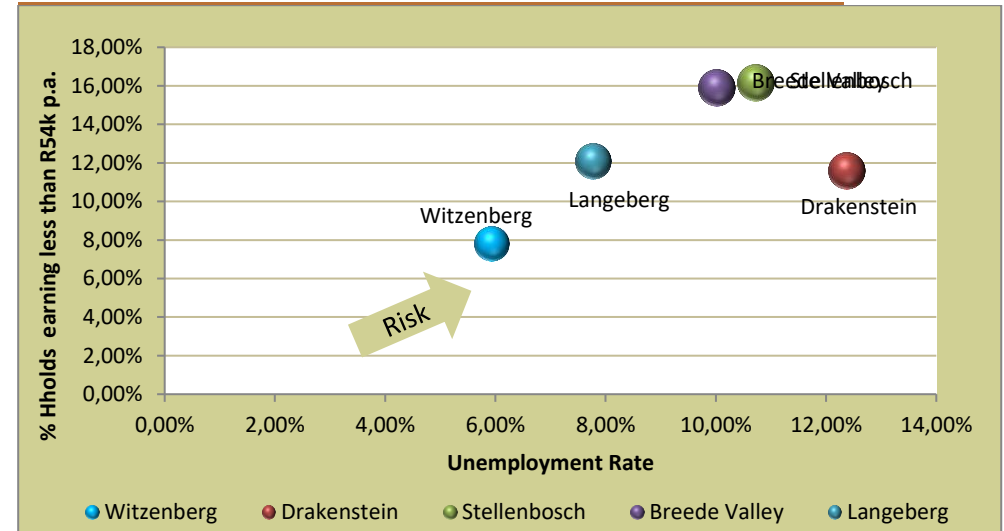
GRAPH 38: ECONOMIC RISK COMPONENT OF MRRI



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

Langeberg's economy has been stagnant in recent years, as evidenced by the 5-year annual average GVA growth rate of -0.39%. This is well exceeded by the population growth rate of 1.35% p.a. over the same period. GVA per capita of R57 091 in 2024, and the reasonably concentrated economy contribute to the “High” rating on the economic risk component of the MRRI. This is predominantly attributable to a lack of economic growth.

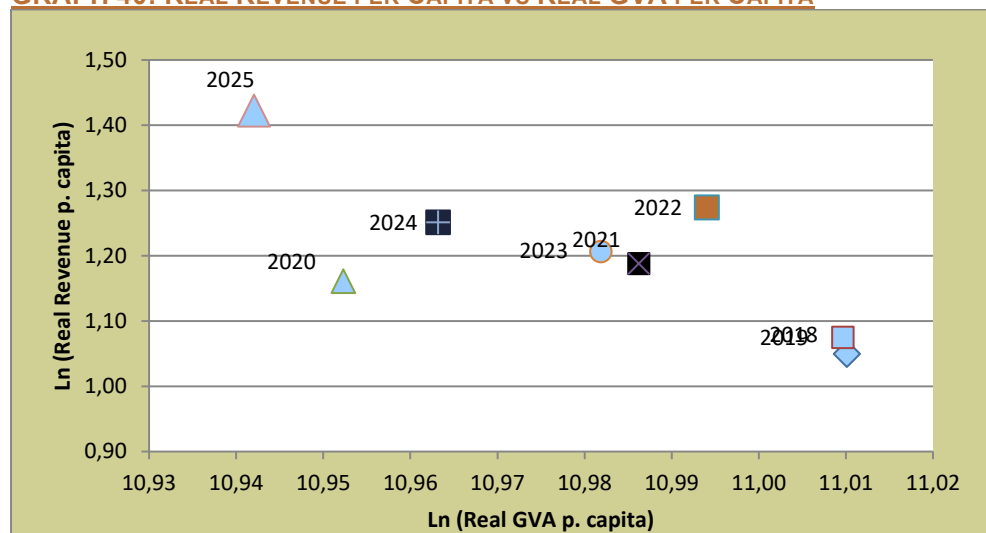
GRAPH 39: HOUSEHOLD ABILITY TO PAY RISK COMPONENT OF MRRI



The percentage of indigent households reliant on support of 12.11%, the official unemployment rate of 7.78% and the human development index of 0.70 resulted in a “Low” rating on the household ability to pay risk component of MRRI. The driving force behind this rating is the high rate of unemployment. Knysna is in the on the higher end of risk in relation to some of the other municipalities in the district.

As a result, Langeberg has a “Medium” risk rating on the MRRI indicator scale - i.e., there is a medium risk that the municipality will not be able to generate the forecast cash revenue expected in future.

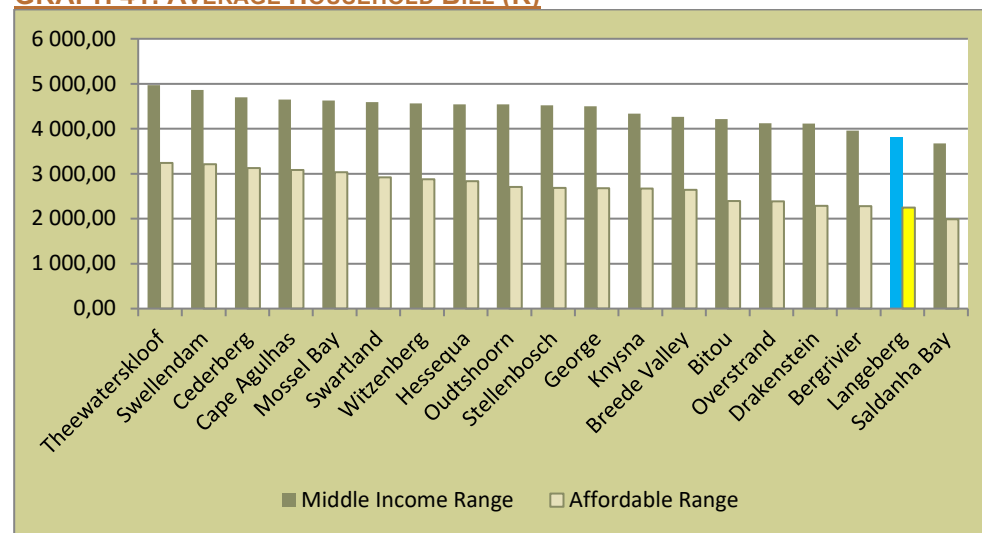
GRAPH 40: REAL REVENUE PER CAPITA VS REAL GVA PER CAPITA



Real municipal revenue (excluding capital transfers) per capita reflects a general increase over the review period, with a minor reduction noted in 2023. Thereafter, a notable recovery was observed with a new high watermark posted in 2025. GVA per capita has steadily declined over the review period, with minor improvements noted in 2021 & 2022 following the severe contraction pursuant to Covid-19. The improvements in 2021 & 2022 are more representative of the extent of decline observed in 2020 than actual economic growth. This is further reflected in the subsequent declines in 2023, 2024 and 2025.

It is imperative that the municipality begins to foster and enabling environment for economic growth within the municipal area. The stagnant economy requires stimulation which can be achieved through investment in productive assets. Improvements to service delivery will assist in manifesting a perception of the municipality being an attractive destination for capital to be invested. This must be a priority for the municipality as the ripple effects of economic growth can be exponential.

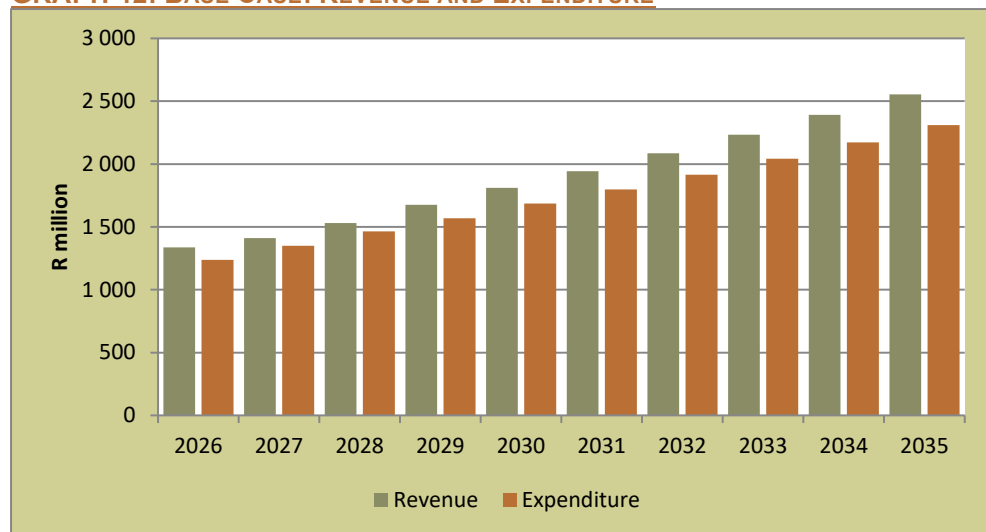
GRAPH 41: AVERAGE HOUSEHOLD BILL (R)



A comparison of the average household bill for the middle income and affordable income range of a selected number of municipalities in the Western Cape province (extracted from Budget Table: SA14) based on the 2025/26 tariffs, reveals that Langeberg LM features in the top half of the range. Considering the level of service provided by Langeberg LM and the size of the municipality, the current household bill is reasonably low compared to other municipalities. This would suggest that there is scope for the municipality to increase tariffs, but this must be considered against the household ability to pay. This is particularly prevalent given the current fuel crisis and its expected impact on inflation expectations and the general cost of living.

MUNICIPAL REVENUES

GRAPH 42: BASE CASE: REVENUE AND EXPENDITURE

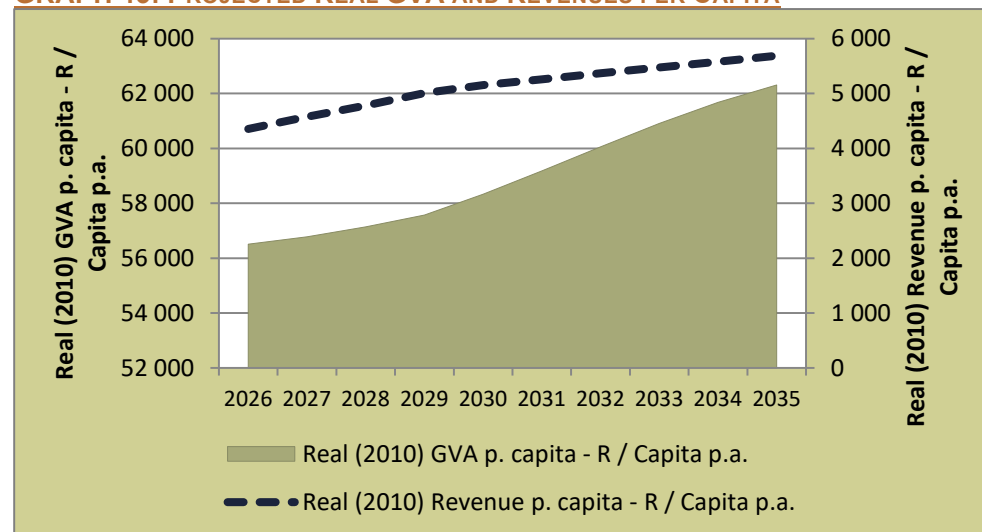


The Base Case estimates that, over the planning period, future nominal revenue (including capital grants) will grow at an average rate of 7.3% p.a. This growth in revenue includes: (i) tariff increases, (ii) increased sales and (iii) additional revenue sources. Future nominal expenditure is estimated to grow at a lower rate of 6.7% over the same period.

Electricity services are forecast to remain the predominant revenue generator for the municipality with an annual average contribution of 62.7%. This presents a notable risk should a return to electricity supply issues transpire. Given the challenges with diversifying revenue sources within the municipal sector, the focus must be on ensuring that operating expenditure remains under control.

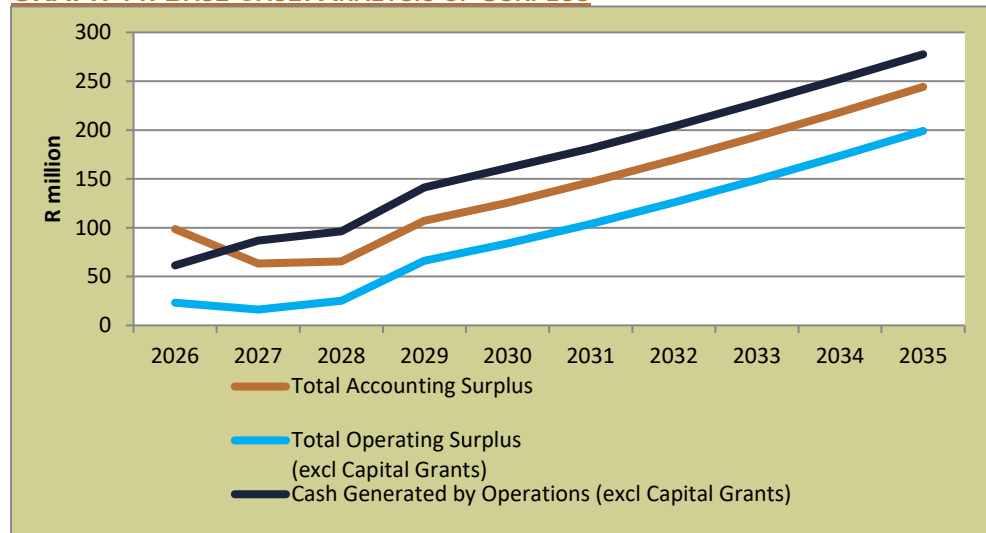
Electricity bulk purchases are forecast to remain the predominant expenditure item with an annual average contribution of 49.8%. It has been expressed that there is a possibility that the already increased NERSA bulk purchases tariff increases may increase further. This will pressure financial performance and is likely to erode surplus margins. This will be modelled as part of the final LTFP Update.

GRAPH 43: PROJECTED REAL GVA AND REVENUES PER CAPITA

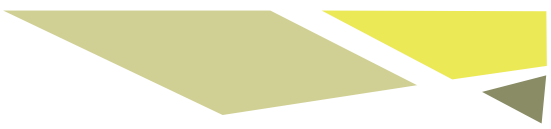


Real GVA per capita is forecast to increase gradually over the planning period, from R56 504 p.a. in 2025 to R62 312 in 2035, for an increase of 10.2%. Real revenue per capita on the other hand, is forecast to increase at a comparatively higher rate of 31.1% from R4 337 p.a. in 2025 to R5 689 p.a. in 2035. 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 44: BASE CASE: ANALYSIS OF SURPLUS



The municipality is forecast to generate cash from operations throughout the planning period. A total of R1 689 million in cash is forecast to be generated by operations over the planning period. This is underpinned by the forecast improvements to financial performance as well as the assumed improvement in the collection rate. This is expected to underpin the sustainable liquidity position presented in the Base Case.



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AFFORDABLE FUTURE CAPITAL INVESTMENT

CAPEX AFFORDABILITY AND FUNDING

The 10-year affordable capital envelope is calculated at R1.22 billion.

TABLE 10: CAPEX AFFORDABILITY

Total 10-year CAPEX Affordability:	=	R1.22 billion
------------------------------------	---	---------------

MTREF CAPITAL FUNDING MIX

The Base Case maintains the capital budget and funding mix presented in the February Adjustment Budget for FY2025/26-FY2027/28.

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

R'm	Total	2025/26	2026/27	2027/28
Public & Developers Contributions	0	0	0	0
Capital Grants	163	75	47	40
Financing	0	0	0	0
Cash Reserves and Funds	216	141	22	54
Cash Shortfall	0	0	0	0
Total	379	216	69	94

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

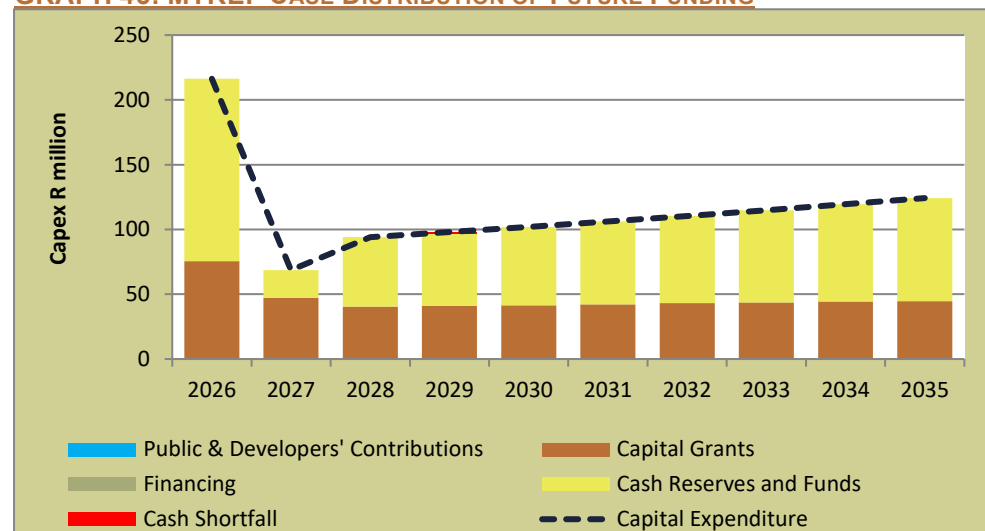
Source	Rm	%
Public & Developers' Contributions	0	0 %
Capital Grants	465	38 %
Financing	0	0 %
Cash Reserves and Funds	753	62 %
Cash Shortfall	0	0 %
Capital Expenditure	1 218	100 %

Langeberg's historic capital funding mix was a combination of capital grants, which accounted for 45.2% and cash reserves with 48.7%. The remainder was funded through the sale of fixed assets (1.9%) and financing (4.4%). While the municipality has placed reliance on grant funding, a notable increase in the utilisation of own cash reserves was observed in recent years. Overutilisation of own cash to fund capital expenditure may begin to erode the municipality's liquidity position. Given the current financial trajectory of Langeberg LM, excessive use of own cash will be to the detriment of the municipality. The Base Case initially prioritises the improvement of the liquidity position, before utilising the municipality's cash reserves to accelerate capital investment as the municipality's financial position improves.

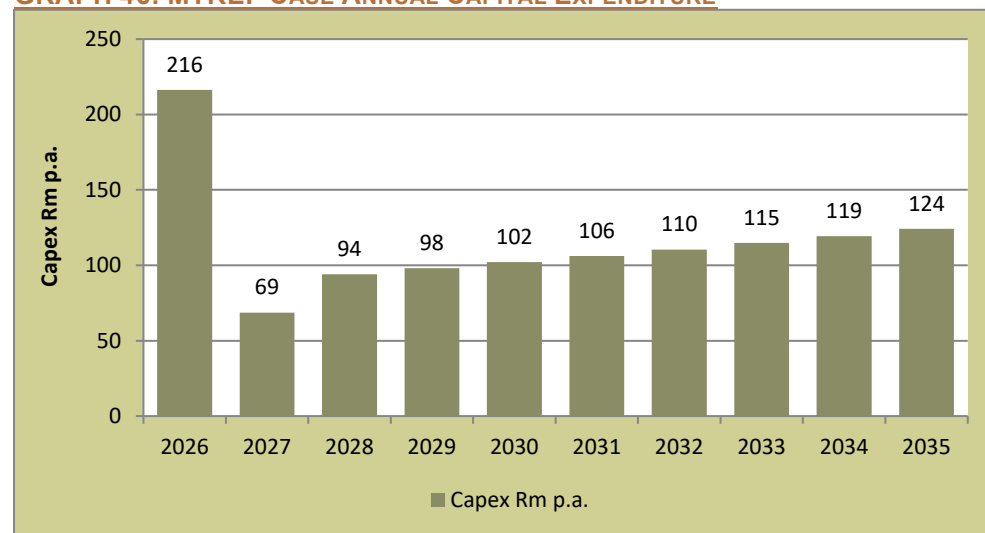
The latest Adjustment Capital Budget reflects substantial cash utilisation in FY2025/26, before the level of capital investment reduces in the outer years of the MTREF period. As illustrated in [GRAPHS 45 & 47](#) below, the proposed capital investment programmes are expected to remain affordable in both the MTREF & Base Cases. The Base Case accelerates capital investment by 6% beyond the MTREF period, compared to a more conservative 4% in the MTREF Case. This results in an additional capital outlay of R64 million over the planning period. No borrowings were included in either scenario.

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

GRAPH 45: MTREF CASE DISTRIBUTION OF FUTURE FUNDING

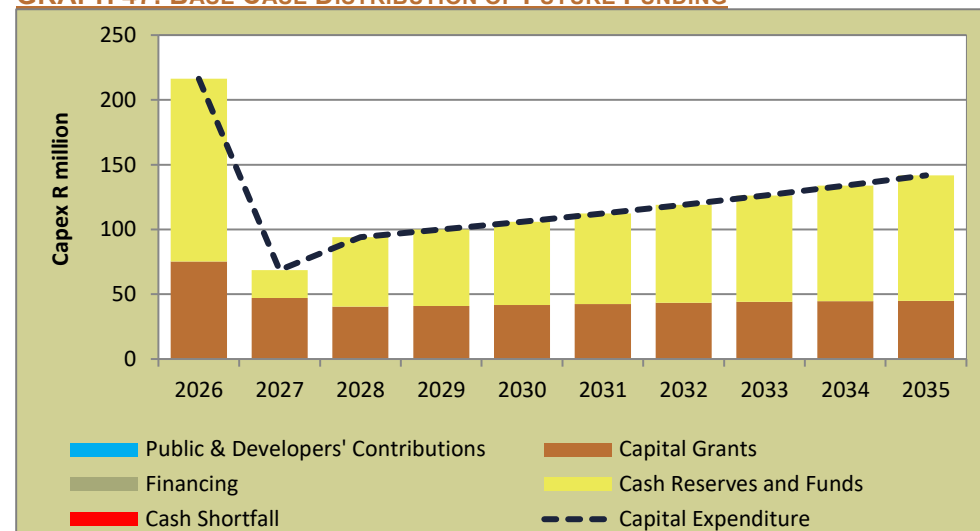


GRAPH 46: MTREF CASE ANNUAL CAPITAL EXPENDITURE



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

GRAPH 47: BASE CASE DISTRIBUTION OF FUTURE FUNDING



GRAPH 48: BASE CASE ANNUAL CAPITAL EXPENDITURE

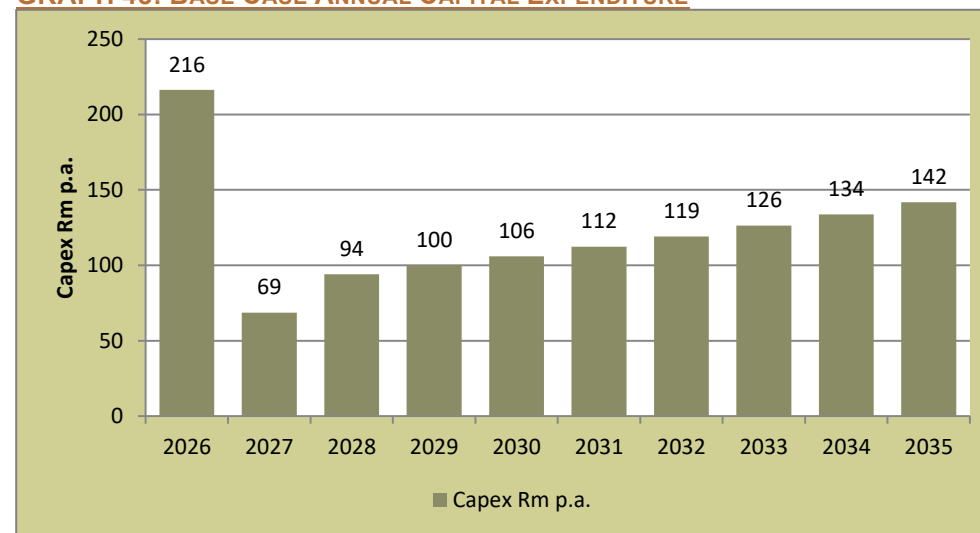


TABLE 13: MTREF CASE DISTRIBUTION OF FUTURE CAPITAL FUNDING (R'm)

R'm	Total	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public & Developers' Contributions	0	0	0	0	0	0	0	0	0	0	0
Capital Grants	463	75	47	40	41	42	42	43	44	44	45
Financing	0	0	0	0	0	0	0	0	0	0	0
Cash Reserves and Funds	689	141	22	54	56	60	64	67	71	75	80
Cash Shortfall	2	0	0	0	2	0	0	0	0	0	0
Capital Expenditure	1 154	216	69	94	98	102	106	110	115	119	124

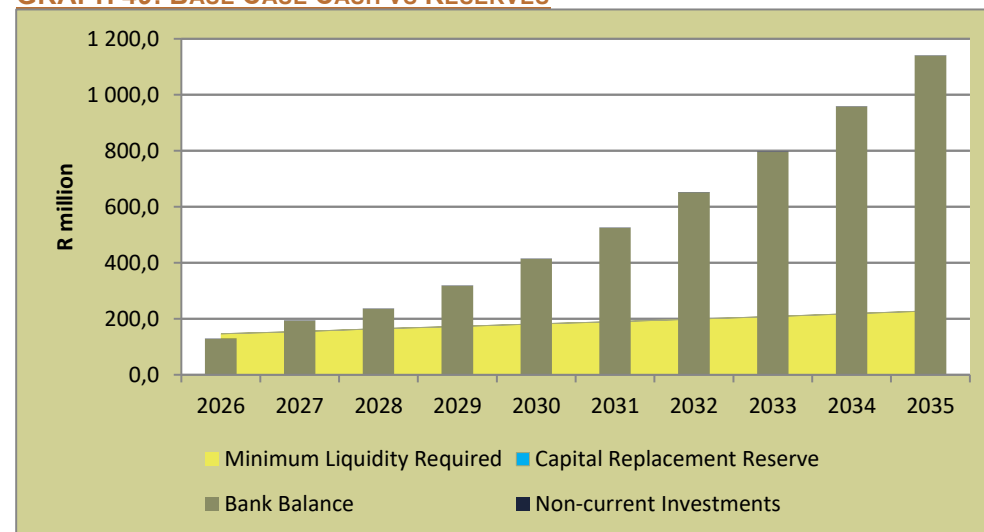
TABLE 14: BASE CASE DISTRIBUTION OF FUTURE CAPITAL FUNDING (R'm)

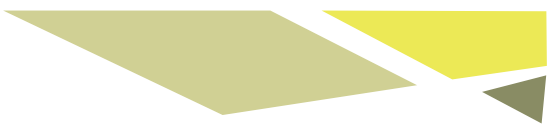
R'm	Total	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public & Developers' Contributions	0	0	0	0	0	0	0	0	0	0	0
Capital Grants	465	75	47	40	41	42	42	43	44	45	45
Financing	0	0	0	0	0	0	0	0	0	0	0
Cash Reserves and Funds	753	141	22	54	59	64	70	76	82	89	97
Cash Shortfall	0	0	0	0	0	0	0	0	0	0	0
Capital Expenditure	1 218	216	69	94	100	106	112	119	126	134	142

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). Liquidity is forecast to be sufficient to cover 1-month's operating expenditure for the entire planning period, highlighting how the Base Case is moving the municipality towards long-term sustainability. This is despite a significant portion of the capital outlay being funded through own cash reserves over the planning period. 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. It is recommended that the annual depreciation charges be utilised as a guide to determine the extent of the funds to be set aside for future capital investment.

Langeberg's current financial situation is characterised by very low gearing and a minimal debt-to-service cost, making them well positioned to consider borrowing as part of their funding mix. Their liquidity remains strong, with a ratio above 1.5:1, and they hold significant cash and cash equivalents, which further enhances their ability to manage debt repayments comfortably. Given this financial stability, Langeberg is likely to attain favourable lending rates, particularly as their risk profile is low. Including borrowings could provide an opportunity to accelerate capital investment and diversify their capital structure without placing undue stress on their financial position. The viability of an alternative funding strategy in which borrowings are incorporated into the funding mix will be assessed.

GRAPH 49: BASE CASE CASH VS RESERVES



1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long-Term Financial Model Outcomes

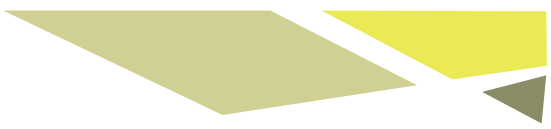
5 Future Revenues

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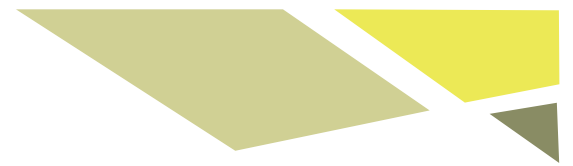
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SCENARIOS ANALYSIS

Scenarios will be run as part of the final LTFP Update to be developed utilising the Draft Budget for FY2026/27-FY2028/29.



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FORECAST RATIOS

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

		<u>N.T. NORM</u>	<u>2026</u>	<u>2028</u>	<u>2030</u>	<u>2032</u>	<u>2034</u>	<u>2035</u>	<u>COMMENTS</u>
<u>FINANCIAL POSITION</u>									
ASSET MANAGEMENT									
R29	Capital Expenditure / Total Expenditure	10% - 20%	14,9%	6,0%	5,9%	5,9%	5,8%	5,8%	CAPEX as a % of Total Expenditure will remain below the recommended range for the entire planning period.
R27	Repairs and Maintenance as % of PPE and Investment Property	8%	3,2%	3,6%	4,0%	4,0%	4,0%	4,0%	Repairs and maintenance as a percentage of PPE and IP will increase to 4%.
DEBTORS MANAGEMENT									
R4	Gross Consumer Debtors Growth		16,4%	14,6%	13,1%	11,6%	10,6%	10,2%	The Collection Rate is assumed to be maintained at 95% throughout the planning period.
R5	Payment Ratio / Collection Rate	95%	95,0%	95,0%	95,0%	95,0%	95,0%	95,0%	
LIQUIDITY MANAGEMENT									
R49	Cash Coverage Ratio (excl Working Capital)		2,3 : 1	4,1 : 1	7,2 : 1	11,4 : 1	16,7 : 1	19,9 : 1	The bank balance will meet the minimum liquidity requirement from FY2025/26 to the end of the planning period. The liquidity ratio will rise to 6.2:1 by the end of the planning period.
R50	Cash Coverage Ratio (incl Working Capital)		0,9 : 1	1,4 : 1	2,3 : 1	3,2 : 1	4,3 : 1	4,9 : 1	
R51	Cash Surplus / Shortfall on Minimum Liquidity Requirements		-R 18,9 m	R 69,1 m	R 231,0 m	R 451,1 m	R 737,4 m	R 909,4 m	
R1	Liquidity Ratio (Current Assets: Current Liabilities)	1:1.5 - 1:2.1	1,3 : 1	1,7 : 1	2,4 : 1	3,4 : 1	5 : 1	6,2 : 1	
LIABILITY MANAGEMENT									
R45	Debt Service as % of Total Operating Expenditure	6% - 8%	0,3%	0,3%	0,2%	0,2%	0,2%	0,0%	The external financing programme is forecast to remain within the recommended benchmarks, due to the lack of borrowing over the planning period.
R6	Total Debt (Borrowings) / Operating Revenue	45%	1,8%	1,3%	0,8%	0,5%	0,1%	0,1%	
R7	Repayment Capacity Ratio		0,17	0,14	0,07	0,04	0,01	0,01	
R46	Debt Service Cover Ratio (Cash Generated by Operations / Debt Service)		37,2 : 1	36,6 : 1	53,4 : 1	64,8 : 1	77,7 : 1	80.1:1	

		<u>N.T. NORM</u>	<u>2026</u>	<u>2027</u>	<u>2029</u>	<u>2031</u>	<u>2033</u>	<u>2034</u>	<u>COMMENTS</u>
SUSTAINABILITY									
	Net Financial Liabilities Ratio	< 60%	7,0%	-0,6%	-10,0%	-20,1%	-30,7%	-36,1%	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%	1,8%	1,7%	4,7%	6,2%	7,4%	7,9%	
	Asset Sustainability Ratio	> 90%	39,6%	12,3%	13,0%	13,8%	14,6%	15,0%	
FINANCIAL PERFORMANCE									
EFFICIENCY									
R42	Net Operating Surplus / Total Operating Revenue	>= 0%	1,8%	1,7%	4,7%	6,2%	7,4%	7,9%	The net operating surplus is positive for the MTREF period and improves to 7.7% by 2035, an indication that the municipality should endeavour to improve financial performance by managing expenditure and maintaining the high-water surplus margins.
R43	Electricity Surplus / Total Electricity Revenue		18,8%	17,6%	19,3%	19,3%	19,3%	19,3%	
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 72,9 m	R 110,9 m	R 109,6 m	R 113,5 m	R 126,1 m	R 131,9 m	Billed Revenue and Operating Revenue Growth is, for the most part, above forecast CPI over the planning period. Cash generated from operations is expected improve throughout the planning period.
R9	% Increase in Billed Income p.a.	CPI	7,6%	9,7%	8,0%	7,2%	6,9%	6,8%	
R12	Operating Revenue Growth %	CPI	4,0%	9,1%	8,2%	7,4%	7,1%	6,9%	
R47	Cash Generated by Operations / Own Revenue		12,3%	10,2%	12,7%	13,5%	14,0%	14,3%	
R48	Cash Generated by Operations / Total Operating Revenue		10,8%	9,2%	11,5%	12,1%	12,7%	12,9%	

		<u>N.T. NORM</u>	<u>2026</u>	<u>2028</u>	<u>2030</u>	<u>2032</u>	<u>2034</u>	<u>2035</u>	<u>COMMENTS</u>
EXPENDITURE MANAGEMENT									
	Creditors Payment Period	30	82	70	59	47	36	30	Creditors' payment period is higher than the NT benchmark but will reduce over the planning period reaching 30 days.
R30	Contribution per Expenditure Item: Staff Cost (Salaries, Wages and Allowances)	25% - 40%	22,7%	23,0%	22,2%	22,0%	21,5%	21,3%	
	Contribution per expenditure item: Contracted Services	2% - 5%	4,3%	4,0%	4,0%	4,0%	3,8%	3,8%	Staff costs as a percentage of total expenditure is forecast to remain within the recommended benchmark throughout the planning period. Contracted services to total expenditure, however, is forecast to exceed the recommended benchmark.
GRANT DEPENDENCY									
R10	Total Grants / Total Revenue		17,0%	12,6%	12,0%	11,8%	11,5%	11,4%	The municipality can generate funds from its own sources and without being overly reliant on capital grants. This reliance should be reduced 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		88,0%	89,8%	90,1%	90,1%	90,1%	90,2%	
	Capital Grants to Total Capital Expenditure		34,9%	43,0%	39,5%	36,6%	33,6%	31,8%	



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

CONCLUSION

OUTCOME OF THE HISTORIC FINANCIAL ASSESSMENT

Langeberg Municipality's liquidity position weakened during FY2024/25, reflecting increasing short-term financial pressure. The current ratio declined from 1.77:1 in the prior year to 1.51:1, indicating a reduced ability to meet short-term obligations. This position becomes more concerning when excluding debtors older than 30 days, with the ratio further declining to 1.19:1, suggesting that the municipality's liquidity is heavily reliant on the recoverability of outstanding receivables. In line with this deterioration, total cash and cash equivalents decreased by 34%, falling from R297.1 million to R196.3 million, signalling a notable erosion of cash reserves.

Despite these liquidity constraints, the municipality maintained a modest level of operating performance. When excluding capital grants, Langeberg recorded an operating surplus of R7.2 million in FY2024/25, representing a slight improvement from the R6.8 million surplus achieved in FY2023/24. However, this marginal growth in surplus was not supported by strong cash generation, as cash generated from operations (excluding capital grants) declined sharply to R14.2 million, down from R78 million in the previous year. This divergence between accounting surplus and cash generation raises concerns regarding the underlying sustainability and quality of earnings.

From an operational efficiency perspective, performance was mixed. Electricity distribution losses increased significantly to 16.89% in FY2024/25, up from 5.76% in the prior year, indicating substantial inefficiencies and potential revenue leakage within the electricity network. Conversely, water distribution losses improved notably, declining from 18.7% to 10.59%, suggesting progress in managing water infrastructure and reducing wastage. These contrasting trends highlight uneven performance across key service delivery functions.

In terms of financial structure and asset management, Langeberg remains conservatively leveraged, with gearing and debt-service-to-total-expenditure ratios at low levels of 2.5% and 0.79%, respectively. While this indicates limited reliance on debt, it may also suggest underutilisation of borrowing as a funding mechanism for infrastructure investment. Repairs and maintenance expenditure declined to R33.8 million from R41.7 million, representing only 3% of total operating

expenditure, which is well below the National Treasury benchmark of 8%. Over the review period, total capital expenditure amounted to R786.3 million, averaging R98.3 million annually, with the FY2024/25 capital programme primarily funded through own cash reserves (68%) and capital grants (32%), further contributing to the observed pressure on liquidity..

STRENGTHS

- Low gearing and debt service ratios indicate a strong, low-risk balance sheet.
- Improved water distribution efficiency (reduced losses).
- Continued investment in capital infrastructure.

WEAKNESSES

- Deteriorating liquidity and declining cash reserves.
- Significant drop in cash generated from operations.
- Increased electricity distribution losses.
- Underinvestment in repairs and maintenance (well below benchmark).
- Reliance on internal cash to fund capital expenditure.

OUTCOME OF THE FUTURE FORECASTS

Langeberg LM has budgeted for notable operating deficits over the MTREF period in the February Adjustment Budget. This is contrary to the historic performance in which operating surpluses were posted in each 6/8 years under review. Due to this, we are of the view that Langeberg will likely outperform the operating budget. This has been factored into the Base Case assumptions. Prior to making any adjustments to the latest Adjustment Budget, an MTREF Case was developed in order to assess the viability of the Budget. The MTREF Case provides an indication of the long-term outcome should the status quo be maintained and the budget be implemented as is. The result thereof was characterised by poor financial performance, cash generation as well as a strained liquidity position.

The MTREF Case serves to allow key strengths and weaknesses to be identified. This informs the Base Case assumptions as key target areas are identified. The first priority is to address the key weaknesses, whilst maintaining key strengths. The underlying causes of the unsustainable outcome have been addressed in the Base Case assumptions. The Base Case outcome reflects a sustainable long-term liquidity position underpinned by improved financial performance, healthy cash generation and a sustainable capital investment programme. Forecast growth in creditors has been curtailed, further supporting the healthy liquidity position. Other key improvements include reduced distribution losses as well as increased operational repairs and maintenance expenditure.

To develop a realistic Base Case model, the figures from the Adjustment Budget 2025/26 – 2027/28 were used. The objective of the model is to utilise realistic assumptions to support future financial sustainability. These assumptions have been discussed and agreed upon with the municipality. The following are the key assumptions:

1. A collection rate of 95% is assumed to be maintained throughout the planning period.
2. A 2% cut in operating expenditure was modelled.
3. The MTREF capital investment programme was maintained as per the Adjustment Capital Budget for FY2025/26-FY2027/28, with growth beyond FY2027/28 assumed at 6% p.a.

4. No borrowings were included over the planning period.
5. Repairs and maintenance expenditure was increased to 4.0% of PPE & IP from 2.9% over 5 years.
6. Electricity losses were assumed at 8%, while water distribution losses were assumed at 15% throughout the planning period.
7. Tariff increases were included as put forward in the Adjustment Budget Document for FY2025/26-FY2027/28.
8. Creditors days were reduced in order to mitigate the forecast rise in creditors in the MTREF Case.
9. Economic data from the MERO report has been included in the LTFM forecasts.

The Base Case presents a sustainable outcome that reflects an affordable capital investment programme, improved financial performance and a healthy liquidity position.

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 continuously 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. Langeberg is encouraged to adopt the Base Case developed as part of this report, with a particular focus on improving the collection rate, reducing operating expenditure as far as possible and presenting a sustainable capital investment programme. Should Langeberg be successful in this regard, there will be a clear pathway towards the municipality's continued financial sustainability and resilience.

ANNEXURE 1: PROJECTED FINANCIAL STATEMENTS

Municipal Financial Model - Langeberg Local Municipality Statement of Financial Position

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>2034</u>	<u>2035</u>
<i>R thousands</i>											
Non-current assets:	1 151 035	1 300 416	1 303 698	1 331 179	1 361 806	1 396 301	1 435 027	1 478 340	1 526 595	1 580 146	1 639 351
Property, plant and equipment	1 105 559	1 265 035	1 267 144	1 293 949	1 324 195	1 358 257	1 396 506	1 439 306	1 487 023	1 540 023	1 598 678
Intangible assets	6 029	6 029	6 631	6 711	7 092	7 525	8 002	8 515	9 052	9 603	10 154
Investment properties	29 475	27 908	28 452	29 020	29 020	29 020	29 020	29 020	29 020	29 020	29 020
Investments	156	143	144	144	144	144	144	144	144	144	144
Long-term receivables	9 540	1 026	1 046	1 068	1 068	1 068	1 068	1 068	1 068	1 068	1 068
Other non-current assets	275	275	281	287	287	287	287	287	287	287	287
Current assets:	403 204	333 824	400 942	444 545	528 631	626 796	739 051	868 132	1 014 441	1 178 078	1 362 674
Inventories	17 333	18 759	20 957	22 178	23 937	25 757	27 516	29 404	31 398	33 474	35 604
Trade and other receivables	189 531	187 033	187 033	187 033	187 033	187 033	187 033	187 033	187 033	187 033	187 033
Cash & Short term investments	196 340	128 031	192 952	235 334	317 662	414 005	524 502	651 695	796 009	957 571	1 140 036
TOTAL ASSETS	1 554 239	1 634 240	1 704 639	1 775 725	1 890 437	2 023 097	2 174 078	2 346 472	2 541 036	2 758 224	3 002 025
Municipal Funds:	1 113 197	1 211 850	1 275 146	1 340 745	1 447 959	1 573 516	1 720 163	1 889 477	2 082 803	2 301 172	2 545 365
Housing development fund & Other Cash Backed Reserves	–	–	–	–	–	–	–	–	–	–	–
Reserves (Not Cash Backed)	62 921	62 921	64 179	65 463	65 463	65 463	65 463	65 463	65 463	65 463	65 463
Accumulated surplus	1 050 276	1 148 929	1 210 967	1 275 282	1 382 496	1 508 053	1 654 700	1 824 014	2 017 340	2 235 709	2 479 902
Non-current liabilities:	173 202	174 983	173 160	171 146	177 618	185 041	193 213	201 907	210 855	223 497	236 132
Long-term liabilities (Interest Bearing)	18 666	20 983	19 160	17 146	14 873	12 361	9 584	6 515	3 124	3 124	3 124
Long-term trade payables: Eskom	–	–	–	–	–	–	–	–	–	–	–
Non-current provisions	154 536	154 000	154 000	154 000	162 745	172 680	183 629	195 392	207 731	220 373	233 009
Current liabilities:	267 840	247 407	256 334	263 834	264 861	264 541	260 702	255 088	247 378	233 556	220 528
Consumer deposits	18 045	20 656	22 670	24 817	26 885	28 525	30 093	31 659	33 210	34 750	36 317
Provisions	63 563	55 092	56 194	57 317	57 317	57 317	57 317	57 317	57 317	57 317	57 317
Trade payables	174 246	170 010	175 648	179 686	178 385	176 187	170 515	163 044	153 460	141 488	126 894
Current portion of long-term trade payables: Eskom	–	–	–	–	–	–	–	–	–	–	–
Unspent conditional grants	6 529	–	–	–	–	–	–	–	–	–	–
Bank overdraft	–	–	–	–	–	–	–	–	–	–	–
Current portion of interest bearing liabilities	5 458	1 649	1 822	2 014	2 273	2 512	2 777	3 069	3 392	–	–
TOTAL MUNICIPAL FUNDS AND LIABILITIES	1 554 239	1 634 240	1 704 640	1 775 725	1 890 438	2 023 098	2 174 079	2 346 472	2 541 036	2 758 224	3 002 025

Municipal Financial Model - Langeberg Local Municipality
Statement of Financial Performance

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>2034</u>	<u>2035</u>
<i>R thousands</i>											
Revenue											
Property rates	108 425	111 367	118 339	125 786	133 695	141 225	149 277	157 795	166 696	175 882	185 244
Service Charges	842 301	911 868	1 015 744	1 118 922	1 230 118	1 331 857	1 429 825	1 534 399	1 645 104	1 761 549	1 883 613
Service charges - electricity	682 128	750 203	842 115	932 426	1 030 010	1 118 834	1 203 252	1 293 461	1 389 064	1 489 757	1 595 489
Service charges - water	82 700	86 913	93 326	100 211	107 605	114 988	122 765	131 081	139 907	149 204	158 917
Service charges - waste water management	39 127	37 126	39 508	42 048	44 646	46 858	49 133	51 485	53 885	56 310	58 751
Service charges - waste management	38 346	37 625	40 795	44 237	47 857	51 177	54 675	58 373	62 247	66 278	70 456
Service charges - other	–	–	–	–	–	–	–	–	–	–	–
Rental from fixed assets	3 769	4 163	4 413	4 678	5 072	5 435	5 820	6 227	6 655	7 101	7 565
Interest	23 120	8 947	6 211	9 806	12 373	17 084	22 545	28 648	35 378	42 567	49 990
Interest earned from receivables	10 074	6 973	7 391	7 834	14 634	16 091	17 420	18 713	19 941	21 075	22 088
Dividends	–	–	–	–	–	–	–	–	–	–	–
Fines, penalties and forfeits	37 003	37 003	37 769	38 581	41 829	44 828	47 997	51 355	54 883	58 564	62 392
Licences and permits	3 842	2 514	2 665	2 825	3 050	3 283	3 542	3 823	4 123	4 437	4 760
Agency services	16 936	6 107	6 473	6 862	7 440	7 973	8 536	9 134	9 761	10 416	11 097
Transfer and subsidies - Operational	150 964	151 272	145 108	151 719	163 623	175 737	188 556	202 145	216 422	231 312	246 775
Other revenue	15 842	19 414	20 729	22 138	24 002	25 723	27 541	29 468	31 492	33 604	35 801
Gains on disposal of Assets	131	1 000	–	–	–	–	–	–	–	–	–
Total revenue before Capital Grants	1 212 406	1 260 628	1 364 843	1 489 150	1 635 837	1 769 236	1 901 058	2 041 706	2 190 454	2 346 508	2 509 323
Transfers and subsidies - capital (monetary allocations)	46 317	75 411	47 092	40 392	41 076	41 832	42 694	43 570	44 338	44 885	45 120
Public & developers contributions	–	–	–	–	–	–	–	–	–	–	–
Total Revenue after Capital Grants	1 258 724	1 336 039	1 411 935	1 529 542	1 676 913	1 811 068	1 943 751	2 085 276	2 234 792	2 391 392	2 554 443
Operating expenditure											
Employee related costs	290 279	316 392	326 447	342 802	360 808	380 198	400 889	422 773	445 714	469 540	494 044
Remuneration of councillors	12 349	13 716	14 403	15 124	15 692	16 300	16 942	17 613	18 305	19 009	19 716
Debt impairment	94 116	77 386	83 485	89 607	97 867	105 458	113 007	121 045	129 528	138 422	147 709
Depreciation and amortisation	54 736	56 807	65 972	67 107	69 302	71 459	73 604	75 763	77 960	80 218	82 556
Interest	21 695	2 209	2 052	1 879	1 687	1 475	1 236	972	680	357	–
Bulk purchases - electricity	592 038	609 275	689 177	768 456	831 215	902 896	971 021	1 043 819	1 120 971	1 202 230	1 287 555
Inventory Consumed	38 260	35 240	38 382	40 584	44 489	48 818	52 645	56 913	61 560	66 498	71 621
Contracted services	43 041	62 134	56 432	61 889	66 849	71 936	75 413	79 113	83 021	87 124	91 422
Transfers and subsidies	3 500	4 369	4 430	4 650	4 935	5 213	5 502	5 803	6 114	6 431	6 754
Other expenditure	49 791	59 859	67 859	71 846	76 856	81 758	86 845	92 148	97 612	103 195	108 873
Losses on disposal of Assets	11 462	–	–	–	–	–	–	–	–	–	–
Total Expenditure	1 211 267	1 237 386	1 348 639	1 463 943	1 569 699	1 685 510	1 797 104	1 915 963	2 041 466	2 173 023	2 310 250
Suplus/ (Shortfall) for the year	47 456	98 653	63 296	65 599	107 214	125 558	146 647	169 313	193 326	218 369	244 193

Municipal Financial Model - Langeberg Local Municipality
Cash Flow Statement

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>2034</u>	<u>2035</u>
<i>R thousands</i>											
<u>Cash flows from Operating Activities</u>											
Suplus/Deficit for the year <i>including</i> Capital Grants	47 456	98 653	63 296	65 599	107 214	125 558	146 647	169 313	193 326	218 369	244 193
Suplus/Deficit for the year <i>excluding</i> Capital Grants & Contributions		23 242	16 204	25 207	66 138	83 726	103 954	125 743	148 989	173 484	199 073
Capital Grants & Contributions		75 411	47 092	40 392	41 076	41 832	42 694	43 570	44 338	44 885	45 120
Adjustments for non-cash items:											
Depreciation, amortisation and impairment loss	54 736	56 807	65 972	67 107	69 302	71 459	73 604	75 763	77 960	80 218	82 556
Revaluation on investment property (gain) / loss	–	–	–	–	–	–	–	–	–	–	–
Increase / (Release from) current provisions & non-interest bearing liabilities	–	(8 471)	1 102	1 123	–	–	–	–	–	–	–
Increase / (Release from) other non-current provisions & non-interest bearing liabilities	–	(536)	–	–	8 745	9 935	10 949	11 763	12 339	12 642	12 635
(Increase) / Release from non-current interest bearing assets	–	13	(1)	–	–	–	–	–	–	–	–
Capitalised interest	–	–	–	–	–	–	–	–	–	–	–
Eskom Debt Relief (synthetic grant)	–	–	–	–	–	–	–	–	–	–	–
Operating surplus before working capital changes:	102 192	146 467	130 369	133 829	185 261	206 952	231 200	256 838	283 626	311 229	339 384
Change in W/C Investment	–	(9 692)	3 439	2 817	(3 059)	(4 020)	(7 429)	(9 360)	(11 578)	(14 047)	(16 725)
(Increase)/decrease in inventories	–	(1 426)	(2 198)	(1 221)	(1 759)	(1 821)	(1 758)	(1 888)	(1 995)	(2 075)	(2 131)
(Increase)/decrease accounts receivable	–	2 498	–	–	–	–	–	–	(0)	–	–
Increase/(decrease) in trade payables	–	(4 236)	5 637	4 038	(1 300)	(2 199)	(5 671)	(7 472)	(9 584)	(11 972)	(14 594)
Eskom Debt Relief (movement out of creditors)	–	–	–	–	–	–	–	–	–	–	–
Increase/(decrease) in unspent grants	–	(6 529)	–	–	–	–	–	–	–	–	–
Net cash flow from Operating activities	102 192	136 774	133 808	136 646	182 202	202 932	223 770	247 479	272 048	297 182	322 659
<u>Cash flows from Investing Activities</u>											
Capital expenditure	–	(216 283)	(68 683)	(93 993)	(99 929)	(105 954)	(112 329)	(119 076)	(126 215)	(133 769)	(141 761)
Decrease/(Increase) in non-current receivables	–	8 514	(26)	(28)	–	–	–	–	–	–	–
(Additions) / Disposals of investment property	–	1 567	(544)	(568)	–	–	–	–	–	–	–
Net cash flow from Investing activities	–	(206 201)	(69 253)	(94 589)	(99 929)	(105 954)	(112 329)	(119 076)	(126 215)	(133 769)	(141 761)
<u>Cash flows from Financing Activities</u>											
New loans raised	–	–	–	–	–	–	–	–	–	–	–
Loans repaid	–	(1 492)	(1 649)	(1 822)	(2 014)	(2 273)	(2 512)	(2 777)	(3 069)	(3 392)	–
(Decrease) / Increase in consumer deposits	–	2 611	2 014	2 148	2 068	1 639	1 568	1 566	1 551	1 541	1 567
Net cash flow from Financing activities	–	1 119	365	326	54	(634)	(944)	(1 210)	(1 518)	(1 851)	1 567
Change in Cash	102 192	(68 308)	64 920	42 383	82 327	96 344	110 497	127 192	144 315	161 562	182 465
Cash/(Overdraft), Beginning		196 340	128 031	192 952	235 334	317 662	414 005	524 502	651 695	796 009	957 571
Cash/(Overdraft), Ending	196 340	128 031	192 952	235 334	317 662	414 005	524 502	651 695	796 009	957 571	1 140 036

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