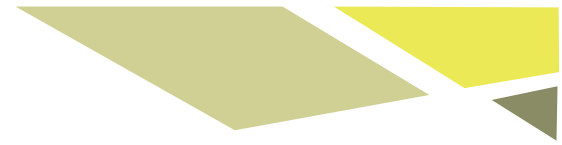




LANGEBERG LOCAL MUNICIPALITY

Long-Term Financial Plan – *Update 2024*





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 Regional Explorer v2375



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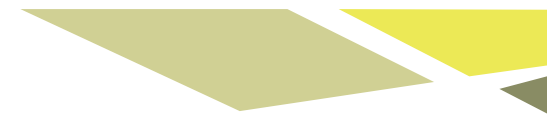
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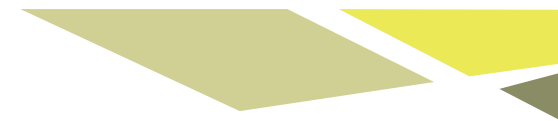
ANNEXURE 1: PROJECTED FINANCIAL STATEMENTS **Error! Bookmark not defined.**



KEY FINDINGS AND CONCLUSIONS DRAWN FROM THE 2024 LTFP UPDATE

HIGHLIGHTS FROM THE FY2022/23 FINANCIAL RESULTS:

- Langeberg's liquidity position is healthy with a ratio of 2.40:1 as at FYE2022/23, a marginal improvement from 2.35:1 at the prior year end.
- Cash generated from operations (exclusive of capital grants) declined to R77.2 million for FY2022/23. This is despite an improvement in the collection rate to 99% as at FYE2022/23.
- Net debtors' days decreased from 28 days in FY2021/22 to 23 days in FY2022/23 - indicative of effective collection practices and implementation thereof. This is consistent with the improvement in the collection rate.
- Financial performance deteriorated during FY2022/23, whilst still remaining in an operating surplus. An operating surplus of R23.9 million (FYE2021/22: R53.3 million) was posted. The deterioration is primarily due to a heavy reliance on electricity revenue which was negatively impacted by load shedding.
- The electricity surplus margin reduced to 17% in FY2022/23 from 20% in FY2021/22, primarily due to NERSA tariff increases and the inability to fully pass these increases onto the consumer.
- Electricity distribution losses decreased from 6.69% in FY2021/22 to 3.93% in FY2022/23 - remaining below the NT maximum norm of 10%. Water distribution losses increased from 9.32% in FY2021/22 to 13.51% at the current year end.
- Unspent Conditional Grants decreased from R28.5 million at FYE2021/22 to R14.3 million at FYE2022/23, while creditors increased marginally to R95.0 million (FYE2021/22: R92.3 million).
- Total grants received (R170.8 million) constituted 18% of total revenue (R944.2 million) in FY2022/23.
- The municipality's unencumbered cash of R365.0 million exceeded the NT and statutory minimum liquidity requirements of R197.0 million - resulting in a cash surplus of R168.0 million as at FYE2022/23.
- Gearing and debt-service to total operating expenditure ratios were 5.4% and 0.9% respectively, providing scope for additional borrowing to fund capital expenditure. Capital expenditure increased significantly in FY2022/23 to a total capital outlay of R120.1 million, funded primarily through own cash (71%).

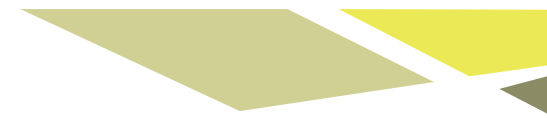


LONG-TERM FINANCIAL PLAN UPDATE

To develop a realistic Base Case model, the figures from the Tabled Budget 2024/25 – 2026/27 were used. The following are the key assumptions:

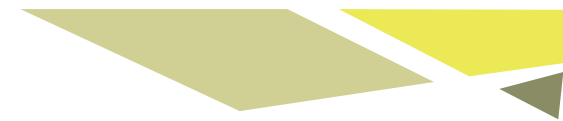
1. The collection rate was assumed to be 96% throughout the planning period, whilst electricity losses were maintained at 3.9% and water losses at 13.5%.
2. The model incorporated all the increases in revenue and expenditure items as announced in the 2023/24 Tabled Budget, with an operating expenditure decrease of 4.0% modelled to reflect a more realistic outcome.
3. Tariff increases were included as put forward in the Tabled Budget 2024/25.
4. Creditors' days were reduced to 28 days over 10 years. This in essence holds the creditors balance reasonably constant over the planning period, reflective of the current creditors' accounts being settled as and when they fall due.
5. Repairs and maintenance expenditure to PPE & IP was increased to 7% over the planning period.
6. The MTREF capital investment programme was unaltered in FY2023/24; however, capital expenditure was accelerated through over the remainder of the MTREF period. The assumed annual growth beyond the MTREF period is 6%. The MTREF period capital investment programme was adjusted as follows:
 - FY2024/25: R86 million (compared to R118 million in the MTREF)
 - FY2025/26: R81 million (compared to R55 million in the MTREF)
 - FY2026/27: R70 million (compared to R38 million in the MTREF)
7. The MTREF capital funding mix has been adjusted to include an accelerated borrowing programme. The borrowing in this scenario consists of 15-year amortising loans at a rate of 4% above forecast CPI in any given year. FY2023/24 was left unadjusted. The remainder of the MTREF period was adjusted as follows:
 - FY2024/25: R50 million
 - FY2025/26: R45 million
 - FY2026/27: R35 million
8. A loadshedding scenario was incorporated into the Base Case. This scenario assumes an average of stage 2 loadshedding for a period of 2 years from FY2023/24. This is assumed to result in an annual reduction of electricity consumption of 11.9%.

The Base Case reflects a positive outcome that is characterised by an affordable acceleration of capital investment that is facilitated through the introduction of borrowing over the planning period. This will enable the municipality to invest in bulk infrastructure as required. Furthermore, the Base Case outcomes reflect a healthy, sustainable liquidity position. The Base Case assumptions are seen as realistic and achievable and the implementation of which will provide a healthy platform for long-term sustainability.



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

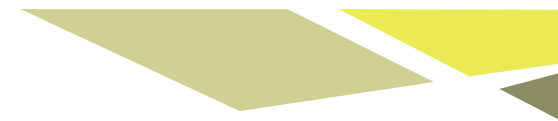
Outcome	MTREF Case 10-Year Outcome	Base Case 10-Year Outcome
Average annual % increase in Revenue	6,7%	8,2%
Average annual % increase in Expenditure	7,8%	8,8%
Accounting Surplus accumulated during Planning Period (Rm)	-R 524	R 99
Operating Surplus accumulated during Planning Period (Rm)	-R 806	-R 183
Cash generated by Operations during Planning Period (Rm)	R 87	R 606
Average annual increase in Gross Consumer Debtors	16,0%	18,1%
Capital investment programme during Planning Period (Rm)	R 680	R 941
External Loan Financing during Planning Period (Rm)	R 0	R 371
Cash and Cash Equivalents at the end of the Planning Period (Rm)	-R 19	R 528
No of Months Cash Cover at the end of the Planning Period (Rm)	-0,1	3,3
Liquidity Ratio at the end of the Planning Period	0.3 : 1	2,9 : 1
Gearing at the end of the Planning Period	1,3%	15,2%
Debt Service to Total Expense Ratio at the end of the Planning Period	0,2%	2,5%



SCENARIOS SUMMARY:

SCENARIO 1: ACCELERATED CAPITAL INVESTMENT & BORROWING PROGRAMME

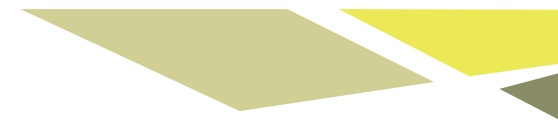
This scenario aims to assess the municipality's debt absorption capacity through further accelerating the borrowing programme. This unlocks a further acceleration of capital investment from the Base Case. The borrowing programme was accelerated by R141 million, which in turn unlocks an additional R176 million in capital investment over the planning period. To ensure that this is achieved in an affordable, sustainable manner, two liquidity preservation parameters have been set. Namely, the planning period end liquidity ratio must meet 2.5:1 at a minimum, and sufficient cash must be held at all times to ensure that the minimum liquidity requirements of 1-month's operating expenditure are met. Both of these parameters are met, indicating the sustainability of the scenario outcomes.



RECOMMENDATIONS:

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

1. 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 noted that the municipality has budgeted for an acceleration of capital investment in FY2024/25, before returning closer to historic levels over the remainder of the MTREF period. Optimise the funding mix through utilising the available scope to incorporate affordable external financing. The Tabled Budget indicates that there are no current plans for the municipality to access external financing. It is recommended that the municipality alters this strategy to incorporate borrowings into the funding mix. The Base Case presents an affordable acceleration of the Tabled Budget capital investment programme that is facilitated through the incorporation of borrowings. This will unlock further capital investment whilst preserving the municipality's healthy liquidity position.
2. Formalise a capital investment prioritisation and tracking system to optimise management's capital investment decisions and mitigate the risk of underspending on capital projects.
3. Prevent deterioration in profitability / surpluses to continue its ability to generate cash from operations and avoid deterioration of its liquidity, by ensuring that actual expenditure doesn't exceed budgeted expenditure. Cost-cutting measures are essential. Limiting the budgeted increases of contracted services and other expenditure items must be a priority.
4. Prevent deterioration of the collection rate by conducting regular reviews on collection procedures and credit control policies, ensuring that debts are collected timeously, and appropriate actions undertaken where lapses occur. It is critical for the municipality to, at a minimum, achieve the Base Case collection rate of 96% with further improvements targeted thereafter.
5. Ensure that tariffs are cost-reflective, through undergoing a detailed tariff modelling process underpinned by a robust tariff model.
6. Update the long-term financial plan annually with the most recent information to remain a relevant and valuable strategic tool that helps determine a long-term fiscal framework to guide the annual budgeting process.
7. Finally, Langeberg's current position of financial stability is a product of sustained, sound financial and operational management over the last 8 years. The stability of the financial position has enabled the municipality to invest in bulk infrastructure as needed. The municipality must focus on investment in productive assets that aim to create an enabling environment for economic growth. This will be of immense value to the municipality and its inhabitants.



DEMOGRAPHIC, ECONOMIC AND HOUSEHOLD INFRASTRUCTURE

- Sluggish GVA growth of 0.25% was experienced in 2022, following a post Covid-19 period of economic volatility during 2020 (-5.55%) and 2021 (5.57%).
- The population growth rate came in at 1.07%; an increase from 0.98% in 2021 - there was also an increase of 7.2% in the economically active population.
- The unemployment rate increased by 0.3% to 14.2% in 2022. It must be noted that the current narrow definition of the unemployment rate excludes discouraged workers - thus it is reasonable to assume that the true figure, upon inclusion of discouraged workers, is far higher.
- Proportional growth in employment opportunities by sector was experienced, with Finance (6 134 jobs) and trade (5 846 jobs) remaining the leaders in terms of employment opportunities in Langeberg.
- The Tress Index of 49.82 indicates a reasonably concentrated economy underpinned by primarily 4 sectors: Agriculture (24.7%), community services (19.6%), manufacturing (17.7%) and finance (15.9%). Together these 4 sectors accounted for 77.9% of economic output in Langeberg in 2022.
- Reasonably low household formation of 14.1% since 2013 was noted. Langeberg has been able to maintain its infrastructure index of 0.92; indicative of its ability to keep up with the rate of household formation. This score is high relative to the national index of 0.77.
- 14.3% of households fall below the Equitable Share Bracket, while 91.9% of households receive a level of service above the RDP level of service. The Equitable Share Bracket (household income below R54 000 p.a.) provides an approximation of the number of indigent households within the municipality.
- The municipality managed to reduce backlogs in the provision of all infrastructure services over the review period, while outperforming the district in the provision of electricity and refuse removal services.



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

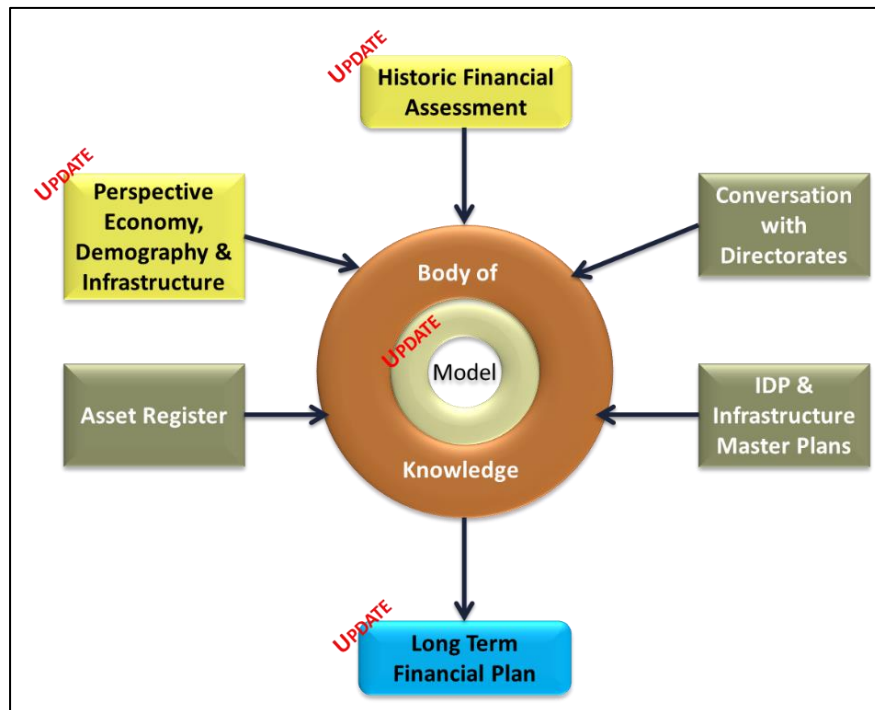
8 Ratio Analysis

9 Conclusions

PLANNING PROCESS

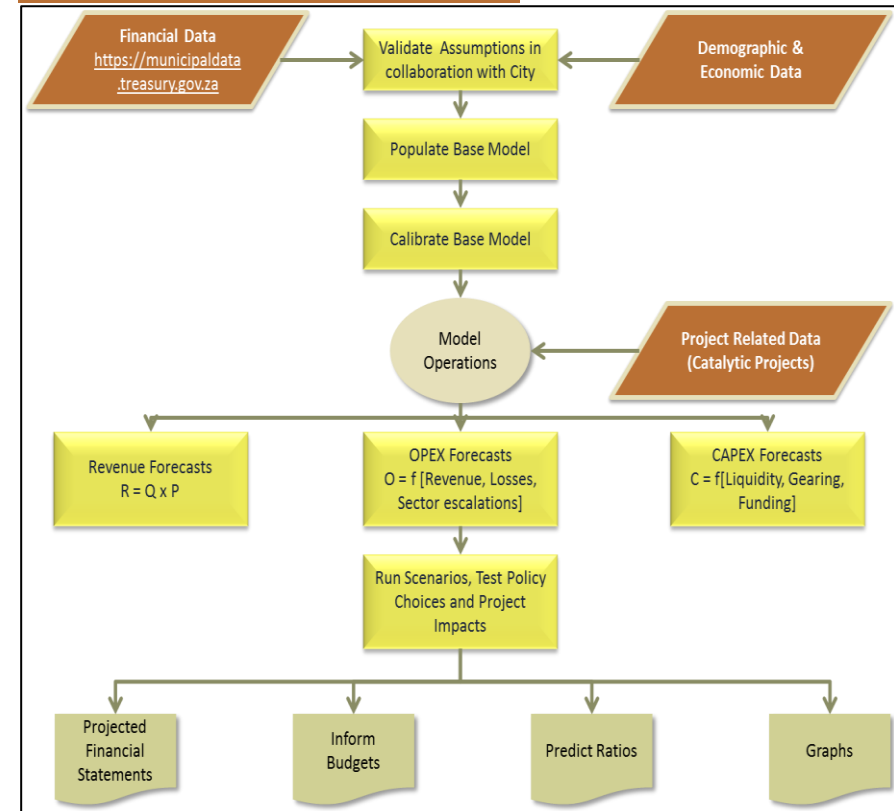
The diagram below illustrates the steps in the process that were followed in drafting the LTFP and the steps taken during this 2023 “LTFP Update”:

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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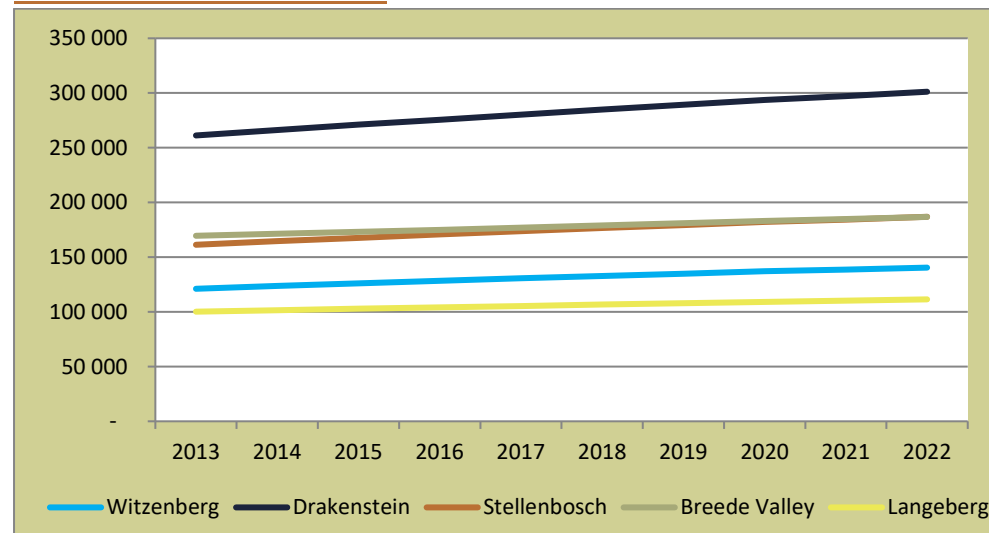
9 Conclusions

UPDATED PERSPECTIVES (DEMOGRAPHIC, ECONOMIC, HOUSEHOLD INFRASTRUCTURE)

DEMOGRAPHY

Langeberg's population grew at a rate of 1.07% in 2022, an increase from 0.98% growth in the prior year. This signifies a reversal of the trend of growth at diminishing rates observed throughout the review period. The total population in 2022 amounted to approximately 111 428 people. This equates to 12.0% of the Cape Winelands District population of 926 692 people. The 5-year average population growth rate came in at 1.13% p.a.

GRAPH 1: TOTAL POPULATION

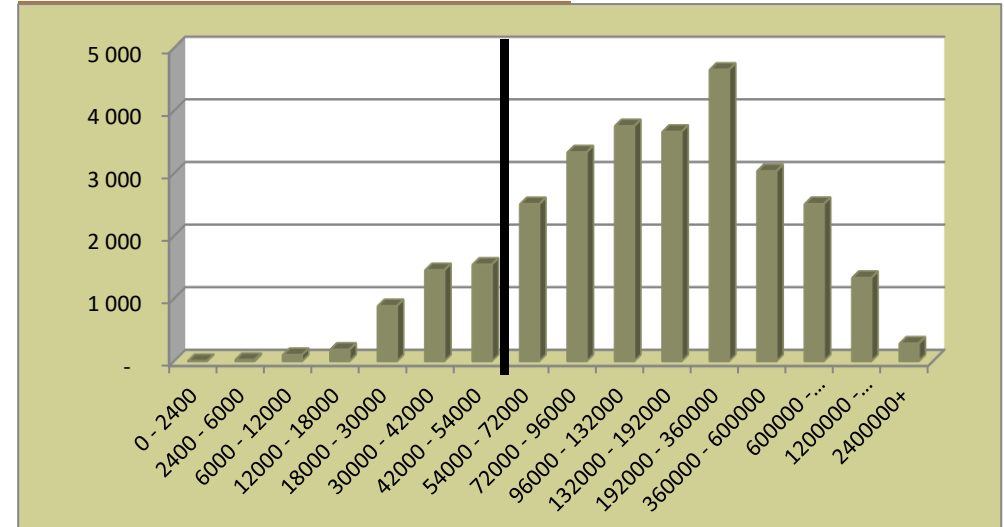


Average household income in Langeberg increased by 6.3% to a total of R330 759 in 2022, up from R311 242 in 2021. The household income distribution (**GRAPH 2**) illustrates that approximately 14.3% of households in Langeberg earn less than R54 000 p.a. – relatively low compared to the Cape Winelands figure of 15.5%. 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.

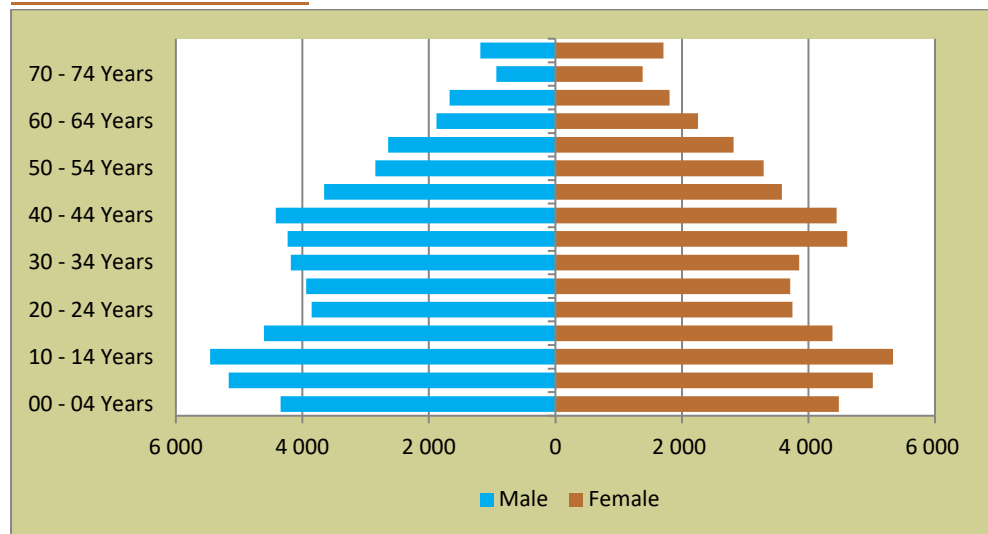
The provision of RDP level of basic services to these households is theoretically covered by the equitable share and should compensate the municipality for providing free basic services. However, 91.9% of households in Langeberg receive a level of service above the RDP level, compared to 89.6% of households in the Cape Winelands District.

Although Langeberg's economy has expanded over the last 2 years, growth remains sluggish. The high inflationary environment and resultant raised interest rates have increased pressure on household finances. Thus, the extent to which households can be levied in future must be closely monitored. A significant decline in household income, in conjunction with rapid increases in the municipal services costs, will pose a serious challenge to the municipality's future revenue prospects.

GRAPH 2: HOUSEHOLD INCOME DISTRIBUTION



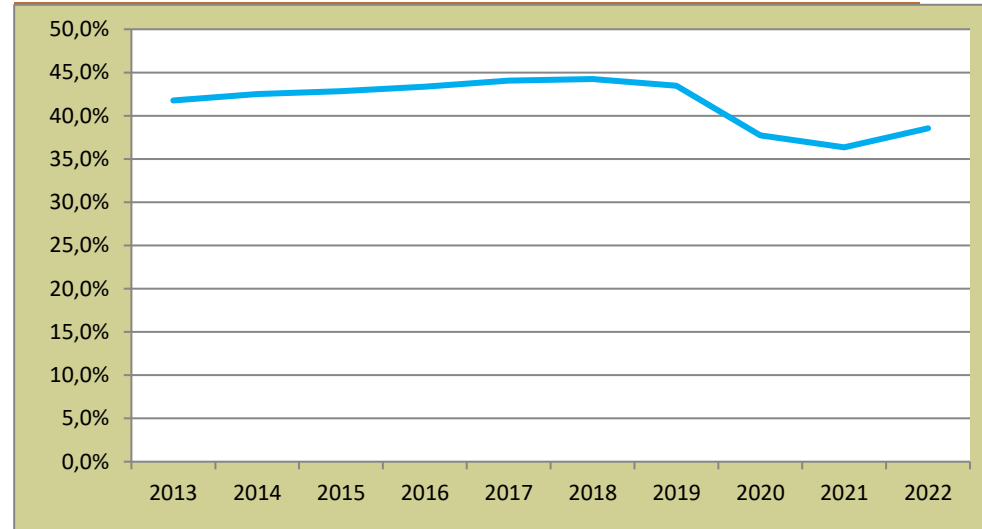
GRAPH 3: AGE PROFILE



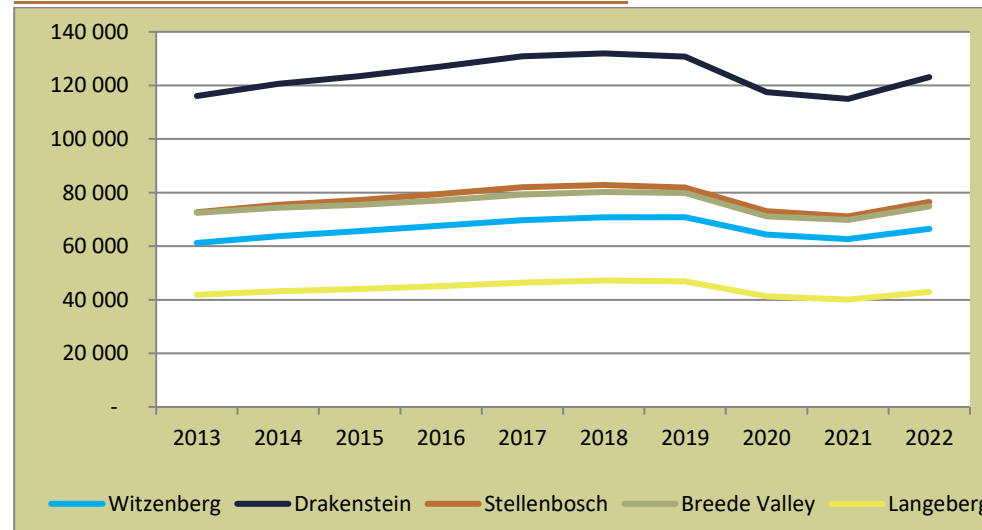
GRAPH 3 illustrates the age profile distribution of Langeberg LM which is consistent with the typical age profile one would expect to see in a developing society. This distribution is characterised by a large number of people below the age of 24 years old, and fewer people in the age cohorts above 50 years old. This is reflected in the age distribution of Langeberg LM, in which 41.6% of the population are below the age of 24 years, 36.5% are between 25 and 50 years old and 21.9% are above the age of 50.

The number of economically active people in Langeberg increased by 7.2% in 2022 to a total of 42 953 people. This represents 38.5% of the total population, an increase from 36.4% in the prior year. This signifies a reversal of the declining trend that has been observed since 2018, in which 44.2% of the population were considered economically active.

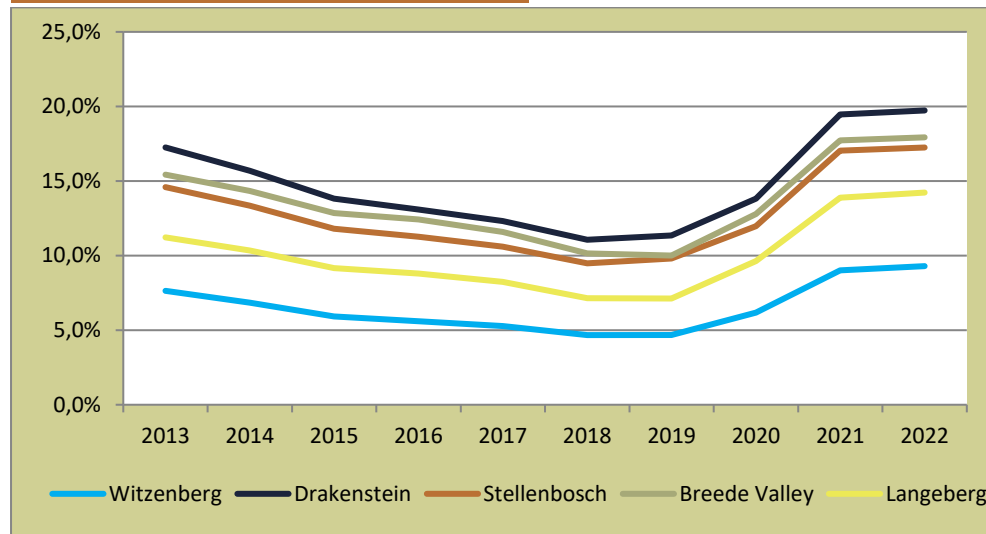
GRAPH 4A: ECONOMICALLY ACTIVE PEOPLE AS A % OF TOTAL POPULATION



GRAPH 4B: ECONOMICALLY ACTIVE POPULATION



GRAPH 5: OFFICIAL UNEMPLOYMENT RATE



The official rate of unemployment increased marginally to 14.2% in 2022, from 13.9% in the prior year. The unemployment rate has increased significantly since 2019 in which the rate was just 7.1%. The recent increases notwithstanding, Langeberg's unemployment rate is the second lowest in the district and well below the provincial and national rates of 24.8% and 33.8% respectively. It must be stated that the official unemployment rate employs a narrow definition which excludes discouraged workers and those not actively searching for work, thus in reality, this figure is much higher.

ECONOMY

The economic recovery of Langeberg's economy has slowed somewhat, with a marginal economic expansion of 0.25% recorded in 2022, following sharp post Covid-19 growth of 5.57% in 2021. One would reasonably have expected this to transpire as the considerable growth in 2021 was largely a product of significantly reduced economic activity in the prior year. However, it is concerning to note that economic growth has slowed down to this extent. This is likely attributable to the harsh economic environment in which Langeberg must operate as well as other factors such as the energy crisis. Moreover, it is concerning that the 5-year average population growth rate of 1.13% p.a. significantly exceeds the average GVA growth rate of 0.37% p.a. over the same period. This effectively results in the impoverishment of the local population. This is reflected in the reduction of GVA per capita to R63 170 p.a. in 2022 from R63 684 p.a. in the prior year. Total GVA for Langeberg in 2022 amounted to R9.88 billion (current prices), this represents approximately 11.45% of the Cape Winelands District GVA of R86.28 billion (current prices).

Langeberg's economy is reasonably concentrated, as evidenced by a Tress Index, a measure of economic diversification, of 49.82. The higher the degree of diversification, the lower the degree of economic risk in the event of adverse economic conditions as the impact is more evenly spread over a greater number of economic sectors. There are 4 main sectors in Langeberg's economy, namely: Agriculture (24.7%), community services (19.6%), manufacturing (17.7%) and finance (15.9%). Together these 4 sectors comprised approximately 77.9% of Langeberg's total economic output in 2022. The municipality must be cognisant of over-reliance on individual economic sectors, such as agriculture, as this places the municipality at higher risk should an event such as a drought reduce output in said sector.

The agricultural sector has experienced the most proportional growth over the last 10 years by a considerable margin. The transport and community services sectors experienced marginal proportional growth, whereas every other sector experienced varying degrees of contractions since 2013. The construction and manufacturing sectors were the most heavily affected.

GRAPH 6: ECONOMIC SECTORS

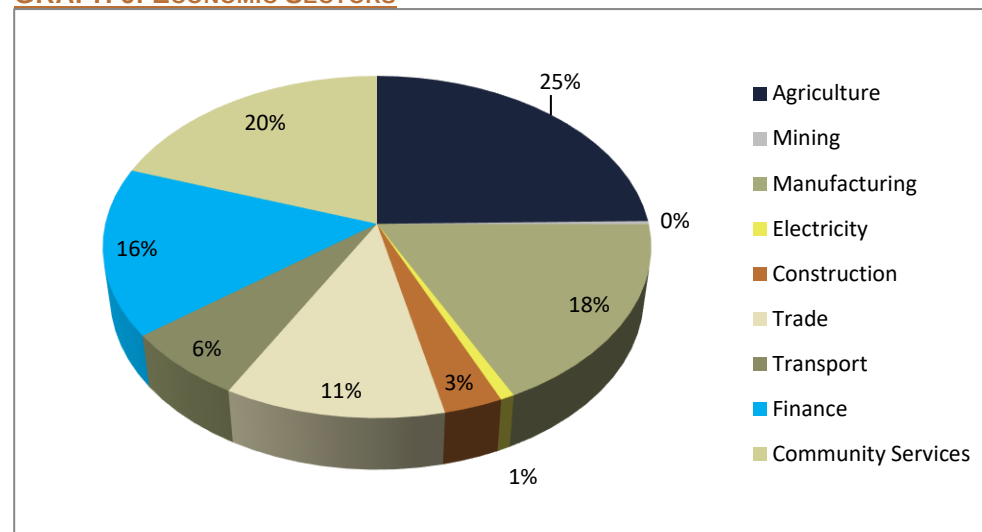
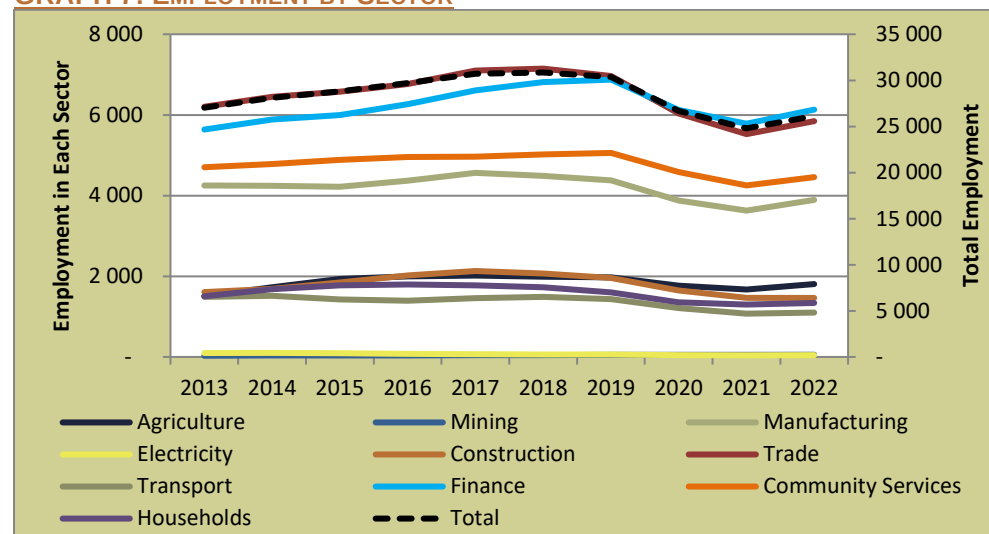


TABLE 1: PROPORTIONAL GROWTH OF ECONOMIC SECTORS

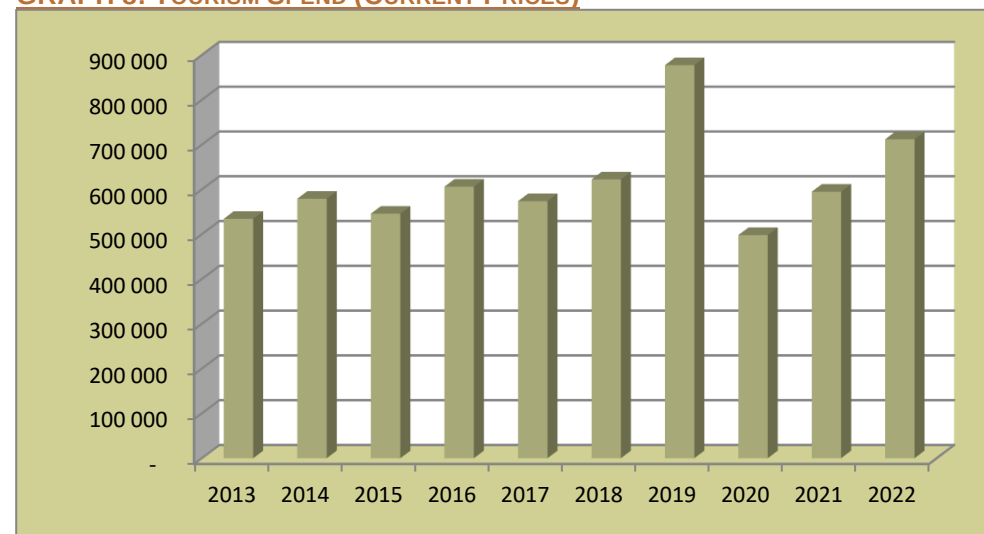
Subsector	2013	2022
Agriculture	20,6%	24,7%
Mining	0,3%	0,3%
Manufacturing	19,1%	17,7%
Electricity	1,0%	0,7%
Construction	4,8%	3,1%
Trade	12,7%	11,5%
Transport	5,9%	6,5%
Finance	16,3%	15,9%
Community Services	19,3%	19,6%

GRAPH 7: EMPLOYMENT BY SECTOR



Scrutiny of the employment figures for 2022 reveals that the total number of employment opportunities increased by 5.5% (1 353 jobs) to a total of 26 146 jobs. This is the first increase observed since 2018, in which there were 30 851 available jobs. Finance remains the predominant employment provider accounting for 23.5% of available jobs, followed by trade with 22.4% of available jobs in 2022.

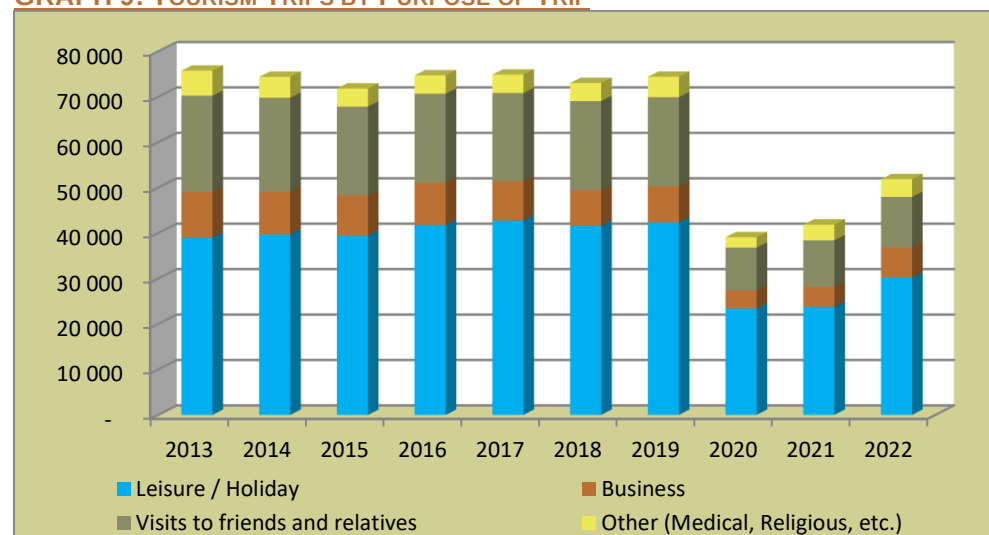
GRAPH 8: TOURISM SPEND (CURRENT PRICES)



Tourism spend in Langeberg has continued the upward trend since the substantial drop observed in 2020. Total tourism spend in 2022 amounted to R712.1 million, an increase of 19.7% from 2021. It must be noted that the current levels of tourism spend remain below pre-pandemic levels. The upward trend noted in tourism spend would indicate that pre-pandemic levels may well be exceeded in the coming years.

Tourism spend accounted for 6.49% of Langeberg's total GVA in 2022, an increase from 5.81% in the prior year. This figure remains below the pre-pandemic contribution of 9.38% observed in 2019; however, should this trajectory continue, pre-pandemic levels may be exceeded in the coming years. Tourism remains an important component of the municipality's local economy.

GRAPH 9: TOURISM TRIPS BY PURPOSE OF TRIP

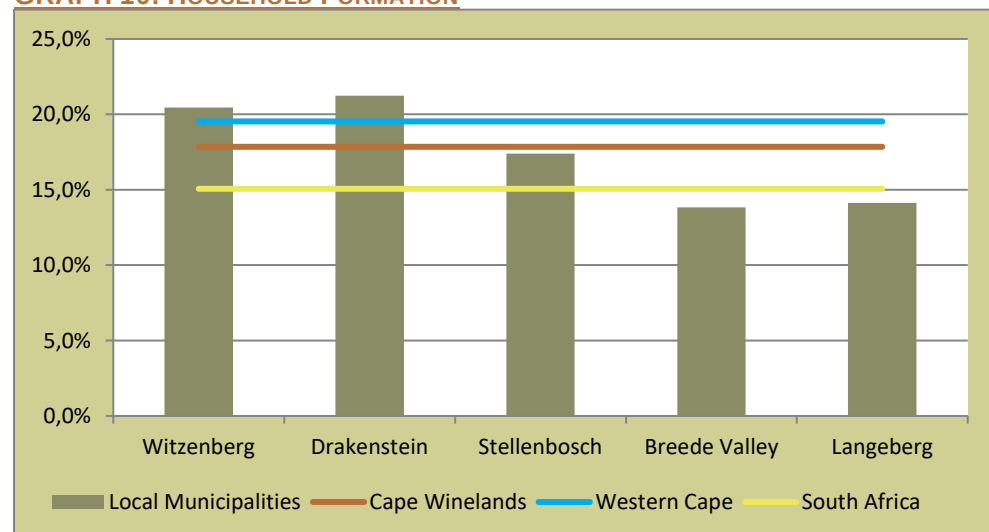


An analysis of tourism in Langeberg would be incomplete without scrutinising the number of tourism trips undertaken and the purpose thereof. The total number of trips increased by 23.9% in 2022, to a total of 51 876 trips. The perception of Langeberg as a traditional tourist destination is confirmed by the vast majority (58.3%) of trips in 2022 being for leisure/holiday purposes. This is followed by visits to friends and relatives (21.5%). In a similar vein to tourism spend, the total number of tourism trips remains below pre-pandemic levels. This may be attributable to the harsh economic environment that increases pressure on household finances. This often results in people cutting down on expenditure that can be considered a luxury, such as going away on holiday.

HOUSEHOLD INFRASTRUCTURE

Household formation in Langeberg came in at 14.1%, for a total of 3 689 additional households since 2013. This is the second lowest rate of household formation in the Cape Winelands District. This relatively low rate should assist the municipality in keeping pace with the increased demand for municipal services. This notwithstanding, any increase in population and the number of households puts pressure on the municipality to continue delivering services of the desired quality to its communities.

GRAPH 10: HOUSEHOLD FORMATION



Langeberg has managed to increase access to municipal services over the review period, as measured by the infrastructure index improving from 0.89 in 2013 to 0.92 in 2022. This is relatively higher than the district and provincial indices of 0.90 and national index of 0.77. The maintenance of this index is indicative of the municipality's ability to keep up with the rate of household formation and growing population. It must be stated that the infrastructure index is a measure of access to municipal services and does not necessarily give an indication as to the quality as well as the security with which these services are provided.

GRAPH 11: INFRASTRUCTURE INDEX

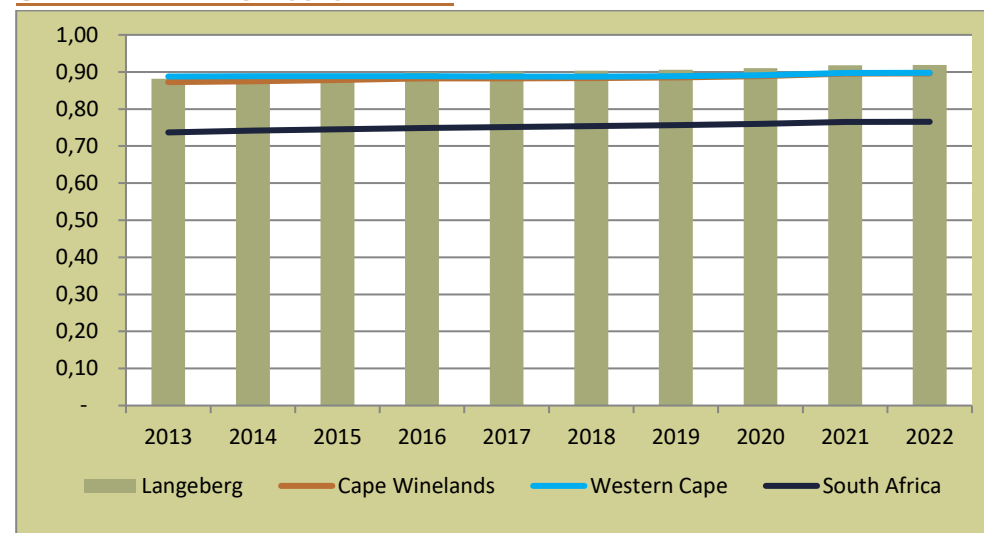


TABLE 2 below compares the level of backlogs of sanitation, water, electricity, and refuse removal of Langeberg with that of the district. Langeberg performed well in the provision of municipal services with the municipality managing to reduce the level of backlogs in all service categories. The water backlog has reduced by 8.1% to 1.9% in 2022, while the refuse removal backlog has reduced by 21.1% to 12.2% in 2022. The municipality has outperformed the district in the provision of electricity and refuse removal services, whilst lagging behind in the provision of sanitation and water services.

TABLE 2: HOUSEHOLD INFRASTRUCTURE PROVISION

Infrastructure	Cape Winelands		Langeberg	
Above RDP Level				
Sanitation	240 021	97,3%	28 742	96,5%
Water	242 430	98,3%	29 230	98,1%
Electricity	239 172	97,0%	29 197	98,0%
Refuse Removal	210 114	85,2%	26 146	87,8%
Below RDP or None				
Sanitation	6 571	2,7%	1 042	3,5%
Water	4 162	1,7%	553	1,9%
Electricity	7 420	3,0%	587	2,0%
Refuse Removal	36 478	14,8%	3 637	12,2%
Total Number of Households	246 592	100,0%	29 784	100,0%



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UPDATED HISTORIC FINANCIAL ASSESSMENT

FINANCIAL POSITION

Langeberg LM's net fixed asset position improved to a total of R925.8 million as at FYE2022/23, an increase of 8.6% from the prior year. The increase in the accumulated surplus of R61.7 million (6.9%) is a further indication of the improved financial position in which Langeberg finds itself.

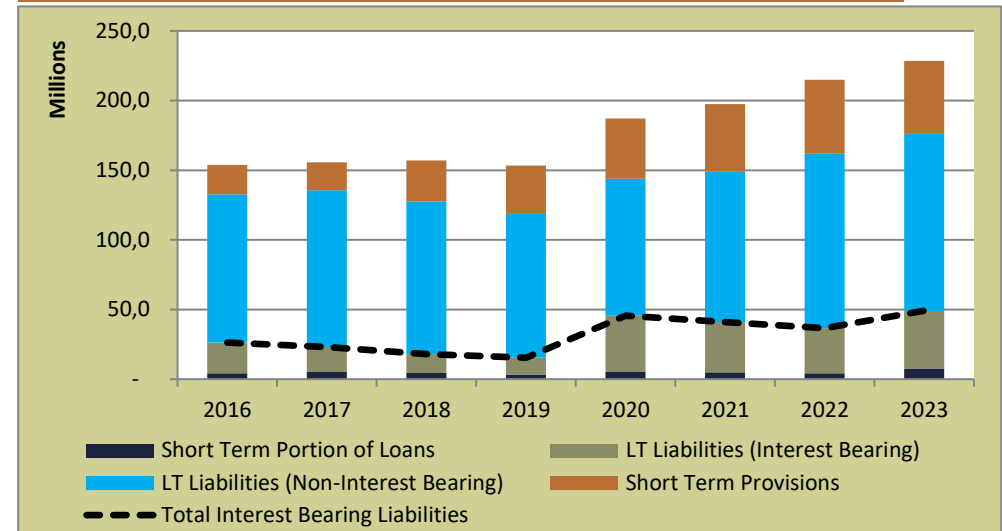
Interest-bearing long-term liabilities increased to R41.6 million despite no additional borrowing being undertaken during FY2022/23. This increase is attributable to an increase in non-current lease payables undertaken for vehicles. The current portion of these lease payables was the driving force behind the increase in the short-term portion of loans. The debt indicators remain affordable with a gearing ratio of 5.4% and debt service to total expense ratio of 0.9% as at FYE2022/23. This provides significant scope to accelerate the level of external financing to supplement capital grants and own cash to fund the capital investment programme. The municipality has not budgeted to undertake any borrowing over the MTREF period. The impact of the undertaking of additional borrowing is explored in the Base Case.

Non-interest-bearing liabilities increased marginally by R1.8 million to a total of R126.9 million as at FYE2022/23. This is partly attributable to an increase in the provision for the rehabilitation of landfill sites of R3.3 million. It is good practice to continue to build and maintain liquidity levels to prepare for the economic outflow required to service this provision in future. This is particularly important due to the Ashton landfill site coming to the end of its useful life at the end of the current financial year.

TABLE 3: LT LIABILITIES: INTEREST BEARING VS NON-INTEREST BEARING

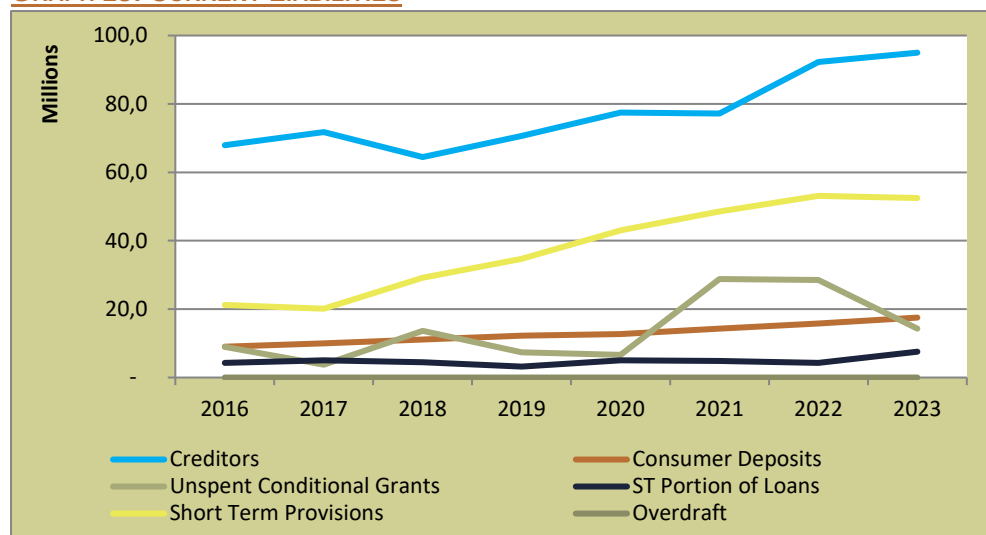
	2016	2017	2018	2019	2020	2021	2022	2023
Short Term Provisions	21,2	20,1	29,2	34,7	43,1	48,6	53,1	52,5
LT Liabilities (Interest Bearing)	21,9	17,9	13,5	12,2	40,6	36,1	32,4	41,6
LT Liabilities (Non-Interest Bearing)	106,4	112,6	109,7	103,2	98,4	108,0	125,1	126,9
Short Term Portion of Loans	4,2	5,1	4,5	3,2	5,0	4,9	4,3	7,5
Total Interest-Bearing Liabilities	26,2	23,0	18,0	15,4	45,6	41,0	36,6	49,1

GRAPH 12: LT LIABILITIES: INTEREST BEARING VS NON-INTEREST BEARING



The debt-service cover ratio, which measures the municipality's ability to service its current debt obligations through cash generated by operations, reduced during the year but remains healthy at 9.95. This is consistent with the affordability of the debt profile and indicates that the municipality should have no trouble meeting its current debt obligations.

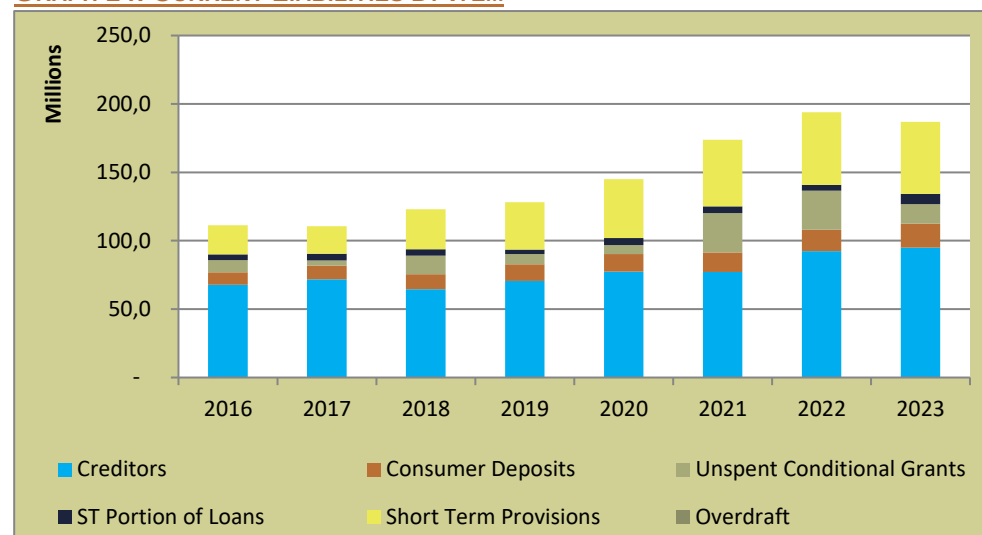
GRAPH 13: CURRENT LIABILITIES



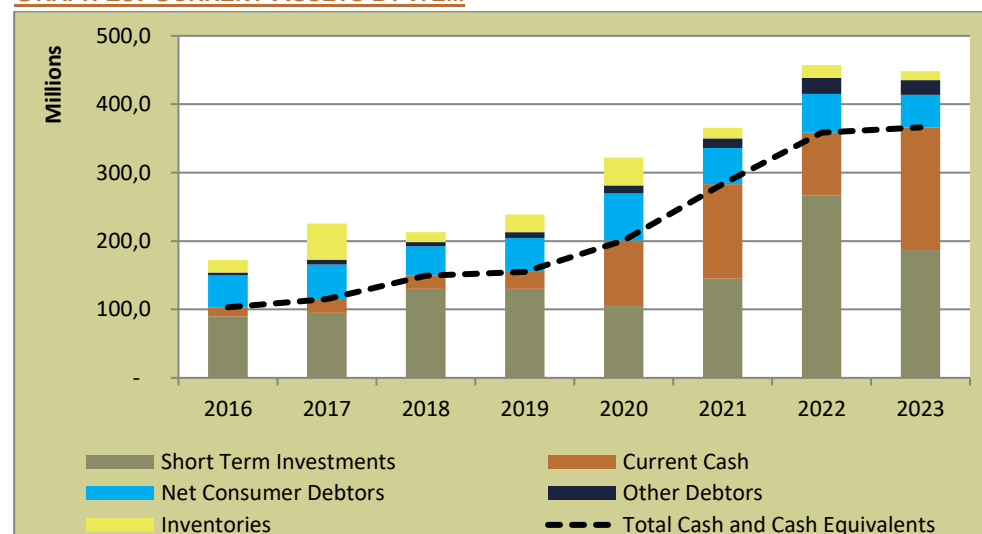
Current liabilities decreased by R7.5 million (3.9%) to total R186.5 million as at FYE2022/23. This decrease was predominantly driven by a decrease in unspent conditional grants which totalled R14.3 million as at FYE2022/23 (FYE2021/22: R28.5 million). Marginal increases in consumer deposits, short-term portion of loans and creditors were observed.

The outstanding creditors balance increased marginally to R94.6 million at the current year end. Creditors days amounted to 74 days as at FYE2022/23. While this exceeds the NT norm of 30 days, the total creditors balance is not seen as excessive and is considered acceptable. This must, however, be carefully managed and any excessive increases avoided.

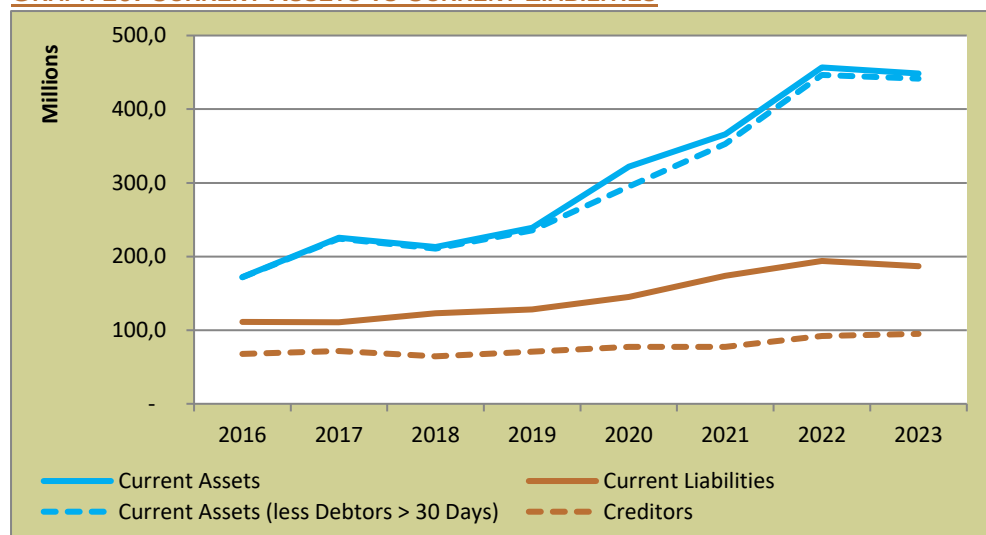
GRAPH 14: CURRENT LIABILITIES BY ITEM



GRAPH 15: CURRENT ASSETS BY ITEM



GRAPH 16: CURRENT ASSETS VS CURRENT LIABILITIES

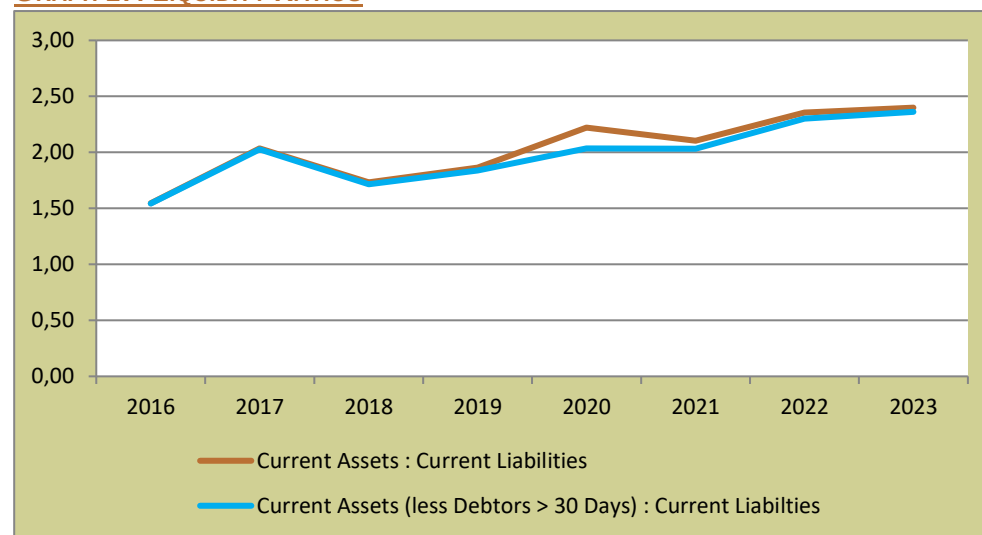


Current assets declined by R8.4 million to a total of R448.3 million as at FYE2022/23. This is primarily due to decreases in net consumer debtors and inventories. Cash and cash equivalents increased to R365.0 million at the current year end and constitutes approximately 81.4% of total current assets. This is a positive sign of the liquid nature of Langeberg's assets.

TABLE 4: LIQUIDITY RATIOS

	2016	2017	2018	2019	2020	2021	2022	2023
Current Assets : Current Liabilities	1,55	2,04	1,73	1,86	2,22	2,10	2,35	2,40
Current Assets (less Debtors > 30 Days) : Current Liabilities	1,54	2,03	1,71	1,84	2,04	2,03	2,30	2,36

GRAPH 17: LIQUIDITY RATIOS



The decrease in current liabilities exceeded that of current assets, resulting in an improvement in the liquidity position. This is highlighted in [TABLE 4](#) which reflects a liquidity ratio of 2.40:1 at the current year end. This is a peak for the review period and is indicative of a healthy financial position. When the least liquid asset, debtors older than 30 days, are excluded this ratio declines only marginally to 2.36:1. This is a positive indication of Langeberg's ability to meet its short-term obligations as and when they fall due. Moreover, the municipality is well positioned to deal with potential financial shocks that may arise due to the volatile economic environment in which the municipality must operate.

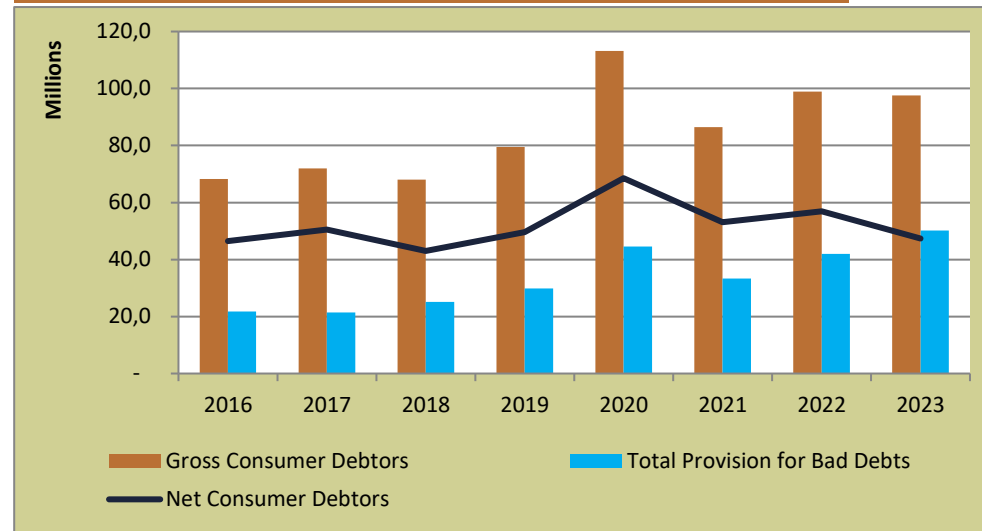
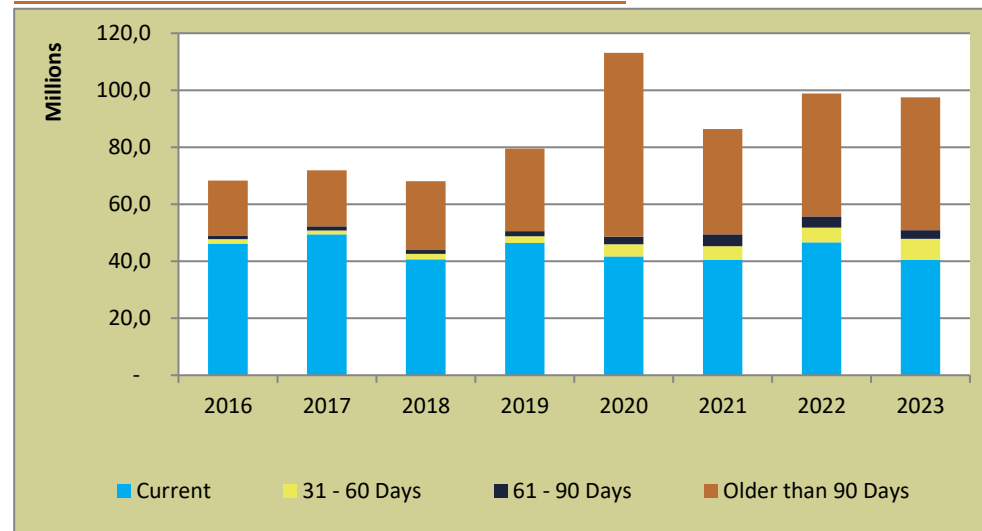
TABLE 5: DEBTORS RATIOS

	2017	2018	2019	2020	2021	2022	2023
Increase in Billed Income p.a. (R'm)	33,8	(2,9)	61,3	71,4	34,5	118,2	(32,8)
% Increase in Billed Income p.a.	8%	-1%	14%	14%	6%	19%	-4%
Gross Consumer Debtors Growth	5%	-5%	17%	42%	-24%	14%	-1%
Payment Ratio / Collection Rate	96%	100%	95%	94%	103%	95%	99%

A significant improvement in the collection rate to 99% at the current year end was observed. This is an improvement from 95% at the prior year end and is consistent with the decline in consumer debtors. This is positive to note, and efforts must be made to ensure that this level of debt collection is maintained. The maintenance of a strong collection rate is crucial for financial sustainability. This improvement is further reflected in the decrease in net debtors' days from 28 days as at FYE2021/22 to 23 days at the current year end and meeting the NT norm.

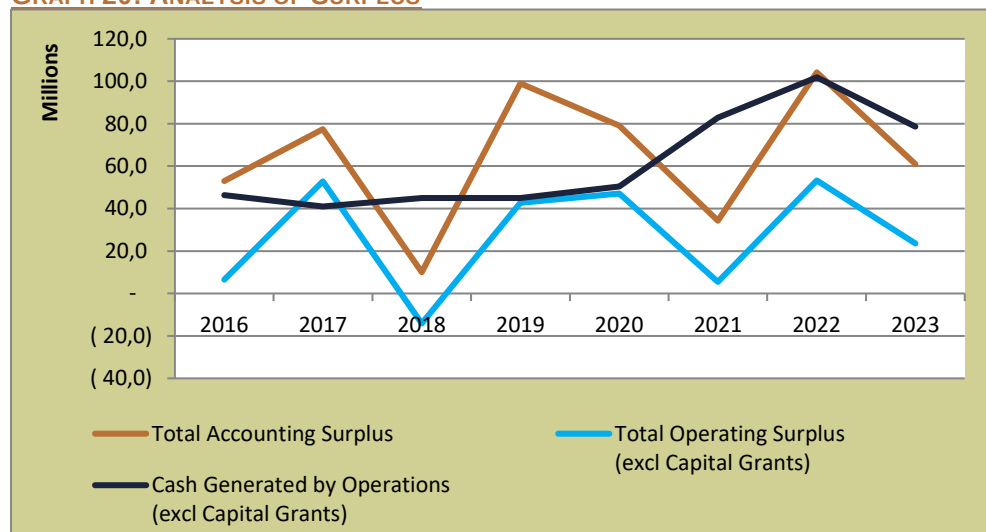
Electricity debtors remain the largest pool of debtors, accounting for 51% of gross consumer debtors as at FYE2022/23. This is followed by rates debtors. Scrutiny of the consumer debtors age analysis reveals that 48% of consumer debtors are older than 90 days. This represents a significant portion and provides a financial risk to the municipality as the likelihood of non-payment increases significantly with ageing.

The municipality increased its provision for bad debts by R11.1 million as at FYE2022/23, to a total of R53.1 million. Consumer debtors written off decreased as well, with bad debts written off representing just 32% of the total bad debts provision. Additionally, it is positive to note that the municipality fully provided for consumer debtors older than 90 days.

GRAPH 18: GROSS CONSUMER DEBTORS VS NET CONSUMER DEBTORS**GRAPH 19: CONSUMER DEBTORS BY AGE ANALYSIS**

FINANCIAL PERFORMANCE

GRAPH 20: ANALYSIS OF SURPLUS



Total income declined during the year, reducing from R963.4 million in FY2021/22 to R944.5 million in the current year. On the other hand, total expenditure increased by R24.1 million to total R883.2 million in the current year. Naturally, this resulted in a significant decline of R42.9 million in the accounting surplus which totaled R61.3 million in FY2022/23. This decline notwithstanding, the municipality managed to post an operating surplus (excluding capital grants) of R23.9 million. It is positive to note that despite these movements, the municipality's financial performance remains strong. It is critical for the municipality to monitor and manage its operating expenditure, whilst continuing to maximise and diversify revenue sources as far as possible. This is particularly prevalent for a municipality such as Langeberg, which has a heavy reliance on a singular revenue item, being electricity services.

Cash generated by operations (excluding capital grants) declined by R24.7 million during FY2022/23, to a total of R77.2 million. This is despite an increase in the collection rate. This can be attributed to the deterioration in financial performance. This signifies a shift in the trend of year-on-year increases in the amount of cash generated by operations observed between FY2018/19 and FY2021/22. Langeberg has managed to generate significant cash from operations throughout the review period. This must be maintained.

TABLE 6: TOTAL INCOME VS TOTAL EXPENDITURE

	2016	2017	2018	2019	2020	2021	2022	2023
Total Income	601,6	647,6	629,9	732,5	760,4	812,0	963,4	944,5
Total Operating Expenditure	548,7	570,2	619,8	633,4	681,3	777,7	859,1	883,2
Operating Income (excl Cond Grants)	536,8	571,4	571,2	646,0	695,7	761,9	873,2	871,2

TABLE 7: ANALYSIS OF SURPLUS

	2016	2017	2018	2019	2020	2021	2022	2023
Total Accounting Surplus	52,9	77,3	10,0	99,1	79,1	34,3	104,2	61,3
Total Operating Surplus (excl Capital Grants)	6,6	52,8	(14,1)	42,7	47,1	5,5	53,3	23,9
Cash Generated by Operations (excl Capital Grants)	46,3	41,0	45,0	45,0	50,4	82,9	101,9	77,2

GRAPH 21: CONTRIBUTION PER INCOME SOURCE

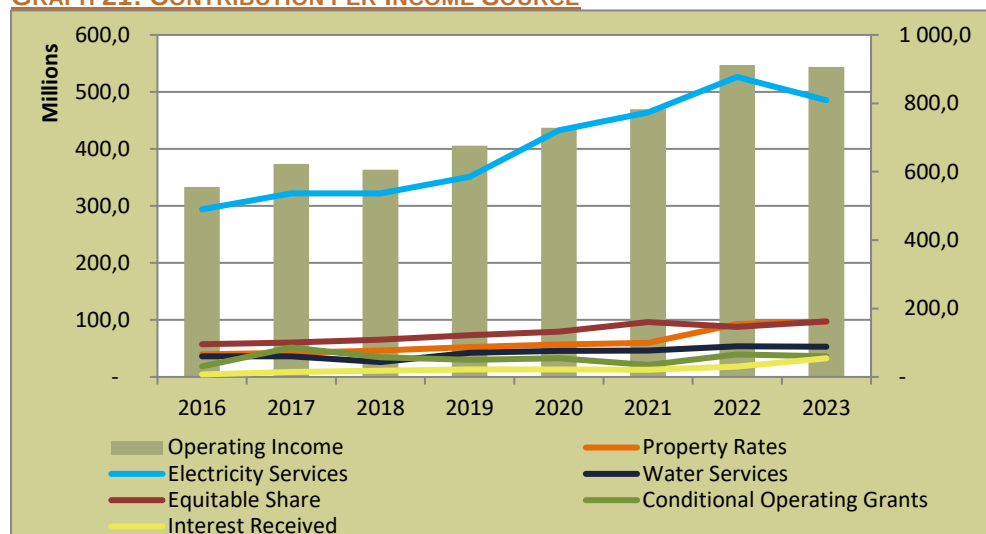


TABLE 8: CONTRIBUTION PER INCOME SOURCE

	2016	2017	2018	2019	2020	2021	2022	2023
Property Rates	39,7	42,3	46,5	52,7	57,0	59,5	92,8	96,6
Electricity Services	293,9	321,9	321,8	351,4	432,5	464,0	526,3	485,5
Water Services	36,3	36,1	26,1	42,2	45,5	46,4	53,8	52,8
Equitable Share	57,4	60,5	65,4	73,1	79,2	96,5	87,6	97,5
Conditional Operating Grants	18,4	51,6	34,5	30,2	32,7	21,3	39,3	35,9
Interest Received	4,4	8,9	10,8	13,1	13,3	12,7	18,3	32,7
Operating Income	555,3	623,1	605,7	676,2	728,4	783,2	912,5	907,1

The decline in operating income was predominately caused by a decline in electricity services revenue of R40.7 million (7.7%) in FY2022/23. This is likely a product of reduced electricity consumption as a result of load shedding. Langeberg remains heavily reliant on electricity services revenue, with this revenue item accounting for a substantial 54% of total operating revenue in the current year. This is followed by property rates and equitable share with contributions of 11% each.

Such heavy reliance on a singular revenue item poses a financial risk to the municipality should the integrity and security of this revenue item be jeopardised, as is the case with the energy crisis. It is recommended that the municipality aims to reduce this reliance on electricity revenue through maximising alternative revenue sources.

It must be noted that the diminishing electricity surplus margin further reduces reliance on electricity as a revenue source. The fact that the municipality cannot fully pass on bulk purchases tariff increases to the consumer results in diminishing surplus margins. The electricity surplus margin reduced to 17% in FY2022/23 from 20% in the prior year.

In light of the energy crisis and consequent expectations of reduced electricity consumption, it is advised that the municipality focuses on maximising revenue from other services such as other service charges. This can be achieved through ensuring that service charges tariffs are cost reflective. The Base Case includes a loadshedding scenario. This will be explored later in this report.

GRAPH 22: CONTRIBUTION PER EXPENDITURE ITEM

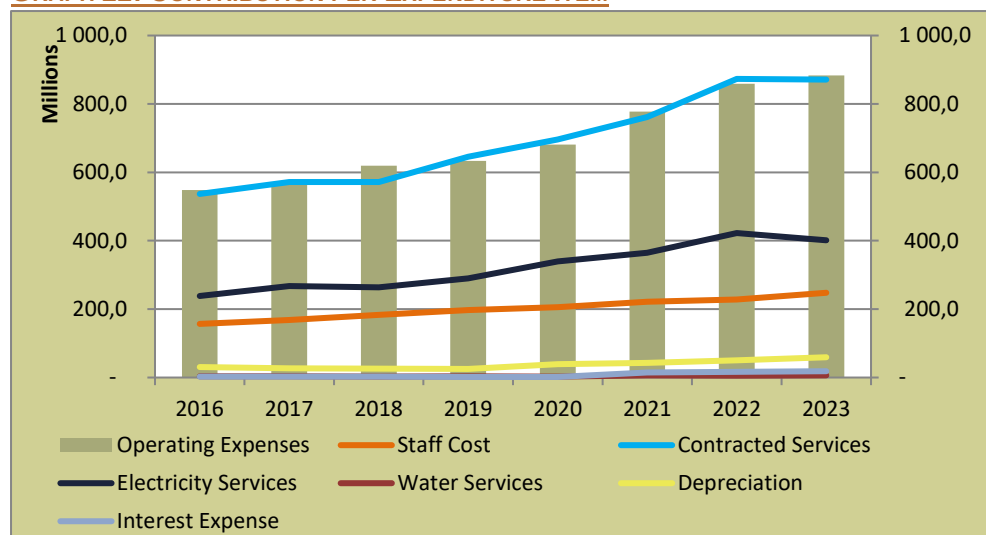


TABLE 9: CONTRIBUTION PER EXPENDITURE ITEM R'MILLION

	2016	2017	2018	2019	2020	2021	2022	2023
Staff Cost	156,9	168,1	182,8	197,3	206,0	221,2	227,7	247,8
Electricity Services	238,4	267,5	263,5	289,9	339,7	364,6	422,4	401,1
Water Services	3,6	3,3	2,7	3,1	3,0	6,3	5,7	6,0
Repairs and Maintenance	18,0	16,7	16,2	18,6	20,2	22,4	23,4	29,8
Depreciation	31,1	26,7	25,6	25,1	39,5	43,1	50,1	59,3
Interest Expense	2,9	2,9	2,3	1,7	1,9	14,8	16,2	18,5
Operating Expenses	548,7	570,2	619,8	633,4	681,3	777,7	859,1	883,1

The increase in operating expenditure was predominantly driven by increases in staff costs and depreciation. Electricity bulk purchases reduced during the year due to a reduction in consumption. This decline notwithstanding, electricity bulk purchases remain the predominant expenditure item, accounting for 40% of total operating expenditure in FY2022/23. Additionally, an increase of R2.4 million in expenditure on wet fuel was noted during FY2022/23, presumably to fund diesel required to run generators to keep operations running during load shedding.

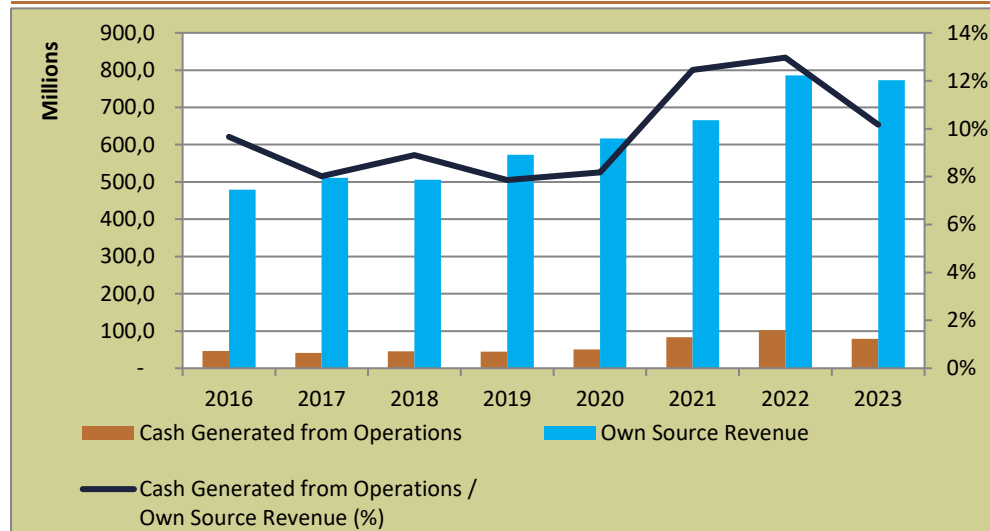
Staff costs accounted for 25% of total operating expenditure in FY2022/23, a marginal increase from 24% in the prior year. This remains well within the NT maximum benchmark of 40%. Contracted services, in many respects an alternative to employee related expenditure, totalled R37.0 million in FY2022/23, for a total contribution to operating expenditure of 4%. When these 2 items are considered together, the combined contribution amounts to 29%, remaining below the NT benchmark. This is affordable and must be maintained.

Electricity distribution losses declined significantly during the year to just 3.93% from 6.69% in the prior year. Water distribution losses increased to 13.51% from 9.32% in the prior year. While the cause for this increase must be investigated and rectified, distribution losses for both electricity and water remain well within their respective benchmarks.

Repairs and maintenance expenditure totalled R29.8 million during FY2022/23. This equates to 3% of the carrying value of PPE and IP. This is below the NT benchmark of 8% and should ideally be increased.

CASH FLOW

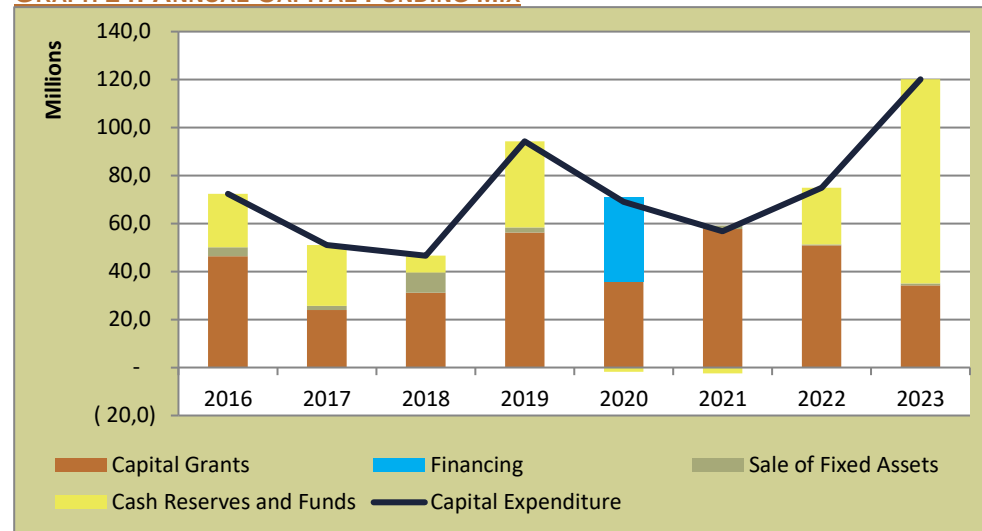
GRAPH 23: CASH GENERATED FROM OPERATIONS/OWN SOURCE REVENUE



Langeberg generated cash from operations to the value of R77.2 million after the exclusion of capital grants in FY2022/23. While this is a decline from the prior year in which R101.9 million in cash was generated by operations, this remains healthy. This decline is despite an increase in the collection rate and can be attributed to reduced revenue primarily due to the energy crisis.

There was an increase in capital investment during FY2022/23 to a total of R120.1 million compared to R74.9 million in the prior year. The R120.1 million capital expenditure was only 77% of the budgeted amount of R156.1 million. Langeberg has historically struggled to implement its budgeted capital investment programme throughout the review period, with an average capital budget implementation indicator of 76% over the last 5 years. It is noted that the underspending in FY2022/23 was partly attributable to the loan earmarked for the rehabilitation of roads within the municipality that did not materialise. However, this does not alter the fact that underspending on the capital budget has been a trend for Langeberg. The causes thereof must be addressed, and implementation of the capital budget improved.

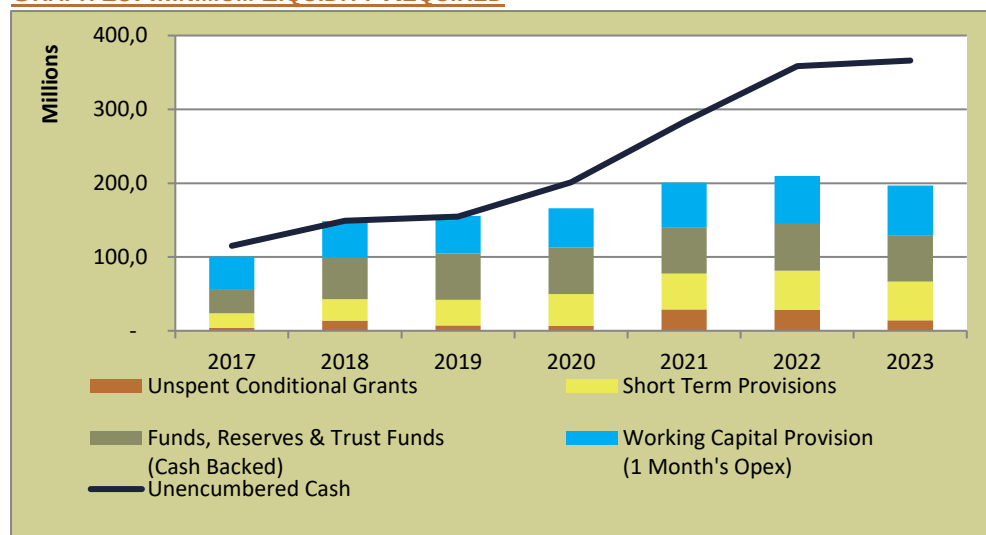
GRAPH 24: ANNUAL CAPITAL FUNDING MIX



The capital funding mix for FY2022/23 deviated somewhat from the trend observed during the review period, with a significant portion (71%) of capital expenditure funded through own cash. This is contrary to the rest of the review period in which capital grants accounted for 58% of capital expenditure on average. Excessive utilisation of own cash to fund capital investment may prove to be unsustainable. Additionally, the municipality has only undertaken loans on one occasion throughout the review period and has not included any borrowings in its Tabled Budget. It is recommended that the municipality explores the option of undertaking of additional borrowings to fund the capital investment programme. As mentioned earlier in this report, the debt indicators provide significant scope to accelerate the borrowing programme.

Given the municipality's credit score, it should have no trouble accessing competitive rates when approaching the external market for financing. If done in a sustainable manner, additional borrowing will enable the capital investment programme to be accelerated without hindering the healthy liquidity position through negating the need for the use of own cash to facilitate this acceleration.

GRAPH 25: MINIMUM LIQUIDITY REQUIRED



Langeberg LM is required to maintain sufficient cash reserves to cover unspent conditional grants (R14.3 million), short-term provisions (R52.5 million) and cash backed funds and reserves (R62.9 million). Cash must also be available to cover working capital provision (including 1 month's operating expenditure) of R 67.2 million.

Langeberg was able to maintain sufficient cash reserves to meet the minimum liquidity requirement of R197.0 million in FY2022/23, posting a cash surplus of R168.1 million. The municipality has posted cash surpluses above the minimum liquidity requirements in 6 of the 8 years under review. Our calculation of the minimum liquidity requirement does not consider the outstanding creditors balance. Should the creditors balance of R95.0 million be included, a cash surplus of R74.1 million would still have been posted. This is testament to the healthy liquidity position in which the municipality finds itself. It would be prudent to continue to build and maintain liquidity levels to ensure a healthy buffer is provided to guard against potential financial shocks that may negatively impact the municipality.

Additionally, the cash coverage ratio (including 1 months working capital) increased from 1.7 to 1.9 in the current year.

TABLE 10: MINIMUM LIQUIDITY LEVELS

	2016	2017	2018	2019	2020	2021	2022	2023
Unspent Conditional Grants	8,9	3,8	13,7	7,4	6,6	28,8	28,5	14,3
Short Term Provisions	21,2	20,1	29,2	34,7	43,1	48,6	53,1	52,5
Funds, Reserves & Trust Funds (Cash Backed)	35,2	31,4	56,4	62,9	62,9	62,9	62,9	62,9
Total	65,4	55,2	99,3	105,1	112,6	140,3	144,5	129,7
Unencumbered Cash	103,1	115,1	149,1	154,7	201,0	283,1	358,4	365,0
Cash Coverage Ratio (excl Working Capital)	1,6	2,1	1,5	1,5	1,8	2,0	2,5	2,8
Working Capital Provision (1 Month's Opex)	42,9	45,3	49,5	50,5	53,1	60,3	65,3	67,2
Cash Coverage Ratio (incl Working Capital)	1,0	1,1	1,0	1,0	1,2	1,4	1,7	1,9
Minimum Liquidity Required	108,3	100,5	148,8	155,5	165,8	200,6	209,8	197,0
Cash Surplus/(Shortfall)	(5,3)	14,6	0,3	(0,8)	35,2	82,4	148,6	168,1

IPM SHADOW CREDIT SCORE

Langeberg was assessed for an IPM shadow credit score to provide information to management and to council as to the current risk rating that the municipality may receive from external lenders, which will determine the municipality's cost of funding. Any improvements to the shadow credit rating over time will result in more affordable lending rates.

Based on the FY2022/23 performance of Langeberg, the IPM credit model reflects a score of **6.9** which is equivalent to a score of **A+** on a national comparable ratings scale. This credit score is considered to be **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 11: IPM CREDIT MODEL OUTCOMES

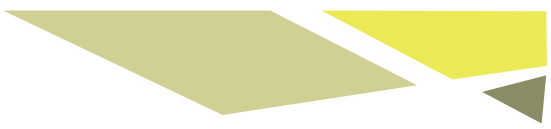
Modules	2023 (5)
Financial	3,3
Institutional	4,3
Socio-Economic	2,5
Infrastructure	3,7
Environmental	2,7

From the assessment it is evident that the socio-economic environment continues to be Langeberg's main impediment in achieving higher credit scores. This is mainly linked to a lack of economic growth in the region.

The institutional capacity supports the healthy credit score of the municipality. Strong governance and prudent financial management remain the key factors to be considered. A history of clean audits underpins this score. The Auditor General's report, findings and recommendations need to be addressed annually and improved on a yearly basis.

Supply of household infrastructure services remains a strength of the municipality, which also impacts positively on the municipality's ability to be environmentally sensitive and sustainable.

The score achieved on the financial module is driven by the high collection rate and healthy liquidity position. By implementing the recommendations of the LTFP update report, maintaining financial discipline and prudent financial management, Langeberg should be able to maintain and improve this score over time.



1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long Term Financial Model Outcomes

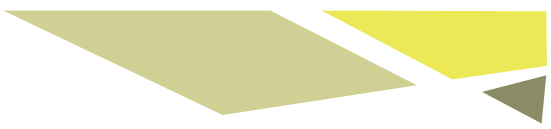
5 Future Revenues

6 Affordable Future Capital Investment

7 Scenario Analysis

8 Ratio Analysis

9 Conclusions



LONG TERM FINANCIAL MODEL OUTCOMES

MTREF CASE SCENARIO

Langeberg has tabled a conservative operating budget for FY2024/25 with operating deficits expected over the MTREF period. This is contrary to the historic performance and as such, the municipality is likely to outperform the current operating budget. This is further supported through analysis of the municipality's Monthly Budget Statement for February 2024. This reveals that the municipality has underperformed the revenue budget by 5% (R32.7 million) thus far, largely due to lower-than-expected electricity revenue as well as operating transfers. Furthermore, the operating expenditure budget has been outperformed by 15% (R102.6 million) as of February 2024, with lower-than-expected expenditure across all items. This has resulted in an overperformance of the budgeted operating surplus of R69.9 million. In light of this, adjustments were made in arriving at the Base Case.

An MTREF Case was developed utilising the unadjusted figures from the Tabled Budget 2024/25-2026/27. The purpose of this scenario is to reflect the LTFM outcomes prior to making any adjustments to the current MTREF, which enables us to assess the credibility of the Tabled Budget.

As such, the collection rate was assumed to be 96% throughout the planning period, as per the expected collection rate included in the Tabled Budget. Additionally, the capital investment programme and funding mix were left unadjusted from the Tabled Budget. Assumed annual growth beyond the MTREF period for capital expenditure and borrowing is 5%. Distribution losses were maintained at the FYE2022/23 levels and repairs and maintenance expenditure was maintained at 3.3% of PPE and IP. Finally, all rates and service charges revenue items were calibrated to the MTREF figures.

The outcomes of this scenario are presented in [TABLE 12](#). An improvement in financial performance is forecast in FY2024/25 before a considerable reduction is expected in the following year. Thereafter, financial performance is forecast to be reasonably flat with marginal year-on-year improvements forecast. The marginal improvements notwithstanding, accounting and operating deficits are forecast throughout the planning period. The ability to generate cash from operations is forecast to follow a similar trend to financial performance. Cash is forecast to be

generated by operations throughout the review period except for FY2025/26 & FY2026/27.

Langeberg has tabled an aggressive capital budget for FY2024/25 that leans heavily on own cash reserves as the main source of funding. This follows the trend observed in FY2022/23 & FY2023/24. The municipality has tabled a capital budget of R118.2 million in FY2024/25, with a considerable R93.0 million of this expected to be funded through own cash. While Langeberg's currently healthy liquidity position renders this an affordable approach in the short-term, should this continue for an extended period of time the municipality's liquidity may begin to deplete. This, along with the conservative operating budget, is forecast to result in an unaffordable capital budget with cash shortfalls forecast from FY2030/31 onwards.

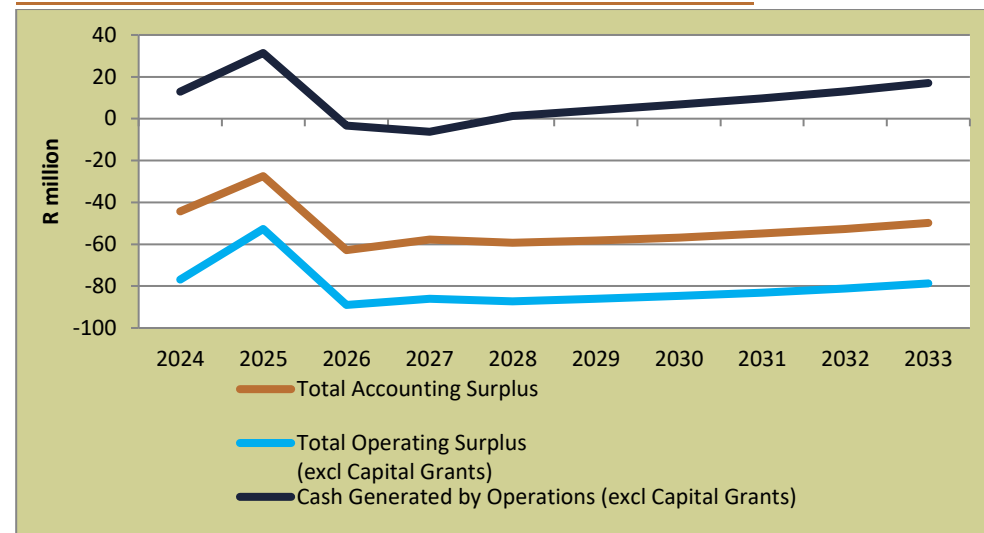
The poor forecast for financial performance along with the capital budget are forecast to result in an unsustainable liquidity position. The planning period end liquidity ratio is forecast at just 0.3:1, a marked decline from current levels (2.40:1 as at February 2024). Moreover, the municipality is forecast to deplete its cash resources by FY2030/31 before ending the planning period in an overdraft position of R19.0 million.

Overall, the MTREF scenario reflects an unsustainable outcome. The issues identified as the cause of the unsustainable outcome have been addressed and the necessary adjustments made in arriving at the Base Case.

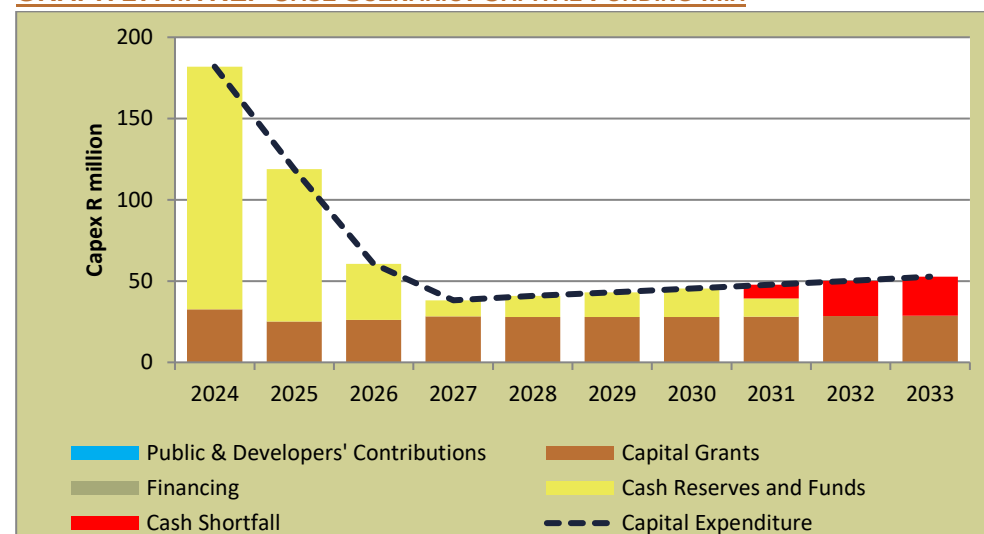
TABLE 12: MTREF CASE OUTCOMES

Outcome	MTREF Case
Average annual % increase in Revenue	6,7%
Average annual % increase in Expenditure	7,8%
Accounting Surplus accumulated during Planning. Period (Rm)	-R 524
Operating Surplus accumulated during Planning. Period (Rm)	-R 806
Cash generated by Operations during Planning. Period (Rm)	R 87
Average annual increase in Gross Consumer Debtors	16,0%
Capital investment programme during Planning. Period (Rm)	R 680
External Loan Financing during Planning Period (Rm)	R 0
Cash and Cash Equivalents at the end of the Planning Period (Rm)	-R 19
No of Months Cash Cover at the end of the Planning Period (Rm)	-0,1
Liquidity Ratio at the end of the Planning Period	0.3 : 1
Gearing at the end of the Planning Period	1,3%
Debt Service to Total Expense Ratio at the end of the Planning Period	0,2%

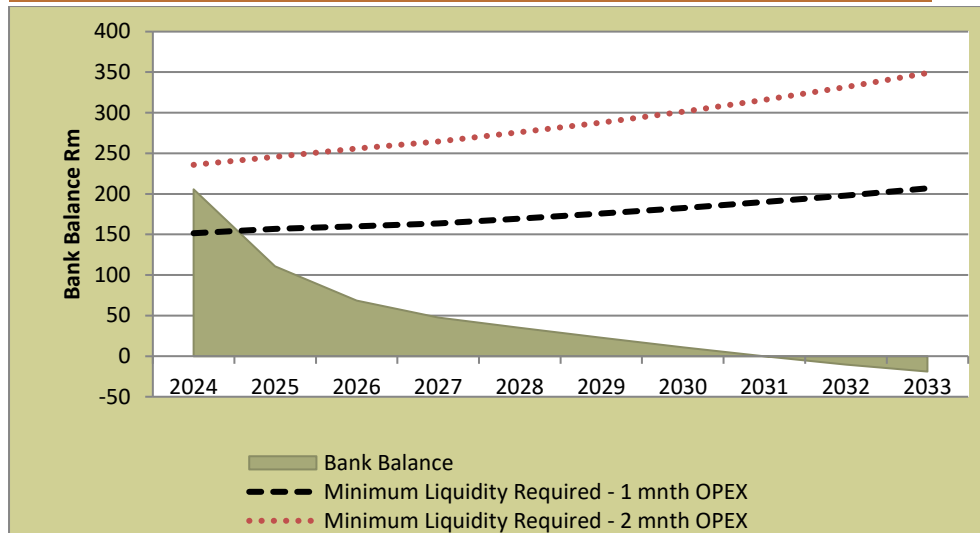
GRAPH 26: MTREF CASE SCENARIO: ANALYSIS OF SURPLUS



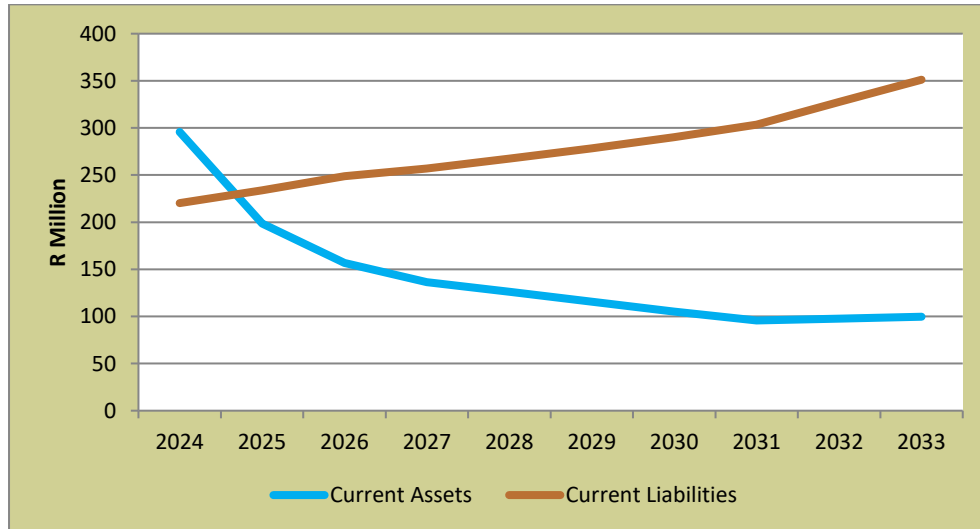
GRAPH 27: MTREF CASE SCENARIO: CAPITAL FUNDING MIX



GRAPH 28: MTREF CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY



GRAPH 29: MTREF CASE SCENARIO: CURRENT ASSETS VS CURRENT LIABILITIES



BASE CASE SCENARIO

In arriving at a realistic, sustainable Base Case model, the figures from the Tabled Budget 2024/25-2026/27 were utilised. The historic analysis reveals that Langeberg's current financial position is characterised by healthy liquidity and sustained, strong financial performance.

The objective of the model is to utilise realistic assumptions to support modelling of future financial sustainability. The challenging and uncertain external environment creates risk for the municipality, and as such the assumptions were adjusted accordingly. The following are the key assumptions:

1. The collection rate was assumed to be 96% throughout the planning period, whilst electricity losses were maintained at 3.9% and water losses at 13.5%.
2. The model incorporated all the increases in revenue and expenditure items as announced in the 2023/24 Tabled Budget, with an operating expenditure decrease of 4.0% modelled to reflect a more realistic outcome.
3. Tariff increases were included as put forward in the Tabled Budget 2024/25.
4. Creditors' days were reduced to 28 days over 10 years. This in essence holds the creditors balance reasonably constant over the planning period, reflective of the current creditors' accounts being settled as and when they fall due.
5. Repairs and maintenance expenditure to PPE & IP was increased to 7% over the planning period.
6. The MTREF capital investment programme was unaltered in FY2023/24; however, capital expenditure was accelerated through over the remainder of the MTREF period. The assumed annual growth beyond the MTREF period is 6%. The MTREF period capital investment programme was adjusted as follows:
 - FY2024/25: R86 million (compared to R118 million in the MTREF)
 - FY2025/26: R81 million (compared to R55 million in the MTREF)
 - FY2026/27: R70 million (compared to R38 million in the MTREF)
7. The MTREF capital funding mix has been adjusted to include an accelerated borrowing programme. The borrowing in this scenario consists of 15-year amortising loans at a rate of 4% above forecast CPI in any given year. FY2023/24 was left unadjusted.

The remainder of the MTREF period was adjusted as follows:

- FY2024/25: R50 million
 - FY2025/26: R45 million
 - FY2026/27: R35 million
8. A loadshedding scenario was incorporated into the Base Case. This scenario assumes an average of stage 2 loadshedding for a period of 2 years from FY2023/24. This is assumed to result in an annual reduction of electricity consumption of 11.9%.

As mentioned above, the Tabled Budget presents a conservative operating budget. The issues identified in the MTREF Case were predominantly driven by the poor forecast for financial performance. This has been rectified in the Base Case. The 4% reduction of operating expenditure equates to approximately R43.6 million. This is considered reasonable in light of the performance displayed during the current year as outlined in the MTREF Case Scenario above. Considerable budgeted increases between FY2022/23 & FY2024/25 in contracted services (181%) and other expenditure (40%) appear to be excessive and, as such, unlikely to materialise to such an extent. This justifies the reduction of 4% in operating expenditure assumed in arriving at the Base Case.

As illustrated in [GRAPH 30](#), operating deficits (excluding capital grants) are forecast until FY2030/31. Additionally, accounting deficits are forecast over the MTREF period. This is driven by the conservative operating budget as well as the severe impact of the load shedding scenario. Additionally, the modelled increase in repairs and maintenance expenditure contributes further to this. There are significant differences between the Tabled Budget figure and the LTFM outcomes for depreciation, with the LTFM forecasting a considerably higher figure (approx. R22.4 million higher than budgeted). Along with the aforementioned points, this plays a significant role in the poor forecast for financial performance over the MTREF period. It must be noted that the extent of Langeberg's reliance on electricity revenue is a significant driver of the reasonably poor forecast financial performance over the planning period. Year-on-year growth is forecast from FY2026/27 onwards, with the velocity of this growth forecast to increase over the remainder of the forecast period.

Langeberg has tabled an aggressive capital budget for FY2024/25. This is budgeted to decline significantly over the remainder of the MTREF period. The amount of own cash expected to be utilised to fund capital investment in FY2024/25 will place significant pressure on the liquidity position ([GRAPH 32](#)). This is further driven by the poor forecast financial performance. As such, the loans mentioned above have been included in order to protect the liquidity position during this period. Capital expenditure has been accelerated in the outer years of the MTREF period compared to the Tabled Budget. As indicated by the Base Case outcomes, the assumed capital budget is affordable.

The Base Case borrowing programme of R371 million over the planning period is forecast to remain affordable. The debt indicators, being the gearing ratio and debt service to total expense ratio, are forecast to remain well within their respective limits of 30% and 7% respectively. This highlights the affordability of the Base Case borrowing programme. The accelerated borrowing programme facilitates an affordable acceleration of capital investment which will be of immense value to Langeberg. This will enable the municipality to replace and upgrade critical bulk infrastructure as needed.

The municipality's liquidity position is forecast to improve beyond the MTREF period, culminating in a liquidity ratio of 2.9:1 as at FYE2032/33. Further to this, Langeberg is forecast to meet the minimum liquidity requirement of 1-month's operating expenditure throughout the planning period.

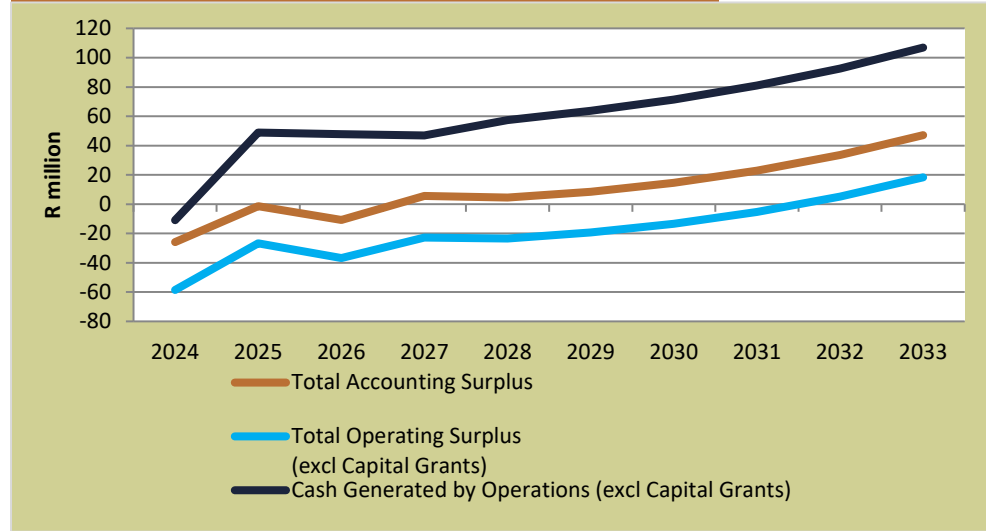
The Base Case presents a sustainable outcome that is produced through including realistic and achievable assumptions. These assumptions can be viewed as recommendations for the municipality to implement in order to achieve the desired outcome.

Langeberg has shown sound financial and operational management in recent years which has left the municipality in a very healthy financial situation. This has put the municipality in a position whereby it is able to affordably access debt financing to further boost its capital investment. It is recommended that the municipality utilises this platform to do so as this will enable critical bulk infrastructure to be upgraded/replaced where necessary.

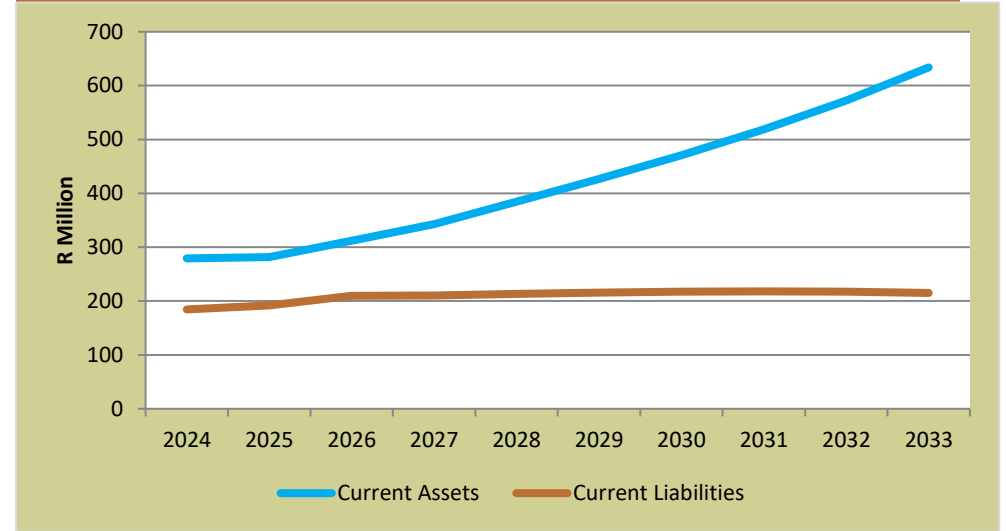
TABLE 13: BASE CASE OUTCOMES

Outcome	Base Case
Average annual % increase in Revenue	8,2%
Average annual % increase in Expenditure	8,8%
Accounting Surplus accumulated during Planning Period (Rm)	R 99
Operating Surplus accumulated during Planning Period (Rm)	-R 183
Cash generated by Operations during Planning Period (Rm)	R 606
Average annual increase in Gross Consumer Debtors	18,1%
Capital investment programme during Planning Period (Rm)	R 941
External Loan Financing during Planning Period (Rm)	R 371
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 528
No of Months Cash Cover at the end of the Planning Period (Rm)	3,3
Liquidity Ratio at the end of the Planning Period	2,9 : 1
Gearing at the end of the Planning Period	15,2%
Debt Service to Total Expense Ratio at the end of the Planning Period	2,5%

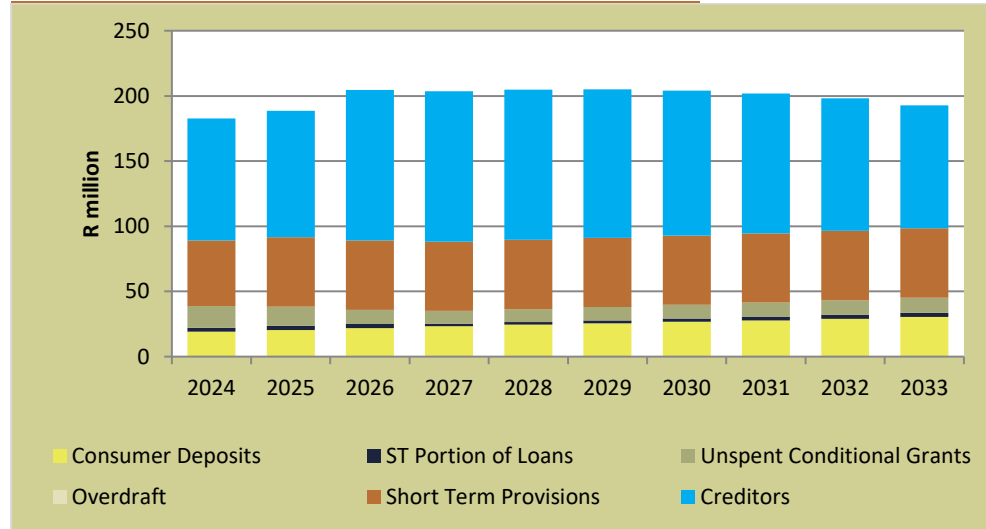
GRAPH 30: BASE CASE SCENARIO: ANALYSIS OF SURPLUS



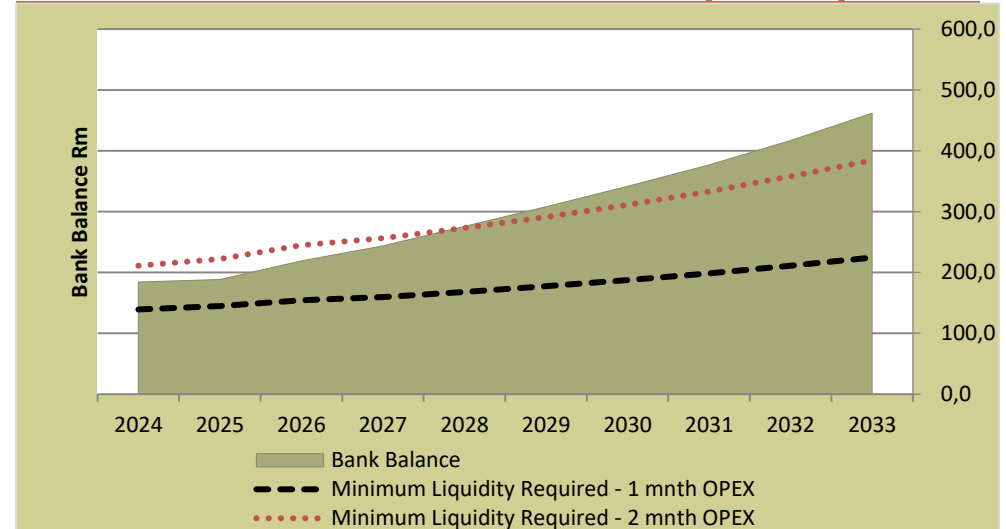
GRAPH 32: BASE CASE SCENARIO: CURRENT ASSETS VS CURRENT LIABILITIES



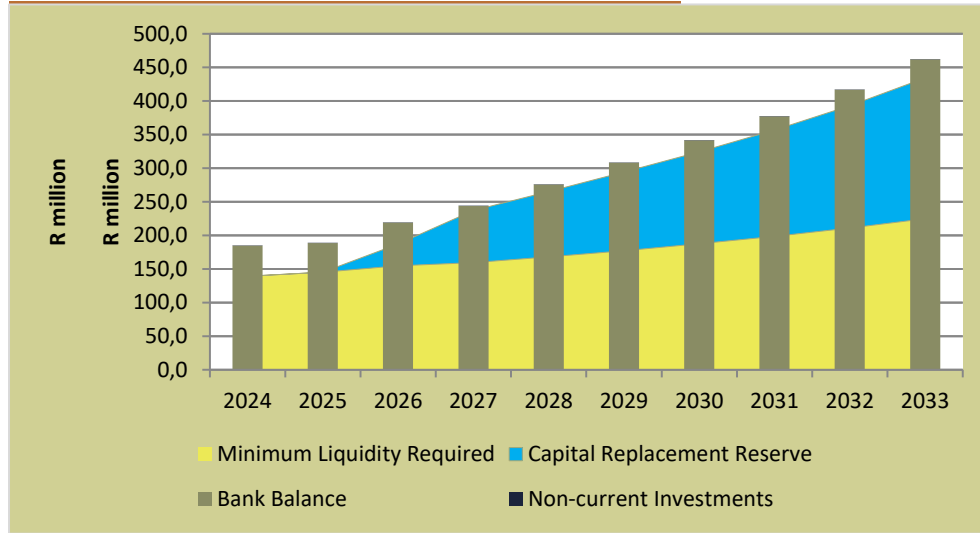
GRAPH 31: BASE CASE SCENARIO: CURRENT LIABILITIES



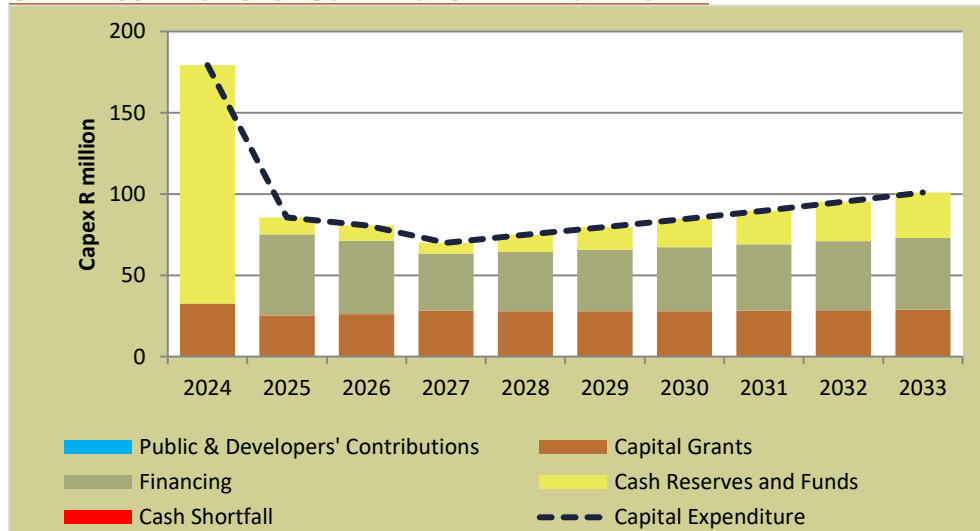
GRAPH 33: BASE CASE SCENARIO: CASH VS MINIMUM LIQUIDITY REQUIREMENTS

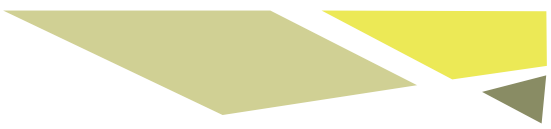


GRAPH 34: BASE CASE SCENARIO: CASH VS RESERVES



GRAPH 35: BASE CASE SCENARIO: CAPITAL FUNDING MIX





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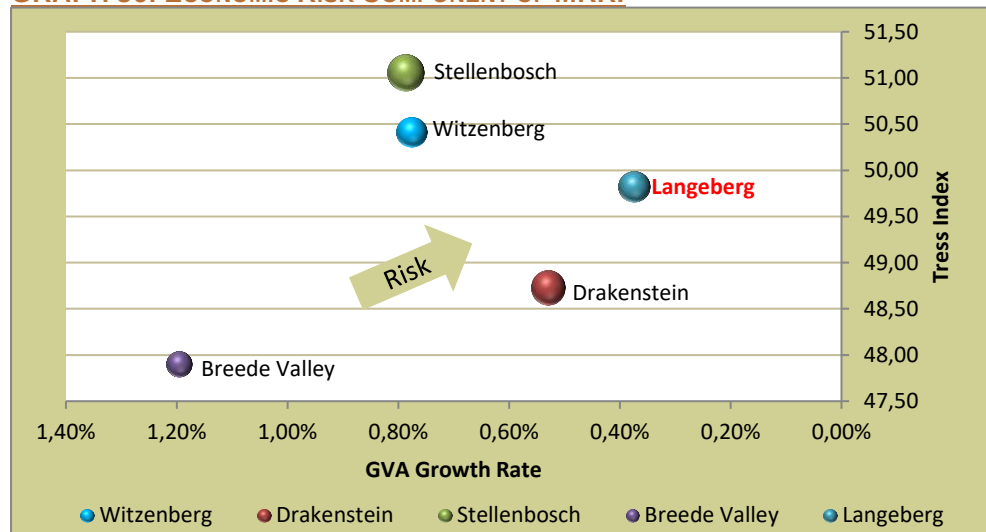
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FUTURE REVENUES

MUNICIPAL REVENUE RISK INDICATOR (MRRI) = “MEDIUM TO HIGH”

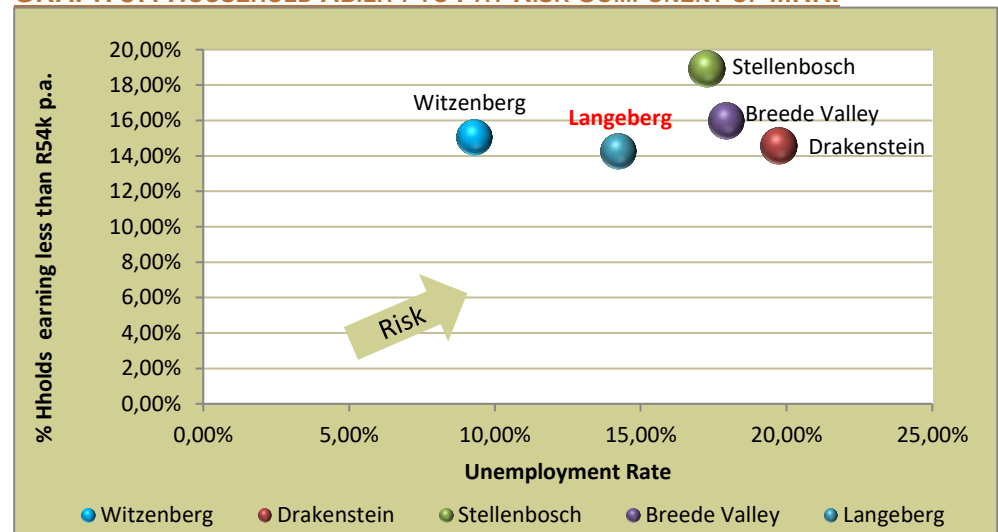
GRAPH 36: ECONOMIC RISK COMPONENT OF MRRI



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).

The latest S&P Global update revealed that Langeberg's economic growth has been stagnant over the past 5 years, with an annual average GVA growth rate of just 0.37%. This is coupled with a GVA per capita of R63 167 p.a. in 2022. Langeberg's economy is reasonably concentrated as evidenced by a Tress Index of 49.82 in 2022. This translates to a “**High**” risk rating on the economic risk component of the MRRI. This is primarily driven by the stagnant economic environment in Langeberg.

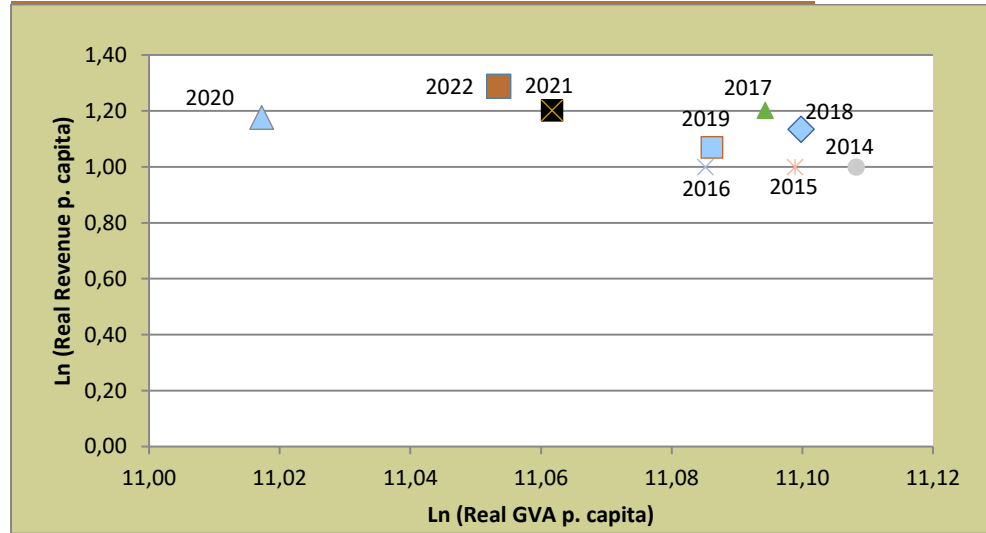
GRAPH 37: HOUSEHOLD ABILITY TO PAY RISK COMPONENT OF MRRI



The reasonably low percentage of households below the equitable share bracket of 14.26%, along with the low rate of unemployment of 14.23% and finally the Human Development Index of 0.67, resulted in a “**Medium**” rating on the household ability to pay component of the MRRI.

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

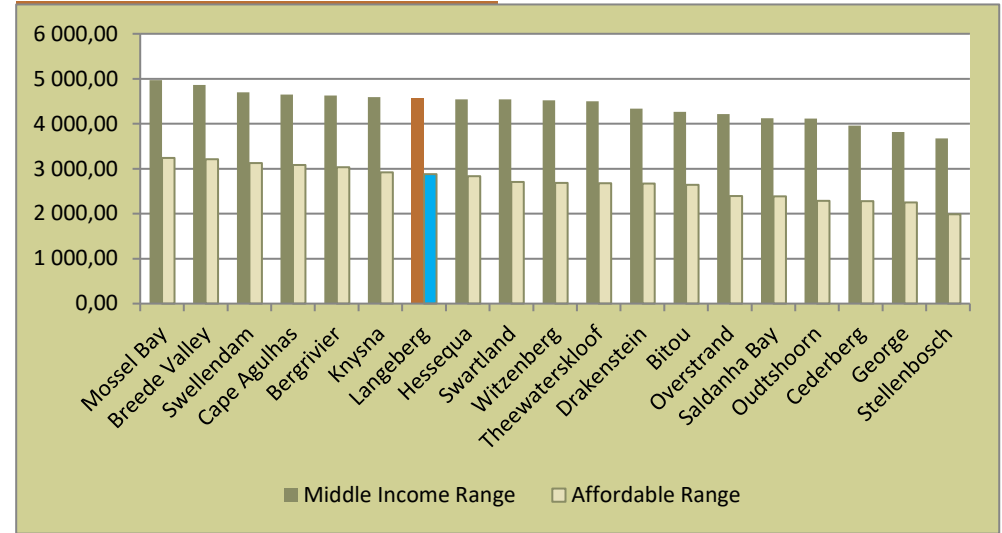
GRAPH 38: REAL REVENUE PER CAPITA VS REAL GVA PER CAPITA



Real municipal revenue (excluding capital transfers) per capita fluctuated throughout the review period, however, a generally increasing trend was observed since 2015. The 2022 figure came in at R3 625 p.a. GVA per capita saw a significant decline in 2020 due to the pandemic. It has since recovered, increasing from R60 915 p.a. in 2020 to R63 684 p.a. in 2021. A decrease was observed in 2022, with GVA per capita declining to R63 167 p.a. The initial increase is ascribed to a return to economic activity following the pandemic. This increase notwithstanding, the local economy has struggled over the last 5 years.

The current economic climate is littered with challenges such as high inflation, the energy crisis, and the ripple effects of global political instability. This increases pressure on households to service their municipal bills and results in an increase in the number of households that require support (indigent households). Should this period of sluggish economic growth persist, the municipality's ability to generate revenue from households will be negatively impacted.

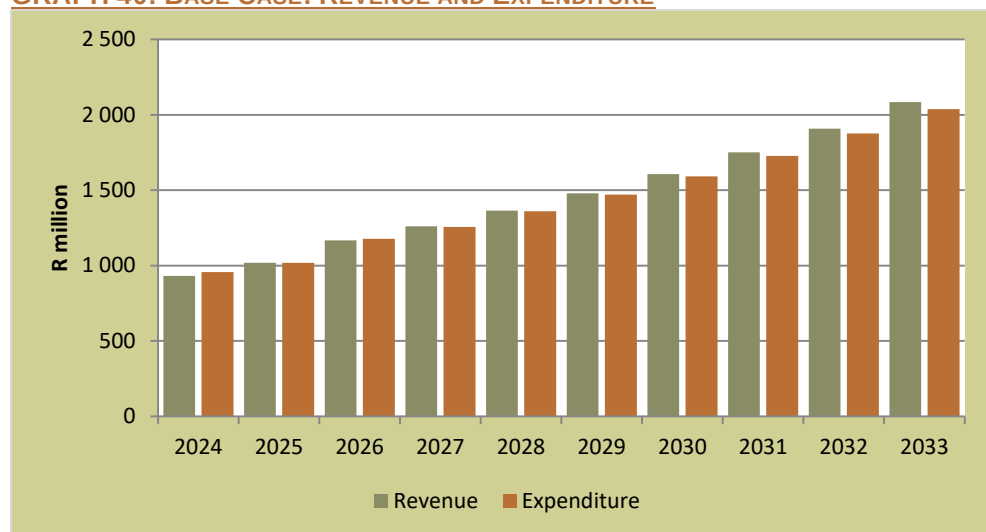
GRAPH 39: AVERAGE HOUSEHOLD BILL



GRAPH 35 presents a comparison of the average household bill for the middle- and affordable-income ranges of a selected number of municipalities in the Western Cape Province (extracted from Budget Table: SA14) based on the FY2024/25 tariffs. Considering Drakenstein is the only municipality with greater access to services than Langeberg, this household bill appears reasonable. It must be noted that the scope for tariff increases is limited by household's ability to pay for services.

MUNICIPAL REVENUES

GRAPH 40: BASE CASE: REVENUE AND EXPENDITURE

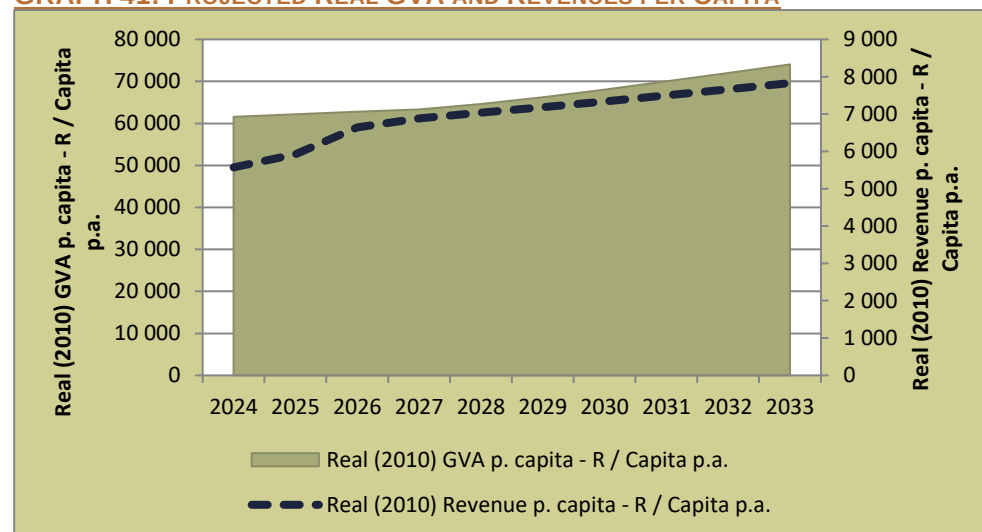


The Base Case estimates that, over the planning period, future nominal revenue (including capital grants) will grow at an average of 8.2% p.a. The revenue growth includes: (i) tariff increases, (ii) increased sales and (iii) additional revenue sources. Future nominal expenditure is estimated to grow at a marginally higher rate of 8.8% p.a. over the same period.

Electricity revenue is forecast to remain the predominant revenue item, with the average contribution of 60.3% p.a. over the planning period reflecting an increase compared to the historic performance (54.9% p.a.). A reliance to such an extent on a single revenue item poses a considerable risk. This risk is exacerbated by the energy crisis. Should the energy crisis continue for an extended period, this may begin to threaten the long-term sustainability of the municipality. The impact of the load shedding scenario highlights this fact. Further to this, once the load shedding scenario has expired (FYE2025/26), growth in revenue is forecast to begin to outweigh growth in expenditure, resulting in improved financial performance ([GRAPH 40](#)).

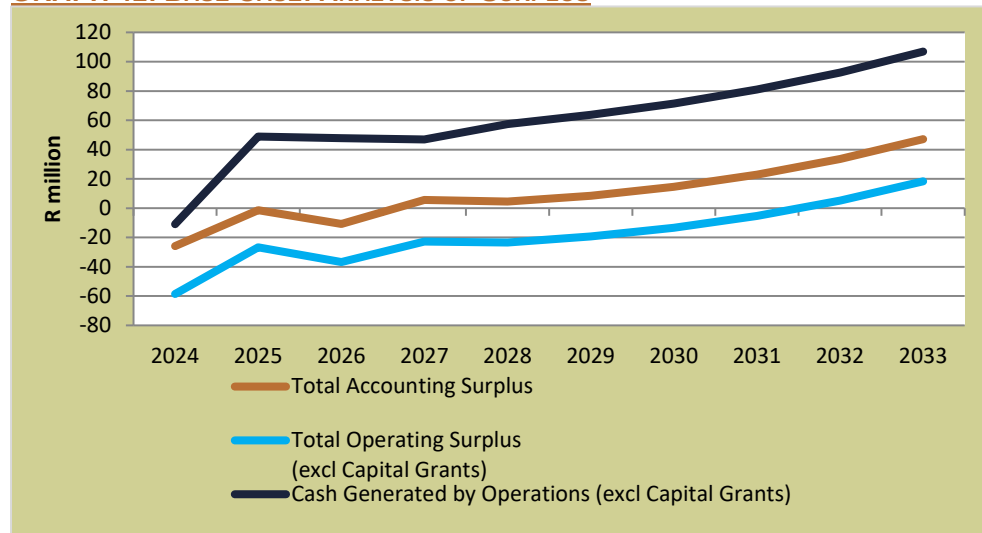
It is recommended that the municipality looks at potential options to diversify its revenue sources, ensuring that it maximises revenue generated by alternative sources. This will assist in alleviating the reliance on electricity revenue and thus, mitigating the revenue risk posed.

GRAPH 41: PROJECTED REAL GVA AND REVENUES PER CAPITA

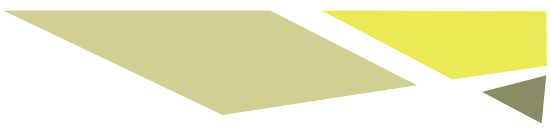


Real GVA per capita is forecast to improve consistently throughout the forecast period, rising from R61 414 in 2023, to R74 051 in 2033 for an increase of 20.6%. The municipality's forecast GVA growth prospects are positive, with average GVA growth over the planning period forecast to be 3.0% p.a. An expanding local economy is significant to the municipality as it affects the municipality's ability to generate revenue (MRRI). GVA growth results in an expansion of the municipality's revenue base, which will improve financial performance and unlock an acceleration of the capital investment programme. This will enable further growth and development within the municipality. The converse is also true in that a stagnant or contracting local economy increases pressure on household finances.

GRAPH 42: BASE CASE: ANALYSIS OF SURPLUS



Cash is forecast to be generated by operations throughout the planning period. The extent of this cash generation is forecast to follow a similar trend to financial performance, as depicted in [GRAPH 42](#) above. Year-on-year improvements are forecast beyond the MTREF period. This is driven by the assumed maintenance of a high collection rate, as well as the forecast improvements in financial performance. The cash and thus liquidity position of the municipality will improve further should the municipality outperform the modelled collection rate of 96%.



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AFFORDABLE FUTURE CAPITAL INVESTMENT

CAPEX AFFORDABILITY AND FUNDING

The total CAPEX Demand was determined during the preparation of the LTFP in 2016 but has changed since then. For purposes of this report, the adjusted estimated CAPEX Demand in the previous update was adjusted for inflation. It is essential to establish a more accurate and reasonable CAPEX demand estimate. However, for purposes of this report, affordability, and not demand, is the focus of concern.

TABLE 14: CAPEX DEMAND VS CAPEX AFFORDABILITY

Total 10-year CAPEX Demand (Adjusted)	=	R 3 363 million
Total 10-year CAPEX Affordability:	=	R 941 million

MTREF CAPITAL FUNDING MIX

Langeberg's Tabled Budget FY2024/25 to FY2026/27 expects a capital budget amounting to R211 million, funded as follows:

TABLE 15: 3-YEAR MTREF FUNDING MIX R'M

R'm	Total	2024/25	2025/26	2026/27
Public & Developers Contributions	0	0	0	0
Capital Grants	79	25	26	28
Financing	0	0	0	0
Cash Reserves and Funds	132	93	29	10
Total	211	118	55	38

10-YEAR CAPITAL FUNDING MIX

The capital funding mix for the 10-year planning period is forecast to be as follows:

TABLE 16: BASE CASE 10-YEAR CAPITAL FUNDING MIX

Source	Rm	%
Public & Developers' Contributions	0	0 %
Capital Grants	282	30 %
Financing	371	39 %
Cash Reserves and Funds	288	31 %
Cash Shortfall	0	0 %
Capital Expenditure	941	100 %

Langeberg displayed a reluctance to borrow over the review period. A loan to the value of R35.0 million undertaken in FY2019/20 was the sole undertaking of borrowing over the review period. This led to a reliance on capital grants, which accounted for an annual average of 58% of capital funding, as well as own cash reserves which funded a third of historic capital expenditure on average. A notable acceleration of capital investment was observed in FY2022/23, with a considerable portion of this acceleration facilitated by own cash reserves. The municipality budgeted for this to continue in FY2023/24 as well as FY2024/25. The Base Case presents an alternative strategy from the capital budget in that external financing is introduced as the predominant funding source over the planning period. As such, the Base Case presents an optimised funding mix that safeguards liquidity and unlocks an accelerated capital investment programme.

It must be noted that the prevailing national constraints on fiscus is likely to lead to a decline in grant funding in future. This will create a need for the municipality to lean on other sources of capital funding. Striking a balance between affordable external financing and the utilisation of own cash reserves is critical. Ensuring continued strong financial performance and maintaining healthy liquidity levels will be critical to this endeavour.

The MTREF Case funding mix is presented graphically and tabulated below.

GRAPH 43: MTREF CASE DISTRIBUTION OF FUTURE FUNDING

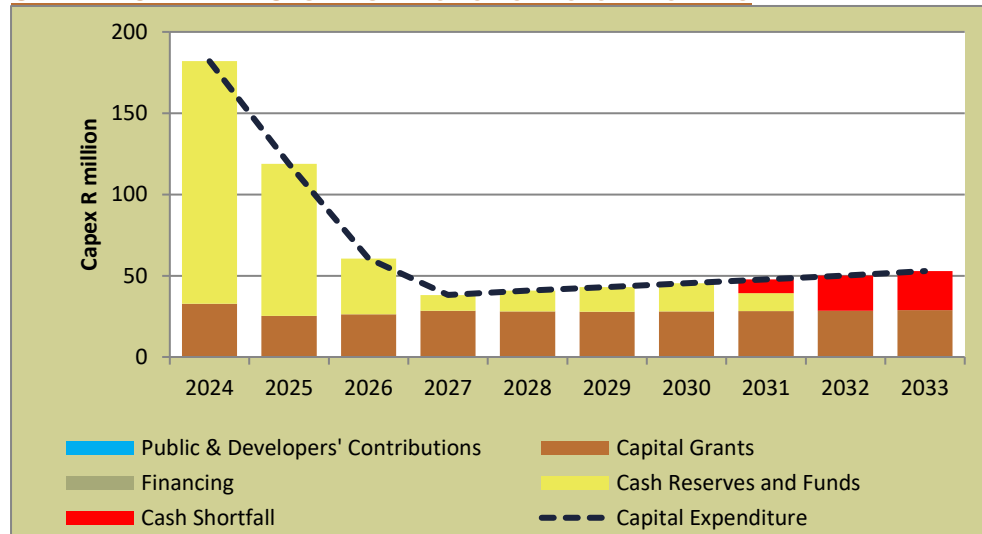


TABLE 17: MTREF CASE DISTRIBUTION OF FUTURE CAPITAL FUNDING (R'M)

R'm	Total	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public & Developers' Contributions	0	0	0	0	0	0	0	0	0	0	0
Capital Grants	282	33	25	26	28	28	28	28	28	28	29
Financing	0	0	0	0	0	0	0	0	0	0	0
Cash Reserves and Funds	341	146	94	34	10	13	15	17	11	0	0
Cash Shortfall	54	0	0	0	0	0	0	0	8	22	24
Capital Expenditure	677	179	119	61	38	41	43	45	48	50	53

The MTREF Case presents an unaffordable capital investment programme. This is evidenced by the forecast cash shortfalls on assumed capital investment from FY2030/31 onwards. This is predominantly driven by the poor forecast for financial performance and the knock-on effects thereof. Adjustments have been made in arriving at the Base Case and Base Case capital investment programme.

The Base Case funding mix is presented below.

GRAPH 44: BASE CASE DISTRIBUTION OF FUTURE FUNDING

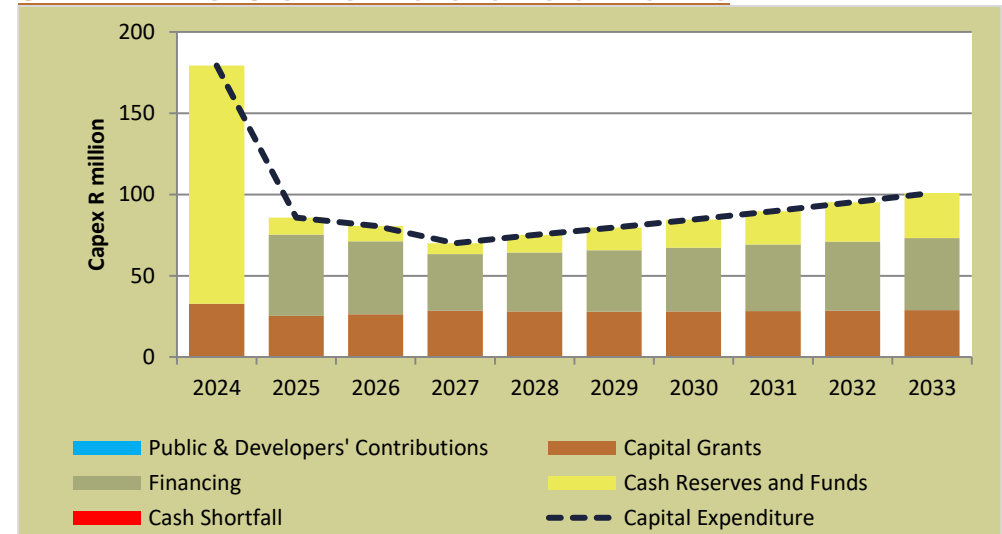


TABLE 18: BASE CASE DISTRIBUTION OF FUTURE CAPITAL FUNDING (R'M)

R'm	Total	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public & Developers' Contributions	0	0	0	0	0	0	0	0	0	0	0
Capital Grants	282	33	25	26	28	28	28	28	28	28	29
Financing	371	0	50	45	35	36	38	39	41	43	44
Cash Reserves and Funds	288	146	10	10	7	11	14	17	21	24	28
Cash Shortfall	0	0	0	0	0	0	0	0	0	0	0
Capital Expenditure	906	179	86	81	70	75	80	85	90	95	101

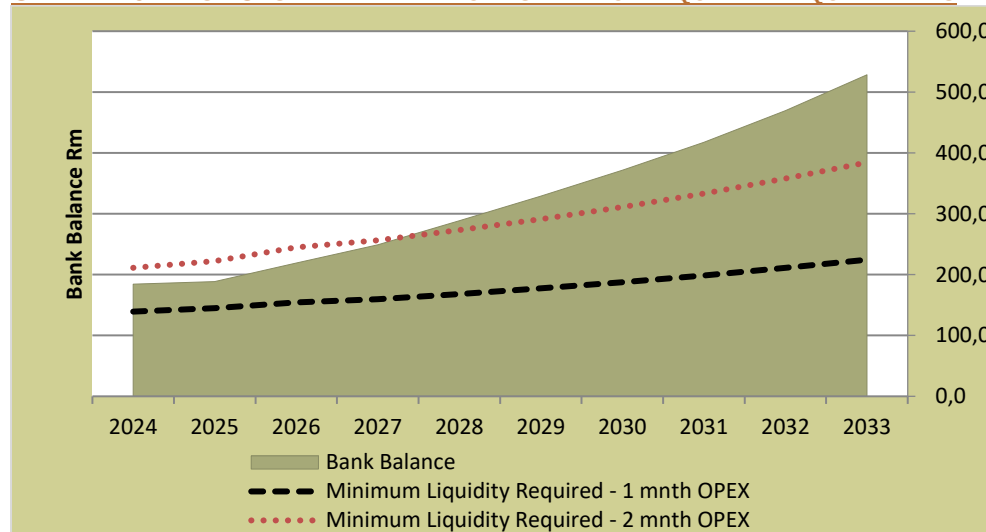
The Base Case capital investment programme presents an acceleration of the MTREF capital investment programme. This is unlocked through the assumed improvements in financial performance. Additionally, this acceleration is deemed affordable. There is scope to further accelerate the capital investment programme. This can be unlocked without hindering liquidity through the implementation of an accelerated borrowing programme. This is tested in a scenario later in this report.

LIQUIDITY AND CAPITAL REPLACEMENT RESERVE

The minimum liquidity levels cater for unspent conditional grants, cash-backed reserves, short-term provisions and 1-month's working capital (operating expenditure). The municipality is forecast to maintain sufficient liquidity to meet the minimum liquidity requirement of 1-month's operating expenditure throughout the forecast period, with 2-month's liquidity covered from FY2026/27 onwards.

Significant growth is forecast over the planning period, with the rate of growth forecast to increase beyond the MTREF period. This is forecast to result in a healthy, sustainable liquidity position that is characterised by a healthy bank balance of R528 million and liquidity ratio of 2.9:1 at the end of the planning period.

GRAPH 49: BASE CASE BANK BALANCE VS MINIMUM LIQUIDITY REQUIREMENTS



GEARING

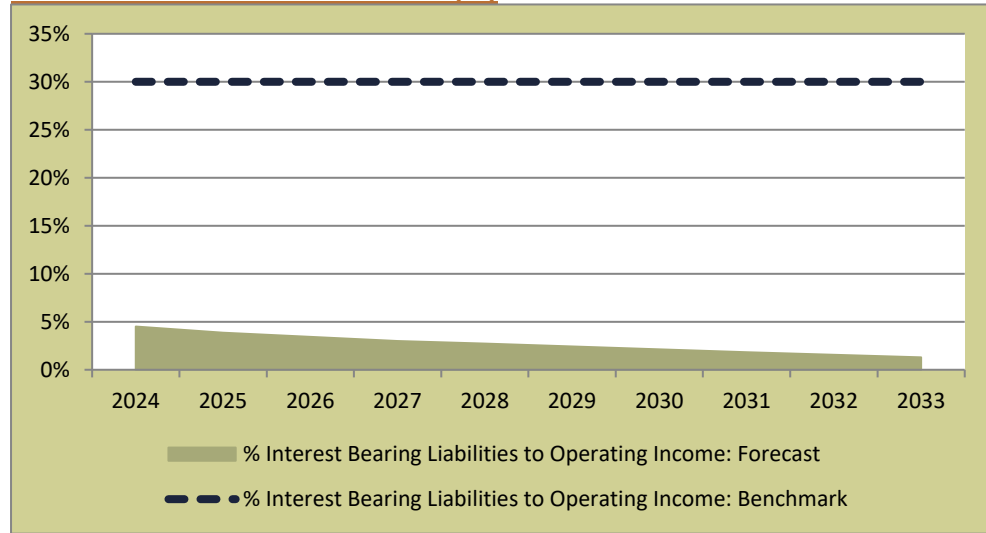
The MTREF Case does not include any borrowings throughout the planning period. As such, the debt indicators are forecast to note year-on-year decreases from the FYE2022/23 level being a gearing ratio of 5.4% and debt service to total expense ratio of 0.9%.

In arriving at the Base Case, adjustments were made to the Tabled Budget capital budget. These adjustments include an acceleration of capital investment that is facilitated through the introduction of borrowings over the MTREF period. Total borrowings of R371 million over the planning period are deemed appropriate. The introduction of borrowings enables an accelerated capital investment programme whilst safeguarding the municipality's liquidity. It is important to note the borrowing in this scenario consists of 15-year loan tenors.

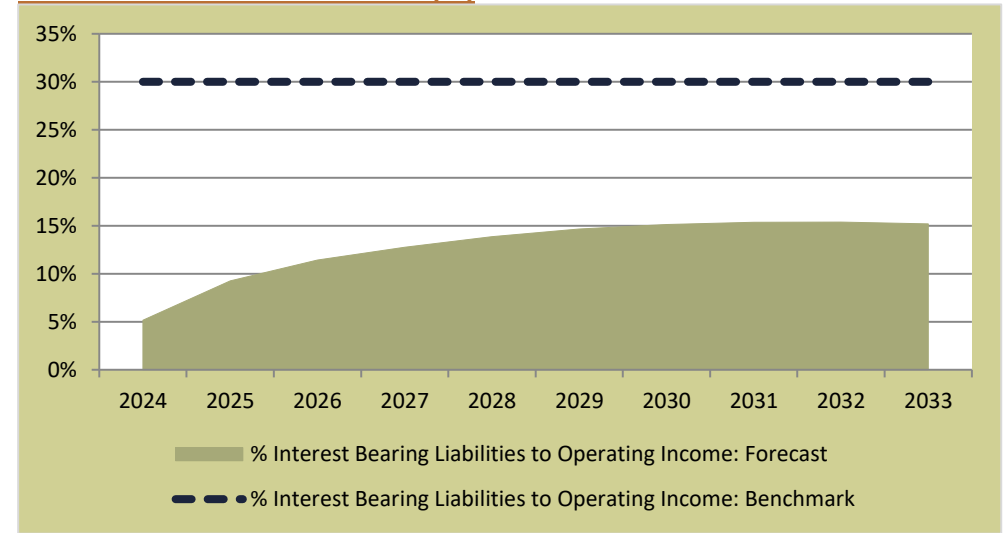
Despite the extent of the acceleration of borrowing, the debt indicators suggest that the borrowing programme is sustainable. The gearing ratio is forecast to peak at 15.38% in FY2031/32, before reducing marginally to 15.20% by the end of the planning period. From a debt service perspective, the debt service to total expense ratio is forecast to peak at 2.48% in FY2032/33. The debt indicators remain well within IPM's respective limits for Langeberg of 30% and 7% for the gearing and debt service to total expense ratios respectively.

A scenario was run to highlight the extent to which the municipality can accelerate capital investment through implementing an accelerated borrowing programme. This will be discussed later in this report.

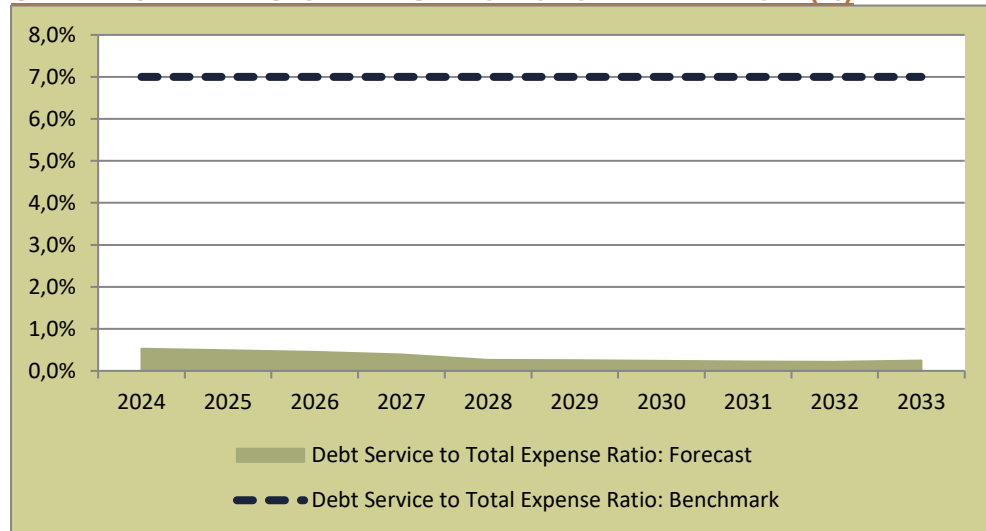
GRAPH 45: MTREF CASE GEARING (%)



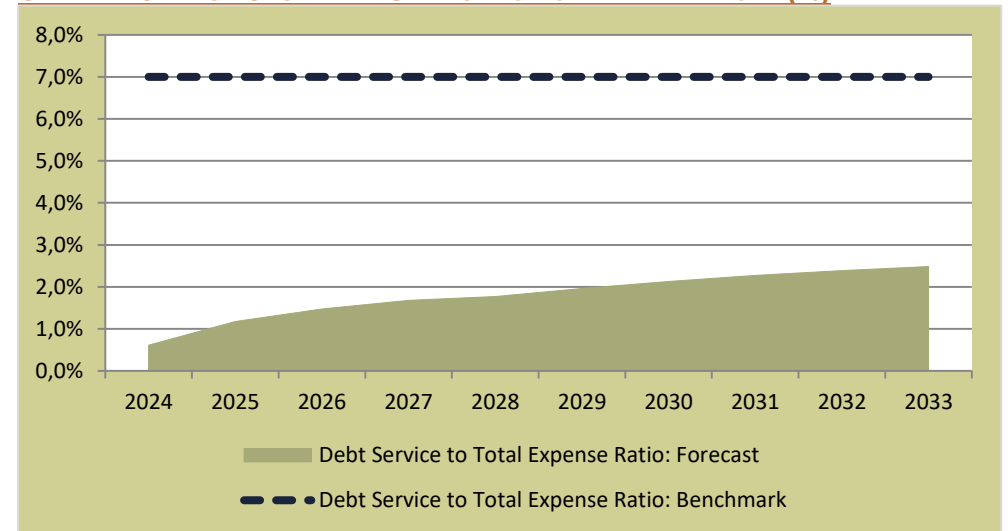
GRAPH 47: BASE CASE GEARING (%)

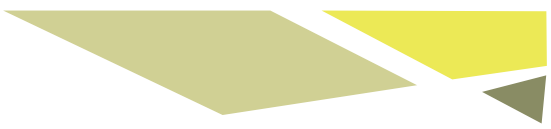


GRAPH 46: MTREF CASE DEBT SERVICE TO TOTAL EXPENDITURE (%)



GRAPH 48: BASE CASE DEBT SERVICE TO TOTAL EXPENDITURE (%)





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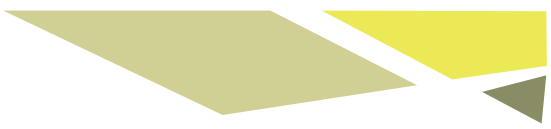
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SCENARIO ANALYSIS

Considering the analysis of the Tabled Budget and the risks identified as part of this update, the following scenarios were run to indicate the potential outcomes. The main purpose of these scenarios is to assist the municipality in its strategic decision making and to serve as an input to the budget for FY2024/25.

1. To indicate the impact and viability of an accelerated capital investment programme.

- 1.1. In this scenario, the viability of an accelerated capital investment programme is assessed. The Base Case capital investment programme was accelerated by R176 million over the planning period. This is achieved through accelerating the Base Case borrowing programme by R141 million. All other input variables are assumed to be consistent with the Base Case.

SCENARIO 1: ACCELERATED CAPITAL INVESTMENT PROGRAMME

This scenario assesses the extent to which the capital investment programme can be accelerated, whilst remaining in a financial sustainable position. Additionally, the debt absorption capacity of the municipality is assessed. As such, this scenario operates on the premise that the planning period end liquidity ratio must be at or above 2.0:1 and the minimum liquidity requirement of 1-month's operating expenditure must be met at all times.

The acceleration of capital investment is facilitated through an increase in borrowings undertaken over the planning period. An additional R141 million in borrowings is assumed. This facilitated an acceleration of capital investment of R106 million (11.7%). The scenario's funding mix is optimised with 25% of capital investment forecast to be funded through capital grants, 46% through external financing and the final 29% to be funded through own cash reserves.

The outcomes of this scenario are presented in **TABLE 21**. The costs to service the additional debt are forecast to result in a deterioration of financial performance and consequently, the ability to generate cash from operations. While this will result in a deterioration of liquidity and available cash, the extent of this deterioration is not overly severe. The minimum liquidity requirement 1-month's operating expenditure is forecast to be met throughout the planning period. Furthermore, the planning period end liquidity ratio of 2.1:1, while reduced from the Base Case, is sustainable. The 2 liquidity preservation parameters have thus been met.

The affordability of the considerable acceleration of the borrowing programme from the Base Case will now be assessed. The Base Case includes an accelerated borrowing programme, with total financing of R411 million over the planning period. The accelerated borrowing programme assumed in this scenario adds additional leverage to the debt profile, but this remains affordable. The planning period end gearing and debt service to total expense ratios of 21.0% and 3.3% respectively highlight the affordability of the proposed debt profile.

It is important to note that this scenario aims to assess the extent to which the municipality can affordably leverage its debt profile in order to unlock a sufficient acceleration of capital investment. While it is appreciated that the municipality may not borrow to the extent as proposed in this scenario, the scenario outcomes provide

an indication as to the municipality's maximum capacity for borrowing, whilst keeping the liquidity preservation parameters in consideration.

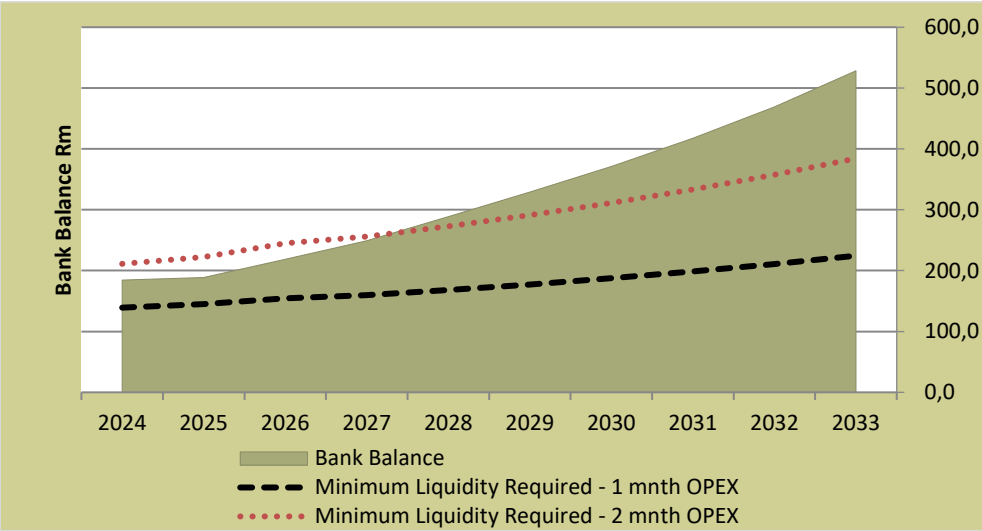
The additional capital investment will be of great value to the municipality in enabling bulk infrastructure to receive the necessary upgrades or be replaced where required, whilst promoting long-term financial sustainability.

TABLE 21: SCENARIO 1: ACCELERATED CAPEX

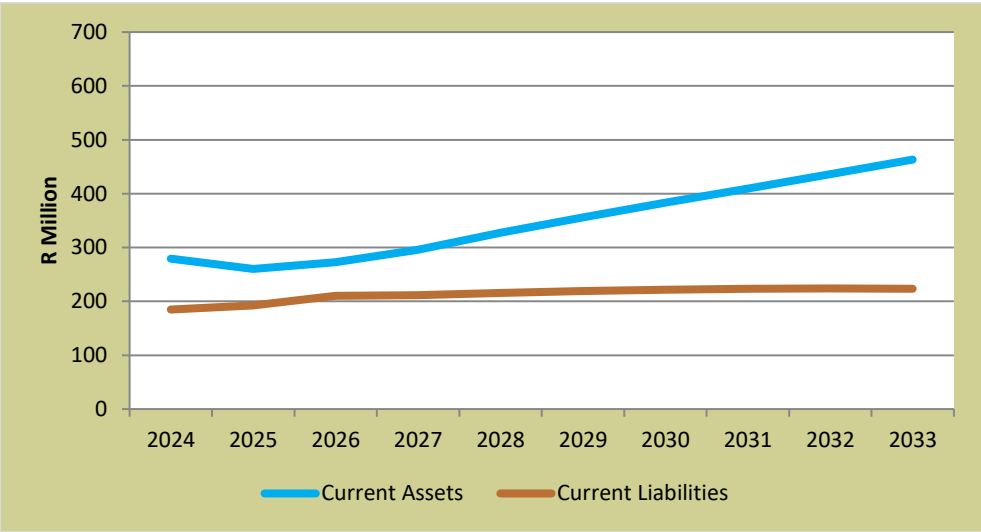
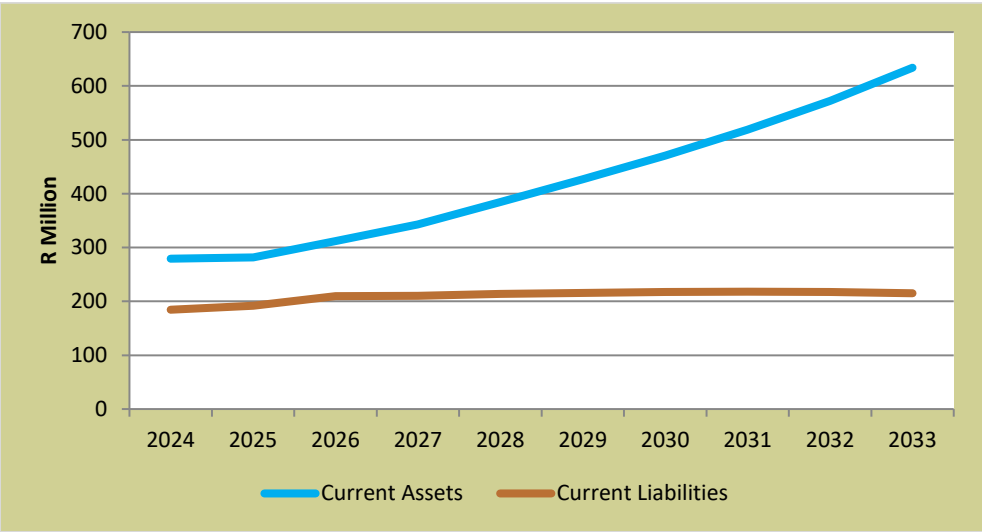
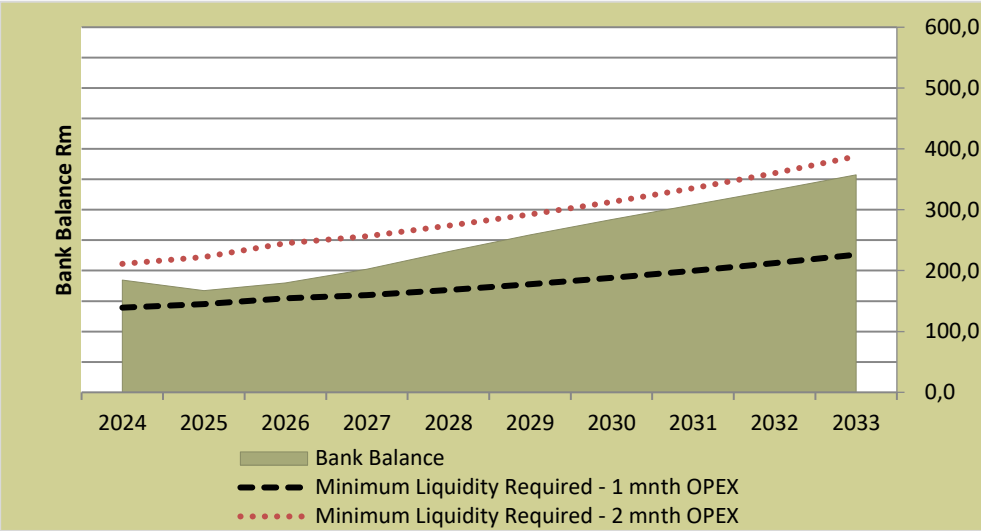
Outcome	Base Case	Accelerated Capex
Average annual % increase in Revenue	8,2%	8,2%
Average annual % increase in Expenditure	8,8%	8,9%
Accounting Surplus accumulated during Planning Period (Rm)	R 99	-R 56
Operating Surplus accumulated during Planning Period (Rm)	-R 183	-R 338
Cash generated by Operations during Planning Period (Rm)	R 606	R 494
Average annual increase in Gross Consumer Debtors	18,1%	18,1%
Capital investment programme during Planning Period (Rm)	R 941	R 1 117
External Loan Financing during Planning Period (Rm)	R 371	R 512
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 528	R 357
No of Months Cash Cover at the end of the Planning Period (Rm)	3,3	2,2
Liquidity Ratio at the end of the Planning Period	2,9 : 1	2,1 : 1
Gearing at the end of the Planning Period	15,2%	21,0%
Debt Service to Total Expense Ratio at the end of the Planning Period	2,5%	3,3%

SCENARIO 1: ACCELERATED CAPITAL INVESTMENT PROGRAMME

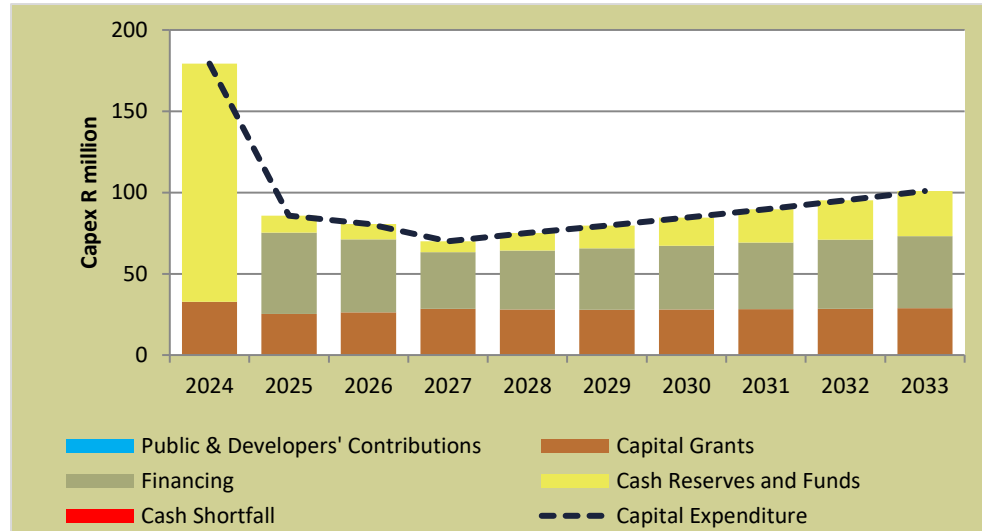
BASE CASE SCENARIO



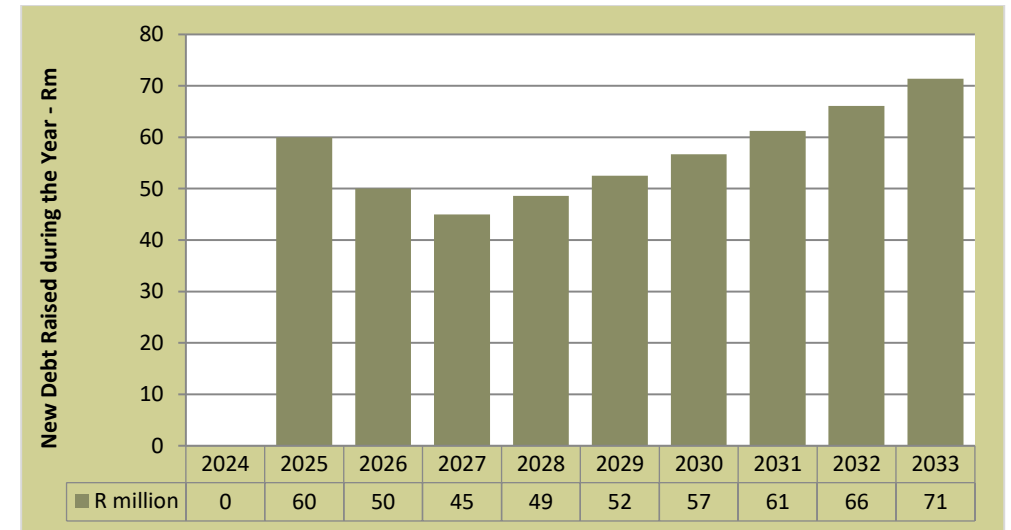
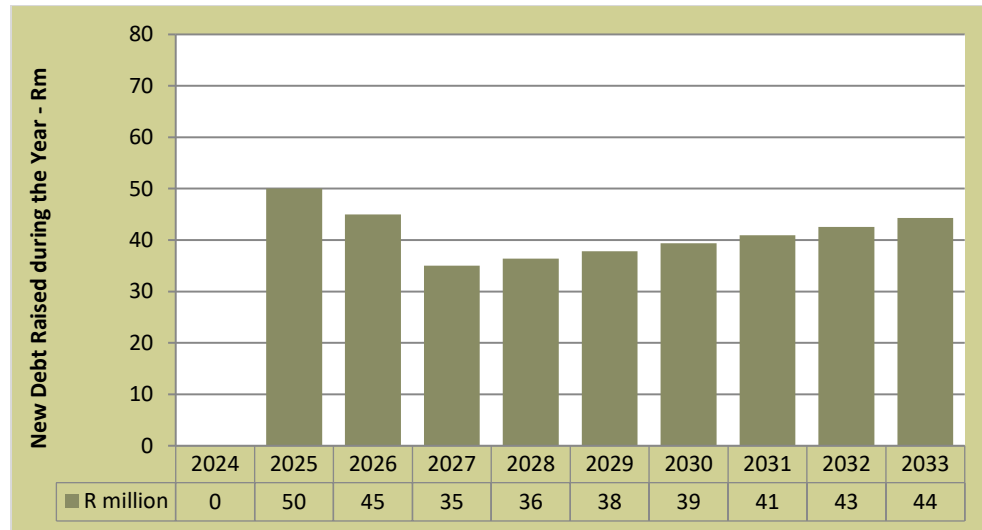
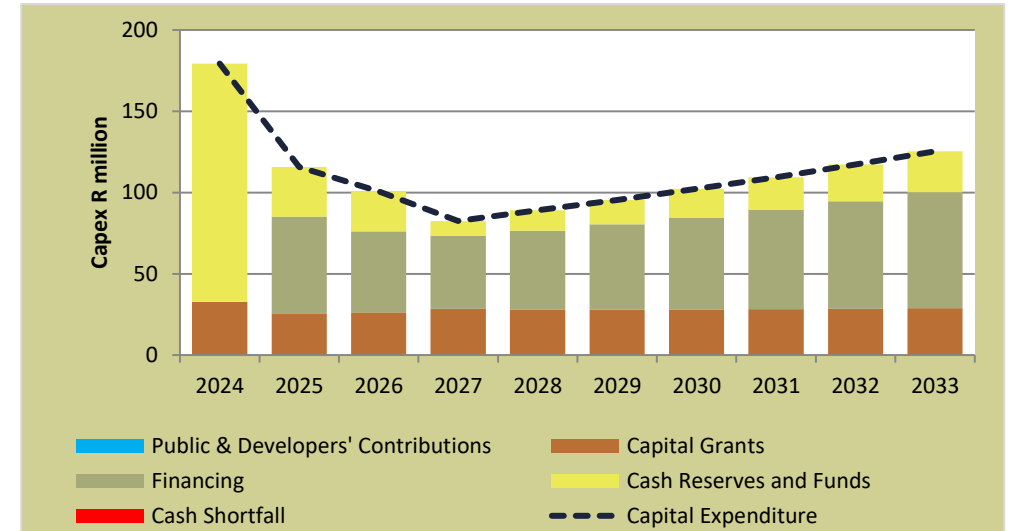
ACCELERATED CAPEX SCENARIO



BASE CASE SCENARIO



ACCELERATED CAPEX SCENARIO





1 Planning Process

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3 Updated Historic Financial Assessment

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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>2024</u>	<u>2026</u>	<u>2028</u>	<u>2030</u>	<u>2032</u>	<u>2033</u>	<u>COMMENTS</u>
FINANCIAL POSITION									
ASSET MANAGEMENT									
R29	Capital Expenditure / Total Expenditure	10% - 20%	15,8%	6,4%	5,2%	5,0%	4,8%	4,7%	CAPEX as a % of Total Expenditure remains below the NT norm range from FY2025/26 onward.
R27	Repairs and Maintenance as % of PPE and Investment Property	8%	3,8%	2,3%	3,1%	4,6%	6,1%	6,8%	Repairs and maintenance as a percentage of PPE and IP will be below the NT benchmark throughout the planning period. This ratio is assumed to grow to 7% by the end of the planning period.
DEBTORS MANAGEMENT									
R4	Gross Consumer Debtors Growth		20,1%	23,8%	18,5%	15,5%	13,7%	13,1%	The Collection Rate is assumed to remain at 96% throughout the planning period.
R5	Payment Ratio / Collection Rate	95%	96,9%	96,0%	96,0%	96,0%	96,0%	96,0%	
LIQUIDITY MANAGEMENT									
R49	Cash Coverage Ratio (excl Working Capital)		2,7 : 1	3,4 : 1	4,6 : 1	5,8 : 1	7,3 : 1	8,2 : 1	The bank balance will meet the minimum liquidity levels throughout the planning period. This ultimately contributes to the healthy liquidity position, evidenced by a current ratio of 2.9:1 by the end of the planning period.
R50	Cash Coverage Ratio (incl Working Capital)		1,3 : 1	1,4 : 1	1,7 : 1	2 : 1	2,2 : 1	2,3 : 1	
R51	Cash Surplus / Shortfall on Minimum Liquidity Requirements		R 44,7 m	R 63,1 m	R 118,9 m	R 182,2 m	R 256,2 m	R 301,7 m	
R1	Liquidity Ratio (Current Assets: Current Liabilities)	1.5:1 – 2:1	1,5 : 1	1,5 : 1	1,8 : 1	2,2 : 1	2,6 : 1	2,9 : 1	
LIABILITY MANAGEMENT									
R45	Debt Service as % of Total Operating Expenditure	6% - 8%	0,6%	1,5%	1,8%	2,1%	2,4%	2,5%	The debt indicators remain at affordable levels throughout the planning period, with scope to accelerate the external borrowing programme.
R6	Total Debt (Borrowings) / Operating Revenue	45%	5,2%	11,4%	13,9%	15,1%	15,4%	15,2%	
R7	Repayment Capacity Ratio		2,52	2,06	2,65	3,06	3,06	2,94	
R46	Debt Service Cover Ratio (Cash Generated by Operations / Debt Service)		3,7 : 1	4,3 : 1	3,5 : 1	2,9 : 1	2,7 : 1	2,7 : 1	

		<u>N.T.</u> <u>NORM</u>	<u>2024</u>	<u>2026</u>	<u>2028</u>	<u>2020</u>	<u>2032</u>	<u>2033</u>	<u>COMMENTS</u>
SUSTAINABILITY									
	Net Financial Liabilities Ratio	< 60%	7,9%	12,6%	10,3%	8,3%	5,8%	4,1%	Net Financial Liabilities are within the benchmark, but the Operating Surplus Ratio remains below the recommended lower benchmark for the majority of the planning period. Asset Sustainability is not calculated but entered as an assumption in the model. The municipality must ensure that a greater proportion of CAPEX is spent on asset replacement should it be required.
	Operating Surplus Ratio	0% - 10%	-6,5%	-3,2%	-1,8%	-0,8%	0,3%	0,9%	
	Asset Sustainability Ratio	> 90%	107,9%	0,1%	0,1%	0,1%	0,1%	0,1%	
FINANCIAL PERFORMANCE									
EFFICIENCY									
R42	Net Operating Surplus / Total Operating Revenue	>= 0%	-6,5%	-3,2%	-1,8%	-0,8%	0,3%	0,9%	The net operating surplus is below 0% for the majority planning period, an indication that the municipality should endeavour to improve profitability by managing expenditure and improving surplus margins on electricity services and maintaining the high-water surplus margins.
R43	Electricity Surplus / Total Electricity Revenue		14,8%	13,7%	15,1%	15,1%	15,1%	15,1%	
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 5,9 m	R 162,4 m	R 89,5 m	R 107,0 m	R 133,5 m	R 148,0 m	Billed Revenue and Operating Revenue Growth is, for the most part, above forecast CPI over the planning period. Cash generated from operations is forecast to increase over the planning period.
R9	% Increase in Billed Income p.a.	CPI	-0,8%	20,7%	8,7%	8,8%	9,2%	9,4%	
R12	Operating Revenue Growth %	CPI	-0,9%	15,0%	8,4%	8,8%	9,2%	9,3%	
R47	Cash Generated by Operations / Own Revenue		2,9%	7,5%	7,3%	7,2%	7,3%	7,5%	
R48	Cash Generated by Operations / Total Operating Revenue		2,4%	6,5%	6,4%	6,3%	6,4%	6,6%	

		<u>N.T.</u> <u>NORM</u>	<u>2024</u>	<u>2026</u>	<u>2028</u>	<u>2020</u>	<u>2032</u>	<u>2033</u>	<u>COMMENTS</u>
EXPENDITURE MANAGEMENT									
	Creditors Payment Period	30	48	58	54	47	38	33	Creditors' payment period is marginally higher than the NT benchmark and forecast to reduce over the planning period.
R30	Contribution per Expenditure Item: Staff Cost (Salaries, Wages and Allowances)	25% - 40%	24,9%	24,9%	24,6%	24,1%	23,6%	23,3%	
	Contribution per expenditure item: Contracted Services	2% - 5%	7,8%	7,4%	7,0%	7,4%	7,7%	7,8%	Contracted Services as a percentage of total expenditure are forecast to exceed the NT benchmark but will reduce over the planning period.
GRANT DEPENDENCY									
R10	Total Grants / Total Revenue		20,7%	15,3%	14,1%	13,7%	13,3%	13,1%	The municipality can generate funds from its own sources and is not overly reliant on grants. This is positive to note, as the tightening of the national fiscus will result in a declining reliance on transfers from other spheres of government.
R11	Own Source Revenue to Total Operating Revenue		82,2%	86,7%	87,7%	87,8%	88,0%	88,1%	
	Capital Grants to Total Capital Expenditure		18,2%	32,5%	37,3%	33,1%	29,9%	28,5%	



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CONCLUSION

OUTCOME OF THE INDEPENDENT FINANCIAL ASSESSMENT

Langeberg's financial performance deteriorated during the year, with the accounting surplus reducing from R104.2 million in the prior year to R61.3 million in the current year. Upon the exclusion of capital grants, the municipality posted an operating surplus of R23.9 million in FY2022/23, a decline from R53.3 million in the prior year. This decline is largely a product of reduced electricity revenue (R40.7 million reduction in FY2022/23) generated in the current year due to consistent load shedding. Cash generated from operations amounted to R77.2 million in the current year, a decline of R24.7 million from the prior year. This is despite an increase in the collection rate to 99% as at FYE2022/23 and can be attributed to the decline in electricity revenue.

The decline notwithstanding, electricity services remained the predominant revenue source, accounting for 54% of total revenue in FY2022/23. A reliance to this extent on electricity revenue provides a risk to the municipality should the energy crisis persist. It would thus be prudent to maximise other revenue sources in order to mitigate this risk. It is crucial to ensure that tariffs reflect the true cost of supply.

Electricity bulk purchases remained the predominant expenditure item, constituting 40% of total operating expenditure in FY2022/23. Staff costs as a percentage of total operating expenditure came in at 25% in the current year, well within the NT maximum norm of 40%. Contracted services amounted to 4% of operating expenditure, remaining within the NT norm range of 2-5%. Repairs and maintenance expenditure increased by R5.5 million during the year for a total of R29.8 million. This translates to 3% of the carrying value of PPE & IP.

Capital expenditure totalled R120.1 million during FY2022/23, an increase from R74.9 million in the prior year. This was primarily funded by own cash (71%) and capital grants (29%). Over the review period, capital grants accounted for 58% of capital expenditure, followed by own cash (33%), external financing (6%) and the sale of fixed assets (3%). The 5-year average capital budget implementation indicator came in at 76%, below the NT norm of 95%. This may be indicative of implementation issues that must be addressed.

The municipality has been reluctant to undertake borrowings during the review period, with only one loan to the value of R35.0 million undertaken in FY2019/20. The debt indicators reflect an affordable, yet underutilised debt profile highlighted by a gearing ratio of 5.4% and debt service to total expense ratio of 0.9% as at FYE2022/23. There is plentiful scope to accelerate the external borrowing programme, which will unlock an acceleration of the capital investment programme.

Despite the decline in financial performance, the liquidity position of the municipality improved during the year as evidenced by an increase in the liquidity ratio to a very healthy 2.40:1 at the current year end. This increase was primarily driven by an improved collection rate as well as a reduction in unspent conditional grants as at FYE2022/23. The municipality posted a cash surplus of R168.1 million above the minimum liquidity requirements.

STRENGTHS

- Strong collection rate of 99%.
- Reasonably low degree of grant dependency.
- Healthy liquidity ratio of 2.4:1.

WEAKNESSES

- High reliance on electricity revenue.
- 5-year capital budget implementation ratio of 76%.

OUTCOME OF THE FUTURE FORECASTS

An MTREF Case was developed utilising the unadjusted figures from the Tabled Budget. The aim of this is to assess the LTFM outcomes based on the current status quo as well as the impact of the Tabled Budget. This resulted in an unsustainable outcome.

As mentioned above, the Tabled Budget for FY2024/25-FY2026/27 presents a conservative operating budget. The issues identified in the MTREF Case, resulting in an unsustainable outcome, were predominantly driven by the poor forecast for financial performance. This has been rectified in the Base Case. A 4% reduction of operating expenditure was modelled. This equates to approximately R43.6 million. This is considered reasonable in light of the year-to-date performance displayed until the end of February, as outlined in the MTREF Case Scenario above. Considerable budgeted increases between FY2022/23 & FY2024/25 in contracted services (181%) and other expenditure (40%) appear to be excessive and, as such, unlikely to materialise to such an extent. This justifies the reduction of 4% in operating expenditure assumed in arriving at the Base Case.

In arriving at the Base Case, the following assumptions were made:

1. The collection rate was assumed to be 96% throughout the planning period, whilst electricity losses were maintained at 3.9% and water losses at 13.5%.
2. The model incorporated all the increases in revenue and expenditure items as announced in the 2023/24 Tabled Budget, with an operating expenditure decrease of 4.0% modelled to reflect a more realistic outcome.
3. Tariff increases were included as put forward in the Tabled Budget 2024/25.
4. Creditors' days were reduced to 28 days over 10 years. This in essence holds the creditors balance reasonably constant over the planning period, reflective of the current creditors' accounts being settled as and when they fall due.
5. Repairs and maintenance expenditure to PPE & IP was increased to 7% over the planning period.
6. The MTREF capital investment programme was unaltered in FY2023/24; however, capital expenditure was accelerated through over the remainder of the MTREF period. The assumed annual growth beyond the MTREF period is 6%. The MTREF period capital investment programme was adjusted as follows:

- FY2024/25: R86 million (compared to R118 million in the MTREF)
 - FY2025/26: R81 million (compared to R55 million in the MTREF)
 - FY2026/27: R70 million (compared to R38 million in the MTREF)
7. The MTREF capital funding mix has been adjusted to include an accelerated borrowing programme. The borrowing in this scenario consists of 15-year amortising loans at a rate of 4% above forecast CPI in any given year. FY2023/24 was left unadjusted.
The remainder of the MTREF period was adjusted as follows:
 - FY2024/25: R50 million
 - FY2025/26: R45 million
 - FY2026/27: R35 million
 8. A loadshedding scenario was incorporated into the Base Case. This scenario assumes an average of stage 2 loadshedding for a period of 2 years from FY2023/24. This is assumed to result in an annual reduction of electricity consumption of 11.9%.

The Base Case reflects a positive outcome that is characterised by an affordable acceleration of capital investment that is facilitated through the introduction of borrowing over the planning period. This will enable the municipality to invest in bulk infrastructure as required. Furthermore, the Base Case outcomes reflect a healthy, sustainable liquidity position. The Base Case assumptions are seen as realistic and achievable and the implementation of which will provide a healthy platform for long-term sustainability.

A scenario was run to assess the extent to which capital investment can be accelerated, whilst remaining financially sustainable. Additionally, the municipality's affordable debt absorption capacity is tested.

ACCELERATED CAPITAL INVESTMENT PROGRAMME

This scenario assesses the viability of an acceleration of the Base Case capital investment programme. The Base Case capital investment programme is accelerated by R176 million. This is achieved through increasing the level of borrowings to a total of R512 million over the planning period. Liquidity preservation parameters have been set in order to ensure sustainability is promoted.

While the costs to service the additional debt are forecast to reduce financial performance and cash generation the overall outcome of this scenario remains sustainable. Furthermore, the 2 liquidity preservation parameters have been met. The additional capital investment may be utilised to invest in productive assets that aim to stimulate the local economy. The municipality must consider these outcomes and conduct a cost-benefit analysis to determine whether it would be beneficial to the municipality and its inhabitants to accelerate the capital investment programme at the expense of profitability and liquidity.

CONCLUSION

The Base Case presents a sustainable, achievable outcome underpinned by realistic assumptions. The outcomes of the scenarios run on the LTFM provide a clear indication of the implications and benefits of the implementation of new strategies, as well as of changes to key financial metrics. The municipality is urged to consider the recommendations provided in this report as they provide guidance on how to mitigate some of the most prevalent risks facing the municipality.

In conclusion, this report provides a roadmap for the municipality to foster and preserve an environment of financial sustainability and resilience. 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.