INCA
Portfolio Managers

CEDERBERG LOCAL MUNICIPALITY

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

CEDERBERG
Cederberg Municipality

Prepared by
INCA Portfolio Managers
October 2023

REPORT OVERVIEW – INTRODUCTION AND BACKGROUND

Cederberg Municipality (Cederberg) appointed INCA Portfolio Managers in 2018 to prepare a Long-Term Financial Plan (LTFP). The output of the assignment was a report entitled *Cederberg Municipality Long Term Financial Plan: 2017 – 2026*; February 2018. This *2023 Update* aims to update the LTFP based on the latest available information and report on the findings.

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

A summary of the demographic, economic and household infrastructure perspective was updated with the latest available information as published by S&P Global Insight (S&P). The historic financial analysis was updated with the information captured in the municipality's pre-audit financial statements of 30 June 2023. IPM's Long Term Financial Model (latest and updated version 21.2) was populated and run with this latest information, and the outcome thereof is reported herein. The model was re-calibrated against the municipality's MTREF for the 3 years from 2023/24 to 2025/26.

Unlike the original assignment, no renewed analysis of the Asset Register, review of municipal documents (viz. IDP, Master Plans, etc.) and conversations with management were undertaken. The conclusions reached in this report are complimentary to the recommendations made previously.

The contents of this report entail the following:

ABBREVIATIONS USED

AFS	Annual Financial Statements
CAPEX	Capital Expenditure
CRR	Capital Replacement Reserve
CPI	Consumer Price Index
DBSA	Developmental Bank of Southern Africa
FY	Financial Year
FYE	Financial Year Ended
GDP	Gross Domestic Product
GVA	Gross Value Added
IP	Investment Property
IPM	INCA Portfolio Managers
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
R’m	Rand x 1 000 000
SA	South Africa
Stats SA	Statistics South Africa
S&P	S&P Global Market Intelligence ReX v2404

KEY FINDINGS AND CONCLUSIONS DRAWN FROM THE 2023 LTFP UPDATE

DEMOGRAPHIC, ECONOMIC AND HOUSEHOLD INFRASTRUCTURE

- Cederberg's total population of 59 250 people constitutes 12.1% of the West Coast district population, with a growth rate of 1.2% in 2022. This was the second lowest in the district and lower than the national and provincial rates of 1.3% and 1.4% respectively.
- The economically active population (EAP) of 23 051 people reflects 11.75% of the EAP in the district, which is the lowest proportion compared to other municipalities in the district.
- The unemployment rate of 13.9% in 2022 was the third highest in the district. This rate has increased alarmingly at an average rate of 28.6% p.a since 2019 but could also be ascribed to the consequence of the Covid-19 pandemic.
- The municipality's local economy shrunk by 1.4% in 2022. In addition, it has grown sluggishly at an average rate of 0.4% per annum over 10 years, which is lower than the average population growth rate of 1.5%.
- Cederberg's local economy is not well diversified with three subsectors contributing to 69.5% of the GVA in 2022, namely the Agriculture, Trade and Finance sectors. Agriculture remains the dominant economic sector, contributing 33.0% to the GVA in 2022 and providing 39.3% of the jobs in the municipality.
- The total GVA in 2022 amounted to R3.4 billion in 2010 constant prices.
- Total tourism spend amounted to R720 431 in 2010 constant prices. This has recovered healthily since Covid and is now only 2% shy of its pre-Covid high.
- Three clean audits over five years are a reflection of good governance but there is concern that audit opinions are deteriorating with increased findings in two of the last three financial audit reports.
- The service delivery challenges in the municipality are highlighted by 88.7% of households with a level of service at RDP or higher in 2022.
- The percentage of households above the equitable share bracket amounted to 93.6% in 2022, which is a significant improvement from 88.2% in 2013.
- The average annual household income in Cederberg is R298 553 in 2023, which is the lowest out of all the municipalities in the district.

HISTORIC FINANCIAL ASSESSMENT

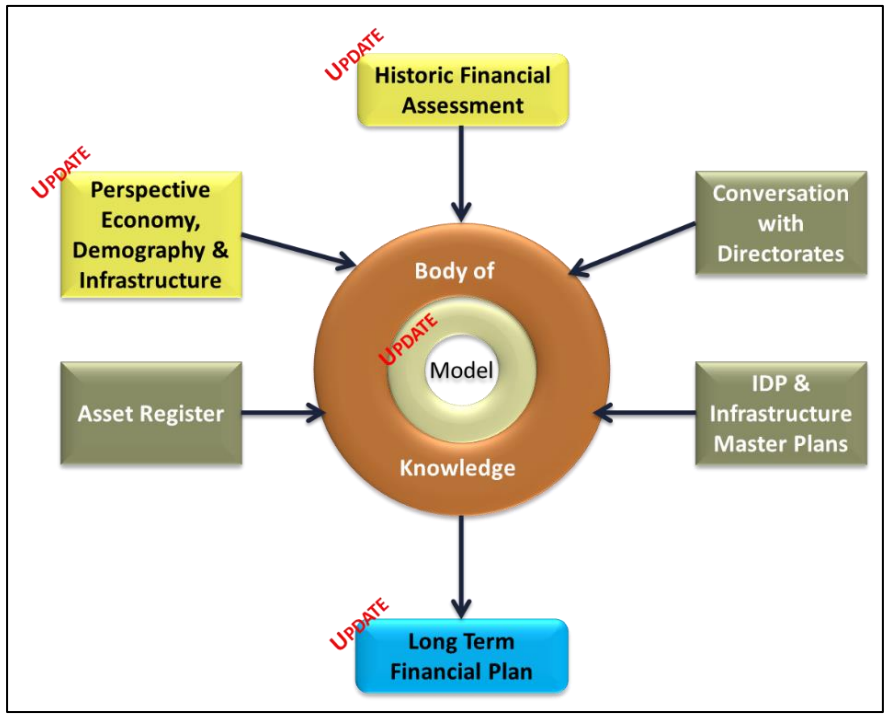
- Net fixed assets amounted to R746.9 million for 2022, steadily increasing at an average rate of 4.3% p.a. Meanwhile, accumulated surpluses increased at a marginally higher rate of 4.6%.
- The gearing ratio of 4.7% and debt service as a percentage of total operating expenditure of 2.2% in 2022 remained below the NT norms.
- The municipality's liquidity improved to 0.67 in 2023 from 0.45 in 2022. Albeit a welcome improvement, the municipality still falls significantly short of the NT norm of 1.5:1 to 2:1. This shortcoming indicates that Cederberg does not have enough cash resources to cover short term obligations should they fall due.
- It is positive to note that debtor days have improved to 53 days in FY2023 but there is still a substantial way to go to reach the NT norm of 30 days. Creditors' days were 227 days at FY2023, which is significantly higher than the norm of 30 days and with serious impacts on the municipality's suppliers and consequently also economic growth.

- The municipality achieved a collection rate of 95% in 2023, which is the prescribed minimum by NT. This has improved significantly from a pre-Covid three-year average of average of 88% to a post-Covid three-year average of 94%.
- An accounting surplus was achieved throughout the review period, with the surplus amounting to R35.2 million in FY2023. Moreover, a first operating surplus (excl. capital grants) was achieved by the municipality in FY2023, amounting to R4.2 million.
- Repairs and maintenance as a percentage of PPE and IP was 2%, falling well below the NT norm of 8%. This needs to be addressed as it could lead to impairment and early obsolescence of useful assets.
- Cederberg generated surplus cash from operations of R22.1 million in FY2023, but this should be considered against the slow payment of suppliers.
- Capital expenditure totalled R36.5 million in FY2023 with 95.9% of it being funded by capital grants.
- The municipality did not have sufficient cash reserves for short term liabilities and 1 months' worth of operating expenditure, resulting in a cash shortfall of R23.1 million in 2023.
- The cash coverage (excl. working capital) ratio improved to 1.1 in FY2023. With the inclusion of working capital, this ratio deteriorates to 0.5 which further corroborates the cash shortfall.
- The municipality managed an IPM Credit rating of 5.5, which is an Investment Grade rating.

PLANNING PROCESS

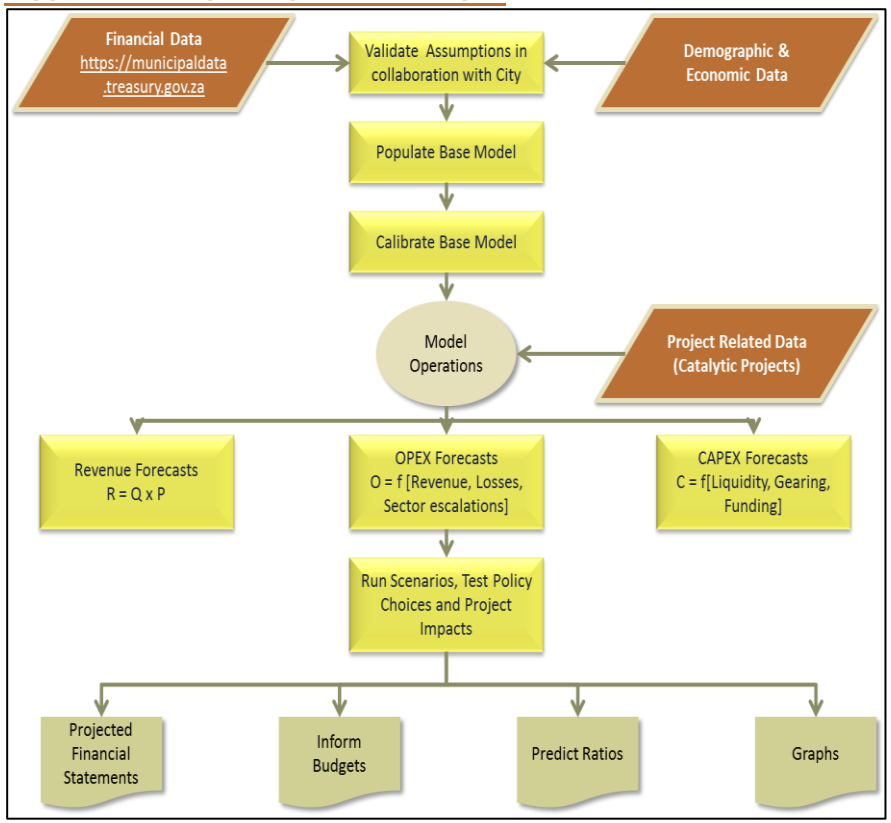
The diagram below illustrates the steps in the process that were followed in drafting the LTFP and the steps taken during this 2023 "LTFP Update":

FIGURE 1: PLANNING PROCESS



The long-term financial model was populated with the latest information regarding Cederberg 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



No information regarding large infrastructure projects was included for the purpose of this update. The capital budget as presented in the MTREF was however included and forecasts of affordable future capex were made.

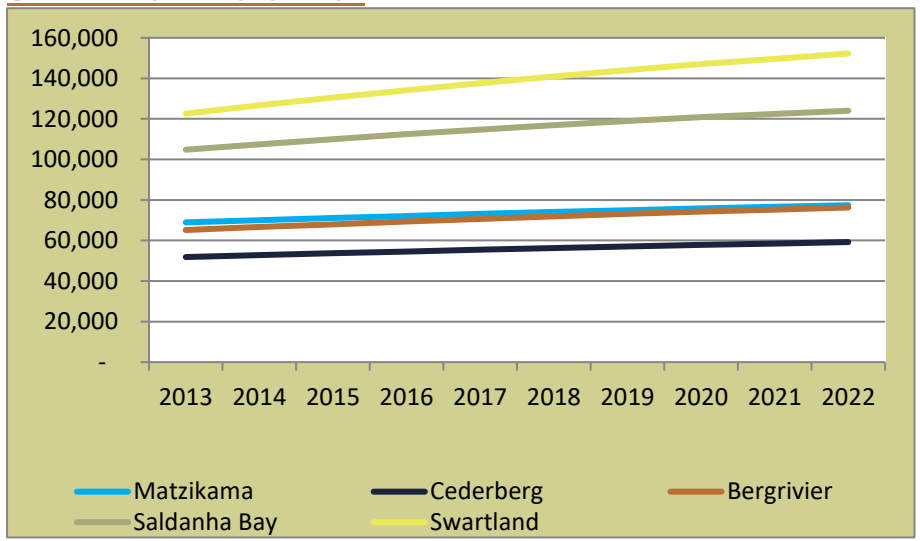
UPDATED PERSPECTIVES (DEMOGRAPHIC, ECONOMIC, HOUSEHOLD INFRASTRUCTURE)

DEMOGRAPHY

Cederberg has a total population of 59 250 (S&P 2022), which represents 12.1% of people living in the West Coast District. It is the second least populous municipality in the district with 7.4 people per km^2. The population growth has averaged 1.5% p.a from 2013 to 2022, which is lower than the 1.9% rate in the West Coast District.

However, the population growth in Cederberg should be evaluated against its own economic growth rate currently lagging at an average rate of 0.4% p.a. over 10 years. The relationship between economic growth and population is contentious and controversial but the general consensus is that high population growth compared to low economic growth in low-income areas will stagnate development.

GRAPH 1: TOTAL POPULATION



The population pyramid illustrates the age-sex composition of a population. The shape of a population pyramid is primarily influenced by the fertility rate of the population. The mortality rate will also have an influence on the shape of the graph, but its influence is far more complex and less important. The Cederberg pyramid is a constrictive one, meaning that the fertility rate is not high as the infants and children do not outnumber the adult age groups.

Cederberg's population pyramid reveals that the largest age cohorts are between the ages of 30 and 34 years, closely followed by the 35 to 39 age group. Both age cohorts represent the working-age population who can contribute human capital to the municipality's economy.

GRAPH 2: POPULATION PYRAMID

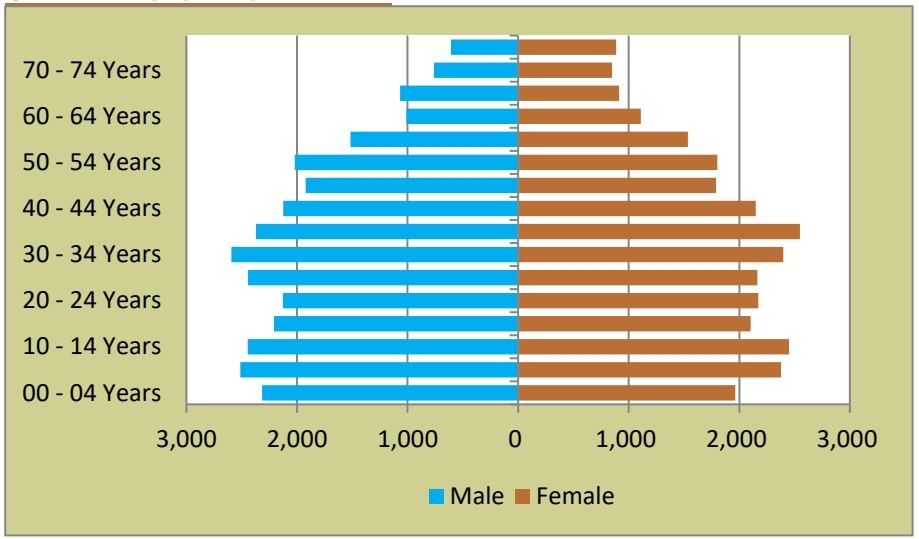


TABLE 1: ECONOMICALLY ACTIVE POPULATION AS A % OF POPULATION

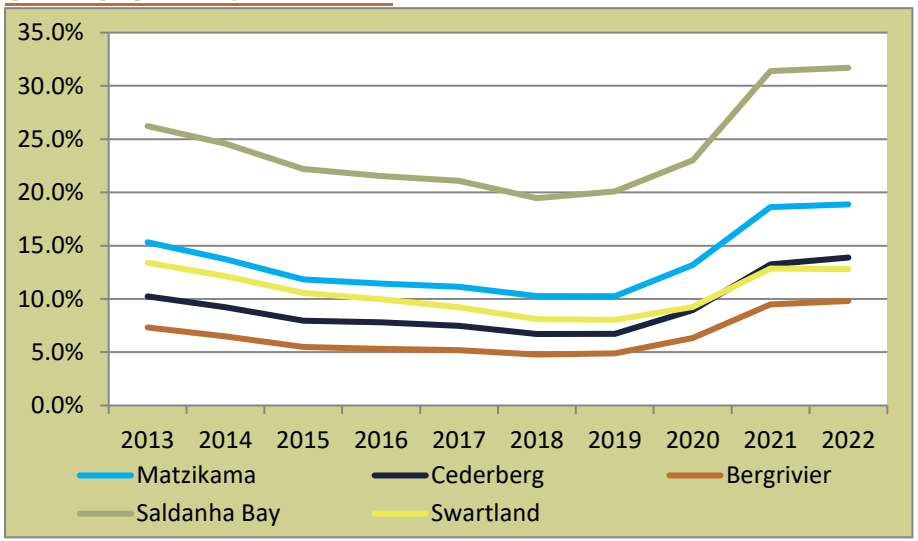
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Cederberg	43.2%	44.2%	44.8%	45.2%	45.7%	45.5%	44.6%	38.7%	36.9%	38.9%

The EAP is once again on the rise in 2022 after declining for three consecutive years.

The unemployment rate has increased to 13.9% in 2022. Although this picture is not as bleak as the national unemployment rate of 33.8%, it is concerning that the unemployment rate has increased by 77.6% since 2016 (7.8%). This figure will continue to rise if the population growth continues to outperform the economic growth.

The EAP as a percentage of the population sits at 38.9% in 2022. This figure is lower than the 42.8% average experienced over 10 years. The dwindling EAP, the rapidly rising unemployment rate and the sluggish economy are indicative of a strained and stressed environment in which the municipality operates.

GRAPH 3: UNEMPLOYMENT RATE



Cederberg's average annual income per capita of R64 599 p.a. is the lowest in the district, with the district average sitting at R79 410. This represents a 22.9% differential between municipality and district indicating that there is room for improvement for Cederberg.

The average households' income in Cederberg is R228 428 per annum and similar to the aforementioned average annual income per capita, it is the lowest figure in the district. The district averages R286 970 per household.
The ***Household Income*** distribution graph below illustrates that the proportion of households earning less than R 54 000 p.a. constitutes 14.9% of total households.

These households represent households that would typically be considered indigent and theoretically qualify for free basic services. As 15.3% of households fall within the 192 000 and R 360 000 p.a. range, this makes it the most saturated income bracket in the municipality.

GRAPH 4: HOUSEHOLD INCOME DISTRIBUTION

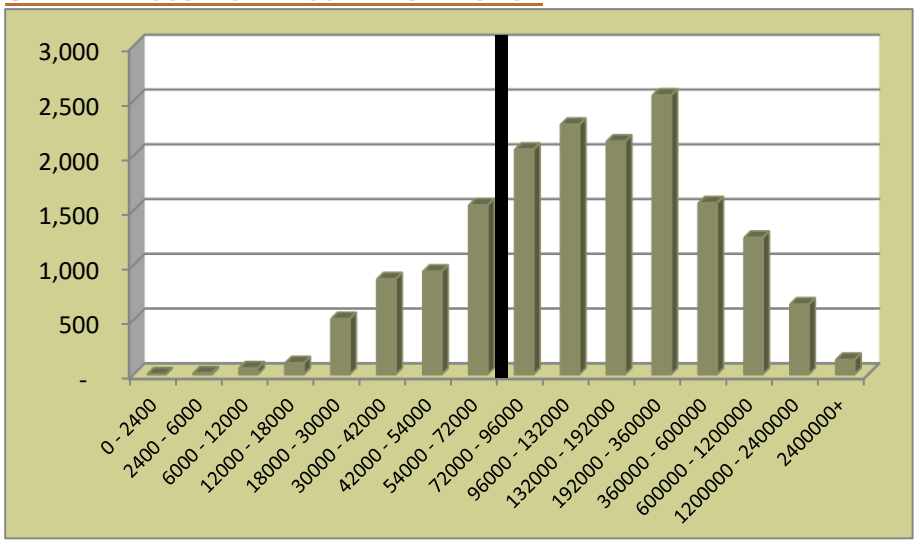


TABLE 2: COMPARISON OF HOUSEHOLD INCOME AND LEVEL OF SERVICE -2022

Infrastructure	West Coast	Cederberg
% Households above the Equitable Share Bracket	94.9%	93.6%
% Households with level of service at RDP or higher	91.4%	88.8%

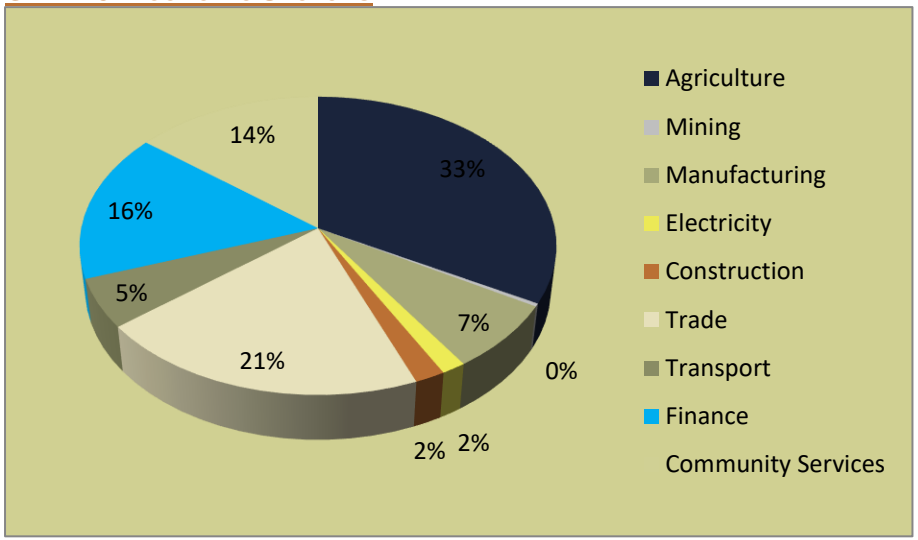
This incongruity of the percentage of households above the equitable share bracket and the percentage of households with RDP-level services indicates that there is scope for the municipality to increase its revenue if it manages to provide services to the households currently not receiving RDP-level services but should be able to afford it.

ECONOMY

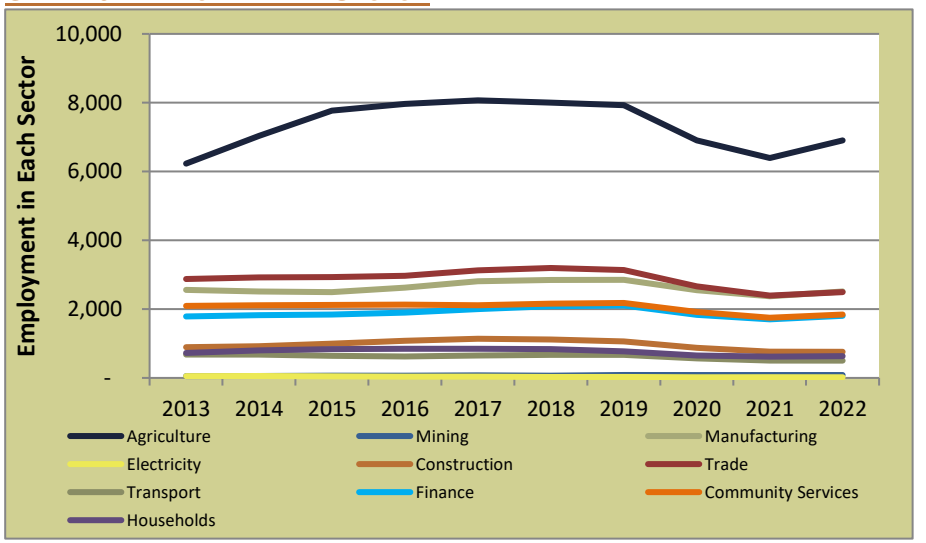
The total GVA for Cederberg in 2022 amounted to R3.4 billion (2010 constant prices). Agriculture remains the dominant economic sector, with a 33.0% contribution to GVA in 2022. Trade (20.3%) and Finance (16.1%) round off the top 3 sectors contributing to Cederberg's GVA. The municipality lacks diversification as these three sectors contribute to 69.5% of the GVA while the other seven sectors provide the remaining 30.5%.

The Agriculture sector is once again at the apex when assessing employment by sector, providing 39.3% of the jobs in the municipality. Most jobs provided by the Agriculture sector are of a seasonal nature meaning there are periods in which there is high supply of jobs or a low supply of jobs. Overall, the seasonal nature of the highest provider of employment coupled with an undiversified economy are often catalysts for economic instability.

GRAPH 5: ECONOMIC SECTORS



GRAPH 6: EMPLOYMENT BY SECTOR



Following the Agriculture sector, Manufacturing (14.3%) and Trade (14.2%) make up the top three providers of employment in Cederberg.

Only three out of ten sectors have experienced growth in numbers from 2013 and these sectors are Agriculture, Mining and Finance.

The Trade sector suffered the most during this period with employment numbers decreasing by 382 jobs. The Trade sector decline was exacerbated as a result Covid, but it is once again beginning to pick up in 2022 with a marginal 4.1% increase from 2021. This was the sector's first increase since 2019.

TOURISM

Since tourism is not recognised as one of the economic sectors mentioned above, it is prudent to analyse it on its own as it still plays an integral role in the municipality's economy.

Leisure/Holiday was the main purpose for visits to the municipality in 2022, comprising of 62.6% of total visits. The number is not yet as high as pre-Covid numbers, but it is steadily increasing, showing signs of a recovering tourism industry. The same goes for total visits to the municipality: there was a 43.5% decline in 2020 thereafter an 8.4% and 12.0% increase in 2021 and 2022 respectively.

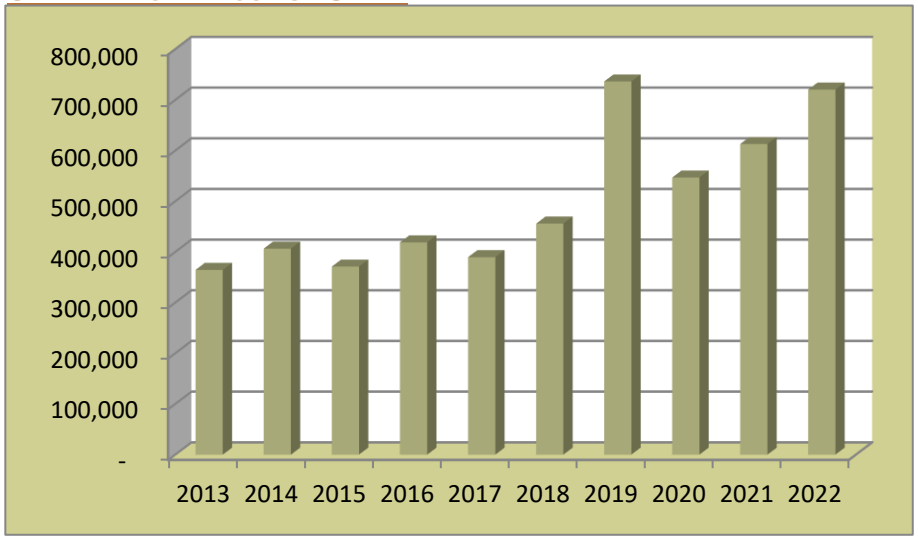
TABLE 3: NUMBER OF TOURISM VISITS BY PURPOSE OF TRIPS

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Leisure / Holiday	40,288	44,604	46,733	50,701	51,844	51,262	52,251	31,985	33,823	39,292
Business	6,465	6,093	5,755	6,113	5,659	5,194	5,248	2,605	2,848	4,316
Visits to friends and relatives	26,634	27,794	28,902	30,112	30,057	30,750	30,921	15,621	17,240	16,794
Other (Medical, Religious, etc.)	3,728	2,981	2,680	2,749	2,763	2,730	3,042	1,469	2,114	2,322
Total	**77,115**	**81,472**	**84,070**	**89,675**	**90,323**	**89,935**	**91,461**	**51,680**	**56,024**	**62,724**

Tourism spend experienced the same trend as tourism visits: a sharp decline in 2020 and steady increases thereafter.

On a positive note, the tourism spend in 2022, of R720 431, is just 2.2% shy of the 2019 figure of R736 375. This is a sign of a health recovery by the industry after having suffered a 25.7% decrease in 2020. This steady recovery has been occurring at an average increase of 14.8% p.a which is similar to the pre-Covid average growth of 14.5% p.a in tourism spend, meaning that this recovery rate is fairly sustainable and can continue into the future.

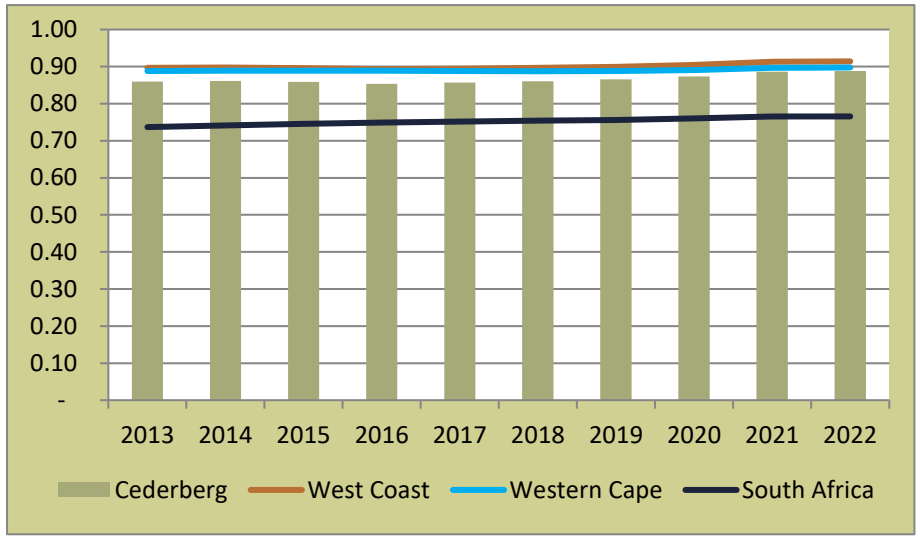
GRAPH 7: TOTAL TOURISM SPEND



HOUSEHOLD INFRASTRUCTURE

The ***Infrastructure Index***, as developed by *S&P Global Insight Global Insight in its Regional Explorer,* is used to compare the region's access to household infrastructure. The index ranges from 0 to 1, where 0 implies that every household in the region is below the minimum level of access to infrastructure, and 1 implying that every household in the region is at the minimum level of access to infrastructure.

GRAPH 8: INFRASTRUCTURE INDEX



Cederberg's infrastructure index for 2022 was 0.89, which is an improvement from the 0.86 index in 2013. Despite this improvement, the municipality should not rest on its laurels as its average infrastructure index is 0.87 compared to 0.90 and 0.89 in the West Coast district and Western Cape province.

The municipality is at risk of this infrastructure index deteriorating as it is facing an influx of indigent residents and an uncontrolled growth of informal settlements.

It is not solely the influx of new residents that Cederberg should worry about. The lack of bulk electricity capacity alluded to in the annual report will prove to be a hinderance to development in affected areas and has the potential to cause infrastructure backlogs over and above the ones the municipality is already dealing with.

TABLE 4: NUMBER OF HOUSEHOLDS WITH ABOVE AND BELOW RDP SERVICE LEVEL INFRASTRUCTURE

Infrastructure	2013		2022	
Above RDP Level				
Sanitation	13,461	93.2%	16,465	96.7%
Water	13,023	90.1%	16,649	97.8%
Electricity	13,622	94.3%	16,206	95.2%
Refuse Removal	9,466	65.5%	13,444	78.9%
Below RDP or None				
Sanitation	988	6.8%	565	3.3%
Water	1,427	9.9%	381	2.2%
Electricity	827	5.7%	824	4.8%
Refuse Removal	4,983	34.5%	3,586	21.1%
Total Number of Households	**14,449**	**100.0%**	**17,030**	**100.0%**

The table above reflects the number of households that have access to services below the RDP level of service or no access to services at all. The level below RDP reflects the service backlog for each service category. Refuse removal remains a massive hurdle that the municipality has to overcome with a backlog of 21.1% of households. The receipt of a new skip truck from national government may be of great use to deal with this service backlog but the issue of landfill sites which are almost at full capacity remains unresolved.

The table also presents the households formed during this time. Households increased by 17.9% from 2013 to 2022. With this household formation, the occupancy rate marginally decreased from 3.6 people per household to 3.5 people per household. This marginal decrease will have little-to-no effect on the pressure exacted on bulk infrastructure.

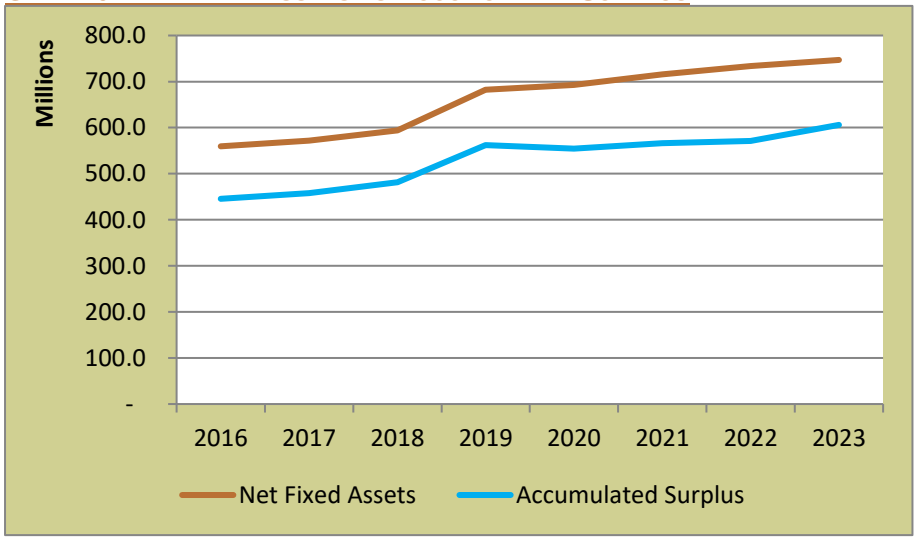
UPDATED HISTORIC FINANCIAL ASSESSMENT

FINANCIAL POSITION

As at 30 June 2023, Cederberg's net fixed asset balance stood at R746.9 million. This amount has steadily increased at an average rate of 4.3% per annum. Accumulated surpluses largely followed the same trend as net fixed assets, increasing at an average rate of 4.6% per annum.

This directly proportional relationship between net fixed assets and accumulated surplus is indicative of prudent investment by the municipality in capital assets which result in returns.

GRAPH 9: NET FIXED ASSETS VS ACCUMULATED SURPLUS

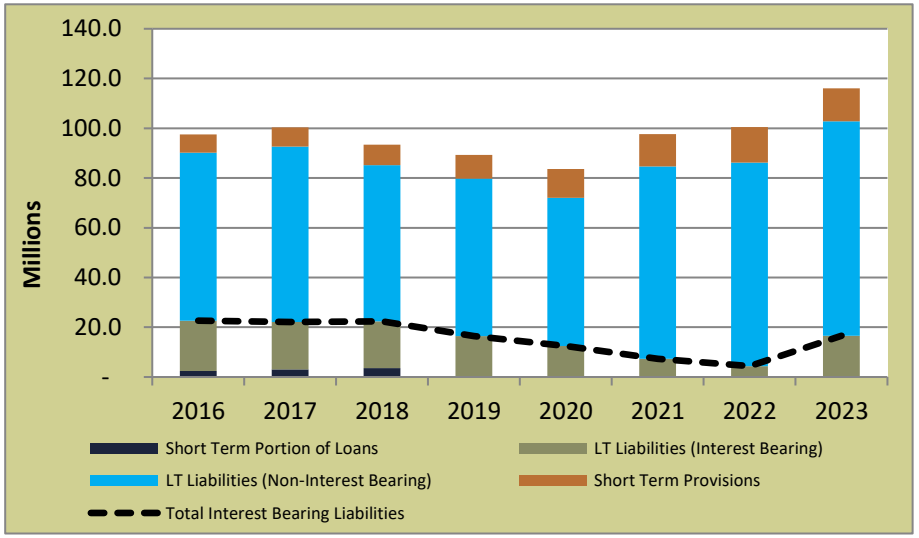


Long-term liabilities as at 30 June 2023 amounted to R102.8 million. This amount increased by 19.3% from the previous year largely due to a repayment arrangement to the tune of R39.5 million with Eskom in order to repay historical debt.

The non-interest bearing liabilities are provisions, namely for employment benefits and rehabilitation of landfill sites. Elands Bay landfill site is estimated to be decommissioned in 2024 for which the rehabilitation cost is R6.3 million in current prices. It would be good practice for the municipality to maintain cash reserves for this imminent expense.

The other portion of the long-term liabilities is borrowings. Cederberg's borrowings come in the form of loans as well as finance lease liabilities. The municipality has not undertaken additional loans since FY2017. This was responsible as it would have put strain on an already stressed liquidity ratio.

GRAPH 10: LONG TERM LIABILITIES: INTEREST BEARING VS NON-INTEREST BEARING

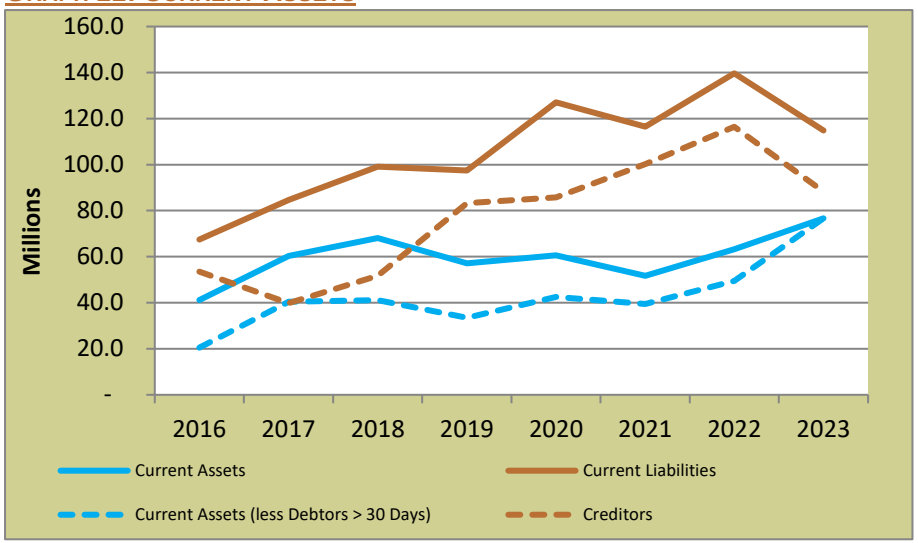


The gearing ratio and debt service as a percentage of total operating expenditure remained below the national treasury norms of 45% and 8% respectively as evident in the table below.

TABLE 5: DEBT REPAYMENT AND GEARING

	2016	2017	2018	2019	2020	2021	2022	2023
Total Debt (Borrowings) / Operating Revenue	9.6%	9.0%	9.0%	6.1%	4.4%	2.4%	1.3%	4.7%
Debt Service as % of Total Operating Expenditure	3.5%	2.0%	2.5%	2.1%	2.5%	3.1%	2.8%	2.2%

GRAPH 11: CURRENT ASSETS



GRAPH 11 reflects the fluctuations of current assets and current liabilities over the review period. Current Liabilities have consistently been higher than the Current Assets, with an average balance of R105.9 million compared to an average of R59.9 million for the latter. The two metrics largely followed a similar trend with simultaneous increases and decreases over the review period. In FY2023, the Current Liabilities decreased by 17.8% while Current Assets increased by 21.2%, giving signs of a recovering liquidity. A stronger collection rate in the financial year bolstered the municipality's cash balances, resulting in the increase in current assets.

Creditors were the highest contributor to Current Liabilities, with an average contribution of 73.1%.

TABLE 6 depicts the liquidity position of the municipality. The municipality has not been liquid since the beginning of the review period and it has been far behind the national treasury norm of 1.5 to 2:1. This indicates that the municipality would not have the capacity to honour its current or short-term liabilities. The picture is not all bleak as there are signs of recovery: the liquidity ratio improved to 0.67 which is the second highest it has been throughout the review period and secondly the number of debtors older than 30 days have decreased evident in the convergence of current assets and the current assets (less debtors older than 30 days).
The decrease in debtors older than 30 days shows signs of an improved credit management policy.

TABLE 6: LIQUIDITY RATIOS

	2016	2017	2018	2019	2020	2021	2022	2023
Current Assets : Current Liabilities	0.61	0.71	0.69	0.59	0.48	0.44	0.45	0.67
Current Assets (less Debtors > 30 Days) : Current Liabilities	0.30	0.48	0.41	0.34	0.33	0.34	0.35	0.67

TABLE 7 provides us with metrics to delve deeper into debtors management of the municipality. Billed Income increased by R14.4 million on average or at an average rate of 8% per annum. This was as a result of both quantity (population) and price increasing. The gross consumer debtors' growth rate similarly averaged 8% over the review period. Gross consumer debtors did decrease in FY2021 and FY2022 but that is to be expected as those are Covid affected years.

Net debtor days averaged 72 days over the review period. This far exceeded the national treasury norm of 30 days. It is positive to note that the debtor days have improved to 53 days in FY2023. This was a better performance compared to the other years under review and shows signs of an improving credit management policy. One method of improving such a policy is to provide for all the debtors which the municipality reasonably expects will default on their outstanding municipal bills.

One way to test this policy implementation is to determine the provision of bad debts as a percentage of debtors older than 90 days. This metric fell below 100% for three of the seven years assessed, which was an indication of unfounded optimism and under-provision. Since then, the municipality has provided for over 100% of the debtors, averaging 158% in five years and it is in those years where significant improvements can be seen in the net debtor days. This metric should, at the very least, be 100% as debtors older than 90 days are at a high risk of defaulting and it would be prudent to provide for this risk. The municipality should aim to maintain this adopted credit policy that has been implemented since FY2019.

Bad debts as a provision of bad debts were also assessed to determine if the provision was sufficient. The metric averaged 21% over the review period. The national treasury norm is 100% but even a figure below this is acceptable; the idea is not to exceed 100% as it would indicate poor credit control processes and/or a less-than-capable methodology has been utilized to calculate provision for bad debt.

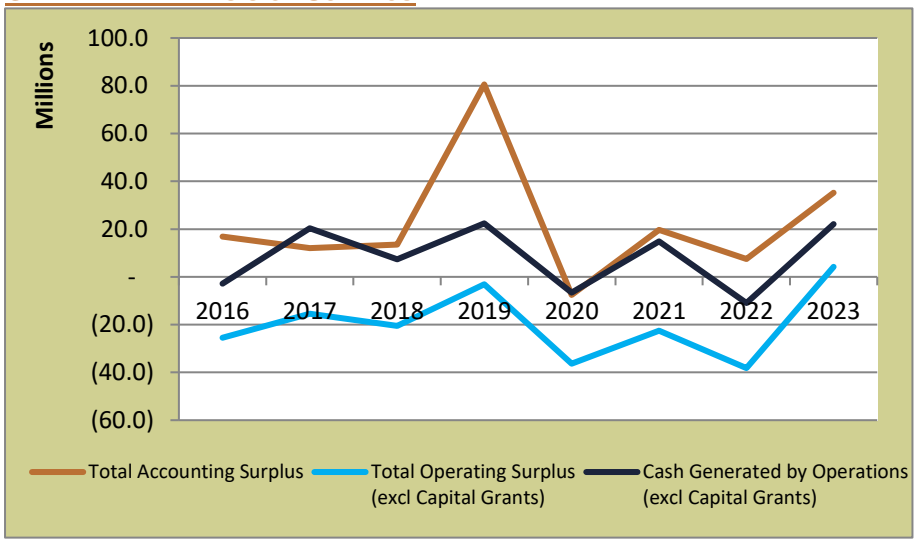
Lastly, the collection rate has to be taken into account. The collection rate averaged 90% over the assessment period, which is below the NT norm of 95%. While this rate has not performed well throughout the review period, it is important to highlight the years following the Covid-affected 2020: the municipality average a collection rate of 94% during those three years with the NT norm of 95% being achieved in two of those three years. Altogether, the net debtor days, the provision for bad debts as a percentage of debtors older than 90 days have gravitated towards the national treasury norm, which is indicative of improving credit management policies and processes.

TABLE 7: DEBTOR RATIOS

	2016	2017	2018	2019	2020	2021	2022	2023
Increase in Billed Income p.a. (R'm)		23.7	4.5	9.1	18.9	6.4	25.8	12.2
% Increase in Billed Income p.a.		17%	3%	6%	11%	3%	13%	5%
Gross Consumer Debtors Growth		12%	20%	4%	26%	-7%	-7%	5%
Net Debtor Days	95	78	95	89	67	57	62	53
Provision for Bad Debts as a % of Debtors Older than 90 days	74%	81%	78%	123%	148%	154%	140%	224%
Bad Debts as a % of Provision for Bad Debts	34%	20%	16%	25%	1%	22%	41%	7%
Payment Ratio / Collection Rate		89%	85%	89%	86%	95%	91%	95%

FINANCIAL PERFORMANCE

GRAPH 12: ANALYSIS OF SURPLUS



The municipality managed accounting surpluses in all but one period under review. The year in question is FY2020 and this negative financial performance was largely due to capital grants sizably decreasing by 65.6% from FY2019. The accounting surplus for FY2023 amounted to R35.4 million.

Upon exclusion of capital grants, an operating surplus was only achieved in one out of the eight periods under, of R4.2 million in FY2023. Although the operating surplus was only achieved once, it is a remarkable achievement considering that the municipality averaged operating deficits of R14.4 million over the review period.

Cash generated by operations was achieved in five of the eight periods. The other three periods, where cash generated from operations was not in a surplus, would have required the municipality to fund operational expenditure with non-operational funding, which is unsustainable and ill-advised. Cash generated by operations averaged R8.3 million over the review period with an operational cash surplus of R22.1 million achieved in FY2023. The positive figure in cash generated by operations and the operating surplus achieved in 2023 are signs of the municipality decreasing its dependence on grants. This is an issue that needed to be addressed as there is too much strain on the fiscus and we should expect grant funding to decrease over time.

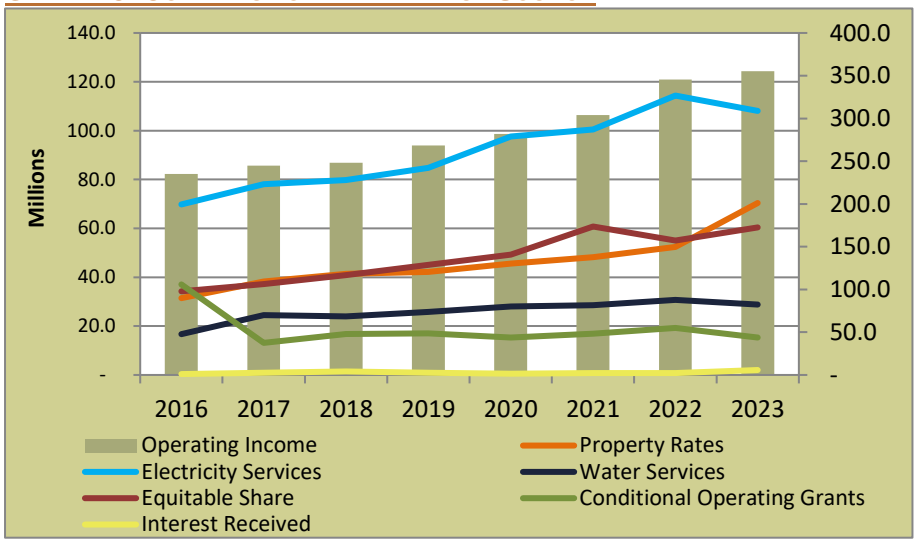
TABLE 8 below provides context on the municipality's grant dependency over the review period. Total grants as a percentage of revenue improved from 41% in FY2016 to 28% in FY2023.

TABLE 8: TOTAL INCOME VS TOTAL EXPENDITURE

	2016	2017	2018	2019	2020	2021	2022	2023
Total Grants	113.6	77.9	91.7	145.7	93.2	119.9	119.9	106.7
Total Revenue	277.4	272.3	282.0	352.0	310.5	346.3	391.2	386.3

Revenue Management

GRAPH 13: CONTRIBUTION PER REVENUE SOURCE



Electricity services remained the highest contributor to revenue throughout the review period, with an average contribution of 32% and increasing at an average rate of 7% per annum. There was a 6% decline in revenue from electricity services from FY2022 to FY2023 and this comes as little-to-no surprise due to the frequency of load shedding experienced during that time. Equitable share and property rates interchangeably contributed the second highest and third highest revenue, averaging 17% and 16% respectively.

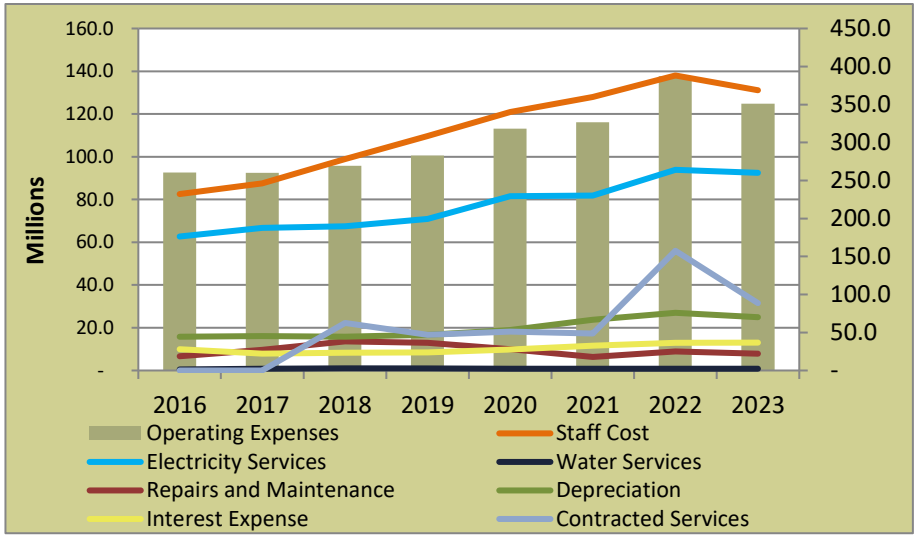
The surplus margins for electricity services and water services averaged 15.5% and 96.9% respectively over the review period. Electricity margins fell within the national treasury norm of 0% to 15% in FY2023. There is much more leeway with the water service margins, with margins equal or above 0% being deemed acceptable. However, the water surplus margins are higher than average largely due to low water expenses over the review period, which averaged R805 602 p.a.

TABLE 9: SURPLUS MARGINS

	2016	2017	2018	2019	2020	2021	2022	2023
Electricity Surplus / Total Electricity Revenue	10.2%	14.5%	15.4%	16.3%	16.5%	18.6%	17.9%	14.4%
Water Surplus / Total Water Revenue	97.0%	96.5%	95.7%	96.3%	97.1%	97.3%	97.4%	97.4%

Expenditure Management

GRAPH 14: CONTRIBUTION PER EXPENDITURE ITEM



Staff costs remained the highest contributor to expenditure, averaging 32% over the period. The FY2023 contribution stood at 34%. While this does not exceed the NT norm of 40%, it does need to be closely monitored and managed so that it remains within the confines set by NT.

Electricity services was the second highest contributor to expenses, averaging 22% over the period. A distant third is contracted services, averaging 6.6% over the period. Barring the first two years of review, contracted services has exceeded the NT norm of 2% to 5% indicating a reliance on contractors. The rate sits at 9.0% for FY2023 and needs addressing.

The table below depicts the distribution losses endured by the municipality over the review period. It assesses the expenditure incurred but never realised into revenue by the municipality. Electricity losses are acceptable within 7% and 10% as per NT norms. The municipality held losses within that norm and sometimes even less in seven of the eight periods indicating that these losses are well managed. Similarly, water losses remained within the NT norm of between 15% and 30%. Although this is within the norm, these losses have been increasing at an alarming rate, notably in FY2021 by 98.2% and 15.5% in FY2023. These are quantitative signs of various challenges facing the municipality such as ageing infrastructure, pipe bursts, leaking reservoirs, and faulty bulk water meters amongst many plausible problems.

Property Rates and Equitable Share round off the top three main sources of income, contributing 21% and 13%, respectively, to total operating income. Water services revenue contributed 8% in FY2023. Water distribution losses decreased from 15.1% in FY2022 to 14.6% in FY2023. The water losses are reasonably low when compared to the NT benchmark of 30%.

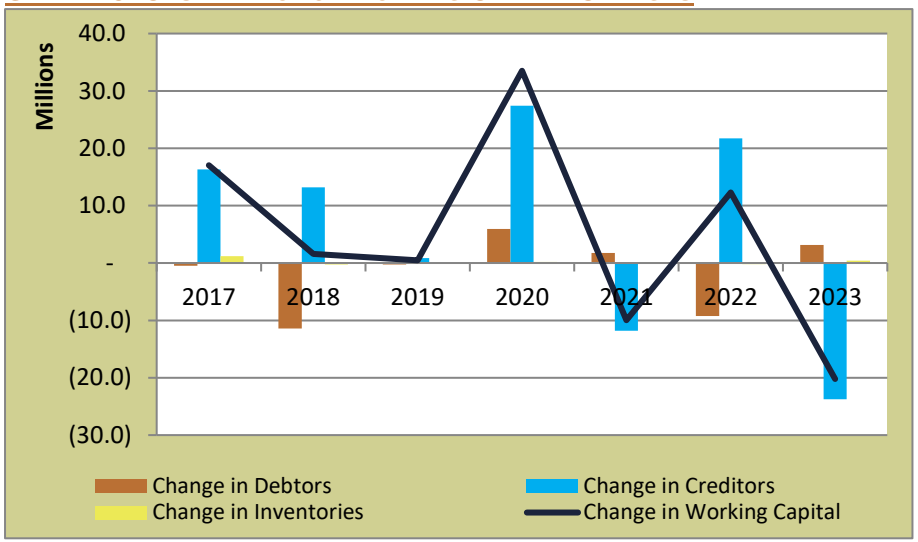
TABLE 10: DISTRIBUTION LOSSES

	2016	2017	2018	2019	2020	2021	2022	2023
Water Distribution Losses	13.4%	12.7%	11.7%	10.3%	11.1%	22.0%	23.8%	27.5%
Electricity Distribution Losses	12.9%	6.2%	6.2%	4.2%	7.2%	4.4%	7.3%	6.2%

CASH FLOW

As cash generated from operations was assessed under **Financial Performance**, this section assesses the effect of Cederberg's working capital management on cash, its cash utilisation for the purpose of capital infrastructure and whether it holds sufficient cash reserves as per national treasury guidelines.

GRAPH 15: CASH IMPACT OF WORKING CAPITAL CHANGES



As stated previously, Cederberg generated a surplus cash from operations of R22.1 million in FY2023, which is a substantial improvement from the deficit of R10.9 million in FY2022.

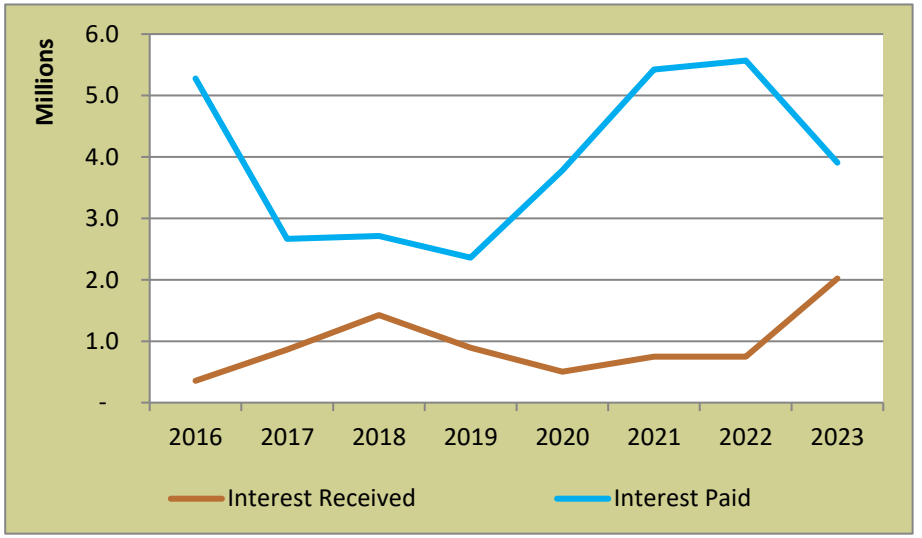
Analysis of GRAPH 15 reveals that there were positive and negative movements in working capital over the review period. It is evident in the change in creditors is the predominant factor in these movements. Over-reliance on creditors as a source of finance is ill-advised as it would further deteriorate the liquidity ratio and may lead to increased interest expense.

The current year impact of changes in working capital are reflected below:

TABLE 11: CASH IMPACT OF WORKING CAPITAL CHANGES

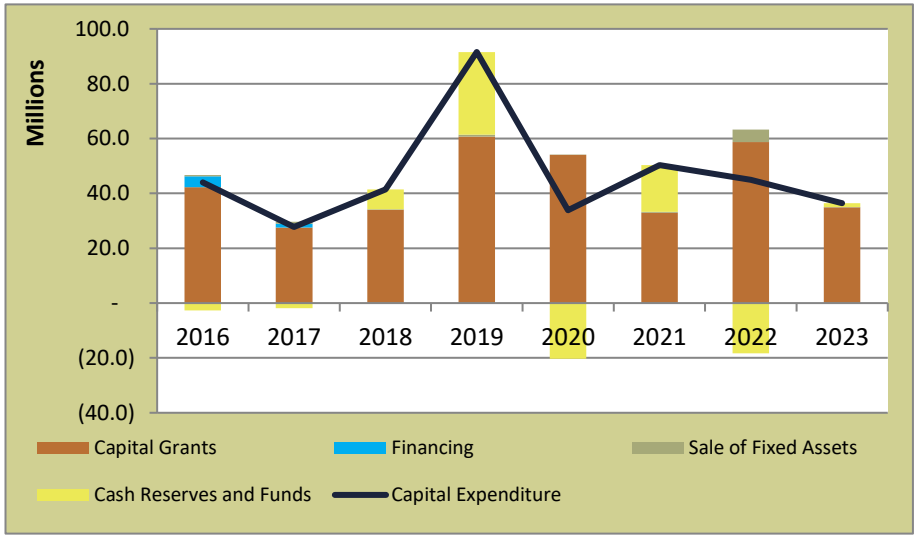
	2017	2018	2019	2020	2021	2022	2023
Change in Debtors	(0.5)	(11.4)	(0.3)	5.9	1.7	(9.2)	3.1
Change in Creditors	16.3	13.2	0.8	27.4	(11.8)	21.7	(23.8)
Change in Inventories	1.2	(0.2)	(0.1)	0.2	0.1	(0.2)	0.4
Change in Working Capital	17.0	1.6	0.5	33.5	(9.9)	12.3	(20.2)

GRAPH 16: INTEREST PAID VS INTEREST RECEIVED



Interest paid has been higher than interest received throughout the period. The interest paid decreased by 29.8% from FY2022 to FY2023 thanks to the repayment agreement with Eskom. Interest earned increased by 169.4% from FY2022 to FY2023 mainly due to an increase in short term deposits held by the municipality. The expectation is that the interest received can continue to rise if the municipality can continue generating cash from operations as it managed in FY2023.

GRAPH 17: ANNUAL CAPITAL FUNDING



Over the past 8 years, Cederberg invested a cumulative R370.3 million into capital infrastructure, funded by capital grants (93%), internal cash resources (3%) and the balance was funded by external financing and sale of fixed assets. The underspending on capital grants however, resulted in loss of capital funding – approximately R43.1 million.

The capital expenditure averaged R46.3 million over the period. Capital expenditure peaked in FY2019 at R91.6 million.

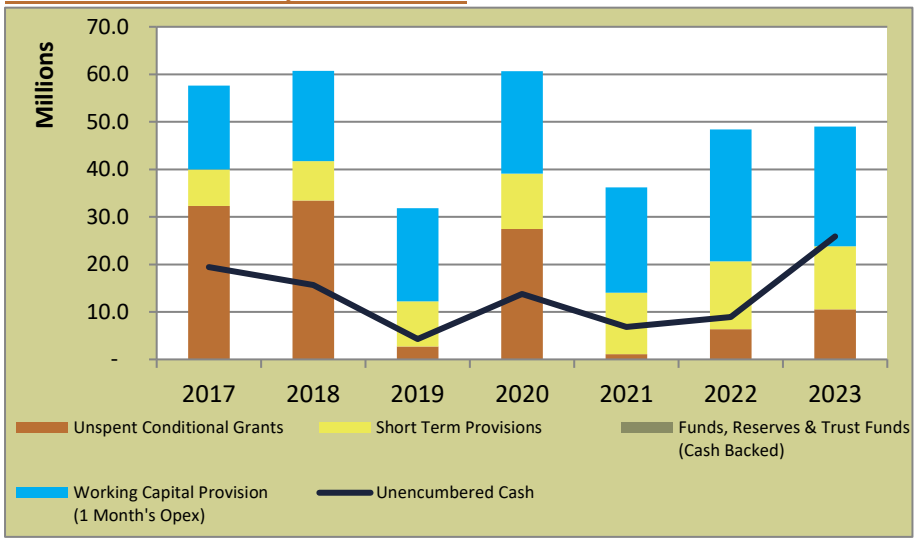
Debt financing was not accessed much during the review period for capital expenditure. The low levels of borrowing are warranted as the municipality faced financial difficulties. Internal cash resources were also kept minimal, averaging R1.6 million over the period. The lack of access to debt financing and minimal internal cash utilisation hampered capital expenditure.

Below shows the monetary values of the Funding Mix for the Capital Program:

TABLE 12: CAPITAL FUNDING MIX

	2016	2017	2018	2019	2020	2021	2022	2023
Capital Grants	42.2	27.6	34.0	60.7	54.1	32.9	58.8	34.9
Financing	4.0	1.4	-	-	-	-	-	-
Sale of Fixed Assets	0.4	0.6	0.2	0.7	0.1	0.4	4.5	0.1
Cash Reserves and Funds	(2.6)	(1.9)	7.3	30.2	(20.3)	17.1	(18.3)	1.4
Capital Expenditure	44.0	27.8	41.5	91.6	33.8	50.3	44.9	36.5

GRAPH 18: MINIMUM LIQUIDITY LEVELS



A municipality is required to maintain cash reserves which sufficiently cover the following statutory requirements:

- Unspent Conditional Grants
- Short-Term Provisions
- Cash backed Funds and Reserves
- Cash Cover for 1-3 months working capital

GRAPH 18 illustrates that the municipality did not meet minimum liquidity requirements every financial year over the review period. For the municipality to meet the minimum liquidity level, the deterioration of the cash balance should be addressed, specifically by continuing to improve the ability to generate cash from its operations.

As at FY2023, the municipality's unencumbered cash balance does not meet the required minimum levels of R49.0 million, resulting in a shortfall of R23.1 million. The cash coverage ratio (excl. working capital) improved to 1.1 in FY2023 but it deteriorates with the inclusion of working capital to 0.5.

TABLE 13 below reflects the minimum liquidity requirement of the municipality.

TABLE 13: MINIMUM LIQUIDITY LEVELS

	2016	2017	2018	2019	2020	2021	2022	2023
Unspent Conditional Grants	2.4	32.3	33.5	2.7	27.5	1.1	6.4	10.5
Short Term Provisions	7.3	7.7	8.3	9.5	11.6	12.9	14.3	13.2
Funds, Reserves & Trust Funds (Cash Backed)	-	-	-	-	-	-	-	-
Total	**9.8**	**40.0**	**41.8**	**12.2**	**39.1**	**14.0**	**20.7**	**23.8**
Unencumbered Cash	2.5	19.4	15.6	4.3	13.8	6.8	8.9	25.9
Cash Coverage Ratio (excl Working Capital)	0.3	0.5	0.4	0.4	0.4	0.5	0.4	1.1
Working Capital Provision (1 Month's Opex)	18.8	17.6	19.0	19.7	21.5	22.2	27.7	25.2
Cash Coverage Ratio (incl Working Capital)	0.1	0.3	0.3	0.1	0.2	0.2	0.2	0.5
Minimum Liquidity Required	28.5	57.6	60.7	31.8	60.7	36.2	48.4	49.0
Cash Surplus/(Shortfall)	**(26.0)**	**(38.2)**	**(45.1)**	**(27.6)**	**(46.9)**	**(29.3)**	**(39.5)**	**(23.1)**

*Cash coverage ratio = Unencumbered cash and cash equivalents/Total statutory requirements
**Total Expenditure/12
***Total cash and cash equivalents – ceded investments
****Total statutory requirements + working capital provision
*****Minimum liquidity required – Unencumbered cash and cash equivalents

IPM Shadow Credit Score

This section assesses Cederberg's credit score per annum using the model. This was assessed using the IPM shadow credit score to provide management and council with the current risk rating that the municipality may receive from external lenders. This risk rating will determine the municipality's cost of debt. Any improvements to the shadow credit over time will result in more favourable lending rates.

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

Cederberg obtained a score of 5.5 on the IPM Shadow Credit Model, which is equivalent to BBB on a comparable national credit rating scale and is considered Investment Grade.

The municipality achieved the following scores in each module of the credit scoring model:

Table 14: IPM Credit Model Outcomes

Modules	2023 (5)
Financial	2.5
Institutional	3.3
Socio-Economic	2.0
Infrastructure	4.0
Environmental	2.4

From the assessment above, it is evident that Financial, Socio-Economic and Environmental factors are impediments to achieving higher credit scores. The drawbacks in these factors were largely due to weak liquidity ratio, the GVA growth rate lagging behind the population growth rate and the deteriorating Blue Drop Score and Green Drop Score.

LONG TERM FINANCIAL MODEL OUTCOMES

Future forecasts are based on the outcome of a financial model. Financial data as well as economic and demographic data form part of the underlying data used within the model. It is important to note that the municipality exceeded its own budget expectations in FY2023 therefore the model outcomes are more optimistic than what the municipality had budgeted in its 2023/24 MTREF.

The following variances were noted between the 2023/24 adjusted MTREF budget and the 2023 pre-audit AFS:

- Total cash payment by type was R53.58 million lower than budgeted. This was largely due to a 42% variance in capital assets and a 39% variance in contracted services. This subsequently led to a net increase in cash held of R16.9 million as opposed to a budgeted net decrease of R11.8 million.
- Accounting surplus was 82% higher than the amount predicted in the adjusted budget, largely due the municipality only incurring 61% of the contracted services expenditure which it had budgeted to incur.

These positive variances led to an optimistic Base Case that will be explored below.

Base Case Scenario

Key assumptions to note that were made to arrive at a base case:

- The collection rate was maintained at 93% throughout the forecast period. Although the municipality has achieved a 95% collection rate in two of the last three financial years, a conservative approach was taken as the 8-year collection rate averaged 90%
- Additional to the decline in service charges for electricity due to load shedding that was budgeted for by the municipality, a decline of water sales was factored in in addition to a permanent loss of consumers adopting alternative energy solutions.
- Expenditure on repairs and maintenance on PPE as a percentage of the value of PPE & IP is forecast to reach 5% over the first 6 years of the forecast period.
- Electricity losses were marginally increased to 7% and water losses were decreased slightly to 25% owing to an increase in repairs and maintenance expenditure.
- Total capital expenditure was accelerated to R1 195 million.
- The capital expenditure for each year during the MTREF period was adjusted as follows:
    - 2024: MTREF R 81.5 million, Base case: R 81.5
    - 2025: MTREF R 48.6 million, Base case R 90 million
    - 2026: MTREF R 86.7 million, Base case R 100 million
    - 2027: MTREF R 91.9 million, Base case R 110 million
- As a result of the accelerated capital expenditure, borrowing was introduced to mitigate the risk of depleting own cash.
- The borrowing to fund capital expenditure was adjusted as follows:
    - 2024: no borrowing in the MTREF nor base case
    - 2025: no borrowing in the MTREF nor base case
    - 2026: MTREF R 0, Base case R 13 million
    - 2027: MTREF R 0, Base case R 16 million
- Borrowings for the years following the MTREF period increased by 4% annually as of 2027.

TABLE 15: KEY ASSUMPTIONS OF THE BASE CASE VARIABLES

Variable	Base Case Average for a 10-Year Planning Period
RSA consumer inflation rate (CPI)	5.3%
Population Growth Rate	1.2%
GVA Growth Rate	3.2%
Short term investment rate (Margin above CPI)	0.0%
Electricity Price Elasticity of Demand	-0.4
Water Price Elasticity of Demand	-0.2
Employee related cost escalation	6.4%
Bulk electricity cost escalation	9.4%
Collection Rate of customer billings	94.0%

The outcomes of the base case model are presented in TABLE 16 below.

TABLE 16: OUTCOMES OF THE BASE CASE MODEL

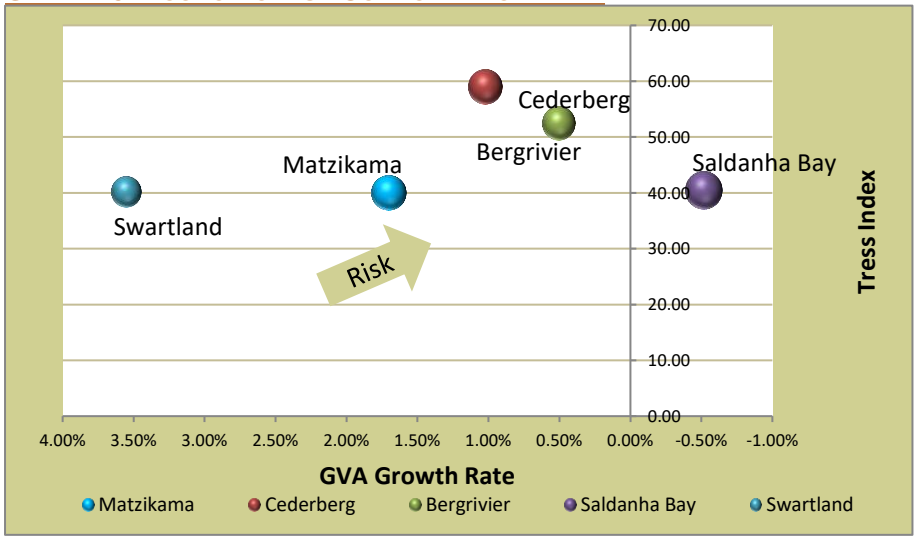
Outcome	10-Year Outcome
Average annual % increase in Revenue	7.8%
Average annual % increase in Expenditure	7.8%
Accounting Surplus accumulated during Planning Period (Rm)	R 675
Operating Surplus accumulated during Planning Period (Rm)	-R 219
Cash generated by Operations during Planning Period (Rm)	R 358
Average annual increase in Gross Consumer Debtors	7.5%
Capital investment programme during Planning Period (Rm)	R 1,195
External Loan Financing during Planning Period (Rm)	R 139
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 192
No of Months Cash Cover at the end of the Planning Period (Rm)	3.6
Liquidity Ratio at the end of the Planning Period	1.4: 1
Gearing at the end of the Planning Period	14.7%
Debt Service to Total Expense Ratio at the end of the Planning Period	3.2%

FUTURE REVENUES

MUNICIPAL REVENUE RISK INDICATOR (MRRI) = "HIGH"

The local economy of Cederberg amounting to R3.4 billion is undiversified with three sectors attributing to 69.5% of that local economy. This poses a huge threat to its sustainability especially during periods of economic shocks or social unrest. The economic growth has averaged 1.2% over the last five years but it has worryingly shrunk by 1.4% in 2022. With a Tress Index of 59, it further corroborates the lack of economic diversification in the municipality. This combination of these factors produced a "High" risk rating in the ***Economic Risk*** component of the MRRI.

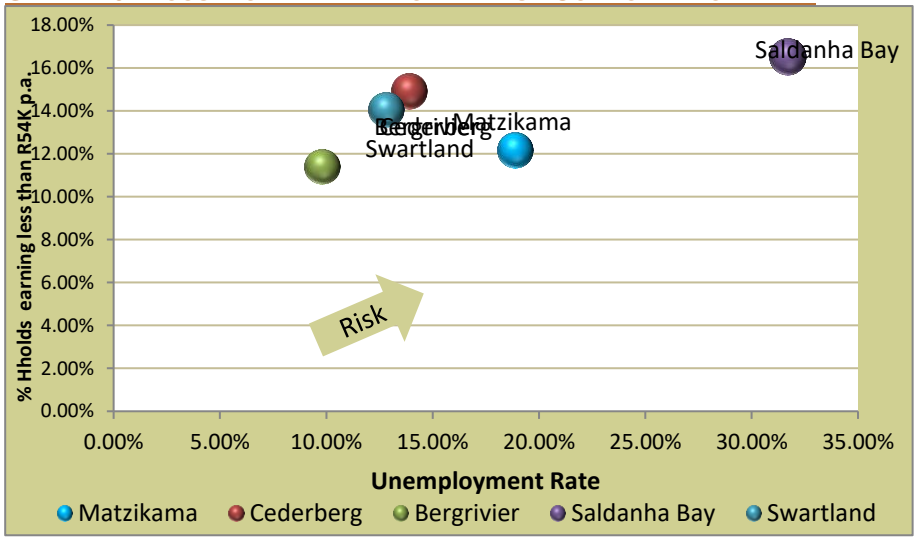
GRAPH 19: ECONOMIC RISK COMPONENT OF MRRI



The high percentage of households reliant on indigent support (13.9%) along with a rising unemployment rate currently sitting at 14.93% represents a "Medium to High" risk rating in the ***Household Ability to Pay Risk*** component of the MRRI.

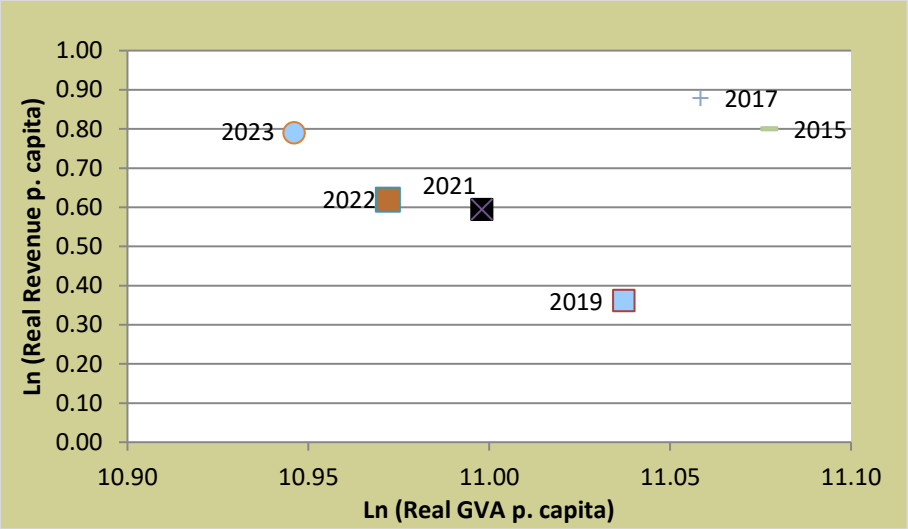
Therefore, overall MRRI is deemed to be "High".

GRAPH 20: HOUSEHOLD ABILITY TO PAY RISK COMPONENT OF MRRI



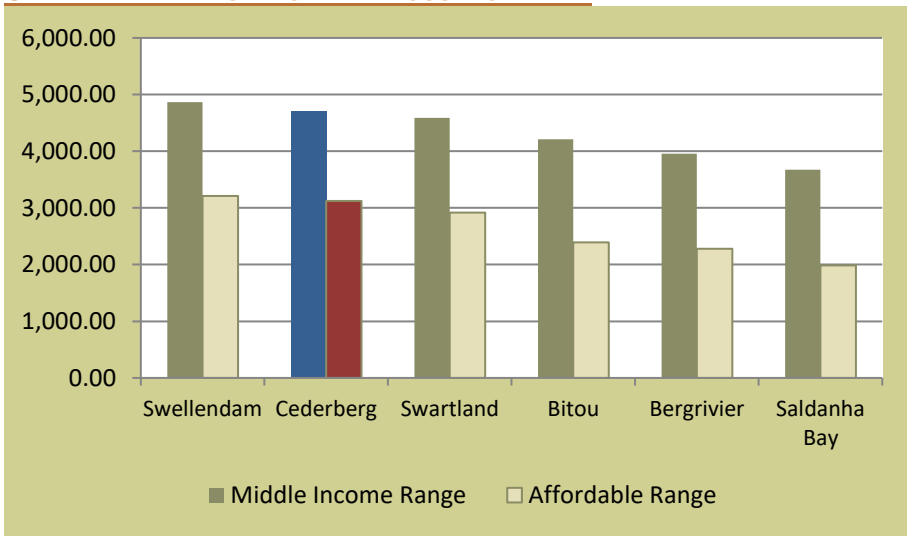
In 2023, both Real Municipal Revenue (excluding transfers) per Capita and Real GVA per Capita continued to deteriorate. There was a significant decline in the Real Revenue per Capita in 2019 but it has been on the resurgence thereafter. Real GVA per Capita has been in a downward trend throughout the review period due to the population growth outperforming economic growth.

GRAPH 21: REAL REVENUES PER CAPITA VS REAL GVA PER CAPITA



A comparison of the ***Average Household Bill*** for the Middle Income- and Affordable Range of a selected number of local municipalities in Western Cape Province (extracted from Budget Table SA14), based on the 2023/24 tariffs reveals that Cederberg continued to be on the high end of the selected sample. The higher end service bill and the growing service delivery issues do not afford the municipality much room for future tariff increases. These increases may be limited to inflation rates at best in future.

GRAPH 22: AVERAGE MONTHLY HOUSEHOLD BILL

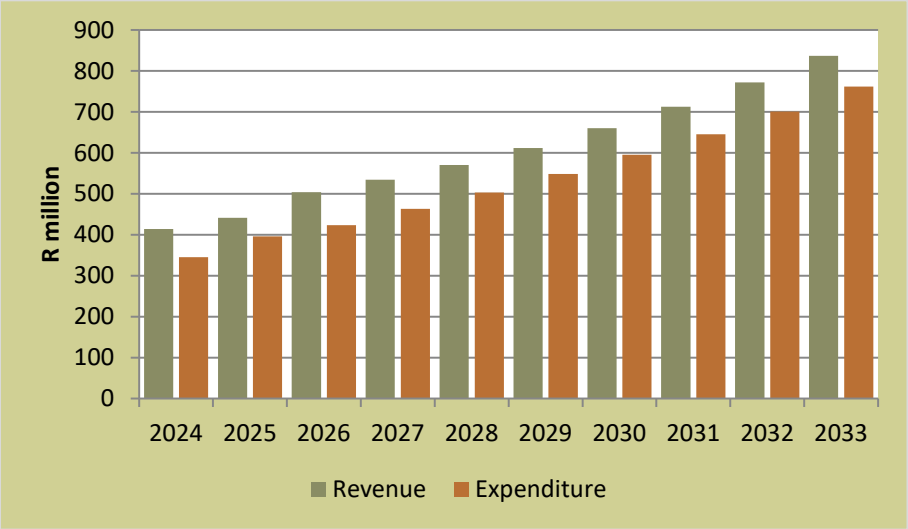


Based on the results obtained, Cederberg LM will need to grow its economic base by providing an environment conducive for economic growth and thereby increasing economic wealth, as opposed to trying to extract revenue from excessive tariff increases.

Municipal Revenues

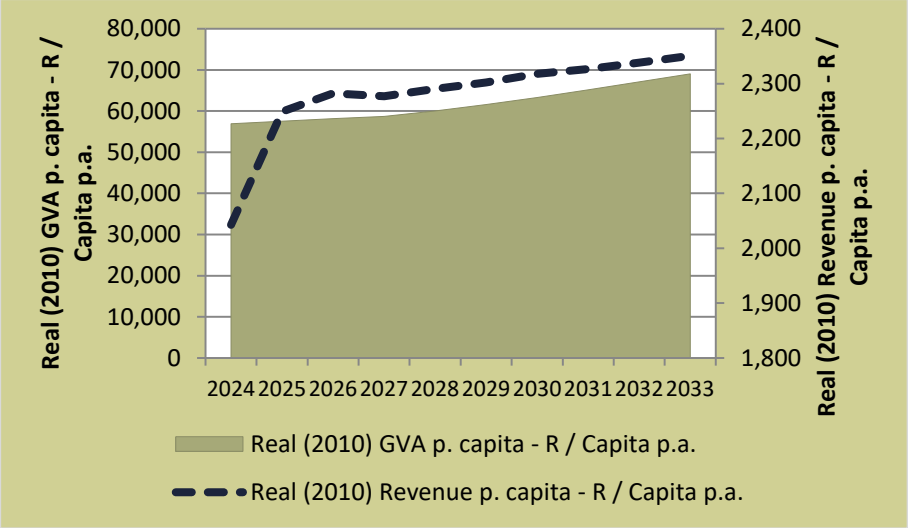
The Base Case forecasts that, over the review period, future nominal revenue (including capital grants) will grow at an average rate of 7.8% p.a. This is a combination of (i) tariff increases (ii) increased sales and (iii) potentially additional revenue sources. Future nominal expenditure is estimated to grow at a similar rate of 7.8% over the same period. The expenditure growth rate is largely due to increased expenditure on repairs and interest expense that will be incurred as a result of borrowing.

Graph 23: Revenue and Expenditure

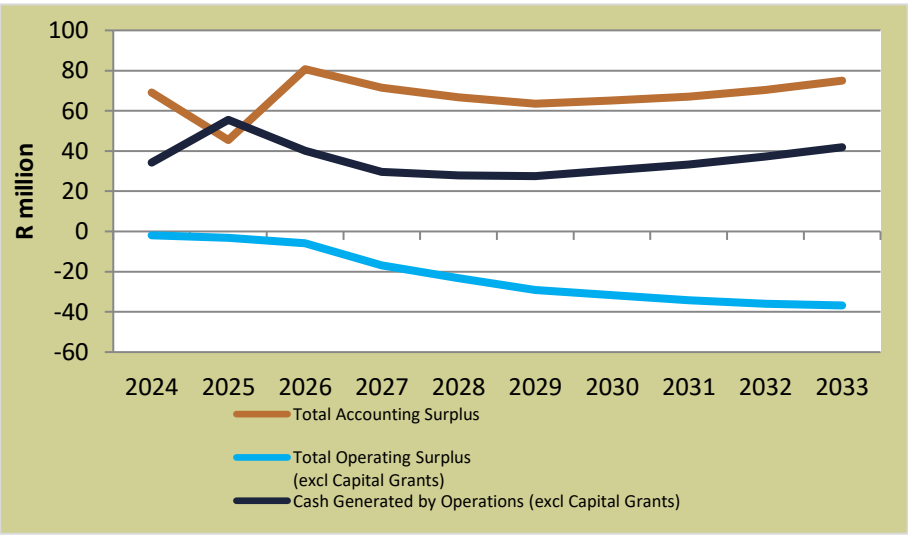


The Real GVA per capita is expected to marginally improve year-on-year over the planning period at an average rate of 1.99% per annum. The growth is sluggish at first, but the growth rate begins to exceed the average increase from 2028 and continues in that vein in subsequent years. The Real Revenue per capita is expected to sharply increase in 2025 owing to the predicted end of load shedding. Thereafter it will increase at an average rate of 0.6% per annum for the remainder of the planning period. The local economic growth (GVA growth) is significant to the municipality as it affects the ability of the municipality to generate revenue (MRRI). Growth in GVA will result in an increase in the municipality's revenue base, which will improve profitability and ultimately accelerate investment in capital expenditure.

Graph 24: Projected Real GVA and Revenues per Capita



Graph 25: Base Case - Analysis of Surplus



AFFORDABLE FUTURE CAPITAL INVESTMENT

CAPEX AFFORDABILITY AND FUNDING

The total CAPEX demand was determined during the preparation of the LTFP in 2018 but has changed since then. For purposes of this report, the estimated CAPEX demand in the previous update was adjusted for inflation.

Total 10-year Capex **Demand**	**=**	R 2 044 million
Total 10-year Capex **Affordability:**	=	R 1 195 million

Capex Demand exceeds Capex Affordability by R 849 million. It needs to be stressed however that the capex demand estimates were based on the estimates undertaken in 2017, which included an analysis of the Asset Registers and IPM's estimates of new capital investments. These estimates need to be revised pursuant to updated Master Plans.

Lack of funding has been noted as an obstacle to addressing capital needs. The municipality is encouraged to pursue private sector participation (PSP), by engaging stakeholders early with the objective to share information and resources in pursuit of a common goal.

MTREF CAPITAL FUNDING MIX

Cederberg's MTREF Budget 2023/24 to 2025/26, expects a capital budget amounting to R221 million funded as follows:

TABLE 17: MTREF PERIOD FUNDING MIX (R'000)

R'm	Total	2023/24	2024/25	2025/26
Public & Developers Contributions	**0**	0	0	0
Capital Grants	**206**	71	48	87
Financing	**0**	0	0	0
Cash Reserves and Funds	**15**	15	0	0
Total	**221**	**86**	**48**	**87**

This CAPEX is understandably conservative as the municipality had not predicted how well it would perform in FY2023.

Following the adjustments made above to arrive at the base case scenario, IPM recommends that the MTREF capital budget be adjusted as follows:

TABLE 18: BASE CASE MTREF PERIOD FUNDING MIX R'000

R'm	Total	2023/24	2024/25	2025/26
Public & Developers Contributions	**0**	0	0	0
Capital Grants	**206**	71	49	87
Financing	**13**	0	0	13
Cash Reserves and Funds	**52**	10	41	0
Total	**271**	**81**	**90**	**100**

The Base Case projects an accelerated level of capital expenditure compared to the MTREF. Initially, in FY2024, the CAPEX will be similar to the MTREF and is set to increase in the subsequent years. IPM's model introduces borrowing in FY2026. This is to preserve a cash balance which will meet the minimum liquidity requirement in FY2025 and in fact exceed the requirements including 2-months' operating expenditure in that year. This preservation is pivotal to the municipality's ability to access the debt market.

10-Year Capital Funding Mix

The 10-year capital funding mix is presented in the table below:

Table 19: Capital Funding Mix

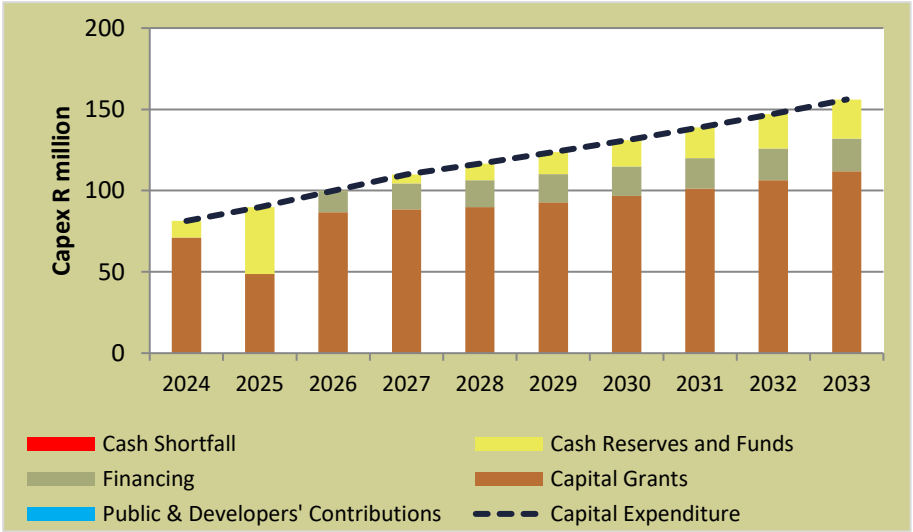
R'm	Total	%
Public & Developers Contributions	0	0
Capital Grants	894	75%
Financing	139	12%
Cash Reserves and Funds	162	13%
Total	**1 195**	**100%**

The capital funding mix indicates that capital grants will remain the main source of funding. The remainder of CAPEX is almost equally shared between own cash reserves and borrowing. Extensive use of cash resources would only further damage a historically poor liquidity. Therefore, it is imperative that the municipality achieves a minimum collection rate of 93% so it has sufficient cash to allocate to CAPEX while meeting the minimum liquidity requirement.

Additionally, NT has highlighted growing national fiscus constraints which will result in future grant funding declining in real terms. This necessitates a shift in over reliance on capital grant funding for capital expenditure. Over the review period, capital grant funding provided 93% of CAPEX funding. This is set to improve over the projected period to 75% on average. This intervention would safeguard future CAPEX against the impending decline in grant funding.

The Base Case's funding mix and annual borrowings is presented by the graphs below:

Graph 26: Distribution of Future Funding

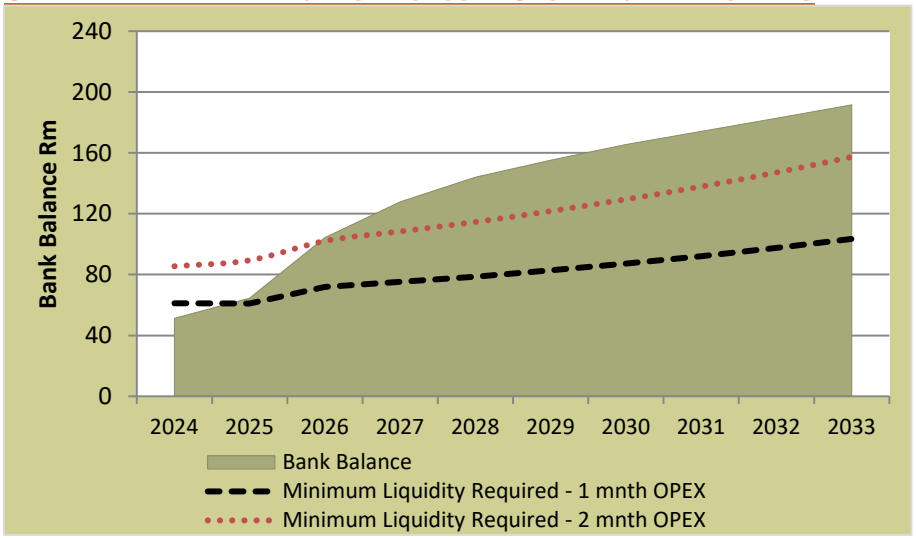


Liquidity and Capital Replacement Reserve

The minimum liquidity levels cater for unspent conditional grants, cash-backed reserves, short term provisions and 1-month's working capital (operating expenditure). The liquidity position is expected to improve to above minimum liquidity requirements from FY2024 and is set to exceed 2 months operational expenditure in 2026 and beyond.

It is imperative that the municipality maintain the optimal funding mix indicated in the Base Case by limiting the use of cash reserves to fund capital expenditure along with a collection rate of at least 93%.

Graph 27: Bank Balance vs Proposed Cash Backed Reserves

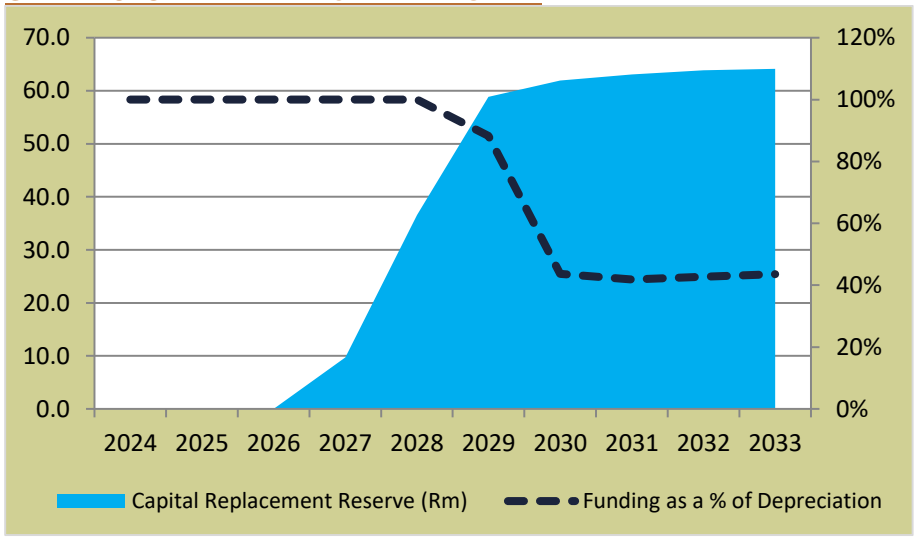


Due to the accelerated CAPEX programme, the municipality is encouraged to have a capital replacement reserve. This will allow the municipality to reserve funds to replace their current assets. Although depreciation is not a cash expense, it is a general rule of thumb to use depreciation expense as a means to gauge what should amount should be placed in the capital replacement reserve in a financial year.

The reduced reliance on own cash for capital investment in the earlier years of the assessment will allow for a sustainable accumulation of the cash backed Capital Replacement Reserve ("CRR").

From an asset management perspective, it would be important to carefully balance the need for accelerated capital investment and that of building up an appropriate level CRR.

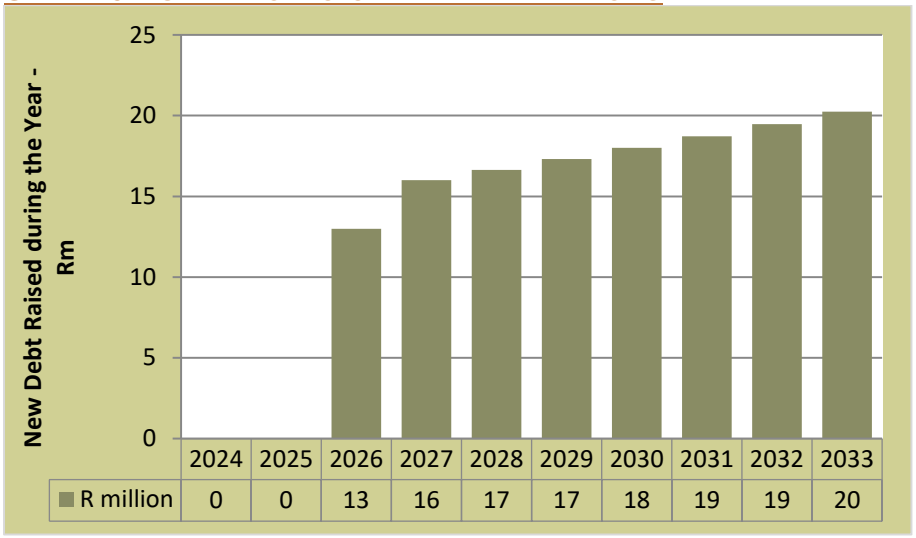
Graph 28: Capital Replacement Reserve



GEARING

The amount of annual external financing is estimated to be distributed as follows:

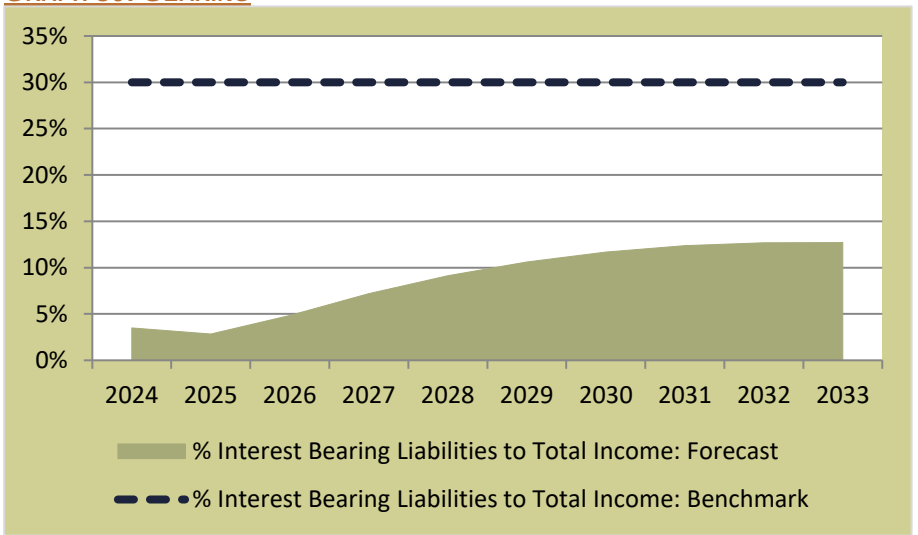
GRAPH 29: ESTIMATE OF FUTURE EXTERNAL FINANCING



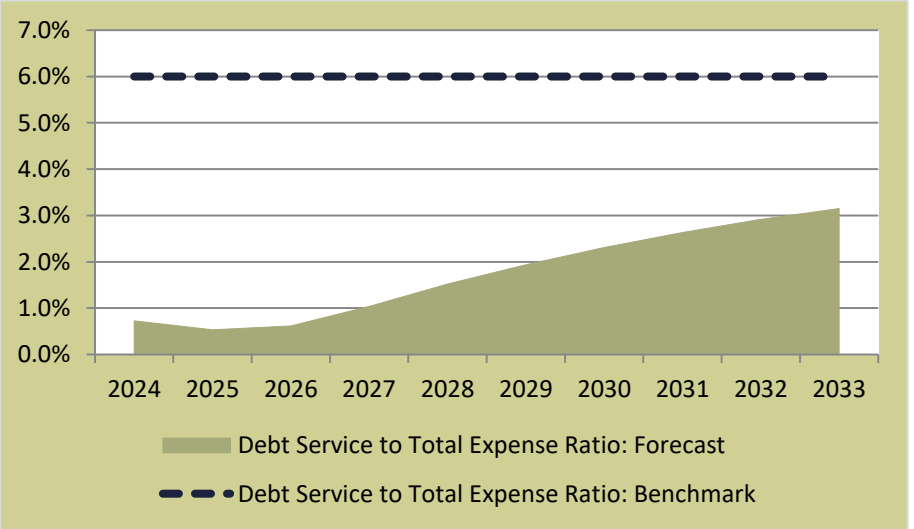
The ratio of Long-Term Interest-Bearing Liabilities to Income is illustrated in the graph below. A level of gearing of 30% (NT Norm is 45%) is regarded appropriate for Cederberg currently. During the MTREF period Gearing increases gradually but never exceeds this threshold. Throughout the 10-year planning period the ratio remains in the range of 3% to 13%.

The Debt Service to Total Expense Ratio is below the 6% benchmark throughout the forecast period. The Debt Service Cover Ratio (Cash Generated by Operations / Debt Service), which should at least be 1:1 and preferably 2:1, stands at 2.1:1 at the end of the planning period.

GRAPH 30: GEARING



GRAPH 31: DEBT SERVICE TO TOTAL EXPENSE RATIO



SCENARIOS ANALYSIS

Considering our analysis of the proposed MTREF budget and the risks identified as part of this update, the following scenarios were run to indicate the potential outcomes for comparison to the base case. The main purpose of these scenarios is to assist the municipality in its strategic decision making and serve as an input to the adjustment budget for FY2024:

1. To indicate the collection rate sensitivity on long-term financial sustainability:

1.1. A negative scenario, considering the “medium to high” MRRI identified and the average collection rate of 90% over the review period. The collection rate has been decreased by 2% to 91% from FY2024 until the remainder of the planning period.
1.2. A positive scenario depicting an improvement in the assumed collection rate by 2 percentage points – 93% to 95%.

2. To indicate the sensitivity of operating expenditure savings and increases on long-term financial sustainability:

2.1. A negative scenario indicating the impact of an increase of 2% in the operating expenditure annually over the forecast period, indicating the importance of maintaining budgeted operating expenditure at budgeted levels and the effect on liquidity and cash balances.

2.2 A positive scenario indicating the impact of a decrease of 2% in the operating expenditure annually over the forecast period, indicating how pivotal these cost savings would be on the operating surplus of the municipality.

3. The impact of no borrowing on the bank balance, liquidity position as well as its affordable CAPEX.

4. Establishment of regional landfill site and rehabilitation of Citrusdal and Clanwilliam landfill sites.

5. The impact of water restrictions.

SCENARIO 1: COLLECTION RATE SENSITIVITY

1. *Collection Rate 2% lower than base case*

Should the income base of the municipality continue to erode and households' pressure to pay the municipal bill continue to increase, one can reasonably expect a decline in the collection rate. To assess the impact that such adverse conditions will have on the finances of the municipality, the model was adjusted by assuming the municipality will achieve a constant lower collection rate of 88% during the planning period. All other input variables and assumptions remain constant.

The results cash generated by operations during the planning period will suffer a 23% decline compared to the Base Case forecasts. Although the municipality will meet the minimum liquidity requirements at the end of the planning period, this cash will eventually deplete due to average expenditure increase exceeding average revenue increase. This highlights the significance of maintaining the collection rate at 93% as a healthy liquidity ratio gives the municipality an opportunity to enter the debt market for additional funding.

2. *Collection Rate 2% higher than base case*

To indicate the positive impact of an increase in the collection rate on the long-term financial sustainability of the municipality, the model was adjusted by increasing the assumed collection rate of 93% to 95% for the planning period.

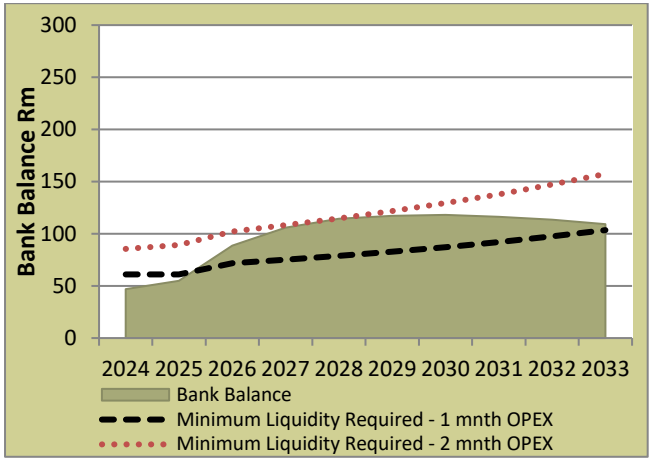
The results indicate a significant improvement in the cash balance, to a point where it is materially above the minimum required liquidity levels. In addition, the municipality will be in a position to build up sufficient cash reserves for its capital replacement. An increase in the collection rate can be achieved through the roll out of smart meters or prepaid meters.

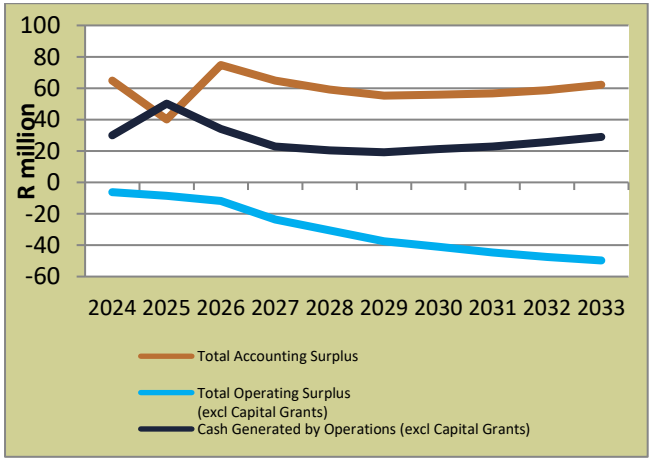
TABLE 20: OUTCOMES OF COLLECTION RATE SENSITIVITY ANALYSIS

Outcome	91%	BASE CASE	95%
Average annual % increase in Revenue	7.8%	7.8%	7.9%
Average annual % increase in Expenditure	7.9%	7.8%	7.7%
Accounting Surplus accumulated during Planning Period (Rm)	R592	R 675	R 757
Operating Surplus accumulated during Planning Period (Rm)	-R 301	-R 219	R 136
Cash generated by Operations during Planning Period (Rm)	R275	R 358	R 440
Average annual increase in Gross Consumer Debtors	9.7%	7.5%	4.7%
Capital investment programme during Planning Period (Rm)	R 1 195	R 1 195	R 1 195
External Loan Financing during Planning Period (Rm)	R139	R 139	R 139
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R109	R 192	R 274
No of Months Cash Cover at the end of the Planning Period (Rm)	2	3.6	5
Liquidity Ratio at the end of the Planning Period	0.9:1	1.4: 1	1.9:1
Gearing at the end of the Planning Period	14.8%	14.7%	14.6
Debt Service to Total Expense Ratio at the end of the Planning Period	3.1%	3.2%	3.2%

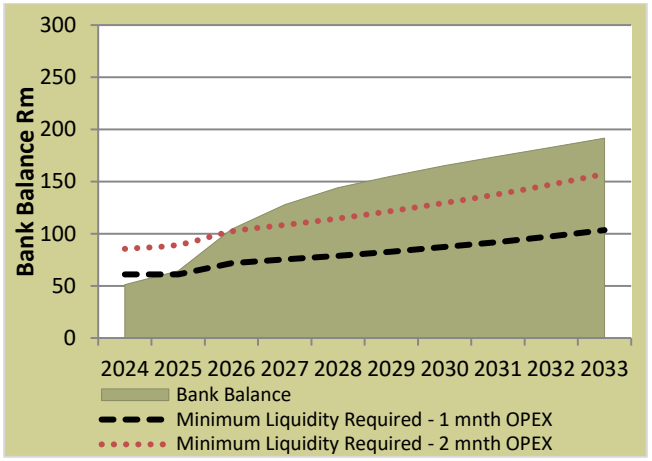
SCENARIO 1: SENSITIVITY ANALYSIS ON THE COLLECTION RATE

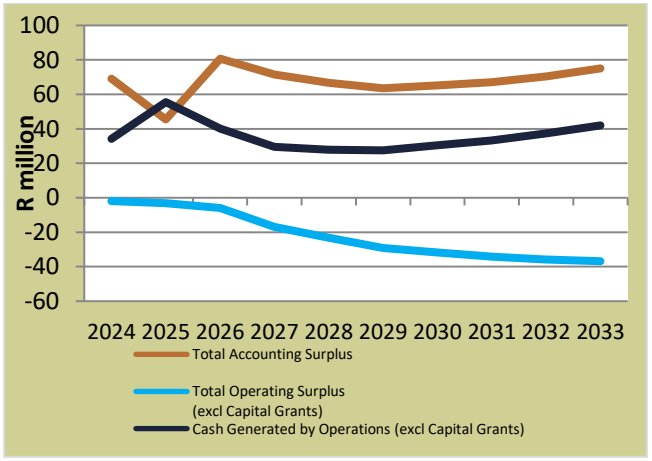
DECREASE COLLECTION RATE TO 91%



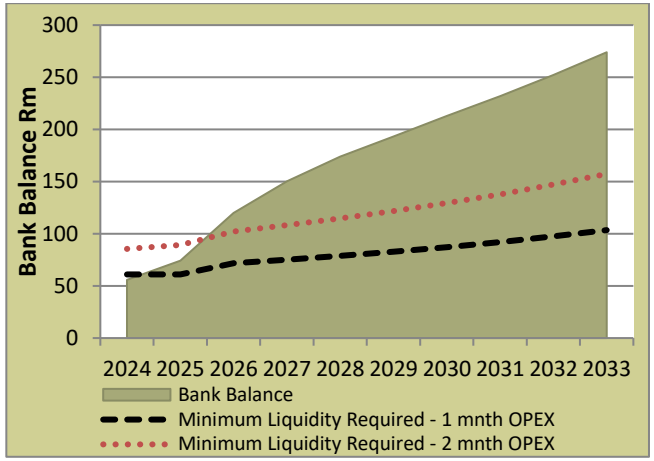


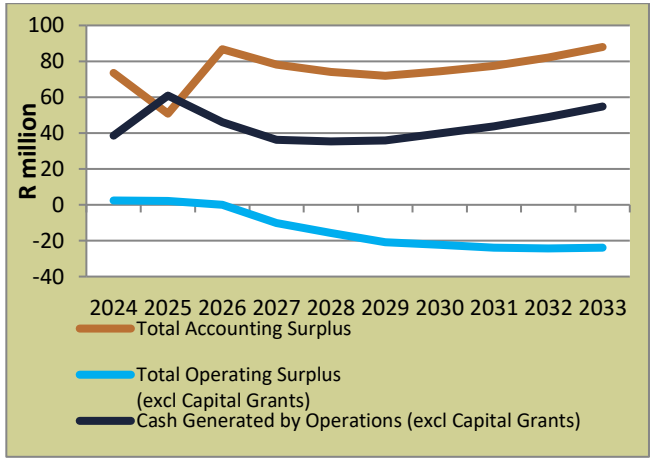
BASE CASE SCENARIO – 93% COLLECTION RATE





INCREASE COLLECTION RATE TO 95%





SCENARIO 2: OPEX SENSITIVITY

1. *Operating expenditure 2% higher than base case*

Should the economic circumstances persist, such as high inflation and the associated salary demands and regular increases in fuel prices, one can reasonably expect an increase in the operating expenditure of the municipality. To assess the impact that such adverse conditions will have on the finances of the municipality, the model was adjusted by assuming the municipality will spend an additional 2% annually over the planning period. All other input variables and assumptions remain constant.

The results indicate a significant decline in the liquidity ratio signalling a municipality unable to meet its short-term obligations. This would inhibit its ability to borrow cash in order to achieve the proposed CAPEX. This highlights the significance of maintaining strict oversight over operational expenditure.

2. *Operating expenditure 2% lower than base case*

The opposite was also assessed with a decrease in operating expenditure by 2% annually over the planning period.

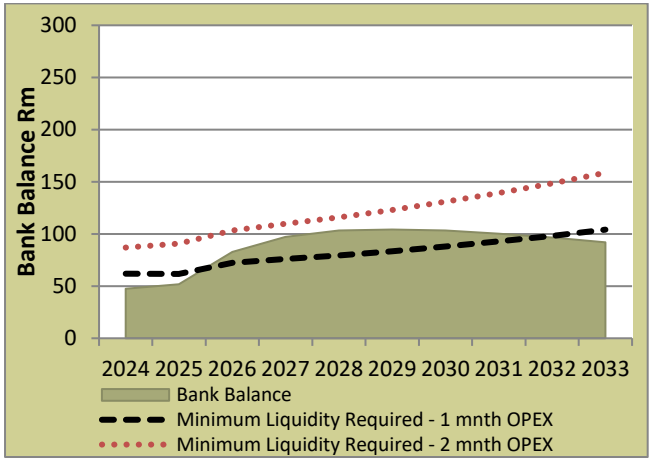
The results indicate a significant improvement in the cash balance and a much-improved liquidity ratio of 1.9:1, which achieves the NT norm. A potential means of achieving savings in operational expenditure is to address contracted services expenditure, which currently exceeds the NT recommendation, and further reduction of fruitless and wasteful expenditure.

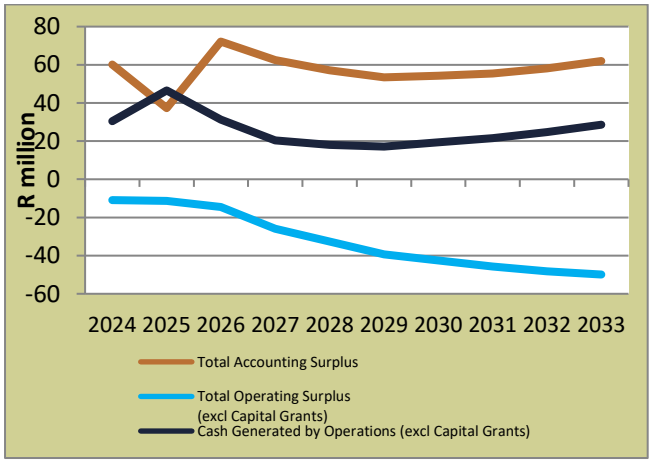
TABLE 21: OUTCOMES OF A OPEX SENSITIVITY ANALYSIS

Outcome	Opex +2%	BASE CASE	Opex -2%
Average annual % increase in Revenue	7.8%	7.8%	7.9%
Average annual % increase in Expenditure	7.9%	7.8%	7.7%
Accounting Surplus accumulated during Planning Period (Rm)	R573	R 675	R 750
Operating Surplus accumulated during Planning Period (Rm)	-R 321	-R 219	-R 143
Cash generated by Operations during Planning Period (Rm)	R258	R 358	R 431
Average annual increase in Gross Consumer Debtors	7.5%	7.5%	7.5%
Capital investment programme during Planning Period (Rm)	R 1 195	R 1 195	R 1 195
External Loan Financing during Planning Period (Rm)	R 139	R 139	R 139
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 92	R 192	R 265
No of Months Cash Cover at the end of the Planning Period (Rm)	2	3.6	5
Liquidity Ratio at the end of the Planning Period	0.8:1	1.4: 1	1.9:1
Gearing at the end of the Planning Period	14.8%	14.7%	14.6
Debt Service to Total Expense Ratio at the end of the Planning Period	3.1%	3.2%	3.2%

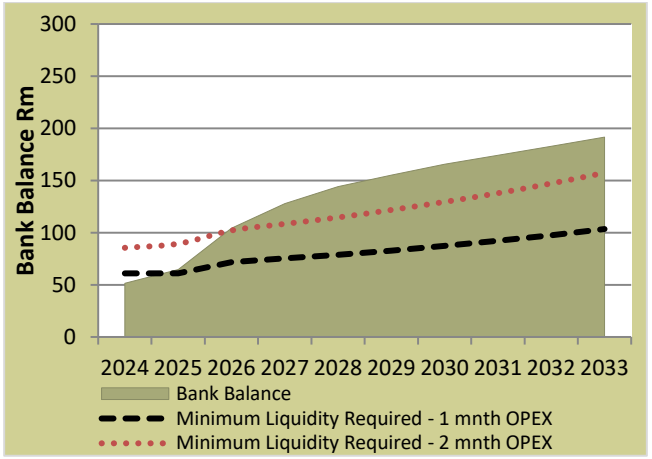
SCENARIO 2: OPEX SENSITIVITY

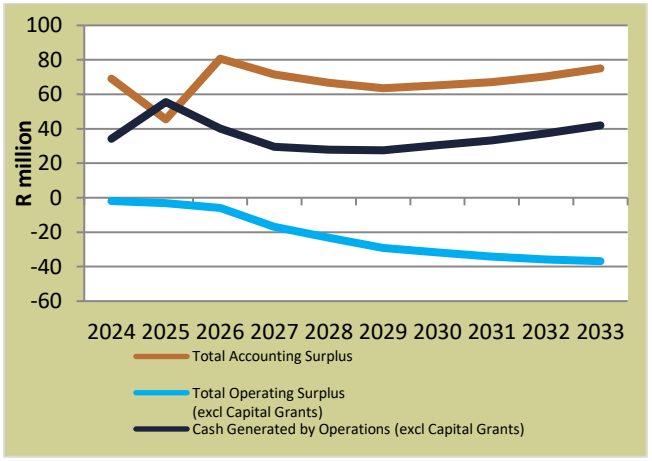
INCREASE OPEX BY 2%



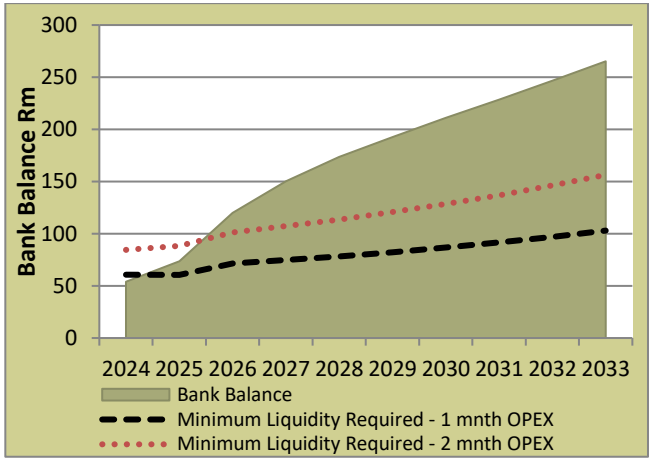


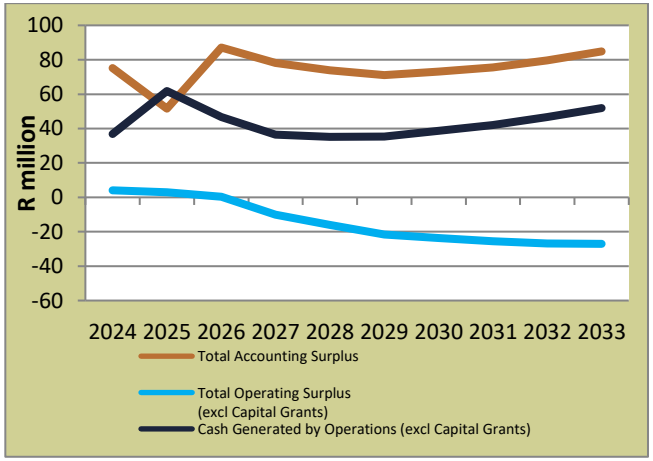
BASE CASE





DECREASE OPEX BY 2%





Scenario 3: No Borrowing

This scenario explores the effects of not accessing the debt market to fund capital expenditure over the planning period. The main aim of introducing borrowing is so that the municipality can accelerate CAPEX while also having enough cash to contribute to a capital replacement reserve, and without compromise to financial sustainability.

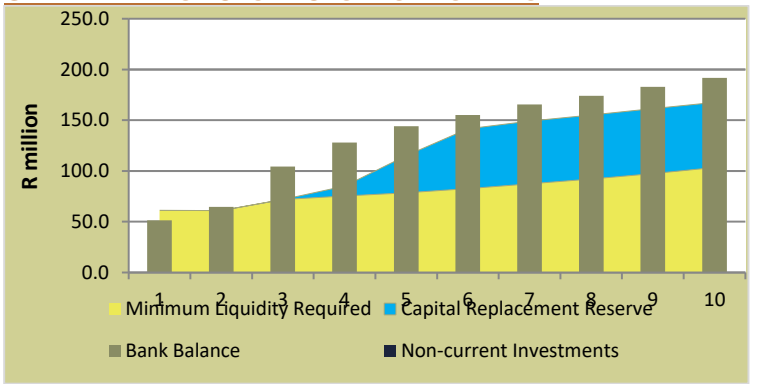
TABLE 22: OUTCOMES OF NO BORROWING SCENARIO

Outcome	BASE CASE	No Borrowing
Average annual % increase in Revenue	7.8%	7.8%
Average annual % increase in Expenditure	7.8%	7.6%
Accounting Surplus accumulated during Planning Period (Rm)	R 675	R 715
Operating Surplus accumulated during Planning Period (Rm)	-R 219	-R 178
Cash generated by Operations during Planning Period (Rm)	R 358	R 398
Average annual increase in Gross Consumer Debtors	7.5%	7.5%
Capital investment programme during Planning Period (Rm)	R 1 195	R 1 195
External Loan Financing during Planning Period (Rm)	R 139	R 0
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 192	R 138
No of Months Cash Cover at the end of the Planning Period (Rm)	4	3
Liquidity Ratio at the end of the Planning Period	1.4: 1	1.2:1
Gearing at the end of the Planning Period	14.7%	1.7%
Debt Service to Total Expense Ratio at the end of the Planning Period	3.2%	0%

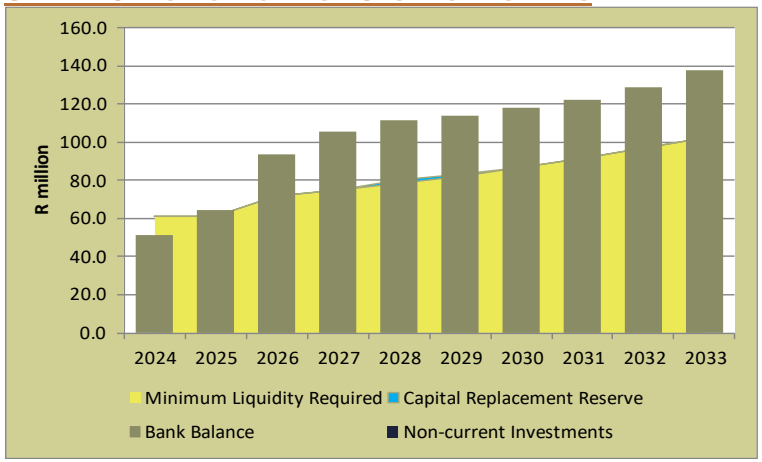
The results indicate that not accessing borrowing will lead to more cash generated by operations over the planning period but there will be less cash at the end of the planning period as this cash will be utilised for CAPEX. Moreover, the liquidity ratio will be lower than the Base Case.

In the following graphs, the impact on cash reserves will be depicted. A lack of borrowing will lead to little-to-no cash contributions to a capital replacement reserve. This will be a risk for long-term service delivery of the municipality as there will be issues in the future when these assets require replacement. Additionally, it was highlighted earlier that CAPEX affordability tends to be lower than CAPEX demand.

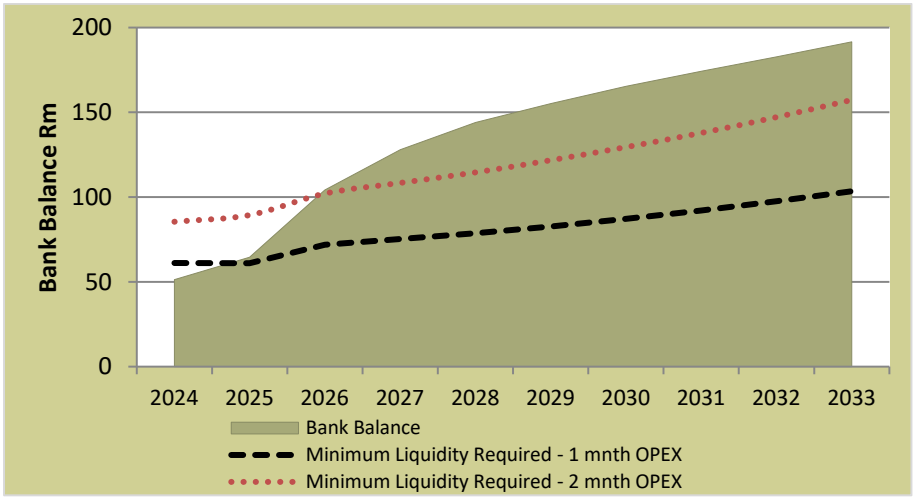
GRAPH 44: BASE CASE - CASH VS RESERVES

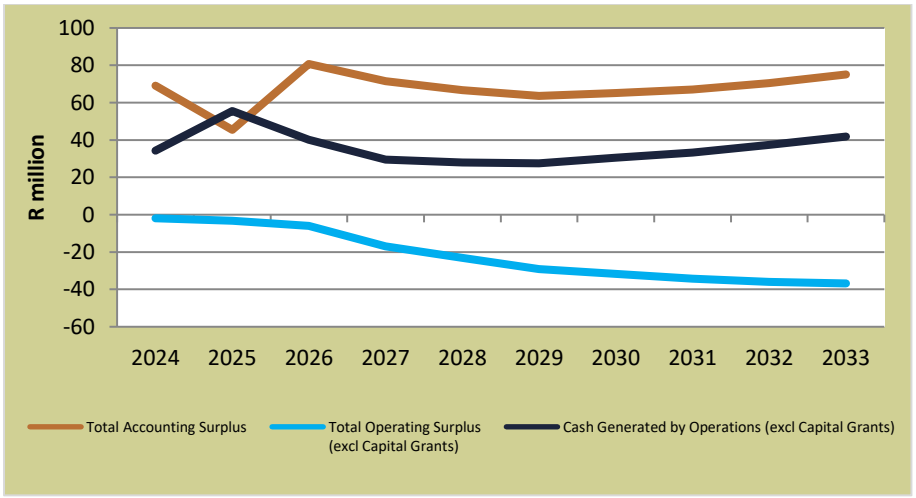


GRAPH 45: NO BORROWING - CASH VS RESERVES

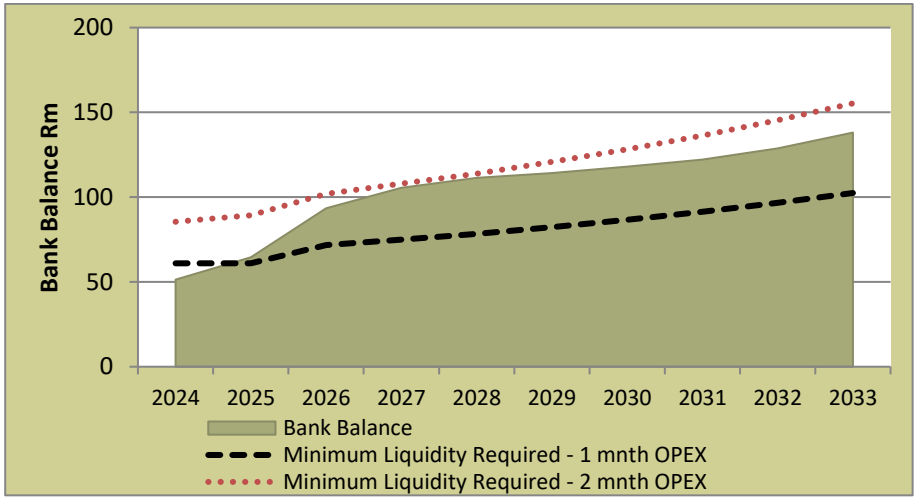


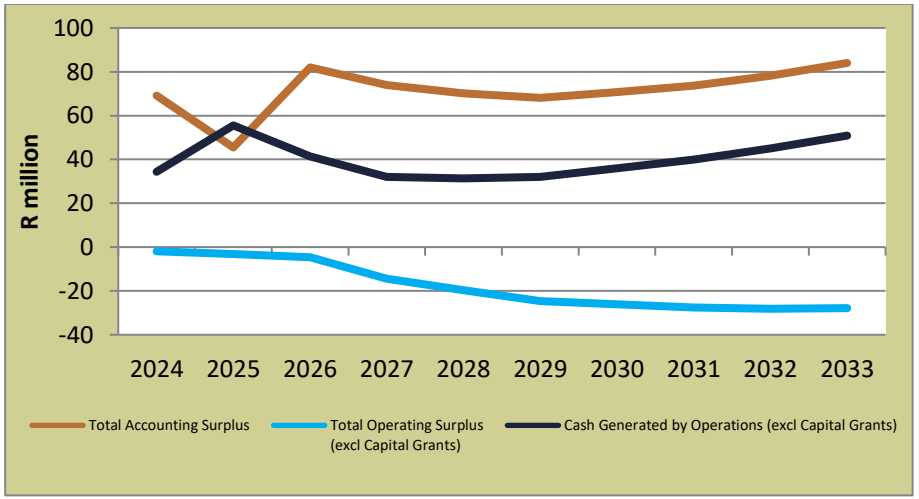
BASE CASE





NO BORROWING





Scenario 4: Establishment of Regional Landfill Site and Rehabilitation of Citrusdal and Clanwillian landfill sites.

This scenario explores the impact of establishing the regional landfill site and the subsequent rehabilitation of Citrusdal and Clanwillian landfill sites. The establishment of the regional landfill will be the shared responsibility of Cederberg LM and Matzikama LM. The two sites to be rehabilitated were identified as the ones to be closed once the regional site becomes operational as per the IDP published in May 2018.

In the IDP, rehabilitation of the landfill sites was estimated to cost R23.4 million (R11.1 million for Clanwilliam and R12.3 million for Citrusdal) in 2018. This figure has been inflation-adjusted to R24.9 million as of 2023. In the model, it is assumed that the rehabilitation will take place in 2025. The total cost to establish and operate the regional landfill site for 30 years amounts to an estimated R641.1 million. Building on the base case, the impact of the additional capital and operational expenditure is illustrated on the graphs and tables below. In terms of revenue, the tariff increase for refuse removal was adjusted to 22.4% for FY2025 depicting the increase in household billing from R168.4 for FY2024 to R206.2 for FY2025.

The aforementioned additional expenditure is set to further strain the municipality's liquidity position, with the ratio deteriorating to 0.1:1 at the end of the forecast period. This is far below the NT norm. Additionally, there is increased pressure on the municipality's profitability with an average annual increase in expenditure (8.0%) exceeding average annual increases in revenue (6.9%). Cederberg is forecast to not meet the minimum liquidity requirements throughout the forecast period as it will be cash-strapped with increased operational expenditure and increased capital needs of the regional landfill site.

As these obligations are forecast to be detrimental to the municipality's financial well-being; remedial measures were explored in order to mitigate the effects. The aim of these measures is to improve the municipality's liquidity, its bank balance and to better manage the expenditure. These measures are changes made to the Base Case assumptions in order to arrive at a more financially sustainable position despite these looming expenses.

The remedial measures implemented are as follows:

- The average loan tenor was increased from 10 years to 12 years.
- The increase in capital expenditure beyond the MTREF period was decreased from 6% to 4%.
- Expenditure incurred for repairs and maintenance was decreased from 5% of PPE and IP to 4%.
- The collection rate was increased from 93% to 94%
- Capital expenditure during the MTREF period was adjusted as follows:
  - FY2025: decreased from R90.0 million to R70.0 million.
  - FY2026: decreased from R100.0 million to R80.0 million.
  - FY2027: decreased from R110.0 million to R92.0 million.

The proposed funding mix is 85% from cash reserves and 15% from capital grants. If more capital grants can be attained and used, that is encouraged. Debt funding for these projects has been avoided as it will affect the liquidity ratio, which will in turn affect the municipality's ability to access debt funding.

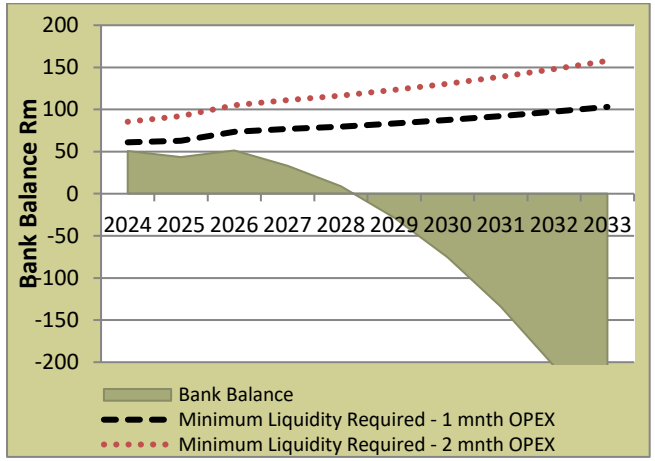
Collectively, these remedial measures lead to a more sustainable picture. The liquidity ratio is estimated to stand at 1.3:1 at the end of the forecast period and minimum liquidity requirements are set to be met in 9 of the 10 periods. The strain on profitability would still be evident but at the very least it would be marginal. Cost savings under contracted services would mitigate this disparity. Additionally, the municipality would be able to establish a capital replacement reserve once again in FY2027. This is all achieved at the expense of the capital expenditure not reserved for this project. Upon implementation of these remedial measures, capital expenditure not earmarked for these two projects is estimated to decrease by R237 million from R1 195 million to R964 million for the forecast period.

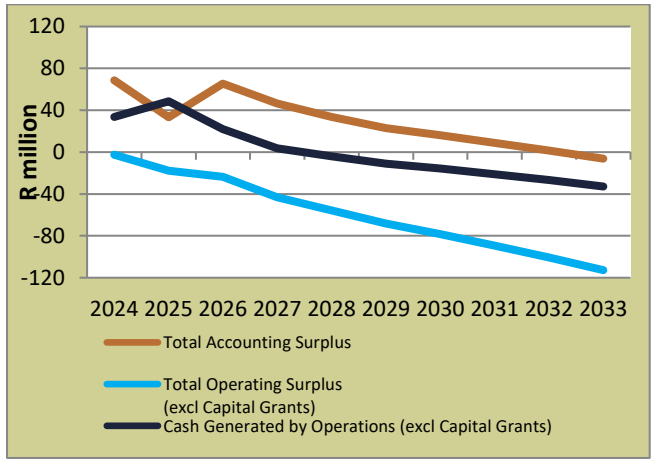
TABLE 23: OUTCOMES OF REGIONAL LANDFILL SITE AND LANDFILL REHABILITATION

Outcome	Without Remedial Measures	Base Case	With Remedial Measures
Average annual % increase in Revenue	6.9%	7.8%	7.0%
Average annual % increase in Expenditure	8.0%	7.8%	7.3%
Accounting Surplus accumulated during Planning Period (Rm)	R 291	R 675	R 514
Operating Surplus accumulated during Planning Period (Rm)	-R 592	-R 219	-R 369
Cash generated by Operations during Planning Period (Rm)	-R 3	R 358	R 187
Average annual increase in Gross Consumer Debtors	7.1%	7.5%	6.3%
Capital investment programme during Planning Period (Rm)	R 1,297	R 1 195	R 1,061
External Loan Financing during Planning Period (Rm)	R 139	R 139	R 139
Cash and Cash Equivalents at the end of the Planning Period (Rm)	-R 288	R 192	R 151
No of Months Cash Cover at the end of the Planning Period (Rm)	-5.3	4	2.9
Liquidity Ratio at the end of the Planning Period	0.1 : 1	1.4: 1	1.3 : 1
Gearing at the end of the Planning Period	16.2%	14.7%	17.8%
Debt Service to Total Expense Ratio at the end of the Planning Period	4.9%	3.2%	3.0%

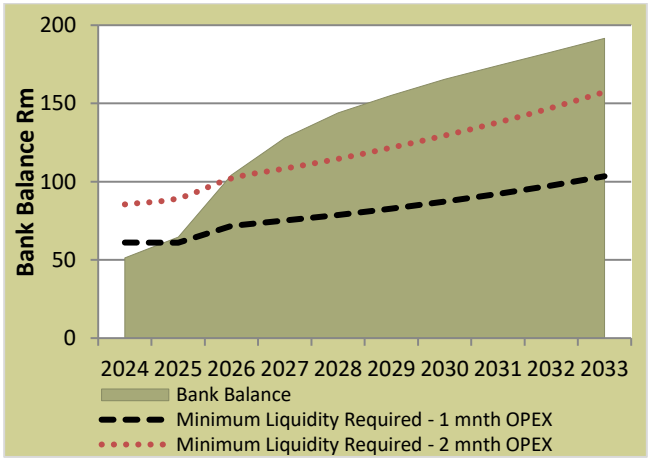
SCENARIO 4: LANDFILL SITE REHABILITATION AND ESTABLISHMENT

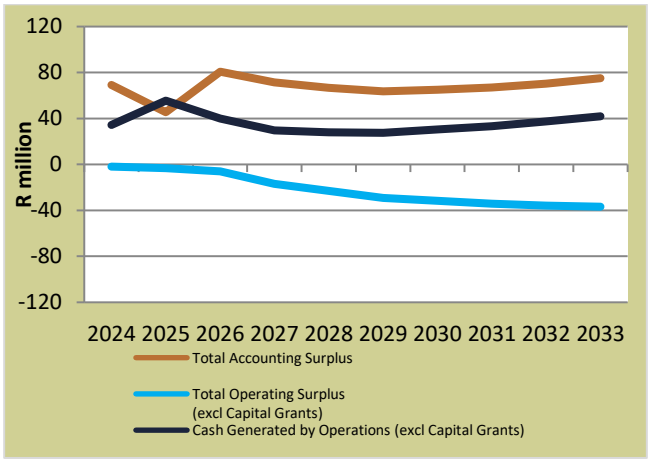
WITHOUT REMEDIAL MEASURES



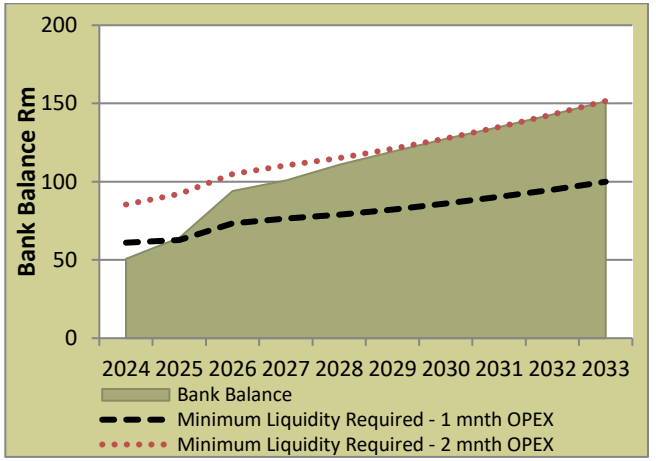


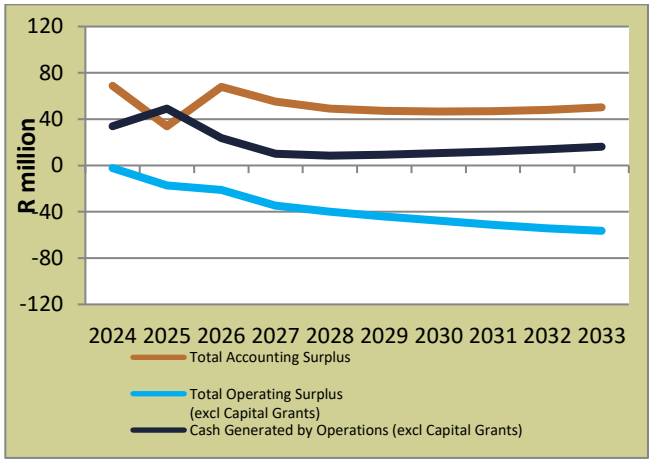
BASE CASE



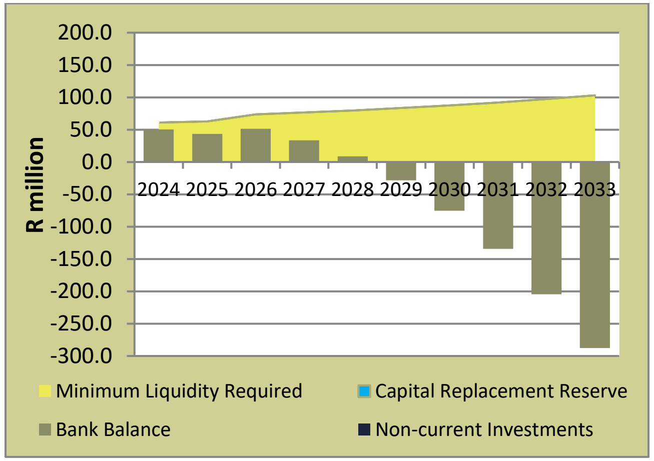


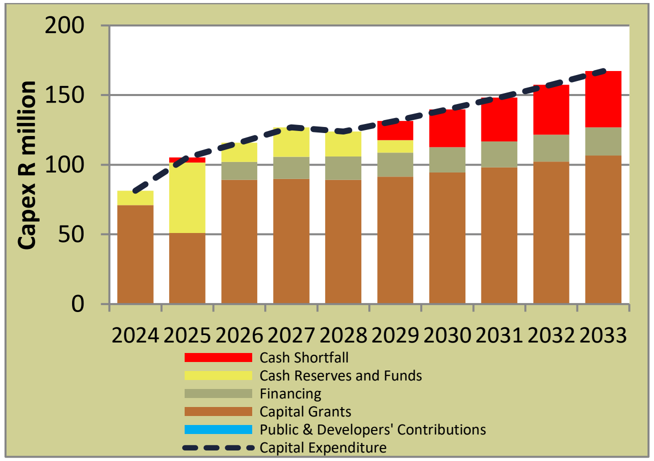
WITH REMEDIAL MEASURES



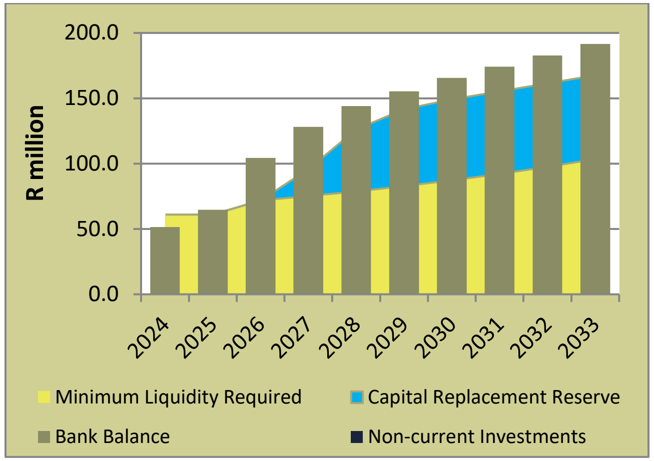


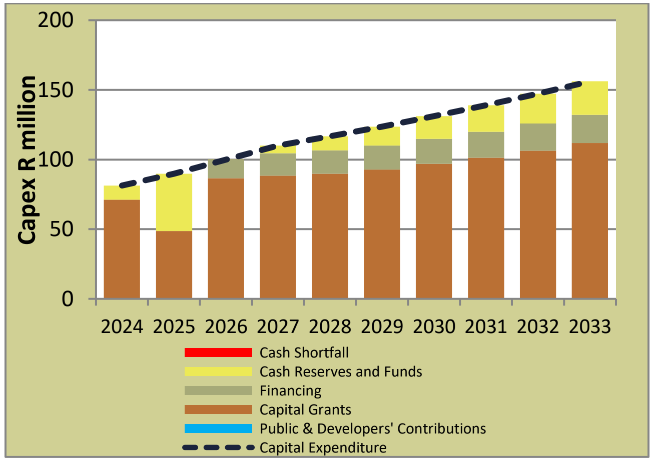
Without Remedial Measures



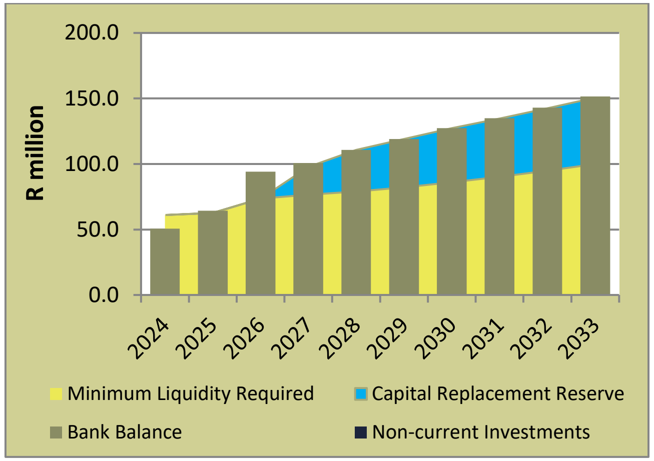


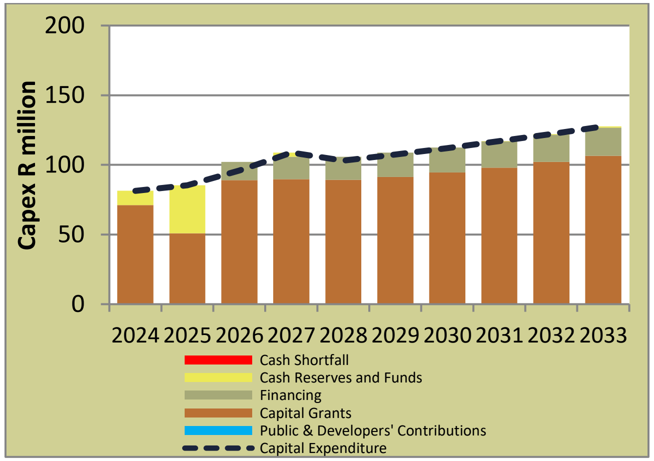
Base Case





With remedial measures





Scenario 5: Water Restrictions

Numerous issues were uncovered in the May 2018 IDP pertaining to the provision of water in the municipality. The issues identified were high water losses due to obsolete asbestos pipes, faulty bulk water meters, pipe bursts caused by high water pressure and leaking holding reservoirs - to name a few. These are prevailing issues evident in the high water losses of 27.5% in FY2023 and the challenges still highlighted in the 2022-2023 annual report. These prevailing issues together with load shedding, which leaves some communities unable to pump water, increases the likelihood of water shortages and the implementation of water restrictions.

In this scenario, it is assumed that water restrictions will be in place for 2 years commencing at the start of FY2025. It is assumed that there will be an 8% decline in sales pursuant to the water restrictions for those 2 years. A permanent loss of 5% of customers is also assumed after the restrictions are lifted. This permanent loss is due to the customers who have the means to seek out alternative sources of water such as boreholes and tanks.

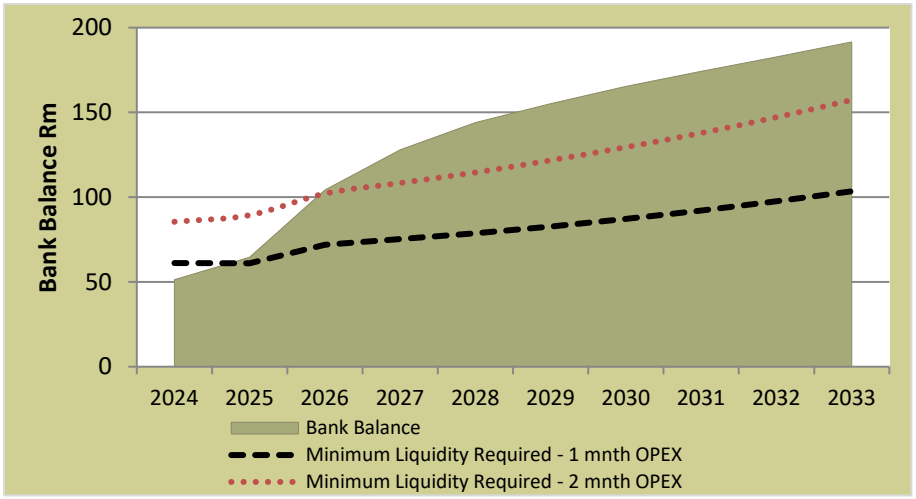
The cash balance at the end of the forecast period is estimated to be R168 million, which is R24 million lower than the Base Case as a result of the restrictions. The lower cash balance then leads to a lower liquidity ratio of 1.3:1 at the end of the forecast period. Although the effect of water restrictions is not seismic, the water challenges faced by the municipality do need to be addressed with a sense of urgency. Repair or replacement of faulty bulk water meters, additional manpower directed towards repairing leaks and replacement of obsolete asbestos pipes are amongst some of the ways in which the municipality can address its water issues and safeguard its fourth highest revenue contributor.

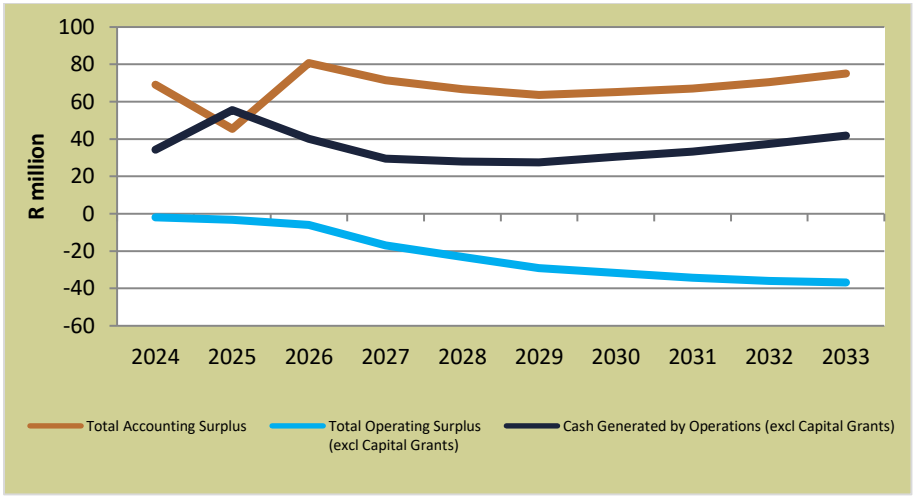
TABLE 24: OUTCOMES OF WATER RESTRICTIONS

Outcome	Base Case	Water Restrictions
Average annual % increase in Revenue	7.8%	7.8%
Average annual % increase in Expenditure	7.8%	7.8%
Accounting Surplus accumulated during Planning Period (Rm)	R 675	R 651
Operating Surplus accumulated during Planning Period (Rm)	-R 219	-R 242
Cash generated by Operations during Planning Period (Rm)	R 358	R 334
Average annual increase in Gross Consumer Debtors	7.5%	7.5%
Capital investment programme during Planning Period (Rm)	R 1 195	R 1,195
External Loan Financing during Planning Period (Rm)	R 139	R 139
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 192	R 168
No of Months Cash Cover at the end of the Planning Period (Rm)	4	3.1
Liquidity Ratio at the end of the Planning Period	1.4: 1	1.3 : 1
Gearing at the end of the Planning Period	14.7%	14.7%
Debt Service to Total Expense Ratio at the end of the Planning Period	3.2%	3.2%

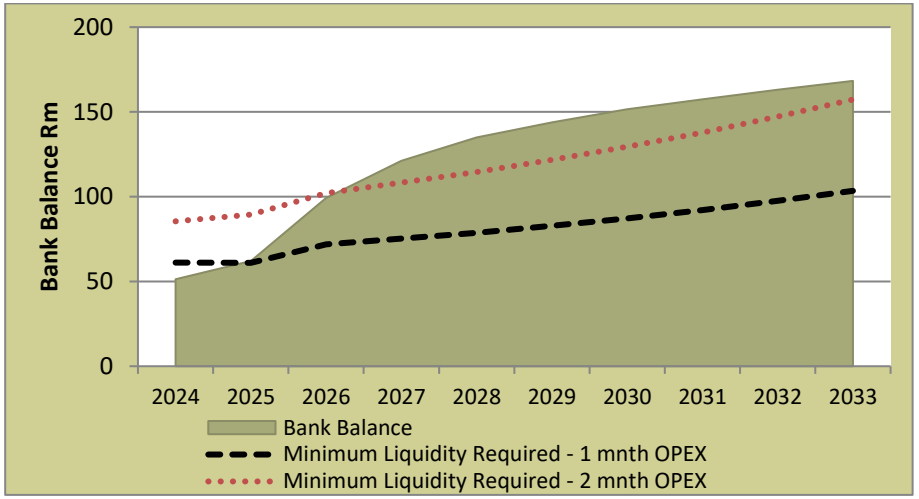
SCENARIO 5: WATER RESTRICTIONS

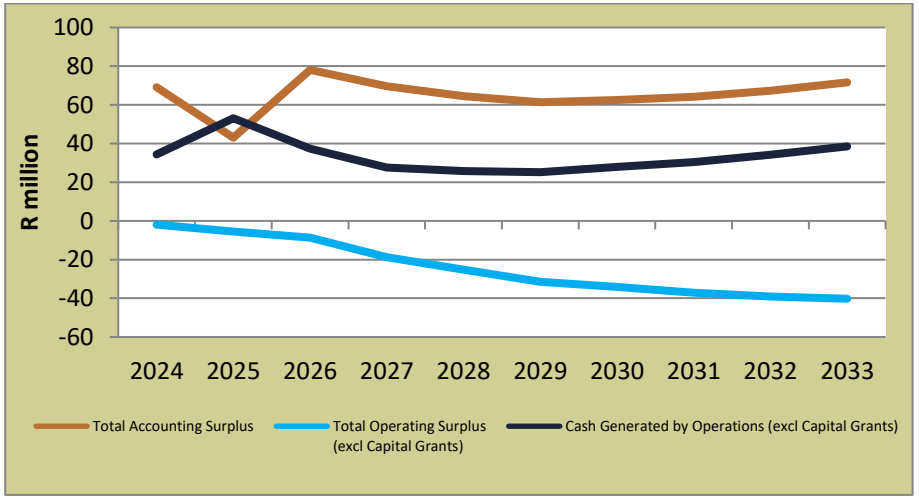
BASE CASE





WATER RESTRICTIONS





PREDICTED RATIOS

The Base Case predicted 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.

TABLE 25: OUTCOME OF FUTURE RATIO ANALYSIS

		N.T. NORM	2024	2026	2028	2030	2032	2033	Comments
FINANCIAL POSITION									
ASSET MANAGEMENT									
R29	Capital Expenditure / Total Expenditure	10% - 20%	19.1%	19.1%	18.8%	18.0%	17.4%	17.0%	Capex as a % of Total Expenditure is expected to remain with NT norms. This ratio will continue its downtrend even beyond the forecast period
DEBTORS MANAGEMENT									
R4	Gross Consumer Debtors Growth		4.3%	6.7%	7.7%	8.4%	8.9%	9.1%	The collection rate is assumed to reach 93% at the end of the forecast, despite the municipality having reached 95% in FY2023. this has been lowered due to the "medium to high" revenue risk rating
R5	Payment Ratio / Collection Rate	95 %	95.1%	94.6%	94.2%	93.7%	93.3%	93.0%	
	Net Debtors Days	30	52	48	41	36	32	30	
LIQUIDITY MANAGEMENT									
R49	Cash Coverage Ratio (excl Working Capital)		1.4 : 1	2.5 : 1	3.4 : 1	3.7 : 1	3.8 : 1	3.9 : 1	Despite the liquidity ratio not reaching the NT norm, it is forecast for improve to a liquid position. Except the cash deficit in FY2024, Cash Cover Ratio and other liquidity metrics remain positive and stable over the forecast period.
R50	Cash Coverage Ratio (incl Working Capital)		0.8 : 1	1.4 : 1	1.8 : 1	1.9 : 1	1.9 : 1	1.8 : 1	
R51	Cash Surplus / Shortfall on Minimum Liquidity Requirements		-R 10.2 m	R 32.0 m	R 64.8 m	R 77.6 m	R 84.6 m	R 87.4 m	
R1	Liquidity Ratio (Current Assets : Current Liabilities)	1.5 - 2.0 : 1	0.9 : 1	1.2 : 1	1.3 : 1	1.4 : 1	1.4 : 1	1.4 : 1	
LIABILITY MANAGEMENT									
R45	Debt Service as % of Total Operating Expenditure	6% - 8%	0.7%	0.6%	1.5%	2.3%	2.9%	3.2%	The repayment ratio is forecast to improve throughout the forecast period.
R6	Total Debt (Borrowings) / Operating Revenue	45 %	4.2%	5.8%	10.8%	13.7%	14.7%	14.7%	
R7	Repayment Capacity Ratio		0.14	0.19	0.46	0.65	0.74	0.75	
R46	Debt Service Cover Ratio (Cash Generated by Operations / Debt Service)		41.8 : 1	48.6 : 1	15.4 : 1	9.3 : 1	7 : 1	6.4 : 1	
SUSTAINABILITY									
	Net Financial Liabilities Ratio	< 60%	36.9%	31.5%	31.1%	33.8%	36.0%	36.5%	Operational deficits are posted throughout the period but this is forecast to improve after reaching its peak in FY2023
	Operating Surplus Ratio	0% - 10%	-0.6%	-1.4%	-4.8%	-5.6%	-5.4%	-5.1%	
	Asset Sustainability Ratio	> 90%	4.2%	0.0%	0.0%	0.0%	0.0%	0.0%	

FINANCIAL PERFORMANCE									
EFFICIENCY									
R42	Net Operating Surplus / Total Operating Revenue	>= 0%	-0.6%	-1.4%	-4.8%	-5.6%	-5.4%	-5.1%	The ratio Net Operating Surplus / Total Operating Revenue is negative throughout, but it is set to improve beyond FY2030. Surplus margins on electricity sales are forecast to remain stable, though in reality might decline.
R43	Electricity Surplus / Total Electricity Revenue	0% - 15%	11.8%	11.2%	13.0%	12.8%	12.7%	12.6%	
REVENUE MANAGEMENT									
R8	Increase in Billed Income p.a. (R'm)		-R 20.3 m	R 18.9 m	R 18.0 m	R 23.1 m	R 27.3 m	R 29.9 m	Revenue growth is positive over the forecast period after declining in FY2024 due to continued load shedding. Deteriorating ability of households to pay rates and service charges may have an adverse effect on the cash generating ability of the municipality. Overall revenue management remains healthy, largely driven by the collection rate.
R9	% Increase in Billed Income p.a.	CPI	-8.5%	7.3%	6.0%	6.8%	7.1%	7.2%	
R12	Operating Revenue Growth %	CPI	-5.4%	6.2%	7.6%	8.6%	8.8%	9.0%	
R47	Cash Generated by Operations / Own Revenue		41.5%	40.0%	33.0%	31.0%	30.2%	30.0%	
R48	Cash Generated by Operations / Total Operating Revenue		30.7%	30.4%	24.5%	22.6%	21.6%	21.2%	
EXPENDITURE MANAGEMENT									
	Creditors Payment Period	30	146	132	119	106	92	84	Creditors' payment period decreases but still does not meet NT norms. Employee related costs are well within the benchmark, but if assessed together with Contracted Services (although not all contracted services are employee related), which are high, the accumulated cost is much closer to the maximum end of the recommended norm and needs to be managed.
R30	Contribution per Expenditure Item: Staff Cost (Salaries, Wages and Allowances)	25% - 40%	35.4%	32.4%	31.5%	31.1%	30.6%	30.4%	
	Contribution per Expenditure Item: Contracted Services	2% - 5%	7.9%	7.5%	8.2%	8.7%	9.2%	9.5%	
GRANT DEPENDENCY									
R10	Total Grants / Total Revenue		38.8%	37.2%	37.4%	37.7%	38.3%	38.7%	The tightening of the national fiscus will require of municipalities to lower its dependence on transfers from other spheres of government.
R11	Own Source Revenue to Total Operating Revenue		73.9%	75.9%	74.4%	73.0%	71.5%	70.7%	
	Capital Grants to Total Capital Expenditure		87.4%	86.8%	77.0%	73.9%	72.2%	71.6%	

CONCLUSION

OUTCOME OF THE INDEPENDENT FINANCIAL ASSESSMENT

Cederberg generated an increased accounting surplus, amounting to R35.2 million for FY2023. Should capital grants be excluded from total revenue, this figure reduces to an operating surplus of R4.2 million during the period. This was the first operating surplus achieved by the municipality over the review period.

The cash generated from operations improved from a deficit of R10.9 million in FY2022 to a surplus of R22.1 million in FY2023. This increase is in part due to the improvement in the collection rate over the same period, from 91% to 95% over the same period. The cash generated from operations was also greatly aided by delayed payments to creditors – with the creditors' payment period sitting at 227 days in FY2023. This was significantly higher than the NT benchmark of 30 days, not sustainable and has negative impacts on economic growth.

Electricity services remained the main source of income, followed by equitable share, property rates and water services. As one of the main contributors of revenue, Electricity Services (which represents 32.1% of operating income in FY2023), is experiencing a decline in surplus margins from FY2021, and this trend is expected to continue as bulk tariff increases for FY2024 are higher than the tariff increased passed on the consumer.

Staff costs was the highest contributor to operating expenditure at 34%. This is currently below the NT norm of 40% but it should be monitored closely as a 15.1% increase in staff costs was budgeted for FY2024. Electricity services was the highest contributor with 24%. Repairs and maintenance as a percentage of PPE & IP was 1% in FY2022 - far below the NT norm of 8%. Contracted services also fell outside the confines of NT norms with a 9% contribution to total expenditure. The municipality only managed stay within 3% to 5% norm in one financial year out of the last six years highlighting a major issue with contracted services.

The level of investment in capital expenditure decreased by 19% to R36.5 million in FY2023, when compared to FY2023 – R44.9 million. The municipality has fallen short of its capital budget over the past two years, with the ratio of capital expenditure as a percentage of budgeted capital expenditure averaging 58%. This is indicative of the lack of the municipality's capacity to implement capital projects. CAPEX was predominantly funded by capital grants (93%). Cash reserves were a distant second, with a contribution of 3% and the remainder was split between borrowings and sale of fixed assets. Considering the liquidity position of the municipality, over-utilization of own cash reserves is discouraged.

The gearing ratio in FY2023 came to 5%, remaining below the NT benchmark of 45%, indicating Cederberg's ability to take up additional borrowings. The debt to operating expense ratio in the same year came to 2% - below with the NT maximum norm which confirms scope for the municipality to take up additional debt funding. However, the debt service cover ratio of 0.53:1 in FY2021 reveals that the municipality does not generate sufficient cash from its operations to service its annual debt obligations. This along with the poor liquidity ratio could prove to be impediments in accessing debt funding.

Although the liquidity ration still falls below the NT norms, it has improved to 0.67:1 in FY2023. This is the second highest it has been over the review period and is higher than the average of 0.58:1 over the same period. This improvement was largely due to the payment arrangement entered into with Eskom. This ratio stands to improve even further as the municipality plans to undertake the Municipal Debt Relief, which aims to write off the municipality's historic Eskom debt over a period of three years subject to municipality's adherence to conditions stipulated in MFMA Circular No. 124.

Moreover, the municipality has not met the minimum liquidity requirements throughout the review period, with a cash shortfall of R23.1 million in FY2023. The NT norm is that a municipality must at least hold unencumbered cash reserves worth 1 to 3 months' operating expenditure. The municipality has never met this requirement throughout the review period essentially meaning its operations are vulnerable to financial shocks/setbacks and its core mandate to provide basic services could be compromised.

Strengths

- Collection rate of 95% achieved in 2 of the last 3 financial years.
- A first operating surplus, of R4.2 million, was achieved by the municipality in FY2023.
- Cash generated by operations increased from a R10.9 million deficit to a R22.1 million surplus.
- Potential scope to borrow with healthy gearing and debt to operating expense ratio.

Weaknesses

- Creditors payment period stood at 227 days in FY2023.
- Contracted services had a higher average contribution to operating expenditure, with an average of 8% in the last 6 years.
- Absence of a Capital Asset Replacement Reserve to address the risk of unexpected future increases in capital requirements.
- Lack of capacity to implement capital projects with only a 58% implementation rate in each of the last 2 years.
- Debt service cover of 0.53:1 and a cash shortfall of R23.1 million indicate cash constraints.
- A liquidity ratio of 0.67:1.

Outcome of the Future Predictions

The latest version of IPM's Municipal Financial Model was populated with the latest available financial, demographic and economic data of Cederberg and calibrated against the municipality's 2023/24 MTREF.

It is important to note that the municipality exceeded its own budget expectations in FY2023 - therefore the model outcomes are more optimistic than what the municipality had budgeted in its 2023/24 MTREF.

The following variances were noted between the 2023/24 adjusted MTREF budget and the 2023 pre-audit AFS:

- Total cash payment by type was R53.58 million lower than budgeted. This was largely due to a 42% variance in capital assets and a 39% variance in contracted services. This subsequently led to a net increase in cash held of R16.9 million as opposed to a budgeted net decrease of R11.8 million.
- Accounting surplus was 82% higher than the amount predicted in the adjusted budget, with the municipality achieving cost savings in its contracted services.

As the municipality performed better than it had expected, the model forecasts an accelerated CAPEX programme, an improved liquidity ratio which opens the opportunity for borrowing and the ability to hold cash reserves for operational expenditure as well as future capital replacement needs.

The objective of the model is to utilise realistic assumptions to ensure future financial sustainability. The following were assumed, in addition to the above adjustments, in arriving at the Base Case:

1. The collection rate was assumed to average 93% throughout the planning period.
2. Repairs and maintenance as a percentage of property, plant and equipment assumed to progressively improve from the current 1% to 5% in 6 years.
3. A decline of water sales of 5% and a permanent loss of 5% consumers exploring alternative energy solutions due to the load shedding crisis.
4. The model incorporated all increases in revenue and expenditure items as mentioned in the tabled budget 2022/23 – other than the adjustments mentioned above.
5. Water and electricity distribution losses are assumed to be 7% and 25% respectively.

The MTREF projected capital budget of R 221 million for the period FY2024 to FY2026 to be funded through capital grants of R 206 million (93.2%) and cash reserves of R 15 million (6.8%) which is conservative and over-reliant on capital grants. Therefore, in the Base Case, the MTREF period CAPEX has been accelerated to R271 million funded through capital grants of R206 million (76%), borrowed funds of R13 million (4.8%) and own cash reserves of R52 million (19.2%). This allows for more diversification of funds and prepares the municipality for the impending decrease in grant funding in real terms, as NT warned, by accessing debt funding. Should the outcome of the audit of the municipality's FY2023 AFS prove to be a positive one, the municipality is encouraged to seek debt funding even as early as FY2025.

With continued good financial management there is no reason why the municipality's liquidity position cannot be improved upon. This would allow a cash backed capital replacement reserve ("CRR") to be funded to finance future asset replacement expenses.

Profitability remains under pressure due to a 7.4% p.a. increase in nominal revenue, compared to an average 7.4% p.a. increase in operating expenditure.

Collection rate sensitivity of increases and decreases of 2%.

The Base Case assumes a collection rate of 93% over the 10-year planning period. A scenario whereby the collection rate is assumed to decrease by 2% throughout the planning period was modelled. With a collection rate of 91%, cash generated by operations is R83 million lower than the Base Case. The municipality's profitability will also be at risk as nominal expenditure increases (7.9% p.a) will be higher than nominal increases in income (7.8%).

The opposite was also modelled whereby the collection rate was increased by 2% to 95%. In this scenario the municipality achieved a liquidity ratio of 1.9:1, meeting the NT norm of 1.5:1 to 2:1. Cash generated from operations is R165 million higher than in the Base Case over the planning period.

Operating expenditure sensitivity of increases and decreases of 2%

There are operating deficits throughout the planning period in the Base Case. These deficits are driven by increasing repairs and maintenance expenditure as this was increased to 5% of PPE & IP and capital expenditure was accelerated. To address this, a scenario in which operating expenditure was decreased by 2% annually was modelled. This improves the liquidity ratio to 1.9:1. The municipality does not achieve operating surplus throughout the planning period but this is set to improve as nominal annual increases in expenditure (7.7%) are lower than nominal annual increases in revenue (7.9%).

An adverse scenario was also tested with 2% increases in operating expenditure. This resulted in a deterioration in the liquidity ratio to 0.8:1. Moreover, the operating deficits accumulated over the planning period will be R102 million higher than the Base Case

No borrowing

The municipality has not accessed the debt market in the last 6 financial years therefore a scenario was modelled where the municipality would continue in this vein, even though its liquidity position is set to improve. In this scenario, there will be less cash at the end of the planning period as this cash will be utilised for CAPEX. Moreover, the liquidity ratio will deteriorate to 1.2:1 compared to Base Case ratio of 1.4:1.

Without borrowing, the capital replacement reserve cannot be funded as cash reserves will be used to fund current capital expenditure. This lack of preparation for future expenditure is a high risk of service delivery failure, especially when grant funding begins to dry up as NT has warned.

Establishment of regional landfill site and rehabilitation of two local landfill sites

The proposed regional landfill site has significant financial ramifications for the municipality as the total operational and capital expenditure cost for the 30-year period is estimated to reach R641.1 million (R21.4 million per year). In this scenario, changes had to be made to the Base Case in order for the municipality to remain financially sustainable despite incurring these additional expenses. With the implementation of remedial measures, the municipality is expected to meet the minimum liquidity requirements in 9 out of 10 periods and have a liquidity ratio of 1.3:1 at the end of the forecast period. Without remedial measures, the municipality would only have a ratio of 0.1:1 and it would fail to meet minimum liquidity requirements in all of the 10 forecast periods.

Water restrictions

Due to the prevailing water challenges faced by the municipality, a scenario was explored in which the municipality would implement water restrictions for a period of 2 years from FY2025. This would result in a loss of cash of R24 million with the cash balance amounting to R168 million at the end of the forecast period, as opposed to R192 million in the Base Case. Nonetheless, the minimum liquidity requirements would be met throughout the period and the liquidity ratio would amount to 1.2:1 at the end of the forecast period.

ANNEXURE 1: PROJECTED FINANCIAL STATEMENTS

Municipal Financial Model

Statement of Financial Performance

Model year	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
R thousands										
Revenue										
Property rates	74,007	76,491	80,219	85,476	90,041	95,599	102,011	108,793	116,334	124,525
Service Charges	142,282	181,188	196,267	214,054	227,333	241,702	258,241	275,732	295,276	316,666
Service charges - electricity	82,494	115,951	126,767	139,474	147,989	156,814	167,041	177,708	189,646	202,673
Service charges - water	29,764	32,781	34,371	36,044	37,811	39,761	41,918	44,285	46,859	49,639
Service charges - sanitation	14,685	15,998	17,402	19,138	20,679	22,525	24,661	26,960	29,558	32,447
Service charges - refuse	15,338	16,457	17,727	19,398	20,854	22,602	24,620	26,780	29,213	31,907
Service charges - other	0	0	0	0	0	0	0	0	0	0
Rental of facilities and equipment	941	987	1,034	1,173	1,307	1,469	1,659	1,871	2,116	2,397
Interest earned - external investments	1,640	2,414	2,752	4,866	6,411	7,625	8,577	9,438	10,156	10,800
Interest earned - outstanding debtors	10,876	11,887	12,993	2,287	2,533	2,780	3,033	3,276	3,520	3,757
Dividends received	–	–	–	–	–	–	–	–	–	–
Fines, penalties and forfeits	11,555	11,606	11,656	13,225	14,741	16,566	18,710	21,101	23,867	27,028
Licences and permits	–	–	–	–	–	–	–	–	–	–
Agency services	3,841	4,030	4,219	4,787	5,336	5,996	6,772	7,637	8,638	9,783
Transfers and subsidies (operating)	89,549	97,258	100,702	111,917	123,154	136,552	152,184	169,557	189,512	212,172
Other revenue	4,944	5,187	5,431	6,162	6,868	7,718	8,717	9,831	11,120	12,593
Gain on disposal of PPE	3,410	1,910	1,910	2,183	2,521	2,933	3,431	4,026	4,729	5,551
Revaluation of assets gain / (loss)	–	–	–	–	–	–	–	–	–	–
Total revenue before Capital Grants	343,045	392,958	417,183	446,129	480,245	518,940	563,336	611,263	665,269	725,270
Capital Grants	71,080	48,620	86,660	88,393	89,820	92,751	96,804	101,236	106,346	111,836
Public & developers contributions	–	–	–	–	–	–	–	–	–	–
Total Revenue after Capital Grants	414,125	441,578	503,843	534,523	570,065	611,690	660,140	712,499	771,615	837,106
Operating expenditure										
Employee related costs	144,683	152,509	162,431	174,263	187,760	202,707	217,234	233,045	250,182	268,674
Remuneration of councillors	6,139	6,587	7,062	7,391	7,761	8,172	8,623	9,115	9,646	10,216
Debt impairment	19,269	21,963	23,627	26,726	29,586	32,885	36,704	40,898	45,673	51,042
Depreciation and asset impairment	26,397	28,181	30,384	33,530	37,032	40,619	44,289	48,039	51,871	55,787
Finance charges	462	221	1,374	2,958	4,594	6,224	7,823	9,367	10,825	12,166
Bulk purchases	72,770	103,042	112,540	121,265	128,771	136,560	145,581	155,002	165,547	177,060
Inventory Consumed	12,082	12,714	13,302	14,263	16,061	18,221	20,366	22,804	25,623	28,839
Repairs and maintenance	–	–	–	–	–	–	–	–	–	–
Contracted services	33,651	39,628	39,326	45,815	51,022	57,125	63,435	70,346	78,183	86,980
Transfers and subsidies	30	31	33	37	41	45	51	57	64	71
Other expenditure	28,561	30,337	32,141	35,728	39,568	44,136	49,251	54,881	61,319	68,593
Loss on disposal of PPE	910	910	910	1,040	1,201	1,397	1,635	1,918	2,253	2,645
Total Expenditure	344,954	396,123	423,130	463,015	503,396	548,090	594,992	645,471	701,186	762,071
Suplus/ (Shortfall) for the year	**69,170**	**45,454**	**80,713**	**71,508**	**66,669**	**63,600**	**65,148**	**67,028**	**70,429**	**75,035**

Municipal Financial Model

Statement of Financial Position

Model year	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
R thousands										
Non-current assets:	801,868	863,432	932,795	1,009,285	1,088,879	1,171,886	1,258,644	1,349,518	1,444,897	1,545,197
Property, plant and equipment	726,889	788,708	858,324	934,794	1,014,362	1,097,339	1,184,061	1,274,895	1,370,228	1,470,479
Intangible assets	687	485	285	305	331	361	397	437	482	533
Investment properties	74,292	74,239	74,186	74,186	74,186	74,186	74,186	74,186	74,186	74,186
Investments	–	–	–	–	–	–	–	–	–	–
Long-term receivables	–	–	–	–	–	–	–	–	–	–
Other non-current assets	–	–	–	–	–	–	–	–	–	–
Current assets:	95,408	108,687	148,527	172,371	188,556	199,962	210,432	219,383	228,298	237,373
Inventories	1,225	1,297	1,370	1,507	1,676	1,879	2,098	2,341	2,620	2,936
Trade and other receivables	42,815	42,815	42,815	42,815	42,815	42,815	42,815	42,815	42,815	42,815
Cash & Short term investments	51,369	64,575	104,342	128,050	144,065	155,268	165,519	174,227	182,863	191,622
TOTAL ASSETS	**897,276**	**972,119**	**1,081,322**	**1,181,656**	**1,277,435**	**1,371,848**	**1,469,076**	**1,568,900**	**1,673,195**	**1,782,570**
Municipal Funds:	675,169	720,623	801,336	872,844	939,513	1,003,114	1,068,262	1,135,290	1,205,719	1,280,754
Housing development fund & Other Cash Backed Reserves	–	–	–	–	–	–	–	–	–	–
Reserves (Not Cash Backed)	–	–	–	–	–	–	–	–	–	–
Accumulated surplus	675,169	720,623	801,336	872,844	939,513	1,003,114	1,068,262	1,135,290	1,205,719	1,280,754
Non-current liabilities:	115,332	126,773	152,213	174,064	198,142	223,496	250,005	277,499	305,744	334,423
Long-term liabilities (Interest Bearing)	12,574	11,338	22,478	35,427	47,672	59,058	69,408	78,515	86,141	92,016
Non-current provisions	102,758	115,435	129,735	138,636	150,470	164,438	180,597	198,984	219,603	242,407
Current liabilities:	106,774	124,723	127,772	134,748	139,780	145,238	150,810	156,112	161,732	167,393
Consumer deposits	3,293	3,996	5,030	6,666	8,014	9,672	11,619	13,681	16,062	18,755
Provisions	15,340	15,963	16,616	16,616	16,616	16,616	16,616	16,616	16,616	16,616
Trade and other payables	86,243	103,527	104,266	108,415	110,754	113,031	114,926	116,203	117,215	117,652
Bank overdraft	–	–	–	–	–	–	–	–	–	–
Current portion of interest bearing liabilities	1,899	1,236	1,861	3,050	4,395	5,919	7,648	9,611	11,840	14,371
TOTAL MUNICIPAL FUNDS AND LIABILTIES	**897,276**	**972,119**	**1,081,322**	**1,181,656**	**1,277,435**	**1,371,848**	**1,469,076**	**1,568,900**	**1,673,195**	**1,782,570**

Municipal Financial Model

Cash Flow Statement

Model year	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
R thousands										
Cash flows from Operating Activities										
Suplus/Deficit for the year including Capital Grants	69,170	45,454	80,713	71,508	66,669	63,600	65,148	67,028	70,429	75,035
Suplus/Deficit for the year excluding Capital Grants & Contributions	(1,910)	(3,166)	(5,947)	(16,885)	(23,151)	(29,150)	(31,656)	(34,208)	(35,918)	(36,801)
Capital Grants & Contributions	71,080	48,620	86,660	88,393	89,820	92,751	96,804	101,236	106,346	111,836
Adjustments for non-cash items:										
Depreciation, amortisation and impairment loss	26,397	28,181	30,384	33,530	37,032	40,619	44,289	48,039	51,871	55,787
Revaluation on investment property (gain) / loss	–	–	–	–	–	–	–	–	–	–
Increase / (Release from) current provisions & non-interest bearing liabilities	2,106	623	653	–	–	–	–	–	–	–
Increase / (Release from) other non-current provisions & non-interest bearing liabilities	16,438	12,677	14,300	8,901	11,833	13,968	16,159	18,387	20,619	22,805
(Increase) / Release from non-current interest bearing assets	–	–	–	–	–	–	–	–	–	–
Capitalised interest	–	–	–	0	0	0	0	–	0	0
Operating surplus before working capital changes:	114,112	86,935	126,050	113,939	115,534	118,188	125,596	133,455	142,918	153,626
Change in W/C Investment	(8,717)	17,212	667	4,012	2,169	2,074	1,676	1,034	732	121
(Increase)/decrease in inventories	(178)	(73)	(72)	(137)	(170)	(203)	(219)	(243)	(279)	(316)
(Increase)/decrease accounts receivable	4,032	(0)	(0)	(0)	(0)	(0)	(0)	(0)	0	(0)
Increase/(decrease) in trade payables	(12,571)	17,285	739	4,149	2,339	2,277	1,895	1,277	1,011	437
Net cash flow from Operating activities	105,395	104,147	126,717	117,951	117,703	120,262	127,272	134,489	143,651	153,747
Cash flows from Investing Activities										
Capital expenditure	(81,338)	(89,798)	(99,800)	(110,020)	(116,626)	(123,627)	(131,047)	(138,913)	(147,250)	(156,087)
Decrease/(Increase) in non-current receivables	71	–	–	–	–	–	–	–	–	–
(Additions) / Disposals of investment property	21	53	53	–	–	–	–	–	–	–
Net cash flow from Investing activities	(81,246)	(89,745)	(99,747)	(110,020)	(116,626)	(123,627)	(131,047)	(138,913)	(147,250)	(156,087)
Cash flows from Financing Activities										
New loans raised	–	–	13,000	16,000	16,640	17,306	17,998	18,718	19,466	20,245
Loans repaid	(2,056)	(1,899)	(1,236)	(1,861)	(3,050)	(4,395)	(5,919)	(7,648)	(9,611)	(11,840)
(Decrease) / Increase in consumer deposits	498	703	1,033	1,637	1,348	1,658	1,948	2,062	2,380	2,693
Net cash flow from Financing activities	(1,558)	(1,195)	12,797	15,776	14,938	14,568	14,026	13,131	12,236	11,098
Change in Cash	22,591	13,206	39,767	23,708	16,015	11,203	10,251	8,707	8,637	8,758
Cash/(Overdraft), Beginning	28,778	51,369	64,575	104,342	128,050	144,065	155,268	165,519	174,227	182,863
Cash/(Overdraft), Ending	**51,369**	**64,575**	**104,342**	**128,050**	**144,065**	**155,268**	**165,519**	**174,227**	**182,863**	**191,622**

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