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PRINCE ALBERT MUNICIPALITY

LONG-TERM FINANCIAL PLAN FOR THE PERIOD

JULY 2026 TO JUNE 2035

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APPENDICES

Disclaimer

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Calculations presented are estimations and is, for this reason, no warranty of any kind regarding the accuracy, adequacy, validity, reliability, or completeness of the information.

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Mayor's Preface

I hereby present Prince Albert Municipality's reviewed 2026–2035 Long Term Financial Plan (LTFP), which sets out a credible and sustainable framework for the continued delivery of municipal services and infrastructure while maintaining a sound, cash-backed financial position over the next decade.

In terms of the Constitution of the Republic of South Africa, the Council bears the responsibility to govern the municipality in a manner that gives effect to the objects of local government, including the provision of sustainable services, the promotion of social and economic development, and the prudent management of public resources. To fulfil this mandate, the Municipality is required to adopt a policy-aligned Long Term Financial Plan that is compliant with all applicable legislative and regulatory requirements and capable of withstanding the oversight and expectations of both the National and Western Cape Governments.

This revised LTFP reflects Council's strategic focus on safeguarding service delivery, maintaining and renewing existing municipal assets, and investing in new infrastructure necessary to support population growth and evolving service demands. In pursuing these objectives, Council remains committed to positioning Prince Albert Municipality as a well-governed, modern rural municipality that balances responsible development with the preservation of its rural character, tranquillity, and quality of life. This approach underpins the Council's long-term vision of establishing the municipal area as the Lifestyle Capital of the Central Karoo.

Council further acknowledges its responsibility to promote and enhance Prince Albert's standing as a recognised tourism destination, valued for its scenic environment, cultural heritage, artistic community, and unique setting at the foot of the Swartberg Mountains. Sustained investment in infrastructure, public amenities, and municipal services is essential to protecting these assets and to expanding opportunities for tourism, recreation, and local economic development.

Over the 2026–2035 planning horizon, Council will continue to engage proactively with the National and Western Cape Governments, as well as with its communities and stakeholders, to advocate for investment and funding that support long-term financial sustainability, inclusive growth, and service delivery resilience. Through this Long-Term Financial Plan, Council affirms its commitment to ensuring that Prince Albert Municipality remains an attractive, functional, and financially sustainable place to live, learn, work, invest, and enjoy, both now and in the future.

Councillor LK Jaquet

MAYOR – PRINCE ALBERT MUNICIPALITY

1. CONTEXT OF LONG TERM FINACIAL PLANNING

In South African municipalities, long-term financial planning (LTFP) is a mandatory 10-year rolling plan used to ensure financial sustainability and guide a council's future.

It is a strategic tool that links community priorities, asset management, and day-to-day budgets. The LTFP serves as a critical guide for future action and a decision-making tool for managing finances.

1.1 Key components of an LTFP

- A robust LTFP integrates several financial and non-financial strategies to achieve community objectives.
- Asset management: An LTFP outlines how a council's physical infrastructure assets—such as roads, parks, and buildings—will be funded, maintained, and renewed over the long term. This ensures service levels are met, and critical assets are not neglected.
- Financial projections: This includes forecasting all major income and expenditure streams over the 10-year period, including rates, grants, fees, employee costs, and capital works.
- Community and strategic alignment: The LTFP must align with the community's vision and the council's broader strategic plans, translating community aspirations into financial terms.
- Financial objectives: These include specific goals, such as maintaining operating surpluses, ensuring strong cash reserves, and keeping debt at manageable levels.
- Risk and sensitivity analysis: An effective LTFP incorporates financial modelling across different future scenarios and highlights how key assumptions, such as rate increases or external funding, could affect the council's financial position.
- Performance monitoring: The plan outlines methods to track financial performance over time and ensure the council is on track to meet its long-term goals.

1.2 Challenges and best practices

South African councils face distinct financial challenges that their LTFPs must address, and specific practices can enhance their effectiveness.

1.2.1 Challenges

- Increasing responsibilities and limited funds: Councils face rising community demands for services and infrastructure, while their government funding is expected to decline relative to other revenue sources over the decades.
- Rate-pegging: Under section 43 of the Municipal Finance Management Act, rate-capping and tariffs legislation can limit a council's ability to generate revenue, adding further pressure to its budget.

- Infrastructure funding gap: Many councils do not consider the full life-cycle costs of their infrastructure, which could lead to a long-term funding shortfall for asset renewal and maintenance.

- Responding to external factors: Councils must plan for and address external risks and challenges, such as economic downturns, natural disasters, and rapid population growth.

1.2.2 Best practices

- Robust asset management: Implementing advanced asset management systems and policies that consider life-cycle costs is essential for long-term financial stability.

- Integrated planning: LTFPs should be part of a comprehensive integrated planning and reporting framework that aligns community, asset, and workforce strategies with financial realities.

- Community engagement: Open dialogue with the community is essential to ensure that service levels and funding plans align with resident priorities and their capacity to pay.

- Scenario modelling: Undertaking regular, realistic financial modelling with sensitivity analysis is a key practice for identifying and mitigating future financial risks.

- Strong governance: Implementing a strong governance framework with an independent audit and risk committee enhances accountability and oversight of financial management practices.

1.3 Governance and regulatory oversight

- Legislation sets the mandatory framework for local government planning and reporting.

- Strategic planning and reporting: Government mandates that councils create and regularly update a series of integrated plans, including the LTFP, the community vision, the asset plan, and annual budgets.

- Performance reporting: Councils are required to report on their financial performance using a standardised set of indicators, which allows for tracking performance trends and benchmarking against other councils.

- Sustainability frameworks: Sections 71 to 74 of the Municipal Finance Management Act have introduced specific sustainability frameworks to holistically monitor council financial performance, including a mix of financial, asset, and governance factors.

- Independent oversight: External bodies, such as the Auditor-General, issue independent audit opinions on councils' performance statements, ensuring accuracy and accountability.

2. EXECUTIVE SUMMARY

2.1. Purpose of the Long-Term Financial Plan (LTFP)

- The purpose of a long-term financial plan is to express in financial terms the activities that the Council proposes to undertake over the medium to longer term to achieve its stated objectives. It is similar to, but less detailed than, the Annual Budget and helps guide Council's future budgets and actions depending on the longer-term revenue and expenditure proposals.
- Long-term financial plans are particularly important for entities with a high level of long-lived assets and significant asset management responsibilities relative to their income base. Such entities may have long periods with modest levels of asset renewal requirements and then other periods when very significant outlays are necessary. They need to be generating revenue in an equitable manner over time and ensure that they have capacity to finance peaks in asset management and other outlays when, and including by way of borrowings where, necessary.
- The preparation of a long-term financial plan provides improved information to guide the Council's decisions on the mix and timing of outlays for operating activities and additional assets, and on their funding implications. Without a soundly based long-term financial plan, the Council, with its significant asset management responsibilities, is unlikely to have sufficient data to determine sustainable service levels with affordable asset strategies, appropriate revenue targets and treasury management.
- The long-term plan needs to be reviewed regularly and provide a financial plan for the next 10 years.

The Long-Term Financial Plan for Prince Albert Municipality is specifically developed to achieve the following outcomes:

- establishing a prudent and sound financial framework, combining and integrating financial strategies to achieve a planned outcome.
- establishing a financial framework against which the Council's strategies, policies, and financial performance can be measured.
- ensuring that Council complies with sound financial management principles, as required by the Municipal Finance Management Act, Act 56 of 2003 and plan for the long-term financial sustainability of Council; and
- allow Council to meet the objectives of the Constitution Act (108) of 1996 to promote the social, economic and environmental viability of this regional municipality and its role in maintaining the viability of Council to ensure that resources are managed responsibly.

This LTFP represents a comprehensive approach and integrates the Council's various financial strategies. The development of the long-term financial projections represents the output of several strategy areas, which, when combined, produce the financial direction of the Council, as illustrated below:

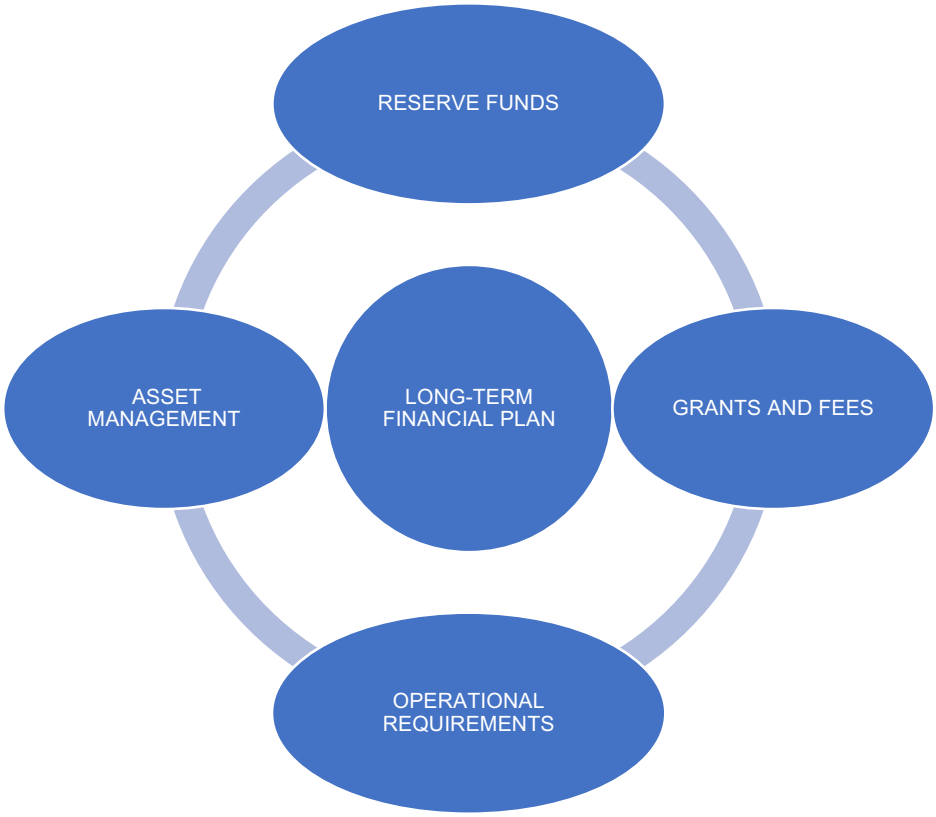


Figure 1: Output of Strategy Areas

2.2. Objectives of the Long-term Financial Plan

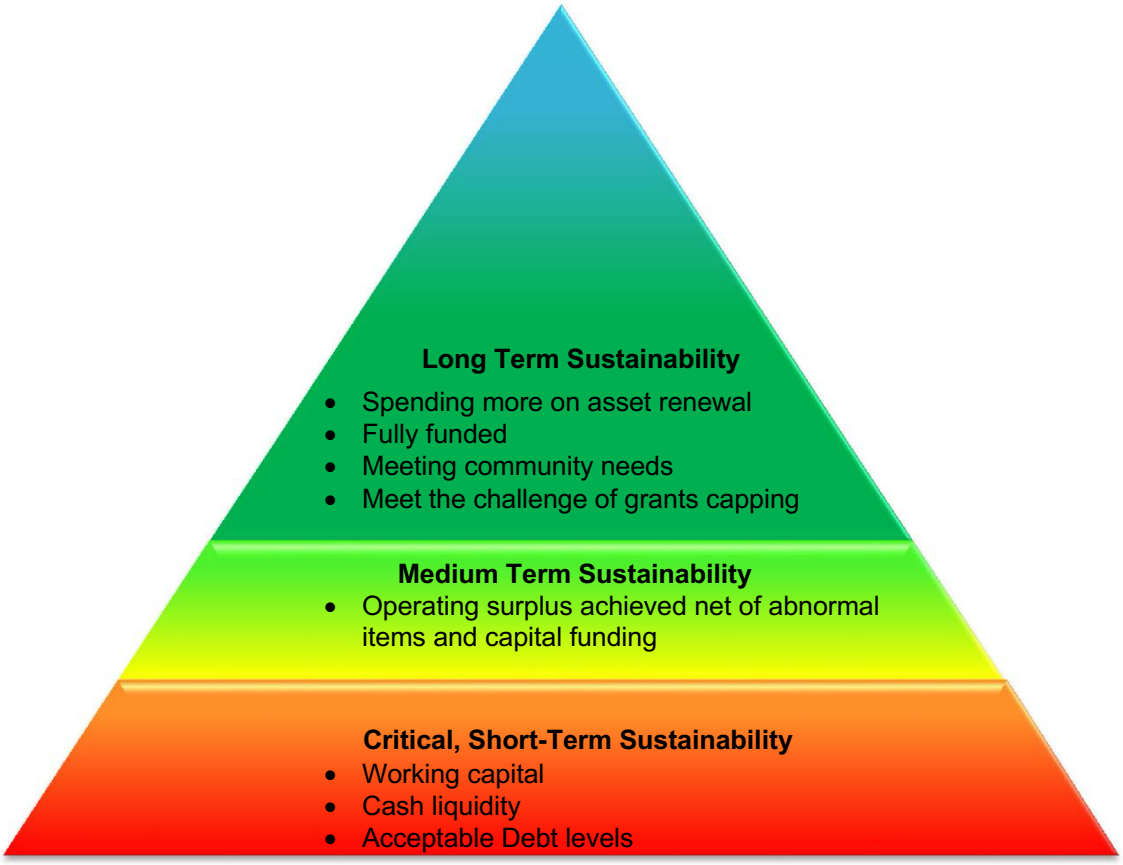
This LTFP does not replace the previous LTFP but serve the purpose to make adjustments for the following:

- Latest relevant inflation indicators,
- Impact of proposed future capital projects as reflected in the latest IDP,
- The replacement of existing assets at replacement values when reaching the end of their indicated useful lives, and possible accelerated replacements of poorly conditioned assets.
- Adjusting projected cost provisions of the rehabilitation of Landfill sites
- Ultimately, the effect on the total Accumulated Reserves and Funds of the municipality

The objectives in this LTFP aim to achieve the following:

- A balance between meeting community needs for services (both now and future) and remaining financially sustainable for future generations.
- An increased ability to fund both new capital works in general and meet the asset renewal requirements as outlined in asset management planning.
- To maintain a sustainable Municipality in an environment where the Council must probably constrain its net operational costs due to limited available grant funding (capping).

For the purposes of this Plan, financial sustainability is defined in the diagram below, mainly based on a hierarchy of needs approach.



Over recent years, Prince Albert Municipality has achieved a position as described in the "Medium Term Sustainability" section of the triangle above. However, the Council's challenge will be to avoid a situation where it gradually slides back through the sections into the orange/red zone, and instead to undertake a process that ultimately leads to Long-Term Sustainability within the next ten years.

To achieve this goal, the Council must continue to critically evaluate all its current service provision and may need to make a series of decisions, especially where costs in services increase more than the Council's ability to raise general revenue.

2.3. Key outcomes / challenges of this and future LTFP's

This revision to the Long-Term Financial Plan is a critical document for the Prince Albert Municipality. The most significant challenge is maintaining the Council's capacity to deliver its mandated services, preserve existing assets, and maintain a sound financial position.

The challenges in this LTFP are very much around what actions the Council may take to mitigate the very significant impacts of a restriction on the Council's ability to raise revenue in the future.

2.4. The impact of grants capping on the Council's Long-Term Financial Plan

Despite the Council being in a healthy financial position, with satisfactory liquidity

requirements, cash flow, reserve balances, and base asset renewal requirements being met, grant capping presents a significant challenge to the Council's longer-term financial sustainability.

Grand capping refers to setting a maximum limit on the amount of financial assistance (subsidy) that a government or organisation will provide for a particular programme, sector, project, or recipient. Government grants do not increase proportionally with rising poverty levels, which impacts rates and tariffs applicable to consumers outside the indigent threshold, thereby affecting the municipality's ability to build cash reserves.

Continuing to build cash reserves is essential for the municipality to meet its annual asset renewal targets and establish a funding base that enables the Council to deliver essential services to the community.

Council is confident that it can continue to manage the grants capping[1] challenge in the 2025-2026 financial year. Beyond this period, however, the ongoing challenges will begin to become more difficult, mainly due to uncertainty about whether future Government Grants availability would prevail due to Government fiscal constraints and the impact of cost inflation on Council's operational budgets, which would be a test for the municipality's ability to offset fiscal constraints and inflation from decreasing grants to alternative new revenue sources.

This challenge in the medium- to long-term will require the Council to fundamentally review the sustainability of its operations. A "business as usual" approach will not be sufficient to meet future challenges. It will be necessary for the Council to undertake an annual review of all services in line with community expectations and the Council's resource availability.

To maintain financial sustainability in the face of the above challenge, the Council needs to fundamentally review its approach to service delivery. Council will need to assess which service levels can be provided, given the maximum grant increase/decrease and other revenues. The primary outcome of the LTFP is the quantification of the cost of existing service requirements and the associated long-term cash flow implications of maintaining those service levels. This allows ongoing review of the affordability of existing service levels and their priority relative to emerging service demands, as well as the capacity and willingness to pay for them.

2.5. National Government Budget impacts – recurrent grant funding

Recurrent grants, in particular the equitable share, constitute almost 38% of Council's total underlying operational revenue and hence are an important source of revenue for Council.

Recurrent grant revenue, however, has consistently failed to keep pace with the cost of providing the same services the grant supports, requiring the Council to continue 'top-up' the government shortfall with other revenue to maintain current levels of service for the community.

2.6. Strategic Focus

During the past several years, the Council's facilities have improved markedly, as evidenced by the recent National award as one of the top 10 performing municipalities in service delivery and governance. This helps make the Municipality a better place for its residents to live and work. Council retains a strong focus on the future needs of this Municipality.

2.7. Executive Summary Findings incorporated in the LTFP

The purpose of the LTFP is to provide a financial framework to the Council in terms of what

can be prudently achieved over the period of this LTFP and a strong focus in terms of capital planning.

In preparing this LTFP, the following items have / will impact the finances of the Council and the preparation of this Plan.

The key outputs included in the LTFP are:

- The achievement of an ongoing underlying operational surplus throughout the life of the LTFP.
- A stable funding for asset replacements/renewals.
- The achievement of a financial structure where annual asset renewal needs are funded
- Selling of assets not needed for service delivery, to accumulate funds in the Cash Reserves Fund

In summary, the LTFP highlights the significant challenges facing the Council over the next 10 years and beyond as it strives to remain viable and sustainable while delivering key infrastructure projects.

The table below highlights the strategic outcomes contained in this LTFP, organised by section of the report.

Table 1: Strategic Outcomes of this LTFP

Section	Strategic Direction
Macro View **Section 3** *Socio-economic status*	1. That Council revises its ten-year forward financial plan on an annual basis. 2. That Council seeks to maintain an underlying operational cash surplus (in the Income Statement) prior to the recognition of capital income over the life of the Long-Term Financial Plan. 3. That Council seeks to continue its capital works investment to sufficient levels that allow it to adequately fund its asset renewal requirements and continue to deliver major project funding. 4. That the asset renewal requirements identified in asset management plans be funded over the period of this Long-Term Financial Plan. 5. That Council endorses through this Long-Term Financial Plan, the principle that ongoing asset renewal requirements must be funded from sources such as asset sales and reserve funds and limited borrowing. 6. That Council continues to conduct a detailed review of all current service provision and determine which services can in the future be improved. **<u>Key Findings</u>** 1. *Population grows from 15 389 to 16 933* 2. *Number of households increase from 4050 to 4456* 3. *Number of indigent households increase from 1114 to 1225* 4. *Need for low-cost housing provision amounting to 122 additional houses at a rate of 10 houses per annum* 5. *Climate change presents systemic and compounding risks to the Municipality, particularly in relation to water security, disaster management, infrastructure resilience, public health, and agricultural sustainability. These risks necessitate proactive planning, integrated ecosystem management, climate-resilient infrastructure investment, and strengthened disaster risk reduction strategies to safeguard long-term socio-economic development.* **<u>Recommendations</u>** 1. The above need for **low- cost housing**, would trigger good town planning and plan for available land and infrastructure 2. Council must regard **climate change** as a risk and plan accordingly • Improved reliability and sustainability of water supply • Reduced vulnerability to drought and climate variability • Lower operational and treatment costs • Enhanced protection of ecosystems and water resources • Improved socio-economic resilience and public health
Section 4 and Appendix 2 Operational Requirements	**<u>Key Findings</u> (see sections 4.2 and 4.3)** 1. *The projection analysis indicates that, under the status quo, the Municipality is able to generate consistent underlying cash surpluses across the full ten-year period under all inflation scenarios and is therefore not exposed to an immediate cash solvency or liquidity risk. However, when non-cash items are taken into account, the projections reflect persistent accounting deficits, which indicate that the Municipality is not generating sufficient revenue to fully fund asset consumption, long-term employee obligations, and statutory provisions on an accrual basis. This divergence between positive cash results and negative accounting outcomes demonstrates that the Municipality's*

current operating model remains cash-sustainable in the short to medium term, but financially unsustainable in the long term, as continued asset utilisation and growing long-term liabilities are not being adequately funded, thereby increasing future infrastructure, service delivery, and financial risk if corrective measures are not implemented.

2. *There for, the Municipality compares **favourably in liquidity,** but faces **structural pressure from high employee-related costs and limited revenue diversification**. Compared to neighbouring municipalities, Prince Albert remains financially stable but must proactively manage long-term affordability risks to sustain service delivery*

3. *The revenue position is **stable but constrained**, requiring careful protection of existing revenue streams which is as follows:*

   Positive Contributors
   - *Strong electricity collection performance.*
   - *Healthy cash and investment balances.*
   - *Low finance costs.*

   Structural Weaknesses
   - *Persistently poor recovery of water, sewerage, sanitation, and fines.*
   - *High dependence on intergovernmental grants.*
   - *Surplus not driven by growth in sustainable own-revenue sources.*

4. ***Cross-Cutting Issues Affecting Payment Ratios***

   High Revenue Forgone
   Particularly impacts water, sewerage, and refuse.

   Large Write-Offs
   Mask true collection inefficiencies.

   Dependence on Electricity
   Electricity collections artificially inflate overall recovery health.

   Rising Closing Balances
   Indicates accumulation of irrecoverable debt.

5. *The surplus is **structurally fragile** and vulnerable to **declining payment ratios in certain core services**, particularly water, sewerage, and fines.*

   - *Service charges do not reflect cost recovery.*
   - *Reliance on electricity surpluses to subsidise water and sewerage is financially risky and regulatorily constrained.*

6. *The operating results indicate concerning material structural deficits across core trading services, with the municipality remaining reliant on once-off accounting gains and capital transfers to report an overall surplus.*

   - *Trading Services (Water, Electricity, Refuse) are consistently loss-making*
   - *Sewerage is the only service operating at a surplus*
   - *Property Rates reflect a severe mismatch between revenue recognition and cost allocation*
   - *The reported surplus of R18.0 million is non-cash and non-operational in nature*
   - *The continued existence of service delivery deficits, coupled with Property Rates revenue that is insufficient to fully recover the cost of services rendered, is financially unsustainable. If the current operating deficits*

persist, the municipality will be compelled to utilise available cash-backed reserves to fund recurring shortfalls, which will rapidly erode liquidity and compromise the municipality's ability to meet its statutory obligations and maintain financial viability.

Recommendations:

Revenue Management

- Implement **service-specific credit control**, particularly for water and sewerage.
  - Review **tariff structures** to align with affordability and cost recovery.
  - Introduce **realistic budgeting for fines**, based on actual collection trends.
- Expand **indigent management verification** to protect revenue base.

Expenditure Control

- Contain personnel growth and reassess organisational structure.
- Audit contracted services for efficiency and duplication.
- Improve demand management for bulk purchases.
- Continue applying cost containment measures

Financial Sustainability

- Reduce reliance on interest income for operating stability.
- Channel surplus cash toward **infrastructure maintenance** to reduce future liabilities.
- Strengthen long-term financial planning with conservative revenue assumptions

Required Adjustments to the LTFP

To ensure realism and credibility, the following adjustments must be incorporated into the LTFP:

1. **Revision of tariff assumptions** to ensure full cost recovery for trading services.
2. **Explicit ring-fencing of trading services** within the financial model.
3. **Strengthened cost containment measures**, focusing on fixed cost optimisation.

Section 5 and Appendix 3 Asset Management

Key Findings

Based on the analysis of asset values, remaining useful lives, and condition ratings, it is concluded that the municipality's asset base is generally in a sound and serviceable condition, particularly in respect of infrastructure assets.

While immediate large-scale replacement is not required, the municipality faces a substantial long-term replacement obligation that must be proactively managed.

Recommendations

- Forecasted replacement amounts be systematically provided for over the planning horizon; and
- These amounts be transferred to a Capital Replacement Reserve, over and above annual depreciation charges.

This approach will support long-term financial sustainability, intergenerational equity, and continued service delivery in accordance with GRAP and MFMA principles.

Section 6 and Appendix 1 Long-term Borrowing	**Key Findings** 1. *The Municipality has currently no Long-term Liability commitments* 2. *The Current Accumulated nett value of the Cash and Cash Equivalents (Bank account plus Investments minus current liabilities) is underfunded.* 3. *The affordability ratios indicate that borrowing to finance projects is a viable option* 4. *Borrowing is a strategic supplement to grants and cash reserves in the Long-Term Financial Plan.* 5. *It enables timely delivery of long-life infrastructure while preserving liquidity.* 6. *Affordability and repayment capacity are the primary decision drivers.* 7. *Risks must be managed through prudent debt limits, strong governance, and MFMA compliance.* **Recommendations** 1. Adopt a formal borrowing framework within the LTFP that clearly defines when borrowing may be used relative to grants and cash reserves. 2. Limit borrowing strictly to long-life infrastructure assets aligned with the Asset Management Plan. 3. Implement affordability thresholds (e.g. debt service and debt-to-revenue ratios) to guide borrowing decisions. 4. Prioritise DFI long-term loans as the primary borrowing instrument to reduce cost and risk.
Section 7 Cash Reserves and Cash Reserves Application	**Key Findings** 1. ***Adequate Short-Term Liquidity but Insufficient Policy Compliance*** o *The municipality's cash ratio of **1.73:1** indicates that short-term cash exceeds current liabilities by 40.8%, which is satisfactory for immediate liquidity needs.* o *However, when assessed against broader **cash management principles and statutory obligations**, the liquidity position does not adequately support the progressive funding of long-term provisions and specific reserves.* 2. ***Non-Establishment or Underfunding of Specific Reserves*** o ***Capital Replacement Reserve (CRR)**: No CRR exists, although accumulated depreciation on movable assets amounts to R9.769 million. The amount is currently included in the Accumulated Surplus and treated as part of General Reserves, which underrepresents the municipality's true asset replacement needs.* 3. ***Landfill Rehabilitation Reserve (LRR)**: Underfunded by R11.930 million (required: R22.430 million; actual: R10.500 million). This represents a material long-term risk in meeting statutory rehabilitation obligations.* 4. ***General Cash Reserve Deficit*** o *After accounting for the required funding of specific reserves, the General Cash Reserve is **negative at R1.44 million**.* o *Considering the recommended minimum buffer of **one month's average operational expenditure (R6.571 million)**, the General Cash Reserve is **underfunded by R8.011 million**.* o *This underfunding indicates that the municipality lacks a sufficient financial cushion to manage unexpected operational or emergency costs.* 5. ***Accumulated Surplus Misclassification*** o *A portion of cash that should be allocated to specific reserves is included in the **Accumulated Surplus**. This **distorts the true financial position**,*

	*reduces transparency, and may negatively affect compliance with **GRAP, MFMA and Council policy requirements**.* **Recommendations** **Capital Replacement Reserve (CRR)** • Establish a CRR and cash-back at least the accumulated depreciation on movable assets (R9.769 million). • Adjust the Statement of Changes in Net Assets to reflect the CRR separately from General Reserves. **Landfill Rehabilitation Reserve (LRR)** • Increase funding to fully cover the discounted present value of the landfill rehabilitation obligation (R22.430 million). • Transfer the annual depreciation and unwinding of discount amounts into the reserve annually. • Reflect the fully funded LRR in the Statement of Changes in Net Assets. **Maintaining a General Cash Reserve equal to at least one months' worth of Operational Expenditure** • The projected Operational Expenditure indicating a General Cash Reserve amounting to R6.571 million
Section 8 Long-term Financial Plan	**See complete Key findings and Key recommendations in section 8**

3. ANALYSIS OF THE CURRENT STATUS

Socio-economic status

3.1 The municipality at a glance, based on the latest available socio-economic profile - 2023

MUNICIPALITY: At a Glance

Demographics, 2019

POPULATION

15 389

HOUSEHOLDS

4 035

Education

Matric pass rate	**80.8%**
Retention rate	**62.1%**

Poverty

UNEMPLIOYMENT RATE OF 20.8%

83.4%

Access to Basic Service Delivery

99.7%

89.9%

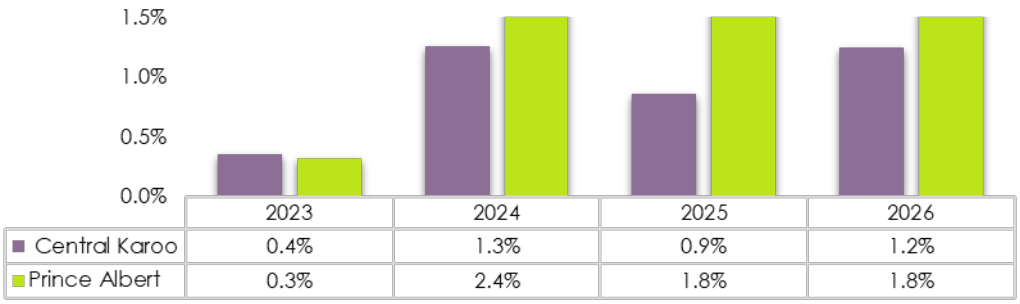
96.7%

96.6%

Economic Growth

GDP Growth 2025

1.8%



	2023	2024	2025	2026
Central Karoo	0.4%	1.3%	0.9%	1.2%
Prince Albert	0.3%	2.4%	1.8%	1.8%

3.2 Economic sector performance

Largest 3 Sectors — Contribution to GDP, 2023

Agriculture	General Government	Community and Social Services
23.2%	12.5.9%	23.3%

The Prince Albert economy is the second-largest economy in the Central Karoo District, contributing 16.5 per cent to the district's total GDPR, amounting to R494 million in 2023. Agriculture and community, social and personal service sectors are the dominant sectors in Prince Albert's economy, contributing 23 per cent each to GDPR

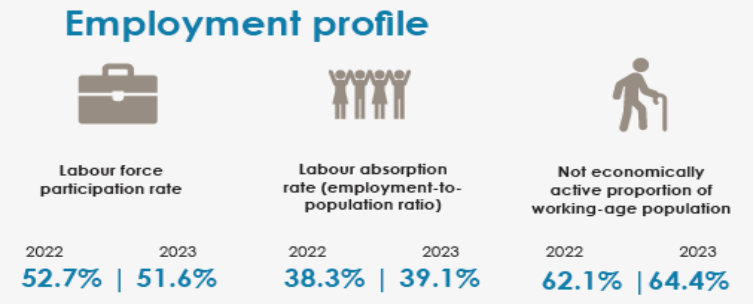
The labour-intensive sectors, such as agriculture, remain the backbone of the local economy, providing significant employment. Despite agriculture contributing 23.2 per cent to GDP, the sector faced a 4.4 per cent decline in GDPR growth in 2023, primarily due to challenges such as climate change, limited infrastructure, and rising operational costs. **This sector's continued importance for employment and its vulnerability to external factors highlight the need for targeted investments in agricultural resilience and diversification.**

Although the tourism sector accounted for only 9.6 per cent of GDPR in 2023, implying a change of 0.2 percentage points compared to the 9.8 per cent contribution in 2022, this industry plays a significant role as a secondary supporting sector to other sectors. The attractive building style and natural beauty of the area provide a unique experience to visitors. To further develop tourism in he municipal area and ensure that the industry is sustainable

over the long term, it is essential that strategies are implemented to attract visitors during off-peak periods.

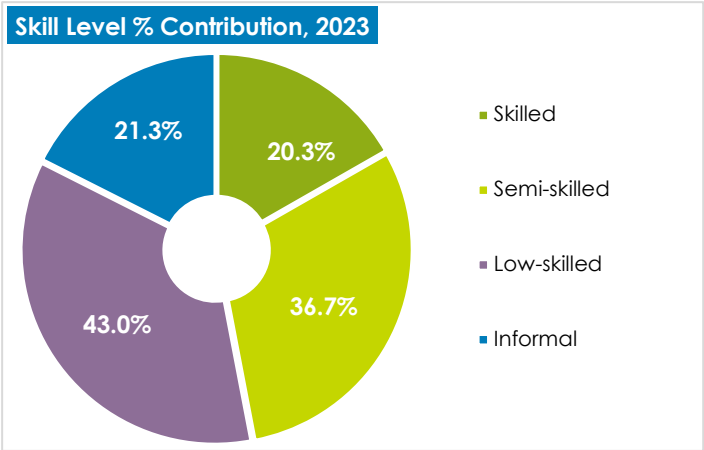
To achieve balanced economic growth, it is vital for Prince Albert to support both high-value, service-oriented sectors and the labour-intensive industries that are essential for employment creation. By boosting agricultural productivity, diversifying the local economy, and advancing infrastructure development, Prince Albert can foster a more resilient and inclusive economic future for its residents.

3.3 Labour



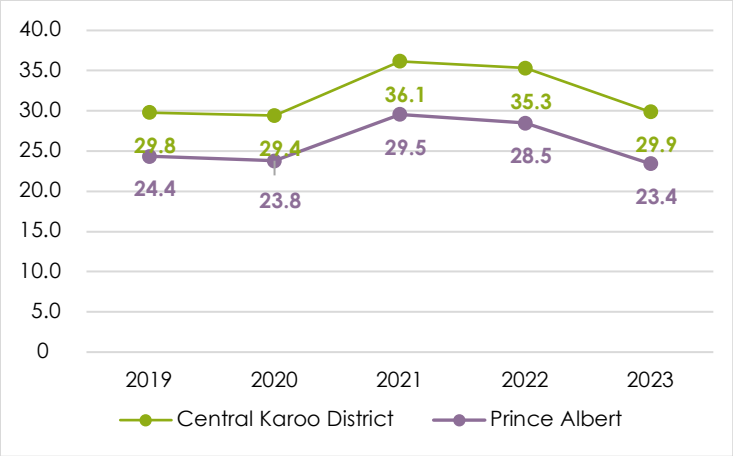
Top 5 Sectors

Sector	No. of Jobs
General public administration at Local Government level	331
Growing of pome fruits and stone fruits	95
Raising of other animals	95
Mixed farming	88
Short term accommodation activities of hotels and motels	56



Unemployment rate (%)

2019-2023



Prince Albert provides 20.2 per cent of total employment in the district, contributing to the creation of 3,859 jobs. A significant portion of these jobs (43.0 per cent) are in low-skilled roles, while semi-skilled workers make up 36.7 per cent and skilled workers account for 20.3 per cent of the labour force. The agricultural sector absorbs a numerous number of low-skilled workers, while semi-skilled and skilled jobs are more common in sectors like community services, finance, and trade. Over the past decade, the growth of semi-skilled jobs has been particularly notable, reflecting a shift in local industries toward more diverse skills requirements, influenced by ongoing urbanisation and sectoral diversification.

The employment analysis for Prince Albert between 2022 and 2023 reveals a mixed picture of job creation and losses across various sectors. Overall, the municipality experienced a net increase of 82 jobs when considering the top five sectors for job creation and losses, with 207 jobs gained and 125 jobs lost.

Job creation was driven largely by the primary sector, particularly in the raising of other animals, which saw a significant increase of 90 jobs. The tertiary sector also contributed to employment growth, with notable gains in local government administration, which added 87 jobs, and the restaurant and food services sector, which grew by 12 jobs. These positive trends reflect ongoing demand in agriculture and public services, as well as growth in the hospitality and food services industries.

On the other hand, certain sectors experienced job losses, particularly in agriculture and social services. The poultry industry lost 66 jobs, and there were reductions in sectors such as secondary education (-24 jobs) and social work (-10 jobs). In addition, other building and construction activities, as well as printing, also saw job losses, underscoring the challenges in those industries. Factors such as limited access to land, regulatory constraints, a shortage of skilled workers, and high operational costs are most likely contributing to the stagnation and contraction in certain sectors.

A lack of diversification in the local economy is reflected in troubling labour market indicators. The municipal area is characterised by moderate levels of economically inactive people (57.4 per cent) and a low labour force participation rate (42.6 per cent), making poverty a reality for many households. In 2022, both the economic inactivity and the labour participation is expected to improve as the economy recovers further from the impact of COVID-19.

3.4 Population

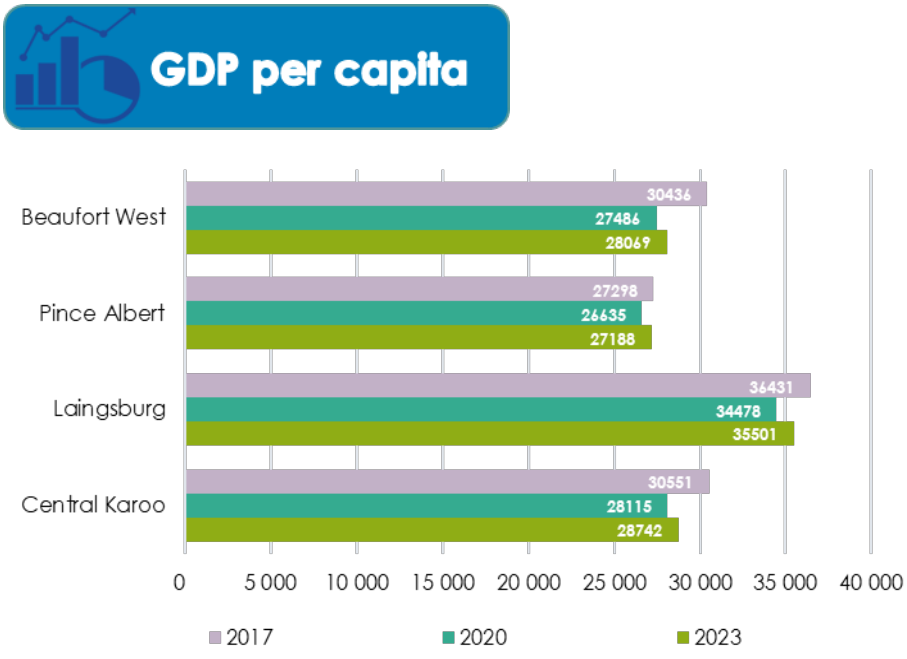
Prince Albert's municipal area population was initially estimated at 17,836 **in the 2022 Census**; **however, this number was revised downward to 15,389 in 2024 according to** STATSSA Medium Estimates. The population is forecast to grow by 0.8 per cent between 2026 and 2036, higher than the district forecast of 0.5 per cent for the same period. The household size is recorded at 3.8 people per household. The population growth, despite being modest, will likely increase the demand for basic services and housing.

When the current population of 15,389 is projected to grow at the same rate of 0.8%, the population is forecasted to be as follows:

	Population growth (0.8% per annum)											
2024	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
15 389	15 512	15 636	15 761	15 887	16 014	16 143	16 272	16 402	16 533	16 665	16 799	16 933
	Growth in houses (3.8 people per house)											
4 050	4 082	4 115	4 148	4 181	4 214	4 248	4 282	4 316	4 351	4 386	4 421	4 456

The projected population growth rose from 15,389 to 16,933, resulting in an estimated increase of nearly 400 houses to be built.

3.5 Unemployment



An increase in GDPR per capita, i.e., GDPR per person, is experienced only if the economic growth rate exceeds the population growth rate. Prince Albert's municipal area, the second-smallest economy in the district, recorded the lowest GDPR per capita at R27 188, below the district's GDPR per capita (R28 742) and considerably below the Provincial level of R80 488 in 2023. **This means that people in Prince Albert have lower standards of living than**

the Provincial average.

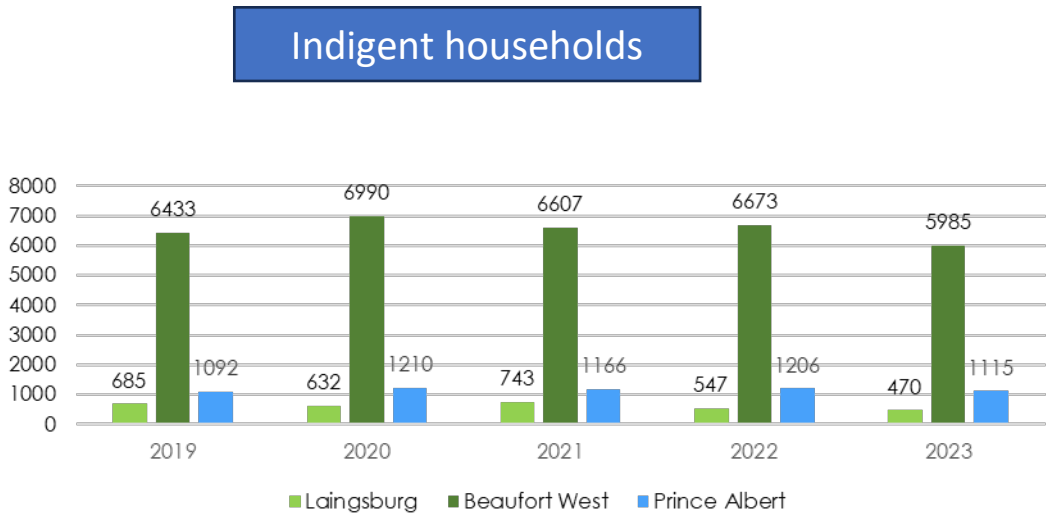
The National Development Plan (NDP) has set a target of reducing income inequality in South Africa from a Gini coefficient of 0.7 in 2010 to 0.6 by 2030. The Prince Albert municipal area's income inequality is recorded at 0.57 in 2023, making it the second-highest of the three municipal areas in the CKD during the reference period. Prince Albert's Gini coefficient remains lower than the Provincial income inequality level of 0.60 in 2022. Insufficient economic diversification is central to the lack of high-paying jobs in Prince Albert. This is particularly apparent in the towns of Leeu-Gamka and Klaarstroom, which have the lowest median incomes in the CKD. These low incomes are accompanied by significant income inequality. A substantial proportion of individuals earn less than the median income, contributing to disparities in living standards.

In terms of racial groups, Income disparities are noticeable in the Coloured racial group with a Gini coefficient of 0.54 in 2022, followed by the white racial group with a more equal distribution of wealth with a Gini coefficient of 0.43 in 2022. These two groups together contributed 96 per cent of the population of the Prince Albert Municipal area in 2024

The Upper Bound Poverty Line (UBPL) head count ratio is the proportion of the population living below the UBPL, i.e., that cannot afford to purchase adequate levels of food and non-food items. The UBPL in South Africa is R1 417 per person per month (in April 2022 prices). Poverty affects the social development of communities through lower life expectancy, malnutrition and food insecurity, higher exposure to crime and substance abuse, lower educational attainment and poor living conditions. In 2023, the poverty rate in Prince Albert was almost on par with the district average.

Due to the high level of unemployment and the accompanying high level of poverty, the Municipality provide a package of free basic services to households that are financially vulnerable and struggle to pay for services. A household is classified as indigent if the family's combined income is below the threshold specified in the indigent policy of the municipal area. The current set threshold is a total household income equal to or less than the set threshold (R60 000 per annum) or R5 000 pm.

The number of indigent households in the Prince Albert municipal area fluctuated, dropping to 1,115 in 2023 from 1,206 in 2022.



From the information above, the current number of indigent households is 27.5% of the total households (1115 out of 4050). Considering the current population growth—mainly within the coloured community—and existing trends of poverty and unemployment, it is reasonable to project that the future increase in the 400 planned households will correspond with the projected number of indigent households. If the current indigent households (27.5% of total households) is rounded to 30% and applied to the projected population growth, the municipality should consider the following figures for future planning purposes.

			Population growth of 0.8% per annum									
2024	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
15 389	15 512	15 636	15 761	15 887	16 014	16 143	16 272	16 402	16 533	16 665	16 799	16 933
			Households increase (3.8 persons per household)									
4 050	4 082	4 115	4 148	4 181	4 214	4 248	4 282	4 316	4 351	4 386	4 421	4 456
		Projected indigent households if present percentage of 27.5% of total house holds prevails										
1 114	1 123	1 132	1 141	1 150	1 159	1 168	1 178	1 187	1 196	1 206	1 216	1 225
		Projected need for low cost housing (30% of households)										
	10	10	10	10	10	10	10	10	10	10	11	11

- The population grows from 15 389 to 16 933
- The number of households increased from 4050 to 4456
- The number of indigent households increased from 1114 to 1225
- Need for low-cost housing provision, amounting to 122 additional

3.6 Climate Risks

Drought

According to the CSIR Green Book, Prince Albert has a high potential for increased drought exposure. Currently, 1.9 years per decade are at risk of drought, and this will increase to 4

out of every 10 years by 2050.

Water, and related sanitation services, are a key ingredient for socioeconomic development, food security and healthy ecosystems, and are vital for reducing the burden of disease and improving the health, welfare and productivity of populations. A deteriorating water catchment system, through ecosystem loss (transformation or land-use change) and alien infestations, or through watercourse and wetland modification, will lead to reduced inputs to water supply systems and lower overall water security due to reduced natural retention and lower water quality. The higher the dependence on groundwater, the more likely you are to suffer water security issues. During extended drought periods, even end users far from major source areas are likely to experience shortages as the overall system runs low. This was the situation during the 2015-2019 drought in the Western Cape, when eventually the overall water supply scheme ran low due to the multi-year duration of the drought.

Temperatures

The average temperature has been rising since the 1900s. Projections suggest that Prince Albert could face an additional 22 very hot days annually by 2050, which will impact food security, exposure to extreme heat, health, and water quality.

Vegetation Fires

Although vital for a healthy ecosystem, fire poses a significant threat to human lives, food security, socio-economic activities, livelihoods, infrastructure, and other assets. This is particularly true at the wildland-urban interface, where vegetation fuel loads near built structures and numerous informal fires heighten the likelihood and severity of fire risk. Uncontained fires can also cause damage in rural and agricultural areas, where infrastructure, crops, and livestock may be lost due to extensive fire lines.

Furthermore, in many areas, land has been converted from natural vegetation to other land-cover types - some of which significantly modify the fuel loads (profiles and the establishment of forest plantations and the spread of several introduced tree species such as pines, hakea, wattles and eucalypts). Fires in vegetation with high fuel loads increase soil erosion and runoff, which negatively affect ecosystem services and increase flood impacts, among other effects. Where severe fires have occurred due to high fuel loads, resulting in soil erosion, leads to the sedimentation of rivers and dams and therefore declining water quality (and increased water treatment costs).

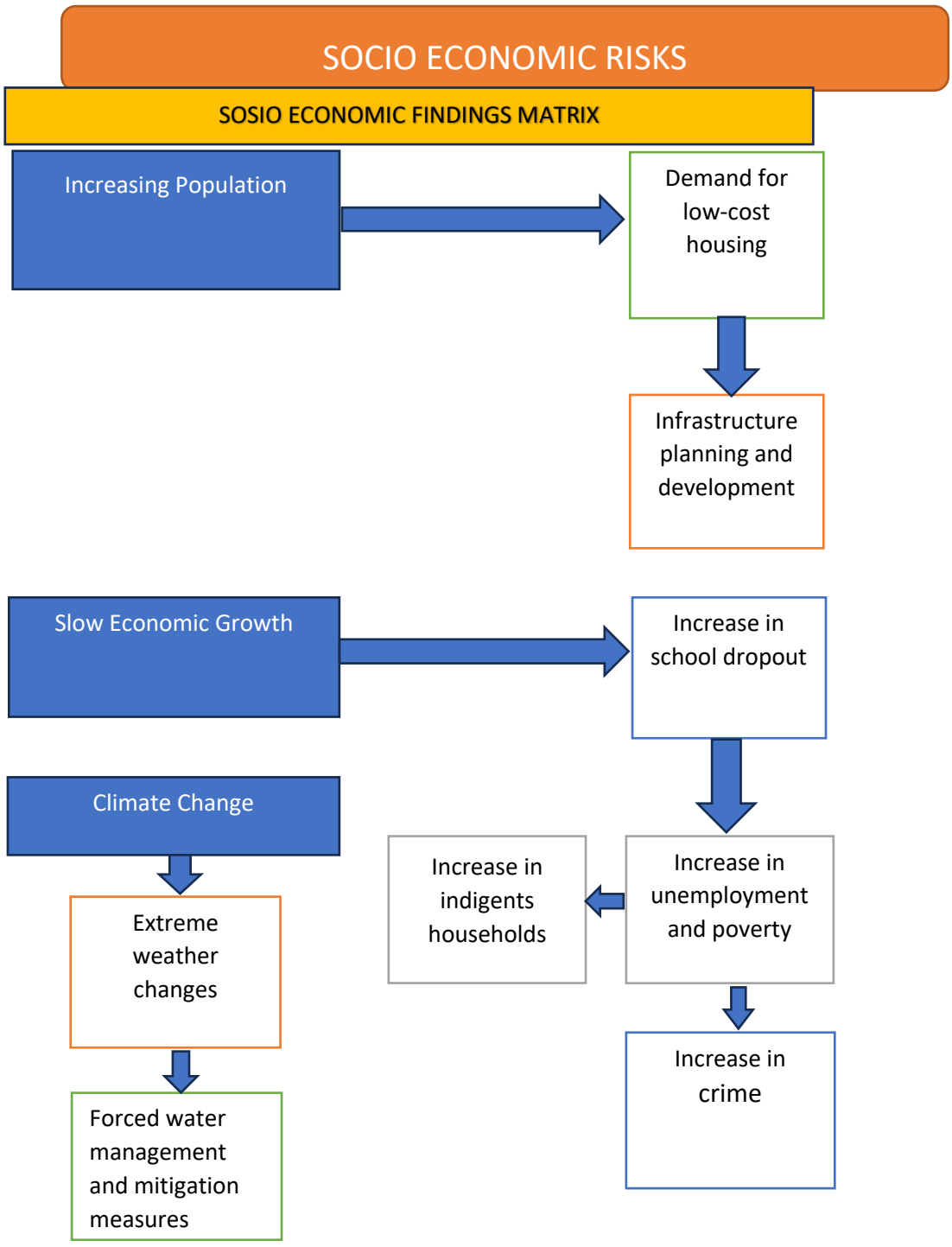
Floods

Floods cause damage to buildings and infrastructure worth millions or billions of rand, lost productivity, the loss of livelihoods, and, in some cases, the loss of lives. A 2016 report estimated that four severe weather events between 2011 and 2014 caused more than R1.6 billion in damage in the Western Cape, and in the September 2023 severe weather event, flood-related infrastructure damage alone amounted to R2 billion. Flooding is also one of the main disaster risks affected by climate change. Changes in rainfall volume, intensity, and timing will alter flood risk profiles and necessitate ongoing reconsideration of risks and risk-reduction measures.

Climate parameter	Change from present conditions (future projections until 2050)
Decrease in total annual precipitation	Total annual decrease between 6mm (East) and 28mm (West)
Change in number of days per year with >10mm of rain	Change of less than 1 day
Change in maximum amount of rain in a 5-day period	Up to 7mm more in the East
Additional number of dry years per decade	4 years/decade (2 years more than at present)
Increase in average annual temperature	1.4°C
Additional days per year with temperatures above 30°C	21 to 22 days
Decrease in number of days per year with temperatures below 0°C	4 to 5 days fewer per year

The impact of climate change on the top 10 Disaster Risks (based on the Disaster Risk Assessment of the PDMC, 2022)	
Drought	Increased likelihood of multiyear drought Water security concerns Agricultural impact Watercourse deterioration Estuarine deterioration
Human health conditions and diseases	Increased vulnerability due to adverse conditions (e.g. heat) Direct exposure to heat
Floods	Dryer conditions could make ground impervious to sudden, intense rainfall events
Critical service disruptions: waste management	Increased temperatures contributing to waste decomposition
Water pollution	Deteriorating water quality from water sources Decreasing performance of WWTW as temperatures increase and inflows decrease
Shale gas drilling and extraction	Economic vulnerability due to declining fossil fuel energy demands

Heat Waves	Increasing frequency and intensity of high heat events
Wildfires	Increased frequency of fire-risk days Increased flammability of biomass fuel
Critical service disruptions: water security and supply	Increased competition for water resources
Dam failure	Increased intensity of rainfall events



From the above demographic indicators, the following socio-economic risks are evident:

Noted is the downward revision of Prince Albert's population from 17,836 in 2022 to 15,389 due to revised estimates from the Statistics South Africa Medium Estimates (MYPE).

The dependency ratio is recorded at 56.9 per cent, indicating a growing child population and ageing groups, which emphasises the need for school infrastructure and social development initiatives. The sex ratio, however, reflects a concerning trend with a declining sex ratio of 92.3 males per 100 females.

The education system faces challenges such as high dropout rates, though it performs better than neighbouring areas. Implementing programs for vulnerable learners and increasing vocational training institutions could help address these issues.

The Prince Albert municipal area, due to its rural nature and lack of economic diversification, recorded exceptionally low GDPR per capita compared to that of the province and recorded the lowest GDP per capita in the district. The three biggest sectors constituted the agriculture, community and social services sectors and the government sector. To foster the well-being and development of the region, it is imperative to address economic challenges through a multifaceted approach. Despite economic challenges, households in Prince Albert enjoy access to high service standards.

The economic and social costs of crime cannot be overemphasised, as they have implications for well-being and resource allocation by the government, businesses, and citizens. In terms of safety and security, driving under the influence, common assault and damage to property. Sexual offences, drug-related crimes and commercial crimes showed improvement in 2023/24. To address persistent crime in the municipal area, it is essential to prioritise crime prevention strategies and community policing along with enhanced law enforcement capabilities.

4 FINANCIAL PERFORMANCE

When determining the financial performance of the municipality, the following three measuring principles are applied as analysis mechanisms:

- Accounting Surplus/Loss
- Underlying Surplus/Loss
- Cash Generated Surplus/Loss

4.1 Operational Surplus

4.1.1 Differences between Accounting surplus/loss, Underlying surplus/loss and Cash Generating Surplus/Loss

When municipalities publish their financial statements, Generally Recognised Accounting Practices (GRAP) require them to disclose the operating surplus or deficit they generate. This is calculated by subtracting all costs from revenue, including numerous non-recurrent accounting adjustments, and the resulting surplus or deficit is then referred to as an accounting surplus or deficit.

An accounting surplus or loss can be misleading regarding the actual situation. Although the Annual Financial Statements are prepared according to the GRAP standards, which require municipalities to report in this way, it is more practical to determine the actual surplus or loss for planning purposes.

Underlying surplus or loss is an internal calculation aimed at providing a more accurate view of how much money it generates. The figure focuses on regular accounting cycle events and often excludes one-time charges or infrequent occurrences. Underlying surpluses differ from the required accounting surpluses recorded on financial statements and other official documents that follow established practices, rules, and regulations.

For this financial planning, the municipality will supplement the reported figures with its own calculations. Underlying profit is designed to provide a more useful indicator of performance year by year.

Stripping out unusual, non-recurring costs irons out random fluctuations and should, in theory, make it easier for decision-makers to get a better idea of how the municipality's surplus/loss from its everyday, standard business operations is accrued.

The goal here is to eliminate any distractions caused by random occurrences. Losses or gains that do not recur are usually not taken into account because they are infrequent and, as a result, are not considered to reflect the municipality's everyday costs of operation.

In general, only regular operating expenses considered to be predictable or required will be deducted from predictable revenue.

When the underlying surplus/loss is then further excluded from all the accounting adjustments, the result is only a cash-generating surplus/loss.

This is the most important and relevant indicator. This principle serves the purpose of determining the future cash flow, which fundamentally would form the basis of the projections and assumptions applied further in the analysis phase.

4.1.2 Accounting surplus/loss

Below is a summary of the municipality's operational performance, as reflected in the published Annual Financial Statements as at 30 June 2025, and in accordance with all accounting practices prescribed by GRAP.

Apart from 2023, the municipality has a tendency to realise operating surpluses, of (**2025)** R18 million**, (2024)** R16 million**, (2022**) R13 million and **(2021)** R20 million respectively. (*See table 1, below)*

An accounting surplus/loss is, however, misleading of the reality, and is the underlying surplus / deficit analysis a more realistic indication of the municipality's operations.

	2025	2024	2023	2022	2021
	R	R	R	R	R
REVENUE					
Property Rates	5 940 941	5 753 706	5 073 221	4 380 380	4 004 457
Government Grants and Subsidies - Operating	34 925 338	32 605 630	30 924 733	30 740 896	31 583 389
Government Grants and Subsidies - Capital	24 142 864	23 046 473	6 831 346	12 746 124	17 813 786
Contributed Property, Plant and Equipment	0	0	0	173 839	0
Fines. Penalties and Forfeits	11 206 889	8 161 929			
Service in kind	1 541 109	1 709 329	2 504 819	2 417 849	2 710 839
Availability Charges	0	0	706 531	1 717 585	0
Actuarial Gains	0	370 566	0	0	531 946
Fines. Penalties and Forfeits	0	0	9 575 080	6 909 263	3 506 650
Interest Earned - Non-exchange Transactions	457 542	220 484	186 024	201 975	176 889
Service Charges	37 678 766	37 968 662	31 768 365	30 552 368	27 805 660
Sales of Goods and Rendering of Services	402 574	402 719	509 346	435 593	434 103
Rent on Land	60 645	60 781	240 411	201 400	111 860
Rental from Fixed Assets	721 372	464 738	439 222	389 499	303 924
Interest Earned - External Investments	5 411 891	6 182 529	4 071 462	2 346 796	2 321 430
Interest Earned - Exchange Transactions	2 218 902	1 605 228	1 130 959	1 730 930	1 503 321
Licences and Permits	111 625	89 637	89 154	137 351	123 702
Agency Services	323 423	286 570	293 874	285 790	281 092
Operational Revenue	2 078 763	2 146 161	1 776 860	105 346	138 977
Total Revenue	**127 222 644**	**121 075 142**	**96 121 406**	**95 472 983**	**93 352 025**
EXPENDITURE					
Employee related costs	36 849 107	34 791 094	30 303 188	25 313 205	24 540 855
Remuneration of Councillors	3 524 534	3 414 433	3 139 209	3 225 563	3 154 954
Irrecoverable Debts Written Off	57 717 082	4 078 124	18 210 309	1 046 392	329 561
Contracted Services	10 134 513	9 928 730	7 376 342	6 214 550	5 945 189
Depreciation and Amortisation	6 727 146	7 442 664	7 115 369	5 391 788	5 428 563
Actuarial Losses	398 731	583 791	0	171 404	0
Finance Costs	3 223 837	3 250 934	2 726 761	1 940 350	818 150
Bulk Purchases	20 106 552	17 344 520	14 605 746	15 796 235	12 097 619
Inventory Consumed	554 093	655 449	437 138	572 468	619 592
Transfers and Subsidies	759 964	277 216	704 305	621 046	320 000
Operational Costs	11 510 225	12 276 327	14 638 957	11 698 346	10 703 207
Total Expenditure	**151 505 783**	**94 043 283**	**95 619 025**	**81 916 571**	**73 170 498**
Operating Surplus/(Deficit) for the Year	**-24 283 139**	**27 031 859**	**502 381**	**13 556 412**	**20 181 526**
Reversal of Impairment Loss/(Impairment Loss) on Receivable	40 875 056	-12 356 360	-3 638 300	9 925 224	9 212 809
Gains/(Loss) on Sale of Fixed Assets	-90 154	-38 351	-10	-448 740	150 856
Reversal of Impairment Loss/(Impairment Loss) on Fixed Asset	1 544 930	2 213 331	-1 986 875	486 727	491 664
NET SURPLUS/(DEFICIT) FOR THE YEAR	**18 046 693**	**16 850 478**	**-1 484 504**	**13 594 399**	**20 824 046**

Table 1 Accounting surpluses (Source: Annual Financial Statements)

4.1.3 Underlying surplus/loss

For the analysis of operational financial performance to be meaningful, the underlying principle, as described above, is more appropriate. Therefore, the following items have been isolated and excluded to convert the accounting surplus into an underlying surplus.

Excluded:

- Government Capital Grants
- Contributed Property, Plant and Equipment
- Actuarial Gains and Losses
- Services in kind
- Accounting adjustments for loss on property, plant, and equipment, impairment losses, inventory losses and gain on vesting of property, plant and equipment.
- Irrecoverable Debts Written Off

	2025	2024	2023	2022	2021
	R	R	R	R	R
REVENUE					
Property Rates	5 940 941	5 753 706	5 073 221	4 380 380	4 004 457
Government Grants and Subsidies - Operating	34 925 338	32 605 630	30 924 733	30 740 896	31 583 389
Fines. Penalties and Forfeits	11 206 889	8 161 929			
Availability Charges	0	0	706 531	1 717 585	0
Fines. Penalties and Forfeits	0	0	9 575 080	6 909 263	3 506 650
Interest Earned - Non-exchange Transactions	457 542	220 484	186 024	201 975	176 889
Service Charges	37 678 766	37 968 662	31 768 365	30 552 368	27 805 660
Sales of Goods and Rendering of Services	402 574	402 719	509 346	435 593	434 103
Rent on Land	60 645	60 781	240 411	201 400	111 860
Rental from Fixed Assets	721 372	464 738	439 222	389 499	303 924
Interest Earned - External Investments	5 411 891	6 182 529	4 071 462	2 346 796	2 321 430
Interest Earned - Exchange Transactions	2 218 902	1 605 228	1 130 959	1 730 930	1 503 321
Licences and Permits	111 625	89 637	89 154	137 351	123 702
Agency Services	323 423	286 570	293 874	285 790	281 092
Operational Revenue	2 078 763	2 146 161	1 776 860	105 346	138 977
Total Revenue	**101 538 671**	**95 948 774**	**86 785 241**	**80 135 172**	**72 295 454**
EXPENDITURE					
Employee related costs	36 849 107	34 791 094	30 303 188	25 313 205	24 540 855
Remuneration of Councillors	3 524 534	3 414 433	3 139 209	3 225 563	3 154 954
Contracted Services	10 134 513	9 928 730	7 376 342	6 214 550	5 945 189
Depreciation and Amortisation	6 727 146	7 442 664	7 115 369	5 391 788	5 428 563
Finance Costs	3 223 837	3 250 934	2 726 761	1 940 350	818 150
Bulk Purchases	20 106 552	17 344 520	14 605 746	15 796 235	12 097 619
Inventory Consumed	554 093	655 449	437 138	572 468	619 592
Transfers and Subsidies	759 964	277 216	704 305	621 046	320 000
Operational Costs	11 510 225	12 276 327	14 638 957	11 698 346	10 703 207
Total Expenditure	**93 389 970**	**89 381 368**	**81 047 015**	**70 773 550**	**63 628 129**
NET UNDERLYING SURPLUS FOR THE YEAR	**8 148 701**	**6 567 406**	**5 738 225**	**9 361 621**	**8 667 325**

Table 2: Underlying Surpluses' (Annual Financial Statements)

Based on the information reflected in Table 2, the Municipality, although showing surpluses, achieves these mainly from government operating grants. If the grants are excluded as revenue, the municipality operates at an average deficit of R25 million per annum. This clearly indicates that the municipality is dependent on government grants to remain sustainable.

Although the municipality is Government Grant dependent, it is being operated and managed based on very sound financial principles, which results in a fairly healthy annual operating surplus.

Furthermore, the information indicated that no borrowing costs were incurred, suggesting a window of opportunity for future borrowing should it become necessary.

As indicated in paragraph 1.2, one of the key objectives of the LTFP is to maintain the municipality's ability to fund current and future capital projects and meet the asset renewal requirements as outlined in the asset management planning analysis (Appendix 2)

The municipality was very successful in its past endeavours to meet the above, and the future challenge is to maintain this momentum and remain sustainable in all aspects.

Thus, it all boiled down to the municipality's ability to generate sufficient cash to maintain and execute its current functions and, ultimately, to accumulate a cash surplus to meet its future responsibilities. To determine if the municipality has the capacity to accumulate cash, the underlying surpluses must be adjusted further.

4.1.4 Cash generated surplus/loss

The underlying principle, as described above, is adjusted to exclude the non-cash expenditure and revenue. Therefore, the following items have been isolated and excluded to transform the underlying surplus into a cash-generated surplus.

Exclusions

- Only the fines actually received.
- Property Rates and Services adjusted to reflect only actual amounts received.
- Non-cash portion of Employee cost excluded
- Contributions to Landfill Restoration

Inclusions

- Redemption on loans (Not applicable at this stage)

Important assumptions used in the cash generated surpluses are the following:

- The status quo in the current operations is maintained.
- All non-cash expenditure items are excluded.
- Debtors' recovery rates are used in terms of the historical past 5 years, as reflected in Table 3 above

The actual amounts received are comprehensively analysed in **section 4.4.** below. This analysis indicates low to critically low recovery levels for water and refuse removal services. In projecting future revenue, more realistic and defensible collection ratios have therefore been applied. Accordingly, the actual amounts received for Property Rates and

service charges recognised as revenue have been adjusted to reflect these revised recovery assumptions.

Notwithstanding these adjustments, the historical payment ratios, as determined from the actual collections analysed in **section 4.4**, remain essential for identifying the structural and fundamental causes of under-recovery. These ratios also provide reliable indicators for assessing the sustainability of revenue streams and for informing future revenue projections, particularly in estimating the cash that can realistically be generated from operating activities.

With the above assumptions in mind, the figures in the 2025 Statement of Performance are adjusted to determine the actual cash generated for the financial year.

The result of the adjusted 2025 actual Statement of Performance is as follows:

	AFS Actuals 2024/25
REVENUE	
Revenue from exchange transacrtions	**R**
Property rates @ payment ratio 91%	R5 417 142.52
Service charges - electricity revenue @ payment ratio 99%	R20 601 623.79
Service charges - water revenue@ payment ratio 74 %	R4 545 437.27
Service charges - sanitation revenue @ payment ratio 50%	R1 761 539.00
Service charges - refuse revenue @ Payment ratio 81%	R5 852 572.38
Rental of facilities and equipment	R721 371.92
Interest earned - external investments	R5 411 890.54
Interest earned - outstanding debtors	R2 676 443.72
Fines, penalties and forfeits @ payment ratio 5%	R560 344.45
Licences and permits	R111 625.10
Agency services	R323 423.17
Transfers and subsidies	R34 925 337.68
Other revenue	R2 541 983.00
Total Revenue	**R85 450 734.54**
EXPENDITURE	
Employee related costs	R33 371 727.89
Remuneration of councillors	R3 524 533.91
Finance charges only on Payables	R1 058 339.51
Bulk purchases	R20 106 551.82
Other materials	R554 093.31
Contracted services	R10 134 512.52
Transfers and subsidies	R759 963.50
Other expenditure	R9 344 727.79
Total Expenditure	**R78 854 450.25**
Underlying Operating Cash Surplus	**R6 596 284.29**

Table 4: Cash Generated Surplus (Annual Financial Statements)

The above is the net Cash surplus generated **from operations (excluding working capital movements**

Although the operations generated surplus Cash, the Cash Surpluses are not sufficient to increase the Accumulated Cash Reserves; on the contrary, the **cash reserves have decreased from 2021 to 2025 from R51.967 million to R51.056 million.**

From the above, it is clear that Cash Flow management needs attention and should be aligned with the next 10-year period, indicating the Cash Reserves required. To improve the Cash Reserves position, the municipality's overall financial position needs to be analysed to identify risks and opportunities for improvement. The analysis results are as follows:

Overall Financial Position

4.1.4.1 Revenue Analysis

Total Operating Revenue: R85.45 million

Revenue Composition and Sustainability

Revenue Category	Amount (R)	% of Total Revenue	Critical Assessment
Government Grants & Subsidies	34.93 m	40.9%	High dependency materially limits fiscal autonomy and increases vulnerability to policy and allocation changes
Electricity Revenue	20.60 m	24.1%	Strong and reliable performer with near-optimal collection levels
Property Rates	5.42 m	6.3%	Stable but below best-practice collection benchmarks
Water, Sewerage & Refuse	12.16 m	14.2%	Structurally weak collections undermine cost recovery
Interest (Investments & Exchange)	8.09 m	9.5%	Reflects healthy cash balances but constitutes non-core income
Other Revenue	3.66 m	4.3%	Minor and largely non-scalable

Key Observation
More than 65% of total revenue is derived from grants, electricity, and interest income, exposing the Municipality to:

- External funding volatility,
- Regulatory constraints on electricity cross-subsidisation, and
- A structurally narrow own-revenue base.

Payment Ratio Performance – Critical Risk Indicator
Strong Performers
Electricity – 99%

- Excellent credit control effectiveness.
- Cash-positive trading service.

- Minimal risk of debtor book expansion.

Property Rates – 91%

- Acceptable by sector standards but below the 95% benchmark associated with financially resilient municipalities.
- Indicates emerging affordability pressures or enforcement weaknesses.

Weak Performers

- Water – 74%
- Sewerage – 50%
- Refuse – 81%

Revenue Performance and Sustainability

During the 2024/25 financial year, Prince Albert Municipality generated total operating revenue of R85.45 million. The revenue structure reflects a combination of own-revenue sources and intergovernmental transfers; however, its composition reveals material structural vulnerabilities. Government grants and subsidies contributed approximately R34.93 million, accounting for just over 40% of total revenue. This level of dependence significantly limits the Municipality's fiscal autonomy and exposes it to funding volatility arising from policy changes, grant framework adjustments, or allocation reductions.

Electricity revenue amounted to R20.60 million, representing approximately 24.1% of total revenue. This revenue stream remains the Municipality's strongest and most reliable own-revenue source, supported by an exceptional payment ratio of approximately 99%. The electricity service is therefore cash-positive and plays a critical role in sustaining overall liquidity. Property rates generated R5.42 million, contributing 6.3% of total revenue. While the collection performance of approximately 91% is acceptable by sector standards, it remains below the 95% benchmark typically associated with financially resilient municipalities, indicating emerging affordability pressures or weaknesses in enforcement.

Revenue from water, sewerage, and refuse services totalled R12.16 million, representing 14.2% of total revenue. These services are billed at payment ratios of 74%, 50%, and 81%, respectively, reflecting persistent under-collection. This underperformance materially undermines cost recovery and results in implicit operating deficits within these service lines. Interest income from investments and exchange transactions amounted to R8.09 million, or 9.5% of total revenue. While this reflects healthy cash and investment balances, it constitutes non-core income and is not a sustainable substitute for stable own-revenue growth. Other revenue sources contributed R3.66 million, or 4.3% of total revenue, and are largely minor, non-scalable, and opportunistic in nature.

Overall, more than 65% of total revenue is derived from government grants, electricity revenue, and interest income. This concentration exposes the Municipality to external funding risks, regulatory constraints on electricity cross-subsidisation, and a structurally narrow own-revenue base. The current revenue model is therefore vulnerable to both policy changes and shifts in consumer behaviour.

Revenue Collection Performance and Structural Risk

An assessment of payment ratios highlights a clear divergence in collection performance across services. Electricity collections are exceptionally strong, supported by effective credit control measures, low debtor growth risk, and robust cash conversion. Property rates collections, while reasonable, remain below optimal levels and suggest a gradual increase in indigence levels or reduced enforcement effectiveness. In contrast, water, sewerage, and refuse services demonstrate persistently weak collection performance, creating structural deficits that are implicitly financed through surpluses generated elsewhere in the operating budget.

Fines and penalties exhibit an extremely low collection rate of approximately 5%. This indicates that a significant portion of fines revenue is theoretical in nature, resulting in overstatement of budgeted revenue and distortion of actual cash-generating capacity. The continued inclusion of such revenue at inflated levels undermines the credibility of financial planning and masks underlying cash flow pressures.

The Municipality faces additional structural revenue risks due to tariffs that are not fully aligned with cost recovery, particularly in water and sanitation services. Continued reliance on electricity surpluses to subsidise loss-making services is financially risky and increasingly constrained by regulatory frameworks. Furthermore, elevated interest income suggests delayed capital implementation or unspent grant funding, which cannot be relied upon as a long-term operating strategy.

4.1.4.2 Expenditure Analysis

Total Operating Expenditure: R78.85 million

Expenditure Composition

Expenditure Category	Amount (R)	% of Total Expenditure	Assessment
Employee-Related Costs	33.37 m	42.3%	High, exceeding recommended norms for small municipalities
Bulk Purchases	20.11 m	25.5%	Predominantly electricity purchases; structurally unavoidable
Contracted Services	10.13 m	12.9%	Elevated; warrants value-for-money and scope review
Operational Costs	9.34 m	11.8%	Generally acceptable but showing upward pressure
Other Costs	5.90 m	7.5%	Within acceptable norms

Expenditure Performance and Cost Structure

Total operating expenditure for the 2024/25 financial year amounted to R78.85 million. The expenditure structure is characterised by a high proportion of fixed and semi-fixed costs, which materially limits short-term financial flexibility. Employee-related costs totalled R33.37 million, accounting for approximately 42.3% of total expenditure. This exceeds the generally recommended range of 35 to 40% for small municipalities and indicates upward pressure on the operating budget, even after excluding non-cash provisions.

Bulk purchases amounted to R20.11 million, representing 25.5% of total expenditure. This expenditure is largely driven by electricity bulk purchases and is structurally unavoidable given the nature of the service. Contracted services totalled R10.13 million, or 12.9% of expenditure, and appear elevated relative to the Municipality's scale. This suggests a reliance on external service providers to compensate for internal capacity constraints, which may not be sustainable over the medium term without value-for-money scrutiny. Operational costs amounted to R9.34 million, or 11.8% of total expenditure, and while generally acceptable, show signs of increasing pressure. Other costs totalled R5.90 million, or 7.5% of expenditure, and remain within acceptable norms.

Combined, personnel costs and bulk purchases consume nearly 68% of total operating expenditure. This concentration significantly reduces the Municipality's ability to respond to revenue shocks or redirect resources without affecting service delivery.

4.1.4.3. Underlying Cash Surplus – Quality Assessment

Underlying Operating Cash Surplus: R6.60 million

Positive Contributors

- Strong electricity collection performance.
- Healthy cash and investment balances.
- Low finance costs.

Structural Weaknesses

- Persistently poor recovery of water, sewerage, sanitation, and fines.
- High dependence on intergovernmental grants.
- Surplus not driven by growth in sustainable own-revenue sources.

The Municipality recorded an underlying operating cash surplus of R6.60 million for the 2024/25 financial year. This positive outcome reflects strong electricity collections, healthy cash and investment balances, and low finance charges, indicating limited reliance on borrowing. However, the quality of the surplus is mixed. The surplus is not primarily driven by growth in sustainable own-revenue streams, but rather by strong performance in electricity revenue, continued grant inflows, and interest income derived from accumulated cash balances.

Persistent weakness in the recovery of water, sewerage, sanitation, and fines revenue, coupled with high grant dependence, undermines the sustainability of the surplus. Without corrective revenue interventions, particularly in service-charge collections, the current cash surplus may erode over time, exposing the Municipality to future liquidity and service delivery risks.

Overall Financial Risk Assessment

The Municipality faces several interrelated financial risks that threaten medium-term sustainability. These include ongoing revenue collection risks arising from low payment ratios in core services, grant dependency risks linked to external funding volatility, cross-subsidisation risks where electricity surpluses mask losses in other

services, and operational rigidity resulting from high fixed costs. Collectively, these risks constrain the Municipality's financial resilience and reduce its ability to respond effectively to economic or policy shocks.

Strategic Financial Direction

To improve long-term financial sustainability, the Municipality must implement targeted revenue management interventions, particularly service-specific credit control measures for water and sewerage services. Tariff structures should be reviewed to ensure alignment between affordability and cost recovery, while fines and penalties should be budgeted based on realistic historical collection trends. Strengthening indigent management verification processes will be critical to protecting the paying revenue base.

On the expenditure side, personnel growth must be contained through organisational structure reviews, and contracted services should be subjected to rigorous value-for-money assessments to eliminate inefficiencies and duplication. Improved demand management, particularly in bulk purchases, will further enhance cost control.

From a sustainability perspective, reliance on interest income for operating stability should be reduced, and surplus cash should be strategically redirected toward infrastructure maintenance and asset preservation to mitigate future liabilities. Strengthening long-term financial planning by using conservative, realistic revenue assumptions will be essential to safeguarding financial stability.

Conclusion

The Municipality remains cash-positive in the short term; however, the current financial position masks significant medium-term sustainability risks. Without decisive reforms, particularly in water and sanitation revenue management, the Municipality's operating surplus may progressively erode, placing future service delivery, infrastructure integrity, and financial stability at risk.

4.2 Projected Revenue and Expenditure for the next 10 years (see also Appendix 2)

4.2.1. Projected Operating Cash Surpluses – Analysis

The government's fiscal policy targets a **3% inflation rate** within a band of 2% to 4%. However, due to current fiscal interventions, the observed inflation rate is relatively low and considered unrealistic for long-term projections. For the purpose of estimating future cash surpluses, a **median inflation rate of 4%** is assumed over the next ten years.

Based on Table 4, the **2025 actuals** have been projected for the next ten years **ceteris paribus**, without accounting for other adjustments. This results in the following **projected operating cash surpluses** (excluding working capital adjustments):

Year	Projected Cash Surplus (R)
2025/2026	6,860,136
2026/2027	7,134,541
2027/2028	7,419,923
2028/2029	7,716,720
2029/2030	8,025,388

Year	Projected Cash Surplus (R)
2030/2031	8,346,404
2031/2032	8,680,260
2032/2033	9,027,471
2033/2034	9,388,569
2034/2035	9,764,112
Total	**82 363 524**

4.2.2. Observations

- **Steady Growth:** The projected cash surpluses increase consistently from **R6,860,136 in 2025/26** to **R9,764,112 in 2034/35**, reflecting the assumed median inflation rate of 4%.
- **Ceteris Paribus Assumption:** These projections do not account for potential changes in revenue streams, operational expenditures, or working capital adjustments. They represent a **baseline scenario derived solely from 2025 actuals**.
- **Inflation Adjustment:** Incorporating a **4% median inflation rate** provides a more realistic estimate of future cash surpluses, offering a conservative and practical basis for planning.

4.2.3. Implications for Cash Reserve Planning

The projected cash surpluses indicate **substantial liquidity from operations** over the ten-year period. These surpluses are considered in the **cash reserves analysis in Section 7** to determine:

- Whether total projected cash reserves for the 10-year period are sufficient to meet **working capital requirements**,
- Whether funds will be available to **replace assets** when required, and
- Whether adequate resources exist for **landfill site restoration**.

4.2.4. Council Policy and Good Practices

Employee Benefits Reserve:

Employee-related costs include contributions to **current and non-current employee benefits**. Since non-current benefits exceed current cash capabilities, it is considered best practice to:

- Provide for the short-term portion of employee benefits, and
- Allocate a minimum of 10% of the prior year's long-term benefits not yet cash-funded within the operating budget.

The cash portion of employee benefits must be reflected in an Employee Benefits Reserve. However, employee benefits differ in nature from other reserves, as the outflow of funds is absorbable through operating expenditure. Given the municipality's already limited cash reserves, establishing a cash-backed reserve for the EBR is not recommended at this stage.

Capital Replacement Reserve:

To ensure sufficient cash for **Property, Plant, and Equipment (PPE)** and intangible asset replacement:

- Depreciation on assets funded from own sources (excluding grants, contributions, and external loans) must be reflected as a surplus in the cash flow budget.
- The Capital Replacement Reserve (CRR) must be fully cash-funded, equivalent to annual depreciation/amortisation, and annual transfers must occur.

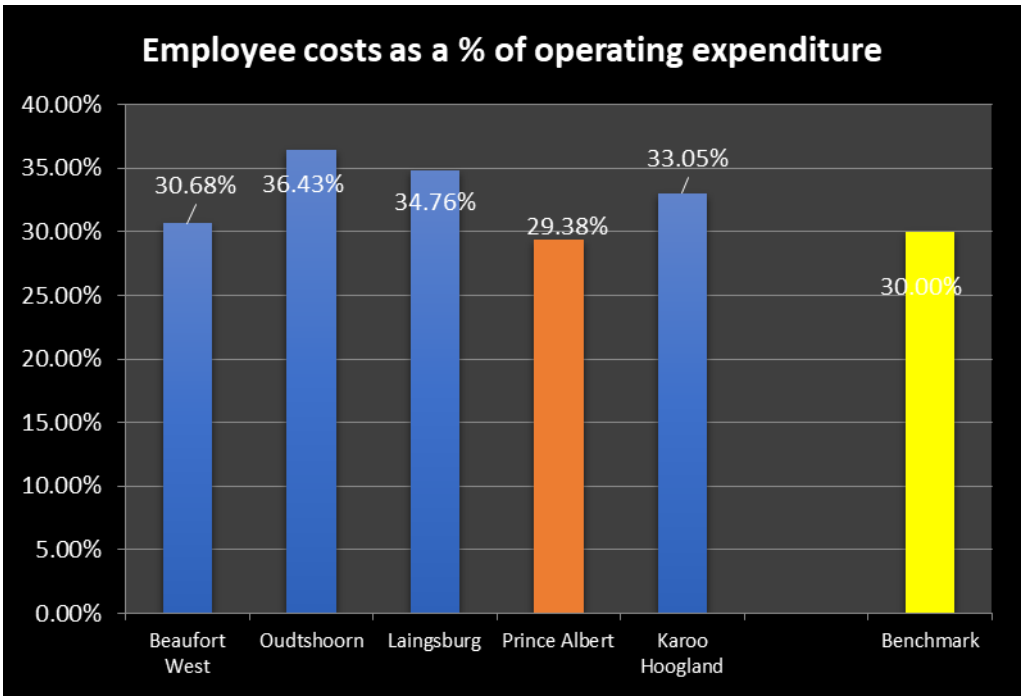
Note: Council policies are formal extensions of Council decisions and resolutions and are binding on management. Any deviation or non-execution constitutes **non-compliance**, except where Council has officially amended policy.

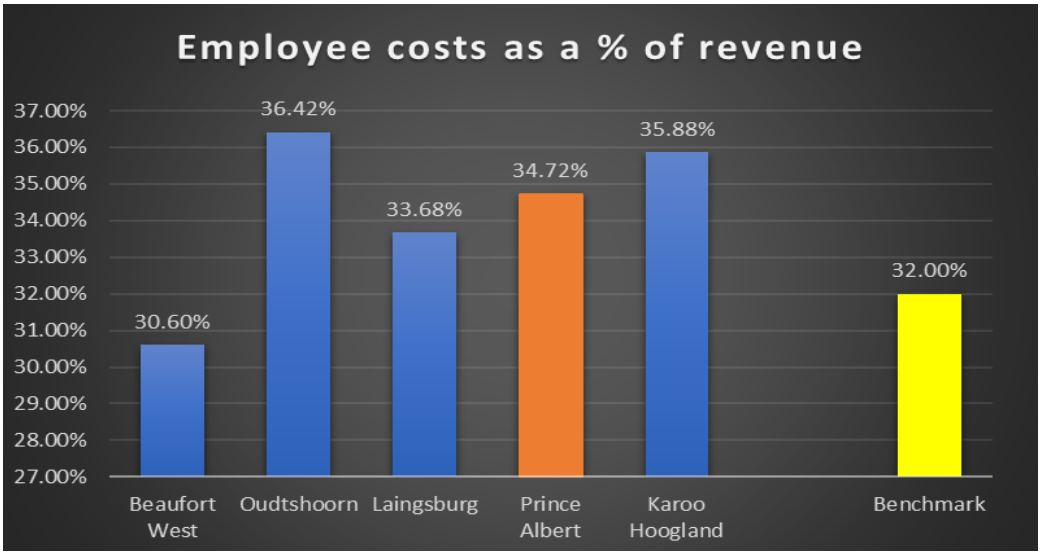
4.3 Financial Performance Analysis

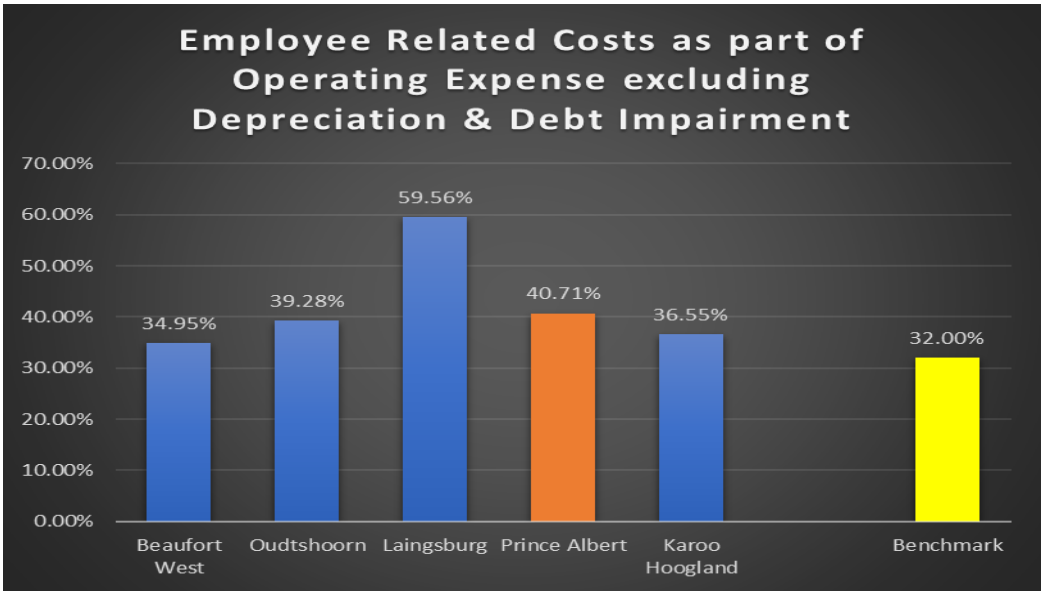
4.3.1 Comparative Financial Performance Analysis

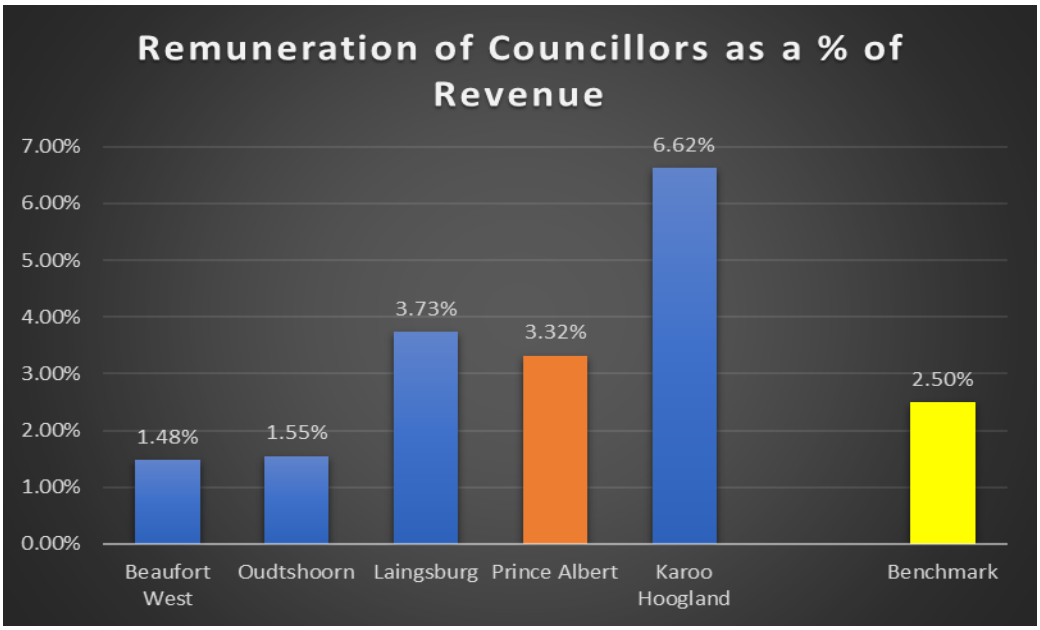
Prince Albert Local Municipality vs Neighbouring Municipalities and Benchmarks

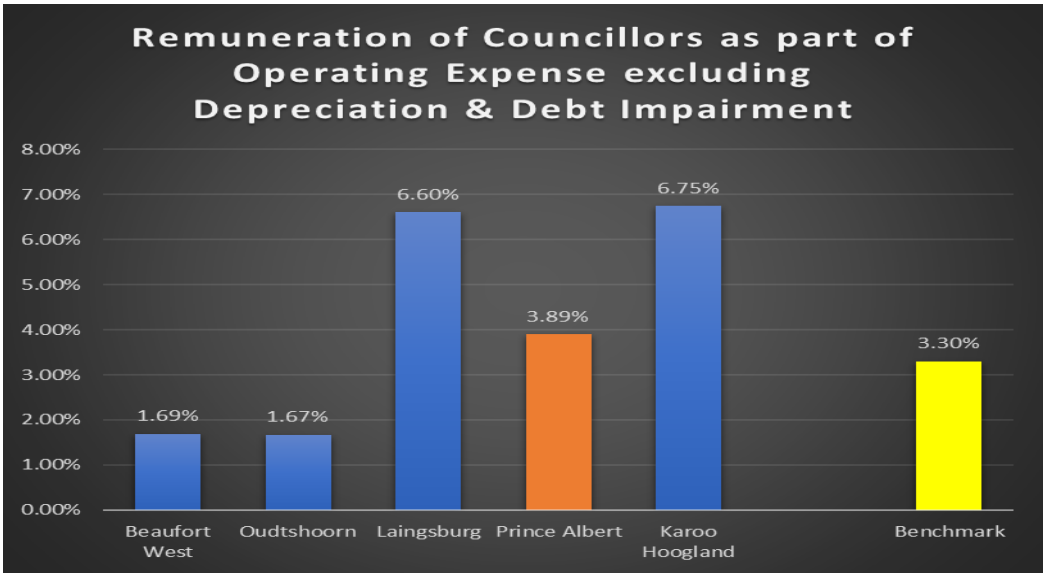
Graphs indicating the municipality's financial performance relatively to the neighbouring municipalities are as follows:

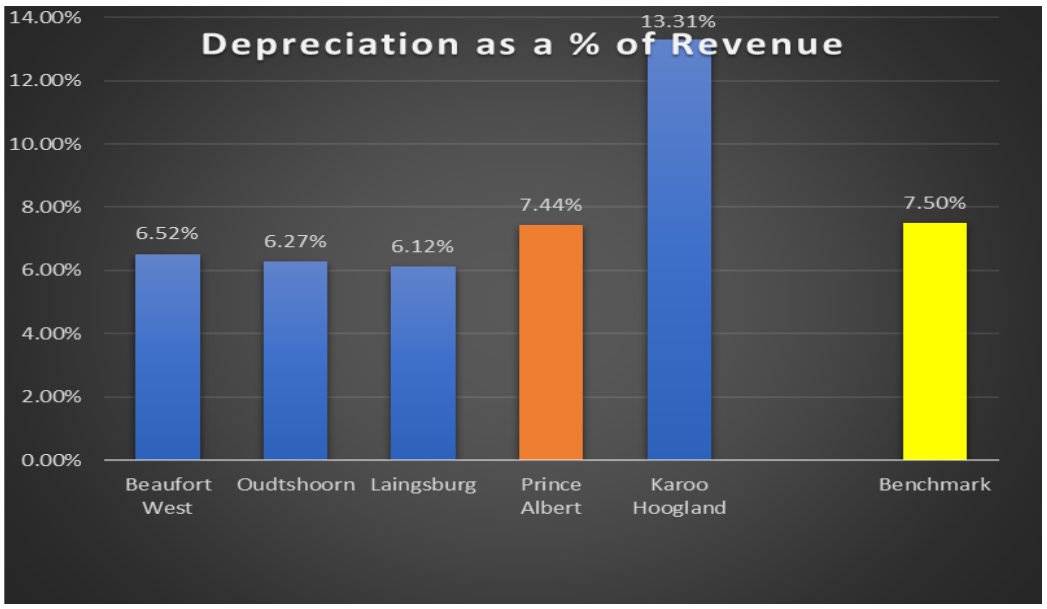


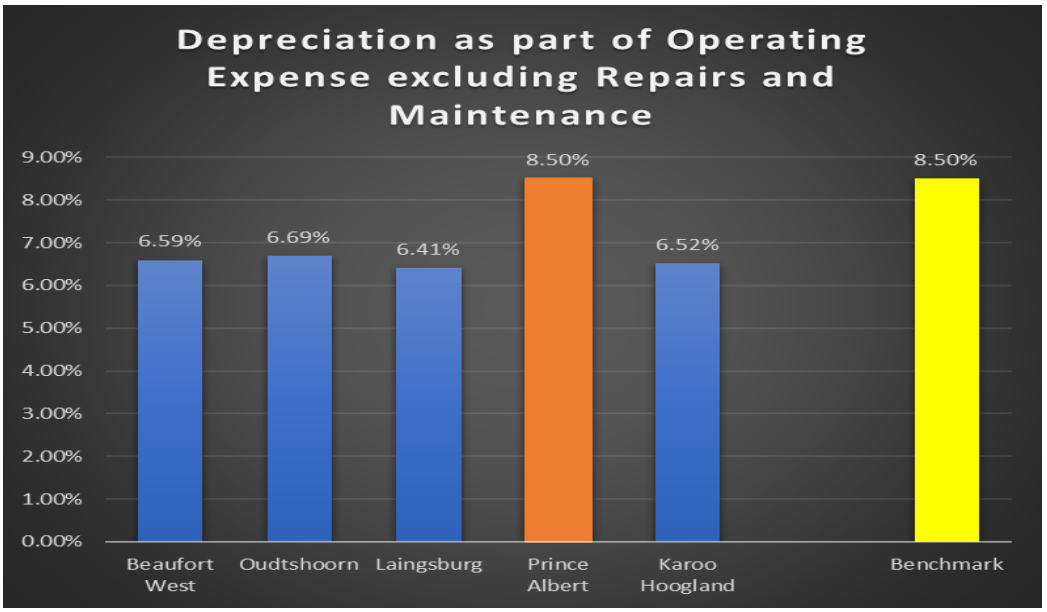

Employee costs as a % of revenue
37.00%
36.00%
35.00%
34.00%
33.00%
32.00%
31.00%
30.00%
29.00%
28.00%
27.00%
30.60%
36.42%
33.68%
34.72%
35.88%
32.00%
Beaufort West
Oudtshoorn
Laingsburg
Prince Albert
Karoo Hoogland
Benchmark

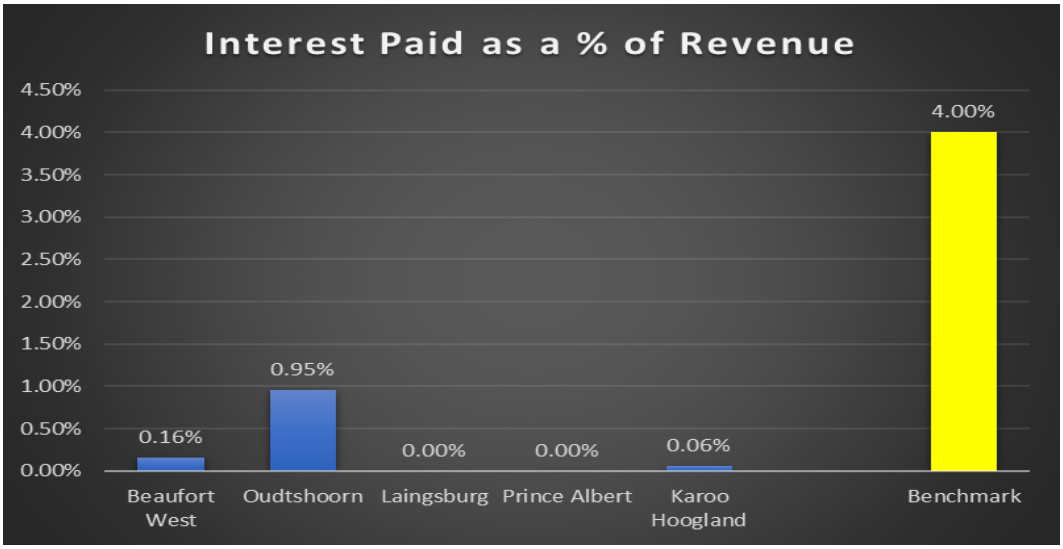

Employee Related Costs as part of Operating Expense excluding Depreciation & Debt Impairment
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
34.95%
39.28%
59.56%
40.71%
36.55%
32.00%
Beaufort West
Oudtshoorn
Laingsburg
Prince Albert
Karoo Hoogland
Benchmark

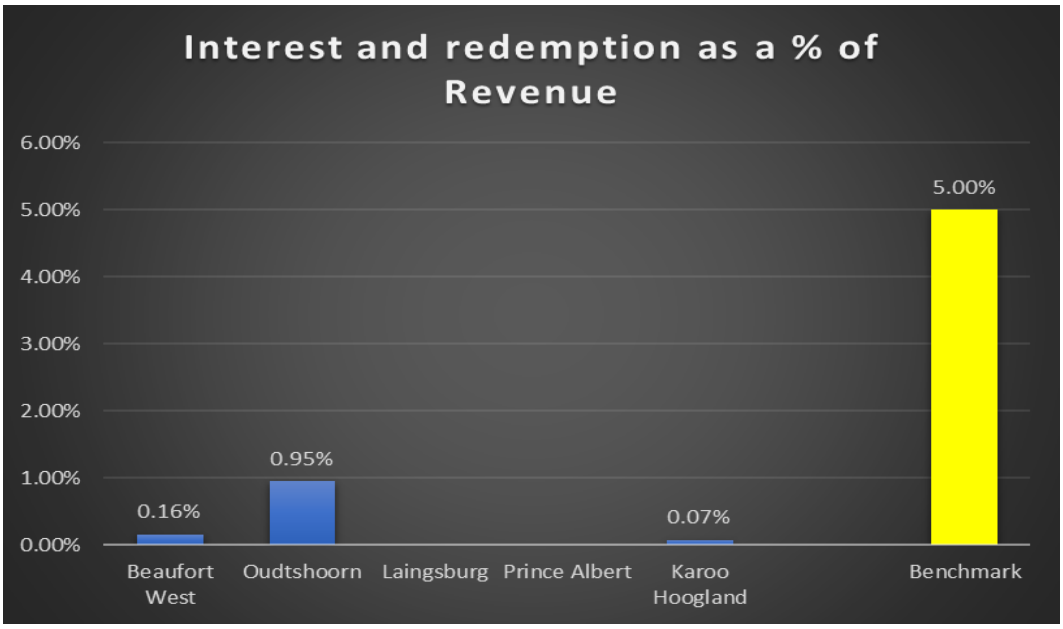

Remuneration of Councillors as a % of Revenue
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
1.48%
1.55%
3.73%
3.32%
6.62%
2.50%
Beaufort West
Oudtshoorn
Laingsburg
Prince Albert
Karoo Hoogland
Benchmark

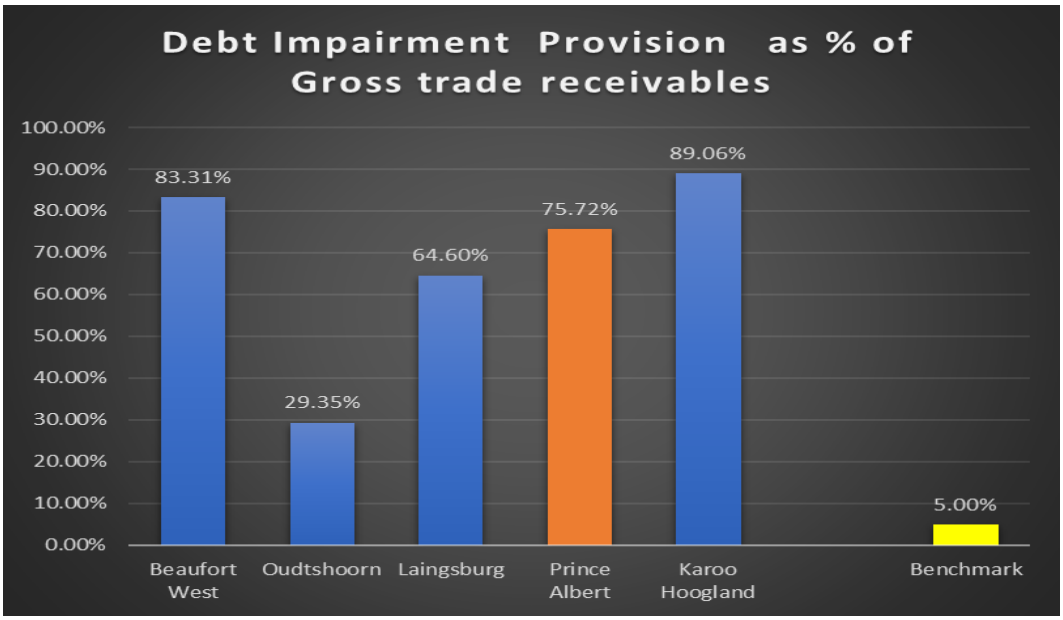

Remuneration of Councillors as part of Operating Expense excluding Depreciation & Debt Impairment
8.00%
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
1.69%
1.67%
6.60%
3.89%
6.75%
3.30%
Beaufort West
Oudtshoorn
Laingsburg
Prince Albert
Karoo Hoogland
Benchmark

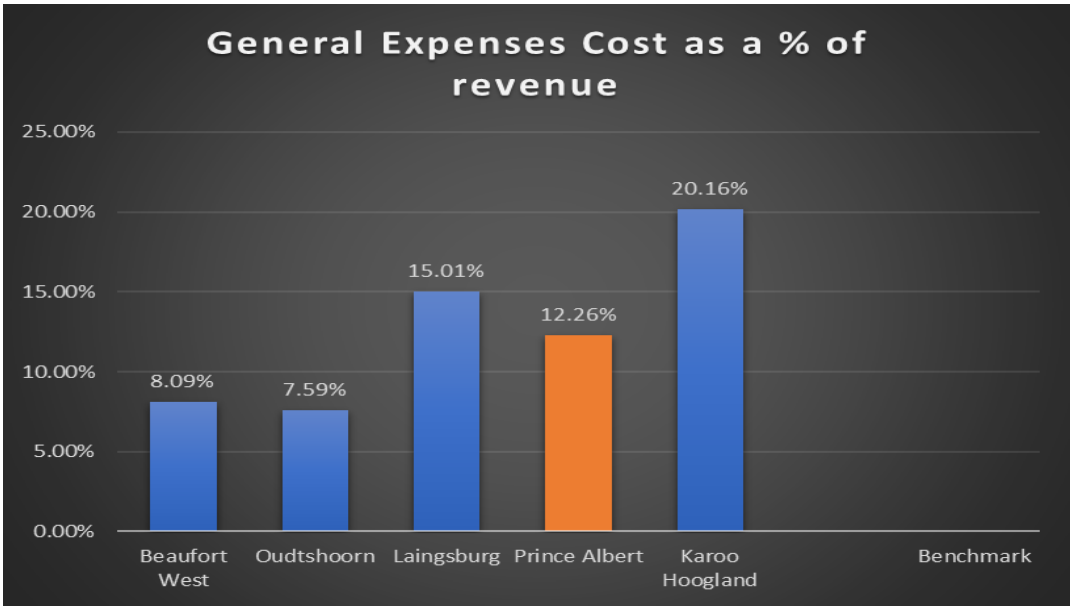

Depreciation as a % of Revenue
14.00%
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
6.52%
6.27%
6.12%
7.44%
13.31%
7.50%
Beaufort West
Oudtshoorn
Laingsburg
Prince Albert
Karoo Hoogland
Benchmark

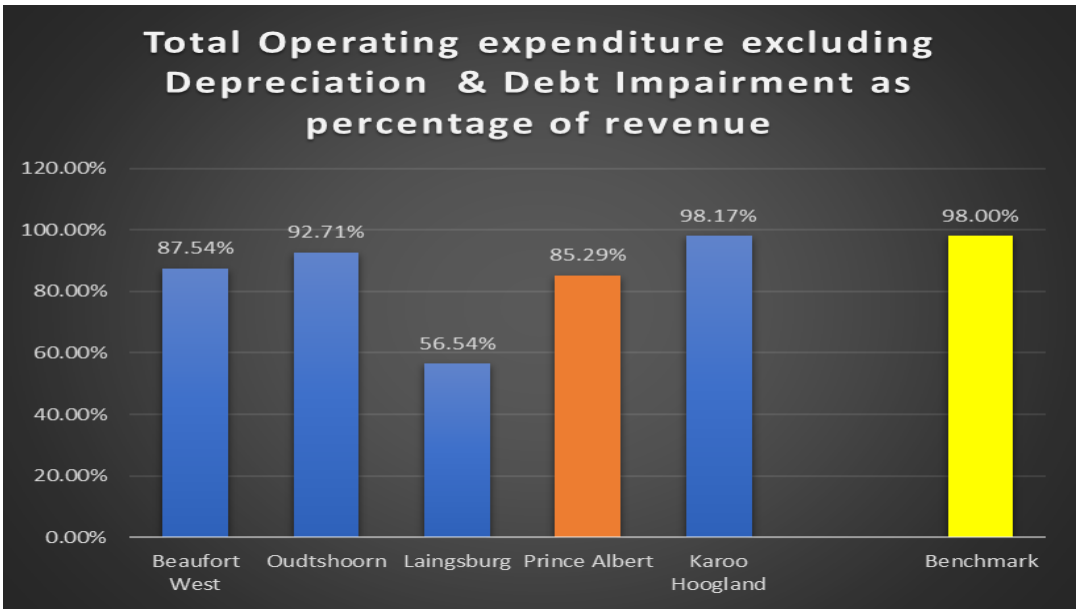

Depreciation as part of Operating Expense excluding Repairs and Maintenance
9.00%
8.00%
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
6.59%
6.69%
6.41%
8.50%
6.52%
8.50%
Beaufort West
Oudtshoorn
Laingsburg
Prince Albert
Karoo Hoogland
Benchmark

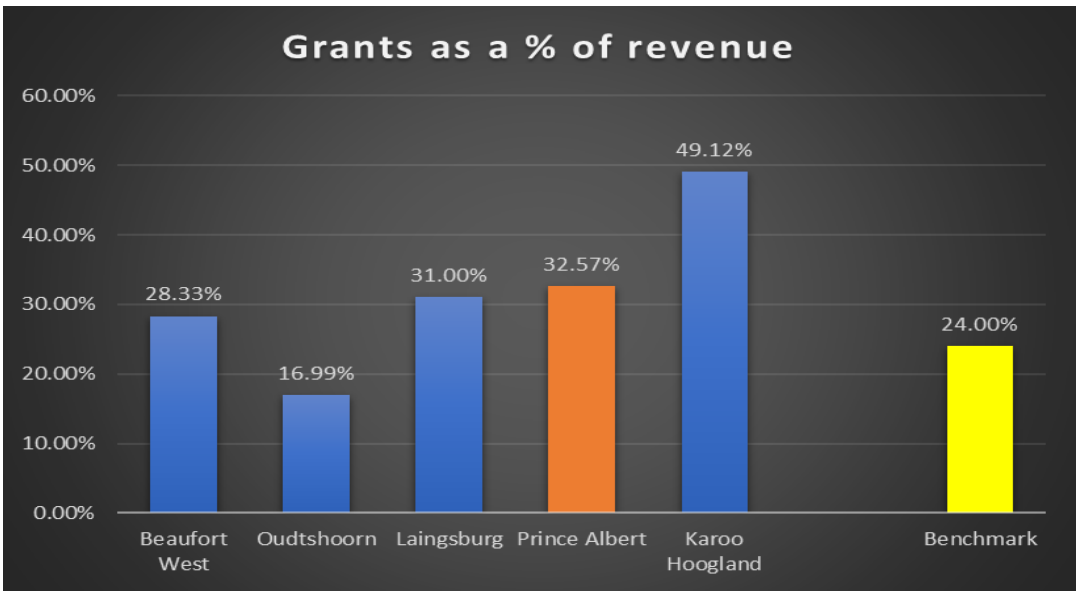

Interest Paid as a % of Revenue
4.50%
4.00%
3.50%
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
0.16%
0.95%
0.00%
0.00%
0.06%
4.00%
Beaufort West
Oudtshoorn
Laingsburg
Prince Albert
Karoo Hoogland
Benchmark

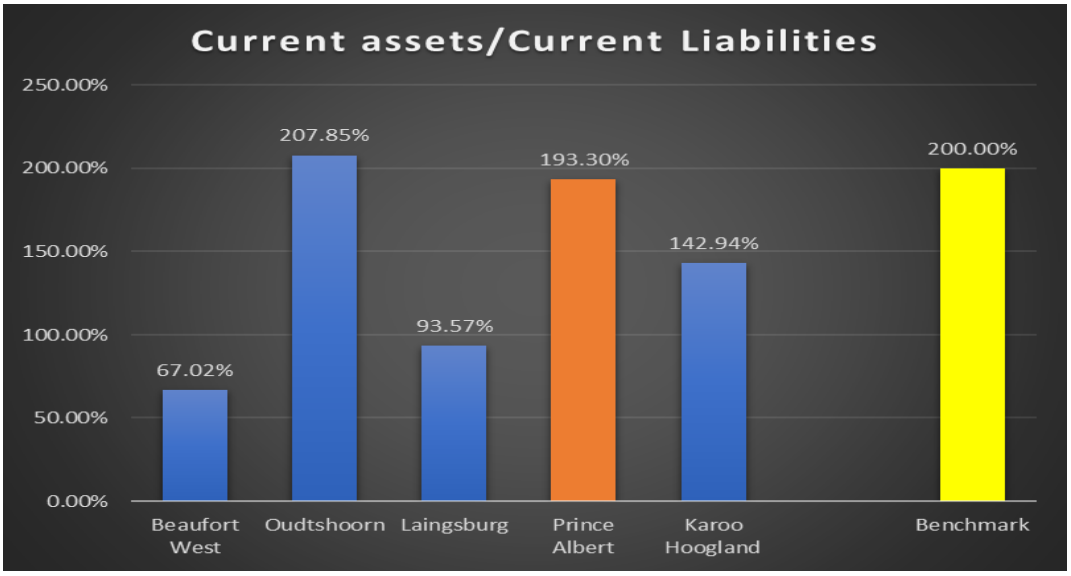

Interest and redemption as a % of Revenue
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
0.16%
0.95%
0.07%
5.00%
Beaufort West
Oudtshoorn
Laingsburg
Prince Albert
Karoo Hoogland
Benchmark

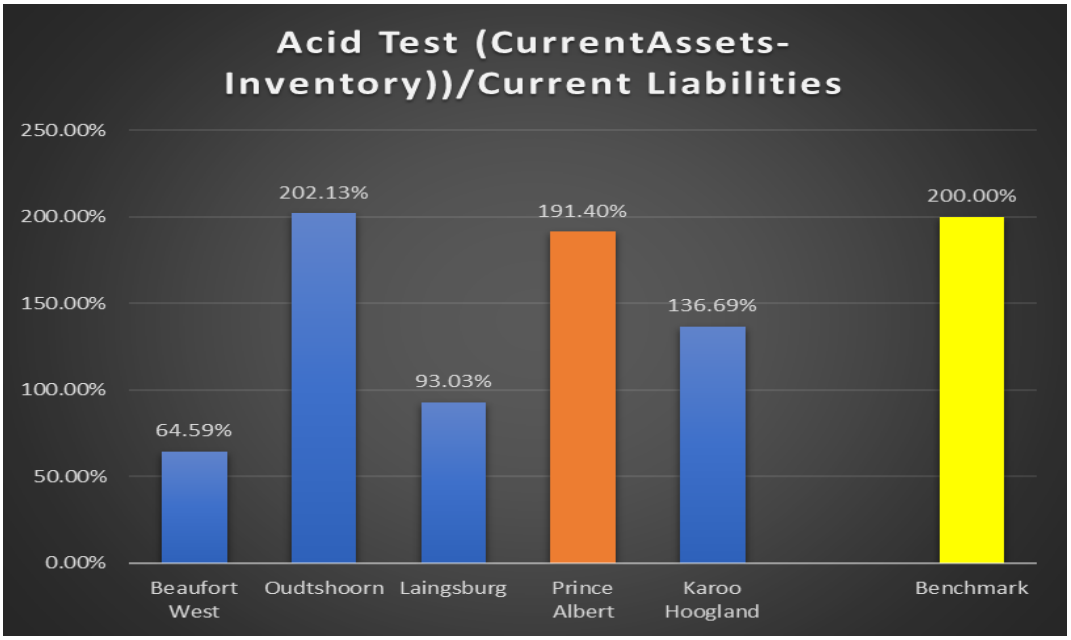

Debt Impairment Provision as % of Gross trade receivables
100.00%
90.00%
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
83.31%
29.35%
64.60%
75.72%
89.06%
5.00%
Beaufort West
Oudtshoorn
Laingsburg
Prince Albert
Karoo Hoogland
Benchmark

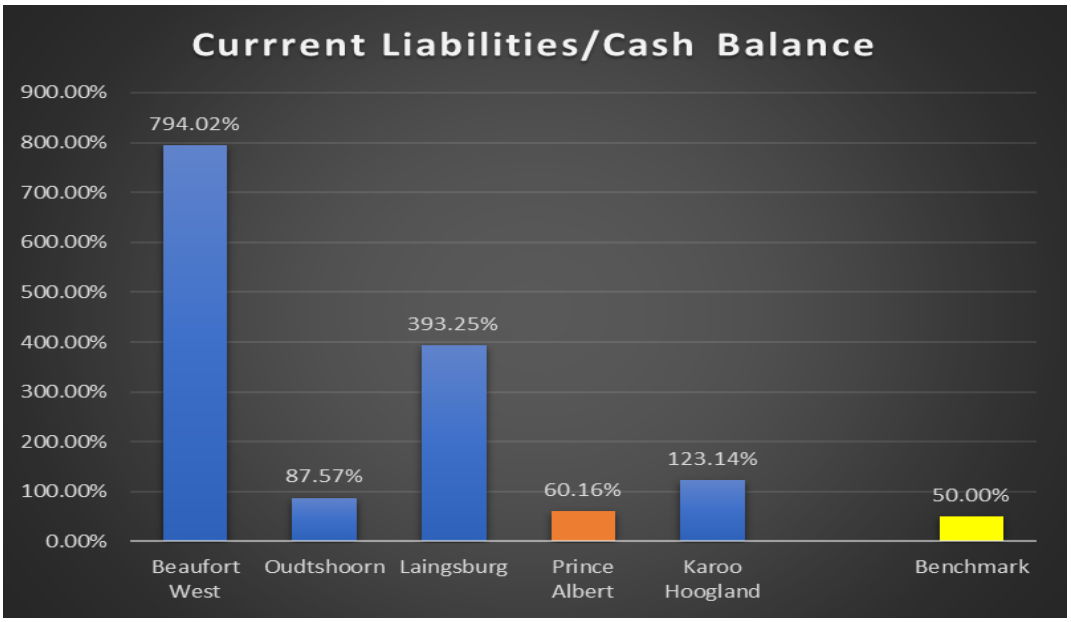

General Expenses Cost as a % of revenue
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
8.09%
7.59%
15.01%
12.26%
20.16%
Beaufort West
Oudtshoorn
Laingsburg
Prince Albert
Karoo Hoogland
Benchmark


Total Operating expenditure excluding Depreciation & Debt Impairment as percentage of revenue
120.00%
100.00%
80.00%
60.00%
40.00%
20.00%
0.00%
87.54%
92.71%
56.54%
85.29%
98.17%
98.00%
Beaufort West
Oudtshoorn
Laingsburg
Prince Albert
Karoo Hoogland
Benchmark


Grants as a % of revenue
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
28.33%
16.99%
31.00%
32.57%
49.12%
24.00%
Beaufort West
Oudtshoorn
Laingsburg
Prince Albert
Karoo Hoogland
Benchmark


Current assets/Current Liabilities
250.00%
200.00%
150.00%
100.00%
50.00%
0.00%
67.02%
207.85%
93.57%
193.30%
142.94%
200.00%
Beaufort West
Oudtshoorn
Laingsburg
Prince Albert
Karoo Hoogland
Benchmark


Acid Test (CurrentAssets-Inventory))/Current Liabilities
250.00%
200.00%
150.00%
100.00%
50.00%
0.00%
64.59%
202.13%
93.03%
191.40%
136.69%
200.00%
Beaufort West
Oudtshoorn
Laingsburg
Prince Albert
Karoo Hoogland
Benchmark


Currrent Liabilities/Cash Balance
900.00%
800.00%
700.00%
600.00%
500.00%
400.00%
300.00%
200.00%
100.00%
0.00%
794.02%
87.57%
393.25%
60.16%
123.14%
50.00%
Beaufort West
Oudtshoorn
Laingsburg
Prince Albert
Karoo Hoogland
Benchmark

4.3.1.1 Total Operating Revenue

Comparative Analysis

Prince Albert Local Municipality's total operating revenue reflects a **smaller but stable revenue base**, consistent with its rural character and limited economic scale. When compared with Beaufort West and Laingsburg, Prince Albert generates **lower absolute revenue** but demonstrates **strong revenue predictability** and year-on-year stability.

Beaufort West, as the largest municipality in the Central Karoo, benefits from a broader economic base and correspondingly higher revenue levels. Laingsburg occupies a middle position but remains vulnerable to fluctuations in grant funding.

Benchmark Comparison

National Treasury guidance does not prescribe a fixed revenue growth benchmark; however, **real revenue growth above inflation** and **stable own-revenue collection** are considered indicators of financial sustainability.

Prince Albert performs adequately against this qualitative benchmark, although revenue diversification remains limited.

Conclusion

Prince Albert's revenue position is **stable but constrained**, requiring careful protection of existing revenue streams.

Recommendations

- Strengthen revenue diversification strategies to reduce reliance on intergovernmental transfers.
- Enhance billing accuracy and credit control to protect own-revenue performance.
- Regularly review tariff structures to ensure cost reflectivity while maintaining affordability.

4.3.1.2 Total Operating Expenditure

Comparative Analysis

Operating expenditure in Prince Albert has grown steadily but remains **within the limits of available revenue**, resulting in a positive operating surplus. In comparison, Beaufort West carries significantly higher expenditure due to scale and service delivery complexity, while Laingsburg's expenditure closely tracks revenue with limited margins for flexibility.

Benchmark Comparison

Good practice requires that **operating expenditure growth should not exceed operating revenue growth** over the medium term.

Prince Albert complies with this benchmark.

Conclusion

Operating expenditure remains **manageable**, but expenditure growth pressures are evident.

Recommendations

- Introduce firm expenditure growth ceilings linked to revenue performance.
- Apply zero-based budgeting principles to discretionary expenditure categories.
- Strengthen quarterly expenditure monitoring and variance correction mechanisms.

4.3.1.3 Employee Related Costs

Comparative Analysis

Prince Albert's employee-related costs constitute a **significantly higher proportion of operating expenditure** when compared to both Beaufort West and Laingsburg. While Beaufort West benefits from economies of scale, Prince Albert's staffing costs reflect the challenges faced by small municipalities in maintaining minimum service delivery capacity.

Benchmark Comparison

National Treasury and SALGA guidance generally regard **25%–40% of operating expenditure** as an acceptable employee cost range, depending on municipal context.

Prince Albert exceeds this benchmark, Laingsburg is near the upper limit, and Beaufort West remains within the acceptable range.

Conclusion

Employee costs represent a **key structural risk** to Prince Albert's long-term financial sustainability.

Recommendations

- Freeze the filling of non-critical vacancies.
- Align the organisational structure strictly with funded posts.
- Develop a three-year employee cost containment and productivity improvement plan.
- Explore shared-services arrangements with neighbouring municipalities.

4.3.1.4 Repairs and Maintenance

Comparative Analysis

Prince Albert demonstrates relatively strong spending on repairs and maintenance compared to Laingsburg and is broadly aligned with infrastructure upkeep requirements. Beaufort West reflects higher absolute spending, consistent with its larger asset base.

Benchmark Comparison

MFMA and National Treasury guidance commonly reference **repairs and maintenance spending of approximately 8% of the carrying value of Property, Plant and Equipment (PPE)** as a sustainability indicator.

Prince Albert's maintenance expenditure is **aligned with or marginally above** this benchmark.

Conclusion

Prince Albert shows a **positive commitment to asset preservation**, reducing long-term infrastructure risk.

Recommendations

- Maintain maintenance expenditure at or above benchmark levels, prioritising preventative maintenance.
- Align maintenance budgets with the approved Asset Management Plan.
- Monitor maintenance effectiveness to avoid inefficient reactive spending.

4.3.1.5 Contracted Services

Comparative Analysis

Beaufort West displays significant reliance on contracted services, reflecting operational scale and outsourcing. Prince Albert and Laingsburg show lower absolute expenditure but remain vulnerable to cost escalation due to capacity constraints.

Benchmark Comparison

There is no fixed benchmark; however, **rapid growth in contracted services expenditure** is recognised as a cost-containment risk.

Conclusion

Contracted services require **active management** to prevent long-term affordability challenges.

Recommendations

- Conduct value-for-money assessments on major contracts.
- Strengthen contract management and performance monitoring.
- Assess the feasibility of insourcing where services are ongoing and core to operations.

4.3.1.6 Depreciation and Asset Consumption

Comparative Analysis

Depreciation trends across all three municipalities reflect ongoing capital investment and asset base growth. Prince Albert's depreciation levels are consistent with its asset portfolio.

Benchmark Comparison

Good practice requires that **depreciation be funded and supported adequate asset renewal provision**.

Conclusion

Depreciation is manageable, but it increases future funding obligations.

Recommendations

- Ensure depreciation charges are cash-backed where possible.
- Align asset renewal funding with long-term capital planning.
- Regularly update asset registers and useful-life assumptions.

4.3.1.7 Capital Expenditure

Comparative Analysis

Capital expenditure in Prince Albert is modest but consistent, focused on essential infrastructure. Beaufort West exhibits higher capital intensity, while Laingsburg's capital programme is comparatively constrained.

Benchmark Comparison

National Treasury suggests sustained capital investment of **approximately 10%–12% of total expenditure** as a general sustainability indicator, subject to local conditions.

Conclusion

Prince Albert's capital programme is **adequate but limited**, requiring prioritisation.

Recommendations

- Prioritise capital projects with the highest service delivery and economic impact.
- Improve capital project planning and monitoring of implementation.
- Ensure compliance with grant conditions to avoid rollovers and underspending.

4.3.1.8 Interest Paid and Interest Received

Comparative Analysis

Prince Albert carries minimal debt and generates interest income through short-term investments. Beaufort West and Laingsburg display higher exposure to finance costs relative to available cash resources.

Benchmark Comparison

Prudent financial management encourages **low borrowing levels,** except when debt is used for revenue-generating or critical infrastructure.

Conclusion

Prince Albert's conservative debt position supports financial stability.

Recommendations

- Limit borrowing to strategically justified projects.
- Optimise investment returns while maintaining liquidity buffers.
- Regularly review borrowing affordability scenarios.

4.3.1.9 Cash Coverage and Liquidity

Comparative Analysis

Prince Albert demonstrates **strong liquidity**, exceeding both neighbouring municipalities. Beaufort West maintains moderate liquidity, while Laingsburg shows signs of cash-flow stress after accounting for commitments and unspent transfers.

Benchmark Comparison

Good practice indicates a minimum of **three months' cash coverage**. Prince Albert exceeds this benchmark.

Conclusion

Prince Albert's liquidity position is **robust**, but excess cash should be strategically managed.

Recommendations

- Maintain minimum cash coverage thresholds.
- Improve cash-flow forecasting accuracy.
- Consider strategically deploying surplus cash to priority capital or service-delivery needs.

4.3.1.10 Operating Surplus / Deficit

Comparative Analysis

All three municipalities reported operating surpluses, with Prince Albert showing a strong surplus relative to its size. However, surpluses are influenced by grant timing and expenditure patterns.

Benchmark Comparison

Sustained operating surpluses are a key indicator of financial sustainability.

Conclusion

Prince Albert's operating performance is **financially sound**, though structural risks remain.

Recommendations

- Protect operating surpluses through disciplined expenditure control.
- Earmark portions of surpluses for asset renewal and financial reserves.
- Avoid committing surpluses to recurring expenditure without sustainable funding.

4.3.1.11 Overall Assessment

Prince Albert Local Municipality compares **favourably in terms of liquidity, maintenance effort, and operating balance**, but faces **structural pressures from high employee-related costs and limited revenue diversification**. Compared to neighbouring municipalities, Prince Albert remains financially stable but must proactively manage long-term affordability risks to sustain service delivery.

HISTORICAL FINANCIAL PERFORMANCE ANALYSIS

4.3.1.12 Total Operating Revenue (as % of Budget / Over Time)

Analysis

The figures indicate a **consistent upward trend in total operating revenue** over the historical period, reflecting improved revenue mobilisation and funding inflows. The most recent and projected years (highlighted) show sustained revenue performance, although growth appears to be stabilising rather than accelerating. This suggests that earlier gains from tariff adjustments, grants, or improved billing may be reaching maturity.

Risks / Observations

- Revenue growth may become constrained without structural interventions.
- Over-reliance on certain revenue streams could expose the municipality to external shocks.

Recommendations

- Diversify revenue sources to reduce dependency on grants or single income streams.
- Strengthen credit control and debt collection strategies.
- Conduct periodic tariff modelling to ensure cost-reflective pricing while maintaining affordability.

4.3.1.13 Operating Expenditure (Total)

Analysis

Operating expenditure shows a **steady and escalating increase** over time, with sharper growth in the later years. While expenditure growth broadly tracks revenue growth, the narrowing gap between the two indicates rising cost pressures.

Risks / Observations

- Continued escalation could erode operating surpluses.
- Limited flexibility in discretionary spending.

Recommendations

- Introduce expenditure ceilings linked to revenue growth.
- Implement zero-based budgeting for non-core cost centres.
- Strengthen internal cost containment and procurement efficiencies.

4.3.1.14 Employee-Related Costs

Analysis

Employee-related costs increase incrementally over the period, remaining relatively predictable and controlled. The growth rate appears lower than the overall growth in operating expenditure, suggesting effective workforce planning.

Risks / Observations

- Long-term affordability risks if staff growth outpaces improvements in service delivery.
- Salary adjustments may compound future expenditure.

Recommendations

- Maintain a funded organisational structure aligned with service delivery priorities.
- Conduct periodic staff productivity and workload assessments.
- Limit new appointments to critical and funded positions only.

4.3.1.15 Repairs and Maintenance Expenditure

Analysis

Repairs and maintenance expenditure shows variability but an overall **upward trend**, indicating increased focus on asset preservation. However, spending remains uneven across years.

Risks / Observations

- Under-spending in certain years may result in accelerated asset deterioration.
- Reactive maintenance may increase long-term costs.

Recommendations

- Establish minimum maintenance benchmarks (e.g. % of asset value).
- Shift towards preventative and lifecycle-based maintenance planning.
- Align maintenance budgets with asset management plans.

4.3.1.16 Contracted Services

Analysis

Contracted services expenditure has increased notably, becoming a significant cost driver. This suggests growing reliance on outsourced services.

Risks / Observations

- Potential inefficiencies and duplication of services.
- Risk of cost escalation without commensurate value delivery.

Recommendations

- Review all contracted services for cost-effectiveness and necessity.
- Consider insourcing where long-term demand exists.

- Strengthen contract management and performance monitoring.

4.3.1.17 Depreciation and Asset Consumption

Analysis

Depreciation increases steadily, reflecting **growth in the asset base** through capital investment. This trend aligns with infrastructure expansion and renewal.

Risks / Observations

- Rising depreciation increases operating cost pressure.
- Asset replacement funding must be sustained.

Recommendations

- Ensure depreciation is fully cash-backed where possible.
- Align asset renewal funding with long-term capital plans.
- Regularly update asset registers and useful-life assumptions.

4.3.1.18 Capital Expenditure (CAPEX)

Analysis

Capital expenditure peaks in certain years, followed by a moderating trend. This indicates phases of intensive infrastructure investment followed by consolidation.

Risks / Observations

- Project delays or rollovers may affect service delivery outcomes.
- Risk of underinvestment in later years.

Recommendations

- Improve capital project planning and implementation capacity.
- Prioritise projects with the highest service delivery and economic impact.
- Monitor CAPEX execution against approved timelines.

4.3.1.19 Interest Paid (Debt Servicing)

Analysis

Interest payments remain relatively low and controlled, indicating prudent borrowing levels. The projected year reflects continued debt sustainability. Currently, the municipality has no borrowing commitments, creating a window of opportunity to finance capital projects within an affordability profile.

Risks / Observations

- Exposure to interest rate increases.
- Future borrowing capacity may be constrained.

Recommendations

- Limit new borrowing to revenue-generating or essential infrastructure.

- Maintain conservative debt ratios in line with MFMA norms.
- Regularly stress-test debt affordability.

4.3.1.20 Interest Received

Analysis

Interest earned fluctuates and shows dependency on cash balances and investment levels. The projected year reflects moderate returns.

Risks / Observations

- Declining cash balances reduce interest income.
- Exposure to market interest rate volatility.

Recommendations

- Optimise investment strategies within regulatory limits.
- Improve cash flow forecasting to maximise investment returns.
- Balance liquidity needs with return optimisation.

4.3.1.21 Cash Coverage / Cash Balance

Analysis

Cash balances and coverage ratios fluctuate but remain positive. The projected period shows adequate liquidity, though lower than historical peaks.

Risks / Observations

- Reduced buffer for unforeseen expenditure.
- Potential short-term liquidity pressure.

Recommendations

- Maintain minimum cash coverage thresholds (e.g. 1–3 months).
- Strengthen cash flow management and billing cycles.
- Prioritise revenue collection efficiency.

4.3.1.22 Total Operating Expenditure vs Revenue

Analysis

Revenue consistently exceeds operating expenditure, indicating a **structurally sound operating position**. However, the surplus margin narrows over time.

Risks / Observations

- Marginal surpluses reduce flexibility in the face of shocks or emergencies.
- Structural expenditure growth risk.

Recommendations

- Protect operating surpluses through strict expenditure control.
- Link new spending commitments to sustainable revenue growth.

- Regularly review long-term financial projections.

4.3.1.23 Overall Financial Sustainability Assessment

Consolidated Finding

The combined financial indicators reflect a **financially stable but increasingly constrained environment**. While revenue growth and prudent debt management support sustainability, rising operating costs—particularly contracted services and asset-related charges—require proactive management.

Strategic Recommendations

- Adopt a medium- to long-term financial sustainability framework.
- Strengthen integration between budgeting, asset management, and organisational planning.
- Enhance financial monitoring dashboards for early warning signals.

4.3.1.24 Overall Financial Position

The financial indicators collectively demonstrate a **financially stable organisation**, with:

- Controlled operating expenditure
- Growing and sustainable revenue
- Managed personnel costs
- Continued investment in assets
- Acceptable liquidity levels

4.3.1.25 Conclusion

The financial trend analysis reflects a stable and improving financial position over the review period. Operating revenue demonstrates sustained growth, exceeding operating expenditure and maintaining a positive operating margin.

While expenditure pressures—particularly employee costs and contracted services—have increased, these remain within manageable limits and are aligned with service delivery demands.

Capital investment has strengthened the asset base, as evidenced by rising depreciation charges, while liquidity indicators confirm the organisation's ability to meet short-term obligations.

Overall, the projected financial outlook remains positive, provided expenditure growth continues to be carefully managed.

4.4 Detailed Critical Analysis of Services of Actual Recovering Ratios

	Jun-21	Jun-22	Jun-23	Jun-24	Jun-25	Period 1/7/21 - 30/06/2025)
Debtors Opening Balances						
Electricity	R 2 270 002.00	R 2 229 587.00	R 2 149 871.51	R 2 616 766.00	R 3 956 007.00	R 2 270 002.00
Water	R 5 946 774.00	R 8 321 903.00	R 17 660 333.98	R 7 268 619.00	R 9 784 144.00	R 5 946 774.00
Sewerage	R 3 933 294.00	R 5 173 091.00	R 6 183 855.97	R 5 115 146.00	R 6 580 314.00	R 3 933 294.00
Refuse	R 2 623 536.00	R 3 452 573.00	R 4 011 868.64	R 3 140 882.00	R 4 295 984.00	R 2 623 536.00
Rates and Availability Charges	R 1 739 657.00	R 2 010 587.00	R 2 407 923.37	R 2 753 485.00	R 3 257 975.19	R 1 739 657.00
Levies (net including revenue forgone)						
Electricity	R 23 168 102.52	R 27 254 824.57	R 25 837 714.24	R 30 768 774.41	R 29 439 560.87	R 136 468 976.60
Water	R 8 922 106.07	R 10 171 722.10	R 8 146 519.33	R 10 832 795.36	R 11 509 377.13	R 49 582 519.98
Sewerage	R 4 008 465.76	R 4 078 230.06	R 5 293 524.46	R 6 220 190.60	R 7 481 595.55	R 27 082 006.43
Refuse	R 7 342 810.95	R 7 764 762.58	R 10 417 534.84	R 11 891 205.25	R 13 281 718.82	R 50 698 032.45
Rates and Availability Charges	R 6 505 869.47	R 7 178 628.02	R 6 778 099.48	R 7 628 031.96	R 7 858 509.38	R 35 949 138.31
Revenue forgone						
Electricity	-R 1 368 807.34	-R 2 237 781.79	-R 1 448 325.30	-R 1 794 482.34	-R 1 918 704.48	-R 8 768 101.24
Water	-R 1 625 759.83	-R 2 430 174.48	-R 1 815 582.22	-R 2 194 444.26	-R 3 414 925.59	-R 11 480 886.38
Sewerage	-R 1 426 533.14	-R 1 584 935.76	-R 1 800 484.56	-R 2 270 132.26	-R 2 822 324.36	-R 9 904 410.08
Refuse	-R 2 247 398.31	-R 2 611 140.91	-R 2 617 238.08	-R 3 240 351.89	-R 3 726 129.67	-R 14 442 258.85
Rates and Availability Charges	-R 1 052 152.25	-R 1 204 848.41	-R 59 796.55	-R 16 308.93	-R 1 404.07	-R 2 334 510.21
Pre paid						
Electricity	-R 9 016 174.34	-R 11 002 048.47	-R 9 186 954.47	-R 10 032 425.25	-R 11 161 114.83	-R 50 398 717.36
Written Offs						
Electricity			-R 209 017.71	-R 61 581.76	-R 64 879.03	-R 335 478.50
Water			-R 11 553 202.16	-R 1 567 471.67	-R 1 341 346.81	-R 14 462 020.64
Sewerage			-R 2 789 008.77	-R 953 103.56	-R 611 899.80	-R 4 354 012.13
Refuse			-R 3 416 690.46	-R 675 451.29	-R 451 657.13	-R 4 543 798.88
Rates and Availability Charges	-R 329 560.86	-R 1 046 392.21	-R 56 666.45	-R 158 691.04	-R 64 931.12	-R 1 656 241.68
Closing Balances						
Electricity	R 2 229 587.00	R 2 149 871.51	R 2 616 766.00	R 3 600 390.00	R 2 601 678.00	R 2 601 678.00
Water	R 8 321 903.00	R 17 660 333.98	R 7 268 619.00	R 9 784 144.00	R 10 640 538.00	R 10 640 538.00
Sewerage	R 5 173 091.00	R 6 183 855.97	R 5 115 146.00	R 6 580 314.00	R 8 308 624.00	R 8 308 624.00
Refuse	R 3 452 573.00	R 4 011 868.64	R 3 140 882.00	R 4 295 984.00	R 5 626 037.00	R 5 626 037.00
Rates and Availability Charges	R 2 010 587.00	R 2 407 923.37	R 2 753 485.00	R 3 257 975.19	R 3 885 786.35	R 3 885 786.35
Actual Payments received						
Electricity	-R 12 823 535.84	-R 14 094 709.79	-R 14 526 522.28	-R 17 896 661.06	-R 17 649 191.53	-R 76 635 003.50
Water	-R 4 921 217.24	R 1 596 883.35	-R 5 169 449.92	-R 4 555 354.43	-R 5 896 710.73	-R 18 945 848.96
Sewerage	-R 1 342 135.62	-R 1 482 529.32	-R 1 772 741.10	-R 1 531 786.78	-R 2 319 061.40	-R 8 448 254.22
Refuse	-R 4 266 375.64	-R 4 594 326.03	-R 5 254 592.95	-R 6 820 300.08	-R 7 773 879.03	-R 28 709 473.72
Rates	-R 4 853 226.36	-R 4 530 051.04	-R 6 316 074.85	-R 6 948 541.79	-R 7 164 363.03	-R 29 812 257.07
Recovery rate						
Electricity	-100%	-101%	-96%	-94%	-108%	
Water	-67%	-59%	-82%	-53%	-73%	
Sewerage	-52%	-59%	-51%	-39%	-50%	
Refuse	-84%	-89%	-67%	-79%	-81%	
Rates	-89%	-76%	-94%	-91%	-91%	

Column1	Column2	Column3	Column4	Column5	Column6	Column7	Column8
Total Opening Balance		R 16 513 263.00	R 21 187 741.00	R 32 413 853.47	R 20 894 898.00	R 27 874 424.19	R 16 513 263.00
Total Closing Balance		R 21 187 741.00	R 32 413 853.47	R 20 894 898.00	R 27 518 807.19	R 31 062 663.35	R 31 062 663.35
Increase inTotai Debtors		R 4 674 478.00	R 11 226 112.47	-R 11 518 955.47	R 6 623 909.19	R 3 188 239.16	R 14 549 400.35

4.4.1 Summary of Recovery Performance (June 2021–June 2025)

Service	Average Recovery Rate	Performance Assessment
Electricity	~99%	Strong / stable
Water	~57%	Critically weak
Sewerage	~50%	Structurally unsustainable
Refuse	~78%	Consistently under-recovering
Rates	~91%	Moderate but deteriorating

4.4.2 Electricity – Best Performing Service

Recovery trend:

- Jun-21: 100%
- Jun-22: 101%
- Jun-23: 96%
- Jun-24: 94%
- Jun-25: 108%
- Period average: 99%

Key observations:

- Electricity demonstrates near-full recovery across all years.
- Over-recovery in some years (Jun-21, Jun-22, Jun-25) is largely driven by:
  - Prepaid electricity (R50.4m over the period)
  - Settlement of historical arrears
- Slight dip in Jun-24 (94%) aligns with higher debtors and lower payments but corrects sharply in Jun-25.

Critical assessment:

- Electricity is financially sustainable.
- Prepaid metering significantly reduces credit risk.
- This service effectively cross-subsidises weaker revenue streams.
- Low risk | High reliability

4.4.3 Water – Severe Revenue Collection Failure

Recovery trend:

- Jun-21: 67%
- Jun-22: 59%
- Jun-23: 82%
- Jun-24: 53%
- Jun-25: 73%
- Period average: 57%

Key observations:

- Water recovery rarely reaches full collection.
- Jun-24 shows a collapse to 53%, despite high levies.
- Substantial:
  - Revenue forgone (R11.48m)
  - Write-offs (R14.46m)
- Debtors spike sharply in Jun-23 and Jun-25, indicating chronic non-payment.

Critical assessment:

- Water services are structurally under-recovering.
- Tariffs may be unaffordable relative to income levels.
- Weak enforcement and lack of prepaid systems worsen risk.
- High financial risk | Immediate intervention required

4.4.4 Sewerage – Unsustainable Cost Recovery

Recovery trend:

- Jun-21: 52%
- Jun-22: 59%
- Jun-23: 51%
- Jun-24: 39%
- Jun-25: 50%
- Period average: 50%

Key observations:

- Recovery consistently below 60%, reaching a low of 39% in Jun-24.
- Write-offs exceed R4.35m.
- Sewerage charges are often treated as non-priority payments by consumers.
- Billing dependency on water accounts compounds non-collection.

Critical assessment:

- Sewerage is financially non-viable as currently structured.
- Continued operation without reform results in:
  - Rising arrears
  - Dependence on cross-subsidisation
  - Long-term sustainability risk

4.4.5 Chronic Under-Recovery

Recovery trend:

- Jun-21: 84%
- Jun-22: 89%
- Jun-23: 67%
- Jun-24: 79%
- Jun-25: 81%
- Period average: 78%

Key observations:

- Performance fluctuates but never fully recovers.
- Significant write-offs (R4.54m).
- Payments lag levies even as service delivery continues uninterrupted.

Critical assessment:

- Refuse removal is perceived as an entitlement rather than a paid service.
- Enforcement mechanisms are weak.
- Collection efficiency insufficient to support cost escalation.
- Medium risk | Requires tightening of controls

4.4.6 Rates & Availability Charges – Eroding Stability

Recovery trend:

- Jun-21: 89%

- Jun-22: 76%
- Jun-23: 94%
- Jun-24: 91%
- Jun-25: 91%
- Period average: 91%

Key observations:

- Rates are the second-best performing revenue stream after electricity.
- Sharp dip in Jun-22 indicates economic or enforcement pressures.
- Recovery stabilises but does not return to consistent 90%+ levels.
- Closing balances rise steadily to R3.89m.

Critical assessment:

- While comparatively strong, rates recovery is slowly weakening.
- Continued growth in debtors signals affordability stress and enforcement fatigue.
- Moderate risk | Early corrective action advised

4.4.7 Cross-Cutting Issues Affecting Payment Ratios

- High Revenue Forgone
  - Particularly impacts water, sewerage, and refuse.
- Large Write-Offs
  - Mask true collection inefficiencies.
- Dependence on Electricity
  - Electricity collections artificially inflate the overall recovery health.
- Rising Closing Balances
  - Indicates accumulation of irrecoverable debt.

4.4.8 Strategic Interpretation

- The municipality exhibits a dual-economy revenue profile:
  - Electricity (prepaid) → financially sound
  - Service charges (credit-based) → failing
- Without electricity, the municipality's overall payment ratio would be critically unsustainable.
- Current trends indicate increasing cash-flow stress and a growing reliance on write-offs.

4.4.9 Concluding Assessment

Area	Overall Rating
Electricity	Strong
Water & Sewerage	Critical
Refuse	Weak
Rates	Moderately Stable
Overall Revenue Model	**Structurally Imbalanced**

Bottom line:

The payment percentage ratios indicate that only electricity is effectively self-funding, while all other services are operating at material-collection deficits, threatening their long-term financial sustainability unless urgent corrective measures are implemented.

4.5 Detailed Critical Analysis of Services, Actual Profitability and Rates Efficiency (The detailed report is covered in APPENDIX 4)

4.5.1 Summary of 2024/25 Services and Property Rates cost recovery as reflected in Table 1 in Appendix 4

Service	LTFP Expectation	2024/25 Actual Outcome	LTFP Alignment Assessment
Water	Progressive move to cost recovery	Deficit of R1.88 million (-17.78%)	Material deviation – cost recovery not achieved
Electricity	Marginal operating surplus	Deficit of R4.78 million (-17.68%)	Tariff and bulk cost assumptions understated
Refuse	Break-even position	Deficit of R2.38 million (-29.59%)	Structural under-recovery
Sewerage	Sustainable surplus	Surplus of R1.86 million (+22.67%)	Aligned with LTFP assumptions

4.5.2 LTFP Interpretation:

Actual results confirm the LTFP risk assumption that Water, Electricity, and Refuse remain structurally underfunded, while Sewerage currently operates within a sustainable cost-recovery range. The negative variances suggest that tariff escalation assumptions in the outer years of the LTFP may be overly optimistic unless accompanied by loss reduction and billing enhancements.

For the 2024/25 financial year, the municipality recorded a **reported accounting surplus of R18.05 million**. However, this surplus was achieved **despite a material operating cash shortfall of R2.099 million**, indicating a significant divergence between accounting performance and underlying financial sustainability.

The positive accounting outcome was primarily driven by **once-off and non-cash items**, including capital grants, impairment reversals, and asset disposal gains. These items do not improve the municipality's ability to fund ongoing operations and are therefore excluded from the assessment of long-term sustainability within the LTFP.

4.5.3 Trading Services Performance vs LTFP Assumptions

Overview (2024/25)

The operating results indicate **material structural deficits across core trading services**, with the municipality remaining **reliant on once-off accounting gains and capital transfers** to report an overall surplus.

- **Trading Services** (Water, Electricity, Refuse) are **consistently loss-making**
- **Sewerage** is the only service operating at a surplus
- **Property Rates** reflect a **severe mismatch** between revenue recognition and cost allocation
- The **reported surplus of R18.0 million** is **non-cash and non-operational in nature**

4.5.4 Difference between the analysis in sections 4.4 and 4.5

In municipal finance:

- Tariffs determine the levy (billing) per service.
- Collections affect cash flow, not the levy itself.
- Service deficits arise when the tariff-derived levy is insufficient to cover the full cost of providing the service, *regardless of the collection rate*.

Therefore:

Collection performance does NOT create or eliminate a service deficit. It only determines whether billed revenue is converted into cash.

Separation of Financial Concepts (Critical)

Concept	What it affects	What it does NOT affect
Tariff levels	Size of levy (billed revenue)	Cash collections
Cost structure	Size of deficit / surplus	Billing accuracy
Collections	Cash flow & liquidity	Cost recovery position
Bad debt	Accounting result	Tariff adequacy

→ Deficits = Tariffs vs Cost
→ Cash stress = Collections vs Billing

Therefore, it is analysed and modelled separately.

4.5.5 Financial Sustainability Outlook

If the current operating trajectory persists, the municipality faces:

- Progressive depletion of cash reserves
- Reduced capacity to fund asset maintenance and capital replacement
- Heightened risk of non-compliance with MFMA funding requirements
- Increased reliance on short-term corrective interventions

Without structural reforms, the municipality's financial position will deteriorate over the medium to long term.

4.5.6 Affordability Constraint

Achieving **full cost recovery** through immediate tariff reconstruction and steep tariff increases, while theoretically optimal, is **neither affordable nor socially sustainable** in the current municipal context.

The analysis of the cash-based cost-recovery schedule demonstrates that:

- Required tariff increases to achieve full accounting cost recovery would be **excessive and invasive**
- Such increases would **exceed household affordability thresholds**
- Aggressive tariff adjustments would likely **reduce payment levels**, increase arrear debt, and ultimately **weaken cash flow**

Accordingly, while **full cost recovery remains the long-term objective**, an **alternative, phased approach is unavoidable** to preserve service continuity and financial stability.

4.5.7 Differentiated Cost-Recovery Framework

The adoption of a **Differentiated Cost-Recovery Framework**, distinguishing between:

1. **Immediate cash sustainability**, and
2. **Long-term full cost recovery**

This approach is consistent with **MFMA Sections 18 and 19**, National Treasury guidance on funded budgets, and SALGA tariff principles.

4.5.8 Alternative Approach: Cash Sustainability First

4.5.8.1 Primary Objective (Short to Medium Term)

To ensure that all trading services recover **100% of cash operating costs**, while maintaining tariffs within affordable limits.

This ensures that:

- The municipality can meet **current-year obligations**
- Cash reserves are protected
- Service delivery is stabilised

4.5.8.2 Primary Objective (Short to Medium Term)

Full cost recovery (including depreciation and long-term provisions) is:

- Retained as a **strategic long-term objective**
- Pursued **gradually**, subject to affordability, revenue performance, and economic conditions
- Addressed primarily through **capital funding strategies**, not abrupt tariff shocks

4.5.9 Key Pillars of the Alternative Cost-Recovery Model

Pillar 1: Phased Tariff Realignment (Not Immediate Full Recovery)

- Tariffs adjusted **incrementally** over multiple MTREF cycles
- Annual increases capped at **inflation + affordability margin**
- Focus on correcting **price signals**, not recovering all historic costs immediately

Pillar 2: Efficiency-Led Gap Closure (Before Tariff Shock)

The cost-recovery gap is reduced primarily through:

- Water and electricity loss reduction
- Demand management
- Operational cost containment
- Improved billing accuracy

Principle:

Efficiency gains must precede tariff increases.

Pillar 3: Strategic Use of Cross-Subsidisation (Controlled and Transparent)

- Limited cross-subsidisation permitted **only as a transitional measure**
- Explicitly disclosed in the LTFP

This prevents:

- Hidden deficits
- Permanent distortion of tariff structures

Pillar 4: Capital Funding Substitution for Depreciation

Rather than funding depreciation through tariffs:

- Asset renewal funded via:
  - Government capital grants
  - Own-funded capital surpluses
- Depreciation is treated as an accounting signal, not a tariff driver

Pillar 5: Social and Economic Safeguards

- Protection of indigent households
- Gradual restructuring of tariff blocks
- Avoidance of sudden increases that would undermine compliance and collections

4.5.10 Risk of Enforcing Immediate Full Cost Recovery

Risk	Outcome
Tariff shock	Reduced payment levels
Affordability breach	Higher debtor impairment
Political resistance	Implementation failure
Cash flow deterioration	Weaker liquidity
Reputational risk	Community backlash

Conclusion:

Immediate full cost recovery would **weaken**, not strengthen, financial sustainability. While full cost recovery remains the municipality's long-term financial objective, immediate implementation through aggressive tariff restructuring is not affordable nor sustainable.

The municipality will therefore prioritise cash operating sustainability, efficiency improvements, and phased tariff realignment, supported by transparent disclosure of long-term cost obligations in the LTFP.

5 ASSET MANAGEMENT

Asset management represents one of the most vital and complex risks confronting a municipality. A careful balance must be maintained between responsible and sound financial management and affordability. The timely replacement of assets, along with the ongoing maintenance of existing assets, must not be compromised, as the municipality's long-term sustainability relies on reliable and functional assets to support effective service delivery. Inadequate asset management remains one of the main factors contributing to municipal failure.

5.1 Asset Composition

The Municipality maintains a substantial investment in property, plant, and equipment (PPE). Consequently, the carrying value of PPE is projected to increase significantly over the next ten years.

5.1.1 Property, Plant, and Equipment (PPE)

The Municipality's largest PPE investment is in infrastructure, with a book value of R146.146 million and a projected future replacement value of R527.04 million. Movable assets hold a book value of R14.823 million and a future replacement value of R44.73 million. These assets are subject to replacement once they reach the end of their useful lives.

Other assets, such as Land and Buildings and Community Assets, are excluded from the LTFP projections, as they are not expected to require replacement within the planning horizon.

Failure to adequately plan for asset replacement or maintenance could negatively impact the Municipality's financial sustainability. Funding requirements—including financing from own revenue sources, borrowing, and ongoing maintenance—affect future cash outflows and, if not properly managed, could compromise long-term financial viability.

Specifically, Land and Buildings and Community Assets are excluded from depreciation calculations in this planning exercise. Land is non-depreciable, while building depreciation is based on very long useful lives and is therefore immaterial for planning purposes.

5.1.2 Landfill Sites

The projected landfill rehabilitation costs, as determined by independent professional engineering assessments, represent a **material and unavoidable future financial obligation** for the Municipality. Future values have been calculated by escalating current estimates at an annual inflation rate of 4.5%, which is considered reasonable for long-term planning purposes. These estimates reflect the expected costs to be incurred at the end of the landfill sites' useful lives and therefore constitute a **known and quantifiable liability**, rather than a contingent or uncertain exposure.

Council is required to provide for landfill rehabilitation costs of approximately R20.553 million in 2029, R15.451 million in 2031, and R10.589 million in 2038. As at 30 June 2025, the present value of this obligation amounts to approximately R35 million. Against this, the Non-Current Provision Reserve recognised in the Statement of Financial Position amounts to only R10.5 million, resulting in a **significant**

underfunding of approximately R25 million. This shortfall indicates a **structural weakness in long-term financial planning and reserve management**.

While neither GRAP standards nor enabling legislation explicitly require landfill rehabilitation provisions to be cash-backed, reliance on this technical accounting position exposes the Municipality to **substantial future liquidity risk**. The absence of ring-fenced cash funding undermines the Municipality's ability to meet a legally enforceable obligation when it crystallises. The current practice of funding rehabilitation through tariffs, while simultaneously utilising the resulting cash to subsidise unrelated operating expenditure, effectively erodes the economic substance of the provision and compromises the principle of **intergenerational equity**.

Should current practices persist, the Municipality will be required to fund landfill rehabilitation through a **one-off material drawdown from general reserves.** When landfill rehabilitation is required, the related costs **do not constitute capital expenditure** because the rehabilitation does not create a new asset or enhance the future economic benefits of an existing asset. In accounting terms, the expenditure represents the **settlement of an existing provision** recognised under GRAP 19 and is therefore recognised as an expense against the provision.

As a direct consequence, such expenditure **cannot be funded through borrowing**, as the MFMA restricts municipal borrowing primarily to capital expenditure and, in limited circumstances, short-term bridging of cash flow. Borrowing to fund operating expenditure or the settlement of provisions is **explicitly prohibited**. Accordingly, once landfill rehabilitation becomes due, the Municipality will be legally required to fund the full cash outflow from **internally generated resources**, namely accumulated surpluses, cash-backed reserves, or current-year revenue.

This accounting and legislative reality significantly heightens the Municipality's financial risk exposure. The current underfunding of the landfill rehabilitation provision is therefore not merely an accounting concern, but a **material liquidity and solvency risk**. In the absence of sufficient cash-backed reserves when rehabilitation is required, the Municipality will have no lawful financing mechanism available to meet this obligation, other than severe expenditure reprioritisation or the depletion of general reserves, with direct and potentially severe consequences for service delivery and financial sustainability.

The inability to borrow for landfill rehabilitation underscores the critical importance of **progressively cash-backing the provision over the remaining useful lives of the landfill sites**. Failure to do so will result in deferring an unavoidable obligation, shifting the financial burden to future councils and ratepayers without a viable funding strategy, and exposing the Municipality to regulatory non-compliance, adverse audit outcomes, and reputational risk.

In the absence of a clearly defined, cash-backed funding strategy, landfill rehabilitation poses significant **financial and environmental risks**. Failure to adequately fund this obligation could result in regulatory non-compliance, adverse audit findings, reputational damage, and potential environmental liabilities. Urgent intervention is therefore required to strengthen reserve funding policies, improve tariff discipline, and ensure that sufficient cash resources are accumulated over the remaining useful lives of the landfill sites.

5.1.3 Intangible Assets

The Intangible Assets include computer software, and the useful life periods for these assets are relatively short, which could also have a negative effect. Although it would not be significant in terms of the municipality's financial sustainability, these assets are included for planning purposes.

5.1.4 Investment Property

Investment Property includes Land and Buildings, where no depreciation applies to the Land. Depreciation on the buildings is based on very long useful lives and is therefore not material. As a result, for planning purposes, depreciation for Investment Property is excluded.

These assets are also, in fact, appreciating rather than depreciating in value.

Disposal of Investment Property and the profits deriving from it is potentially a significant source of cash to fund Cash Reserves should it become necessary.

5.2 Graphical Synopsis

For reasons explained above, Land and Buildings, Investment Properties are excluded for the purpose of determining future asset replacement costs and is the focus now only applicable to Movable, Infrastructure, Intangible and landfill sites as graphically illustrated below.

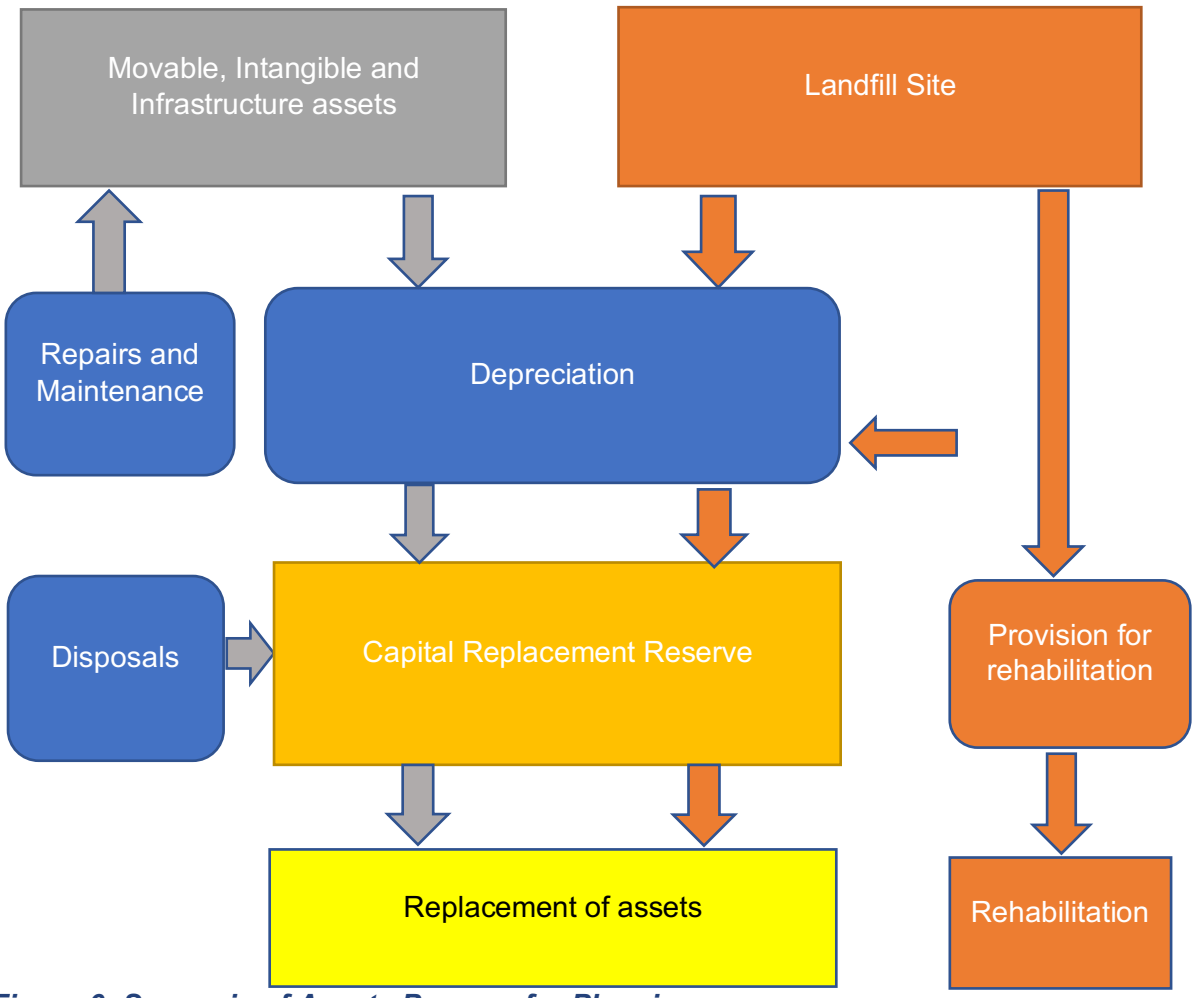


Figure 6: Synopsis of Assets Process for Planning

To ensure that the above structure (figure 6) is affordable, the programme should be assessed against the municipality's capacity to generate cash to meet the programme's demand.

5.2.1 Repairs and Maintenance

Repairs and maintenance are a critical component of effective asset management. Adequate maintenance ensures that assets deliver their full intended benefits throughout their expected useful lives. Insufficient allocations for repairs and maintenance may lead to premature asset deterioration and reduced useful lives, whereas properly maintained assets often experience extended service lives, consistent with revised estimates under GRAP principles.

As indicated in Appendix 3, the Municipality's assets are generally rated as fair to good in condition. This suggests that most assets are operational and of adequate quality, implying that replacement at the end of their originally estimated useful lives may not be necessary immediately. In practice, this means that useful lives may be extended, consistent with changes in accounting estimates.

The current asset condition reflects timely and appropriate repairs and maintenance. Therefore, it is recommended that the Municipality maintain its current spending trend on repairs and maintenance. Cost-containment measures or budgetary reductions should not be applied to this critical area, as underfunding could jeopardise long-term asset performance and financial sustainability.

5.2.2 Depreciation and Impairment

Depreciation is widely recognised as a proxy for asset consumption. Although it is a non-cash expense, depreciation should be included in tariff calculations to ensure sufficient funds are available for asset replacement when required.

Depreciation is a compulsory accounting requirement under GRAP and is therefore non-discretionary. Provided that assets are properly maintained, as described in section 5.2.1, impairment is unlikely to have a material effect. Impairment adjustments would only arise in exceptional or extraordinary circumstances.

Currently, the Municipality allocates 4.45% of total expenditure to depreciation. This allocation is deemed sufficient, and no additional adjustments affecting the Long-Term Financial Plan are anticipated.

Although not mandated under the Council's official Funds and Reserves Policy, it is considered prudent to transfer an amount equivalent to the annual depreciation charge, as reflected in the Statement of Performance, to the Capital Replacement Reserve. This practice would strengthen the Municipality's capacity to fund future asset replacements and support long-term financial sustainability.

5.3 Replacement of Assets

A comprehensive study was performed to evaluate the state of PPE Assets as set out in sections 4.1.1 and 4.1.2 (study included as **ANNEXURE 3**)

I**nfrastructure Assets**

The analysis indicates that most infrastructure assets are in **fair to very good condition**, with assets rated **poor to very poor** representing a small minority.

This suggests that:

- Maintenance practices are generally effective.
- Infrastructure assets are likely to achieve, and in some cases exceed, their estimated useful lives; and
- Immediate large-scale infrastructure replacement is not anticipated within the planning horizon.

Movable Assets

In contrast, the condition profile of movable assets indicates that a **material value of approximately R5 million** is rated **poor to very poor**.

This reflects:

- Shorter asset life cycles;
- Higher exposure to operational wear and tear; and
- A higher likelihood of near-term replacement pressure.

The movable asset portfolio, therefore, presents a more immediate replacement risk than infrastructure assets.

Analysis of Replacement Risk and Financial Implications

The combined RUL and condition analysis indicates that:

- Early replacement risk for infrastructure assets is limited and manageable.
- Replacement risk is concentrated primarily within the movable asset category; and
- Replacement expenditure is likely to be incremental and predictable rather than abrupt.

The analysis further indicates that, due to generally good asset conditions, many assets may remain operational beyond their original useful lives. In such cases, extended useful lives may be applied as changes in accounting estimates, reducing unnecessary pressure on capital expenditures.

However, reliance on extended useful lives without corresponding financial provision would expose the municipality to long-term funding risk.

Strategic Implications for Capital Planning

From a strategic perspective, the analysis supports the following conclusions:

- Depreciation alone is insufficient as a funding mechanism for future asset replacement when measured against CRC and FRC values.
- A structured, multi-year capital replacement strategy is required to address the projected replacement obligation of R8 849 164

	Infrastructure	Moveables	Total
Yeat 1	R0.00	R3 334 444.50	**R3 334 444.50**
Year 2	R30 303.62	R429 725.79	**R460 029.41**
Year 3	R823 550.55	R262 788.90	**R1 086 339.45**
Year 4	R108 985.09	R100 019.88	**R209 004.97**
Year 5	R541 082.96	R309 964.95	**R851 047.91**
Year 6	R0.00	R306 044.43	**R306 044.43**
Year 7	R165.79	R104 715.33	**R104 881.11**
Year 8	R306 670.84	R320 421.11	**R627 091.96**
Year 9	R0.00	R1 306 534.16	**R1 306 534.16**
Year 10	R55 042.53	R508 703.89	**R563 746.43**
Total	**R1 865 801.38**	**R6 983 362.93**	**R8 849 164.31**

- Movable assets should be prioritised in capital planning because they have higher rates of deterioration and shorter remaining useful lives.

Conclusion and Professional Opinion

Based on the analysis of asset values, remaining useful lives, and condition ratings, it is concluded that the municipality's asset base is generally in sound, serviceable condition, particularly for infrastructure assets.

While immediate large-scale replacement is not required, the municipality faces a substantial long-term replacement obligation that must be proactively managed.

It is therefore professionally recommended that:

- Forecast replacement amounts be systematically provided for over the planning horizon; and
- These amounts be transferred to a Capital Replacement Reserve, over and above annual depreciation charges.

This approach will support long-term financial sustainability, intergenerational equity, and continued service delivery in accordance with the principles of GRAP and MFMA.

5.4 New Assets

The Integrated Development Plan (IDP), as reflected on page 325, provides for a structured and funded capital programme. As these projects are supported by confirmed funding sources, they are excluded from the financial plan, which focuses on self-funded capital projects that must be financed from the Municipality's own resources or alternative funding mechanisms under the Municipal Finance Management Act (MFMA).

The IDP further identifies unfunded capital projects on pages 368 to 373, amounting to approximately R588 million. While these projects represent legitimate community needs identified through the IDP consultation process, they are not supported by approved funding sources. The scale of the unfunded programme far exceeds the Municipality's realistic financial and institutional capacity and creates expectations that cannot be met within the constraints of affordability, liquidity, and long-term financial sustainability. In accordance with Section 18 of the MFMA, which requires that budgets be funded, only capital projects supported by credible and sustainable funding sources should be prioritised for implementation.

The upgrading of the sewerage network in Prince Albert has been identified by the Municipal Manager as a high-priority infrastructure intervention due to its direct impact on service delivery reliability, environmental compliance, and public health outcomes. Based on the latest cost estimates, the project is expected to require approximately R75 million in funding. The Municipality does not have sufficient liquidity in the form of accumulated cash-backed reserves to finance a project of this magnitude internally. At current reserve levels, full self-funding would materially weaken the Municipality's cash position and compromise its ability to meet short-term operational obligations.

Consequently, the Municipality will be dependent on alternative funding mechanisms, which may include a combination of external grants and subsidies, limited self-funding from internally generated cash surpluses, and external borrowing. Any borrowing must comply with Sections 45 and 46 of the MFMA, which permit long-term debt only for capital expenditure and only where the Municipality can demonstrate affordability over the life of the loan.

From an affordability perspective, a R75 million borrowing facility would result in estimated annual debt service costs (principal and interest) that must be assessed against the Municipality's operating revenue. As a general benchmark applied by National Treasury and the Auditor-General, total debt service costs should remain within a prudent range of approximately 10% to 15% of operating revenue to avoid fiscal stress. Preliminary indications suggest that funding the sewerage upgrade entirely through borrowing would place significant pressure on this ratio, particularly when considered alongside existing commitments and the need to maintain adequate cash coverage of operating expenditure.

In addition, Section 19(2)(b) of the MFMA requires that the Municipality consider the future operational and maintenance costs associated with new assets before approving capital projects. The sewerage upgrade will therefore have both capital financing implications and recurring operating cost impacts, which must be accommodated within the medium- to long-term operating budget without eroding service delivery in other functional areas.

The feasibility of external borrowing, the structure and terms of potential loans, and compliance with MFMA affordability requirements are examined in detail in **Section 6 (Borrowing)**, while the impact on liquidity, cash-backed reserves, and overall financial resilience is assessed in **Section 7 (Funds and Reserves)**. These sections collectively ensure that decisions relating to the development of new assets are aligned with statutory requirements and do not compromise the Municipality's long-term financial sustainability.

6 BORROWING

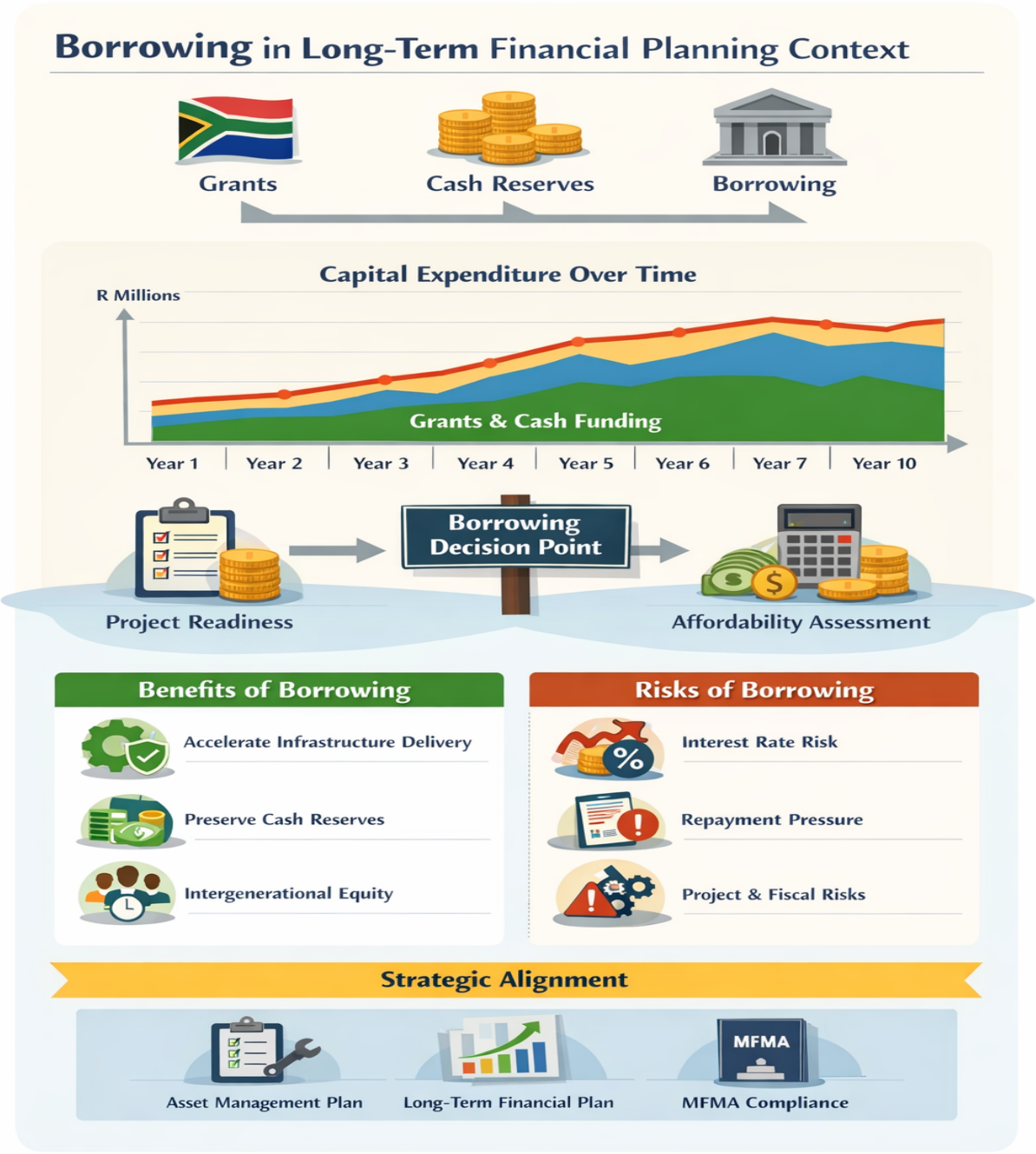


Figure 2: Synopsis – Borrowing as part of Cash and Revenue Management

6.1 Introduction

Prince Albert Municipality has historically financed its capital projects primarily through National Government grants and accumulated cash reserves, with only a limited reliance on external borrowing. This funding approach reflects a conservative and prudent financial management strategy aimed at maintaining affordability and safeguarding long-term financial sustainability.

When assessed against other municipalities in the Western Cape, the Municipality's historical borrowing costs compare favourably, indicating responsible debt management and sound creditworthiness, given the utilisation of borrowing. Furthermore, the Municipality currently has no outstanding borrowing liabilities, resulting in a low gearing position and limited exposure to interest rate risk.

In light of increasing infrastructure demands and the need to address future capital investment requirements, the absence of existing debt presents an opportunity to evaluate borrowing as a viable and strategic funding mechanism. Careful consideration of borrowing, in conjunction with grants and internal funding, could enhance the Municipality's capacity to implement priority capital projects while maintaining financial sustainability and compliance with applicable legislative and fiscal frameworks.

6.2 Borrowing in context with Long-Term Financial Planning

Within the context of the Long-Term Financial Plan (LTFP), the absence of existing debt presents both an opportunity and a strategic consideration. While continued reliance on grants and cash funding remains desirable, these sources alone may be insufficient to meet future capital demands without eroding cash reserves required for operational resilience and working capital. National Treasury guidance recognises borrowing as an appropriate and sustainable funding mechanism for long-life infrastructure assets, provided that affordability, repayment capacity, and risk are adequately assessed.

In terms of Section 46 of the MFMA, long-term borrowing may be undertaken to finance capital expenditure on property, plant, and equipment, subject to Council approval and the Municipality's ability to service such debt from future operating revenues. **A balanced funding mix that includes borrowing can improve equity by ensuring that the cost of long-term infrastructure is spread over the assets' useful lives, rather than placing undue pressure on current ratepayers.**

Accordingly, it is both meaningful and prudent for Prince Albert Municipality to formally investigate borrowing as a strategic funding option for future capital projects. Such an investigation should be guided by clear affordability thresholds, sensitivity analyses on interest rate and revenue risk, and alignment with the Municipality's Asset Management Plan, Long-Term Financial Plan, and approved Capital Investment Framework. If carefully implemented, borrowing can strengthen the Municipality's ability to address infrastructure needs, support service delivery objectives, and maintain long-term financial sustainability

6.3 Available Municipal Borrowing Instruments

Under the Municipal Finance Management Act, 2003 (MFMA), municipalities may incur long-term borrowing to finance capital expenditure on property, plant, and equipment, subject to affordability, sustainability, and Council approval. The selection of appropriate borrowing instruments is critical to ensuring cost-effective infrastructure delivery while safeguarding long-term financial stability.

South African municipalities have access to a range of borrowing instruments, each with distinct costs, risks, and administrative implications. Long-term loans from Development Finance Institutions (DFIs) and commercial banks remain the most commonly utilised and practical instruments for small to medium-sized municipalities. DFI loans generally offer longer tenures and competitive interest rates aligned with the useful lives of infrastructure assets, although they involve more rigorous approval and reporting processes. Commercial bank loans provide greater flexibility and faster access to funding but may carry higher interest rates and shorter repayment periods.

Municipal bonds offer access to substantial long-term capital at potentially lower rates but are typically only viable for large metropolitan municipalities due to high issuance costs, complex regulatory requirements, and the need for strong credit ratings. Internal borrowing using cash reserves can provide short-term relief and avoid external interest costs; however, it reduces liquidity and is not a sustainable solution for large capital programmes.

Lease financing is suitable for movable assets such as vehicles and equipment, providing predictable repayments but at a higher overall cost. Public-Private Partnerships (PPPs) are an alternative to traditional borrowing that shifts certain risks to the private sector, but they involve complex procurement processes and long-term contractual commitments.

The optimal borrowing approach requires a balanced funding mix aligned with the Municipality's Asset Management Plan and Long-Term Financial Plan. Borrowing should be limited to long-life assets, structured within affordability thresholds, and supported by strong governance and risk management. When applied prudently, borrowing can accelerate infrastructure delivery, protect cash reserves, and enhance intergenerational equity without compromising fiscal sustainability.

In Appendix 1 (BORROWING), there is a more detailed analysis of the advantages and disadvantages of borrowing and of borrowing instruments, as described above.

The need for borrowing is examined in section 7, Cash and Application of Reserves

6.4 Possible Borrowing

In section 5.4 - New Assets, the Municipal Manager has identified the upgrading of the sewerage network in Prince Albert as a high-priority infrastructure intervention due to its direct impact on service delivery reliability, environmental compliance, and public health outcomes. Based on the latest cost estimates, the project is expected to require approximately R75 million in funding. The Municipality does not have sufficient liquidity in the form of accumulated cash-backed reserves to finance a project of this magnitude internally. At current reserve levels, full self-funding would materially weaken the Municipality's cash position and compromise its ability to meet short-term operational obligations.

The majority of the project cost relates to upgrading sewerage reticulation infrastructure in previously disadvantaged areas. As a result, this component of the project does not qualify for infrastructure grants such as the Municipal Infrastructure Grant (MIG), which is primarily intended to address basic service backlogs in previously disadvantaged communities. However, the scope of the project also includes the upgrading of the sewerage treatment works, which serve the broader community and support system-wide capacity, environmental compliance, and long-term service sustainability. This component of the project is therefore potentially eligible for partial funding through external subsidies or grants.

For purposes of financial planning and affordability assessment, it is assumed that a portion of the project cost will be financed from grant funding and internal cash contributions, with the balance funded through external borrowing. On this basis, it is assumed that approximately R55 million of the total project cost will be financed through long-term borrowing. This assumption underpins the borrowing scenarios and affordability analysis presented in the sections that follow.

The municipality is required to ensure that:

- Debt is only incurred for capital expenditure.
- The municipality can service the debt without compromising basic services;
- Borrowing does not lead to structural operating deficits.

6.4.1 Financing Options Considered

Option 1: Long-Term Loan from a Development Finance Institution (DFI)

Examples include the **Development Bank of Southern Africa (DBSA)** or similar public-sector lenders.

Characteristics

- Loan tenor: typically, 15–20 years
- Interest rate: generally linked to prime or JIBAR, often at preferential margins
- Grace periods: sometimes available during construction (capitalising interest)

Advantages

- Longer repayment periods reduce annual debt service pressure
- Often includes technical and project support
- Well-accepted by National Treasury and auditors

Disadvantages

- Approval processes may be lengthy
- Requires strong governance, cash flow forecasting, and reporting discipline

Option 2: Commercial Bank Loan

Funding obtained from a private commercial bank.

Characteristics

- Loan tenor: typically, 10–15 years
- Interest rate: usually higher than DFI funding
- Limited flexibility on repayment structures

Advantages

- Faster approval processes
- Less project-specific oversight

Disadvantages

- Higher interest costs
- Shorter repayment terms increase annual affordability pressure
- Less alignment with long-term municipal infrastructure lifecycles

6.4.2 Recommended Financing Option

Based on the above analysis, **long-term borrowing from a Development Finance Institution (Option 1)** is the most appropriate and sustainable financing mechanism for the R75 million sewerage reticulation project.

This option best aligns the asset's **long-term nature** with **long-term funding** while minimising annual affordability pressure.

6.5 Loan Affordability

Subsequently, the two scenarios are analysed for affordability and viability (scenario 1 -project fully funded by a loan of R75 million) and (scenario 2 – partly funded by a loan of R55 million)

6.5.1 Scenario 1 – (R75 million loan)

Financial Base Used

Based on the municipality's financial analysis in sections 4.2 and 4.3:

- **Actual Operating Revenue (2024/25):**
  R85.45 million
- **Cash Position:**
  The municipality's available general cash reserves are broadly aligned with **approximately one month of operating expenditure**, which meets the minimum acceptable liquidity threshold under National Treasury norms.
- **Proposed Loan Amount:**
  R75.0 million
- **Loan Assumptions (Conservative):**
  - Term: 20 years
  - Interest rate: ±10% (prime-linked)
  - Estimated annual debt service: **R8.8 million per annum**

Key Affordability Ratios

Debt Service Cost to Operating Revenue Ratio

$$\text{Debt Service Ratio} = \frac{AnnualDebtService}{OperatingRevenue}$$
$$= \frac{R8.8m}{R85.45m} = 10.29\%$$

Interpretation

- National Treasury generally considers debt service ratios **below 8–10%** comfortable.
- At **10.29%**, the municipality is **at the upper threshold**, but still **within acceptable limits**, provided revenue collection improves, and expenditure is tightly controlled.

Operating Revenue Coverage of Debt Service

$$\text{Revenue Coverage Ratio} = \frac{OperatingRevenue}{AnnualDebtService}$$
$$= \frac{R85.45m}{R8.8m} = 9.7 \text{ times}$$

Interpretation

- This indicates that annual operating revenue covers debt obligations by almost **10 times**, demonstrating **structural affordability**, assuming revenues are actually collected.

Cash Flow and Liquidity Impact

Cash Coverage After Debt Servicing

Given that the municipality currently maintains cash reserves equivalent to approximately **one month of operating expenditure**, the introduction of annual loan repayments will:

- Reduce free cash flows by approximately **R730,000 per month** (R8.8m ÷ 12);
- Place pressure on liquidity if revenue under-collection persists;
- Require **strict protection of cash reserves** to prevent erosion below one month's coverage.

Assessment

- The loan is **cash-flow affordable**, but only if:
    - Revenue collection ratios do not deteriorate further; and
    - Tariff adjustments and cost containment are enforced annually.

Debt Sustainability Indicator (Loan Size Relative to Operating Revenue)

$$\text{Debt to Revenue Ratio} = \frac{TotalLoan}{OperatingRevenue}$$

$$= \frac{R75m}{R85.45m} = 87.7\%$$

Interpretation

- While high, this ratio is **not unusual for major bulk infrastructure**, particularly where assets have long useful lives.
- Sustainability depends on ensuring that infrastructure **projects and revenue grow**, especially through sewerage charges and development expansion.

Below is the **revised numerical affordability assessment**, using **the same financial base and methodology**, but **replacing the loan amount with R55 million**. This materially improves affordability and strengthens compliance with National Treasury norms.

6.5.2 Numerical Affordability Assessment (Revised for R55 Million Loan)

Actual Financial Base Used

Based on the municipality's most recent financial analysis:

- **Actual Operating Revenue (2024/25):**
  R85.45 million
- **Cash Position:**
  General cash reserves are approximately equal to **one month of operating expenditure**, representing the minimum acceptable liquidity benchmark.
- **Proposed Loan Amount:**
  R55.0 million
- **Loan Assumptions (Conservative):**
    - Term: 20 years
    - Interest rate: ±10% (prime-linked)

- Estimated annual debt service: **±R6.4 million per annum**

Key Affordability Ratios

Debt Service Cost to Operating Revenue Ratio

$$\text{Debt Service Ratio} = \frac{AnnualDebtService}{OperatingRevenue}$$
$$= \frac{R6.4m}{R85.55m} = 7.5\%$$

Interpretation

- This ratio falls **comfortably within the National Treasury guideline range of 8–10%**.
- The revised loan amount significantly reduces operating budget pressure and creates **headroom for interest rate fluctuations**.

Operating Revenue Coverage of Debt Service

$$\text{Revenue Coverage Ratio} = \frac{OperatingRevenue}{AnnualDebtService}$$
$$= \frac{R85.55m}{R6.4m} = 13.4 \text{ times}$$

Interpretation

- Operating revenue covers annual debt obligations more than **thirteen times**, indicating **strong structural affordability**, assuming stable collection levels.

Cash Flow and Liquidity Impact

Cash Coverage After Debt Servicing

The revised annual repayment translates to approximately:

- **R530,000 per month** (R6.4m ÷ 12)

Assessment

- This level of monthly debt service is **manageable within existing cash flow structures**.
- The municipality can maintain its **minimum one-month cash coverage**, provided that:
    - Collection ratios are sustained or improved; and
    - Non-priority operating expenditure is contained.

Debt Sustainability Indicators

Loan Size Relative to Operating Revenue

$$\text{Debt to Revenue Ratio} = \frac{TotalLoan}{OperatingRevenue}$$
$$= \frac{R55m}{R84.45m} = 64.3\%$$

Interpretation

- This represents a **moderate and acceptable debt exposure** for a long-life infrastructure asset.
- The ratio reflects a **more sustainable balance** between leverage and fiscal resilience than the previously proposed R75 million loan.

6.5.3 Summary of Key Quantitative Indicators (the R55 million scenario)

Indicator	Result	Treasury Benchmark	Assessment
Annual Debt Service	±R6.4 million	—	Manageable
Debt Service / Operating Revenue	**7.5%**	< 8–10%	**Within comfort range**
Revenue Coverage of Debt	**13.4x**	> 5x	**Strong**
Debt to Revenue Ratio	**64.3%**	Context-dependent	**Sustainable**
Monthly Repayment	±R0.53 million	—	Cash-flow affordable

6.5.4 Overall Affordability Conclusion (Revised)

Reducing the loan requirement to **R55 million materially improves affordability** and places the municipality in a **clearly defensible financial position** under MFMA Section 46.

The revised funding level:

- Keeps debt service **well within National Treasury thresholds**.
- Protects liquidity and cash reserves.
- Provides capacity to absorb interest rate increases or revenue volatility; and
- Enhances the likelihood of approval by both lenders and oversight authorities

7 CASH AND APPLICATION OF RESERVES

The establishment and maintenance of municipal reserves depend fundamentally on the availability of adequate, sustainable cash resources. In accordance with Generally Recognised Accounting Practice (GRAP), all reserves must be cash-funded, as accounting reserves that are not supported by cash do not enhance liquidity, financial resilience or the municipality's ability to meet future obligations.

The Municipality's Funds and Reserves Policy (Section 5.2.1) make provision for the establishment of a Capital Replacement Reserve (CRR), intended to fund capital projects and the replacement or acquisition of capital assets. **Notwithstanding this policy provision, the Capital Replacement Reserve has not been implemented.** The absence of a CRR exposes the municipality to increased infrastructure sustainability risk and heightens its dependence on external funding sources, particularly grants and borrowings, to finance capital expenditure.

An assessment of the Statement of Financial Position indicates the presence of material non-current provisions, primarily employee benefit obligations (long-service awards and post-retirement medical benefits) and rehabilitation obligations, including landfill rehabilitation costs. Although there is currently no statutory requirement to fully cash-back these provisions, they represent future unavoidable financial commitments that will require settlement in cash over the medium to long term. Failure to plan for these obligations could result in significant future liquidity pressures.

The municipality has demonstrated prudent financial management by establishing a Landfill Rehabilitation Reserve to partially offset its rehabilitation provision. **However, the reserve is materially underfunded relative to the recognised liability, creating a funding shortfall that will need to be addressed progressively to mitigate future financial risk.**

It is therefore imperative that the municipality implement structured, sustainable funding strategies to ensure the progressive cash backing of reserves, particularly those linked to long-term provisions. Such strategies will strengthen liquidity, improve financial resilience, and ensure that future obligations can be met without compromising service delivery or financial stability.

Cash and reserves management represents an important sub-component of the broader Cash Management function. Reserve funding should not be considered in isolation, but rather within a comprehensive cash management framework that encompasses cash flow forecasting, liquidity management, prioritisation of operational and capital commitments, and alignment with long-term financial planning objectives.

Accordingly, a holistic approach to cash management is required, within which the role, purpose and funding of reserves are clearly defined. This will ensure that reserves are strategically positioned to support compliance with GRAP, promote financial sustainability, and enable the municipality to meet both current and future financial obligations.

7.1 Cash Management

Cash management refers to the systematic **planning, collection, control, utilisation and investment of the municipality's cash and cash equivalents** to ensure the optimal use of available liquid resources. Cash is fundamental to the municipality's ability to deliver services, meet financial commitments, and maintain financial sustainability.

In terms of **Section 62(1)(a) of the MFMA**, the Accounting Officer is responsible for ensuring that the municipality has and maintains **effective, efficient and transparent systems of**

financial and risk management, including cash and liquidity management. Effective cash management is therefore a statutory requirement and a critical component of sound financial governance.

Cash management is a **strategic, continuous process** rather than a short-term or reactive intervention. It requires informed decision-making throughout the financial cycle and must be integrated with budgeting, revenue management, expenditure control and investment planning to ensure a sustainable cash flow position at all times.

7.1.1 Principles of Cash Management

Receivables

Receivables represent revenue earned by the municipality but not yet collected and are expected to be received in future periods. In accordance with **Section 62(1)(f)** of the MFMA, the Accounting Officer must take all reasonable steps to ensure that the municipality has an **effective revenue-collection system**.

The municipality must manage receivables in a manner that ensures:

- Accurate, complete and timeous billing;
- Effective credit control and debt collection processes;
- Minimisation of credit periods where appropriate; and
- Prompt conversion of billed revenue into cash.

In terms of **Section 65(2)(a)** of the MFMA, all revenue due to the municipality must be **collected promptly**, as delayed collections negatively affect liquidity and the municipality's ability to meet its immediate financial obligations.

Payables

Payables are obligations incurred by the municipality for goods and services received that are payable within an agreed or legislated timeframe. Proper management of payables is essential for balancing cash outflows, ensuring compliance with legislative requirements, and maintaining supplier confidence.

In accordance with **Section 65(2)(e)** of the MFMA, the Accounting Officer must ensure that all money owing by the municipality is paid **within 30 days** of receiving a valid invoice, unless otherwise agreed in terms of a contract or prescribed by legislation.

The municipality must therefore:

- Plan cash outflows to meet statutory payment obligations.
- Align payment schedules with cash flow forecasts.
- Optimise credit terms without contravening legislative requirements; and
- Avoid interest, penalties and reputational risk arising from late payments.

Effective payables management allows the municipality to retain cash for operational needs while ensuring full compliance with MFMA requirements.

7.1.2 Objectives of Cash Management

The objectives of municipal cash management are to:

Fulfil Working Capital Requirements

Ensure the availability of sufficient liquid cash to meet routine operational expenses, as required under **Section 62(1)(a)** of the MFMA.

Plan and Fund Capital Expenditure

Support informed decision-making regarding capital expenditure and determine whether projects can be funded from internal cash resources or require external financing.

Manage Unforeseen and Emergency Expenditure

Provide liquidity to respond to unexpected events, infrastructure failures or emergency situations without compromising service delivery.

Invest Surplus Cash Prudently

Ensure that surplus or idle cash is invested in compliance with applicable legislation and Council-approved investment policies, thereby generating additional revenue.

Optimise the Use of Financial Resources

Maintain an appropriate balance between liquidity and investment to ensure efficient and effective utilisation of municipal funds.

Prevent Financial Distress and Insolvency

Reduce the risk of liquidity shortfalls by ensuring proactive cash planning, monitoring, and control, in line with the Accounting Officer's responsibilities under **Section 62** of the MFMA.

7.1.3 Functions of Cash Management

Investment of Idle Cash

Identify and utilise suitable short-term investment opportunities for surplus cash, in accordance with legislative requirements and Council-approved policies.

Control of Cash Flows

Manage cash flows by accelerating inflows and regulating outflows, ensuring compliance with **Section 65** of the MFMA.

Cash Planning and Forecasting

Prepare and regularly update cash flow forecasts to ensure that sufficient cash is available to meet operational, capital and statutory obligations.

Cash Flow Management

Maintain a positive and sustainable cash position through expenditure control, revenue optimisation and prudent investment practices.

Optimisation of Liquidity Levels

Continuously monitor liquidity to ensure that the municipality maintains adequate cash balances to support service delivery while avoiding excessive idle cash.

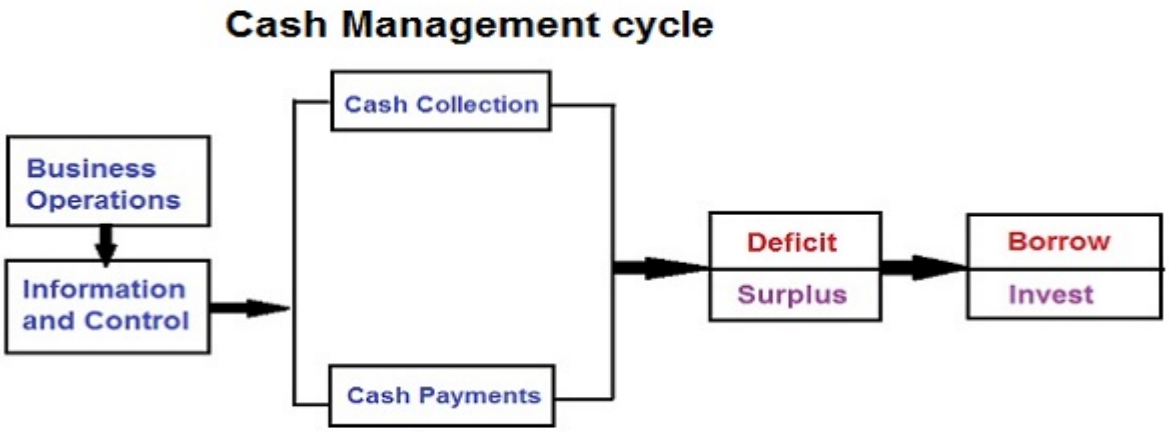


Figure 10: Cash Management Cycle

7.2 Cash Reserves in the context of Cash Management

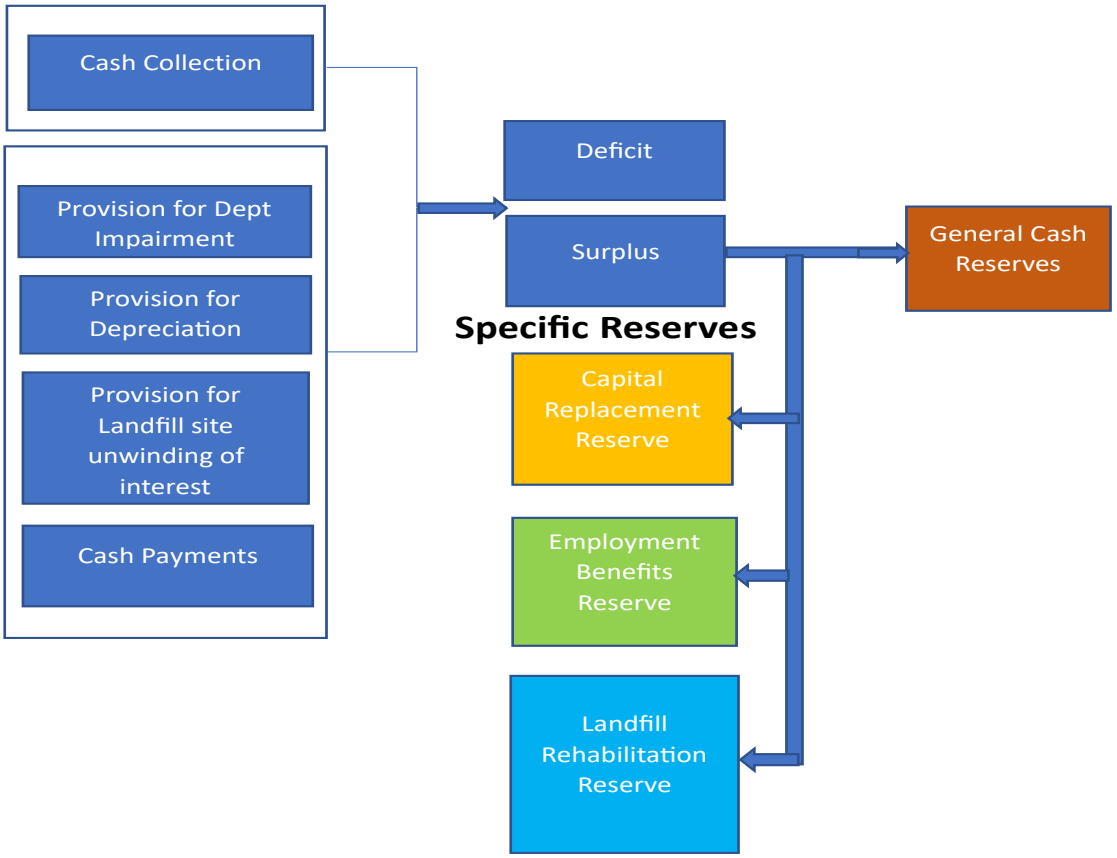


Figure 11: Synopsis of Cash Reserves in the Context of Cash Management

7.2.1 What Are Cash Reserves?

Cash reserves refer to **funds retained by the municipality in cash or near-cash form** to meet short-term operational requirements and unforeseen or emergency funding needs. These reserves typically include cash on hand, cash equivalents, and short-term investments that can be readily converted into cash with minimal risk and minimal loss of value.

Short-term investments that provide rapid access to funds, albeit often at a lower rate of return, are considered part of cash reserves because of their high liquidity. Cash reserves are therefore maintained to ensure the municipality can **respond to unexpected changes in cash flow**, address emergency expenditure, and sustain operations during periods of financial stress.

A financial reserve, in this context, represents an amount retained specifically to ensure **financial flexibility, liquidity and resilience**, rather than for immediate expenditure.

7.2.2 Difference Between Provisions and Reserves

Provisions and reserves are distinct financial concepts that are often incorrectly used interchangeably; however, they serve **different purposes and are treated differently in financial accounting and reporting**.

Provisions represent amounts recognised to cover **present obligations** arising from past events, where settlement is probable, and the amount can be estimated reliably. These obligations relate to anticipated liabilities or losses and are recognised as **expenses in the Statement of Financial Performance**, thereby reducing the municipality's surplus for the period.

Reserves, on the other hand, represent amounts appropriated from accumulated surplus and retained for **future use**. Reserves are not recognised as expenses; they are created **after the surplus has been determined** through an appropriation of the accumulated surplus.

The fundamental distinctions are therefore as follows:

- Provisions are recognised **before the calculation of net surplus** and relate to known or probable liabilities.
- Reserves are created **after surplus has been determined** and represent discretionary or policy-driven allocations.
- Provisions reflect future cash outflows that are unavoidable, while reserves reflect amounts retained to strengthen financial capacity or fund future requirements.

In summary, a provision is made to account for a **known or probable future obligation**, whereas a reserve is established to retain funds for **future use or contingencies** in accordance with policy or strategic objectives.

7.2.3 Kinds of Reserves

Municipal reserves can be broadly categorised into **general** and **specific reserves**, each serving a distinct financial management purpose. Reserves are generally funded from accumulated surplus and are governed by legislative requirements and Council-approved policies.

7.2.4 Difference Between Provisions and Reserves

7.2.4.1 General Reserves

General reserves represent the level of cash retained to support the municipality's **day-to-day operations** and its ability to meet **current liabilities** (liabilities falling due within one financial year).

The adequacy of general cash reserves is commonly assessed using recognised liquidity ratios, particularly the **acid-test (quick) ratio** and the **cash ratio**, which provide guidance on the municipality's short-term financial strength.

The **acid-test ratio**, also known as the quick ratio, measures the municipality's ability to meet current liabilities using its most liquid assets and is calculated as follows:
Acid-Test Ratio = (Current Assets – Inventory) / Current Liabilities

A ratio of **1:1 or higher** is generally considered acceptable, indicating that the municipality can meet its short-term obligations without relying on inventory sales. A higher ratio reflects stronger liquidity.

The **cash ratio** is a more conservative liquidity measure that reflects the municipality's ability to meet short-term liabilities with **cash and cash equivalents**. Unlike the current or quick ratio, this ratio does not consider any other current assets. While this ratio is more restrictive, it provides a clear indication of immediate liquidity.

7.2.4.2 Specific Reserves

Specific reserves are established for **clearly defined purposes** and are generally statutory in nature or created in terms of Council-approved policies. These reserves may not be utilised for purposes other than those for which they were established.

No direct expenditure transactions are processed against specific reserves. Movements in these reserves occur through **transfers to or from accumulated surplus**, in accordance with Council resolutions and policy provisions.

Specific reserves therefore serve to ensure that funds are **ring-fenced** for predetermined objectives and that financial commitments can be met when required. Based on the Municipality's latest **Annual Financial Statements**, only a **Capital Non-Current Provision (Landfill Rehabilitation)** has been established. There is no indication of a **Capital Replacement (CRR)** or an **Employee Benefits Reserve (EBR)** being disclosed either on the face of the Statement of Financial Position or within the accounting policies, which is inconsistent with established policy provisions and recognised best practice.

In addition, landfill rehabilitation is a **statutory obligation** under environmental legislation and GRAP requirements. Best practice dictates that a **Landfill Rehabilitation Reserve (LRR)** be established to support the associated provision. At a minimum, annual transfers equivalent to:

- the depreciation related to the landfill asset; and
- the **unwinding of the discount** (i.e. the recognition of the time value of money through interest accretion),

should be made to the reserve to progressively build sufficient cash backing for the rehabilitation obligation by the time settlement becomes due.

7.3 Current state of the Reserves

7.3.1 Total Accumulated Cash Position

As at **30 June 2025**, the municipality's total cash and cash equivalents amounted to **R50.157 million**. To assess the adequacy of this cash position, it has been evaluated against the municipality's responsibility to settle its **current outstanding liabilities**, as reflected in the Statement of Financial Position.

The municipality's **cash ratio** is calculated as follows:

Cash Ratio = Cash and Cash Equivalents / Current Liabilities

- Current Liabilities: **R29.687 million**
- Total Cash and Cash Equivalents: **R50.157 million**

Cash Ratio: 1.73 : 1

This ratio indicates that the municipality's available cash exceeds its short-term liabilities by approximately **40.8%**, reflecting a **satisfactory short-term liquidity position** when compared to the prevailing financial position of municipalities in general.

However, while the current cash ratio indicates adequate short-term liquidity, it is in**sufficient when assessed against broader cash management and financial sustainability principles**. The existing cash balance must also support future obligations, including operational continuity, capital renewal requirements, and the progressive funding of long-term provisions and reserves.

Maintaining, and where possible improving, the current cash flow position will therefore present a **significant challenge**. In this context, management has both a professional and fiduciary responsibility to advise Council that **strategic operational adjustments and policy-driven reforms** will be unavoidable in order to safeguard the municipality's future liquidity position.

These reforms are necessary to ensure the municipality's ability to:

- Sustain adequate cash reserves.
- Progressively cash-back reserves in line with policy and GRAP requirements; and
- Comply with minimum liquidity, governance and operational standards.

The required strategic interventions and policy reforms are addressed in further detail in the sections that follow.

7.4 Specific Cash Reserves

Specific cash reserves are recommended under Council policy and best practice to ensure funds are **ring-fenced and progressively cash-backed** for defined future obligations. An assessment of the municipality's specific reserves as at **30 June 2025** is set out below.

7.4.1 Capital Replacement Reserve (CRR)

In terms of Council policy and recognised best practice, the **Capital Replacement Reserve (CRR)** should be cash-backed at a minimum to the value of the **accumulated depreciation on movable assets**, which represents the consumption of asset value and the future replacement requirement.

As at **30 June 2025**, the accumulated depreciation on movable assets amounts to **R9.769 million**. However, the Annual Financial Statements do not reflect the existence of a Capital Replacement Reserve.

As a result:

- The required CRR of **R9.769 million** is not disclosed as a specific reserve, and
- This amount is included in the **Accumulated Surplus** and effectively treated as part of **General Reserves**.

This results in an **understatement of specific reserves** and weakens the municipality's ability to sustainably replace capital assets without reliance on external funding.

7.4.2 Employee Benefits Reserve (EBR)

In terms of best practice, an **Employee Benefits Reserve (EBR)** should be established and cash-backed to at least **10% of the previous financial year's total actuarially valued employee benefit obligations**. Based on the 2024/25 valuation, this equates to **R2.770 million**.

The Annual Financial Statements as at **30 June 2025** do not reflect the establishment of an Employee Benefits Reserve.

Consequently:

- The required EBR of **R2.770 million** is understated in the Statement of Changes in Net Assets; and
- The amount remains included within the **Accumulated Surplus** and is therefore reflected as part of **General Reserves**.

However, employee benefits differ in nature from other reserves, as the outflow of funds is absorbable through operating expenditure. Given the municipality's already limited cash reserves, establishing a cash-backed reserve for the EBR is not recommended at this stage.

7.4.3 Landfill Site Rehabilitation Reserve (LRR)

Landfill site rehabilitation constitutes a **statutory environmental obligation**, and sound financial management practice requires that the Landfill Rehabilitation Reserve (LRR) be **fully cash-backed** to at least the **discounted present value (DPV)** of the estimated future rehabilitation costs.

As at **30 June 2025**, the discounted present value of the municipality's landfill rehabilitation obligation amounts to **R22.430 million**, while the Annual Financial Statements reflect an LRR balance of only **R10.500 million**. This results in a **material underfunding of R11.930 million**.

The unfunded portion of the obligation is currently absorbed into the **Accumulated Surplus**, thereby forming part of the **General Reserves**. This treatment obscures the municipality's true discretionary financial position and creates an implicit reliance on unrestricted cash reserves to settle a clearly identifiable long-term liability.

The current funding level of the LRR is **insufficient to adequately support the future rehabilitation obligation** and exposes the municipality to significant **long-term financial, liquidity, compliance, and audit risks**. In the absence of a fully ringfenced and cash-backed reserve, the municipality may face substantial financial pressure when rehabilitation becomes due, potentially resulting in non-compliance with environmental legislation and licence conditions.

It is therefore recommended that the **full discounted present value of the rehabilitation obligation be formally ringfenced within the Landfill Rehabilitation Reserve**. The existing funding shortfall should be addressed through a **phased funding strategy** over the medium term to avoid undue strain on cash flows.

Furthermore, the LRR should be **invested separately** in a dedicated **sinking fund** or, alternatively, in **government bonds or similar low-risk instruments**, with maturities **aligned with the anticipated timing of rehabilitation activities**. This approach will ensure capital preservation, generate capitalised returns, and safeguard the availability of funds when the obligation materialises.

The reserve should be **explicitly excluded from General Cash Reserves** and may not be utilised for short-term liquidity management or internal borrowing purposes. The discounted present value of the obligation, together with the adequacy of the associated funding, should be **reviewed annually** and adjusted for changes in inflation, discount rates, engineering estimates, and regulatory requirements.

The current underfunding of the Landfill Rehabilitation Reserve places **implicit pressure on General Cash Reserves**, as these reserves would ultimately be required to absorb the rehabilitation costs in the absence of sufficient ringfenced funding. This results in an **overstatement of available unrestricted cash** and creates a misleading perception of financial resilience.

Best practices and prudent financial management require a **clear, transparent separation** between **unrestricted General Cash Reserves** and **restricted statutory reserves**, such as the Landfill Rehabilitation Reserve, to ensure long-term financial sustainability, regulatory compliance, and intergenerational equity.

		Prince Albert		Leeu Gamka		Klaarstroom	
		R17 235 601.45		R11 865 354.27		R5 975 162.97	
Jul-25							R35 076 118.69
Jul-26		R18 011 203.52		R12 399 295.21		R6 244 045.30	
Jul-27		R18 821 707.67		R12 957 263.50		R6 525 027.34	
Jul-28		R19 668 684.52		R13 540 340.35		R6 818 653.57	
Jul-29		R20 553 775.32		R14 149 655.67		R7 125 492.98	
Jul-30				R14 786 390.18		R7 446 140.17	
Jul-31				R15 451 777.73		R7 781 216.48	
Jul-32						R8 131 371.22	
Jul-33						R8 497 282.92	
Jul-34						R8 879 660.65	
Jul-35						R9 279 245.38	
Jul-36						R9 696 811.42	
Jul-37						R10 133 167.94	
Jul-38						R10 589 160.50	
Government bond Discounted value. 10.75%		**R12 335 959.37**		**R7 560 879.35**		**R2 535 416.09**	**R22 432 254.81**
	Interest		**Interest**		**Interest**		
Jul-25	R1 326 115.63	**R13 662 075.00**	R812 794.53	**R8 373 673.88**	R272 557.23	**R2 807 973.32**	
Jul-26	R1 468 673.06	**R15 130 748.07**	R900 169.94	**R9 273 843.82**	R301 857.13	**R3 109 830.45**	
Jul-27	R1 626 555.42	**R16 757 303.48**	R996 938.21	**R10 270 782.04**	R334 306.77	**R3 444 137.23**	
Jul-28	R1 801 410.12	**R18 558 713.61**	R1 104 109.07	**R11 374 891.10**	R370 244.75	**R3 814 381.98**	
Jul-29	R1 995 061.71	**R20 553 775.32**	R1 222 800.79	**R12 597 691.90**	R410 046.06	**R4 224 428.04**	
Jul-30			R1 354 251.88	**R13 951 943.78**	R454 126.01	**R4 678 554.06**	
Jul-31			R1 499 833.96	**R15 451 777.73**	R502 944.56	**R5 181 498.62**	
Jul-32					R557 011.10	**R5 738 509.72**	
Jul-33					R616 889.79	**R6 355 399.51**	
Jul-34					R683 205.45	**R7 038 604.96**	
Jul-35					R756 650.03	**R7 795 254.99**	
Jul-36					R837 989.91	**R8 633 244.90**	
Jul-37					R928 073.83	**R9 561 318.73**	
Jul-38					R1 027 841.76	**R10 589 160.50**	

7.4.4 General Cash Reserves (GCR)

The municipality's short-term liquidity position is best assessed by the **acid-test (quick) ratio**, which measures its ability to meet current obligations using its most liquid assets.

As at **30 June 2025**, liquidity in terms of the acid-test is calculated as follows:

Description	R million
Cash and Cash Equivalents	50.157
Add: Current Assets (excluding inventory)	10.295

Description	R million
Less: Current Liabilities	(29.687)
Net Liquidity	**30.765**

After taking into account the required funding of specific reserves as detailed above, the **adjusted allocation of cash reserves** should be reflected as follows:

Description	R million
Total Available Cash (Liquidity)	30.765
Less: Landfill Rehabilitation Reserve (LRR)	(22.430)
Less: Capital Replacement Reserve (CRR)	(9.769)
General Cash Reserves (Deficit)	(1.44)

Assessment of General Cash Reserve Adequacy

Although no prescribed legislative minimum exists, it is generally accepted best practice that a municipality should maintain **at least one month's average operational expenditure** in available general cash reserves.

For the **2024/25 financial year**, total operational cash outflows amounted to **R78.854 million**, equating to an average monthly operational cash requirement of **R6.571 million**.

Taking into account:

- The current **negative General Cash Reserve of R1.44 million**, and
- The recommended one-month operational cash buffer of **R6.571 million**,

The municipality's General Cash Reserves are therefore **underfunded by R8.011 million**.

Recommendation

It is recommended that the **understated reserve balances amounting to R8.011 million** be corrected through appropriate adjustments in the **Statement of Changes in Net Assets**, by means of transfers from the Accumulated Surplus to the relevant specific reserves.

In addition, it is imperative that the municipality embark on **targeted financial and operational reforms** to improve revenue collection, strengthen cash recovery, and progressively restore the General Cash Reserves to acceptable levels, thereby addressing the current cash reserve deficit and enhancing long-term financial sustainability.

7.5 Projected Future Cash Reserves for the 10-year period of the LTFP

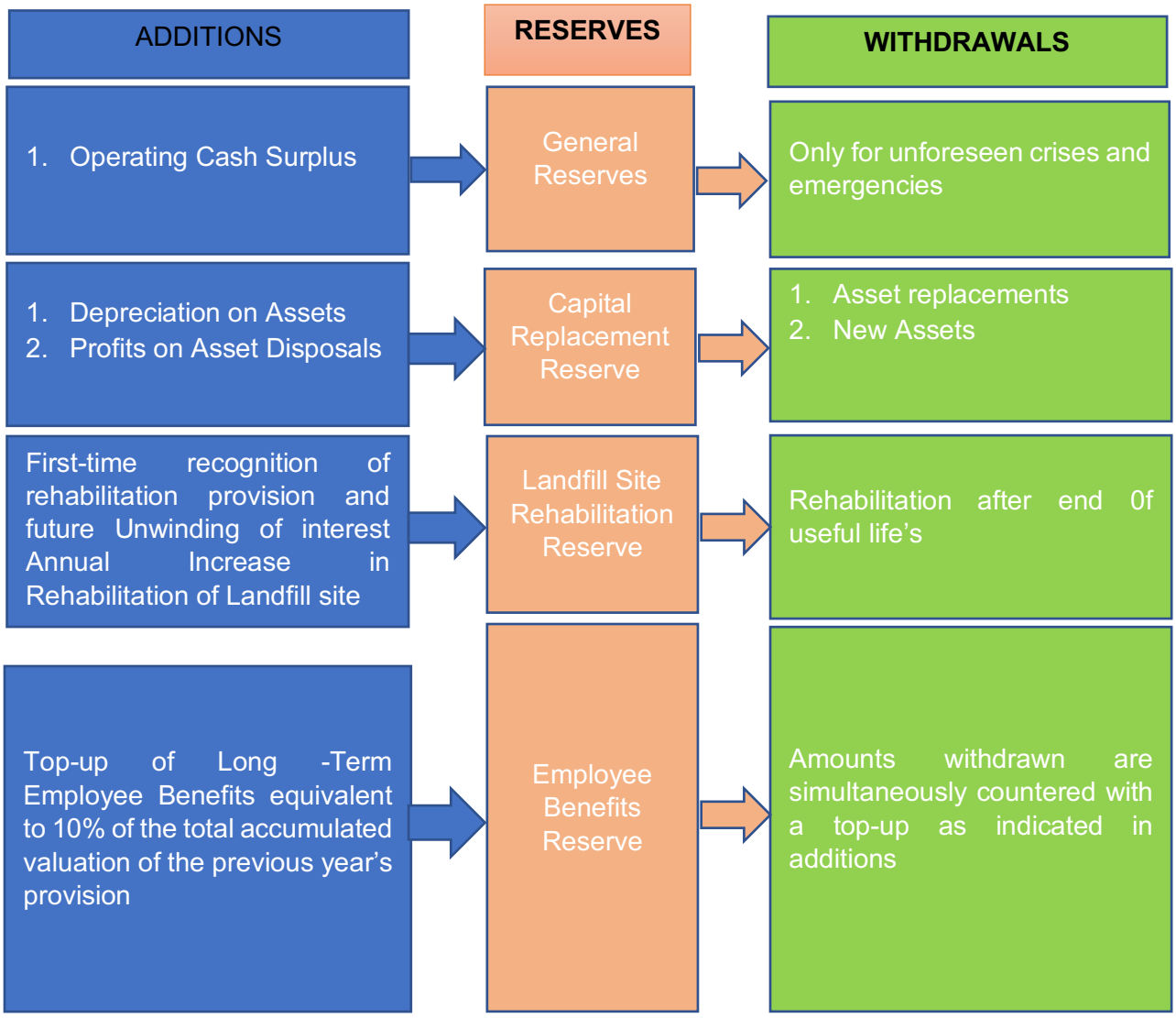


Figure 12: Graphical Illustration of 10-Year Period Cash Flow in Reserves

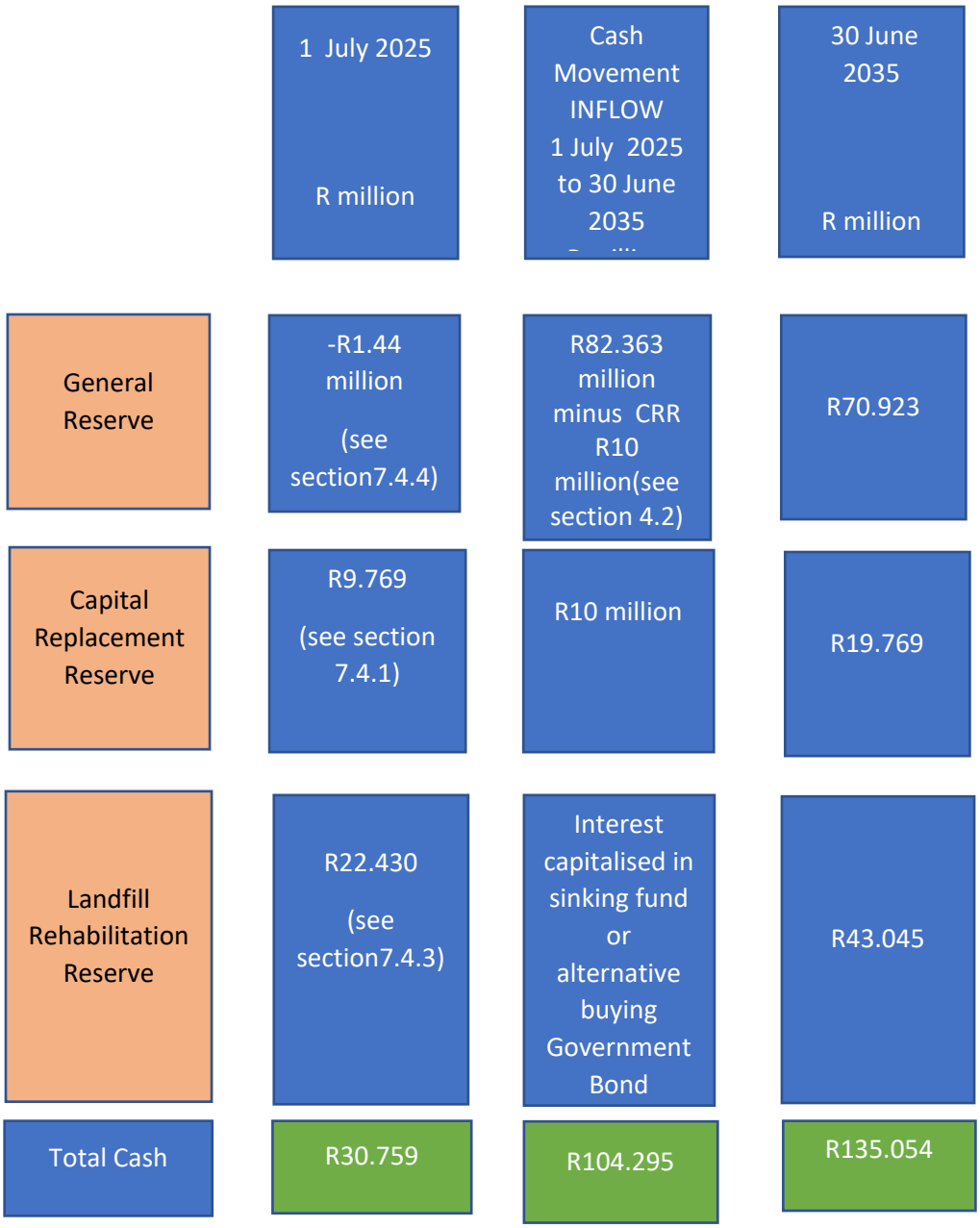


Figure 13 Graphical illustration of allocation transfers of the reserves (Cash inflows)

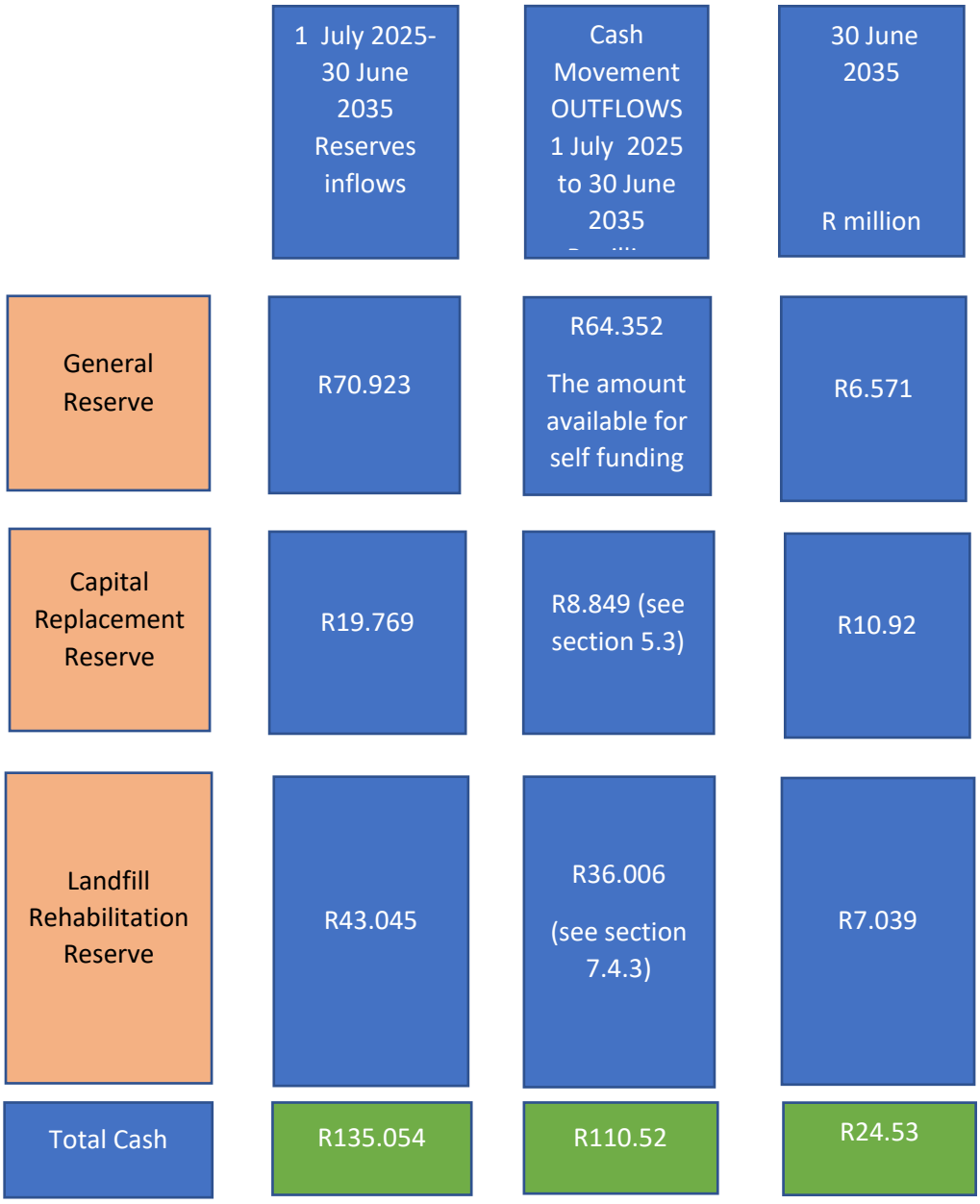


Figure 14 Graphical illustration of allocation transfers of the reserves (Cash outflows)

7.5.1 Nett projected Cash movement

The graphical information illustrates the municipality's cash inflows and reserve allocations; however, a critical assessment requires a clear distinction between **general cash reserves held for liquidity purposes** and **earmarked reserves established to cover specific expenditure obligations**.

General Cash Reserves and Liquidity Benchmark

General cash reserves represent the municipality's primary liquidity buffer and are intended to ensure that day-to-day operating commitments can be met without reliance on short-term borrowing, delayed payments, or the premature use of earmarked funds.

Best practice in municipal financial management requires that **available cash reserves should at least equal one month of total operating expenditure**, calculated as the final year's approved operating budget divided by twelve.

This benchmark serves as a minimum liquidity threshold rather than a surplus indicator. A cash balance equal to one month's operating expenditure enables the municipality to:

- Absorb timing mismatches between revenue receipts and expenditure payments.
- Maintain uninterrupted service delivery during periods of lower cash inflows.
- Reduce exposure to creditor accumulation and interest penalties; and
- Demonstrate sound cash management to oversight bodies and auditors.

Where the general cash reserve meets or marginally exceeds this one-month benchmark, the municipality can be regarded as **liquid but not financially robust**. Any cash balance below this threshold indicates heightened liquidity risk, while reliance on short-term reserve transfers to meet the benchmark suggests structural cash-flow pressure rather than sustainable financial strength.

Thus, the General Cash Reserve of R6.571 million indicates the minimum reserve.

Distinction Between General Cash and Earmarked Reserves

It is critical that general cash reserves are not conflated with earmarked or statutory reserves. While both may appear as cash on hand, earmarked reserves are **not available for general operational use**, as they are intended to fund specific categories of expenditure.

Using earmarked reserves to support general cash requirements may temporarily improve liquidity indicators but undermines the municipality's ability to meet future obligations when those expenditures materialise.

Reserve Coverage Principles for Other Reserves

Each earmarked reserve should be assessed against the **specific expenditure it is intended to cover**, rather than against a generic cash benchmark.

Overall Cash Reserve Adequacy Assessment

The graphical information suggests that while total cash balances may appear adequate when aggregated, the **availability of that cash** must be carefully evaluated. A municipality may technically meet the one-month operating expenditure benchmark, yet still face medium-term financial stress if:

- A large portion of the cash is tied up in earmarked reserves;
- General cash reserves are sustained through once-off reallocations rather than operating surpluses; or
- Earmarked reserves are underfunded relative to the expenditure they are meant to cover.

Conclusion

In conclusion, the adequacy of the municipality's cash position should be assessed primarily against the **general cash reserve benchmark of one month's operating expenditure**, while separately ensuring that each earmarked reserve is appropriately

sized to cover its applicable expenditure obligations. Sustainable financial management requires that general cash reserves provide liquidity, and that earmarked reserves remain intact and fully cash-backed for their intended purposes. Failure to maintain this balance may result in short-term liquidity stability being achieved at the expense of long-term financial sustainability.

7.5.2 Rehabilitation of the Landfill Site Reserve

The LRR should be invested separately in a dedicated sinking fund or, alternatively, in government bonds or similar low-risk instruments, with maturities aligned with the anticipated timing of rehabilitation activities. This approach will ensure capital preservation, generate capitalised returns, and safeguard the availability of funds when the obligation materialises. To achieve this the following investments either in a sinking fund or investing in Government Bonds, are recommended to yield the require rehabilitation cost liability at the investment maturity dates , which is as follows :

Investment date	Maturity date	Initial Investment	Investment at maturity
2026	2030	R12 335 959	R20 553 775
2026	2032	R 7 560 879	R15 451 777
2026	2038	R 2 535 416	R10 589 160
Total		**R22 432 254**	**R46 594 714**

7.5.3 Capital Replacement Reserve

The purpose of the CRR is to provide a dedicated, cash-backed funding mechanism to support capital expenditure requirements arising from asset lifecycle management and to reduce reliance on external borrowing.

In terms of the approved Council policy, the CRR shall be funded from the following sources:

- **Unappropriated cash-backed operating surpluses**, to the extent that such surpluses are not required for operational liquidity or working capital purposes;
- **Interest earned on CRR investments**, where the reserve is maintained in a separately identifiable investment account; and
- **Additional contributions** appropriated through the annual budget and/or adjustments budget, as approved by Council.

Recommended Policy Enhancements

The current policy provisions are assessed as **insufficient to fully support long-term asset sustainability** and intergenerational equity. In line with National Treasury guidance on asset management and funding compliance, it is therefore recommended that the following additional funding sources be formally incorporated into the CRR policy:

- **Depreciation on movable assets funded from own sources**, with the cash equivalent of such depreciation or amortisation to be transferred annually to the Capital Replacement Reserve. The annual transfer amount shall be determined and reviewed as part of the approved **Long-Term Financial Plan (LTFP)**; and
- **Profits realised on the disposal of assets**, which shall be transferred directly to the CRR to support future asset replacement requirements.

These enhancements will strengthen compliance with sound financial management principles by ensuring that non-cash charges related to asset consumption are progressively converted into cash-backed reserves.

Determination of the Capital Replacement Reserve: 30 June 2035

For purposes of long-term financial planning and in alignment with the approved LTFP, the following assumptions have been applied in determining the projected value of the Capital Replacement Reserve as at **30 June 2035**:

- **Planned asset replacement expenditure**, as reflected in *Appendix 3: Asset Replacement Schedule* and detailed in *Section 5: Capital Programme*, amounts to **R8.849 million** (refer specifically to Section 5.3);
- **Annual transfers of depreciation provisions**, amounting to **R1.0 million per financial year**, representing recurring **cash inflows** to the CRR, as reflected in *LTFP Table: Cash Flow Projections and Reserves Movement*; and
- **Proceeds from the disposal of assets** represent potential additional cash inflows. As these amounts cannot be reliably quantified over the planning horizon, they have not been included in the financial projections and are treated as upside for risk mitigation.

Net Cash Movement and Projected Reserve Balance

Based on the assumptions outlined above and the supporting LTFP schedules:

- Total anticipated **cash inflows** over the planning horizon amount to approximately **R10.0 million**.
- Total anticipated **cash outflows** relating to asset replacement amount to **R8.849 million**; and
- The **projected accumulated balance of the Capital Replacement Reserve** is therefore estimated at **R10.92 million as at 30 June 2035**, as reflected in *LTFP Figure 14 Graphical illustration of allocation transfers of the reserves (Cash outflows)*

The projected CRR balance is considered sufficient to fund the identified asset replacement requirements over the medium to long term, subject to annual review through the budget process and ongoing refinement of the asset management and depreciation funding assumptions.

8 SUMMARY: LONG-TERM FINANCIAL PLAN

8.1 Integrated Long-Term Financial Plan (LTFP)

2025/26 – 2034/35

8.1.1 Purpose and Strategic Intent

The purpose of this Long-Term Financial Plan (LTFP) is to restore and sustain **cash-backed financial viability**, ensure **continuous basic service delivery**, and achieve **progressive compliance with MFMA Sections 18 and 19** within the municipality's constrained socio-economic environment.

The LTFP deliberately shifts the municipality away from reliance on accounting surpluses, once-off non-cash items, and implicit cross-subsidisation, towards a **cash-based sustainability model** supported by disciplined reserve management, ring-fenced trading services, and phased cost recovery.

8.1.2 Strategic Context and Financial Reality

The municipality operates within a structurally weak economic base characterised by:

- Limited economic diversification and low GDP per capita;
- High unemployment and rising indigence levels;
- Constrained household affordability; and
- Increasing climate-related risks are impacting infrastructure and operating costs.

These realities materially limit the feasibility of immediate full cost recovery and require a **sequenced and affordability-sensitive reform path**.

8.1.3 Current Financial Position (Baseline)

Liquidity and Operating Position

- Cash holdings of R50.157 million provide short-term liquidity (cash ratio 1.73:1).
- However, liquidity is overstated due to underfunded earmarked and statutory reserves.
- The reported operating surplus (R6.60 million) is structurally weak:
    - Heavily grant-dependent;
    - Supported by interest income rather than service sustainability, and
    - Masking persistent trading service cash deficits.

Structural Trading Deficits

- Water, Electricity, and Refuse remain cash-loss-making.
- Sewerage is the only consistently surplus-generating service.
- Property Rates implicitly absorb service-level deficits, undermining fiscal transparency and sustainability.

8.2 LTFP Strategic Framework

The Integrated LTFP is structured around **seven mutually reinforcing reform pillars**, each directly linked to restoring **cash sustainability, reserve adequacy, and MFMA compliance**.

Financial Reform Pillars and Their Impact on Funds and Reserves

8.2.1 Pillar 1: Ring-Fenced Trading Services Model

Objective: Eliminate structural deficits and protect reserves.

Key Interventions

- Separate cash operating accounts for each trading service.
- Prohibit routine use of Property Rates to fund trading deficits.
- Require annual cash break-even per service.

Impact on Funds and Reserves (Section 7)

- Prevents erosion of the General Cash Reserve (GCR) through hidden operational deficits.
- Ensures service surpluses are available to:
  - Fund maintenance; and
  - Generate internal capital funding for asset renewal.
- Improves transparency over reserve adequacy and sustainability.

8.2.2 Pillar 2: Cost-Reflective but Affordable Tariff Path

Objective: Restore sustainability without tariff shock.

Key Interventions

- Multi-year tariff smoothing over 3–5 years.
- Priority on cash operating cost recovery.
- Annual adjustments linked to:
  - Bulk input inflation,
  - Verified loss reduction, and
  - Collection performance.

Impact on Funds and Reserves

- Stabilises operating cash flows, enabling:
  - Progressive rebuilding of the General Cash Reserve.
  - Reduced dependence on interest income for operating funding.

- Creates predictable surpluses that can be allocated to:
  - Capital Replacement Reserve (CRR); and
  - Long-term asset renewal.

8.2.3 Pillar 3: Loss Reduction as a Financial Lever

Objective: Reduce costs instead of inflating tariffs.

Key Interventions

- Measurable reduction in:
  - Electricity technical and commercial losses
  - Non-Revenue Water
- KPI-linked accountability for senior management.

Impact on Funds and Reserves

- Direct reduction in bulk purchase expenditure improves operating cash surpluses.
- Frees cash for:
  - CRR funding;
  - Accelerated funding of the Landfill Rehabilitation Reserve (LRR).
- Reduces future capital replacement pressure.

8.2.4 Pillar 4: Expenditure Re-Engineering

Objective: Align cost structures with revenue reality.

Key Interventions

- Rationalisation of fixed cost allocations.
- Vacancy control in loss-making services.
- Preventive maintenance focuses on avoiding high reactive costs.

Impact on Funds and Reserves

- Slows growth in operating expenditure, protecting:
  - Cash balances; and
  - Reduces reliance on reserve drawdowns for operating purposes.

8.2.5 Pillar 5: Cash Protection and Liquidity Rules

Objective: Prevent reserve depletion.

Key Interventions

- Minimum cash coverage ratios.
- Prohibition of once-off or non-cash surpluses for operating expenditure.
- Capital projects are limited to grant-funded or cash-funded initiatives.

Impact on Funds and Reserves

- Prevents misuse of:
  - CRR;
  - LRR; and
  - Earmarked reserves.
- Improves audit outcomes and MFMA compliance.
- Ensures reserves remain cash-backed, not merely accounting entries.

8.2.6 Pillar 6: Correct Treatment of Non-Cash Items

Objective: Maintain compliance without distorting affordability.

Key Interventions

- Exclude depreciation and provisions from tariff calculations.
- Fund asset renewal through:
  - Capital grants; and
  - Internally generated cash surpluses.
- Plan landfill rehabilitation and employee obligations via long-term cash forecasting.

Impact on Funds and Reserves

- Prevents artificial tariff inflation.
- Aligns reserve funding with actual cash availability.
- Supports gradual rebuilding of:
  - CRR (currently R9.769 million, not ring-fenced);
  - LRR (shortfall R11.93 million).

8.2.7 Pillar 7: Governance and Monitoring Framework

Objective: Institutionalise sustainability.

Key Interventions

- Monthly service-level cash dashboards.
- Quarterly MFMA Section 18 compliance assessments.
- Annual reserve adequacy reviews.

Impact on Funds and Reserves

- Early identification of reserve stress.
- Prevents unplanned depletion of statutory and earmarked funds.
- Strengthens Council oversight and accountability.

8.3 Long-Term Impact on Funds and Reserves (Section 7 Alignment)

Capital Replacement Reserve (CRR)

- Progressive cash funding from operating surpluses.
- Reduced reliance on depreciation-only accounting balances.
- Prioritisation of high-risk infrastructure and movable assets.

Landfill Rehabilitation Reserve (LRR)

- Full ring-fencing of existing R10.5 million.
- Structured funding of R11.93 million shortfall via:
  - Annual cash contributions; and/or
  - Secure investment instruments.

General Cash Reserve (GCR)

- Restoration to a minimum of one month’s operating expenditure.
- Protected through the prohibition of deficit absorption and once-off funding.

Overall Reserve Integrity

- Clear segregation of:
  - General reserves,
  - Earmarked reserves, and
  - Statutory reserves.
- Improved transparency and audit defensibility.

8.4 Phased Implementation Timeline

Phase	Focus	Timeframe
Phase 1	Cash stabilisation & ring-fencing	0–12 months
Phase 2	Loss reduction & tariff realignment	1–3 years
Phase 3	Capital sustainability & reserve rebuilding	3–10 years

8.5 Strategic Conclusion

This Integrated LTFP confirms that the municipality is **short-term liquid but structurally exposed**. Without reform, underfunded reserves, asset renewal gaps, and trading service deficits will progressively erode cash balances and compromise service delivery.

The recommended financial reforms:

- Shift the municipality from accounting surpluses to cash sustainability;
- Restore discipline and integrity to Funds and Reserves;
- Ensure MFMA-compliant, affordable, and defensible financial management; and
- Establish a credible 10-year pathway to long-term financial resilience.

8.6 Recommended Financial reforms10-Year LTFP Projections – Separate Service Tables

8.6.1 Electricity Service (R million)

Assumptions Table

Electricity Tariff Adjustment	Gradual increase averaging 6–8% p.a., aligned with bulk cost inflation
Electricity Collection Ratio	Maintain high collection (>95%), support by prepaid and demand management
Electricity Loss Reduction	Reduce technical & commercial losses from 10% → 5% by Year 10

Year	Revenue	Cash Cost	Surplus/Deficit
FY26	22.3	26.5	–4.2
FY27	23.2	27.0	–3.8
FY28	24.1	27.5	–3.4
FY29	25.0	28.0	–3.0
FY30	26.0	28.5	–2.5
FY31	27.0	29.0	–2.0
FY32	28.0	29.5	–1.5
FY33	29.1	30.0	–0.9
FY34	30.2	30.5	–0.3

FY35	31.4	31.0	0.4

8.6.2 Water Service (R million)

Assumptions Table

Parameter	Assumption (Updated)
Water Tariff Adjustment	Gradual increase averaging 8% p.a. (Years 1–5), then 6% p.a.
Water Collection Ratio	Improve from 57% → 85% (Years 1–5), then 90%+ by Year 10
Non-Revenue Water Reduction	Reduce NRW from 35% → 15% by Year 10
Cash Cost Coverage Target	100% by Year 10

Year	Revenue	Cash Cost	Surplus/Deficit
FY26	8.7	9.1	–0.4
FY27	9.3	9.3	0.0
FY28	10.0	9.5	0.5
FY29	10.7	9.7	1.0
FY30	11.4	9.9	1.5
FY31	12.2	10.1	2.1
FY32	13.0	10.3	2.7
FY33	14.0	10.5	3.5
FY34	15.0	10.7	4.3
FY35	16.0	10.9	5.1

8.6.3 Sewerage Service (R million)

Assumptions Table

Sewerage Tariff Adjustment	Gradual increase 5–7% p.a., aligned with operating costs
Sewerage Collection Ratio	Improve from 50% → 80% (Years 1–5), then 85%+ by Year 10

Year	Revenue	Cash Cost	Surplus/Deficit
FY26	10.0	6.6	3.4
FY27	10.5	6.8	3.7
FY28	11.0	7.0	4.0
FY29	11.5	7.2	4.3
FY30	12.0	7.5	4.5
FY31	12.6	7.7	4.9
FY32	13.2	8.0	5.2
FY33	13.8	8.2	5.6
FY34	14.5	8.5	6.0
FY35	15.2	8.8	6.4

8.6.4 Refuse Service (R million)

Refuse Tariff Adjustment	Annual adjustment 6–7% to reflect cost recovery
Refuse Collection Ratio	Improve from 78% → 90% (Years 1–5), then 95%+ by Year 10

Year	Revenue	Cash Cost	Surplus/Deficit
FY26	5.7	5.3	0.4
FY27	6.0	5.4	0.6
FY28	6.3	5.5	0.8
FY29	6.6	5.7	0.9
FY30	7.0	5.9	1.1
FY31	7.3	6.1	1.2
FY32	7.6	6.3	1.3
FY33	7.9	6.5	1.4
FY34	8.2	6.7	1.5
FY35	8.6	7.0	1.6

8.6.5 Property Rates (R million)

Property Rates Growth

Maintain moderate growth 5–6% p.a., aligned with affordability

Year	Revenue	Cash Cost	Surplus/Deficit
FY26	5.94	5.94	0.0
FY27	6.2	6.0	0.2
FY28	6.5	6.1	0.4
FY29	6.8	6.2	0.6
FY30	7.1	6.4	0.7
FY31	7.4	6.6	0.8
FY32	7.7	6.8	0.9
FY33	8.0	7.0	1.0
FY34	8.4	7.2	1.2
FY35	8.8	7.4	1.4

APPENDIX 1

BORROWING

Benefits and Risks of Borrowing

1. Benefits of Borrowing

1.1 Accelerated Infrastructure Delivery

Borrowing enables the Municipality to implement priority capital projects timeously without waiting for sufficient cash reserves or grant funding to accumulate. This is particularly important where infrastructure backlogs, asset replacement needs, or regulatory compliance requirements must be addressed urgently to ensure uninterrupted service delivery.

1.2 Preservation of Cash Reserves and Liquidity

By utilising borrowing to fund long-life capital assets, the Municipality can preserve cash-backed reserves required for working capital, emergency expenditure, and financial resilience. This reduces the risk of liquidity pressure and supports the Municipality's ability to absorb revenue volatility or unforeseen operational shocks.

1.3 Intergenerational Equity

Borrowing aligns the cost of long-term infrastructure with the period over which the assets provide benefits. Repayment of debt over the useful life of assets ensures that future users contribute to the cost of infrastructure, rather than placing the full financial burden on current ratepayers. This principle is supported by National Treasury and is consistent with sound asset management practices.

1.4 Improved Asset Management Outcomes

Access to borrowed funding can support the systematic replacement, refurbishment, and upgrading of aging infrastructure. This reduces the risk of asset failure, service interruptions, and escalating maintenance costs associated with deferred capital investment.

1.5 Leverage of a Strong Balance Sheet

Given the Municipality's current low gearing and absence of outstanding borrowing liabilities, borrowing can be strategically leveraged without materially compromising financial stability. A moderate and affordable level of debt can enhance capital funding flexibility while remaining within MFMA and National Treasury prudential limits.

1.6 Accelerated Infrastructure Delivery

Timely capital investment funded through borrowing may yield long-term cost savings by avoiding emergency repairs, reducing operational inefficiencies, and limiting inflation-driven increases in construction costs.

2. Risks of Borrowing

2.1 Affordability and Repayment Risk

Borrowing creates fixed repayment obligations that must be serviced from future operating revenues. If revenue growth underperforms, or operating costs increase beyond projections, debt servicing may place pressure on the operating budget and crowd out funding for essential services.

2.2 Interest Rate Risk

Exposure to variable interest rates may result in increased borrowing costs over the life of the loan. Rising interest rates could negatively affect affordability, particularly if borrowing is not structured with appropriate fixed-rate or hedging mechanisms.

2.3 Reduced Financial Flexibility

Debt commitments reduce future budgetary flexibility because a portion of operating revenue is contractually committed to debt service. This may limit the Municipality's ability to respond to unforeseen events or fund new priorities.

2.4 Credit and Covenant Risk

Failure to comply with loan covenants, prudential ratios, or MFMA requirements could adversely affect the Municipality's credit profile and reputation. This may increase future borrowing costs or restrict access to funding.

2.5 Overinvestment and Project Risk

Borrowing increases the risk of overinvestment if projects are not rigorously prioritised or if cost overruns occur. Poor project planning, weak contract management, or delays in implementation can result in higher-than-expected debt without corresponding service delivery benefits.

2.6 Long-Term Fiscal Sustainability Risk

Excessive or poorly structured borrowing may compromise long-term financial sustainability by increasing debt levels beyond what the Municipality's revenue base can support, particularly amid economic uncertainty or declining consumer affordability.

3. Risk Mitigation Measures

To maximise the benefits and manage the risks of borrowing, the following measures should be applied:

- Borrowing should be limited to capital expenditure on long-life assets, in line with Section 46 of the MFMA
- Affordability assessments should include debt service coverage ratios, debt-to-revenue ratios, and sensitivity analyses
- Borrowing should be aligned with the Asset Management Plan, Long-Term Financial Plan, and Capital Investment Framework
- Interest rate risk should be managed through appropriate loan structuring and term matching
- Strong project governance, monitoring, and reporting must be maintained to ensure value for money

Municipal Borrowing Instruments: Options, Advantages and Disadvantages

1. Introduction

Under Section 46 of the Municipal Finance Management Act, 2003 (MFMA), municipalities may incur long-term debt to finance capital expenditure on property, plant, and equipment, provided that such borrowing is affordable, sustainable, and approved by Council. Selecting an appropriate borrowing instrument is critical to ensuring cost-effective financing, effective risk management, and long-term financial sustainability.

This report outlines the main borrowing instruments available to South African municipalities and assesses their respective advantages and disadvantages.

2. Introduction

2.1 Long-Term Loans from Development Finance Institutions (DFIs)

Examples: Development Bank of Southern Africa (DBSA), Infrastructure Finance Corporation (INCA), Public Investment Corporation (PIC – via intermediaries)

Description:

DFIs provide medium- to long-term loans specifically to finance municipal infrastructure and development projects.

Pros:

- Competitive interest rates relative to commercial banks
- Longer repayment periods aligned with asset useful lives
- Experience in municipal lending and infrastructure projects
- Flexible repayment structures (grace periods, step-up repayments)
- Technical support and due diligence assistance in some cases

Cons:

- Lengthy approval and due diligence processes
- Extensive reporting and compliance requirements
- Funding is often restricted to specific types of capital projects
- Less flexibility once loan conditions are finalised

2.2 Commercial Bank Loans

Examples: Standard Bank, ABSA, Nedbank, FirstRand

Description:

Traditional term loans or amortising loans provided by commercial banks for capital expenditure.

Pros:

- Faster approval processes compared to DFIs
- Greater flexibility in loan structuring
- Competitive pricing for financially strong municipalities
- Suitable for smaller or urgent capital projects

Cons:

- Generally shorter loan tenures than DFIs
- Interest rates may be higher, especially for smaller municipalities
- Exposure to variable interest rate risk
- Limited tolerance for weaker financial performance

2.3 Municipal Bonds (Capital Market Borrowing)

Description:

Debt securities issued by municipalities directly to investors in the capital markets. More common among large metropolitan municipalities.

Pros:

- Access to large pools of long-term capital
- Potentially lower long-term interest rates
- Flexible repayment profiles (bullet or amortising structures)
- Enhances financial transparency and market discipline

Cons:

- High transaction and issuance costs
- Requires strong credit rating and financial sophistication
- Not cost-effective for smaller municipalities
- Ongoing disclosure and investor reporting obligations

2.4 Internal Borrowing (Cash-Backed Borrowing)

Description:

Funding capital projects through the temporary use of internally generated cash reserves, often structured as “internal loans”.

Pros:

- No external interest costs
- Quick and administratively simple
- Retains full control over repayment terms
- Avoids exposure to external lenders

Cons:

- Reduces cash reserves and liquidity
- Opportunity cost of using cash reserves
- Increased risk if reserves are needed for emergencies
- Not a sustainable long-term solution for large projects

2.5 Lease Financing / Finance Leases

Description:

Long-term lease arrangements where the municipality effectively finances the acquisition of an asset, commonly used for vehicles, plant, or equipment.

Pros:

- Useful for movable assets with shorter useful lives
- Preserves cash flow in the short term
- Predictable repayment schedules
- Often easier approval processes

Cons:

- Generally higher overall cost than direct purchase
- Limited to specific asset types
- Assets may depreciate faster than loan repayment period
- Less flexibility once lease terms are fixed

2.6 Public-Private Partnerships (PPPs) (Borrowing Alternative)

Description:

Long-term contractual arrangements where private partners finance, build, and sometimes operate infrastructure.

Pros:

- Transfers certain financial and operational risks to the private sector
- Reduces immediate capital funding requirements
- Access to private sector expertise and innovation

Cons:

- Complex procurement and regulatory approval processes
- Long-term contractual commitments reduce flexibility
- Often more expensive over the full project lifecycle
- Requires strong contract management capacity

3. Comparative Summary

Instrument	Cost	Tenure	Complexity	Risk Profile	Suitability
DFI Loans	Low–Moderate	Long	Moderate–High	Low–Moderate	Infrastructure assets
Bank Loans	Moderate	Medium	Low–Moderate	Moderate	Smaller/urgent projects
Municipal Bonds	Low (large issuers)	Long	High	Moderate	Large metros only
Internal Borrowing	Low (implicit)	Short–Medium	Low	Liquidity risk	Limited capital needs
Finance Leases	High	Short–Medium	Low	Asset risk	Vehicles/equipment
PPPs	High (lifecycle)	Long	Very High	Shared	Mega projects

4. Conclusion and Strategic Considerations

The choice of borrowing instrument should be guided by the Municipality's financial capacity, project size, asset useful life, and risk appetite. For smaller and medium-sized municipalities, long-term loans from DFIs or commercial banks typically offer the best balance of affordability, flexibility, and administrative complexity. Capital market instruments and PPPs are generally more suitable for larger municipalities with strong institutional capacity.

A blended funding approach—combining grants, internal cash, and appropriately structured borrowing—remains the most sustainable strategy to finance capital infrastructure while protecting liquidity and long-term financial stability.

APPENDIX 2

1. Cash Generating Surplus Projections

1.1 Revenue

The municipality's main sources of revenue are services and property rates.

Therefore, to meaningfully analyse the effect of the above measures, the payment recovery rate for service charges and property rates for Debtors is essential. To determine a reliable payment recovery ratio, the past five years (2021 to 2025) is used as basis, of which the result is reflected in the below table:

	Jun-21	Jun-22	Jun-23	Jun-24	Jun-25	Period 1/7/21 - 30/06/2025)
Debtors Opening Balances						
Electricity	R 2 270 002.00	R 2 229 587.00	R 2 149 871.51	R 2 616 766.00	R 3 956 007.00	R 2 270 002.00
Water	R 5 946 774.00	R 8 321 903.00	R 17 660 333.98	R 7 268 619.00	R 9 784 144.00	R 5 946 774.00
Sewerage	R 3 933 294.00	R 5 173 091.00	R 6 183 855.97	R 5 115 146.00	R 6 580 314.00	R 3 933 294.00
Refuse	R 2 623 536.00	R 3 452 573.00	R 4 011 868.64	R 3 140 882.00	R 4 295 984.00	R 2 623 536.00
Rates and Availability Charges	R 1 739 657.00	R 2 010 587.00	R 2 407 923.37	R 2 753 485.00	R 3 257 975.19	R 1 739 657.00
Levies (net including revenue forgone)						
Electricity	R 23 168 102.52	R 27 254 824.57	R 25 837 714.24	R 30 768 774.41	R 29 439 560.87	R 136 468 976.60
Water	R 8 922 106.07	R 10 171 722.10	R 8 146 519.33	R 10 832 795.36	R 11 509 377.13	R 49 582 519.98
Sewerage	R 4 008 465.76	R 4 078 230.06	R 5 293 524.46	R 6 220 190.60	R 7 481 595.55	R 27 082 006.43
Refuse	R 7 342 810.95	R 7 764 762.58	R 10 417 534.84	R 11 891 205.25	R 13 281 718.82	R 50 698 032.45
Rates and Availability Charges	R 6 505 869.47	R 7 178 628.02	R 6 778 099.48	R 7 628 031.96	R 7 858 509.38	R 35 949 138.31
Revenue forgone						
Electricity	-R 1 368 807.34	-R 2 237 781.79	-R 1 448 325.30	-R 1 794 482.34	-R 1 918 704.48	-R 8 768 101.24
Water	-R 1 625 759.83	-R 2 430 174.48	-R 1 815 582.22	-R 2 194 444.26	-R 3 414 925.59	-R 11 480 886.38
Sewerage	-R 1 426 533.14	-R 1 584 935.76	-R 1 800 484.56	-R 2 270 132.26	-R 2 822 324.36	-R 9 904 410.08
Refuse	-R 2 247 398.31	-R 2 611 140.91	-R 2 617 238.08	-R 3 240 351.89	-R 3 726 129.67	-R 14 442 258.85
Rates and Availability Charges	-R 1 052 152.25	-R 1 204 848.41	-R 59 796.55	-R 16 308.93	-R 1 404.07	-R 2 334 510.21
Pre paid						
Electricity	-R 9 016 174.34	-R 11 002 048.47	-R 9 186 954.47	-R 10 032 425.25	-R 11 161 114.83	-R 50 398 717.36
Written Offs						
Electricity			-R 209 017.71	-R 61 581.76	-R 64 879.03	-R 335 478.50
Water			-R 11 553 202.16	-R 1 567 471.67	-R 1 341 346.81	-R 14 462 020.64
Sewerage			-R 2 789 008.77	-R 953 103.56	-R 611 899.80	-R 4 354 012.13
Refuse			-R 3 416 690.46	-R 675 451.29	-R 451 657.13	-R 4 543 798.88
Rates and Availability Charges	-R 329 560.86	-R 1 046 392.21	-R 56 666.45	-R 158 691.04	-R 64 931.12	-R 1 656 241.68
Closing Balances						
Electricity	R 2 229 587.00	R 2 149 871.51	R 2 616 766.00	R 3 600 390.00	R 2 601 678.00	R 2 601 678.00
Water	R 8 321 903.00	R 17 660 333.98	R 7 268 619.00	R 9 784 144.00	R 10 640 538.00	R 10 640 538.00
Sewerage	R 5 173 091.00	R 6 183 855.97	R 5 115 146.00	R 6 580 314.00	R 8 308 624.00	R 8 308 624.00
Refuse	R 3 452 573.00	R 4 011 868.64	R 3 140 882.00	R 4 295 984.00	R 5 626 037.00	R 5 626 037.00
Rates and Availability Charges	R 2 010 587.00	R 2 407 923.37	R 2 753 485.00	R 3 257 975.19	R 3 885 786.35	R 3 885 786.35
Actual Payments received						
Electricity	-R 12 823 535.84	-R 14 094 709.79	-R 14 526 522.28	-R 17 896 661.06	-R 17 649 191.53	-R 76 635 003.50
Water	-R 4 921 217.24	R 1 596 883.35	-R 5 169 449.92	-R 4 555 354.43	-R 5 896 710.73	-R 18 945 848.96
Sewerage	-R 1 342 135.62	-R 1 482 529.32	-R 1 772 741.10	-R 1 531 786.78	-R 2 319 061.40	-R 8 448 254.22
Refuse	-R 4 266 375.64	-R 4 594 326.03	-R 5 254 592.95	-R 6 820 300.08	-R 7 773 879.03	-R 28 709 473.72
Rates	-R 4 853 226.36	-R 4 530 051.04	-R 6 316 074.85	-R 6 948 541.79	-R 7 164 363.03	-R 29 812 257.07
Recovery rate						
Electricity	-100%	-101%	-96%	-94%	-108%	
Water	-67%	-59%	-82%	-53%	-73%	
Sewerage	-52%	-59%	-51%	-39%	-50%	
Refuse	-84%	-89%	-67%	-79%	-81%	
Rates	-89%	-76%	-94%	-91%	-91%	
Column1 / Column2	Column3	Column4	Column5	Column6	Column7	Column8
Total Opening Balance	R 16 513 263.00	R 21 187 741.00	R 32 413 853.47	R 20 894 898.00	R 27 874 424.19	R 16 513 263.00
Total Closing Balance	R 21 187 741.00	R 32 413 853.47	R 20 894 898.00	R 27 518 807.19	R 31 062 663.35	R 31 062 663.35
Increase in Totai Debtors	R 4 674 478.00	R 11 226 112.47	-R 11 518 955.47	R 6 623 909.19	R 3 188 239.16	R 14 549 400.35

1.2. (2024/25 Actuals projected)

Table 1: Underlying Surpluses/Losses (Projections based on Current Inflation (4%)

	AFS Actuals 2024/25	Projected 2025/26	Projected 2026/27	Projected 2027/2028	Projected 2028/2029	Projected 2029/2030
REVENUE						
Revenue from exchange transacrtions	**Rand**	**Rand**	**Rand**	**Rand**	**Rand**	**Rand**
Property rates @ payment ratio 91%	5 417 143	5 633 828	5 859 181	6 093 549	6 337 291	6 590 782
Service charges - electricity revenue @ payment ratio 99%	20 601 624	21 425 689	22 282 716	23 174 025	24 100 986	25 065 025
Service charges - water revenue@ payment ratio 74 %	4 545 437	4 727 255	4 916 345	5 112 999	5 317 519	5 530 219
Service charges - sanitation revenue @ payment ratio 50%	1 761 539	1 832 001	1 905 281	1 981 492	2 060 751	2 143 182
Service charges - refuse revenue @ Payment ratio 81%	5 852 572	6 086 675	6 330 142	6 583 348	6 846 682	7 120 549
Rental of facilities and equipment	721 372	750 227	780 236	811 445	843 903	877 659
Interest earned - external investments	5 411 891	5 628 366	5 853 501	6 087 641	6 331 146	6 584 392
Interest earned - outstanding debtors	2 676 444	2 783 501	2 894 842	3 010 635	3 131 061	3 256 303
Fines, penalties and forfeits @ payment ratio 5%	560 344	582 758	606 069	630 311	655 524	681 745
Licences and permits	111 625	116 090	120 734	125 563	130 586	135 809
Agency services	323 423	336 360	349 815	363 807	378 359	393 494
Transfers and subsidies	34 925 338	36 322 351	37 775 245	39 286 255	40 857 705	42 492 013
Other revenue	2 541 983	2 643 662	2 749 409	2 859 385	2 973 761	3 092 711
Gains						
Total Revenue	**85 450 735**	**88 868 764**	**92 423 514**	**96 120 455**	**99 965 273**	**103 963 884**
EXPENDITURE						
Employee related costs	33 371 728	34 706 597	36 094 861	37 538 655	39 040 202	40 601 810
Remuneration of councillors	3 524 534	3 665 515	3 812 136	3 964 621	4 123 206	4 288 134
Finance charges only on Payables	1 058 340	1 100 673	1 144 700	1 190 488	1 238 108	1 287 632
Bulk purchases	20 106 552	20 910 814	21 747 246	22 617 136	23 521 822	24 462 695
Other materials	554 093	576 257	599 307	623 280	648 211	674 139
Contracted services	10 134 513	10 539 893	10 961 489	11 399 948	11 855 946	12 330 184
Transfers and subsidies	759 964	790 362	821 977	854 856	889 050	924 612
Other expenditure	9 344 728	9 718 517	10 107 258	10 511 548	10 932 010	11 369 290
Total Expenditure	**78 854 450**	**82 008 628**	**85 288 973**	**88 700 532**	**92 248 554**	**95 938 496**
Underlying Operating Cash Surplus	**6 596 284**	**6 860 136**	**7 134 541**	**7 419 923**	**7 716 720**	**8 025 388**
None Cash Expenditure						
Depreciation	6 727 146.40	6 996 232.26	7 276 081.55	7 567 124.81	7 869 809.80	8 184 602.19
Landfill Site interest	2 165 497.13	2 252 117.01	2 342 201.70	2 435 889.76	2 533 325.35	2 634 658.37
Employee benefits	3 477 379.07	3 616 474.23	3 761 133.20	3 911 578.53	4 068 041.67	4 230 763.34
Accounting Deficit	**-R5 773 738.31**	**-R6 004 687.84**	**-R6 244 875.35**	**-R6 494 670.37**	**-R6 754 457.18**	**-R7 024 635.47**

	Projected 2030/2031	Projected 2031/2032	Projected 2032/2033	Projected 2033/2034	Projected 2034/2035
REVENUE					
Revenue from exchange transacrtions	**Rand**	**Rand**	**Rand**	**Rand**	**Rand**
Property rates @ payment ratio 91%	6 854 413	7 128 590	7 413 734	7 710 283	8 018 694
Service charges - electricity revenue @ payment ratio 99%	26 067 626	27 110 331	28 194 745	29 322 534	30 495 436
Service charges - water revenue@ payment ratio 74 %	5 751 428	5 981 485	6 220 745	6 469 575	6 728 358
Service charges - sanitation revenue @ payment ratio 50%	2 228 909	2 318 065	2 410 788	2 507 219	2 607 508
Service charges - refuse revenue @ Payment ratio 81%	7 405 371	7 701 586	8 009 649	8 330 035	8 663 237
Rental of facilities and equipment	912 766	949 276	987 247	1 026 737	1 067 807
Interest earned - external investments	6 847 768	7 121 679	7 406 546	7 702 808	8 010 920
Interest earned - outstanding debtors	3 386 555	3 522 017	3 662 898	3 809 414	3 961 791
Fines, penalties and forfeits @ payment ratio 5%	709 014	737 375	766 870	797 545	829 447
Licences and permits	141 241	146 891	152 767	158 877	165 232
Agency services	409 233	425 603	442 627	460 332	478 745
Transfers and subsidies	44 191 694	45 959 362	47 797 736	49 709 646	51 698 031
Other revenue	3 216 419	3 345 076	3 478 879	3 618 034	3 762 756
Gains					
Total Revenue	**108 122 440**	**112 447 337**	**116 945 231**	**121 623 040**	**126 487 961**
EXPENDITURE					
Employee related costs	42 225 882	43 914 917	45 671 514	47 498 375	49 398 309
Remuneration of councillors	4 459 660	4 638 046	4 823 568	5 016 511	5 217 171
Finance charges only on Payables	1 339 137	1 392 703	1 448 411	1 506 347	1 566 601
Bulk purchases	25 441 202	26 458 851	27 517 205	28 617 893	29 762 608
Other materials	701 105	729 149	758 315	788 648	820 193
Contracted services	12 823 391	13 336 327	13 869 780	14 424 571	15 001 554
Transfers and subsidies	961 596	1 000 060	1 040 063	1 081 665	1 124 932
Other expenditure	11 824 062	12 297 024	12 788 905	13 300 461	13 832 480
Total Expenditure	**99 776 036**	**103 767 077**	**107 917 760**	**112 234 471**	**116 723 849**
Underlying Operating Cash Surplus	**8 346 404**	**8 680 260**	**9 027 471**	**9 388 569**	**9 764 112**
None Cash Expenditure					
Depreciation	8 511 986.28	8 852 465.73	9 206 564.36	9 574 826.94	9 957 820.01
Landfill Site interest	2 740 044.70	2 849 646.49	2 963 632.35	3 082 177.64	3 205 464.75
Employee benefits	4 399 993.87	4 575 993.63	4 759 033.37	4 949 394.71	5 147 370.49
Accounting Deficit	**-R7 305 620.89**	**-R7 597 845.72**	**-R7 901 759.55**	**-R8 217 829.93**	**-R8 546 543.13**

Table 2 Underlying Surpluses/Losses (Projections based on Current Inflation (4%) +1%

	AFS Actuals 2024/25	Projected 2025/26	Projected 2026/27	Projected 2027/2028	Projected 2028/2029	Projected 2029/2030
REVENUE						
Revenue from exchange transacrtions	**Rand**	**Rand**	**Rand**	**Rand**	**Rand**	**Rand**
Property rates @ payment ratio 91%	5 417 143	5 688 000	5 972 400	6 271 020	6 584 571	6 913 799
Service charges - electricity revenue @ payment ratio 99%	20 601 624	21 631 705	22 713 290	23 848 955	25 041 402	26 293 473
Service charges - water revenue@ payment ratio 74 %	4 545 437	4 772 709	5 011 345	5 261 912	5 525 007	5 801 258
Service charges - sanitation revenue @ payment ratio 50%	1 761 539	1 849 616	1 942 097	2 039 202	2 141 162	2 248 220
Service charges - refuse revenue @ Payment ratio 81%	5 852 572	6 145 201	6 452 461	6 775 084	7 113 838	7 469 530
Rental of facilities and equipment	721 372	757 441	795 313	835 078	876 832	920 674
Interest earned - external investments	5 411 891	5 682 485	5 966 609	6 264 940	6 578 187	6 907 096
Interest earned - outstanding debtors	2 676 444	2 810 266	2 950 779	3 098 318	3 253 234	3 415 896
Fines, penalties and forfeits @ payment ratio 5%	560 344	588 362	617 780	648 669	681 102	715 157
Licences and permits	111 625	117 206	123 067	129 220	135 681	142 465
Agency services	323 423	339 594	356 574	374 403	393 123	412 779
Transfers and subsidies	34 925 338	36 671 605	38 505 185	40 430 444	42 451 966	44 574 565
Other revenue	2 541 983	2 669 082	2 802 536	2 942 663	3 089 796	3 244 286
Gains						
Total Revenue	**85 450 735**	**89 723 271**	**94 209 435**	**98 919 907**	**103 865 902**	**109 059 197**
EXPENDITURE						
Employee related costs	33 371 728	35 040 314	36 792 330	38 631 946	40 563 544	42 591 721
Remuneration of councillors	3 524 534	3 700 761	3 885 799	4 080 089	4 284 093	4 498 298
Finance charges only on Payables	1 058 340	1 111 256	1 166 819	1 225 160	1 286 418	1 350 739
Bulk purchases	20 106 552	21 111 879	22 167 473	23 275 847	24 439 639	25 661 621
Other materials	554 093	581 798	610 888	641 432	673 504	707 179
Contracted services	10 134 513	10 641 238	11 173 300	11 731 965	12 318 563	12 934 491
Transfers and subsidies	759 964	797 962	837 860	879 753	923 740	969 927
Other expenditure	9 344 728	9 811 964	10 302 562	10 817 691	11 358 575	11 926 504
		0	0	0	0	0
Total Expenditure	**78 854 450**	**82 797 173**	**86 937 031**	**91 283 883**	**95 848 077**	**100 640 481**
Underlying Operating Cash Surplus	**6 596 284**	**6 926 099**	**7 272 403**	**7 636 024**	**8 017 825**	**8 418 716**
None Cash Expenditure						
Depreciation	6 727 146.40	7 063 503.72	7 416 678.91	7 787 512.85	8 176 888.49	8 585 732.92
Landfill Site interest	2 165 497.13	2 273 771.99	2 387 460.59	2 506 833.61	2 632 175.30	2 763 784.06
Employee benefits	3 477 379.07	3 651 248.02	3 833 810.42	4 025 500.95	4 226 775.99	4 438 114.79
Accounting Surplus /Deficit	**-R5 773 738.31**	**-R6 062 425.22**	**-R6 365 546.48**	**-R6 683 823.81**	**-R7 018 015.00**	**-R7 368 915.75**

	Projected 2030/2031	Projected 2031/2032	Projected 2032/2033	Projected 2033/2034	Projected 2034/2035
REVENUE					
Revenue from exchange transacrtions	**Rand**	**Rand**	**Rand**	**Rand**	**Rand**
Property rates @ payment ratio 91%	7 259 489	7 622 464	8 003 587	8 403 766	8 823 954
Service charges - electricity revenue @ payment ratio 99%	27 608 146	28 988 554	30 437 981	31 959 880	33 557 874
Service charges - water revenue@ payment ratio 74 %	6 091 321	6 395 887	6 715 681	7 051 465	7 404 038
Service charges - sanitation revenue @ payment ratio 50%	2 360 631	2 478 662	2 602 595	2 732 725	2 869 361
Service charges - refuse revenue @ Payment ratio 81%	7 843 007	8 235 157	8 646 915	9 079 261	9 533 224
Rental of facilities and equipment	966 707	1 015 043	1 065 795	1 119 085	1 175 039
Interest earned - external investments	7 252 451	7 615 073	7 995 827	8 395 618	8 815 399
Interest earned - outstanding debtors	3 586 691	3 766 025	3 954 326	4 152 043	4 359 645
Fines, penalties and forfeits @ payment ratio 5%	750 915	788 461	827 884	869 278	912 742
Licences and permits	149 588	157 068	164 921	173 167	181 826
Agency services	433 418	455 089	477 843	501 735	526 822
Transfers and subsidies	46 803 293	49 143 457	51 600 630	54 180 662	56 889 695
Other revenue	3 406 500	3 576 825	3 755 667	3 943 450	4 140 622
Gains					
Total Revenue	**114 512 157**	**120 237 765**	**126 249 653**	**132 562 136**	**139 190 242**
EXPENDITURE					
Employee related costs	44 721 307	46 957 372	49 305 241	51 770 503	54 359 028
Remuneration of councillors	4 723 213	4 959 373	5 207 342	5 467 709	5 741 094
Finance charges only on Payables	1 418 276	1 489 190	1 563 649	1 641 832	1 723 924
Bulk purchases	26 944 702	28 291 938	29 706 534	31 191 861	32 751 454
Other materials	742 538	779 665	818 648	859 581	902 560
Contracted services	13 581 216	14 260 277	14 973 291	15 721 955	16 508 053
Transfers and subsidies	1 018 424	1 069 345	1 122 812	1 178 953	1 237 900
Other expenditure	12 522 829	13 148 970	13 806 419	14 496 740	15 221 577
	0	0	0	0	0
Total Expenditure	**105 672 505**	**110 956 130**	**116 503 937**	**122 329 134**	**128 445 590**
Underlying Operating Cash Surplus	**8 839 652**	**9 281 634**	**9 745 716**	**10 233 002**	**10 744 652**
None Cash Expenditure					
Depreciation	9 015 019.56	9 465 770.54	9 939 059.07	10 436 012.02	10 957 812.62
Landfill Site interest	2 901 973.26	3 047 071.93	3 199 425.52	3 359 396.80	3 527 366.64
Employee benefits	4 660 020.53	4 893 021.56	5 137 672.64	5 394 556.27	5 664 284.08
Accounting Surplus /Deficit	**-R7 737 361.53**	**-R8 124 229.61**	**-R8 530 441.09**	**-R8 956 963.15**	**-R9 404 811.30**

Table 3 Underlying Surpluses/Losses (Projections based on Current Inflation (4%) -1%

	AFS Actuals 2024/25	Projected 2025/26	Projected 2026/27	Projected 2027/2028	Projected 2028/2029	Projected 2029/2030
REVENUE						
Revenue from exchange transacrtions	**Rand**	**Rand**	**Rand**	**Rand**	**Rand**	**Rand**
Property rates @ payment ratio 91%	5 417 143	5 579 657	5 747 047	5 919 458	6 097 042	6 279 953
Service charges - electricity revenue @ payment ratio 99%	20 601 624	21 219 673	21 856 263	22 511 951	23 187 309	23 882 928
Service charges - water revenue@ payment ratio 74 %	4 545 437	4 681 800	4 822 254	4 966 922	5 115 930	5 269 408
Service charges - sanitation revenue @ payment ratio 50%	1 761 539	1 814 385	1 868 817	1 924 881	1 982 628	2 042 106
Service charges - refuse revenue @ Payment ratio 81%	5 852 572	6 028 150	6 208 994	6 395 264	6 587 122	6 784 735
Rental of facilities and equipment	721 372	743 013	765 303	788 263	811 910	836 268
Interest earned - external investments	5 411 891	5 574 247	5 741 475	5 913 719	6 091 130	6 273 864
Interest earned - outstanding debtors	2 676 444	2 756 737	2 839 439	2 924 622	3 012 361	3 102 732
Fines, penalties and forfeits @ payment ratio 5%	560 344	577 155	594 469	612 304	630 673	649 593
Licences and permits	111 625	114 974	118 423	121 976	125 635	129 404
Agency services	323 423	333 126	343 120	353 413	364 016	374 936
Transfers and subsidies	34 925 338	35 973 098	37 052 291	38 163 859	39 308 775	40 488 039
Other revenue	2 541 983	2 618 242	2 696 790	2 777 693	2 861 024	2 946 855
Gains						
Total Revenue	**85 450 735**	**88 014 257**	**90 654 684**	**93 374 325**	**96 175 555**	**99 060 821**
EXPENDITURE						
Employee related costs	33 371 728	34 372 880	35 404 066	36 466 188	37 560 174	38 686 979
Remuneration of councillors	3 524 534	3 630 270	3 739 178	3 851 353	3 966 894	4 085 901
Finance charges only on Payables	1 058 340	1 090 090	1 122 792	1 156 476	1 191 170	1 226 906
Bulk purchases	20 106 552	20 709 748	21 331 041	21 970 972	22 630 101	23 309 004
Other materials	554 093	570 716	587 838	605 473	623 637	642 346
Contracted services	10 134 513	10 438 548	10 751 704	11 074 255	11 406 483	11 748 678
Transfers and subsidies	759 964	782 762	806 245	830 433	855 346	881 006
Other expenditure	9 344 728	9 625 070	9 913 822	10 211 236	10 517 573	10 833 101
		0	0	0	0	0
Total Expenditure	**78 854 450**	**81 220 084**	**83 656 686**	**86 166 387**	**88 751 378**	**91 413 920**
Underlying Operating Cash Surplus	**6 596 284**	**6 794 173**	**6 997 998**	**7 207 938**	**7 424 176**	**7 646 901**
None Cash Expenditure						
Depreciation	6 727 146.40	6 928 960.79	7 136 829.62	7 350 934.50	7 571 462.54	7 798 606.42
Landfill Site interest	2 165 497.13	2 230 462.04	2 297 375.90	2 366 297.18	2 437 286.10	2 510 404.68
Employee benefits	3 477 379.07	3 581 700.44	3 689 151.46	3 799 826.00	3 913 820.78	4 031 235.40
Accounting Surplus /Deficit	**-R5 773 738.31**	**-R5 946 950.46**	**-R6 125 358.97**	**-R6 309 119.74**	**-R6 498 393.33**	**-R6 693 345.13**

	Projected 2030/2031	Projected 2031/2032	Projected 2032/2033	Projected 2033/2034	Projected 2034/2035
REVENUE					
Revenue from exchange transacrtions	**Rand**	**Rand**	**Rand**	**Rand**	**Rand**
Property rates @ payment ratio 91%	6 468 351	6 662 402	6 862 274	7 068 142	7 280 187
Service charges - electricity revenue @ payment ratio 99%	24 599 416	25 337 399	26 097 521	26 880 446	27 686 860
Service charges - water revenue@ payment ratio 74 %	5 427 490	5 590 315	5 758 024	5 930 765	6 108 688
Service charges - sanitation revenue @ payment ratio 50%	2 103 370	2 166 471	2 231 465	2 298 409	2 367 361
Service charges - refuse revenue @ Payment ratio 81%	6 988 277	7 197 926	7 413 864	7 636 279	7 865 368
Rental of facilities and equipment	861 356	887 196	913 812	941 227	969 464
Interest earned - external investments	6 462 080	6 655 943	6 855 621	7 061 290	7 273 128
Interest earned - outstanding debtors	3 195 814	3 291 688	3 390 439	3 492 152	3 596 917
Fines, penalties and forfeits @ payment ratio 5%	669 081	689 153	709 828	731 122	753 056
Licences and permits	133 286	137 285	141 403	145 645	150 015
Agency services	386 184	397 770	409 703	421 994	434 654
Transfers and subsidies	41 702 680	42 953 760	44 242 373	45 569 644	46 936 733
Other revenue	3 035 261	3 126 318	3 220 108	3 316 711	3 416 213
Gains					
Total Revenue	**102 032 646**	**105 093 625**	**108 246 434**	**111 493 827**	**114 838 642**
EXPENDITURE					
Employee related costs	39 847 588	41 043 016	42 274 306	43 542 536	44 848 812
Remuneration of councillors	4 208 478	4 334 732	4 464 774	4 598 717	4 736 679
Finance charges only on Payables	1 263 713	1 301 624	1 340 673	1 380 893	1 422 320
Bulk purchases	24 008 274	24 728 523	25 470 378	26 234 490	27 021 524
Other materials	661 616	681 465	701 909	722 966	744 655
Contracted services	12 101 138	12 464 172	12 838 097	13 223 240	13 619 937
Transfers and subsidies	907 436	934 659	962 699	991 580	1 021 327
Other expenditure	11 158 094	11 492 836	11 837 622	12 192 750	12 558 533
	0	0	0	0	0
Total Expenditure	**94 156 337**	**96 981 028**	**99 890 458**	**102 887 172**	**105 973 787**
Underlying Operating Cash Surplus	**7 876 308**	**8 112 598**	**8 355 976**	**8 606 655**	**8 864 855**
None Cash Expenditure					
Depreciation	8 032 564.61	8 273 541.55	8 521 747.79	8 777 400.23	9 040 722.23
Landfill Site interest	2 585 716.82	2 663 288.33	2 743 186.98	2 825 482.58	2 910 247.06
Employee benefits	4 152 172.46	4 276 737.64	4 405 039.77	4 537 190.96	4 673 306.69
Accounting Surplus /Deficit	**-R6 894 145.48**	**-R7 100 969.85**	**-R7 313 998.94**	**-R7 533 418.91**	**-R7 759 421.48**

The forecasted budgeted cash surpluses are included in the Cash Reserves analysis in Appendix 4

2. Analysis of Underlying Surpluses / (Losses) and Key Findings

The projection tables reflecting underlying surpluses and losses under three inflation scenarios provide critical insight into the Municipality's medium- to long-term financial sustainability when assessed on a status quo basis.

2.1. Underlying Cash Position

The analysis of the underlying cash surpluses—after excluding all non-cash items—indicates that, under the status quo, the Municipality **remains cash-positive across the full ten-year projection period under all inflation scenarios modelled**. While the magnitude of the cash surpluses varies across scenarios, the **projection tables do not reflect any underlying cash deficits**.

Under the base inflation scenario (4%), the projections show **stable but modest underlying cash surpluses**, with a gradual erosion in surplus levels over time. This trend indicates that, although current operations generate sufficient cash to cover day-to-day operating requirements, **the cash margin is narrowing**, leaving limited headroom to absorb future cost shocks, service expansion, or unforeseen expenditure pressures.

Under the higher inflation scenario (4% +1%), underlying cash surpluses are **materially reduced but remain positive throughout the projection horizon**. This reflects operating expenditure growth increasingly absorbing available cash resources, highlighting a **growing sensitivity to inflationary pressures**, even though cash break-even is not breached under the status quo assumptions.

Conversely, under the lower inflation scenario (4% –1%), the underlying cash surpluses are **relatively stronger and more sustainable**, indicating improved short- to medium-term liquidity resilience. However, even under this more favourable scenario, the projections do not indicate a material strengthening of cash generation capacity, suggesting that **the Municipality's cash position remains structurally constrained rather than robust**.

Overall, the projections confirm that while the Municipality is **not facing an immediate underlying cash solvency risk**, the persistence of relatively low and declining cash surpluses indicates **limited fiscal space** to fund asset renewal, strengthen reserves, or accommodate additional financial commitments without future policy or operational adjustments.

2.3. Revenue Realisation and Debtors' Recovery

The projections incorporate forecasted debtor recovery rates as outlined in Section 1.1. While these recovery assumptions moderate the revenue outlook, the tables demonstrate that **improvements in collection rates do not fully offset expenditure growth**. The Municipality remains exposed to cash flow pressure, with billed revenue growth exceeding actual cash inflows, particularly in an elevated inflation environment.

This underscores the finding that improvements in **collection efficiency, while necessary, are not a standalone solution** to the long-term cash sustainability challenge.

2.4. Accounting Surplus / (Loss) Position

When non-cash items—namely, depreciation, employee-related provisions, and landfill rehabilitation provision contributions—are reintroduced, the accounting surplus/(loss) position deteriorates further across all scenarios.

The tables indicate **persistent accounting deficits over the projection horizon**, even where short-term underlying cash surpluses may still exist. This reflects:

- A growing depreciation charge relative to operating revenue;
- Increasing long-term employee benefit obligations; and
- Statutory landfill rehabilitation provision contributions place additional pressure on the Statement of Financial Performance.

This divergence between cash and accounting results is a **clear indicator of infrastructure consumption exceeding funding capacity**, implying that assets are being utilised without adequate long-term financial provision for renewal and rehabilitation.

2.5. Absence of Borrowing and Capital Redemption

The projections assume no borrowing, consistent with the Municipality's current financial position. While this limits immediate cash outflows for debt redemption, the tables show that not **borrowing does not eliminate long-term financial pressure**. Instead, it points to a growing risk that capital replacement and rehabilitation requirements may be deferred, thereby increasing the risk of future service delivery and infrastructure failures.

2.6. Implications for Cash Reserves

The forecasted budgeted cash surpluses reflected in the tables are incorporated into the Cash Reserves analysis (Appendix 4). The declining trend in projected cash surpluses indicates **limited capacity to strengthen or maintain cash-backed reserves** under the status quo. This places pressure on critical reserves such as:

- Capital Replacement Reserves; and
- Statutory provisions, including landfill rehabilitation.

Over the longer term, this weakens the Municipality's financial resilience and ability to respond to unforeseen shocks or funding shortfalls.

2. Summary of Key Findings

- The Municipality's underlying cash position is not structurally sustainable over the ten-year period under a status quo operating model.
- Higher inflation materially accelerates the deterioration of cash surpluses, while lower inflation provides only limited relief.
- Persistent accounting deficits signal under-funding of asset consumption and long-term obligations.
- Improvements in revenue collection, while beneficial, are insufficient on their own to restore long-term financial balance.
- The projected cash surpluses are inadequate to sustainably support reserve funding requirements.
- The absence of borrowing defers, rather than eliminates, long-term infrastructure funding risks.

APPENDIX 3

ANALYSIS OF ASSET REPLACEMENT

DEFINITIONS

For the purposes of this report, the following definitions apply:

Carrying Amount

The amount at which an asset is recognised after deducting accumulated depreciation and accumulated impairment losses.

Class of Assets

A grouping of assets of a similar nature or function in the municipality's operations, disclosed as a single line item in the financial statements.

Cost

The amount of cash or cash equivalents paid, or the fair value of other consideration given, to acquire an asset at the time of acquisition.

Current Replacement Cost (CRC)

The cost of replacing an existing asset with a new asset of equivalent capacity and functionality at current market prices.

Movable Assets

Capital assets that generally include, but are not limited to:

- Computer Equipment
- Furniture and Office Equipment
- Machinery and Equipment
- Transport Assets
- Other movable assets

For the purpose of this report, the definition of movable assets is broadened to include all core capital assets integral to the delivery of municipal services, excluding roads agency assets, but including leased assets and intangible assets.

Depreciable Amount

The cost of an asset, or another amount substituted for cost, less its residual value.

Expected Useful Life (EUL)

The period over which an asset is expected to deliver the required level of service, considering operational requirements such as climate, utilisation, maintenance regime, soil conditions, and topography.

Future Replacement Cost (FRC)

The estimated cost of replacing an asset at the end of its useful life, calculated by inflating the CRC to the point in time when replacement is required.

Remaining Useful Life (RUL)

The estimated remaining period during which an asset is expected to be productive and meet operational performance requirements.

Useful Life

Either:
a) The period over which an asset is expected to be available for use by the municipality; or
b) The number of production or service units expected to be obtained from the asset.

1. INTRODUCTION

- The purpose of this report is to provide a high-level assessment of the municipality's asset base as recorded in the Fixed Asset Register (FAR), with specific emphasis on:
  - Asset composition and location.
  - Asset values and replacement costs.
  - Asset condition and remaining useful life; and
  - The anticipated timing and magnitude of future asset replacement requirements.

- The report focuses on **Infrastructure and Movable Assets** in order to identify assets that have reached, or are approaching, the end of their useful lives, as well as assets whose physical condition necessitates early replacement.

- For each asset category, the analysis seeks to answer the following key questions:
  - What assets does the municipality own, and where are they located?
  - What is the current and future replacement value of these assets?
  - What is their condition and remaining service life?
  - Which assets will require replacement, and when

2. ASSET COMPOSITION

Town	Sum of Carrying value 2024/06/30	Sum of CRC as at 2025/08/31	Sum of Future value
Prince albert	99 128 615.35	238 067 693.73	378 287 778.30
Infrastructure assets	84 991 400.31	208 206 283.12	336 580 246.47
Movable assets	14 137 215.04	29 861 410.61	41 707 531.83
Leeu gamka	42 677 744.16	85 099 244.61	137 203 823.29
Infrastructure assets	42 290 805.92	83 707 562.00	135 406 481.45
Movable assets	386 938.24	1 391 682.61	1 797 341.84
Klaarstroom	19 429 422.94	34 978 157.53	56 281 110.51
Infrastructure assets	19 130 086.78	34 092 900.82	55 053 981.51
Movable assets	299 336.16	885 256.71	1 227 129.00
Total	**161 235 782.45**	**358 145 095.87**	**571 772 712.10**

Table 1: Composition of assets (Source: Fixed Assets Register)

3. REPLACEMENT VALUE OF THE ASSETS

Table 1 indicates that the **book value** of the municipality's infrastructure and movable assets, after accounting for accumulated depreciation, impairments, and residual values, amounted to **R161.23 million** as at **30 June 2024**.

The estimated **Current Replacement Cost (CRC)** of these assets, at current prices, is **R358.45 million**. This highlights the substantial difference between historical cost-based accounting values and the economic cost of replacing the asset base.

When projected to the end of the assets' useful lives and adjusted for inflation, the estimated **Future Replacement Cost (FRC)** amounts to approximately **R571.77 million**. This figure provides a forward-looking indication of the capital funding requirement necessary to sustain service delivery over the long term.

4. REMAINING USEFUL LIVES

Table 2 illustrates the distribution of assets according to their remaining useful lives (RUL) over a ten-year planning horizon.

For planning purposes:

- **RUL 1** represents assets that reached the end of their useful lives in the previous financial year and are therefore assumed to require replacement in the first year of the projection.
- The remaining columns show the estimated replacement values of assets expected to be replaced over the next nine years.

It is important to note that reaching the end of an accounting useful life does not automatically necessitate asset replacement. In practice:

- **Some assets continue to perform adequately beyond their estimated useful lives due to good condition and effective maintenance.**
- **Conversely, assets may require early replacement if their physical condition deteriorates significantly before the end of their useful lives.**

Asset conditions are assessed annually, and where material deviations from the original useful life assumptions are identified, adjustments are made in the FAR as **changes in accounting estimates**, in line with GRAP requirements.

Accordingly, both **the remaining useful life and the asset condition** must be considered together to produce a realistic and defensible forecast of future replacement requirements.

Asset Category	RUL up to 1 year 2025/26	RUL up to 2 years 2026/27	RUL up to 3 years 2027/28	RUL up to 4 years 2028/29	RUL up to 5 years 2029/30	RUL up to 6 years 2030/31
Infrastructure						
Electricity	R25 093.03	R283 694.18	R91 957.51	R3 507.95	R0.00	R0.00
Water	R108 213.53	R1 850 950.66	R43 593.82	R3 324 100.30	R2 210 800.69	R1 036 908.03
Roads	R16 775.34	R434 592.83	R83 363.62	R0.00	R0.00	R0.00
Sanitation	R0.00	R1 135 815.16	R327 785.52	R0.00	R0.00	R0.00
Stormwater	R0.00	R430 590.87	R0.00	R0.00	R1 043 188.96	R0.00
Total	**R150 081.90**	**R4 135 643.71**	**R546 700.47**	**R3 327 608.25**	**R3 253 989.64**	**R1 036 908.03**

Asset Category	RUL up to 7 years 2031/32	RUL up to 8 years 2032/33	RUL up to 9 years 2033/34	RUL up to 10 years 2034/35	Total
Infrastructure					
Electricity	R75 946.58	R0.00	R0.00	R465 245.80	**R945 445.05**
Water	R916 491.38	R0.00	R0.00	R109 061.12	**R9 600 119.52**
Roads	R0.00	R0.00	R0.00		**R534 731.79**
Sanitation	R30 077.46	R0.00	R0.00	R29 432.10	**R1 523 110.26**
Stormwater	R521 306.37	R0.00	R0.00	R0.00	**R1 995 086.20**
Total	**R1 543 821.79**	**R0.00**	**R0.00**	**R603 739.02**	**R14 598 492.82**

Table 2: Remaining useful lives and Replacement cost of assets (Source: Fixed Assets Register)

Asset Category	RUL up to 1 year 2025/26	RUL up to 2 years 2026/27	RUL up to 3 years 2027/28	RUL up to 4 years 2028/29	RUL up to 5 years 2029/30	RUL up to 6 years 2030/31
Moveables						
Computer equipment	R405 153.42	R815 458.91	R227 292.79	R385 048.78	R134 673.08	R233 321.73
Furniture and office equipment	R597 755.50	R216 801.93	R369 311.69	R65 985.07	R142 324.07	R618 053.00
Machinery and equipment	R800 158.65	R128 217.22	R243 109.35	R114 824.62	R614 666.23	R27 006.61
Transport assets	R6 161 587.18	R77 693.28	R0.00	R0.00	R22 423.59	R579 605.50
Total	**R7 964 654.74**	**R1 238 171.35**	**R839 713.83**	**R565 858.47**	**R914 086.97**	**R1 457 986.84**

Asset Category	RUL up to 7 years 2031/32	RUL up to 8 years 2032/33	RUL up to 9 years 2033/34	RUL up to 10 years 2034/35	Total
Moveables					
Computer equipment	R433 312.56	R1 237 608.94	R23 491.00	472159.5158	R4 367 520.74
Furniture and office equipment	R88 705.64	R517 423.84	R73 284.58	R293 535.41	R2 983 180.72
Machinery and equipment	R10 510.95	R21 997.68	R472 258.97	R1 447 453.83	R3 880 204.12
Transport assets	R0.00	R0.00	R4 820 111.86	R1 403 035.19	R13 064 456.60
Total	**R532 529.14**	**R1 777 030.47**	**R5 389 146.41**	**R3 616 183.95**	**R24 295 362.18**

Table 2: Remaining useful lives and Replacement cost of assets (Source: Fixed Assets Register)

5. CONDITIONS RATING OF THE ASSETS

A standardised five-point condition grading system was applied to assess the physical condition of assets. This grading system, presented in Table 3, is aligned with industry practice.

Condition	Description	Degree of replacement	Maintenance required	Indicative RUL
1	Very Good- New or Excellent Condition	0%	Normal Preventative Maintenance	71-100% EU
2	Good – Minor defects only	5%	Normal Preventative Maintenance Minor Corrective Maintenance	46-70% EUL
3	Fair – Moderate deterioration	10-20%	Normal Preventative Maintenance Major Corrective Maintenance	26-45% EUL
4	Poor – Significant deterioration	20-50%	Rehabilitation, if possible	11-25% EUL
5	Very Poor – virtually unserviceable	50-100%	Replace	0-10% EUL

Table 3: Standard Conditions Rating

Below is a summary of the Asset Register with its RUL, reflecting the conditions of the Assets over the 10-year period.

Infrastructure

	RUL 1	RUL 2	RUL 3	RUL 4	RUL 5	RUL 6
Electrical infrastructure						
1-Very good						
2-Good						
3-Fair		R25 093.03	R283 694.18	R91 957.51		
4 - Poor						
5 - Very poor					R3 507.95	
Water supply infrastructure						
1-Very good						R2 210 800.69
2-Good					R842 453.75	
3-Fair		R108 213.53	R1 850 950.66		R2 481 646.55	
4 - Poor				R43 593.82		
5 - Very poor						
Roads						
1-Very good				R76 884.47		
2-Good			R224.96			
3-Fair		R16 253.09	R434 367.87			
4 - Poor				R6 479.14		
5 - Very poor		R522.26				
Sanitation infrastructure						
1-Very good						
2-Good			R23 629.62			
3-Fair			R1 112 185.54	R327 785.52		
4 - Poor						
5 - Very poor						
Stormwater						
1-Very good						
2-Good						
3-Fair			R430 590.87			
4 - Poor						
5 - Very poor						
Total	**R0.00**	**R150 081.90**	**R4 135 643.71**	**R546 700.47**	**R3 327 608.25**	**R2 210 800.69**

	RUL 7	RUL 8	RUL 9	RUL 10	RUL 10+	Total
Electrical infrastructure						
1-Very good				R224 656.44	R18 245 744.93	**R18 470 401.37**
2-Good					R20 955 747.39	**R20 955 747.39**
3-Fair		R75 946.58		R240 589.36	R10 439 317.05	**R11 156 597.70**
4 - Poor					R2 918.63	**R2 918.63**
5 - Very poor						**R3 507.95**
Water supply infrastructure						
1-Very good	R1 036 079.10				R25 919 815.55	**R29 166 695.34**
2-Good				R109 061.12	R44 485 351.39	**R45 436 866.26**
3-Fair	R828.93	R903 418.12			R70 716 663.41	**R76 061 721.20**
4 - Poor		R13 073.26			R84 693.45	**R141 360.53**
5 - Very poor						**R0.00**
Roads						
1-Very good					R36 062 382.46	**R36 139 266.94**
2-Good					R24 651 349.60	**R24 651 574.56**
3-Fair					R34 132 709.99	**R34 583 330.94**
4 - Poor						**R6 479.14**
5 - Very poor						**R522.26**
Sanitation infrastructure						
1-Very good		R30 077.46			R14 193 197.47	**R14 223 274.94**
2-Good				R29 432.10	R61 585 865.64	**R61 638 927.36**
3-Fair					R46 703 409.80	**R48 143 380.87**
4 - Poor						**R0.00**
5 - Very poor						**R0.00**
Stormwater						
1-Very good	R1 043 188.96				R10 250 220.51	**R11 293 409.47**
2-Good					R15 936 526.24	**R15 936 526.24**
3-Fair		R521 306.37			R14 238 587.82	**R15 190 485.06**
4 - Poor					R178 115.44	**R178 115.44**
5 - Very poor						**R0.00**
Total	**R2 080 096.99**	**R1 543 821.79**	**R0.00**	**R603 739.02**	**R448 782 616.80**	**R463 381 109.62**

Moveable Assets

	RUL 1	RUL 2	RUL 3	RUL 4	RUL 5	RUL 6
Computer equipment						
1-Very good						
2-Good		R8 297.91		R209 044.36	R9 672.10	R42 268.16
3-Fair	R186 711.17	R589 107.28	R134 157.01	R150 814.84	R69 079.38	R163 691.99
4 - Poor	R14 788.95	R18 747.34				R27 361.58
5 - Very poor	R203 653.29	R199 306.39	R93 135.78	R25 189.58	R55 921.60	
Furniture and office equipment						
1-Very good						
2-Good	R25 253.19	R11 467.90		R4 062.48	R5 977.82	R1 254.30
3-Fair	R528 420.77	R176 005.36	R303 048.16	R52 904.52	R129 023.97	R588 819.47
4 - Poor	R9 647.03	R17 452.55	R31 093.41		R7 322.28	R10 486.49
5 - Very poor	R34 434.51	R11 876.13	R35 170.12	R9 018.07		R17 492.74
Machinery and equipment						
1-Very good						
2-Good					R8 202.07	
3-Fair	R339 591.65	R100 372.25	R193 487.60	R114 824.62	R432 093.25	R27 006.61
4 - Poor	R76 091.11		R49 368.39		R19 437.15	
5 - Very poor	R384 475.89	R27 844.97	R253.36		R154 933.76	
Transport assets						
1-Very good						
2-Good						
3-Fair	R3 456 587.93					R579 605.50
4 - Poor	R460 064.86				R22 423.59	
5 - Very poor	R2 244 934.39	R77 693.28				
	R7 964 654.74	**R1 238 171.35**	**R839 713.83**	**R565 858.47**	**R914 086.97**	**R1 457 986.84**

	RUL 7	RUL 8	RUL 9	RUL 10	RUL 10+	Total
Computer equipment						
1-Very good					R3 453.26	R3 453.26
2-Good	R131 017.10	R1 111 178.27	R23 491.00	R164 305.66	R7 887.78	R1 707 162.34
3-Fair	R275 581.48	R106 369.72		R307 853.86		R1 983 366.75
4 - Poor						R60 897.87
5 - Very poor	R26 713.97	R20 060.95				R623 981.56
Furniture and office equipment						
1-Very good				R96 249.88	R512 124.47	R608 374.35
2-Good	R1 054.84	R34 484.07	R9 472.83	R171 723.07	R113 628.44	R378 378.93
3-Fair	R79 096.84	R251 912.20	R45 729.33	R24 899.26	R1 524 124.19	R3 703 984.06
4 - Poor	R5 508.29	R11 995.63	R18 082.42		R27 466.68	R139 054.77
5 - Very poor	R3 045.67	R219 031.95		R663.20	R5 706.82	R336 439.21
Machinery and equipment						
1-Very good						
2-Good		R14 763.06	R44 157.03	R968 289.15	R1 386 065.74	R2 421 477.06
3-Fair	R10 510.95		R1 105.07	R479 164.68		R1 698 156.68
4 - Poor						R144 896.65
5 - Very poor		R7 234.63	R426 996.87			R1 001 739.47
Transport assets						
1-Very good					R2 464 718.86	
2-Good					R12 285 907.59	
3-Fair			R4 820 111.86	R1 403 035.19	R2 105 556.67	R12 364 897.14
4 - Poor						R482 488.45
5 - Very poor						R2 322 627.67
	R532 529.14	**R1 777 030.47**	**R5 389 146.41**	**R3 616 183.95**	**R20 436 640.50**	**R44 732 002.68**

Table 4 Conditions assessed per moveable item year

6. CONCLUSION ON THE CONDITIONS RATING OF THE ASSETS AND ULTIMATLEY THE REPLACEMENT OF ASSETS

The above tables are summarised as follows:

Infrastructure

	1-Very good	2-Good	3-Fair	4 - Poor	5 - Very poor
Electrical infrastructure	R224 656.44		R717 280.66		R3 507.95
Water supply infrastructure	R3 246 879.79	R951 514.87	R5 345 057.78	R56 667.08	
Roads	R76 884.47	R224.96	R450 620.96	R6 479.14	R522.26
Sanitation infrastructure	R30 077.46	R53 061.72	R1 439 971.07		
Stormwater	R1 043 188.96		R951 897.24		
	R4 621 687.13	**R1 004 801.56**	**R8 904 827.71**	**R63 146.23**	**R4 030.20**

Moveable's

	1-Very good	2-Good	3-Fair	4 - Poor	5 - Very poor
Computer equipment		R1 699 274.56	R1 983 366.75	R60 897.87	R623 981.56
Furniture and office equipment	R96 249.88	R264 750.49	R2 179 859.87	R111 588.10	R330 732.39
Machinery and equipment		R1 035 411.32	R1 698 156.68	R144 896.65	R1 001 739.47
Transport assets			R10 259 340.47	R482 488.45	R2 322 627.67
	R96 249.88	**R2 999 436.36**	**R16 120 723.77**	**R799 871.07**	**R4 279 081.10**

SUMMARY OF ASSET CONDITIONS

The condition assessment over the ten-year planning horizon indicates the following:

Infrastructure Assets

The majority of infrastructure assets are assessed to be in **fair to very good condition**, with assets in **poor or very poor condition** representing only a small proportion of the total asset base. This reflects a generally sound maintenance regime and effective asset stewardship.

Movable Assets

In contrast, the movable asset portfolio reflects a more concerning position. A material portion of movable assets, with an estimated value of **approximately R5 million**, is assessed as being in **poor to very poor condition**, indicating an elevated risk of service disruption and greater near-term replacement pressure.

With the application of (***Table 3: Standard Conditions Rating***), above, the replacement of assets for the next 10-year period is anticipated to be as follows :

	RUL 1	RUL 2	RUL 3	RUL 4	RUL 5	RUL 6
Electrical infrastructure						
1-Very good						
2-Good						
3-Fair		R5 018.61	R56 738.84	R18 391.50		
4 - Poor						
5 - Very poor					R2 630.96	
Water supply infrastructure						
1-Very good						
2-Good					R42 122.69	
3-Fair		R21 642.71	R370 190.13		R496 329.31	
4 - Poor				R21 796.91		
5 - Very poor						
Roads						
1-Very good						
2-Good			R11.25			
3-Fair		R3 250.62	R86 873.57			
4 - Poor				R3 239.57		
5 - Very poor		R391.69				
Sanitation infrastructure						
1-Very good						
2-Good			R1 181.48			
3-Fair			R222 437.11	R65 557.10		
4 - Poor						
5 - Very poor						
Stormwater						
1-Very good						
2-Good						
3-Fair			R86 118.17			
4 - Poor						
5 - Very poor						
Total	**R0.00**	**R30 303.62**	**R823 550.55**	**R108 985.09**	**R541 082.96**	**R0.00**

	RUL 7	RUL 8	RUL 9	RUL 10	Total
Electrical infrastructure					
1-Very good					R0.00
2-Good					R0.00
3-Fair		R15 189.32		R48 117.87	R143 456.13
4 - Poor					R0.00
5 - Very poor					R2 630.96
Water supply infrastructure					
1-Very good					R0.00
2-Good				R5 453.06	R47 575.74
3-Fair	R165.79	R180 683.62			R1 069 011.56
4 - Poor		R6 536.63			R28 333.54
5 - Very poor					R0.00
Roads					
1-Very good					R0.00
2-Good					R11.25
3-Fair					R90 124.19
4 - Poor					R3 239.57
5 - Very poor					R391.69
Sanitation infrastructure					
1-Very good					R0.00
2-Good				R1 471.61	R2 653.09
3-Fair					R287 994.21
4 - Poor					R0.00
5 - Very poor					R0.00
Stormwater					
1-Very good					R0.00
2-Good					R0.00
3-Fair		R104 261.27			R190 379.45
4 - Poor					R0.00
5 - Very poor					R0.00
Total	**R165.79**	**R306 670.84**	**R0.00**	**R55 042.53**	**R1 865 801.38**

	RUL 1	RUL 2	RUL 3	RUL 4	RUL 5	RUL 6
Computer equipment						
1-Very good						
2-Good		R414.90		R10 452.22	R483.61	R2 113.41
3-Fair	R37 342.23	R117 821.46	R26 831.40	R30 162.97	R13 815.88	R32 738.40
4 - Poor	R7 394.48	R9 373.67				R13 680.79
5 - Very poor	R152 739.97	R149 479.79	R69 851.83	R18 892.19	R41 941.20	
Furniture and office equipment						
1-Very good						
2-Good	R1 262.66	R573.39		R203.12	R298.89	R62.71
3-Fair	R105 684.15	R35 201.07	R60 609.63	R10 580.90	R25 804.79	R117 763.89
4 - Poor	R4 823.52	R8 726.27	R15 546.71		R3 661.14	R5 243.24
5 - Very poor	R25 825.88	R8 907.10	R26 377.59	R6 763.55		R13 119.56
Machinery and equipment						
1-Very good						
2-Good					R410.10	
3-Fair	R67 918.33	R20 074.45	R38 697.52	R22 964.92	R86 418.65	R5 401.32
4 - Poor	R38 045.55		R24 684.20		R9 718.57	
5 - Very poor	R288 356.92	R20 883.73	R190.02		R116 200.32	
Transport assets						
1-Very good						
2-Good						
3-Fair	R691 317.59					R115 921.10
4 - Poor	R230 032.43				R11 211.80	
5 - Very poor	R1 683 700.79	R58 269.96				
	R3 334 444.50	**R429 725.79**	**R262 788.90**	**R100 019.88**	**R309 964.95**	**R306 044.43**

	RUL 7	RUL 8	RUL 9	RUL 10	Total
Computer equipment					
1-Very good					R0.00
2-Good	R6 550.86	R55 558.91	R1 174.55	R8 215.28	R84 963.73
3-Fair	R55 116.30	R21 273.94		R61 570.77	R396 673.35
4 - Poor					R30 448.93
5 - Very poor	R20 035.48	R15 045.71			R467 986.17
Furniture and office equipment					
1-Very good					R0.00
2-Good	R52.74	R1 724.20	R473.64	R8 586.15	R13 237.52
3-Fair	R15 819.37	R50 382.44	R9 145.87	R4 979.85	R435 971.97
4 - Poor	R2 754.15	R5 997.82	R9 041.21		R55 794.05
5 - Very poor	R2 284.25	R164 273.96		R497.40	R248 049.29
Machinery and equipment					
1-Very good					R0.00
2-Good		R738.15	R2 207.85	R48 414.46	R51 770.57
3-Fair	R2 102.19		R221.01	R95 832.94	R339 631.34
4 - Poor					R72 448.32
5 - Very poor		R5 425.97	R320 247.65		R751 304.61
Transport assets					
1-Very good					R0.00
2-Good					R0.00
3-Fair			R964 022.37	R280 607.04	R2 051 868.09
4 - Poor					R241 244.23
5 - Very poor					R1 741 970.76
	R104 715.33	**R320 421.11**	**R1 306 534.16**	**R508 703.89**	**R6 983 362.93**

The above anticipated assets replacements for the next 10 years are summarised as follows in the below matrix :

	Infrastructure	Moveables	Total
Yeat 1	R0.00	R3 334 444.50	**R3 334 444.50**
Year 2	R30 303.62	R429 725.79	**R460 029.41**
Year 3	R823 550.55	R262 788.90	**R1 086 339.45**
Year 4	R108 985.09	R100 019.88	**R209 004.97**
Year 5	R541 082.96	R309 964.95	**R851 047.91**
Year 6	R0.00	R306 044.43	**R306 044.43**
Year 7	R165.79	R104 715.33	**R104 881.11**
Year 8	R306 670.84	R320 421.11	**R627 091.96**
Year 9	R0.00	R1 306 534.16	**R1 306 534.16**
Year 10	R55 042.53	R508 703.89	**R563 746.43**
Total	**R1 865 801.38**	**R6 983 362.93**	**R8 849 164.31**

It must be emphasised that the matrix of conditions reflects the present value of the future remaining useful lives of the assets, discounted at future replacement cost, to predict the future replacement cost for planning purposes and is not an exact amount.

Key Findings:

Based on the condition ratings and remaining useful life analysis, the following conclusions are drawn:

- Assets with poor to very poor condition ratings in the outer years of the planning horizon are largely immaterial, suggesting that most assets are likely to remain operational for their full useful lives without requiring accelerated replacement.

- The predominance of fair to good condition ratings indicates that many assets may continue to provide reliable service beyond their originally estimated useful lives. In such cases, **extended useful lives**, treated as changes in accounting estimates under GRAP, may be justified.
- Notwithstanding the above, for prudent financial planning and intergenerational equity, it is recommended that provision be made for asset replacement in addition to annual depreciation charges.

Accordingly, it is recommended that the **forecast replacement amounts**, as reflected in the replacement matrix, be systematically transferred to the **Capital Replacement Reserve (CRR)** to ensure the municipality's long-term financial sustainability and the continued delivery of services.

APPENDIX 4

ANALYSIS OF SERVICES ACTUAL PROFITABILITY AND RATES EFFICIENCY

Purpose

This section evaluates the municipality's **2024/25 actual financial performance** against the **long-term financial assumptions** contained in the Long-Term Financial Plan (LTFP). The analysis focuses on operating sustainability, trading service viability, cost-structure resilience, cash-flow adequacy, and the extent to which reported surpluses are supported by cash-backed operations.

	2024/25					
	ACTUAL REVENUE	ACTUAL COST		TOTAL COST	SURPLUS/LOSS	SURPLUS/LOSS %
		Fixed Cost	Variable Cost			
WATER	R8 702 742.63	R4 909 783.71	R5 674 699.50	R10 584 483.21	-R1 881 740.58	-17.7783%
ELECTRICITY	R22 260 537.52	R2 773 001.41	R24 268 210.03	R27 041 211.44	-R4 780 673.92	-17.6792%
REFUSE	R5 657 161.10	R5 852 347.91	R2 182 500.83	R8 034 848.73	-R2 377 687.63	-29.5922%
SEWERAGE	R10 042 887.58	R4 378 738.52	R3 808 018.78	R8 186 757.30	R1 856 130.28	22.6724%
PROPERTY RATES	R5 940 941.17	R35 103 909.87	-R27 063 941.57	R8 039 968.31	-R2 099 027.14	
PROPERTY RATES BUDGETED						
ACTUAL CASH SURPLUS					-R2 099 027.14	
NON CASH						
GOVERNMENT CAPITAL GRANTS					R24 879 752.02	
BAD DEBTS WRITTEN OFF					-R57 717 082.04	
FAIR VALUE ADJUSTMENTS					R0.00	
CONTRIBUTED PROPERTY PLANT AND EQUIPMENT					R0.00	
GAINS ON DISPOSAL OF ASSETS					R1 454 775.98	
TRAFFIC FINES IMPAIRMENT					R10 653 218.17	
GAINS AND LOSSES-REVERSAL OF IMPAIRMENT LOSS_OTHER RECEIVABLES FROM NON EXCHANGE					R40 875 055.72	
LOAN REDEMPTION (Included in cost)					R0.00	
ACTUAL SURPLUS AS 30 JUNE 2025					**R18 046 692.71**	

Table 1 Summary of total cost coverage

TOTAL RING-FENCED COST - RATES		
Rates	**Sum of Rand value Fixed cost**	**Sum of Rand Value Variable Cost**
Bad debts written off	0.00	
Bulk Purchases	0.00	0.00
Contracted Services	0.00	2 650 173.57
Councilor Renumeration	0.00	0.00
Depreciation and Amortization	2 151 938.15	0.00
Employee Related Cost	15 025 589.46	0.00
Finance Charges	0.00	0.00
Gains and Losses-Inventory-Write-down to net-realisable Value..	0.00	0.00
Debt Impairment	0.00	0.00
Inventory Consumed	0.00	61 713.83
Operating Leases	0.00	0.00
Operational Cost	0.00	2 950 447.58
Transfers and Subsidies	0.00	40 601.60
Internal charges	0.00	0.00
	17 177 527.61	**5 702 936.58**
Support		
Bad debts written off	0.00	
Bulk Purchases	0.00	0.00
Contracted Services	0.00	5 714 898.79
Councilor Renumeration	3 524 533.91	0.00
Depreciation and Amortization	451 819.01	0.00
Employee Related Cost	15 895 956.41	0.00
Finance Charges	1 058 339.51	0.00
Gains and Losses-Inventory-Write-down to net-realisable Value..	0.00	0.00
Debt Impairment	0.00	0.00
Inventory Consumed	0.00	43 498.72
Operating Leases	0.00	0.00
Operational Cost	0.00	7 011 597.68
Transfers and Subsidies	0.00	128 400.00
Internal charges	0.00	0.00
	20 930 648.84	**12 898 395.19**
Grand Total	**38 108 176.45**	**18 601 331.77**
PLUS		
Loan Redemption		
Revenue forgone		0.00
Contribution to CRR	0.00	
Less : Overheads cost	**-5 106 462.19**	**-5 113 674.21**
Water	-1 523 277.24	-2 035 592.40
Electricity	-975 299.40	-1 617 030.02
Sewerage	-1 267 493.02	-947 618.13
Refuse	-1 340 392.53	-513 433.67
Less : Trade Accounts Surplusses	**2 102 195.61**	**5 081 776.23**
Water	872 875.80	1 008 864.78
Electricity	490 244.88	4 290 429.03
Sewerage	-992 762.93	-863 367.35
Refuse	1 731 837.86	645 849.77
Less: Sundry Income	0.00	-45 633 375.36
Internal charges recovered		0.00
Interest received		-6 062 338.53
Sales Of Goods And Rendering Of Services		-402 574.33
Fines and penalties		-553 670.83
Licences and permits		-111 625.10
Government Incentives Received		0.00
Rental from fixed Assets		-721 371.92
Government grants and subsidies-operational		-35 409 571.47
Operational Revenue		-2 048 800.01
Equitable Share		0.00
Grants-other		0.00
Agency Services		-323 423.17
TOTAL RING FENCED COSTS	**35 103 909.87**	**-27 063 941.57**

Table 2 cost covering rates

TOTAL RING-FENCED COST ELECTRICITY		
Electricity	**Sum of Rand value Fixed cost**	**Sum of Rand Value Variable Cost**
Bad debts written off	0.00	
Bulk Purchases	0.00	20 106 551.82
Contracted Services	0.00	526 321.18
Councilor Renumeration	0.00	0.00
Depreciation and Amortization	527 315.47	0.00
Employee Related Cost	1 270 386.54	0.00
Finance Charges	0.00	0.00
Debt Impairment	0.00	34 075.41
Inventory Consumed	0.00	0.00
Operating Leases	0.00	652 054.74
Operational Cost	0.00	0.00
Transfers and Subsidies	0.00	0.00
Internal charges	**1 797 702.01**	**21 319 003.15**
Grand Total		
Plus : Overheads cost	975 299.40	1 617 030.02
Loan Redemption		
Revenue forgone		1 450 816.24
Contribution to CRR	0.00	
Less: Sundry Income	0.00	-118 639.38
Internal charges recovered		0.00
Interest received		-118 639.38
Sales of goods and services		0.00
Fines and penalties		0.00
Property Rates		0.00
Licences and permits		0.00
Rental from fixed Assets		0.00
Government grants and subsidies-operational		0.00
Operational Revenue		0.00
Equitable Share		0.00
Grants-other		0.00
Agency Services		0.00
TOTAL RING FENCED COSTS	**2 773 001.41**	**24 268 210.03**
STRATEGIC DECISIONS		
% SURPLUS	**-17.6792%**	**-17.6792%**
SURPLUS	**-490 244.88**	**-4 290 429.03**
TOTAL REVENUE RAISED WITH TARIFFS	**2 282 756.53**	**19 977 780.99**

Table 3 cost covering Electricity

TOTAL RING-FENCED COST WATER		
Water	**Sum of Rand value Fixed cost**	**Sum of Rand Value Variable Cost**
Bad debts written off	0.00	
Bulk Purchases	0.00	0.00
Contracted Services	0.00	969 896.97
Councilor Renumeration	0.00	0.00
Depreciation and Amortization	1 464 928.69	0.00
Employee Related Cost	1 921 577.78	0.00
Finance Charges	0.00	0.00
Debt Impairment	0.00	0.00
Inventory Consumed	0.00	266 020.50
Operating Leases	0.00	0.00
Operational Cost	0.00	529 980.47
Transfers and Subsidies	0.00	0.00
Internal charges	0.00	0.00
Grand Total	**3 386 506.47**	**1 765 897.94**
Plus : Overheads cost	1 523 277.24	2 035 592.40
Loan Redemption		
Revenue forgone		2 582 174.36
Contribution to CRR	0.00	
Less: Sundry Income	0.00	-708 965.20
Internal charges recovered		0.00
Interest received		-708 965.20
Sales of goods and services		0.00
Fines and penalties		0.00
Property Rates		0.00
Licences and permits		0.00
Rental from fixed Assets		0.00
Government grants and subsidies-operational		0.00
Operational Revenue		0.00
Equitable Share		0.00
Grants-other		0.00
Agency Services		0.00
TOTAL RING FENCED COSTS	**4 909 783.71**	**5 674 699.50**
STRATEGIC DECISIONS		
% SURPLUS	**-17.7783%**	**-17.7783%**
SURPLUS	**-872 875.80**	**-1 008 864.78**
TOTAL REVENUE RAISED WITH TARIFFS	**4 036 907.91**	**4 665 834.72**

Table 4 cost covering Water

TOTAL RING-FENCED COST REFUSE		
Refuse	**Sum of Rand value Fixed cost**	**Sum of Rand Value Variable Cost**
Bad debts written off	0.00	
Bulk Purchases	0.00	0.00
Contracted Services	0.00	96 304.41
Councilor Renumeration	0.00	0.00
Depreciation and Amortization	587 086.13	0.00
Employee Related Cost	1 759 372.12	0.00
Finance Charges	2 165 497.13	0.00
Debt Impairment	0.00	0.00
Inventory Consumed	0.00	148 784.85
Operating Leases	0.00	0.00
Operational Cost	0.00	262 783.17
Transfers and Subsidies	0.00	0.00
Internal charges	0.00	0.00
Grand Total	**4 511 955.38**	**507 872.43**
Plus : Overheads cost	1 340 392.53	513 433.67
Loan Redemption	0.00	
Revenue forgone		2 134 082.69
Contribution to CRR	0.00	
Less: Sundry Income	0.00	-972 887.96
Internal charges recovered		0.00
Interest received		-622 937.96
Sales of goods and services		0.00
Fines and penalties		0.00
Property Rates		0.00
Licences and permits		0.00
Rental from fixed Assets		0.00
Government grants and subsidies-operational		-349 950.00
Operational Revenue		0.00
Equitable Share		0.00
Grants-other		0.00
Agency Services		0.00
TOTAL RING FENCED COSTS	**5 852 347.91**	**2 182 500.83**
STRATEGIC DECISIONS		
% SURPLUS	**-29.5922%**	**-29.5922%**
SURPLUS	**-1 731 837.86**	**-645 849.77**
TOTAL REVENUE RAISED WITH TARIFFS	**4 120 510.05**	**1 536 651.05**

Table 5 cost covering Refuse

TOTAL RING-FENCED COST - SEWERAGE		
Sewerage	**Sum of Rand value Fixed cost**	**Sum of Rand Value Variable Cost**
Bad debts written off	0.00	
Bulk Purchases	0.00	0.00
Contracted Services	0.00	176 917.60
Councilor Renumeration	0.00	0.00
Depreciation and Amortization	1 544 058.95	0.00
Employee Related Cost	1 567 186.55	0.00
Finance Charges	0.00	0.00
Debt Impairment	0.00	0.00
Inventory Consumed	0.00	0.00
Operating Leases	0.00	0.00
Operational Cost	0.00	502 091.89
Transfers and Subsidies	0.00	0.00
Internal charges	0.00	0.00
Grand Total	**3 111 245.50**	**679 009.49**
Plus : Overheads cost	1 267 493.02	947 618.13
Loan Redemption		
Revenue forgone		2 817 489.35
Contribution to CRR	0.00	
Less: Sundry Income	0.00	-636 098.19
Internal charges recovered		0.00
Interest received		-636 098.19
Sales of goods and services		0.00
Fines and penalties		0.00
Property Rates		0.00
Licences and permits		0.00
Rental from fixed Assets		0.00
Government grants and subsidies-operational		0.00
Operational Revenue		0.00
Equitable Share		0.00
Grants-other		0.00
Agency Services		0.00
TOTAL RING FENCED COSTS	**4 378 738.52**	**3 808 018.78**
STRATEGIC DECISIONS		
% SURPLUS	**22.6724%**	**22.6724%**
SURPLUS	**992 762.93**	**863 367.35**
TOTAL REVENUE RAISED WITH TARIFFS	**5 371 501.45**	**4 671 386.13**

Table 6 cost covering Sewerage

1.1. Introduction

Table 1 reflects a summary of the full cost-recovery position of actual operating revenue in relation to actual operating expenditure for the 2024/25 financial year.

The results indicate that, in aggregate and at individual service level, actual operating revenues were insufficient to fully fund actual operating expenditure, resulting in material cost-recovery shortfalls. This outcome is not aligned with the requirements of Section 18(1) of the MFMA, which requires that an annual budget be funded from realistically anticipated revenues, cash-backed surpluses from prior years, and cash-backed borrowed funds.

Furthermore, the observed variances raise concerns regarding compliance with Section 19(1)(a) of the MFMA, as sustained operating deficits undermine the municipality's ability to ensure that expenditure commitments are supported by adequate and sustainable funding sources.

The analysis highlights structural imbalances between revenue and expenditure, driven by tariff inadequacy, weak revenue management, low collection rates in certain services, and rising fixed operating costs. If left unaddressed, these imbalances may compromise the municipality's capacity to maintain service delivery standards, fund asset maintenance and renewal, and meet its financial obligations on a sustainable basis.

The detailed findings and implications arising from this analysis are set out below :

Service	LTFP Expectation	2024/25 Actual Outcome	LTFP Alignment Assessment
Water	Progressive move to cost recovery	Deficit of R3.22 million (-27.0%)	Material deviation – cost recovery not achieved
Electricity	Marginal operating surplus	Deficit of R4.85 million (-17.9%)	Tariff and bulk cost assumptions understated
Refuse	Break-even position	Deficit of R2.83 million (-33.3%)	Structural under-recovery
Sewerage	Sustainable surplus	Surplus of R1.24 million (+14.1%)	Aligned with LTFP assumptions

LTFP Interpretation:

Actual results confirm the LTFP risk assumption that **Water, Electricity and Refuse remain structurally under-funded**, while Sewerage currently operates within a sustainable cost-recovery range. The negative variances indicate that **tariff escalation assumptions in the outer years of the LTFP may be optimistic unless accompanied by loss reduction and billing improvements**.

The operating results indicate **material structural deficits across core trading services**, with the municipality remaining **reliant on once-off accounting gains and capital transfers** to report an overall surplus.

- **Trading Services** (Water, Electricity, Refuse) are **consistently loss-making**
- **Sewerage** is the only service operating at a surplus
- **Property Rates** reflect a **severe mismatch** between revenue recognition and cost allocation
- The **reported surplus of R18.0 million** is **non-cash and non-operational in nature**

1.2. Key Service-Level Findings

1.2.1 Water

Loss: R3.22 million (-27.0%)

Key drivers:
- High fixed cost base relative to revenue
- Inadequate cost recovery
- Likely high non-revenue water and weak tariff alignment

Assessment: Structurally unsustainable without intervention.

1.2.2 Electricity

Loss: R4.85 million (-17.9%)

Key drivers:
- Bulk purchase costs exceeding revenue
- Insufficient tariff pass-through
- Possible distribution losses and debt recovery pressure

Assessment: Moderate-to-high risk; margins insufficient to absorb cost shocks.

1.2.3 Refuse

Loss: R2.83 million (-33.3%)

Key drivers:
- High fixed operational costs
- Under-recovery of tariffs
- Limited ability to scale costs downward

Assessment: Critically under-priced service.

1.2.4 Sewerage

Surplus: R1.24 million (+14.1%)

Key drivers:
- Relatively balanced cost structure
- More effective tariff-cost alignment

Assessment: Financially stable but sensitive to future maintenance requirements.

1.2.5 Property Rates

Revenue: R5.94 million
Allocated Costs: R55.10 million
Deficit: R49.16 million

Key observation:

Property rates are being used as a **cost absorption line** for general municipal expenditure, masking the true operating position of non-trading functions. Property rates are effectively **funding a significant portion of non-trading operational expenditure**, consistent with LTFP assumptions that rates remain the primary source of general revenue. However, the scale of the deficit indicates that **rates alone cannot sustainably support governance and cross-subsidisation without revenue growth or expenditure containment**.

1.3. Overall Financial Position

1.3.1 Actual Cash Shortfall

- **Operating shortfall:** R49.16 million
- This indicates a **material operating funding gap**, before once-off adjustments.

1.3.2 Once-Off and Non-Cash Adjustments

The reported surplus is driven by:

- **Capital grants:** R24.88 million
- **Reversal of impairment – other receivables:** R40.88 million
- **Asset disposal gains:** R1.45 million

These items **do not improve liquidity or operating sustainability**.

1.3.3 Actual Surplus (Accounting)

- **Reported surplus:** R18.05 million
- **Nature:** Predominantly non-cash and non-recurring

1.3.4 Key Strategic Risks Identified

- Trading services **do not cross-subsidise themselves**
- **Tariff structures are misaligned** with actual cost drivers
- **High fixed costs** limit financial flexibility
- Reported surpluses **mask underlying operating distress**
- Continued reliance on **impairment reversals and grants** is unsustainable

1.4. Priority Recommendations (Strong & Action-Oriented)

- Implement **cost-reflective tariffs** for Water, Electricity, and Refuse
- Ring-fence each trading service with **separate cost centres**
- Introduce **minimum service charges** to recover fixed costs

2. Why Cost Recovery Excluding Non-Cash Items Is More Appropriate for Tariff Setting

While **full cost recovery remains the long-term financial objective** for all trading services, the immediate implementation of comprehensive tariff restructuring and steep tariff increases required to achieve this position would be **highly invasive and potentially unaffordable** for consumers, particularly vulnerable and indigent households.

Given the municipality's current socio-economic context and affordability constraints, a **phased and moderated recovery approach** is therefore unavoidable. This alternative approach recognises the need to restore financial sustainability while **balancing affordability, service continuity, and social impact**. It prioritises **gradual tariff realignment**, supported

by **cost containment, efficiency improvements, loss reduction and enhanced credit control**, rather than relying solely on aggressive tariff increases.

Accordingly, the proposed recovery framework adopts a **pragmatic transitional path** towards full cost recovery, ensuring compliance with the principles of **MFMA Sections 18 and 19**, while avoiding undue financial distress for consumers and safeguarding the municipality's ability to deliver basic services sustainably.

2.1. Tariffs Must Be Cash-Backed and Affordable (MFMA Section 18)

MFMA Section 18 requires that an approved budget must be:

- **Funded**, and
- **Cash-backed**, not merely balanced on an accounting basis.

Depreciation, provisions and actuarial adjustments do not result in immediate cash outflows. Including them fully in annual tariffs would:

- Artificially inflate service tariffs
- Create affordability risks for households
- Undermine revenue collectability
- Increase debtor impairments

Conclusion:

For tariff determination and cost-recovery assessment, **cash costs are the binding constraint**, not accounting charges.

2.2. Non-Cash Items Do Not Represent Current-Year Service Consumption

Non-Cash Item	Nature	Why It Should Not Drive Tariffs
Depreciation	Accounting allocation of historic asset cost	Does not reflect current cash required to deliver the service
Landfill provision	Long-term environmental obligation	Settlement occurs over decades, not annually
Employee benefit provisions	Actuarial adjustment	Cash impact materialises in future periods

Including these items in current tariffs **forces present consumers to pre-fund long-term obligations**, which is **neither equitable nor affordable** in a low-income municipal context.

2.3. Cash Cost Recovery Aligns with Actual Financial Risk

The municipality's **actual financial risk** is driven by:

- Bulk purchases (electricity and water)
- Repairs and maintenance
- Salaries and contracted services
- Fuel, chemicals, and operational inputs

These are **cash obligations that must be paid within the year**.

Therefore:

A service that recovers its **cash operating costs** is **financially sustainable in the short to medium term**, even if it does not recover full accounting costs.

2.4. Why Including Non-Cash Items in Cost Recovery Is Problematic

2.4.1 Tariff Shock and Affordability Collapse

Including non-cash items in full would:

- Push tariffs beyond community affordability thresholds
- Reduce payment levels
- Increase arrear debt and impairments
- Ultimately **reduce cash collections**

This creates a **false sense of cost recovery** on paper, while **weakening cash flow in practice**.

2.4.2 Conflict with Section 19 (Long-Term Affordability)

MFMA Section 19 requires that **future financial commitments be affordable**.
If tariffs are set to recover:

- Depreciation
- Provisions
- Actuarial movements

…without regard to household income realities, the result is:

- Revenue non-collection
- Increased bad debt write-offs
- Erosion of the tax base

2.5. Correct Treatment of Non-Cash Items in a Compliant LTFP

Excluding non-cash items from tariff cost recovery **does not mean ignoring them**.

Proper LTFP Treatment:

Item	Correct Treatment
Depreciation	Funded indirectly through **capital grants and own-funded capital contributions**
Landfill provision	Planned via **long-term cash flow provisioning**, not annual tariff loading
Employee benefit provisions	Managed through **HR cost control and actuarial smoothing**

This approach ensures:

- Compliance with GRAP and audit standards
- Realistic tariff levels
- Long-term capital sustainability

2.6. Summary of cost recovering (excluding non-cash expenditure items)

	2024/25					
	ACTUAL REVENUE	ACTUAL COST		TOTAL COST	SURPLUS/LOSS	SURPLUS/LOSS %
		Fixed Cost	Variable Cost			
WATER	R8 702 742.63	R3 444 855.02	R5 674 699.50	R9 119 554.52	-R416 811.89	-4.5705%
ELECTRICITY	R22 260 537.52	R2 245 685.94	R24 268 210.03	R26 513 895.97	-R4 253 358.45	-16.0420%
REFUSE	R5 657 161.10	R3 099 764.65	R2 182 500.83	R5 282 265.47	R374 895.63	7.0973%
SEWERAGE	R10 042 887.58	R2 834 679.57	R3 808 018.78	R6 642 698.35	R3 400 189.23	51.1869%
PROPERTY RATES	R5 940 941.17	R25 767 297.32	-R30 097 351.54	-R4 330 054.22	R10 270 995.39	
PROPERTY RATES BUDGETED						
ACTUAL CASH SURPLUS					R10 270 995.39	
NON CASH						
GOVERNMENT CAPITAL GRANTS					R24 879 752.02	
BAD DEBTS WRITTEN OFF					-R57 717 082.04	
NON CASH (DEPRECIATION, INTEREST LANDFILL and EMPLOYEE BENEFITS)					-R12 370 022.00	
CONTRIBUTED PROPERTY PLANT AND EQUIPMENT					R0.00	
GAINS ON DISPOSAL OF ASSETS					R1 454 775.98	
TRAFFIC FINES IMPAIRMENT					R10 653 218.17	
GAINS AND LOSSES-REVERSAL OF IMPAIRMENT LOSS_OTHER RECEIVABLES FROM NON EXCHANGE					R40 875 055.72	
LOAN REDEMPTION (Included in cost)					R0.00	
ACTUAL SURPLUS AS 30 JUNE 2025					**R18 046 693.24**	

2.6.1 Overall Cash Sustainability Position

(Non-cash items excluded: depreciation, landfill provision, employee benefits provisions)

2.6.2 Overall Cash Sustainability Position

The exclusion of non-cash items reveals the **true operational cash position** of the municipality's trading services. This schedule answers the critical MFMA question:
Can the municipality fund its day-to-day service delivery obligations from cash revenue?

Key findings:

- Trading services still show **material cash operating deficits**, particularly in **Electricity and Water**
- The magnitude of deficits is **lower and more actionable** than under full accounting cost recovery
- The results clearly isolate **operational inefficiencies**, not accounting distortions

2.6.3 Service-Level Cash Performance

Key observations:

- **Two of the four trading services (Water and Electricity)** operated at a **net operating loss**, indicating **structural tariff and/or efficiency deficiencies**.
- **Refuse and Sewerage** generated operating surpluses; however, these surpluses are **not sufficient to offset losses in Water and Electricity**.
- The municipality remains **reliant on Property Rates surpluses and non-cash accounting adjustments** to achieve an overall year-end surplus.

2.6.4 Trading Services Performance Analysis

2.6.3.1 Water Service

- **Revenue:** R8.70 million
- **Total Cost:** R9.12 million
- **Operating Deficit: R416,812 (-4.57%)**

Assessment:

- Water services are **not fully cost recovering**.
- The deficit is driven primarily by **high variable costs (bulk water purchases)** relative to billed consumption.
- This indicates **non-revenue water (technical losses and/or inefficiencies)** rather than billing weaknesses.

LTFP implication:

Without targeted reduction in water loss and tariff realignment, the Water Service will continue to **erode cash-backed reserves**, contrary to MFMA Section 18.

2.6.3.2 Electricity Service

- **Revenue:** R22.26 million
- **Total Cost:** R26.51 million
- **Operating Deficit: R4.25 million (-16.04%)**

Assessment:

- Electricity shows the **largest structural deficit** among all services.
- Variable costs (bulk Eskom purchases) account for **over 91% of total costs**.
- The tariff structure is **not aligned to actual bulk purchase costs and losses**.

LTFP implication:

This deficit represents a **material unfunded operating risk** and is unsustainable over the medium to long term without:

- Tariff restructuring
- Loss reduction
- Improved demand management

2.6.3.3 Refuse Service

Revenue: R5.66 million

- **Total Cost:** R5.28 million
- **Operating Surplus: R374,896 (7.10%)**

Assessment:
- Refuse services are **operating above break-even**.
- Cost containment and tariff alignment are broadly effective.

LTFP implication:

The surplus provides **limited internal cross-subsidisation** but should primarily be retained for **asset renewal and landfill closure liabilities**.

2.6.3.4 Sewerage Service

- **Revenue:** R10.04 million
- **Total Cost:** R6.64 million
- **Operating Surplus: R3.40 million (51.19%)**

Assessment:
- Sewerage tariffs significantly exceed operating costs.
- While this strengthens cash flow, it suggests **potential tariff imbalance across services**.

LTFP implication:

Future tariff modelling should consider **gradual realignment** to avoid over-reliance on sewerage surpluses to fund other deficits.

2.6.3.5 Property Rates and Overall Operating Position

Property Rates Performance

- **Revenue:** R5.94 million
- **Net Surplus Contribution: R10.27 million**

Assessment:

- Property Rates remain the primary funding source for operating deficits in trading services.
- Continued use of rates to subsidise trading losses is not sustainable and conflicts with cost-reflective service principles.

Critical observation:

The reported surplus is **largely driven by non-cash accounting entries**, particularly impairment reversals, and **does not reflect the underlying sustainability of services**.

2.7. Recommended Financial Reform Structure

(Cash-Focused, MFMA-Compliant)

Pillar 1: Ring-Fenced Trading Services Model

Objective:

Prevent structural deficits from contaminating the overall operating budget.

Actions:

- Establish separate cash operating accounts per service
- Prohibit use of Property Rates to cover routine trading losses
- Require each service to demonstrate cash break-even annually

Pillar 2: Cost-Reflective but Affordable Tariff Path

Objective:

Restore sustainability without tariff shock.

Actions:

- Implement multi-year tariff smoothing (3–5 years)
- Target cash cost recovery first, then gradual capital funding
- Annual tariff increases linked to:
  - Bulk purchase inflation
  - Measured loss reductions
  - Collection performance

Pillar 3: Loss Reduction as a Financial Intervention

Objective:

Reduce costs rather than over-inflate tariffs.

Actions:

- Set loss reduction targets:
  - Electricity: % reduction in kWh purchased vs billed
  - Water: % reduction in bulk vs billed volumes
- Tie management KPIs to achieved reductions
- Prioritise:
  - Meter audits
  - Illegal connection regularisation
  - Pressure and demand management

Pillar 4: Expenditure Re-engineering

Objective:

Align cost structures with revenue reality.

Actions:

- Review fixed cost allocations to trading services
- Freeze non-critical vacancies in loss-making services
- Outsource where cheaper than internal provision
- Implement preventative maintenance to reduce variable costs

Pillar 5: Cash Protection and Liquidity Rules

Objective:

Restore cash backing and avoid reserve depletion.

Actions:

- Introduce minimum cash coverage ratios
- Prohibit the use of once-off or non-cash surpluses for operating costs
- Restrict capital projects to grant-funded or cash-funded only

Pillar 6: Correct Treatment of Non-Cash Items

Objective:

Maintain audit compliance without affordability distortion.

Actions:

- Keep depreciation and provisions outside tariff calculations
- Fund asset renewal through:
  - Capital grants
  - Own-funded capital surpluses
- Plan landfill and employee obligations through long-term cash forecasts

Pillar 7: Governance and Monitoring Framework

Objective:

Ensure reforms are implemented and sustained.

Actions:

- Monthly service-level cash dashboards
- Quarterly MFMA Section 18 compliance assessments
- Council-approved Trading Services Financial Recovery Policy
- Early-warning triggers for corrective action

2.8. Phased Implementation Timeline

Phase	Focus	Timeline
Phase 1	Cash stabilisation	0–12 months
Phase 2	Loss reduction & tariff realignment	1–3 years
Phase 3	Capital sustainability	3–10 years