EXTRACT FROM THE COUNCIL MINUTES HELD ON 18 JUNE 2018

Item A251. 18.06.2018

LONG TERM FINANCIAL PLAN

J C P Tesselaar: Chief Financial Officer

PURPOSE

To provide approval for the Long Term Financial Plan.

BACKGROUND

During Council Strategic session regarding the 2018/2019 Financial Year, it was highlighted that the Long Term Financial Plan must be reviewed to align with the IDP and MTREF.

LEGAL REQUIREMENTS

Municipal Finance Management Act, 2003 (Act 56 of 2003)

ATTACHMENT

- Proposed Long Term Financial Plan

FINANCIAL IMPLICATIONS

Financial plan for period 2018/2019 – 2025/2026

PERSONNEL IMPLICATIONS

Not applicable

UNANIMOUSLY RESOLVED

The Long Term Financial Plan was approved with effect 1 July 2018.

CERTIFIED A TRUE EXTRACT FROM THE MINUTES OF THE COUNCIL MEETING HELD ON 18 JUNE 2018.

DP BERETTI
MUNICIPAL MANAGER

INCA
Portfolio Managers

OVERBERG DISTRICT MUNICIPALITY

Long Term Financial Plan – *Update 2018*

Prepared by
INCA Portfolio Managers
May 2018

Report Overview – Introduction and Background

The Overberg District Municipality appointed INCA Portfolio Managers ("IPM") in 2016 to prepare a Long Term Financial Plan. The report was entitled *Overberg District Municipality Long Term Financial Plan: 2015/6 – 2025/6*; June 2016. This 2018 Update assesses the latest available information with the view of assessing the municipality's financial performance and updating our financial predictions.

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

A summary of the demographic-, economic- and household infrastructure perspective was updated with the latest available information as published by iHS Global Insight. The historic financial analysis was updated with the information captured in the municipality's audited financial statements of 30 June 2017. IPM's Long Term Financial Model (latest and updated version 18.1) was populated and run with this latest information, and the outcome thereof is reported herein. In particular the model was calibrated against the municipality's MTREF for the 3 years from 2018/18 to 2020/20.

Unlike the original assignment, no renewed analysis of the Asset Register, review of municipal documents (viz. IDP, Master Plans, etc.) and conversations with management were undertaken. The conclusions reached in this report are complimentary to the recommendations made in 2016.

The contents of this report entail the following:

1	Planning Process
2	Updated Perspectives (Demographic, Economic, Household Infrastructure)
3	Updated Historic Financial Assessment
4	Financial Projections
5	Affordable Future Capital Investment
6	Scenario Analysis
7	Recommendations

1 **Planning Process**

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Financial Projections

5 Affordable Future Capital Investment

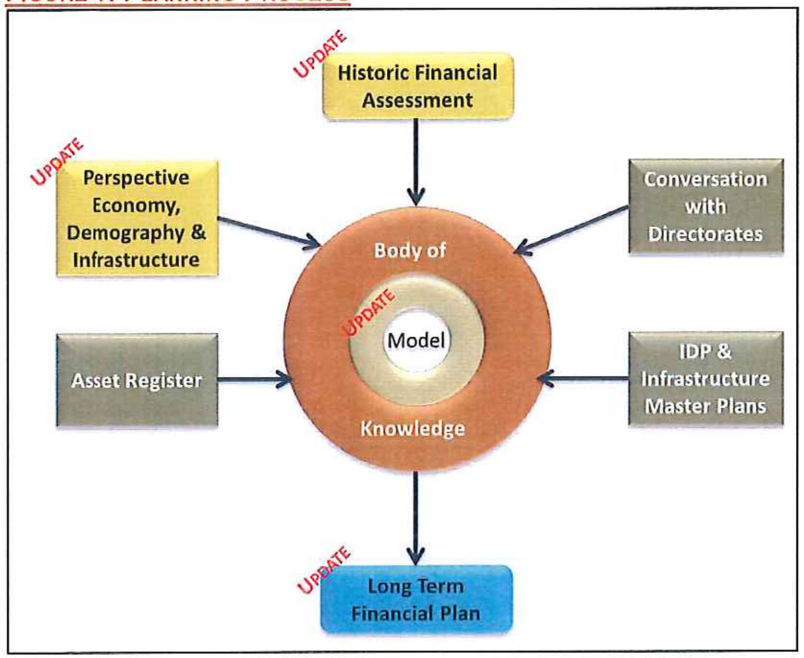
6 Scenario Analysis

7 Recommendations

PROCESS

The diagram below illustrates the steps in the process that were followed in 2016:

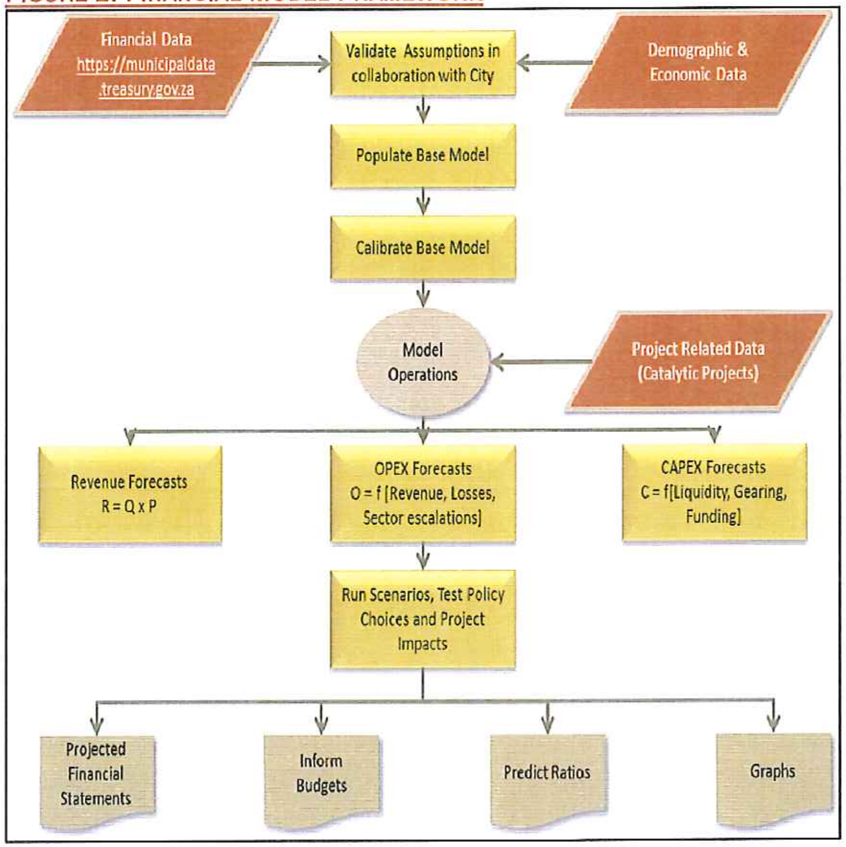
FIGURE 1: PLANNING PROCESS



During the course of the past year IPM developed a new long term financial model[1], which was populated with the latest information of Overberg and used to make a base case financial prediction of the future. The diagram below illustrates the outline of the model.

The model was adapted for the purpose of this update in that no large infrastructure projects were assessed. The capital budget as presented in the MTREF was included however and predictions of affordable future capex were made.

FIGURE 2: FINANCIAL MODEL FRAMEWORK



[1] Part of National Treasury's Cities Support Programme and with technical assistance from the World Bank Group.

1	Planning Process
2	**Updated Perspectives (Demographic, Economic, Household Infrastructure)**
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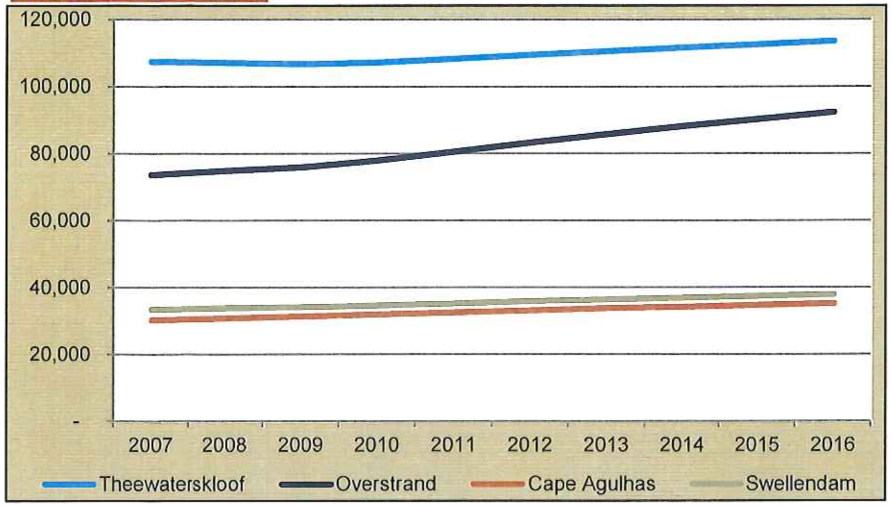
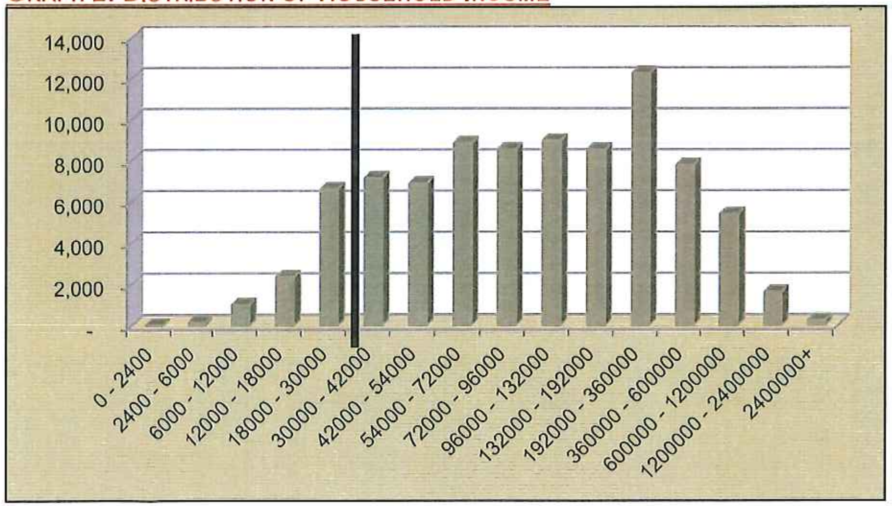
Demography

Graph 1: Population



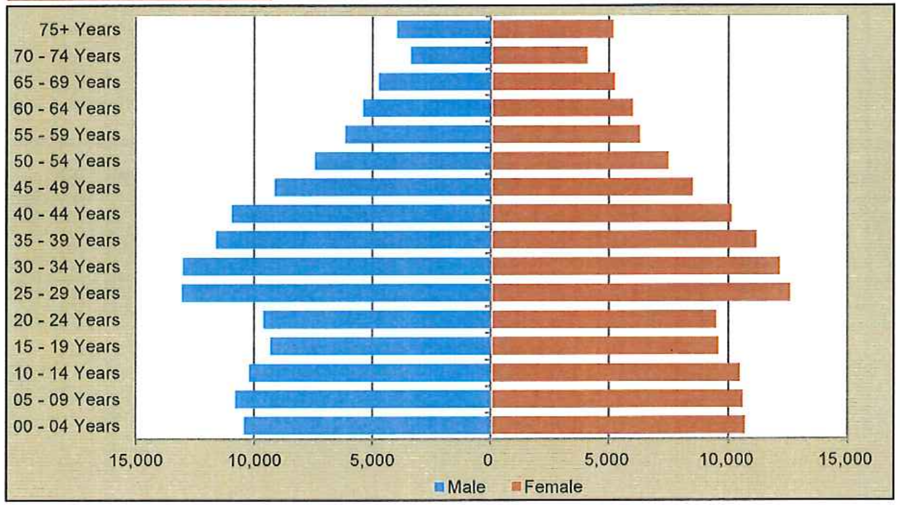
Graph 2: Distribution of Household Income



The total ***Population*** in Overberg DM is 278 706 (2016) and the growth rate is on par with the rest of the country (1.5%). Of the four municipalities within the jurisdiction of Overberg DM, Theewaterskloof has the highest population (113 459), while Overstrand's population of 92 215 shows the highest growth rate over the review period.

The ***Household Income*** distribution, as reflected in Graph 3, indicates that the proportion of households earning less than R 30 000 p.a. constitute approx. 11.7%. It is worth noting that 68.4% of all households earn an income of less than R 192 000 p.a. (R 16 000 p.m.). The extent to which these households can be levied in future by the local municipalities needs to be specifically considered. In terms of the individual municipalities within Overberg, the average annual household income is as follows: Overstrand – R 258 118 p.a; Cape Agulhas – R 243 739 p.a; Swellendam – R 233 365 p.a. and Theewaterskloof – R 193 856 p.a, while Overberg DM recorded R 229 656 p.a.

Graph 4: Age Profile

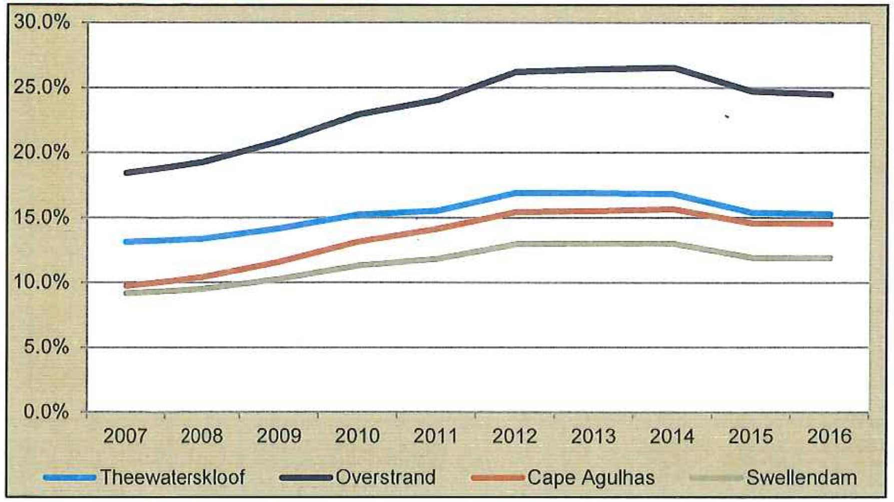


Unlike a classical population pyramid, the ***Age Profile*** illustrates proportionally fewer people younger than 25 years of age. Overberg's working age group between 25 to 39 years represent a notable size of the population.

The overall ***Unemployment Rate*** (2016) for the District came to 17.7%, which is lower than the 21.4% of the Western Cape and substantially lower than the National rate of 26.4%.

The unemployment rate per local municipality in the District varies from 24.4% in Overstrand to a low 11.7% in Swellendam.

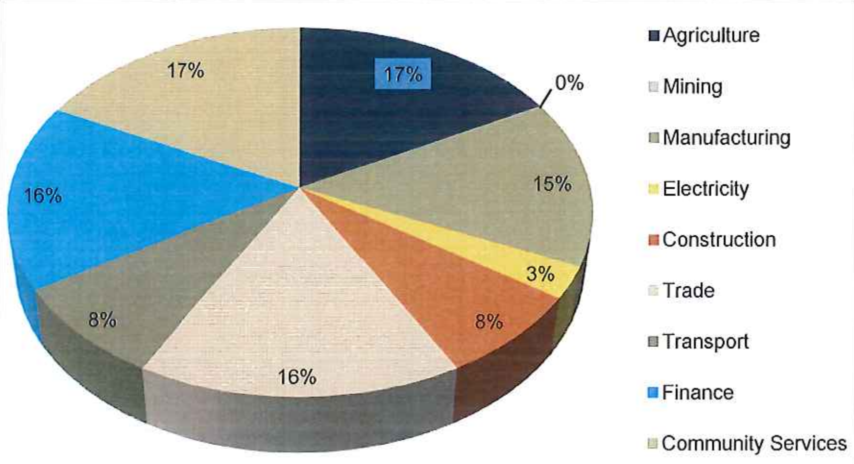
GRAPH 5: UNEMPLOYMENT RATE



ECONOMY

Community services and Agriculture remained the dominant ***Economic Sector*** and together constitute 35% of the output (GVA) in 2016. Finance (16%), Trade (16%) and Manufacturing (15%) are other sub-economic sectors that make the biggest contribution to the local economy. The Overberg economy is diversified, which should provide for economic stability. The services sector not only contributes significantly to the economy, but is also the main provider of employment.

GRAPH 6: ECONOMIC SECTORS

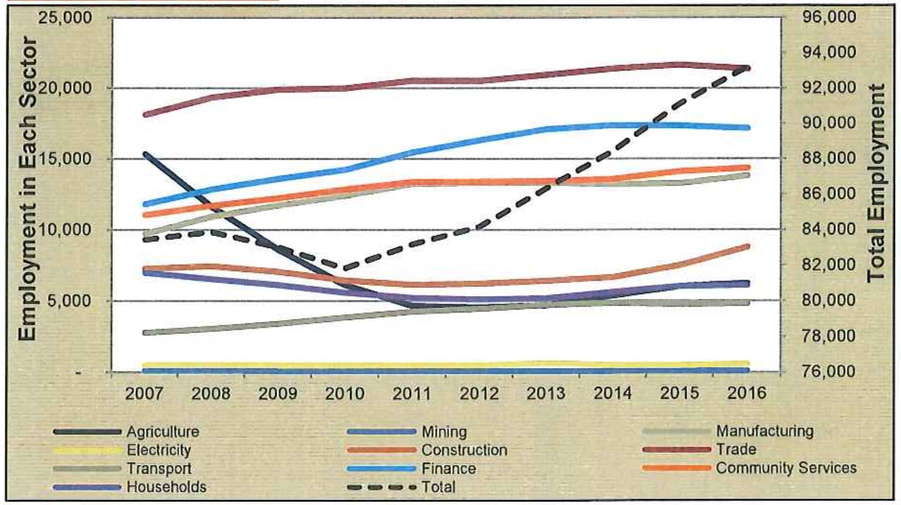


The Trade sector is the largest Employer with 22.9% of Total ***Employment***; with Finance, Community services and Manufacturing contributing 18.4%, 15.4% and 14.8% respectively. Total employment reflects a significant improvement since 2010. At the end of 2016 the officially registered workers in the Overberg DM came to 93 180 people.

TABLE 1: PROPORTIONAL GROWTH: ECONOMIC SECTORS CONTRIBUTION TO GVA

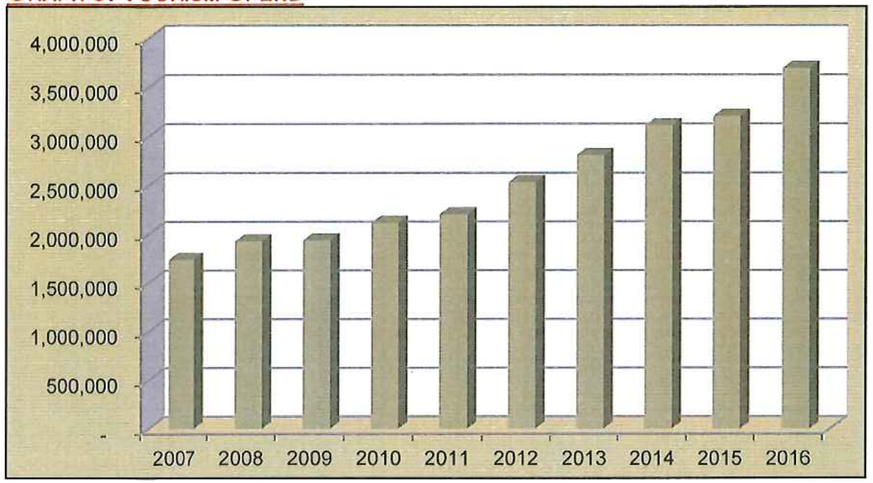
Sector	2007	2016
1 Agriculture	16.7%	17.1%
2 Mining	0.1%	0.1%
3 Manufacturing	17.6%	14.6%
4 Electricity	3.9%	2.8%
5 Construction	6.9%	7.5%
6 Trade	15.5%	15.8%
7 Transport	8.1%	8.3%
8 Finance	14.4%	16.3%
9 Community services	16.6%	17.5%

GRAPH 7: EMPLOYMENT



Tourism Spend in 2016 amounted to R 3.69 billion which equates to 17.6% of GVA (Current Prices). Given the natural beauty of the Overberg region and its attraction as most southern part of Africa, together with the ability of this sector to contribute to the GVA and the number of employment that is created by the tourism sector, the importance of this sector needs to be emphasized.

GRAPH 8: TOURISM SPEND



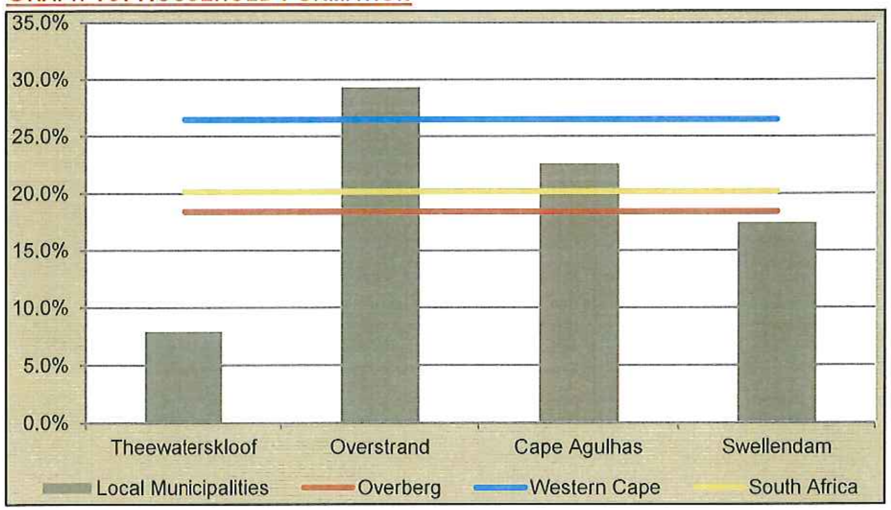
Household Infrastructure

The ***Infrastructure Index*** of 0.87 almost equate the average for the Province (0.88) and higher than the National (0.74) average. Comparing the municipalities within the jurisdiction of Overberg DM, Cape Agulhas and Swellendam remained on par at 0.90, followed by Overstrand (0.88) and Theewaterskloof (0.84).

Overberg's growth in ***Household Formation*** between 2007 and 2016 was 18%. Within Overberg DM, Overstrand experienced the highest household formation (29.3%) of all four municipalities. In absolute numbers, the growth of households in Overberg was 13 367 during the period. The relative high household formation in Overstrand and the associated demand for housing and municipal services is clearly a contributing factor to the socio-economic and protest actions experienced.

By comparing backlogs of ***sanitation, water, electricity and refuse removal*** in urban as well as non-urban areas, Overberg's performance is below the provincial average, but compared well in a national context.

Graph 10: Household Formation



Graph 9: Infrastructure Index

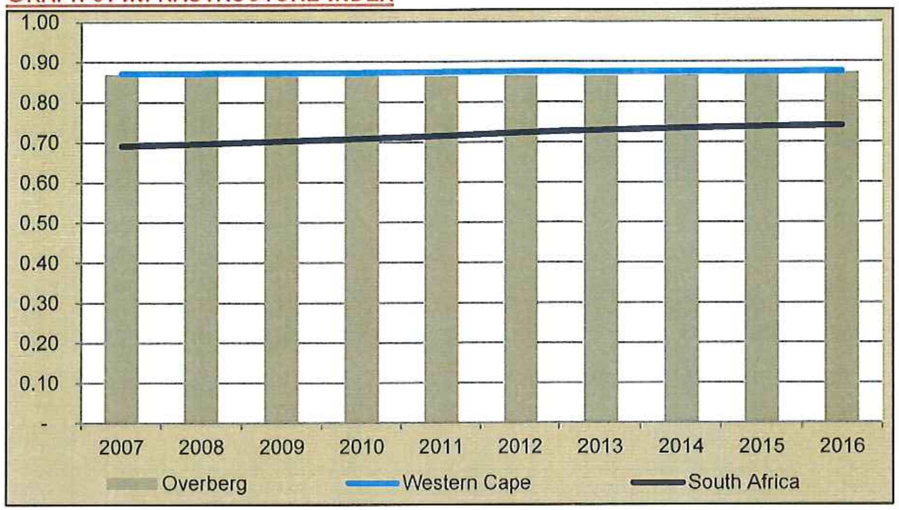


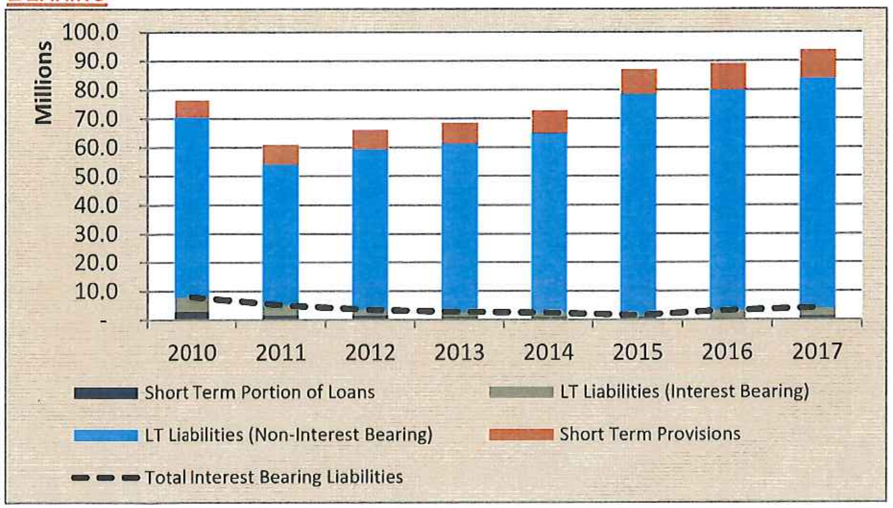
Table 2: Household Infrastructure Provision

Infrastructure	Western Cape	%	Overberg DM	%
Above RDP Level				
Sanitation	1 749 027	93.9%	81 248	94.3%
Water	1 805 019	96.9%	82 915	96.3%
Electricity	1 800 196	96.6%	82 205	95.4%
Refuse Removal	1 684 261	90.4%	76 235	88.5%
Below RDP Level or None				
Sanitation	113 694	6.1%	4 896	5.7%
Water	57 702	3.1%	3 228	3.7%
Electricity	62 525	3.4%	3 939	4.6%
Refuse Removal	178 460	9.6%	9 909	11.5%
Total No. of Households	**1 862 721**	**100.0%**	**86 144**	**100.0%**

Financial Position

Liability Management

Graph 11: Long Term Liabilities: Interest Bearing vs Non-Interest Bearing



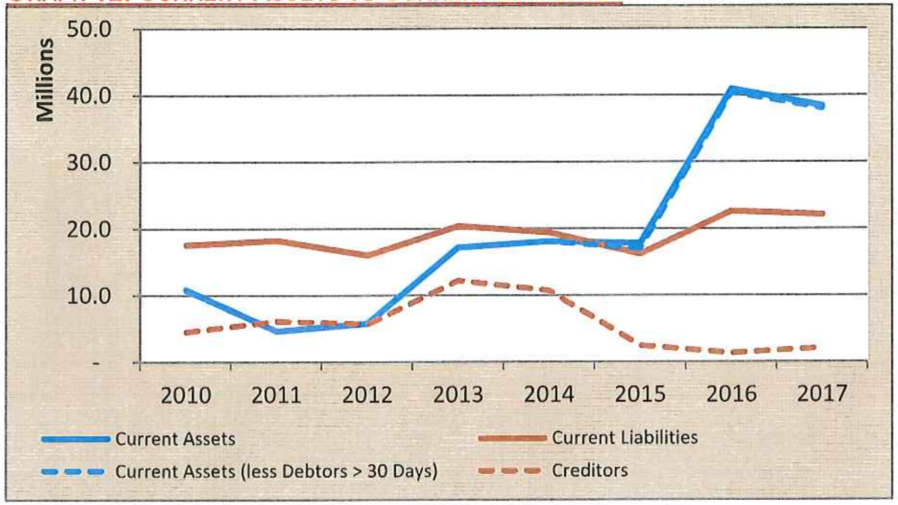
The total interest bearing liabilities remained low with an increase of R 2.54 million (172%) from R1.48 million as at FYE2015 to R 4.02 million as at FYE2017. The increase was driven by additional finance lease liabilities for copiers and vehicles utilised by the municipality. Long term loans are fully redeemable as at December 2019.

The gearing ratio has been consistently low and was only 3% in 2016/17. The debt service cover ratio (which measures the ability of the municipality to service its debt from cash generated by operations) at 0.1 suggests that the current levels of debt are affordable to the municipality.

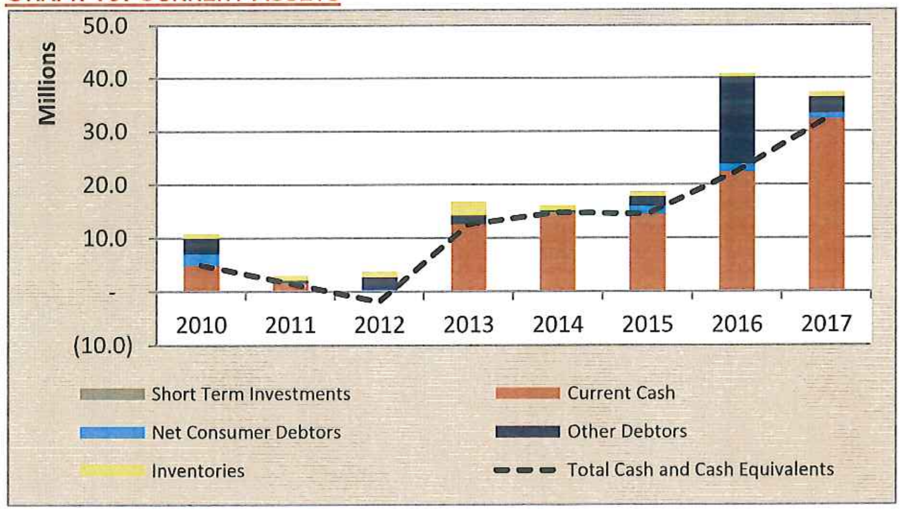
Non-interest bearing liabilities increased by R 2.97million (4%) from R 76.78 million at FYE2015 to R 79.75 million at FYE2017. Employee benefits continue to be Overberg's greatest liability of a long-term nature.

Liquidity Management

Graph 12: Current Assets vs Current Liabilities



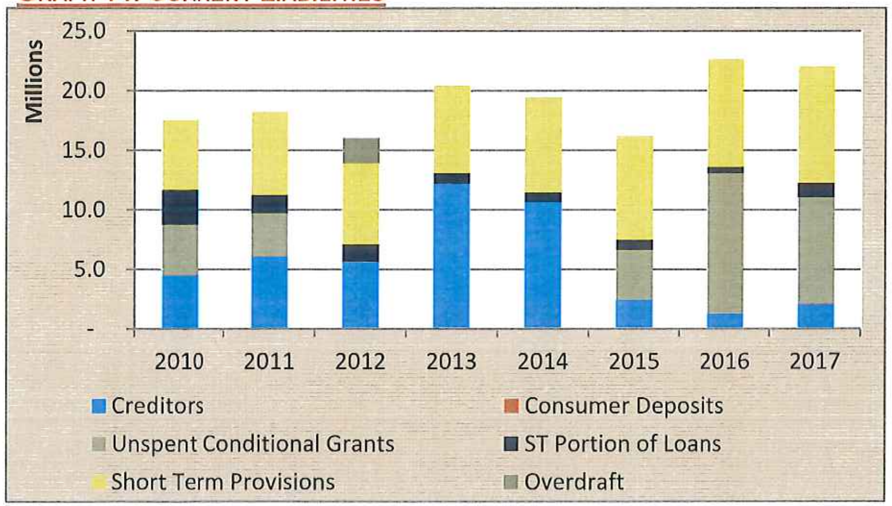
Graph 13: Current Assets



The liquidity ratio is positive and improved from 1.10 as at FYE2015 to 1.74 as at FYE2017. Should all debtors older than 30 days be excluded, this ratio reflects a healthy 1.72 as at FYE2017, compared to 1.05 as at FYE2015. These noticeable improvements in liquidity resulted from additional cash inflows from increased conditional operating grants from National Treasury.

Positive to note is that Cash and cash equivalents made up 84% of Current Assets at FYE2017 and increased by R 17.92 million (125%) from FYE2015. Other notable components of Current Assets were Other Debtors of R 3.01 million and Taxes of R 2.63 million.

GRAPH 14: CURRENT LIABILITIES

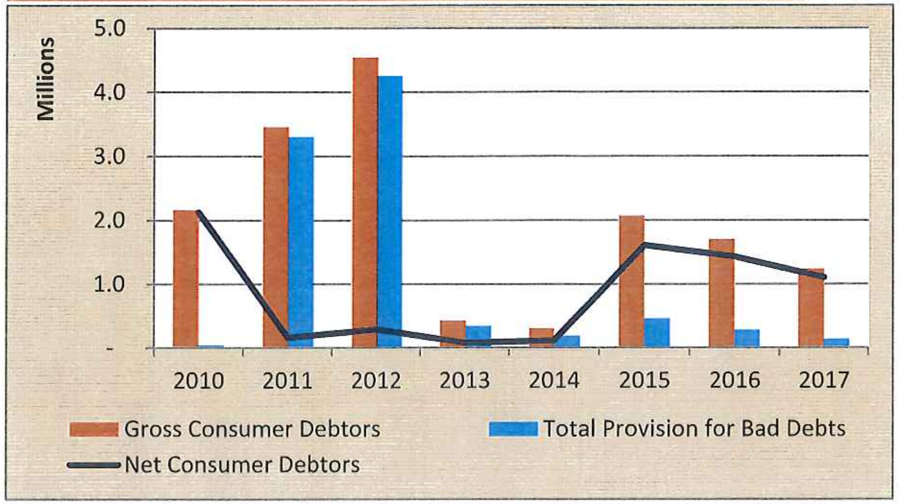


The 36% growth of Current Liabilities can be mainly attributable to the increase of Unspent conditional grants from R 4.25 million to R 8.97 million and the increase in Short term provisions from R 9.04 million to R 9.83 million between FYE2015 and FYE2017.Creditors and other current liabilities were well managed and reflected a stable trend over the past 3 financial periods.

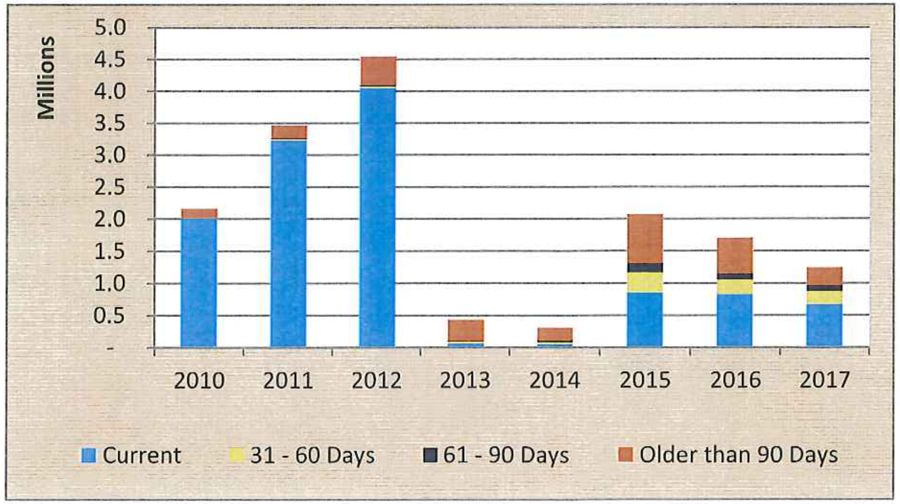
Debtors Management

The Gross Consumer Debtors balance of R 1.23 million at FYE2017 mainly relates to Housing rentals and sundry debtors. The trend analysis reflects a 40% decrease since FYE2015. Collection ratio reflected an erratic pattern in the past before stabilising at 101% and 102% in the recent 2 financial periods.

GRAPH 15: GROSS CONSUMER DEBTORS VS NET CONSUMER DEBTORS



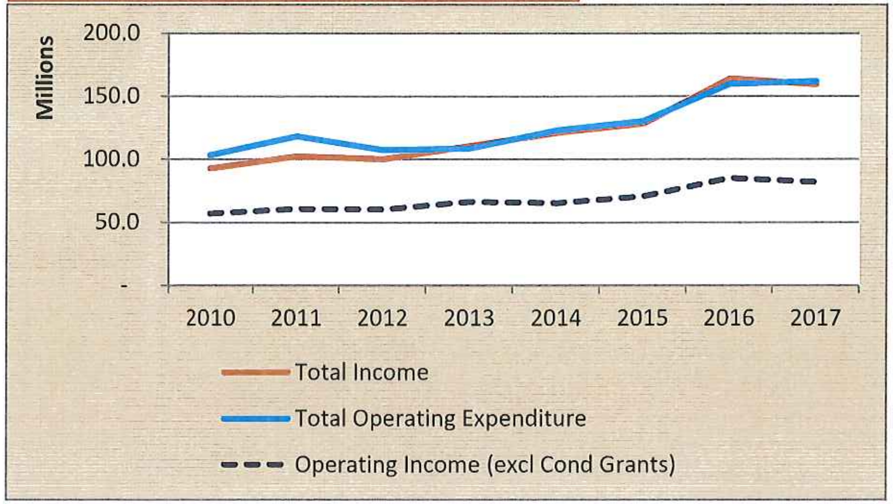
GRAPH 16: CONSUMER DEBTORS AGE ANALYSIS



FINANCIAL PERFORMANCE

Surplus/Deficit

GRAPH 17: TOTAL INCOME VS TOTAL EXPENDITURE

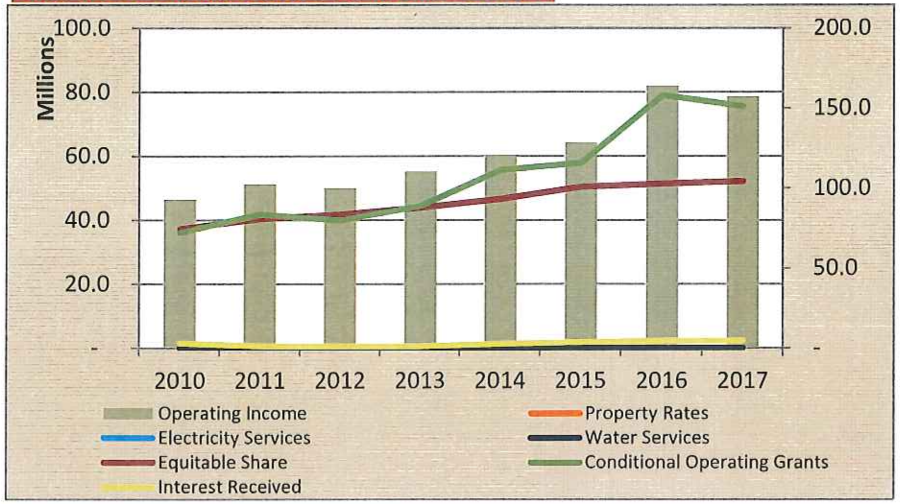


Total operating expenditure increased by R31.94 million or 25% in FY2017, which is higher than the growth in operating income (excluding capital grants) of R28.76 million or 22% in the same period. This had a negative impact on Overberg's profitability and an operating deficit of R5.0 million was recorded for the year. This follows an operating surplus of R4.3 million inFY2016.

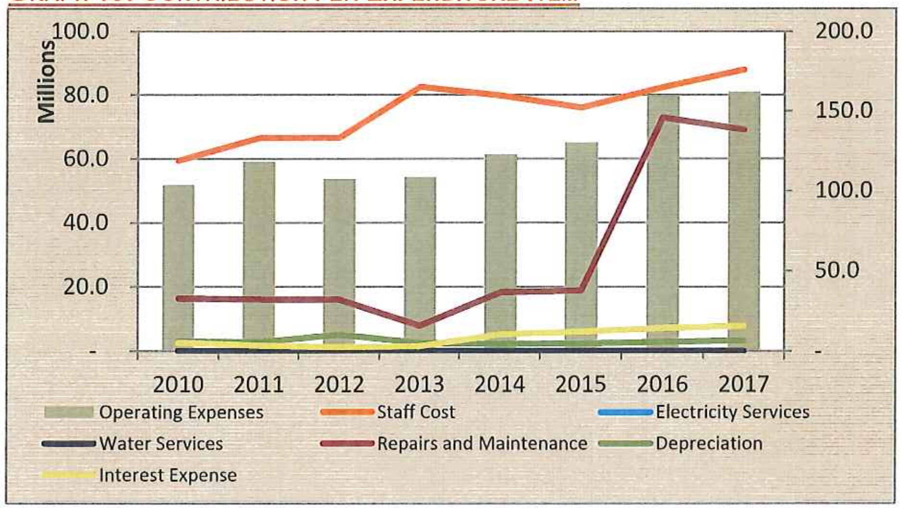
Revenue Management

Total operating income (excluding capital grants) for FY2017 was R157.03 million, compared to R128.28 million in FY2015. Overberg's challenges in terms of generating own revenue remained; with total grants and subsidies constituting 82% of Operating Income. Conditional Operating grants grew by 30% in the past 3 years while equitable share income only grew by 4% during the same period.

GRAPH 18: CONTRIBUTION PER INCOME SOURCE



GRAPH 19: CONTRIBUTION PER EXPENDITURE ITEM



Expenditure Management

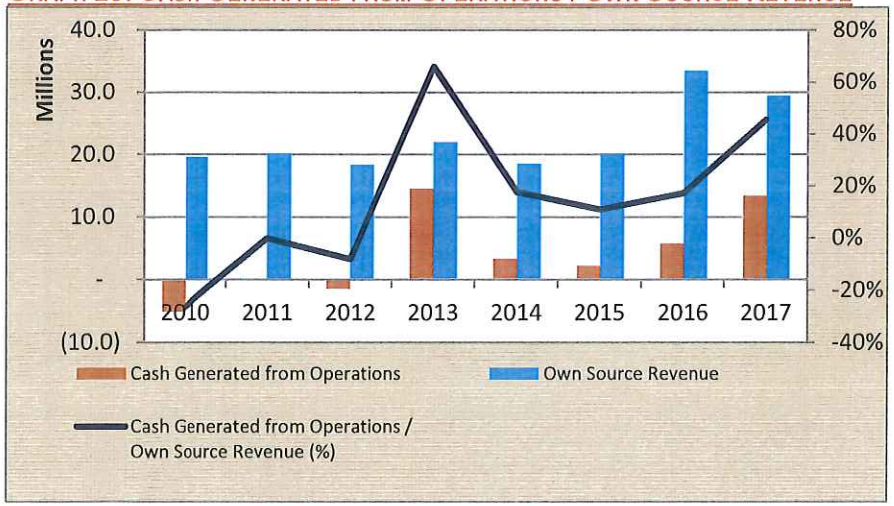
Total operating expenses for FY2017 were R161.97 million, compared to R130.03 million in FY2015. Staff cost accounted for 54% of Total operating Expenditure and increased by 111.89% in FYE2017 from FYE2015, while the repairs and maintenance expense increased by 268% to R50.30 million. Although the annual increase may seem high, repairs and maintenance are only 1.58% of PPE at FYE2017 and still does not meet the recommended benchmark of 8%.

CASH FLOW

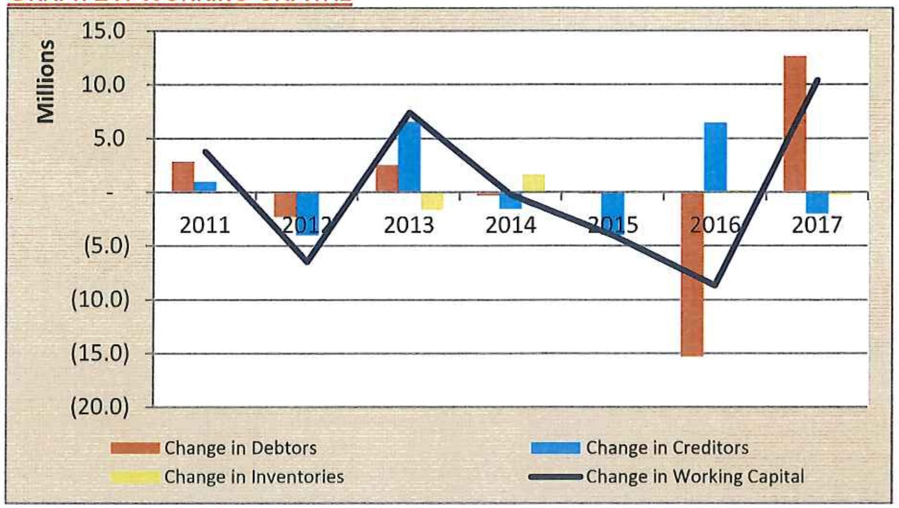
Cash Generated from Operations

Cash generated from operations (excl Capital grants) increased by 514% (R11.19 million) from R2.18 million in FY2015 to R13.36 million in FY2017.

GRAPH 20: CASH GENERATED FROM OPERATIONS / OWN SOURCE REVENUE



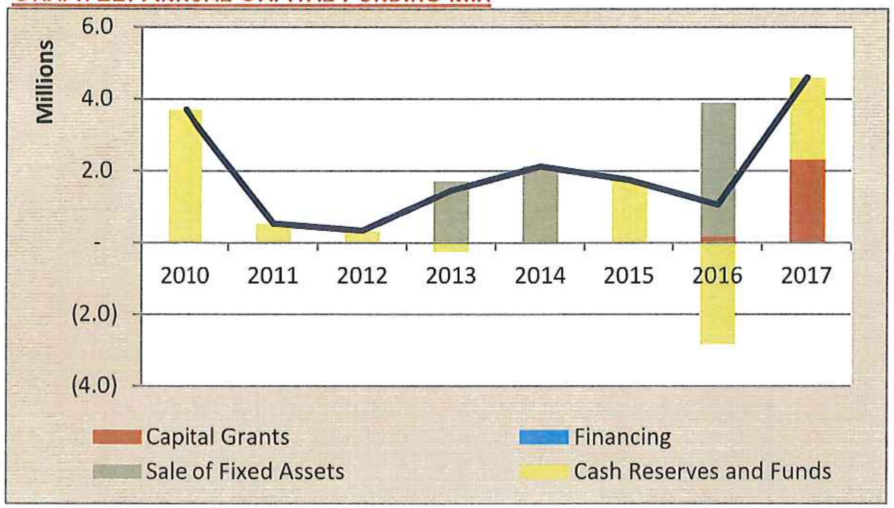
GRAPH 21: WORKING CAPITAL



Changes in Working Capital resulted in a positive cash inflow of R 10.38 million in FYE2017 compared to a negative outflow of R 4.04 million in FYE2015. This is a reflected of good management of debtors and creditors in the current year.

Capital Expenditure and Funding Mix

GRAPH 22: ANNUAL CAPITAL FUNDING MIX



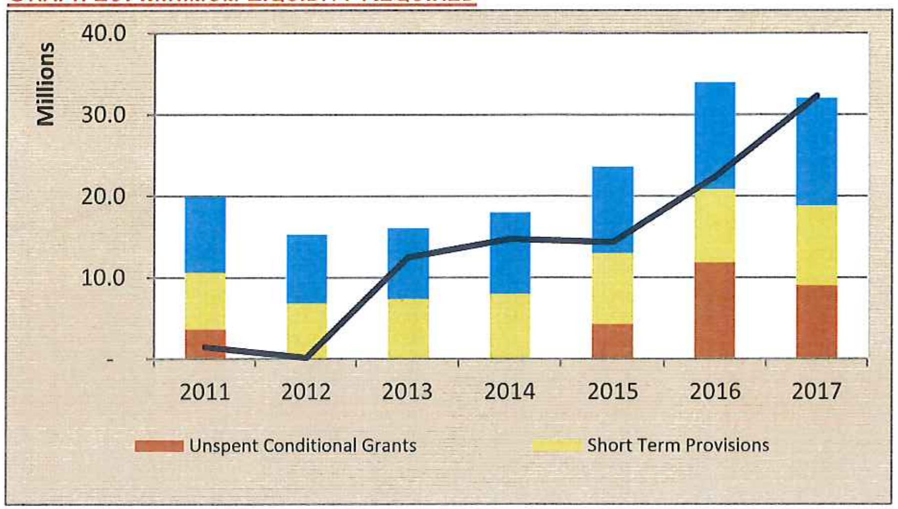
Capital Expenditure for FYE2017 increased to R 4.60 million and remained slightly lower than the budgeted CAPEX of R4.81million. This was funded by a mixture of Capital Grants (R 2.30 million) and Cash Reserves (R 2.29 million).

R3.73 million in cash was generated from the sale of Investment Properties in FY2016.

The funding mix is inconsistent year-on-year due to the nature of the institution. It will be preferable, since Overberg DM is not in a position to obtain external borrowings, to maintain low levels of CAPEX in order to strengthen liquidity levels.

Minimum Liquidity Requirements

GRAPH 23: MINIMUM LIQUIDITY REQUIRED



The ***unencumbered*** cash and cash equivalents of R32.28 million as at FYE2017 was almost equivalent to the minimum liquidity required (including one month's operational expenditure) of R32.01 million. It is positive to note that Overberg DM has managed to derive a cash surplus after 7 consecutive annual deficits during the assessment period. The cash coverage improved from 0.6 in FY2015 to 1.0 in FY2017.

Overberg DM has not held any capital replacement reserves since FYE2011.

Table 3: Minimum Liquidity Levels

	2010	2011	2012	2013	2014	2015	2016	2017
Unspent Conditional Grants	4.2	3.6	-	-	-	4.3	11.8	9.0
Short Term Provisions	5.9	7.0	6.8	7.3	8.0	8.7	9.0	9.8
Funds, Reserves & Trust Funds (Cash Backed)	0.8	-	-	-	-	-	-	-
Total	**10.9**	**10.6**	**6.8**	**7.3**	**8.0**	**13.0**	**20.9**	**18.8**
Unencumbered Cash	4.9	1.4	0.1	12.5	14.7	14.4	22.4	32.3
Cash Coverage Ratio (excl Working Capital)	0.4	0.1	0.0	1.7	1.8	1.1	1.1	1.7
Working Capital Provision (1 Month's Opex)	8.4	9.3	8.5	8.8	10.0	10.6	13.1	13.2
Cash Coverage Ratio (incl Working Capital)	0.3	0.1	0.0	0.8	0.8	0.6	0.7	1.0
Minimum Liquidity Required	19.3	19.9	15.3	16.1	18.0	23.6	33.9	32.0
Cash Surplus/(Shortfall)	**(14.4)**	**(18.5)**	**(15.1)**	**(3.6)**	**(3.3)**	**(9.3)**	**(11.5)**	**0.3**

Outcome of the Independent Financial Assessment

Overberg District Municipality posted an accounting deficit of R2.78m during FY2017. Should capital grants be excluded from total income, the operating income for the year reflects R157.03m, against operating expenses of R161.97m. The result of this was an operating deficit of R5.05 million for FY2017.

Overberg DM's primary source of income to perform its mandated duties is received from fiscal transfers in the form of Equitable share and conditional operating grants. Other sources of income include Rental income (R13.23m) and Agency services (R8.11m). Total Grants to Total Revenue ratio decreased from 84% in FYE2015 to 82% in FYE2017. The trend in the Equitable share grant has been fairly steady with a 4% increase in the last 2 financial periods.

Employee related costs totalling R87.87m constitute 53% of Total Expenditure at FYE2017. This is an improvement from a proportional rate of 58% in FYE2015. The second largest expenditure item, although not recorded in the district's income statement due to compliance with new reporting framework mSCOA, is Repairs and Maintenance at a cost of R69.09m (41% of Total Expenditure). Although current levels are considered low in comparison with the cost of Fixed Assets, gradual increases are encouraged to promote the district's financial viability. A proper review and monitoring of General expenses should also be scrutinized for cost savings.

Overberg DM has maintained a healthy relationship between Current Assets and Current Liabilities. Current Assets grew by 116% or R20.60m while Current Liabilities grew by 36% or R 5.85m between FYE2015 and FYE2017. The liquidity ratio also improved from 1.10:1 to 1.74:1 during the same period.

Positively, Cash and cash equivalents constitute 84% of Current Assets as at FYE2017. The balance of Unencumbered cash and investments available at year end increased to R32.28m from R14.36m in FYE2015. This means that Overberg DM was able to meet the minimum liquidity requirement of R32.01. The minimum liquidity requirement includes Unspent conditional grants (R9.0m), Short term provisions (R9.8m), and 1 month's working capital (R13.2m). The cash coverage ratio improved to 1.0× from 0.6× in FYE2015.

Overberg has managed to spend 96% of its budgeted annual capital expenditure at FYE2017. Capex amounted to R4.60 million and was funded from Capital Grants (R 2.29 million) and Own cash reserves (R 2.29 million).

Non-interest bearing liabilities increased by R 2.97million (4%) from R76.78 million at FYE2015 to R79.75 million at FYE2017 and continue to be the greatest liability on Overberg DM's balance sheet. The short term portion of Employee Benefits should always be backed by cash.

Although operations are fairly managed, Overberg DM has very limited resources available and alternate sources of revenue generation remain a key area of concern.

Strengths

- Healthy liquidity ratio of 1.74 (above the norm of 1.5:1).
- Ability to generate cash from operations.
- Improvements in cash coverage ratio.
- Unencumbered cash available increased by R17.92m in the past 2 years.

Weaknesses

- Limited opportunities to generate own revenue.
- Operational expenditure is growing at a higher rate than operational income resulting in a further decline in the net operating surplus
- Escalating Salaries, Wages and Allowances are fixed costs against a relatively flat and short termed revenue base.
  Total Accounting deficits increased to R2.8million

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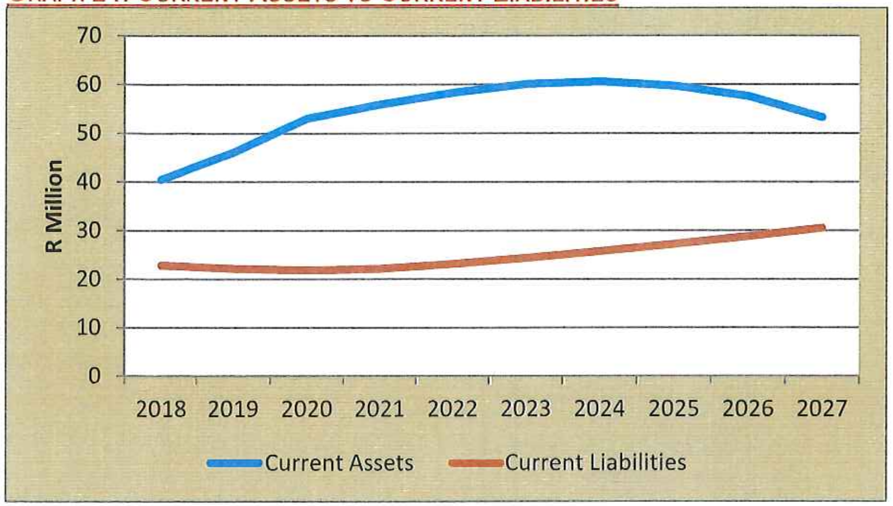
ASSUMPTIONS

Variable	Base Case Average for a 10-Year Planning Period
RSA Consumer Inflation Rate (CPI)	5.6%
Days Receivable	30 days
Days Payable	61 days
Short Term Investment Rate (Margin above CPI)	0.0%
Overdraft Interest Rate (Margin above CPI)	6.0%
New External Borrowings Interest Rate (Margin above CPI)	6.0%
New External Borrowings Tenor	5 Years
Liquidity Cover i.t.o. No of Days Operational Expenditure	30 Days
Collection Rate of Customer Billings	100.0%

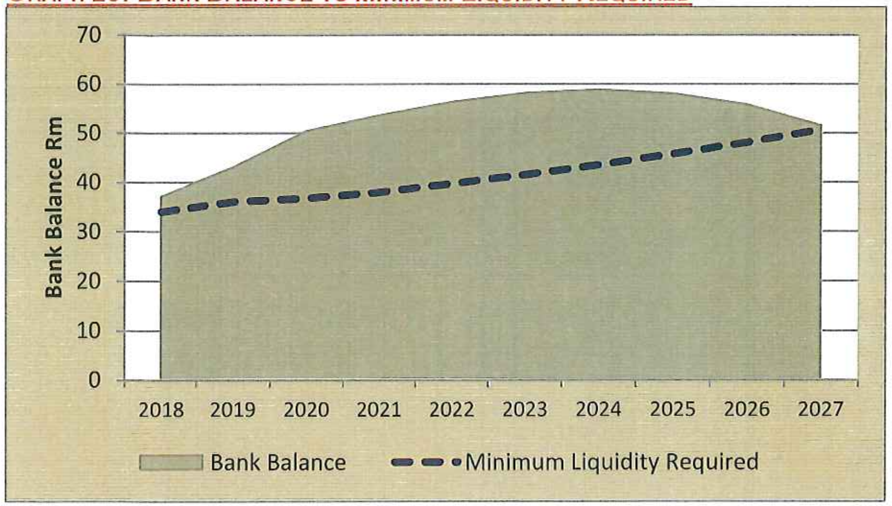
Financial Projections

Liquidity

Graph 24: Current Assets vs Current Liabilities



Graph 25: Bank Balance vs Minimum Liquidity Required



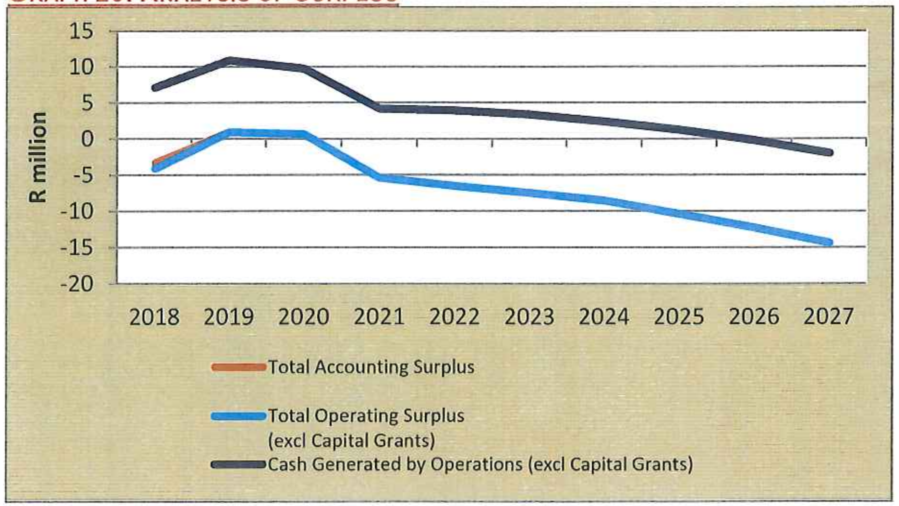
Liquidity is an essential pillar for financial sustainability. Taking into account the assumptions above, Overberg DM's current assets is projected to exceed its current liabilities over the next 10 years. Of concern, though, is that the liquidity may start to deteriorate subsequent to FY2024, when current liabilities are projected to continue to increase, while current assets will start to decrease.

The projections indicate that this decrease will most likely be driven by a decrease in cash and cash equivalents (currently representing 84% of current assets). Notwithstanding the negative trend developing in FY2024, the municipality will be in a position to cover its minimum liquidity requirements for the entire planning period.

Financial Performance and Ability to Generate Cash from Operations

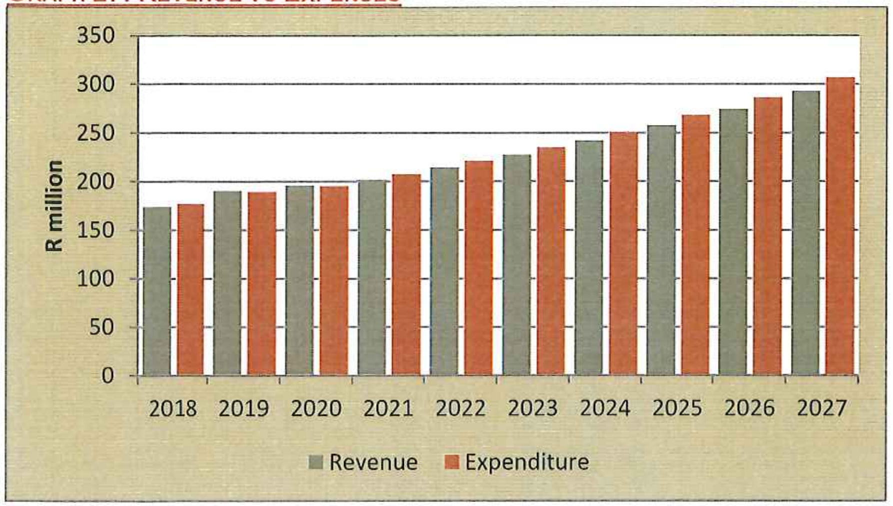
From the graph below, it is evident that the decrease in cash and cash equivalents and the accompanying deterioration of the municipality's liquidity position result from a weakening in operational performance of the municipality.

Graph 26: Analysis of Surplus



Operating surpluses are projected to decline (even over the short-term MTREF period) and cash generated from operations are set to follow this declining trend. Current projections indicate that cash will be utilised by operations in FY2026, while the municipality may start realising operating losses as early as FY2021.

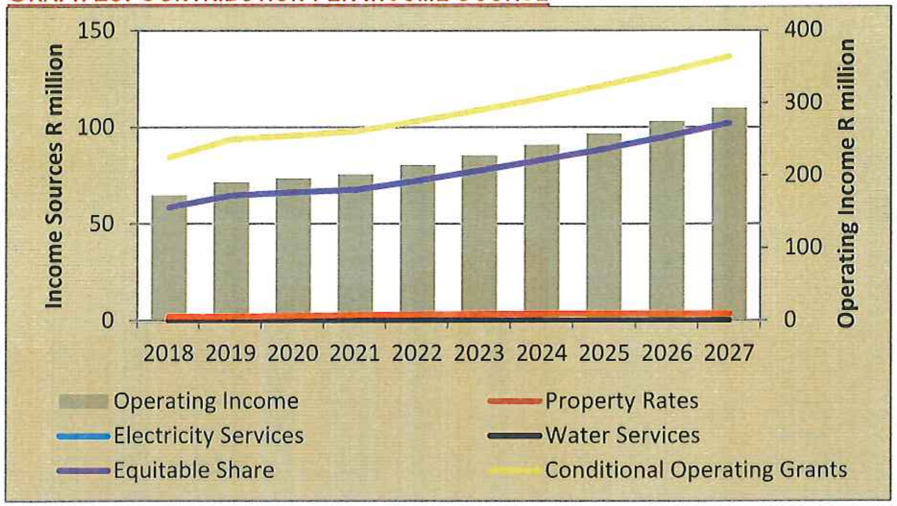
GRAPH 27: REVENUE VS EXPENSES



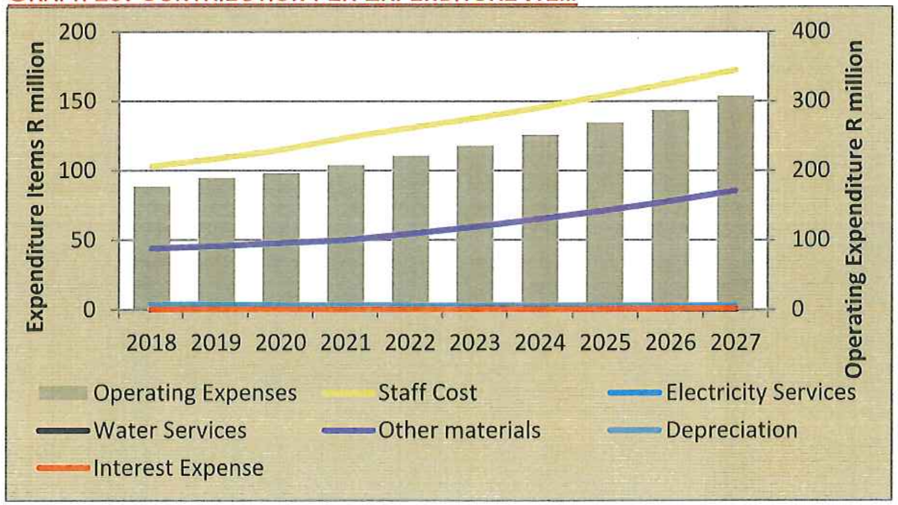
Expenditure is projected to exceed revenue by FY2021 and expectations are that expenses will continue to grow at a faster rate than revenue. There is a need for increases in revenue generating capacity from the municipality's own sources and, in addition, cost saving strategies that will improve the financial performance of the municipality.

Currently only two main sources of operating revenue are noted, being Conditional Operating Grants and Equitable Share. Other revenue is derived from rental of facilities and equipment and agency services. Operating expenses are mainly driven by staff cost and other materials. The limited extent to which additional revenue resources are available, or cost saving strategies can be implemented, is inherent to the nature of district municipalities. Innovative thinking, fresh ideas and non-conventional approaches are therefore required.

GRAPH 28: CONTRIBUTION PER INCOME SOURCE



GRAPH 29: CONTRIBUTION PER EXPENDITURE ITEM



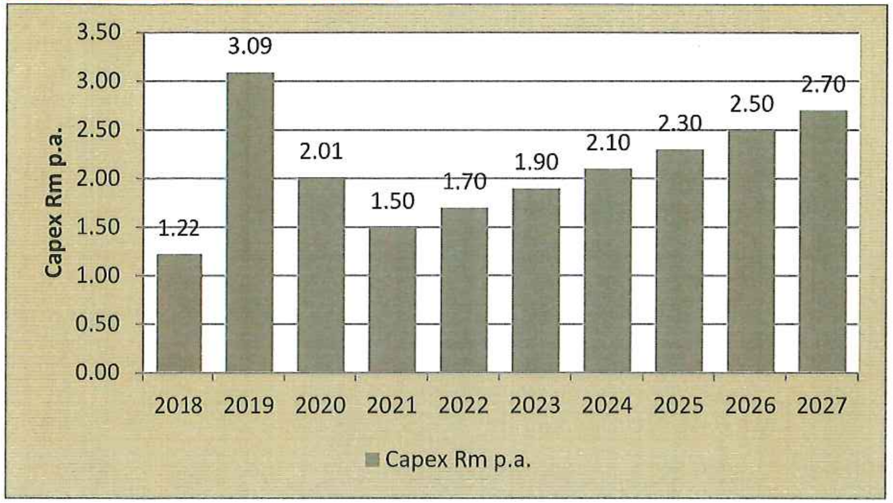
GRAPH 30: CASH GENERATED FROM OPERATIONS / OWN SOURCE REVENUE

1	Planning Process
2	Updated Perspectives (Demographic, Economic, Household Infrastructure)
3	Updated Historic Financial Assessment
4	Financial Projections
5	**Affordable Future Capital Investment**
6	Scenario Analysis
7	Recommendations

Capex Affordability and Funding

Affordable Capital Expenditure

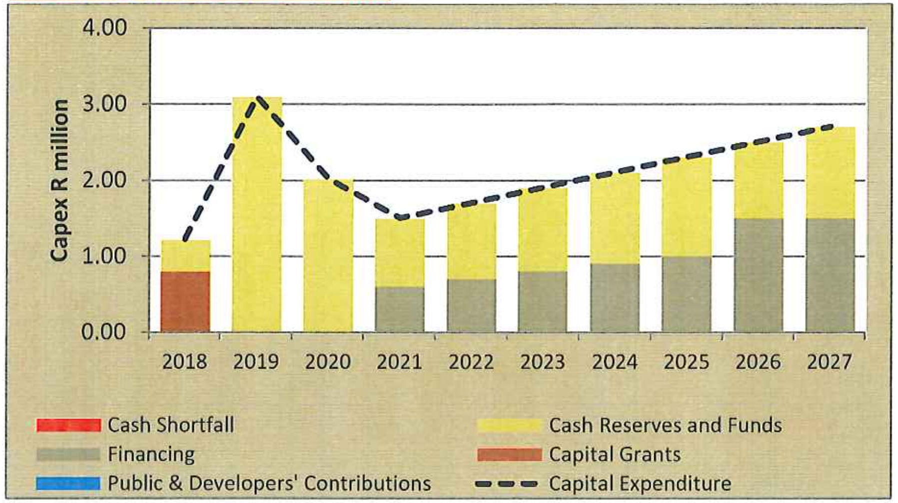
Graph 31: Capital Expenditure



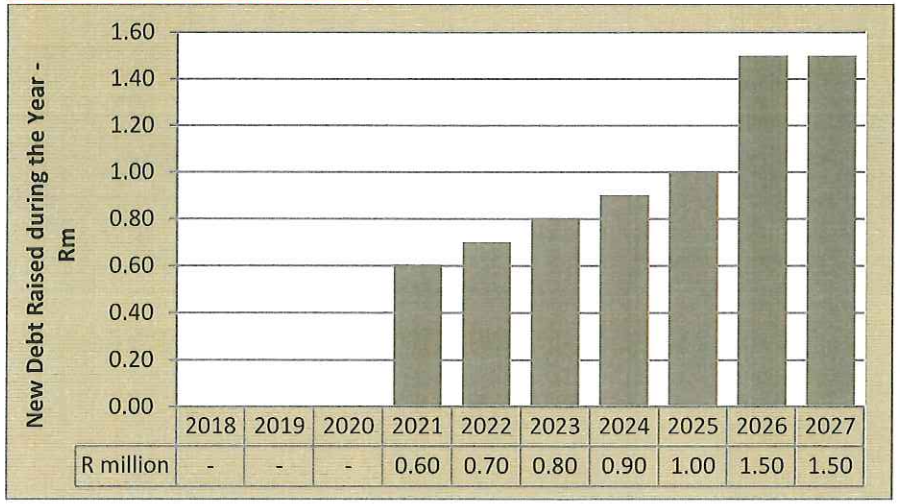
Affordable capital expenditure is estimated at R21 million over the planning period. A balanced, sustainable funding mix, in light of the operational challenges faced by Overberg DM mentioned before, can be achieved as follows:

Source of Funds	10-Year Amount Rm	%
Public & Developers' Contributions	0.0	0%
Capital Grants	0.8	4%
Financing	7.0	33%
Cash Reserves and Funds	13.2	63%
Cash Shortfall	0.0	0%
TOTAL	21.0	100%

Graph 32: Capital Funding Mix



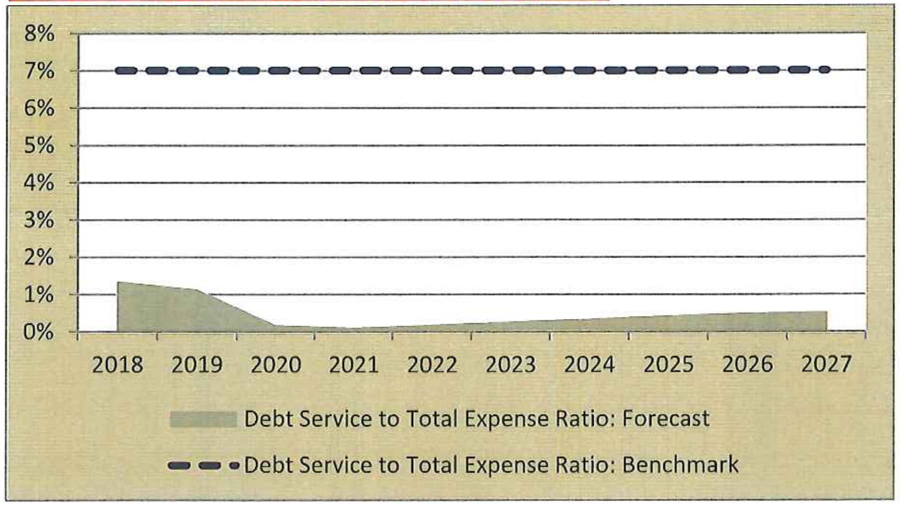
Graph 33: New Loans Raised



At this level of external borrowing ODM remains well within its recommended gearing ratio norm of 25% and its debt service to total expense ratio never exceeds 1.5% during the planning period.

GRAPH 34: GEARING: % INTEREST BEARING LIABILITIES TO TOTAL INCOME

GRAPH 35: DEBT SERVICE TO TOTAL EXPENSE RATIO



1 Planning Process

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Scenario Assumptions

	Items	Base Case	Upside	Downside	Employee Cost Positive	Employee Cost Negative
1	RSA consumer inflation rate (CPI)	100%				
2	RSA Construction Industry cost escalation	100%				
3	Local Property Valuation escalation	100%				
4	Population Growth Rate	100%	98%	102%		
5	Household Occupancy	100%				
6	Utility Consumption (Optional)	100%				
7	GVA Growth Rate	100%	120%	80%		
8	Overdraft Interest Rate	100%				
9	Short term investment rate	100%				
10	Long term investment rate	100%				
11	Electricity Price Elasticity of Demand	100%	100%	120%		
12	Water Price Elasticity of Demand	100%	100%	120%		
13	Employee related cost escalation (Margin above Inflation rate)	100%	80%	120%	80%	120%
14	Bulk electricity cost escalation (Margin above Inflation rate)	100%	80%	120%		
15	Bulk water cost escalation (Margin above Inflation rate)	100%	80%	120%		
16	Collection Rate of customer billings	100%	110%	90%		
17	Collection Rate of other income (incl. Fines)	100%				
18	New Debt Issued: Interest Rate margin above CPI % p.a.	100%				
19	New Debt Issued: Loan period (Years)	100%				

Scenario Outcomes

	Items	Base Case	Upside	Downside	Employee Cost Positive	Employee Cost Negative
1	Average annual % increase in Revenue	6.3%	6.3%	6.2%	6.3%	6.2%
2	Average annual % increase in Expenditure	6.6%	6.5%	6.7%	6.5%	6.7%
3	Accounting Surplus accumulated during Planning Period (Rm)	-R 67	-R 42	-R 99	-R 41	-R 98
4	Operating Surplus accumulated during Planning Period (Rm)	-R 68	-R 42	-R 99	-R 42	-R 98
5	Cash generated by Operations during Planning Period (Rm)	R 40	R 67	R 9	R 67	R 11
6	Average annual increase in Gross Consumer Debtors	-18.2%	-18.2%	-8.2%	-18.2%	-18.2%
7	Capital investment programme during Planning Period (Rm)	R 21	R 29	R 22	R 29	R 23
8	External Loan Financing during Planning Period (Rm)	R 7	R 9	R 10	R 9	R 10
9	Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 51	R 71	R 21	R 71	R 22
10	No of Months Cash Cover at the end of the Planning Period (Rm)	2.1	2.9	0.8	2.9	0.9
11	Liquidity Ratio at the end of the Planning Period	1.7 : 1	2.4 : 1	0.7 : 1	2.4 : 1	0.8 : 1
12	Gearing at the end of the Planning Period	1.0%	1.3%	1.6%	1.3%	1.6%
13	Debt Service to Total Expense Ratio at the end of the Planning Period	0.5%	0.7%	0.7%	0.7%	0.7%

Scenario Analysis

Five different scenarios were analysed:

- The ***Base Case*** scenario represents the most likely and anticipated outcome;
- Against this base case an ***Upside Scenario*** was tested, to represent the combined outcome of a positive change to several assumptions;
- In contrast, a ***Downside Scenario*** was tested, to represent the combined outcome of a negative change to several assumptions;
- To assess the impact of changes in staff cost independent of other assumptions, an ***Employee Cost Positive*** (for a lower than expected staff cost) and ***Employee Cost Negative*** (for a higher than expected staff cost) were tested.

From the scenarios analysed it is evident that the municipality's viability and sustainability are highly sensitive to changes in its employee cost. Should the employee cost average annual increase over the planning period be 80% of the base case increase, the following positive changes can be noted:

- Cash generated by operations increase to R67 million, as opposed to the R40 million of the base case;
- The affordable capital investment programme increases to R29 million, compared to R21 million of the base case;
- Cash and cash equivalents balance of R71 million at the end of the planning period represents an amount of R20 million higher than the base case balance of R51 million;
- The liquidity ratio represents a healthy 2.4:1 at the end of the planning period.

If, however, employee cost's average annual increase over the planning period is 120% of the base case increase, the following negative changes are noted:

- An accumulated accounting loss of R98 million is realised over the planning period;
- The cash and cash equivalents balance of R22 million at the end of the planning period represents an amount of R29 million lower than the base case balance of R51 million. This cash balance is also well short of the minimum liquidity requirements and the capital investment programme anticipated to be R23 million is therefore not affordable;
- The liquidity ratio deteriorates to a low 0.8:1, which is lower than the minimum recommended norm of 1:1.

It is therefore imperative for ODM to contain its expenses and to maximise any revenue generating opportunities.

1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

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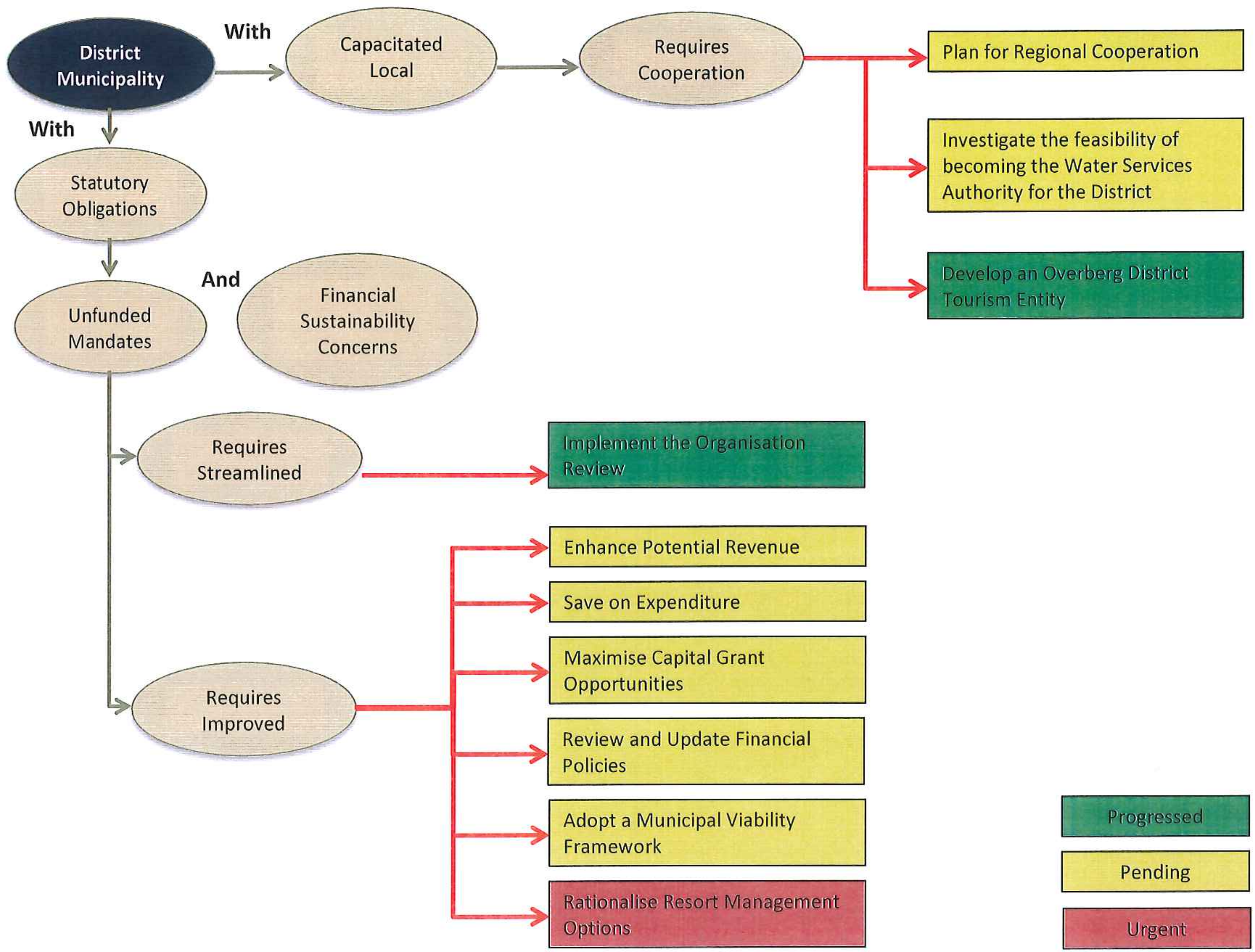
7 Recommendations

RECOMMENDATIONS – LTFP



RECOMMENDATIONS – UPDATED

It is positive to note that Overberg DM has considered the recommendations made in the long term financial plan and started with the implementation of some of these recommendations. An updated view on the recommendations are provided below:

Organisational Strategies

Implement the organisational review
A revised organisational structure was being implemented in a phased approach. The first phase commenced in 2017. The adopted budget of the municipality makes provision for a staff cost increase of approximately 13.4% in 2018 as a result of the implementation. The financial benefits of this process, however, are evident in the low 5.2% increase projected in 2019 and 6.00% in 2020. Staff cost plays a critical role in the financial sustainability of Overberg DM, as was noted in the scenario testing. The employee cots should therefore remain a focus are for management and constant monitoring of this cost is required.

Investigate the feasibility of becoming a Water Services Authority for the District
No progress was made on this recommendation and it seems unlikely that this objective will materialise in the foreseeable future. The municipality should continue to explore this and other opportunities to derive income from the delivery of water services to the local municipalities, with the Water Board and other key stakeholders.

Rationalise Resort Management Options
There have been no developments with regards to the municipality's resort management and the improvement thereof. Repairs and maintenance, along with the general upkeep of the resorts, are still a major concern. The post of Director of Community Services (who is responsible for resort management) remains vacant. A clear strategy, to address the challenges the resorts are facing, is required. It appears that the Dennehof Resort lends itself to an excellent SLA or PPP arrangement opportunity, which should be explored and considered as a matter of urgency. The resorts may potentially provide the municipality with an additional source of own revenue, significantly reduce costs and support tourism and economic growth in the region, which will positively impact on the sustainability of Overberg DM.

The recommendation was also made in the LTFP that "ODM should not view its approach to the resorts as homogenous, but recognise that the savings made on one resort could be used for new investment in another". From the information available it would seem that Dennehof (which is currently closed due to health and safety concerns) is clearly in dire need of an urgent action plan and concerted effort, while the other resorts may be managed differently.

Develop an Overberg District Tourism Entity
Positively, a district Local Economic Development and Tourism Forum was formally established and a district LED Strategy and Action Plan was adopted on 30 June 2017. The view is that a specialist service provider be procured to develop a new and regionally informed District Regional Economic Development (RED) and Tourism Strategy with a more strategic intent and collaborative partnering approach.

The IDP identifies the need for a centralised district approach to tourism and regional economic growth. It also makes mention of various sectors of growth and possible economic growth initiatives that the district may embark on. Our view is that the need exists for a dedicated entity to drive this process and that this still provides an opportunity for Overberg DM to derive additional revenue from other sources and diversify its service offering to the local municipalities in the district.

Planning Strategies

Plan for Regional Cooperation
The importance and potential benefits of Regional Cooperation were highlighted in the LTFP. Overberg DM has managed to secure sharing of Integrated Risk Management of the local municipalities in the district. Other than this, it appears that no meaningful progress has been made, but that a need has indeed been identified as far as it relates to tourism and regional economic development. The recommendation remains that a "think tank" be organised amongst local municipalities and other functions be identified which can potential be managed on a shared service basis.

Revenue Raising, Cost Saving, Financial Management, Asset Management, Capital Financing, Operational Financing, Strategies and Financial Management Policies

The other recommendations made in the long term financial plan of Overberg DM remain relevant. Overberg DM should pursue any revenue growth opportunities, especially those that can be derived from innovative, non-conventional and creative thinking. Smart revenue, Public Private Partnerships, sweating of investment assets and regional shared services may provide the valuable additional revenue that ODM needs to remain financial viable and sustainable.

In this regard, it is positively noted that Overberg DM has regained the management and operation of the Karwyderskraal Regional Landfill Facility, which will provide the municipality with an additional source of income from 2019 onwards (already included in the MTREF and the long term financial plan). Management expects to generate profits from this operations for at least the next 8 years. Against this, however, the municipality's accelerated conditional operating grant allocations will cease in 2019/2020, after which it would return to normalised levels. This will again create a significant need for other revenue sources.

Cost-saving initiatives should be explored while the municipality maintains its commitment to minimise fixed cost. These cost saving strategies include the cost recovery of fire services and improved supervision and increased productivity of resort staff.

The adoption of a municipal viability framework, along with asset management strategies, capital financing strategies (which include the maximisation of capital grant opportunities) and operational efficiency may significantly improve the financial viability of Overberg DM. All of this should be underlined and supported by proper updated and reviewed financial policies that support long term financial sustainability.

The challenge of Overberg DM remains the sustainability and viability of the municipality over the long term.

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