INCA
Portfolio Managers

OVERBERG DISTRICT MUNICIPALITY

Long Term Financial Plan – *Update 2022*

Prepared by
INCA Portfolio Managers
March 2022

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 2022 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 2021. IPM's Long Term Financial Model 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 2021/22 to 2023/24.

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 2018.

Contents

KEY FINDINGS AND CONCLUSIONS DRAWN FROM THE 2021 LTFP UPDATE

- Overberg DM currently find themselves in an improved financial position, with liquidity levels that cover the minimum level required (this also includes one moths' operational expenses).

- The nature of the role and function of district municipalities does not lend it to generate substantial leverls of own resourcesand revenue growth.

- The efficiency of Overberg District Municipality resulting from cost containment measures related to the employees and the salary bill is thus important.

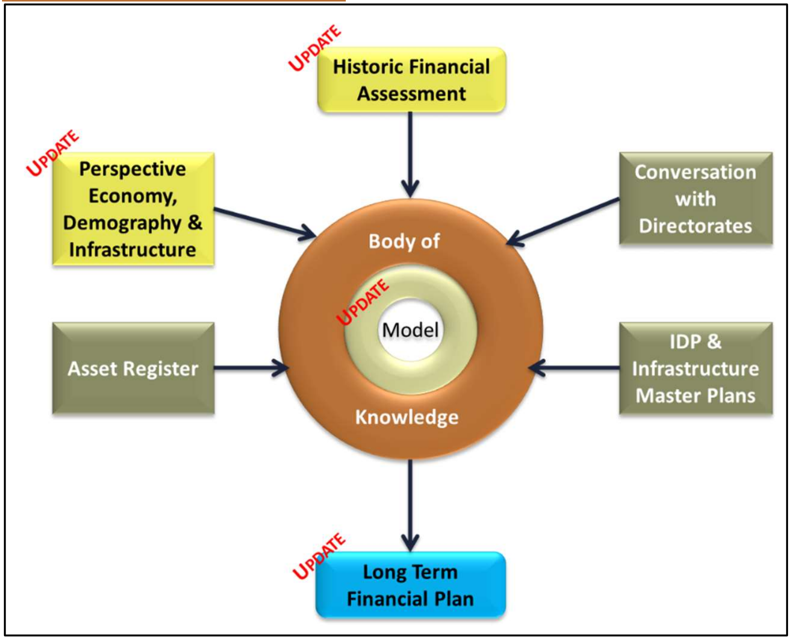
- Any initiatives/innovations put forward to provide additional revenue and/or cost saving of the district municpality should first be assessed in detail and financial modelling should inform the decision making process.

- It remains important to obtain clarity on the assets, specifically property, of the district municipality and, once obtained, a specific strategy to sweat these assets can be introduced that will have a positive effect on the financial sustainability of Overberg DM.

Planning Process

The diagram below illustrates the steps in the process that were followed in 2022:

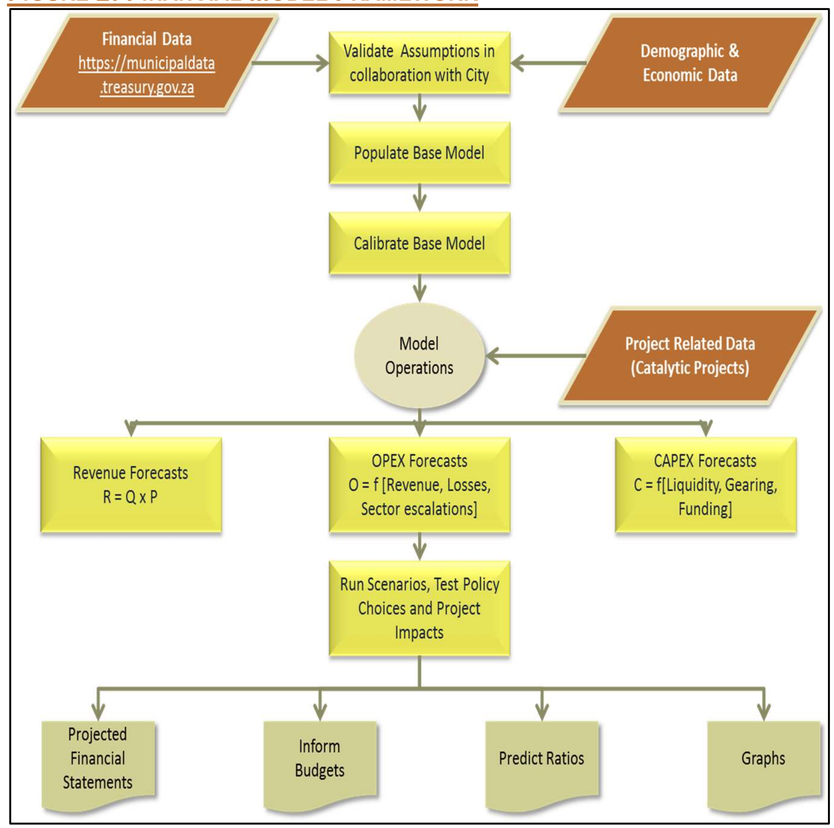
FIGURE 1: PLANNING PROCESS



During the course of the past year IPM developed a new long term financial model, 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

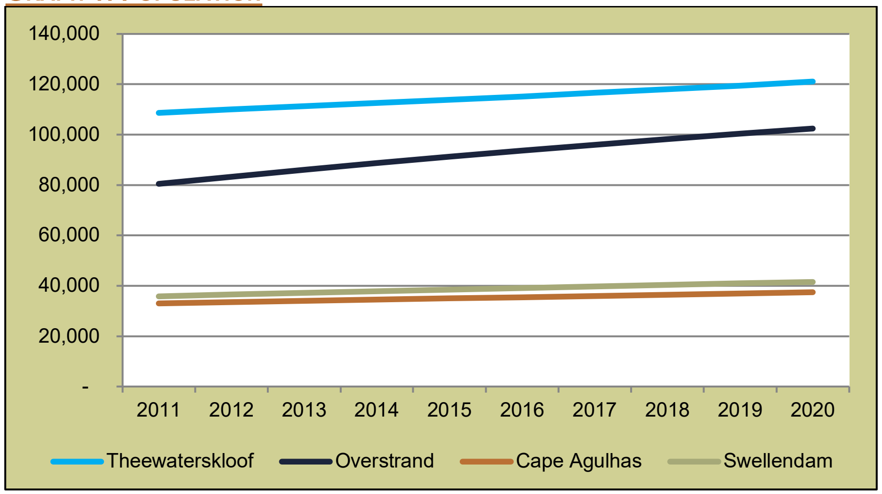


1	Planning Process
2	**Updated Perspectives (Demographic, Economic, Household Infrastructure)**
3	Updated Historic Financial Assessment
4	Long Term Financial Model Outcomes
5	Affordable Future Capital Investment
6	Scenario Analysis
7	Ratio Analysis
8	Conclusions

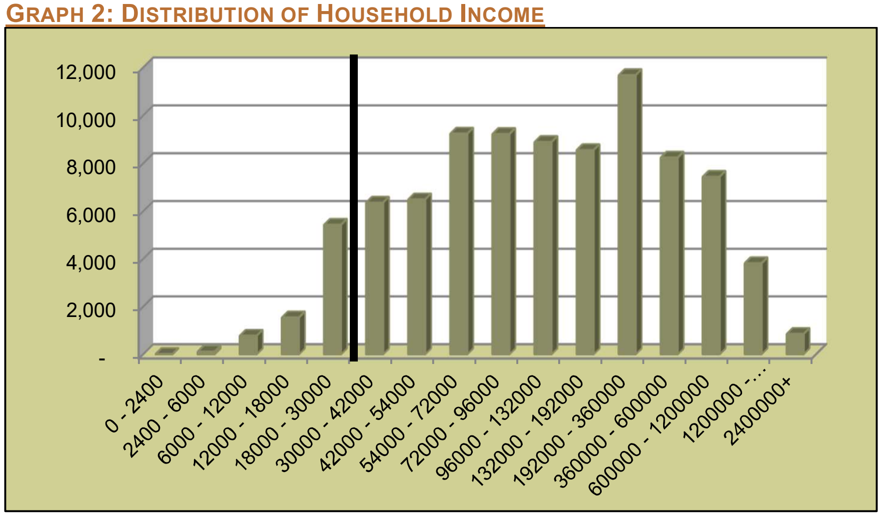
UPDATED PERSPECTIVES – DEMOGRAPHIC, ECONOMIC, HOUSEHOLD INFRASTRUCTURE

DEMOGRAPHY

GRAPH 1: POPULATION



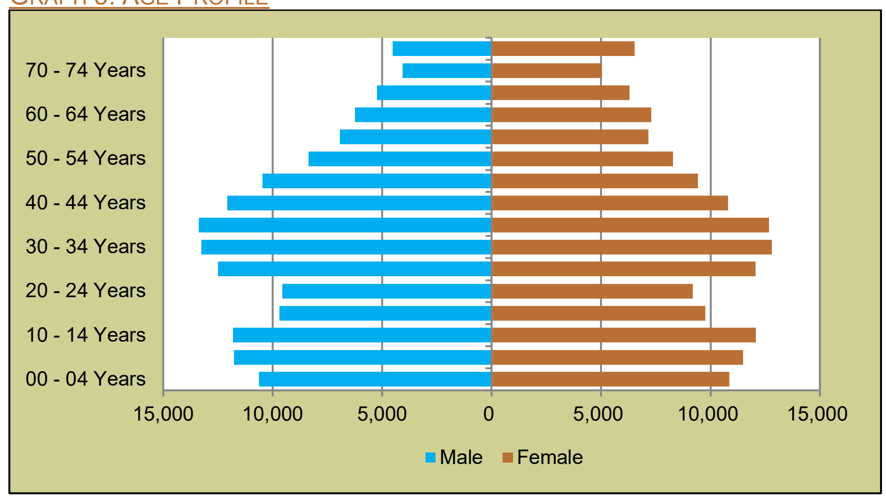
GRAPH 2: DISTRIBUTION OF HOUSEHOLD INCOME



The total ***Population*** in Overberg DM is 302 226 (2020). The population growth rate of 1.54% is above the national growth rate (1.47%), but below that of the Western Cape (1.62%). Of the four municipalities within the jurisdiction of Overberg DM, Theewaterskloof has the largest population (120 994), while Overstrand's population of 102 346 shows the highest growth rate over the review period.

The ***Household Income*** distribution, as reflected in GRAPH 2, indicates that the proportion of households earning less than R 42 000 p.a. constitute approx. 9.6%. It is worth noting that 63.8% 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: Cape Agulhas – R 362 012 p.a; Overstrand – R 346 578 p.a; Swellendam – R 317 678 p.a. and Theewaterskloof – R 255 658 p.a.

GRAPH 3: AGE PROFILE



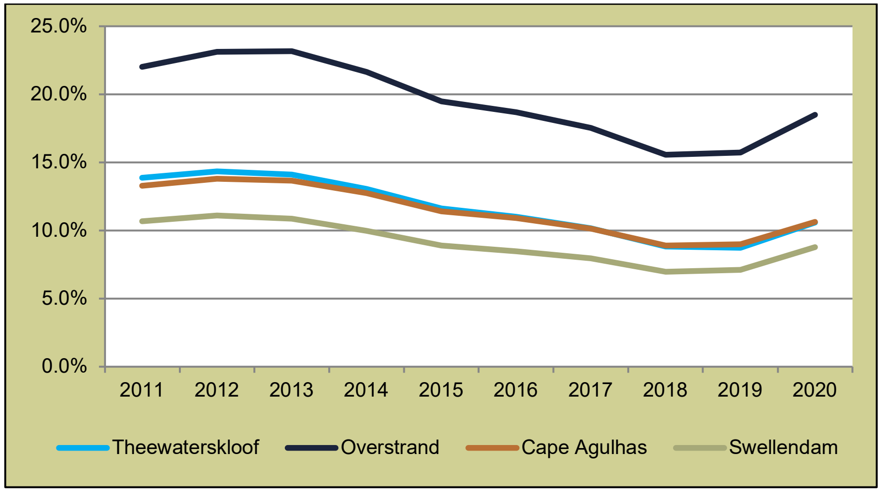
Unlike a classical population pyramid of a developing society, the ***Age Profile*** illustrates proportionally fewer people younger than 25 years of age. Overberg's working age group between 25 to 39 years represent a notable size of the population.

The overall ***Unemployment Rate*** (2020) for the District came to 13%, which is lower than the 21.7% of the Western Cape and substantially lower than the National rate of 30.3%.

The unemployment rate per local municipality in the District varies from 18.5% in Overstrand to a low 8.8% in Swellendam.

It has to be noted that the narrow unemployment definition does not account for those individuals who have been discouraged and stopped actively seeking employment, due to the Covid-19 pandemic. Thus the actual unemployment rate should in reality be much higher than what the narrow definition indicates.

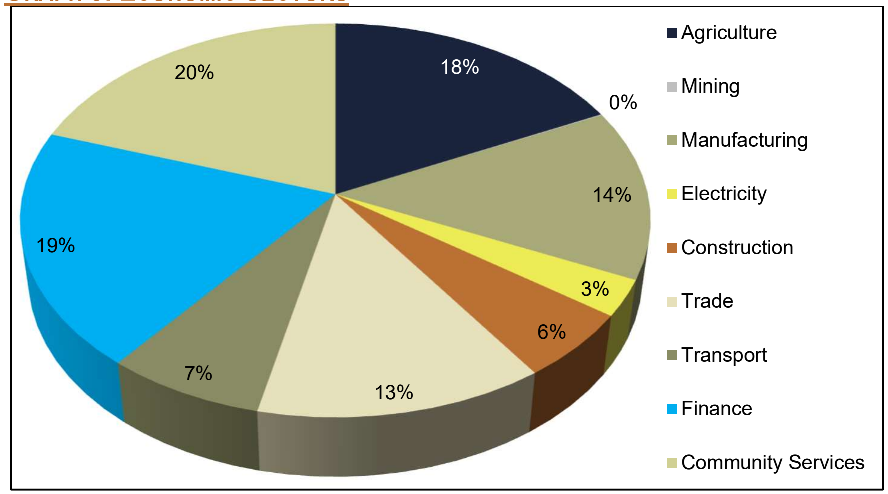
GRAPH 4: UNEMPLOYMENT RATE



Economy

Community services, Finance and Agriculture remained the dominant ***Economic Sectors,*** with Manufacturing and Trade also contributing substantially and combined constitute 84.2% of the output (GVA) in 2020. 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 5: ECONOMIC SECTORS

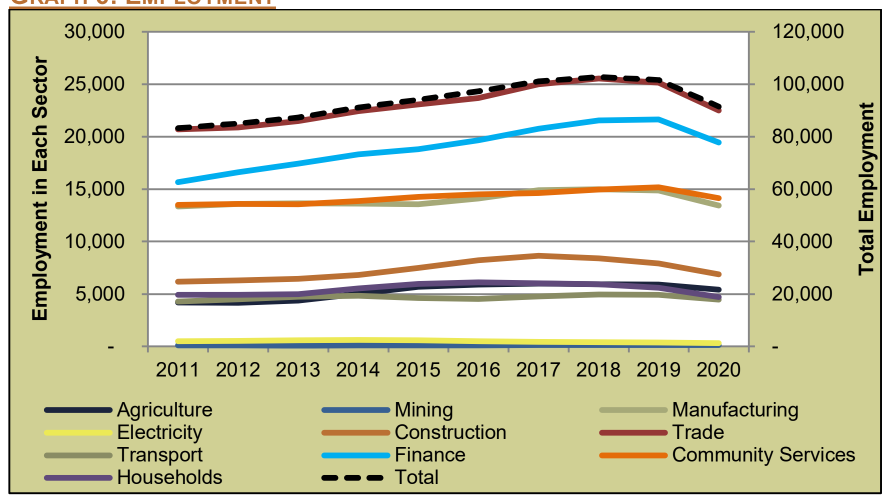


The Trade sector is the largest Employer with 24.6% of Total ***Employment***; with Finance, Community services and Manufacturing contributing 21.3%, 15.5% and 14.7% respectively. Total employment reflects a significant improvement since 2011, though quite a sharp decline from 2019 to 2020, which can be ascribed to the effects of the Covid-19 pandemic. At the end of 2020 the officially registered workers in the Overberg DM came to 91.435 people.

TABLE 1: PROPORTIONAL GROWTH: ECONOMIC SECTORS CONTRIBUTION TO GVA

Subsector	2011	2020
Agriculture	15.2%	17.8%
Mining	0.1%	0.1%
Manufacturing	16.1%	14.0%
Electricity	3.5%	3.0%
Construction	7.2%	5.5%
Trade	14.3%	13.1%
Transport	7.9%	7.2%
Finance	17.3%	19.5%
Community Services	18.4%	19.8%

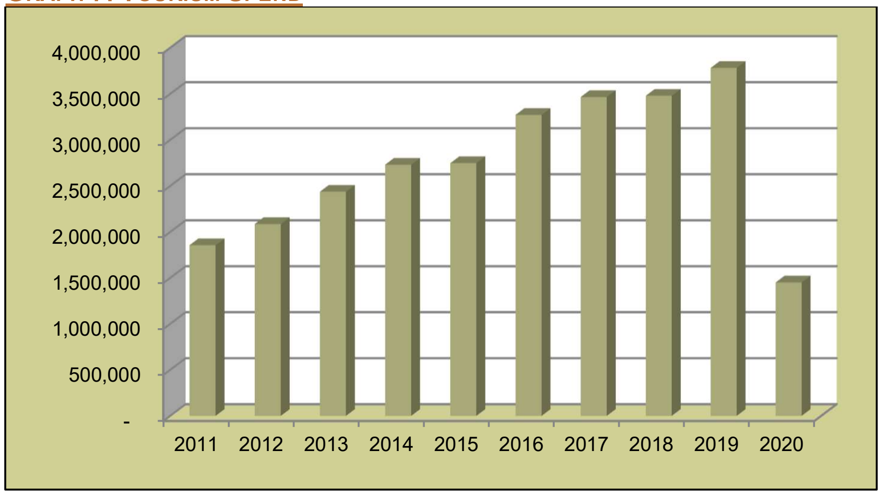
GRAPH 6: EMPLOYMENT



Tourism Spend in 2020 amounted to R 1.45 billion which equates to 5.3% of GVA (Current Prices), compared to 2019 where tourism spend amounted to R 3.78 billion and a contribution to total GVA of 13.7%. The devastating effect that the Covid-19 pandemic had on the economy is evident through the reduction in total contribution to GVA as seen in the tourism sector.

Though given the natural beauty of the Overberg region and its attraction as the most southern part of Africa, the ability of this sector to contribute to the GVA and the number of employment opportunities that it creates is paramount to the sustainability of the economy in Overberg and the importance of this sector needs to be emphasized.

GRAPH 7: TOURISM SPEND



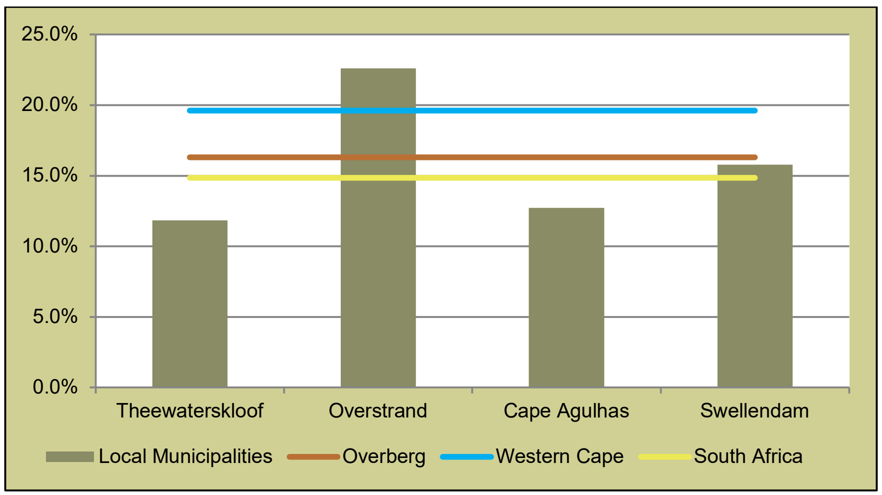
Household Infrastructure

The ***Infrastructure Index*** of 0.89 is equal to the average for the Province (0.89) and higher than the National (0.76) average. Comparing the municipalities within the jurisdiction of Overberg DM, only Theewaterskloof (0.87) was below the district and provincial average.

Overberg's growth in ***Household Formation*** between 2011 and 2020 was 16.3%. Within Overberg DM, Overstrand experienced the highest household formation (22.6%) of all four municipalities. In absolute numbers, the growth of households in Overberg was 12 516 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 environment.

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

Graph 8: Household Formation



Graph 9: Infrastructure Index

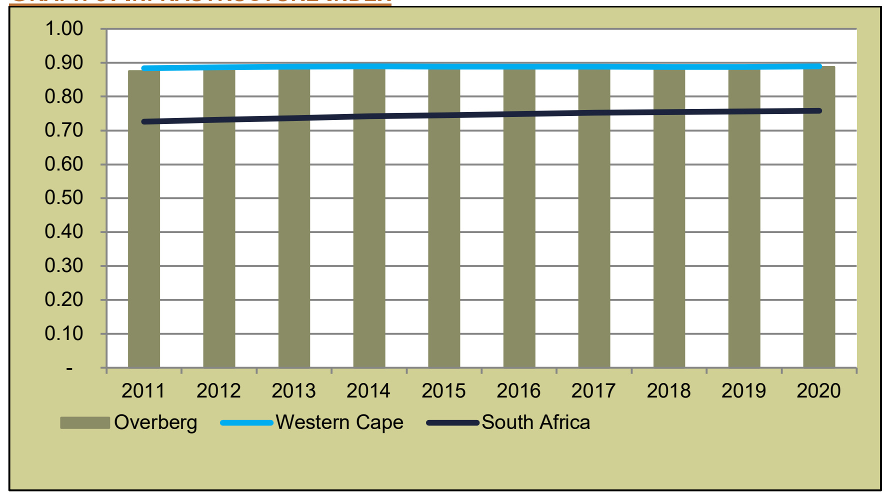


Table 2: Household Infrastructure Provision

Infrastructure	Western Cape		Overberg DM	
Above RDP Level				
Sanitation	1,842,764	95.5%	86,945	97.3%
Water	1,903,811	98.7%	88,074	98.6%
Electricity	1,880,865	97.5%	86,062	96.4%
Refuse Removal	1,704,211	88.3%	78,126	87.5%
Below RDP or None				
Sanitation	86,648	4.5%	2,370	2.7%
Water	25,601	1.3%	1,241	1.4%
Electricity	48,547	2.5%	3,253	3.6%
Refuse Removal	225,201	11.7%	11,189	12.5%
Total Number of Households	**1,929,412**	**100.0%**	**89,314**	**100.0%**

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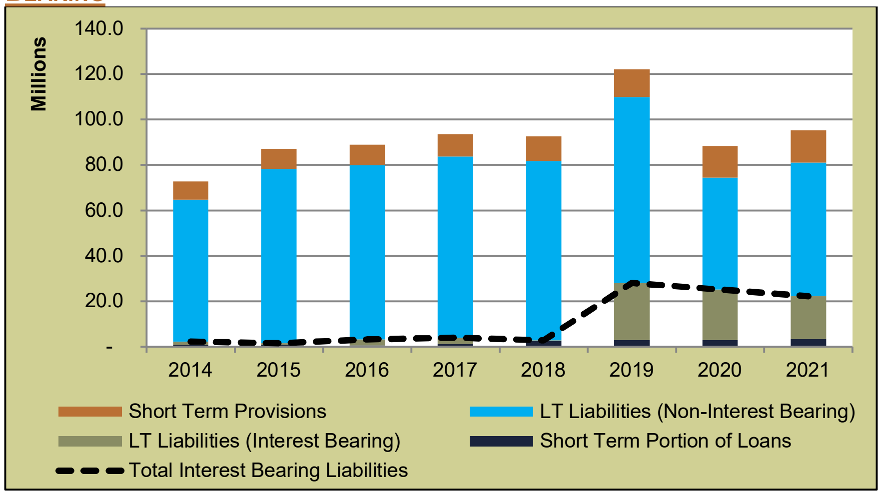
Financial Position

Liability Management

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



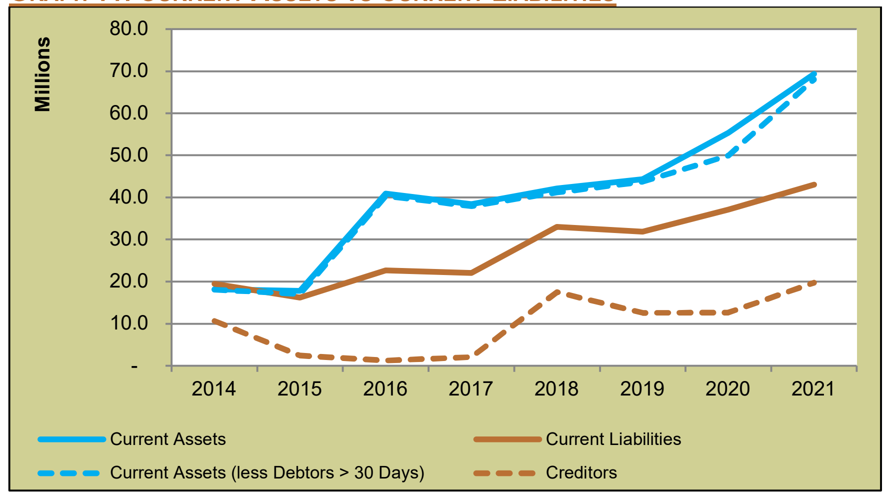
The total interest bearing liabilities remained reasonably low with an increase of R 14.4 million observed over the review period. The increase was driven by external financing being taken up during 2019. Long term loans are fully redeemable as at 30 November 2026.

The gearing ratio from 2014 to 2021, remained very low and came to 9% as at FYE2021. The debt service as a percentage of total operating expenditure (which measures the ability of the municipality to service its debt in relation to total operating requirements) at 2% suggests that the current levels of debt are comfortably affordable to the municipality.

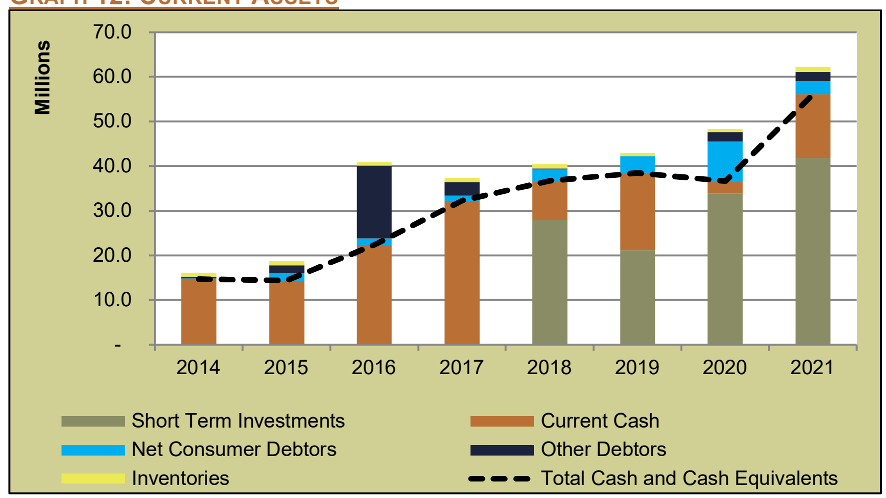
Non-interest bearing liabilities decreased by R 3.74 million (6%) from R 62.5 million at FYE2014 to R 58.8 million at FYE2021. Employee benefits continue to be Overberg's greatest liability of a long-term nature.

Liquidity Management

GRAPH 11: CURRENT ASSETS VS CURRENT LIABILITIES



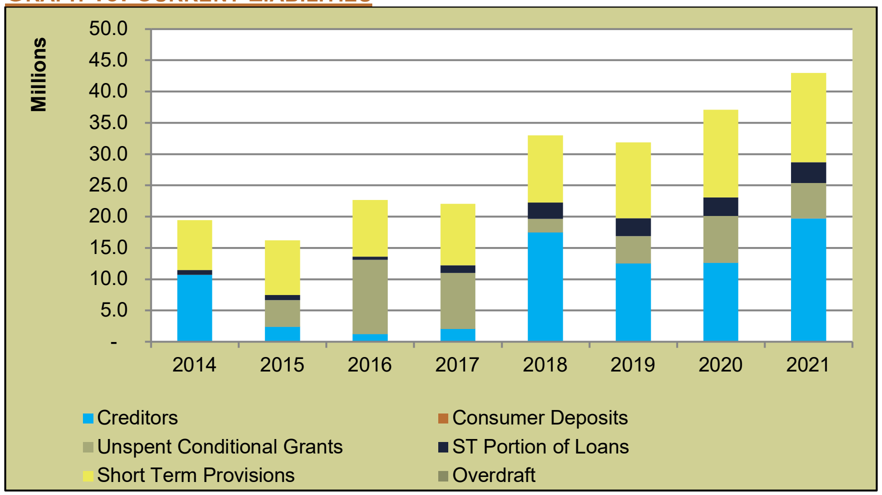
GRAPH 12: CURRENT ASSETS



The liquidity ratio is positive and improved from 0.93 as at FYE2014 to 1.61 as at FYE2021. Should all debtors older than 30 days be excluded, this ratio reflects a healthy 1.58 as at FYE2021, compared to 0.93 as at FYE2014. These noticeable improvements in liquidity resulted from additional cash inflows from increased conditional operating grants from National Treasury for the road maintenance services function that is done under the district jusrisdiction.

Positive to note is that Cash and cash equivalents of R 56.1 million made up 81% of Current Assets at FYE2021.

GRAPH 13: CURRENT LIABILITIES

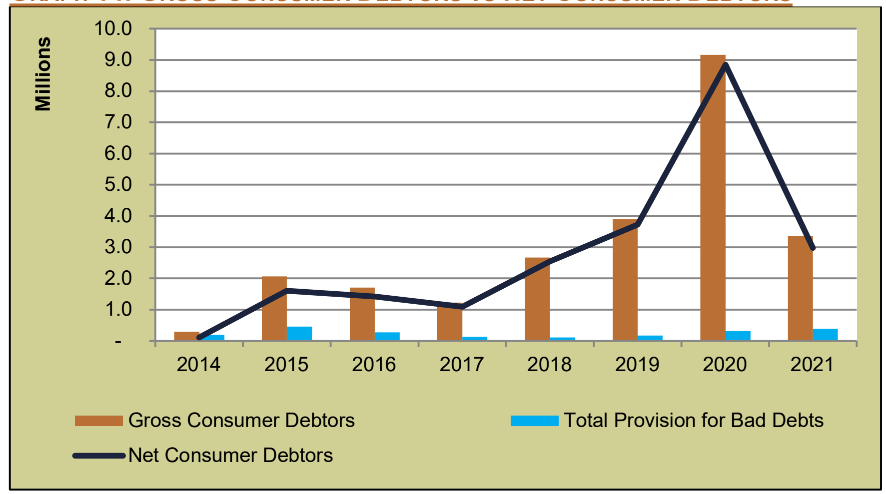


Current Liabilities increased by R 23.5 million over the reporting period, which is considerably less than the increase in current assets, and can be mainly attributed to the increase in creditors of R 9.1 milllion and the increase in Short term provisions of R 6.3 million between FYE2014 and FYE2021.All current liabilities were well managed and reflected a stable trend over the review period.

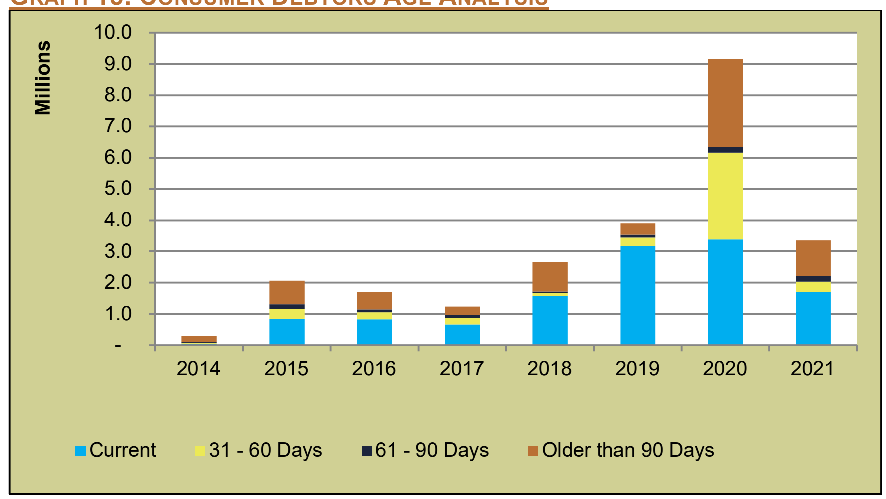
Debtors Management

The Gross Consumer Debtors balance of R 3.36 million at FYE2021 mainly relates to sundry debtors. The trend analysis reflects a stable collection rate averaging 98% between FYE2014 and FYE2021.

GRAPH 14: GROSS CONSUMER DEBTORS VS NET CONSUMER DEBTORS



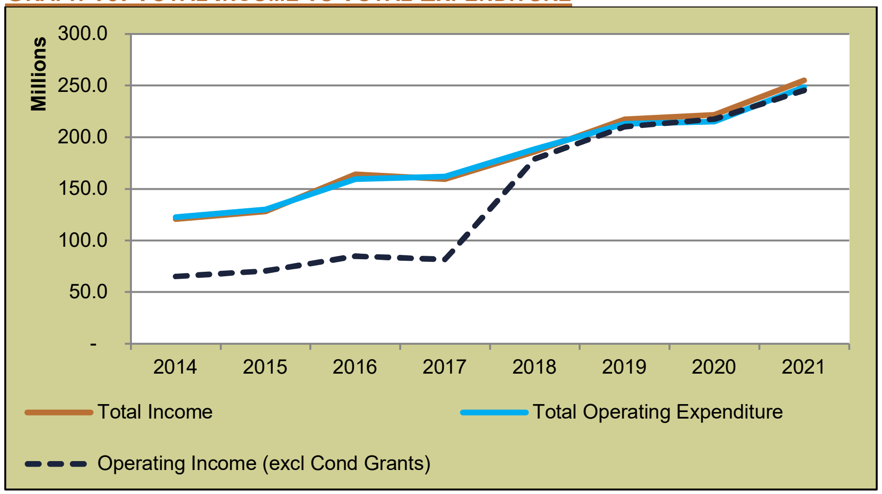
GRAPH 15: CONSUMER DEBTORS AGE ANALYSIS



Financial Performance

Surplus/Deficit

Graph 16: Total Income vs Total Expenditure

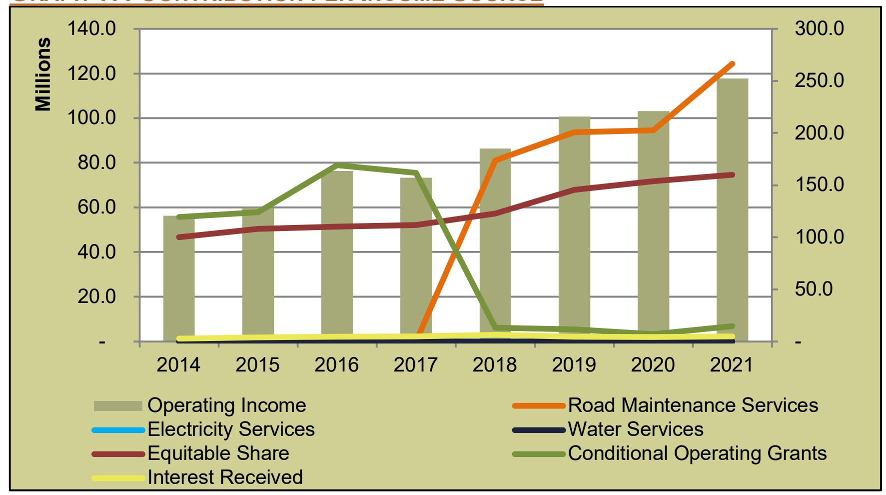


Total operating expenditure increased by R126.03 million or 103% up to FY2021, which is less than the growth in operating income (excluding capital grants) of R131.5 million or 109% in the same period. This had a positive impact on Overberg's profitability and an operating surplus of R6.6 million was recorded for the year. This continues the trend of realising operating surpluses during the previous two years as well.

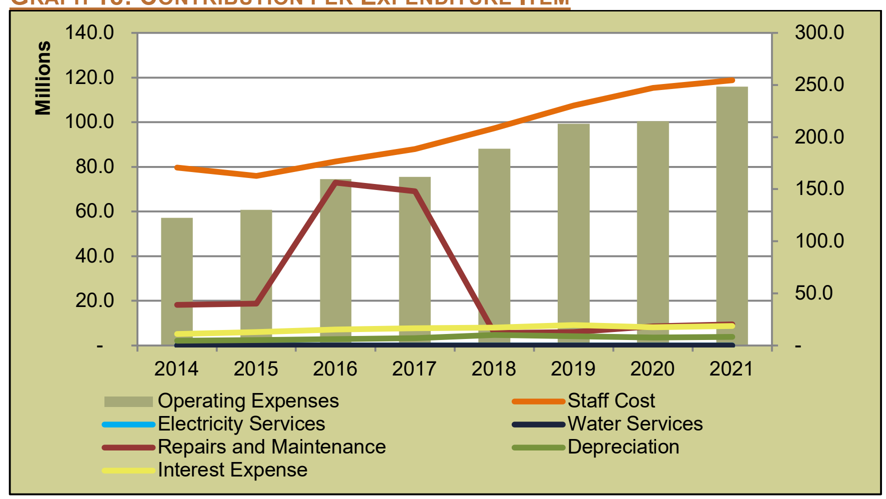
Revenue Management

Total operating income [1](excluding capital grants) for FY2017 was R253 million, compared to R120.8 million in FY2014. Overberg's challenges in terms of generating own revenue remained; with total grants and subsidies constituting the majority of Operating Income. For the purposes of this report, it has to be noted that income received for road maintenance services is indicated separately form other grants, as indicated by graph 18.

Graph 17: Contribution per Income Source



Graph 18: Contribution per Expenditure Item



[1] It has to be noted that operating grants pertaining to road maintenance was not separately disclosed prior to FYE2018, thus the graphical representation might seem skewed, though comments and recommendations are made on the trends observed from 2018 onward.

Expenditure Management

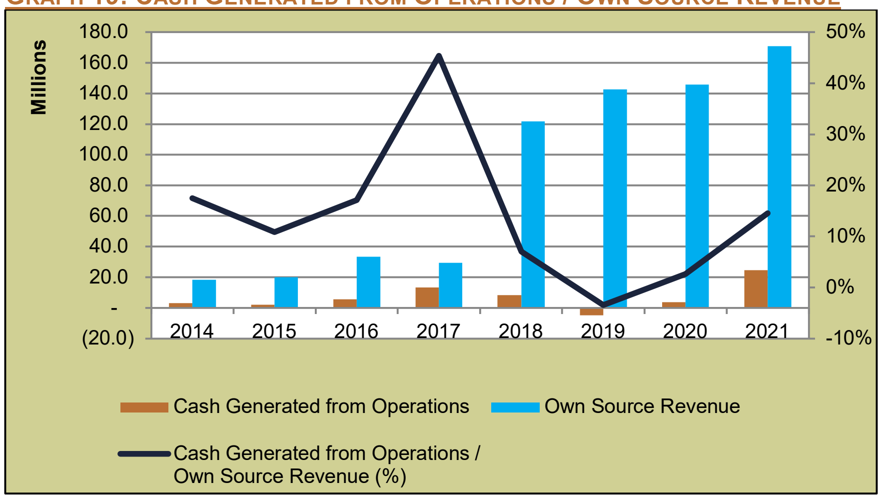
Total operating expenses [2]for FY2021 were R 248.6 million, compared to R 122.5 million in FY2014. Staff cost accounted for 47% of Total operating Expenditure in FYE2021 and averaged 53% over the review period.This is in excess of the NT benchmark of between 25% and 40% of total operating expenditure. Annual increases in staff cost fluctuated between 3% and 11% over the review period.

Cash Flow

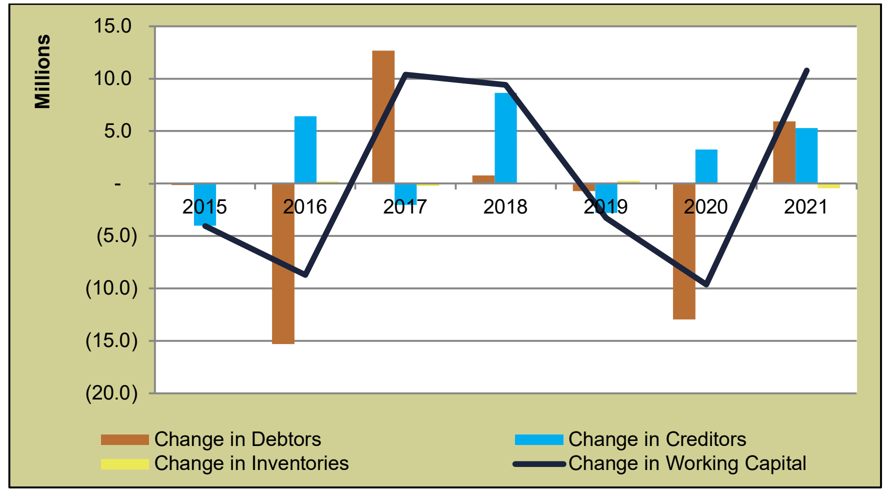
Cash Generated from Operations

Cash generated from operations (excl Capital grants) increased from R 3.2 million in FY2014 to R 24.8 million in FY2021. Own source revenue shows a stable, increasing, trend over the past few years and came to R 170.8 million at FYE2021.

GRAPH 19: CASH GENERATED FROM OPERATIONS / OWN SOURCE REVENUE



GRAPH 20: WORKING CAPITAL

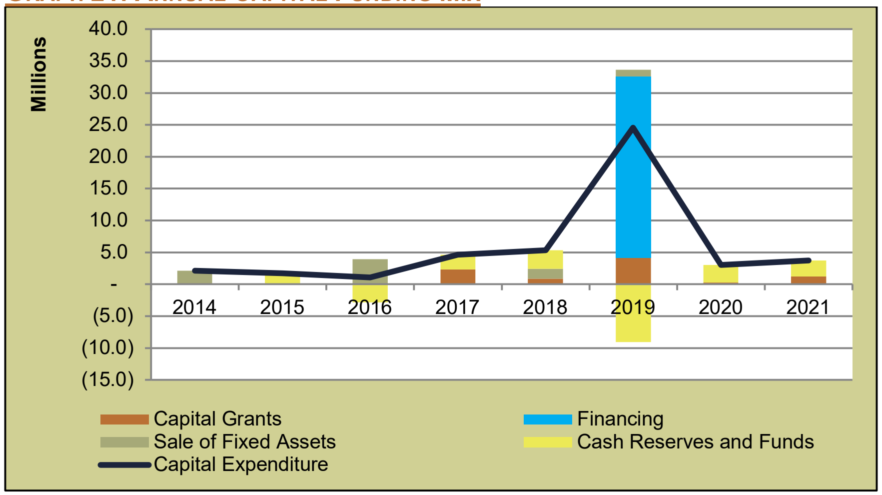


Changes in Working Capital resulted in a positive cash inflow of R 10.8 million in FYE2021 compared to a negative outflow of R 4 million in FYE2015. This is a reflection of good management of debtors and creditors in the current year.

[2] During the review period, GRAP standards pertaining specifically to Repairs & Maintenance as well as employee costs relating to repairs and maintenance were amended to more accurately disclose the actual expenditure incurred on the physical repairs and maintenance performed on assets, thus the graphical representation might seem misleading, though comments and recommendations are made based on trens observed from FYE2018 onward.

Capital Expenditure and Funding Mix

GRAPH 21: ANNUAL CAPITAL FUNDING MIX



The functions of Overberg District Municipality does not necessitate large annual capital investments utilizing own resources. The substantial capital investment in FYE2019 for which external financing was sourced relates to the expanding of the regional land fill site to accommodate the local municipalities over a longer term. There remains other capital asset needs that are of concern currently such as the emergency services and fire fighting assets. It is further important that capital investment should be towards productive assets that can provide the municipality with stable income streams in future or efficiencies that will result in reduction of operational expenditure.

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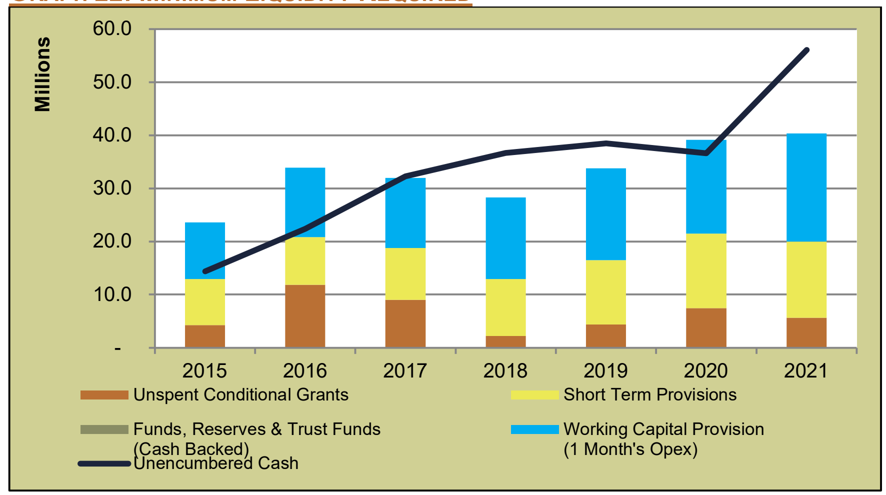
Minimum Liquidity Requirements

GRAPH 22: MINIMUM LIQUIDITY REQUIRED



The ***unencumbered*** cash and cash equivalents of R 56.1 million as at FYE2021 exceeded the minimum liquidity required (including one month's operational expenditure) of R 40.4 million.

This much improved liquidity situation reflects the efforts of the municipality to address the financial position of the municipality by FYE2021, compared to the period between FYE2015 and FYE2017 where minimum liquidity requirements were not met and the liquidity ratio was below the minimum threshold.

TABLE 3: MINIMUM LIQUIDITY LEVELS

	2014	2015	2016	2017	2018	2019	2020	2021
Unspent Conditional Grants	-	4.3	11.8	9.0	2.2	4.3	7.5	5.7
Short Term Provisions	8.0	8.7	9.0	9.8	10.8	12.1	14.0	14.3
Funds, Reserves & Trust Funds (Cash Backed)	-	-	-	-	-	-	-	-
Total	**8.0**	**13.0**	**20.9**	**18.8**	**13.0**	**16.5**	**21.5**	**20.0**
Unencumbered Cash	14.7	14.4	22.4	32.3	36.7	38.4	36.6	56.1
Cash Coverage Ratio (excl Working Capital)	1.8	1.1	1.1	1.7	2.8	2.3	1.7	2.8
Working Capital Provision (1 Month's Opex)	10.0	10.6	13.1	13.2	15.3	17.4	17.6	20.4
Cash Coverage Ratio (incl Working Capital)	0.8	0.6	0.7	1.0	1.3	1.1	0.9	1.4
Minimum Liquidity Required	18.0	23.6	33.9	32.0	28.3	33.8	39.1	40.4
Cash Surplus/(Shortfall)	**(3.3)**	**(9.3)**	**(11.5)**	**0.3**	**8.4**	**4.6**	**(2.5)**	**15.7**

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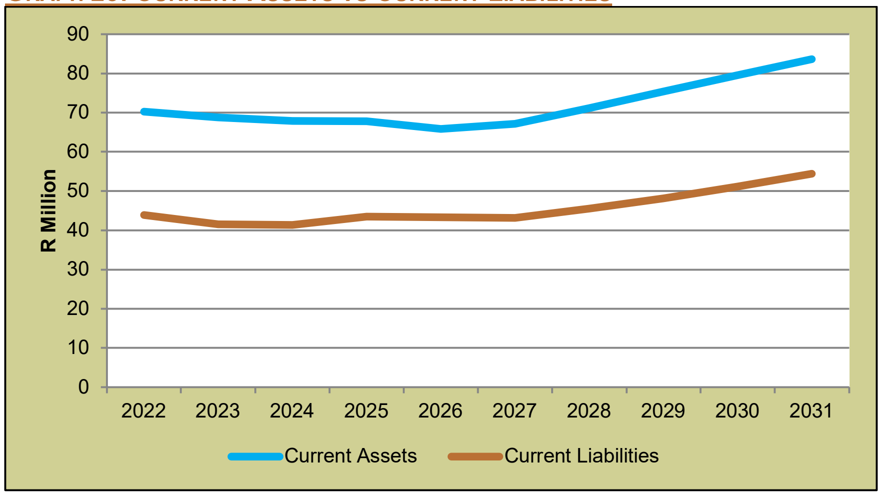
Long Term Financial Model Outcomes

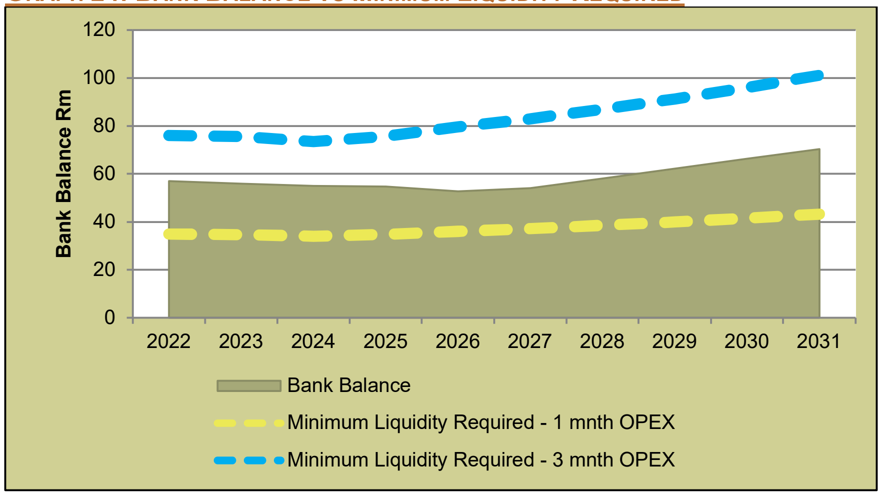
Base Case

Liquidity

Graph 23: Current Assets vs Current Liabilities



Graph 24: Bank Balance vs Minimum Liquidity Required

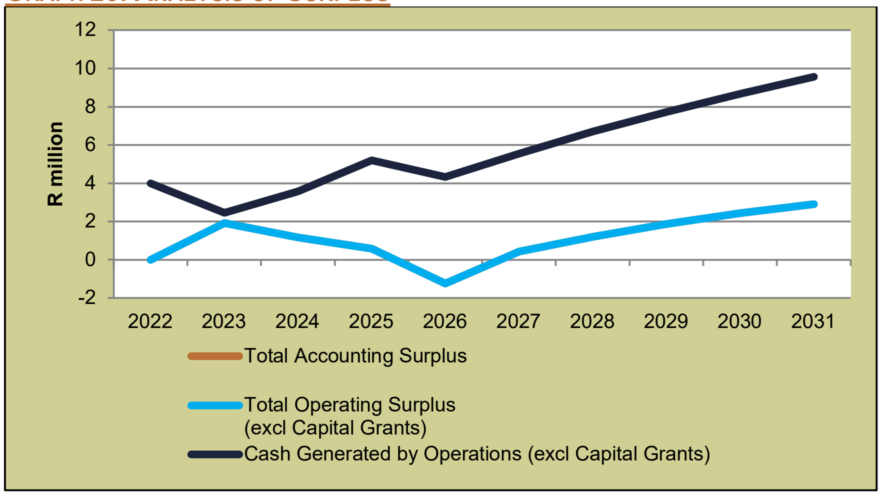


Liquidity is an essential pillar for financial sustainability of any municipality. Overberg DM's current assets is projected to exceed its current liabilities over the next 10 years. Another positive is that the bank balance will be sufficient enough to cover at least on month's operating expenditure throughout the forecast period.

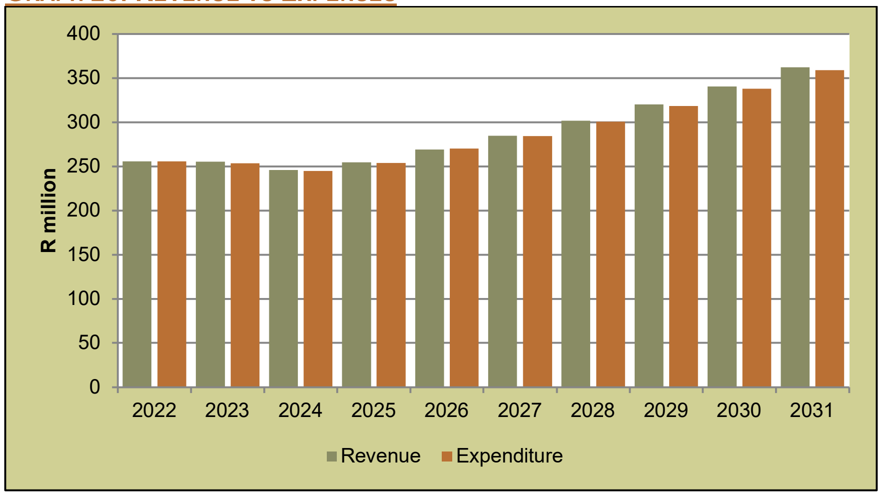
Financial Performance and Ability to Generate Cash from Operations

From the graph below, it is evident that operating surpluses are projected to decline (even over the short-term MTREF period) and cash generated from operations are set to increase.

Graph 25: Analysis of Surplus



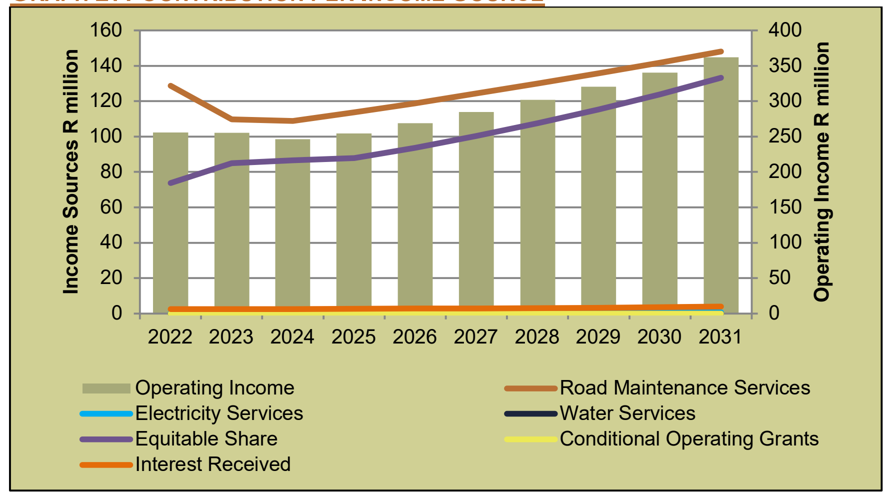
Graph 26: Revenue vs Expenses



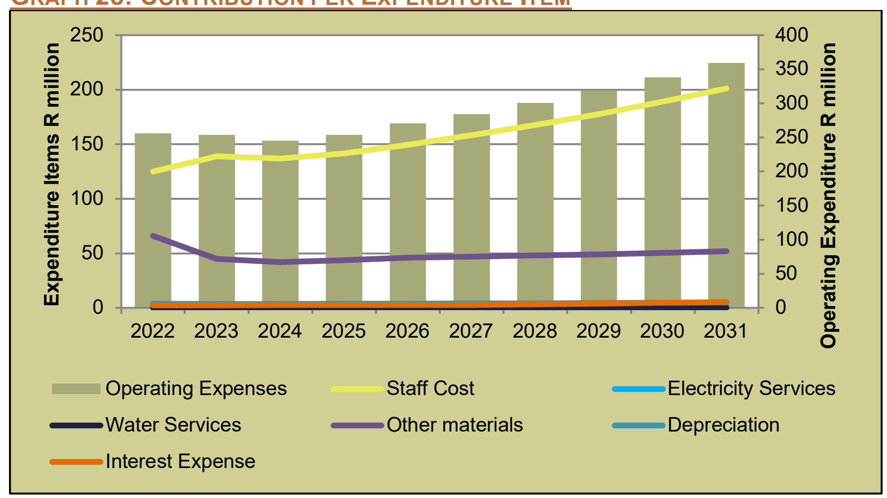
Expenditure is projected to exceed revenue by FY2026 and expectations are that expenses will continue to grow at a faster rate than revenue. There is a need for increases in revenue generating capacity from the municipality's own sources and, in addition, cost saving strategies that will improve the financial performance of the municipality.

Currently only two main sources of operating revenue are noted as being Conditional Operating Grants and Equitable Share. Other revenue is derived from reselling of electricity, 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, such as providing electricity generated by sustainable means, like solar and wind generated electricity. Cost-optimisation strategies and investment that creates efficiencies can also be considered.

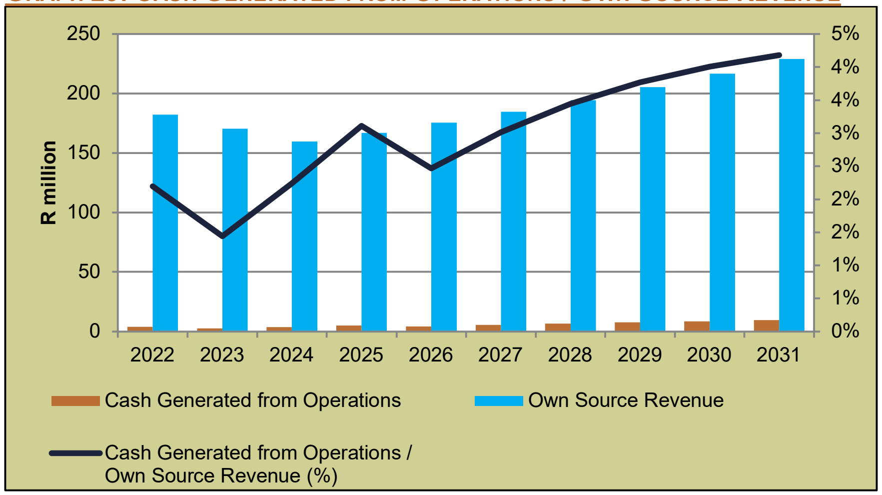
Graph 27: Contribution per Income Source



Graph 28: Contribution per Expenditure Item



GRAPH 29: CASH GENERATED FROM OPERATIONS / OWN SOURCE REVENUE



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Capex Affordability and Funding

Affordable Capital Expenditure

Capital investment will depend on the strategies pursued by Overberg DM.

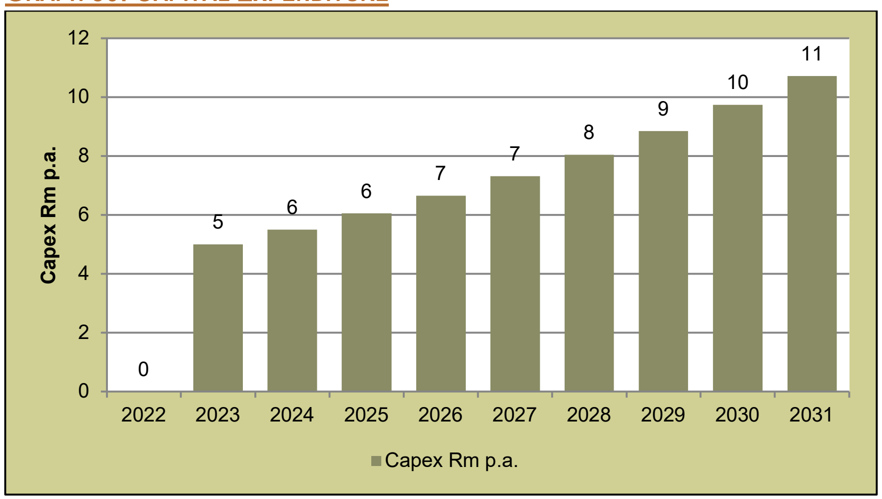
There is a need to invest in firefighting fleet and equipment, and also in the maintenance, replacement and renewal of the other assets of the muncipality. This may result in the investment of smaller amounts annually.

There is, however, also the potential to make a once off investment in a specific capital project/programme to produce future economic benefit in the form of additional annual revenues and/or annual savings on operational expenditure.

Below is the outcomes of an annual capital investment programme for replacement and maintenance. The outcomes of a once-off capital outlay is presented as Scenario 3, later in this report.

The municipality may also wish to implement a hybrid approach, satisfying both requirements.

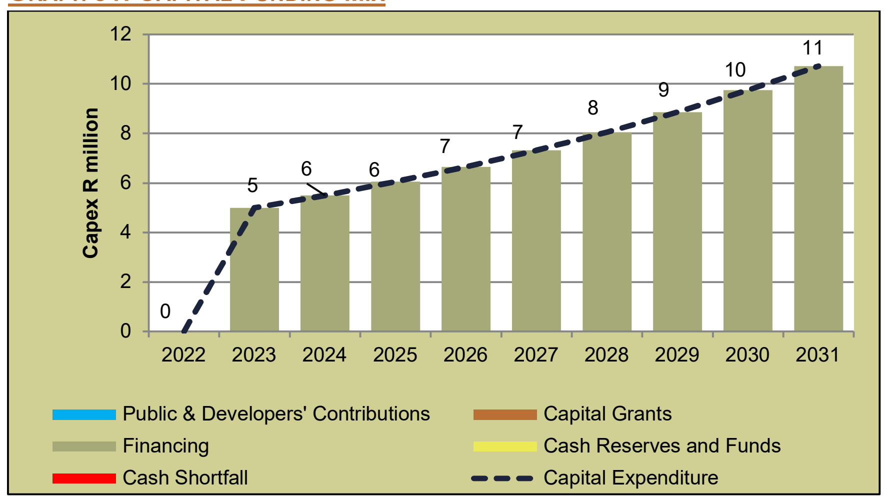
Graph 30: Capital Expenditure



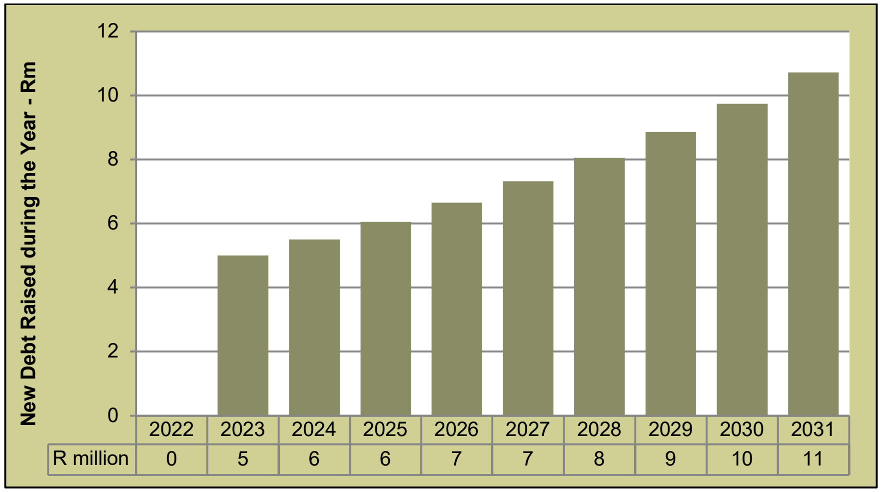
Affordable capital expenditure is estimated at R68 million over the planning period. A balanced, sustainable funding mix, in light of the operational challenges faced by Overberg DM mentioned before, can be achieved as follows:

Source of Funds	10-Year Amount Rm	%
Public & Developers' Contributions	0	0%
Capital Grants	0	0%
Financing	68	100%
Cash Reserves and Funds	0	0%
Cash Shortfall	0	0%
TOTAL	**68**	**100%**

Graph 31: Capital Funding Mix

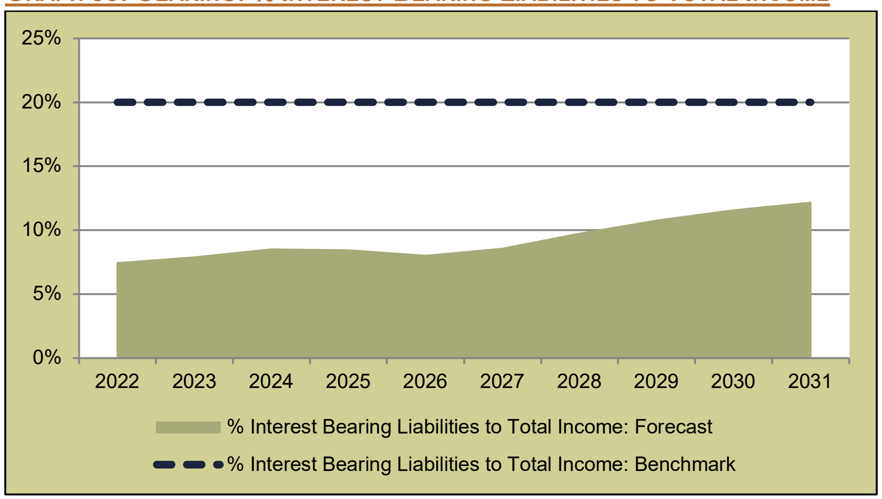


GRAPH 32: NEW LOANS RAISED

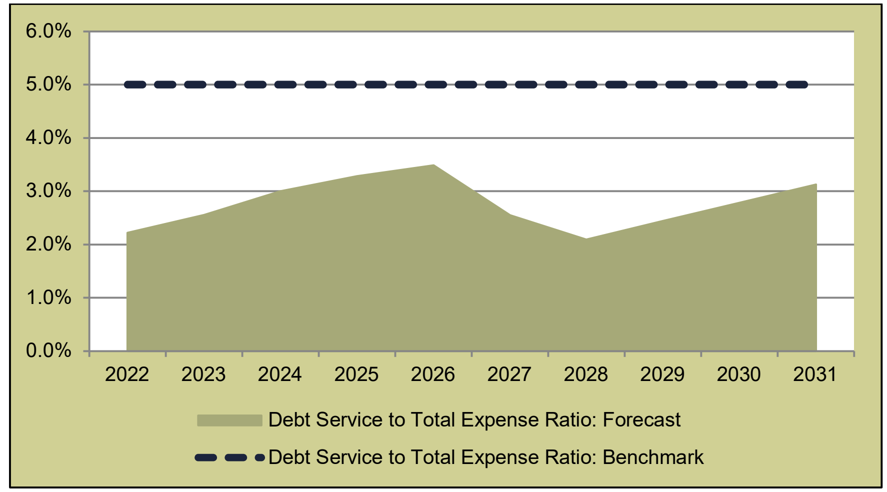


At this level of external borrowing ODM remains well within its recommended gearing ratio norm of 20% and its debt service to total expense ratio never exceeds 5% during the planning period.

GRAPH 33: GEARING: % INTEREST BEARING LIABILITIES TO TOTAL INCOME



GRAPH 34: DEBT SERVICE TO TOTAL EXPENSE RATIO



1	Planning Process
2	Updated Perspectives (Demographic, Economic, Household Infrastructure)
3	Updated Historic Financial Assessment
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6	**Scenario Analysis**
7	Ratio Analysis
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Scenario Analysis

Three different scenarios were analysed:

- The ***Base Case*** scenario represents the most likely and anticipated outcome, and is conservative as it stands in terms of risk;
- Against this base case ***Upside Scenarios*** was tested, to represent the effect on liquidity, should the municipality manage the following:
    a. Manage to reduce the operating expenditure,
    b. Increase the rental of facilities by 50%
    c. Take up a lump sum through external financing in FYE2024 for a focussed capital investment program.

Considering our analysis of the proposed MTREF budget and the increased liquidity risk identified as part of this update, the following scenarios were run to indicate the potential outcomes, to assist the municipality in its strategic decision-making and to serve as an input to the adjustment budget for FY2022 and the original budget for FY2023:

To indicate the effect of the reduction in operating expenditure on long-term financial sustainability:

i. A scenario where a saving in annual operating expenditure of R 10 million over the MTREF period was assumed from the MTREF scenario.[Scenario 1: Reduced Operating Expenditure]

To indicate the effect that an increase in operating revenue could have on long-term financial sustainability:

ii. A scenario where the income from rental properties were increased by 50% annually during the MTREF period was run, to indicate what opportunities there could be to increase operating revenue [Scenario 2: Rental income]

To indicate the effect that one large loan amount for a focused period of capital investment could have on long-term financial sustainability:

iii. A scenario was modelled where one lump sum of external funding was obtained for a focused capital investment project [Scenario 3: Lump sum loan]

Scenario 1: Reduced Operating Expenditure

Building on the base case, the graphical representation of the impact of an annual saving of R 10 million in operating expenditure over the MTREF period alone can be seen below.

Operating expenditure is budgeted to be approx. R 250 million annually, thus a R 10 million reduction equates to a saving of 4%. Should this be achieved the result is that three months' operating expenditure cover is reached by as early as FYE2024.

The total bank balance at the end of the forecast period is projected to be in excess of R 200 million. This should enable the municipality to have sufficient resources to create additional sustainable revenue sources through investments, that will significantly improve the financially sustainability of the municpality.

An alternative is to invest excess liquidity in productive assets that will result in future economic benefit to the municipality.

SCENARIO 2: REDUCED OPERATING EXPENDITURE

Buidling on the base case, the graphical representation of the impact of increasing rental income by 50% annually over the MTREF period, can be seen below.

Currently there is a land analysis taking place to determine exactly which assets are available to the municipality to utilize. A sale of some of the land assets recently, was noted. It is important that any sale of land be invested in long-term assets and not utilised for operational purposes, thereby maintaining the asset base of the municipality form which it can extract future revenues..

The sweating of these assets may well result in increased rental income, for example. A level of rental income is included in the MTREF for 20218/22-2023/24. Should income from this source be increased by 50% annually over the MTREF period our modelling suggests that coverage of three months' operating expenditure will be achieved by FYE2026 and that the bank balance at the end op the forecast period will be close to of R 160 million.

The excess funding should be utilized to ensure long-term financial and operational sustainability for the municipality through exploring different strategies as suggested in scenario 1.

SCENARIO 3: LUMP SUM EXTERNAL CAPITAL FUNDING

In the base case it was assumed that the municipality could utilize sustainable practices of borrowing funds for capital investment for maintenance, renewal and upgrading of asset purposes. This external funding was projected to not exceed 10% gearing and 4% debt service to expenses. Capital expenditure will then be incurred annually and will be financed through annual borrowing

In this scenario however, it is assumed that once-off external funding will be utilised, in FYE2024, to the amount of R 40 million, whilst a focussed capital investment program of R 40 million will also be introduced in FYE2024.

This scenario was included to indicate the option of bulk investment in productive assets with the mian focus of generating future economic benefit and the extent to which such an investment can be financed through external borrowing in a financially sustainable manner.

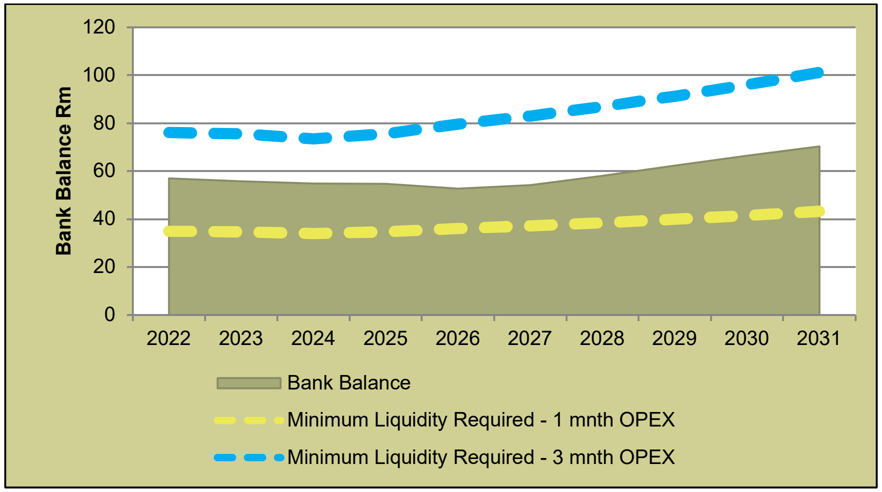
Should a R 40 million capital investment program be entered into and funded externally through a loan, with a 15-year loan tenor, gearing will increase in FYE2024 to 20% whereafter it will reduce to below 10% by FYE 2029 and continue to decline.

Debt service as a percentage of total operating expenditure will increase to 4.5% in FYE2024 and decrease annually to reach 1.5% by FYE2029 and continue to decrease.

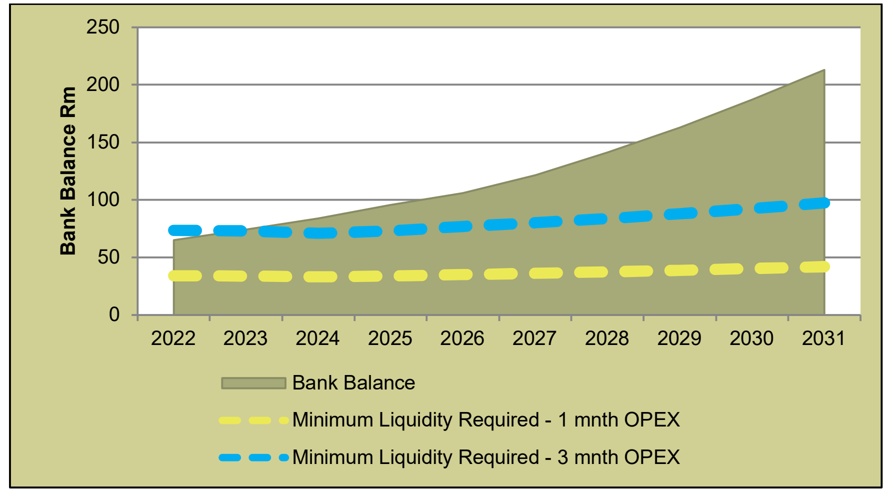
Throughout the entire scenario forecast period, the bank balance remains above minimum liquidity requirements. The impact of the investment was not included for this purpose and any additional revenue generated or cost-efficiencies that materialise from such investment will significantly improve the financial performance and financial position of the municipality.

Scnario 1: Reduced Operating expenditure

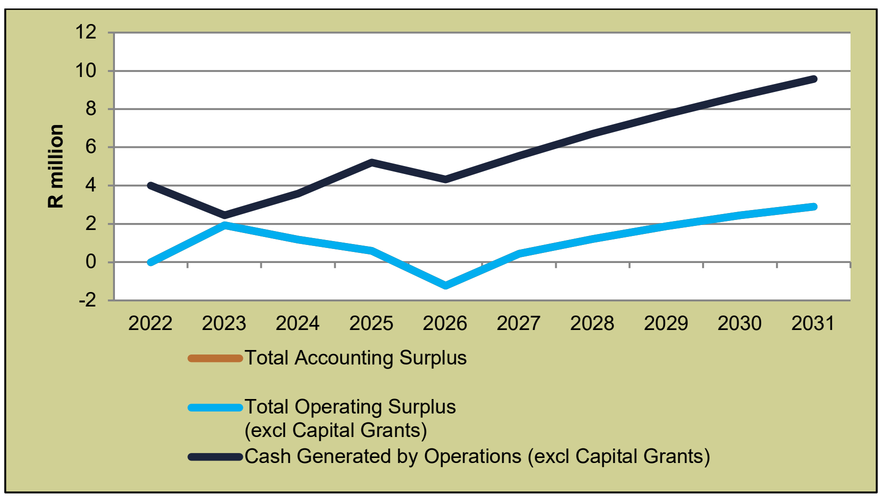
Base case: Bank Balance



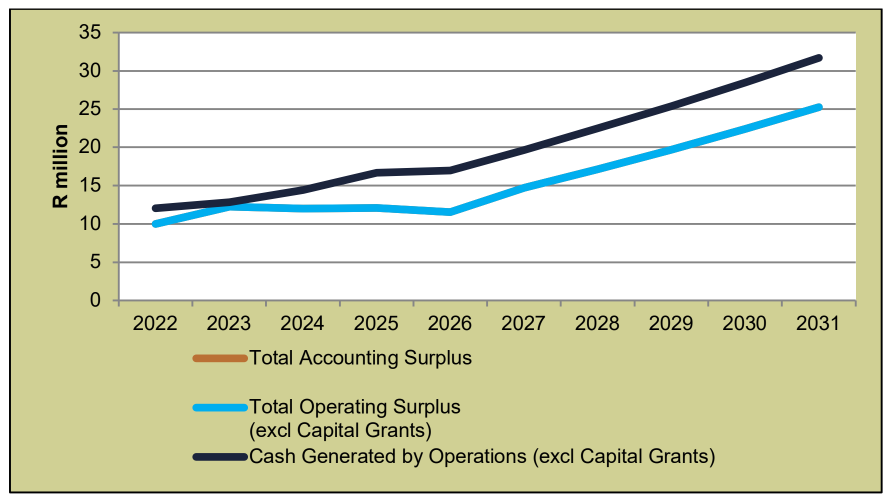
Reduced Operating Expenditure: Bank Balance



Base Case: Analysis of surplus

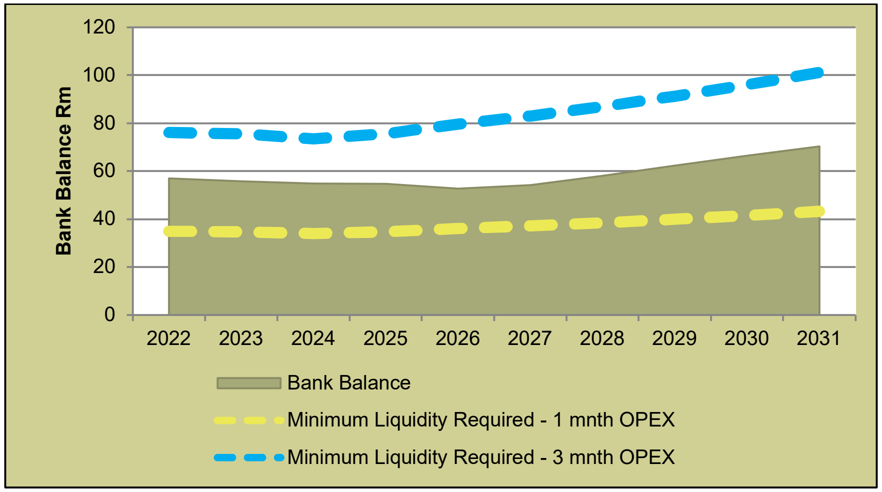


Reduced Operating Expenditure: Analysis of Surplus

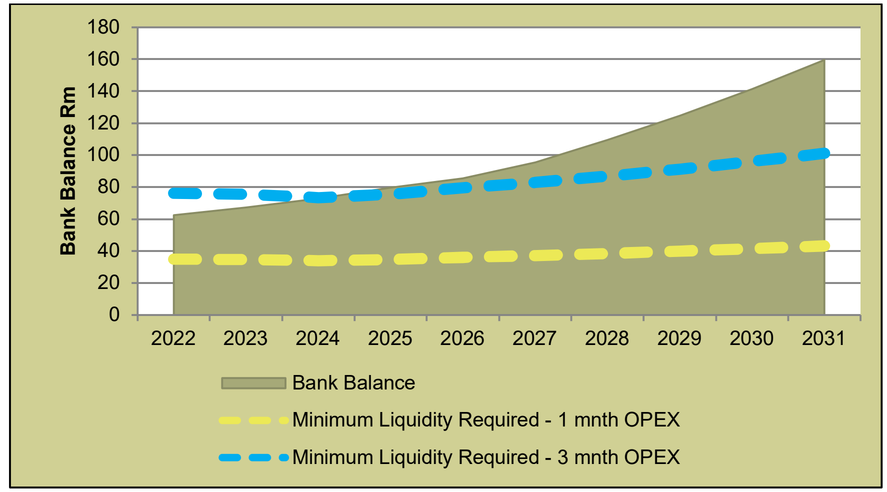


Scenario 2: Increase Rental

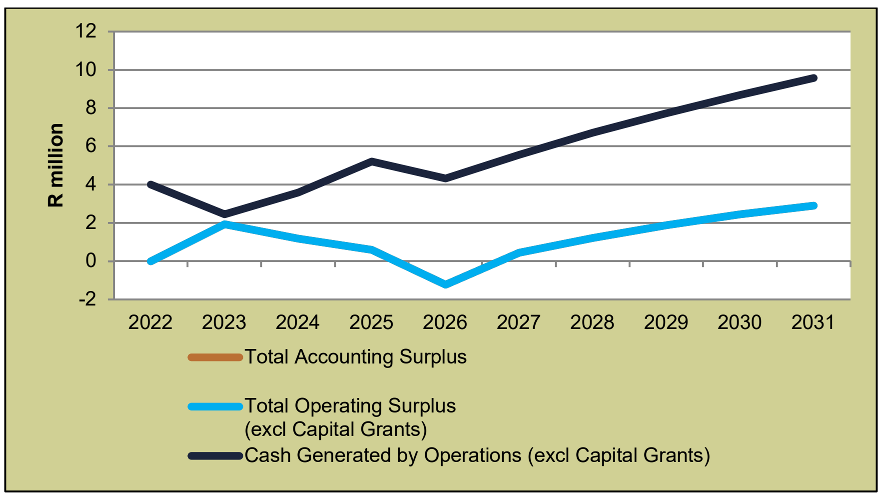
Base case: Bank Balance



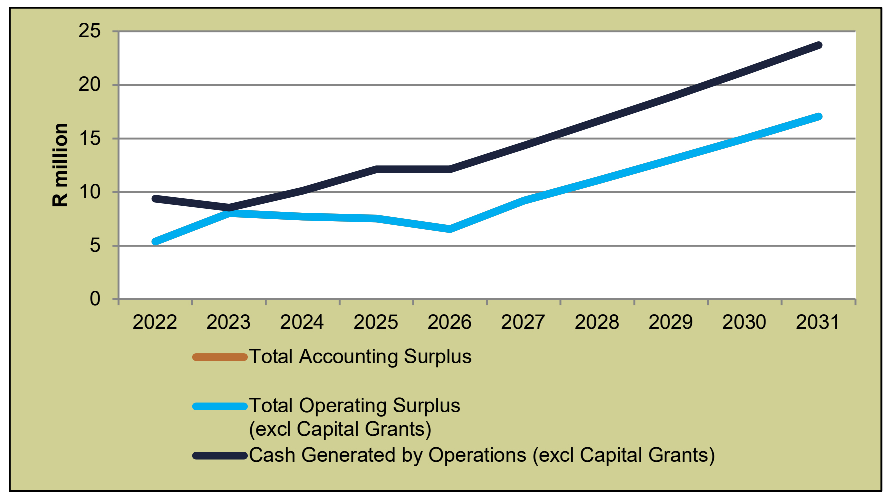
Increase Rental: Bank Balance



Base Case: Analysis of surplus

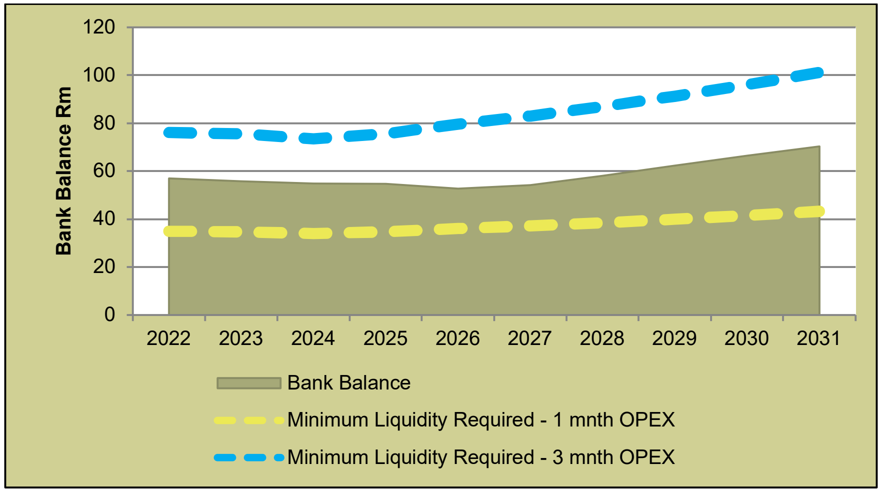


Increase Rental: Analysis of surplus

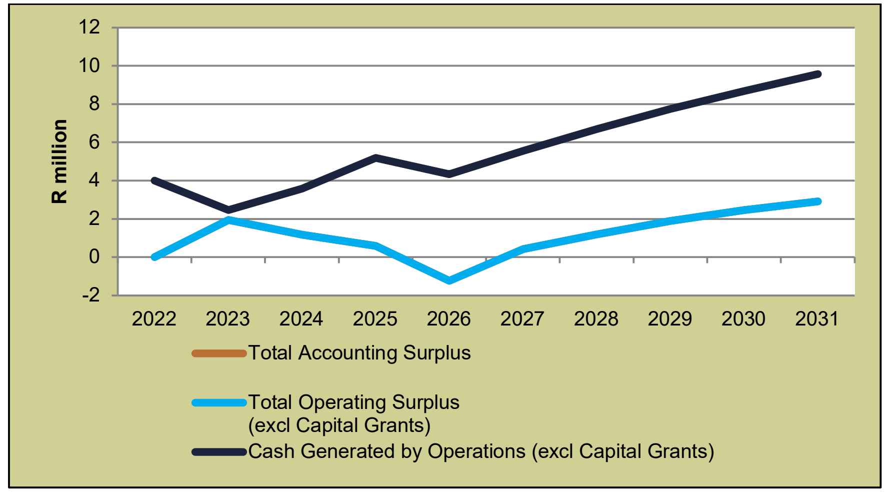


Scenario 3: Lump Sum Loan

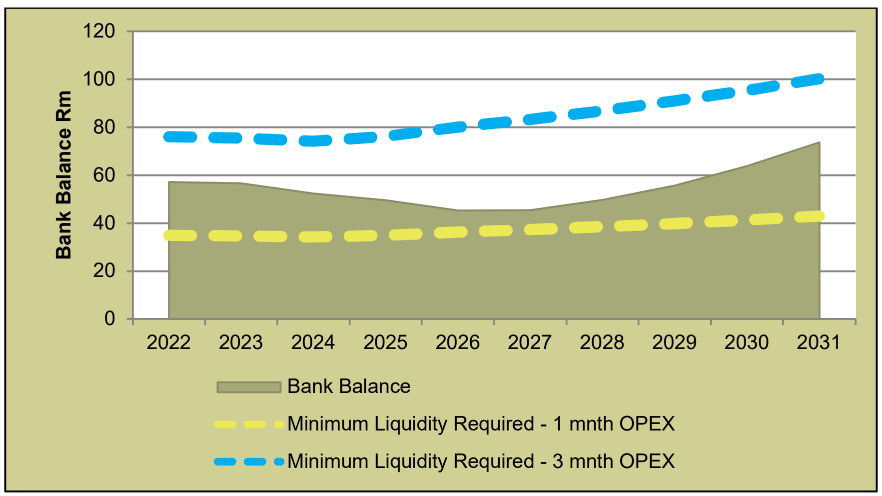
Base case: Bank Balance



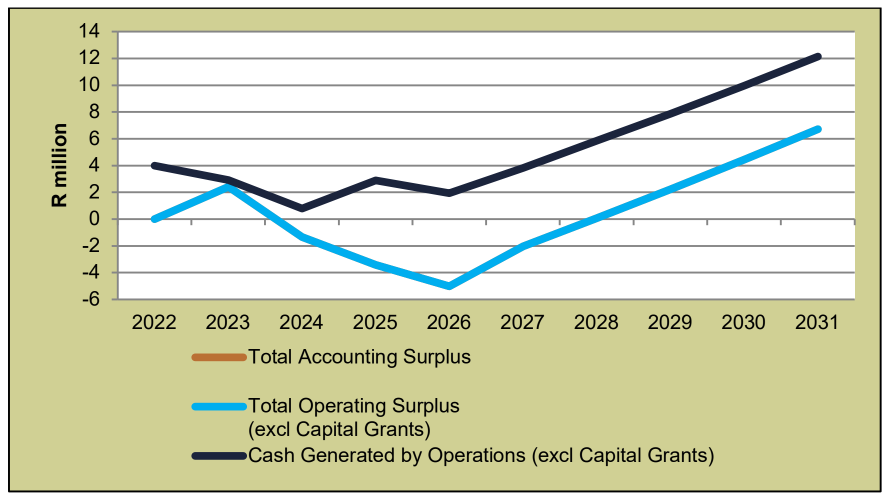
Base Case: Analysis of surplus



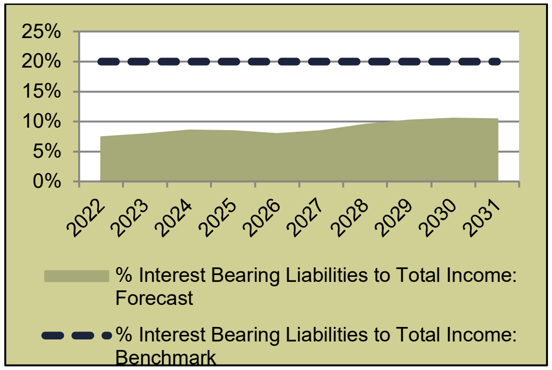
Lump Sum: Bank Balance



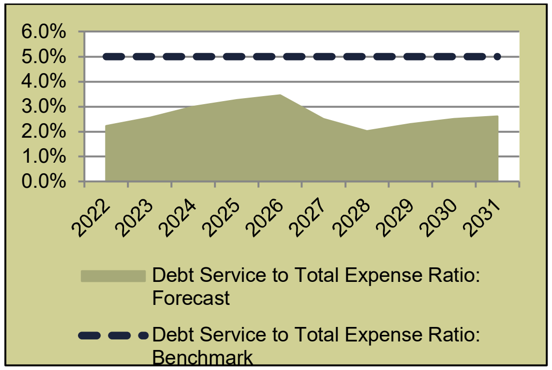
Lump Sum Loan: Analysis of surplus



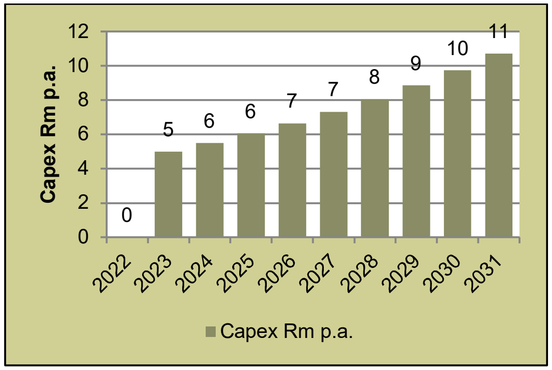
Base case: Gearing



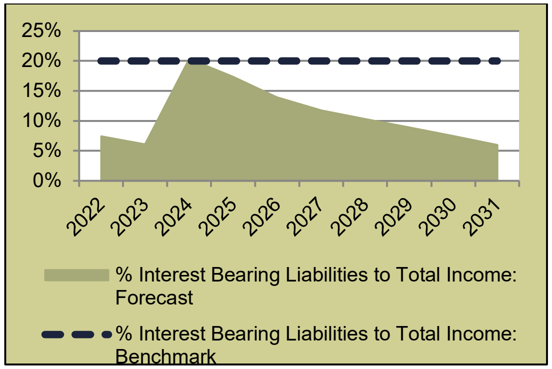
Base Case: Debt Service to Total Expense



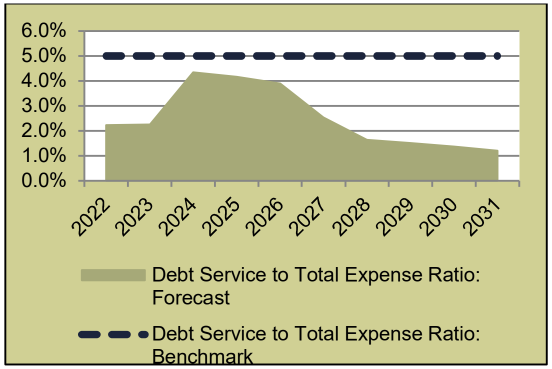
Base Case: Capital Expenditure



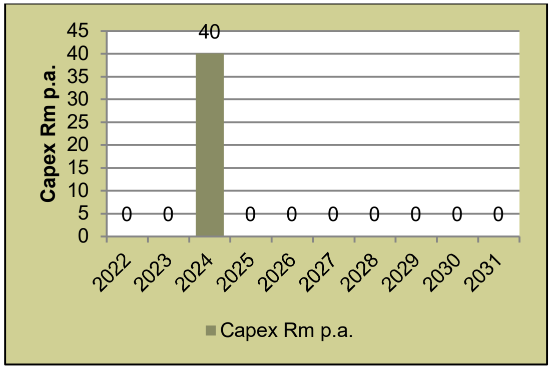
Lump Sum: Gearing



Lump Sum: Debt Service to Total Expense



Lump Sum: Capital Expenditure



1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

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Ratio Analysis

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

		N.T. NORM	2021	1 2022	2 2023	3 2024	4 2025	5 2026	6 2027	7 2028	8 2029	9 2030	10 2031
FINANCIAL POSITION													
ASSET MANAGEMENT													
R29	Capital Expenditure / Total Expenditure	10% - 20%		0.0%	1.9%	2.2%	2.3%	2.4%	2.5%	2.5%	2.5%	2.5%	2.4%
R27	Repairs and Maintenance as % of PPE and Investment Property	8%	11.7 %	0.0%	0.0%	0.0%	8.4%	7.6%	6.8%	6.9%	6.9%	7.0%	7.0%
DEBTORS MANAGEMENT													
R4	Gross Consumer Debtors Growth			40.0%	24.1%	19.0%	16.6%	14.8%	13.6%	12.7%	12.3%	12.5%	13.3%
R5	Payment Ratio / Collection Rate	95%		99.1%	99.1%	99.1%	99.1%	99.1%	99.1%	99.1%	99.1%	99.1%	99.1%
	Net Debtors Days	30		7	7	8	8	8	7	7	6	6	5
LIQUIDITY MANAGEMENT													
R49	Cash Coverage Ratio (excl Working Capital)			4 : 1	3.9 : 1	3.8 : 1	3.8 : 1	3.7 : 1	3.8 : 1	4 : 1	4.3 : 1	4.5 : 1	4.7 : 1
R50	Cash Coverage Ratio (incl Working Capital)			1.6 : 1	1.6 : 1	1.6 : 1	1.6 : 1	1.4 : 1	1.4 : 1	1.5 : 1	1.5 : 1	1.4 : 1	1.4 : 1
R51	Cash Surplus / Shortfall on Minimum Liquidity Requirements			R 21.9 m	R 20.8 m	R 20.6 m	R 19.7 m	R 16.2 m	R 16.1 m	R 18.0 m	R 19.5 m	R 19.7 m	R 17.4 m
R1	Liquidity Ratio (Current Assets : Current Liabilities)	1.5 - 2.0 : 1	1.6 : 1	1.6 : 1	1.7 : 1	1.6 : 1	1.6 : 1	1.5 : 1	1.5 : 1	1.5 : 1	1.4 : 1	1.3 : 1	1.2 : 1
LIABILITY MANAGEMENT													
R45	Debt Service as % of Total Operating Expenditure	6% - 8%		2.2%	2.6%	3.0%	3.3%	3.4%	2.5%	2.0%	2.3%	2.5%	2.6%

R6	Total Debt (Borrowings) / Operating Revenue	45%	8.8%	7.4%	7.9%	8.5%	8.4%	7.9%	8.4%	9.4%	10.2%	10.5%	10.4%
R7	Repayment Capacity Ratio		8.58	12.51	-142.51	22.36	8.87	14.91	9.01	9.17	10.29	12.39	17.45
R46	Debt Service Cover Ratio (Cash Generated by Operations / Debt Service)			0.7 : 1	0.4 : 1	0.5 : 1	0.6 : 1	0.5 : 1	0.8 : 1	1 : 1	0.9 : 1	0.8 : 1	0.7 : 1
SUSTAINABILITY													
	Net Financial Liabilities Ratio	< 60%	20.4 %	18.6%	18.4%	19.3%	19.4%	19.8%	19.8%	19.6%	19.5%	19.6%	19.9%
	Operating Surplus Ratio	0% - 10%	1.8%	0.0%	0.8%	0.4%	0.2%	-0.6%	-0.1%	0.0%	-0.2%	-0.6%	-1.3%
	Asset Sustainability Ratio	> 90%		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FINANCIAL PERFORMANCE													
EFFICIENCY													
R42	Net Operating Surplus / Total Operating Revenue	>= 0%		0.0%	0.8%	0.4%	0.2%	-0.6%	-0.1%	0.0%	-0.2%	-0.6%	-1.3%
R43	Electricity Surplus / Total Electricity Revenue	0% - 15%		-12.8%	-12.8%	-12.8%	-12.8%	-12.8%	-12.8%	-12.8%	-12.8%	-12.8%	-12.8%
R44	Water Surplus / Total Water Revenue	>= 0%		0.9%	1.9%	2.8%	3.7%	4.6%	5.5%	6.4%	7.3%	8.2%	9.0%
REVENUE MANAGEMENT													
R8	Increase in Billed Income p.a. (R'm)			R 0.8 m	-R 17.3 m	R 0.4 m	R 6.4 m	R 8.1 m	R 9.6 m	R 12.1 m	R 16.4 m	R 24.0 m	R 37.6 m
R9	% Increase in Billed Income p.a.	CPI		0.6%	-11.4%	0.3%	4.7%	5.7%	6.4%	7.6%	9.6%	12.8%	17.8%
R12	Operating Revenue Growth %	CPI		1.4%	-0.2%	-3.4%	3.7%	6.2%	6.7%	7.5%	8.7%	10.5%	13.5%
R14	Contribution per Income Source: Equitable Share			28.8%	33.3%	35.1%	34.3%	34.5%	34.6%	34.5%	34.1%	33.1%	31.4%
R15	Contribution per Income Source: Conditional Operating Grants			0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
R16	Contribution per Income Source: Property Rates		49.3 %	50.3%	42.9%	44.1%	44.5%	43.8%	42.9%	41.7%	40.1%	37.9%	34.9%
R17	Contribution per Income Source: Electricity Services		0.0%	0.1%	0.2%	0.4%	0.6%	1.1%	1.9%	3.2%	5.5%	9.1%	14.8%

R18	Contribution per Income Source: Water Services		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
R19	Contribution per Income Source: Interest on Investments		0.9%	0.9%	1.0%	1.0%	1.1%	1.0%	1.0%	1.0%	1.0%	1.0%	0.9%
R20	Annual Increase per Income Source: Equitable Share			-1.3%	15.3%	1.8%	1.5%	6.8%	6.9%	7.1%	7.3%	7.4%	7.6%
R21	Annual Increase per Income Source: Property Rates			3.4%	-14.8%	-0.7%	4.6%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
R22	Annual Increase per Income Source: Electricity Services			#DIV/0!	89.2%	86.1%	84.9%	83.7%	83.2%	83.5%	83.8%	84.1%	84.3%
R23	Annual Increase per Income Source: Water Services			#DIV/0!	7.0%	7.1%	7.5%	7.8%	7.9%	8.1%	8.3%	8.4%	8.6%
R24	Annual Increase per Income Source: Interest on Investments			5.4%	4.1%	0.1%	9.5%	2.8%	-0.6%	5.6%	10.2%	9.3%	7.6%
R47	Cash Generated by Operations / Own Revenue			2.2%	1.4%	2.3%	3.1%	2.4%	2.9%	3.2%	3.3%	3.1%	2.7%
R48	Cash Generated by Operations / Total Operating Revenue			1.6%	1.0%	1.5%	2.0%	1.6%	1.9%	2.1%	2.1%	2.1%	1.8%
EXPENDITURE MANAGEMENT													
	Creditors Payment Period	30		76	73	74	74	75	75	75	76	76	76
R30	Contribution per Expenditure Item: Staff Cost (Salaries, Wages and Allowances)	25% - 40%		48.7%	53.7%	54.5%	54.1%	53.4%	53.2%	52.4%	51.1%	49.0%	45.6%
	Contribution per Expenditure Item: Contracted Services	2% - 5%		8.9%	10.6%	9.2%	9.1%	9.7%	9.7%	9.6%	9.5%	9.2%	8.6%
R31	Contribution per Expenditure Item: Electricity Services			0.1%	0.2%	0.4%	0.7%	1.2%	2.1%	3.6%	6.0%	10.0%	16.1%
R32	Contribution per Expenditure Item: Water Services			0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
R33	Contribution per Expenditure Item: Repairs & Maintenance			0.0%	0.0%	0.0%	2.6%	2.3%	2.0%	2.0%	1.9%	1.8%	1.7%
R34	Contribution per Expenditure Item: Depreciation and Asset Impairment			1.5%	1.4%	1.5%	1.5%	1.4%	1.4%	1.3%	1.3%	1.2%	1.1%
R35	Contribution per Expenditure Item: External Interest Charged			1.0%	1.0%	1.1%	1.1%	1.0%	0.9%	1.0%	1.1%	1.2%	1.2%
R36	Annual Increase per Expenditure Item: Staff Cost (Salaries, Wages and Allowances)			5.0%	11.3%	-1.5%	3.4%	5.6%	5.8%	6.0%	6.1%	6.3%	6.4%

R37	**Annual Increase per Expenditure Item: Electricity Services**			#DIV/0!	89.2%	86.1%	84.9%	83.7%	83.2%	83.5%	83.8%	84.1%	84.3%
R38	**Annual Increase per Expenditure Item: Water Services**			#DIV/0!	6.0%	6.1%	6.5%	6.7%	6.9%	7.1%	7.2%	7.4%	7.5%
R39	**Annual Increase per Expenditure Item: Repairs & Maintenance**			-100.0%	0.0%	0.0%	1712780.4 %	-6.4%	-7.1%	5.1%	5.6%	6.0%	6.5%
R40	**Annual Increase per Expenditure Item: Depreciation**			0.1%	-5.7%	2.2%	2.8%	3.6%	4.1%	4.7%	5.2%	5.7%	6.2%
R41	**Annual Increase per Expenditure Item: External Interest Charged**			-71.3%	4.5%	3.6%	3.6%	2.6%	-3.4%	18.7%	19.6%	17.0%	14.9%
GRANT DEPENDENCY													
R10	**Total Grants / Total Revenue**		0	28.8%	33.3%	35.1%	34.3%	34.5%	34.6%	34.5%	34.1%	33.1%	31.4%
R11	**Own Source Revenue to Total Operating Revenue**		67.7 %	71.2%	66.7%	64.9%	65.7%	65.5%	65.4%	65.5%	65.9%	66.9%	68.6%
	Capital Grants to Total Capital Expenditure			#DIV/0!	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

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Outcomes and Recommendations

Historic financial assessment

Overberg District Municipality is in an improved finanicial position since our last engagement due to focussed efforts to improve the organisation. The liquidity position improved and contined the upward trend, and minimum liquidity requirements have been covered consistently over the last three financial periods.

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 and Agency services. The trend in the Equitable share grant has been fairly steady with annual increases, though the continued support from the national fiscus should not be relied upon as the dominant income source.

Employee related costs continue to constitute more than 50% of Total Expenditure. This is by far the largest operating expense that the municipality has and is in excess of the norms set by National Treasury. A proper review and monitoring of General expenses should also be scrutinized for cost savings.

Overberg DM has improved the relationship between Current Assets and Current Liabilities from FYE2014 to FYE2021. The liquidity ratio, as a result, improved from 0.93:1 to 1.61:1 during this period.

Cash and cash equivalents constitute 81% of Current Assets as at FYE2021. The balance of Unencumbered cash and investments available at year end increased to R56.1m from R14.7m in FYE2014. This means that Overberg DM was able to meet the minimum liquidity requirement of R40.4m.

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 1.61 (above the norm of 1.5:1).
- Ability to generate cash from operations.
- Improvements in cash coverage ratio.
- Unencumbered cash available increased.

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.

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 and should be close to conclusion. The adopted budget of the municipality though makes provision for a staff cost increase annually over the MTREF period. Staff cost plays a critical role in the financial sustainability of Overberg DM. The employee cots should remain a focus for management and constant monitoring of this cost is required.

Investigate the feasibility of becoming a Water Services Authority for the District
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 some 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. Assisting in this process is the current land audit/analysis that is to be concluded shortly. A clear strategy, to address the challenges the resorts are facing, is required. It appears that the Uilenkraalsmond and De Dam Resorts lend 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. Other options to be explored is the generation of own electricity through sustainable means.

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".

Any upgrades and improvements should be attended to as a matter of urgency, as the appetite for travel and tourism is returing among South African residents, as the Covid-19 pandemic seems to be abating and restrictions are being relaxed. Thus to encourage tourism in the region, and help kickstart the economy again, the resorts in the district can be a valuable way in helping to do this.

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. A need has been identified as far as it relates to tourism and regional economic development. The recommendation remains that collaboration amongst local municipalities and other functions be identified which can potentially 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 expanded the operation of the Karwyderskraal Regional Landfill Facility, which will enable the municipality to derive an additional source of income fot the medium to long term (already included in the MTREF and the long term financial plan). Against this, however, the municipality's accelerated conditional operating grant allocations have ceased in 2019/2020. This has again created a significant need for other revenue sources.

As Stated in scenario 2, some investment properties were sold and the income generated thereby was utilized to fund the repairs and maintenance of other investment properties. Monies raised and not utilized will be transferred to fund a CRR. Though this is positive to note, it is not a sustainable business model and Overberg DM should rather focus on sweating investment properties.

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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