



West Coast District Municipality

Long Term Financial Plan: 2015 – 2024

FINAL REPORT



INCA
Portfolio Managers

Prepared by
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EXECUTIVE SUMMARY

*“If you think you can do a thing or think you can't do a thing, you're right.”
Henry Ford*

1. The outcome of this assignment makes a contribution towards the 10 year long term financial plan of the West Coast District Municipality. It is not “THE PLAN” but informs the plan that the municipality has to prepare and adopt. This plan does not aim to present an accurate detail financial forecast of the future but should rather be seen as a “broad brush” picture of potential future scenarios.
2. The Independent Financial Assessment of the West Coast prepared by INCA Portfolio Managers includes the latest financial information up tot 30 June 2013 and the report is attached as Annexure 1. This report also includes a summary of the latest available information on demography, economy and household infrastructure of the West Coast DM.
3. We have reviewed the Integrated Development Plan (“IDP”) and water sector master plan of the municipality and conducted interviews with the management of the municipality. This was done with the purpose of identifying material matters that could impact on the long term financial sustainability of the municipality as well as inform proposals regarding future policy directions.
4. We modelled the municipality’s cash needs against the revenues it can expect to generate based on the economy and population of the sub-region, in an attempt to determine the affordability of future capital expenses. We have done so for the Water Function and other Core Functions separately. (Due to the uncertainty regarding future performance of certain functions we differentiate between **Water-**, **Roads** Agency and other **Core** Functions.)
5. After the completion of the updated financial assessment and evaluation of the base case financial model we conclude as follows:
 - 5.1. The development corridors in the south of the district emphasise the linkages that the district has with the City of Cape Town. Transport infrastructure like the Saldanha Bay harbour, railway line to the Northern Cape and the N7 – National Road provide opportunities for the Manufacturing Sector dependent on the logistics industry, especially in the agro-processing, fish and marine resource processing and mineral processing activities.
 - 5.2. The relative stagnant economic growth rate during the last 5 years together with a population growth rate that is the highest of all districts in the Western Cape is of particular concern and requires active intervention of all stakeholders in an attempt to promote economic growth in future.

- 5.3. The regional economy and the ability of households to pay for services delivered by the municipalities, rates the West Coast municipalities as a “Medium to High” risk on IPM’s Municipal Revenue Risk Indicator scale. There is a medium to high risk that the municipalities will not be able to generate sufficient own revenue and will increasingly be dependent on subsidies and grants from other spheres of government.
- 5.4. The municipalities have installed infrastructure that provides a high level of service to its residents. This is borne out by a high Infrastructure Index of 0.88 and relatively low levels of backlogs.
- 5.5. The WCDM’s revenues were stagnant in the recent past as is borne out by declining constant (2005) revenues per household.
- 5.6. The future role and function of district municipalities in general and in particular the WCDM, with its uncertain future **Roads** and **Water** function makes financial planning difficult or at least subject to a large number of assumptions.
- 5.7. WCDM has limited influence on income earned as the contracts are all subject to third parties agreeing to the continuation of services/transfers. These contractual arrangements are of a short term nature, negatively impacting on the ability to set longer-term objectives. In addition WCDM has limited opportunities to generate any of its own revenue.
- 5.8. WCDM performs Agency Functions at a break even position or for minimal gain, whilst Fiscal Transfers for the provision of core functions are insufficient.
- 5.9. WCDM has a flat income base that is not growing significantly, this places WCDM under operational pressure as escalating operating expenditure needs to be effectively managed.
- 5.10. Escalating Salaries, Wages and Allowances are fixed costs against a relatively flat and short term revenue base. Linked hereto are the increasing provisions for Employee Benefits.
- 5.11. External Gearing has increased to 62% due to WCDM implementing water infrastructure projects primarily from this source. Capital funding has been limited to the level of own cash generated and external gearing, as limited contributions are received from Fiscal Transfers for Capex. With gearing at high levels, access to this resource is saturated for the time being. On a positive note, loan repayments are shorter than 10 years and on an amortizing basis, which may unlock access to the debt markets again in the medium term.

- 5.12. The fact that the ratio of long term liabilities (“LTL”) to water income (82%) and the ratio of Interest on LTL to Water Expenditure (17%) already exceeds acceptable benchmarks of 30% and 7.5% respectively leads us to conclude that the capital markets should only be accessed in 3 years’ time for this purpose.
 - 5.13. Positively, WCDM has maintained a strong credit rating of Single A for a period of 7 years.
 - 5.14. The Management and Council have displayed a capable and prudent approach to the overall management of WCDM and in particular with regards to its financial management.
 - 5.15. Liquidity is strong with sufficient cash and investments to cover a very conservative Liquidity Policy. It would be prudent to document and formally adopt the Liquidity Policy.
 - 5.16. WCDM has effectively implemented the Fiscal Transfers received for both operational and capital purposes.
 - 5.17. WCDM has approved a reasonable Medium Term Revenue and Expenditure Framework for 2014/15 to 2015/16 that will ensure that the financial position of WCDM is maintained.
6. We recommend that the outcomes of our assessments, financial modelling and interaction with management are adopted for inclusion in a long term financial strategy of the West Coast District Municipality:

6.1. Role and Function of District Municipalities – WCDM’s Advocating Role

Ambiguity regarding the functions of district municipalities that exist in legislation, allocation of an increased number of unfunded mandates and division of certain functions between local and district municipalities all contribute to an uncertainty about the future role and functions of district municipalities.

This uncertainty is made worse by the fact that district municipalities are to a large extent reliant on transfers from the National Treasury, and whereas funding should follow function there exists confusion about the appropriate functions to perform and the funding instruments which the district can expect in future.

The prominence of the WCDM among its peers should be brought to bear in advocating, together with organised local government (e.g. SALGA) in promoting greater clarity of the role and function of District Municipalities as well as funding of these functions at national government level.

6.2. Facilitating Economic Development

The WCDM's efforts in facilitating economic development in the district should proceed with increased intensity to counter the low economic growth rate and high population growth rate of the district and thereby turn around the stagnant constant (2005) municipal revenue growth experienced in the recent past. However, the WCDM should avoid performing an implementing role and rather participate together with other role players in promoting economic development.

6.3. Liquidity Policy

WCDM has a healthy and prudent approach to manage its liquidity, by making sufficient provision for the short as well as long term provisions, statutory requirements and three months' of operating expenditure. WCDM derives useful interest income from its substantial cash reserves. It would be prudent to formally adopt a Liquidity Policy of which a draft has been attached to this report for Council's consideration.

6.4. Maintain Healthy Credit Rating of Single A

WCDM is to maintain its healthy Credit Rating of Single A, through prudent management of liquidity, the adoption of a Liquidity Policy and a related Borrowing, Funds and Reserves Policy (drafts attached for consideration). Further, the main risk of managing expenses against revenue needs to be mitigated by realistic future planning within the MTREF and the Long Term Financial Plan.

6.5. Management Accounts of Functions

The WCDM has three main sources of revenue, viz. fiscal transfers for Core mandated functions and roles, management fees earned for managing the Water services and allocations received for providing the Roads Agency function.

Whereas the "Votes" system allows the accounting of the functions we recommend that formal management accounts for each of these functions are prepared and submitted to management on a quarterly basis in a digestible format to enable Management and Council to use the information to make the necessary strategic financial decisions.

The management accounts, indicating the financial performance of each function separately and collectively, will aid management in optimally managing these functions, identifying loss making functions and allow trend analysis to anticipate future problems. The accounts will also improve the understanding of the financial implications of revised mandates in future, e.g. if only the Core functions were to proceed without significant adjustment to the cost structure of the municipality, the operations will rapidly progress into a deficit position, as illustrated in paragraph 9 of the report.

6.6. Avoid Performing Non-Profitable Functions

In the light of paragraph 6.5. and the limited future resources available, the WCDM should limit the number of non-profitable functions it performs and attempt to pass these on to the local municipalities or the provincial government (e.g. Integrated Transport Planning, Spatial Development Framework).

6.7. Cost Recovery of Agency Services

There is some doubt whether all costs, especially overhead expense and management costs, are appropriately allocated to the different functions. To avoid a situation where the municipality in essence subsidises its principals in the case of an agency function, we recommend that the municipality increase the pricing of the agency services it delivers, at the first possible contractual opportunity. All costs must be recovered and a management fee (reflective of all unaccounted overhead expenses and management costs), must be added to these costs, through well-designed fees/tariff structure and judicious application thereof. Services it currently renders at cost should include a margin (to the extent possible) or an enlarged management fee, e.g. Roads Agency.

6.8. Additional Revenue Sources

Because additional or new revenue sources are difficult to identify, we recommend that the WCDM should encourage staff to identify other revenue sources. We believe that staff are well positioned in their daily tasks to identify such sources but should be incentivized to do so.

Areas that could be considered include, different sources of grants, shared services, sub-letting of council property, technical assistance fees to local municipalities, fees for fire inspections, training and monitoring, fees for environmental health checks, ensuring that connection fees for water users are reflective of full- and not just marginal costs, etc.

The full recovery of Agency Services as discussed under paragraph 6.7 can also be treated as identification of a revenue stream due to WCDM.

6.9. Partnership with the Short Term Insurance Sector

The fire services that the municipality provides to its communities reduce the risks and concomitant underwriting expense of the short term insurers. Management has identified that insurers in Australia part fund the firefighting expenses.

We recommend that the WCDM initiate talks with SALGA for this association to negotiate collectively with the short term insurance sector in obtaining part funding for its fire services.

6.10. Attempt to save on Salaries and Wages

Salaries and wages are prescribed and subject to collective bargaining, with little influence that the municipality can exert. The employee costs constitute WCDM's largest expense item and the escalating nature of this expense and requirement to make provision for employee benefits, will challenge the WCDM to manage this expense effectively within the available revenue base which is expected to show limited growth.

In the absence of a clear understanding of the municipality's future role and function and the funding thereof, it will become increasingly more difficult to fund the municipality's existing organogram.

The structure needs to be reviewed regularly to ensure that the municipality remains sustainable. The implementation of a rationalisation of the Core function staff must be considered as one of the alternatives.

6.11. Sharing of Services

Sharing of services provides an opportunity to share concomitant expenses amongst all institutions that share the service, especially in cases where the capacity is not fully utilised by any one institution.

In an attempt to minimise expenditure the WCDM is advised to assess the cost/benefit of sharing services with other municipalities. The municipality best equipped and/or resourced in a certain area could deliver these services to a number, if not all the others, e.g. legal, internal audit, risk management, risk management, fire services, etc.

6.12. Manage Expenses

The municipality manages its expenses prudently and we recommend that it ensures that annual increases are reflected in tariffs and fees.

6.13. Avoid saving on Repairs and Maintenance

Repairs and Maintenance costs have been cut back in the past two financial years and whilst this is understood given the flat revenue base it may result in infrastructure not being adequately maintained and requiring replacement at high and unaffordable capital expense in the near future. The municipality is advised to adjust its Repairs and Maintenance budget upwards, by at least 5 percentage points above CPI p.a. for the

Water Function and 2 percentage points above CPI p.a. for the Core Function in an attempt to achieve the MFMA Circular 71 targets of 8% of the carrying value of Property, Plant and Equipment in the longer term.

6.14. Introduce Integrated Asset Management

Integrated asset management aims to meet a required level of service, in the most cost effective manner, through the management of assets for present and future customers. This encompasses practices associated with considering management strategies as part of the asset lifecycle by minimizing long term costs. Practices such as management of assets, asset information (such as location and condition), demand forecasts, risk assessment and mitigation, maintenance procedures, refurbishment and renewal procedures.

The municipality's comprehensive asset register is a first step in implementing comprehensive asset management. We recommend that it now migrates (over a number of years) to implementing integrated asset management where expenditure on new infrastructure, replacement infrastructure and repairs and maintenance expenditure are optimised.

6.15. Prioritisation of Projects

In addition to the recommendation made in paragraph 6.4, in nominal terms the municipality can afford a 10-year capital investment programme of app. R 420 million for the Water- and R 243 million for the Core Function. The demand already exceeds this amount by R 555 million for Water and R 69 million for the Core Function.

Whereas the asset register provides guidance on the assets that need replacement, a clear prioritisation of future new infrastructure projects must be undertaken. The municipality should not neglect the replacement of its existing assets and a prioritisation should compare the need for new infrastructure with the need of replacing existing infrastructure.

6.16. Consider a Capital Replacement Reserve ("CRR")

The municipality's accumulated surplus and associated cash investments are sufficient to cater for liquidity and capital replacement. However, in an attempt to build up dedicated reserves for all expenses associated with capital assets, especially emergency replacement, it would be prudent to dedicate a portion of the surpluses as a ring fenced CRR and preferably invest the cash in a separate investment account.

The municipality could furthermore consider the proposals made in the draft Borrowing, Funds and Reserves Policy attached, in which the objective is adopted to

transfer depreciation charges and capital contributions to the cash backed Capital Replacement Reserve.

6.17. External Gearing to be Managed Prudently

External gearing has in the short term reached its maximum levels. The WCDM should avoid increasing its long term liabilities (“LTL”) in the next 3 years or at least until the acceptable benchmarks of 30% for LTL/Income and 7.5% for Interest/Expenditure for each of its Functions is reached.

Once gearing is below these benchmarks and sufficient liquidity and capital replacement reserves are held, the municipality should consider using this source of capital funding also for the WCDM’s other funding needs and not only for Water infrastructure.

6.18. Maximise Fiscal Transfers

WCDM has mainly used own funds and external gearing to fund capital infrastructure. As these resources have declined, capital investment has reduced from R 60 million per annum to R 30 million per annum. WCDM has maximised gearing in the short term. It would therefore be prudent to seek opportunities to obtain fiscal funding to add to the funding mix. Explore all grant programmes accessible to the municipality.

6.19. Explore the Feasibility of Providing All Fire Services

It is generally accepted that fire services delivered by local municipalities are limited to local structural fires, whereas the services delivered by the district municipalities encompass regional bush and veld fires as well as fires of hazardous materials. However, the WCDM provides the only professional fire service in all 5 local municipalities. In the event of a disaster it is invariably expected of the WCDM to provide assistance.

Explore the feasibility of providing all fire services in the district including those services normally expected of a local municipality. This requires a presence in a number of towns and appropriate equipping of staff. Before such an arrangement can however be negotiated a source of funding for this service has to be identified, including a dedicated levy linked to the property rates that local municipalities charge as well as increased transfers from national government.

6.20. Obtain Responsibility as Water Authority

The WCDM should attempt to become the Water Authority for the entire district. By utilising economies of scale, all municipalities will benefit. Also the provision of this commercial function will improve the revenue generating ability of the municipality. If

this strategy fails the WCDM should at least attempt to extend its current Water Supply Contract at more beneficial terms.

6.21. Dispose of Ganzekraal Resort

It is our understanding that the Ganzekraal Resort is operating at a loss. The land on which the resort is located is subject to a land claim which prevents it from being alienated at this time, although Cape Nature has indicated an interest to obtain the land.

The WCDM is encouraged to dispose of the Ganzekraal Resort as soon as possible alternatively explore the cost-benefit of outsourcing the management of the resort. In the event that the land claim remains unresolved introduce incentives to the resort management in an attempt to increase the number of bed-nights sold.

Should this strategy not be considered feasible, it is proposed that Management and Council agree on the approach to be taken to address this matter.

6.22. Implementation of Recommendations

We also propose that each of the recommendations that the WCDM agrees with are allocated to staff to implement as part of their key performance measures and that the Municipal Manager oversees this cross cutting “Project”.

1. INTRODUCTION

1. This report is the outcome of an assignment undertaken by INCA Portfolio Managers (“IPM”) for the West Coast District Municipality. The objective of the assignment is to make a contribution towards a proposed 10-year long term financial plan of the municipality.
2. In this assignment we have included a historic financial assessment of the municipality with the financial information up to 30 June 2013.
3. Based on a review of the Integrated Development Plan of the municipality (2012/16 Review 2 – Draft dated February 2014), the Water Master Plan dated June 2013 and various other documents made available by the municipality as well as interviews with the management of the municipality we reflect on the capital investment requirements as well as proposed future policy directions of the municipality. The capital demand, consisting of asset replacement costs (quantified pursuant to an analysis of the Asset Register) and new capital investments (quantified mainly in the Water Master Plan), is evaluated against the capacity of the municipality to afford these future capital expenses. In the evaluation we estimate the potential future municipal revenues based on the economy and population of the sub-region. These revenues will in turn inform the funding mix that the municipality can access to finance its future capital needs.
4. The forecast of financial metrics is extremely difficult in the light of the uncertainty of delivery of certain functions by the West Coast DM in future (e.g. **Water** Function and **Roads** Agency Function). We followed a “broad brush” rather than a “detail” approach in doing the financial forecasts. Nevertheless in our conclusion and recommendations we reflect on the outcome of the studies in this report, highlight some of the material issues identified and make very specific proposals regarding the 10-year financial plan, financial strategies and policies to be adopted. (Due to the uncertainty regarding future performance of certain functions we differentiate between **Water**-, **Roads** Agency and other **Core** Functions.)
5. The following sources of information have been scrutinised and taken into consideration in the conclusion of the Independent Financial Analysis and the development of this Long Term Financial Plan:
 - a. Financial Statements from 2003/04 to 2012/13
 - b. Medium Term Revenue and Expenditure Framework: 2013/14 to 2016/17
 - c. Integrated Development Plan 2012/16
 - d. Water Master Plan 2013
 - e. Various other documents (where relevant)
 - f. Economic data extracted from IHS Global Insight ReX

2. PERSPECTIVE

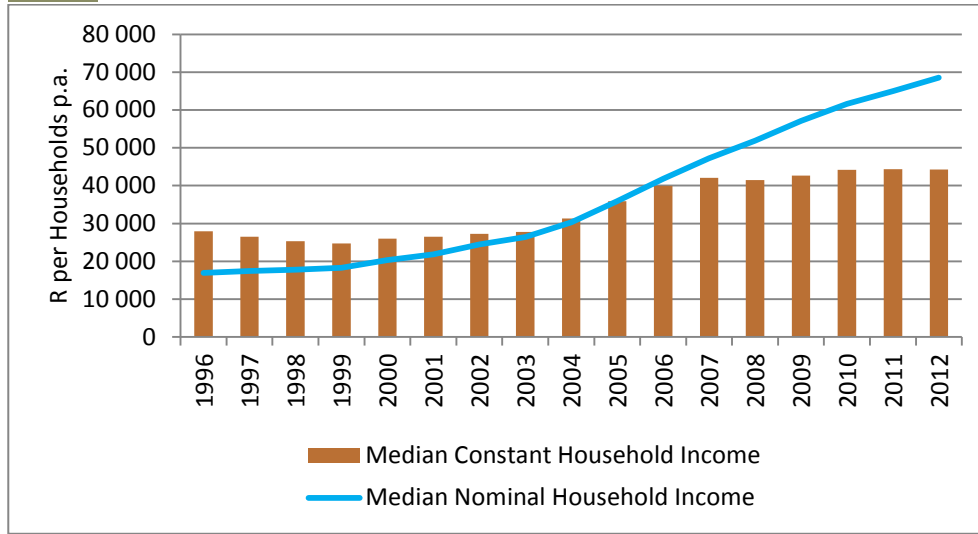
6. A detailed *Independent Financial Assessment Against the Background of the Municipality's Demographic, Economic & Household Infrastructure Position*, April 2014, is attached hereto as Annexure 1. The paragraphs below provide a summary of the perspectives that will inform the proposals and recommendations in this report.
7. During a presentation of the assignment to members of the Mayoral Committee on 14 May 2014, certain questions regarding the population and tourism statistics were raised. These are responded to in Annexure 2.

Spatial & Demographic Perspective

8. The West Coast DM ("WC DM") region has a total population of 404 432 people which represents app. 7% of the people living in the Western Cape Province. It covers an area of 31 119 km² with a population density (12.7 people / km²), the second lowest density of all the districts in the province after the Central Karoo DM.
9. The current population growth rate of 2.8% p.a. in the WC DM region is highest of all the districts in Western Cape.
10. The average annual income per capita in the WC DM is R 49 240 p.a., ranging from an average of R56 737 in Saldanha Bay and R40 502 in Cederberg.
11. The economic active population¹ in the WC DM is 36.4% of the population. The official unemployment rate is 17.1%. Only the Overberg DM has a lower unemployment rate.
12. Whereas the nominal median household income for the district has increased, and quite significantly in recent years, as can be seen in the graph below, the constant (2005) median household income has remained almost static.

¹ Economically Active Population (EAP): The economically active population (EAP) is defined as the number of people who are able, willing and who are actively looking for, work and who are between the ages of 15 and 65. It thus includes both employed and unemployed people.

GRAPH 1: WEST COAST DM: MEDIAN CONSTANT AND MEDIAN NOMINAL HOUSEHOLD INCOME



Economic Perspective

- 13. WC DM’s total gross economic value add (“GVA”), which reflects the monetary value of the local economy is R 18.15 billion per annum in current prices or R 10.75 billion in constant (2005) prices with the following sectors making a contribution:

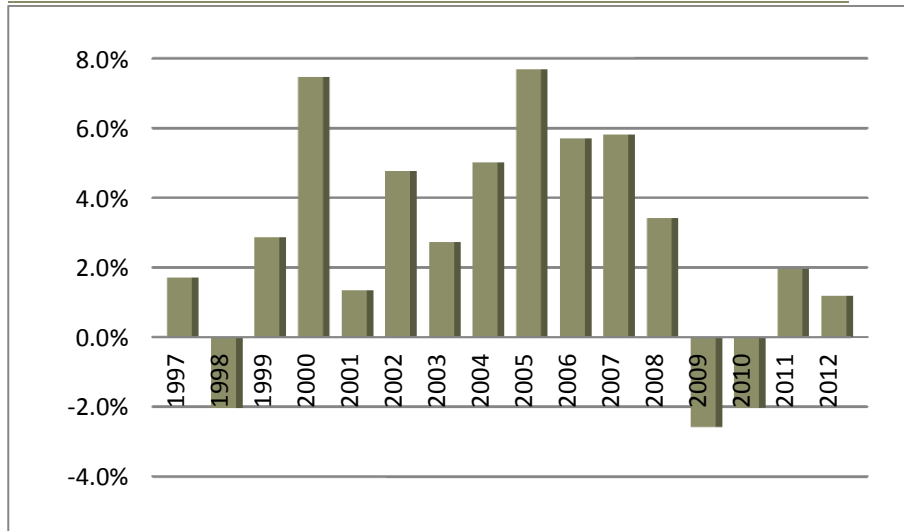
TABLE 1: SECTOR SHARE OF REGIONAL TOTAL

	2003	2013
Agriculture	20.2%	19.6%
Mining	1.2%	0.9%
Manufacturing	25.2%	22.1%
Electricity	4.1%	4.1%
Construction	3.6%	4.5%
Trade	10.3%	10.1%
Transport	9.3%	8.2%
Finance	12.5%	16.4%
Community Service	13.5%	14.2%

- 14. The important role that Manufacturing played as a contributor to the local economy 10 years ago (25.2%) has declined slightly and is currently responsible for 22.1% of the Gross Economic Value Add of WC DM. The contribution of Finance (including Real Estate) has increased from 12.5% ten years ago to a current 16.4%. Agriculture and Community Services remain important sub-sectors of the local economy.
- 15. Currently the amount of spending related to tourism (leisure, business, people visiting family and friends and other) is in the order of R1.71 billion per annum, thus contributing 10% to the GVA of WC DM. (This excludes any capital expenditure such as the purchase of holiday homes). There is however a declining trend of spend since 2010.

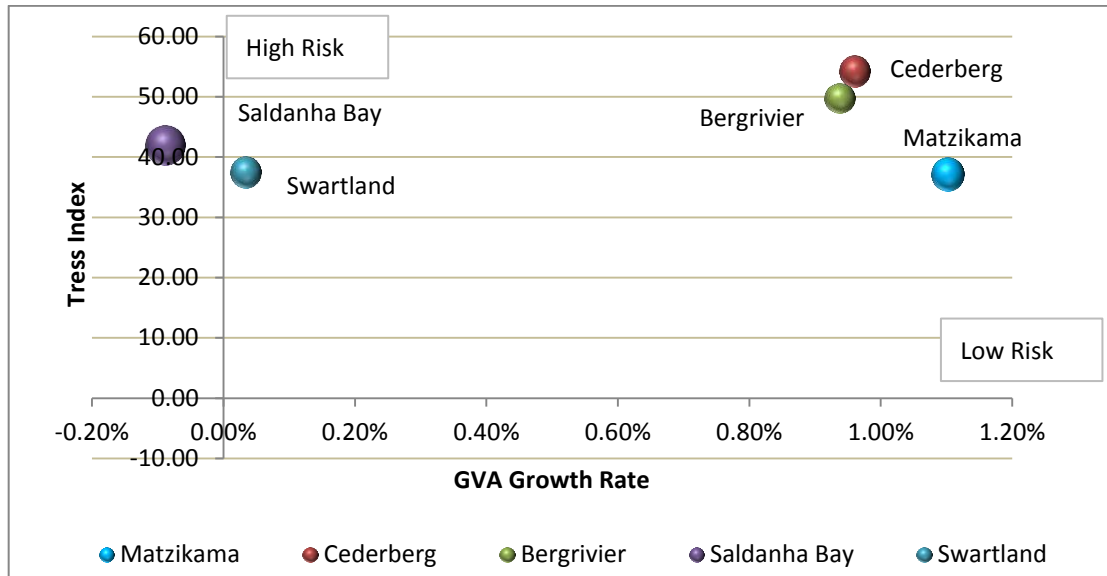
16. The average annual GVA growth rate for the period since 1997 is 2.8% p.a., but with the cyclical characteristics that the national economy is subjected to. The average growth rate in the past 5 years was stagnant (if not negative). This low economic growth rate compared to the relative high population growth rate is identified as a particular risk for the municipality’s future sustainability.

GRAPH 2: WEST COAST DM: ANNUAL AVERAGE GVA GROWTH RATE % P.A.

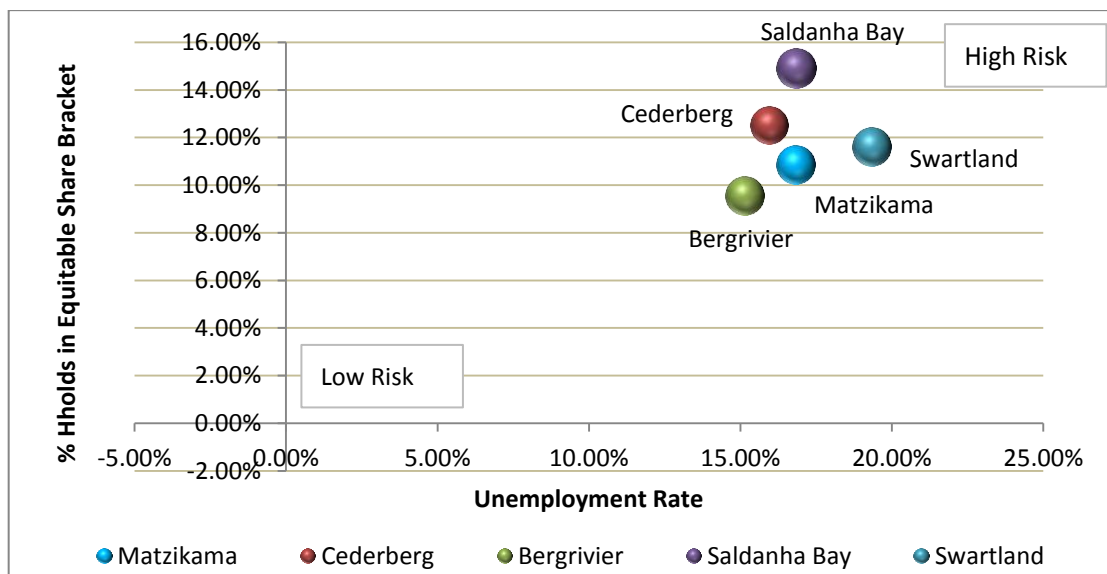


17. IPM has developed the Municipal Revenue Risk Indicator (“MRRI”), which measures the risk of a municipality to generate its own revenues. This risk is on the one hand a function of the economy (GVA, Tress Index and GVA growth rate) and on the other a function of households’ ability to pay (measured by the % of households with income in the equitable share bracket, unemployment rate and Human Development Index).
18. The regional economy and the ability of households to pay for services delivered by the municipalities in the West Coast region, rates these municipalities as “**Medium to High**” risk on IPM’s Municipal Revenue Risk Indicator scale. There is a medium to high risk that the municipalities will not be able to generate sufficient own revenue and are increasingly dependent on subsidies and grants from other spheres of government. The MRRI is not an evaluation of the financial- or institutional strength of these municipalities, but measures environmental factors external to the municipality that could impact on municipal revenues. The following graphs illustrate a municipality’s relative position in comparison to other municipalities in the district.

GRAPH 3: WEST COAST DM: COMPARATIVE ECONOMIC RISK



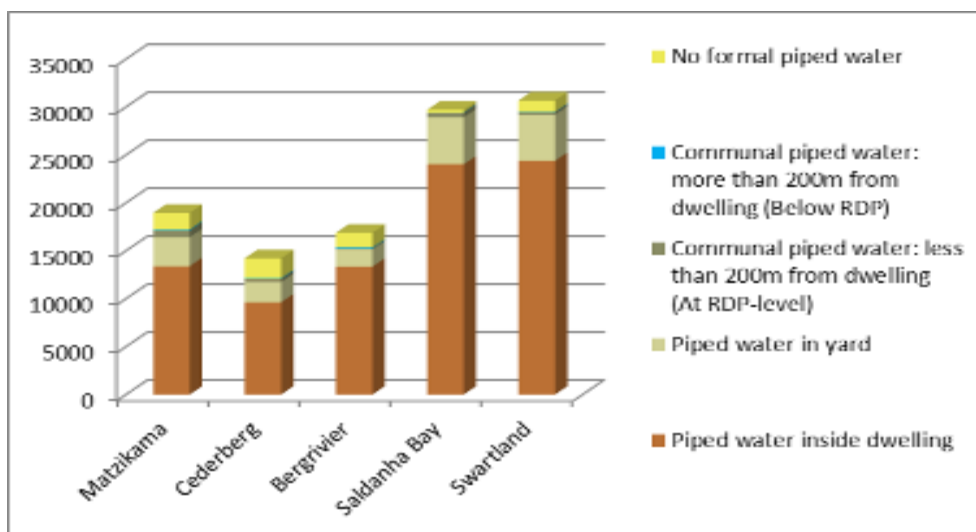
GRAPH 4: WEST COAST DM: COMPARATIVE HOUSEHOLD ABILITY TO PAY RISK



Household Infrastructure Perspective

19. The Infrastructure Index for WCDM increased from 0.86 to 0.88 in the period from 2003 to 2012. This is in comparison to a national improvement from 0.66 to 0.71 and an improvement in the Province from 0.86 to 0.88 in the same period. Currently the WC DM access to infrastructure is on par with that of the province as a whole.
20. Although the level of service infrastructure delivery in the district is generally high, Saldanha Bay and Swartland exceed the delivery of the other municipalities. The fact that Refuse Removal backlogs are relatively high in most municipalities other than Saldanha, is due to the large rural component of these municipalities.
21. Very formal (72.9%) and Formal (15.9%) dwellings together constitute 88.8% of dwelling types in the district. Informal dwellings constituted a relatively low percentage of 9.3% in 2012.
22. In the West Coast DM the percentage of households with access to a level of service of RDP or higher is more or less on par with the percentage of households with income above the Equitable Share Bracket, i.e. 88.0% vs. 87.8%. This gap is reasonable and affordable.
23. The proportion as well as absolute numbers of above RDP standard water service infrastructure provision in the municipalities is highest in Saldanha Bay and Swartland, 58 800 households of a total of 60 400 in these two municipalities, which represents 55% of the districts total number of households. The slightly more rural municipalities have larger proportions of water backlogs.

GRAPH 5: MUNICIPALITIES: WATER SERVICES INFRASTRUCTURE



Financial Perspective

24. On reflection of the historic financial performance as documented in the Independent Financial Analysis attached in Annexure 1 it is important to take into consideration the financial strengths and weaknesses of WCDM highlighted in this report to set reasonable objectives for the Long Term Financial Plan.
25. There is an increasing trend with regards to the provision for longer term Employee Benefits. WCDM has however made the necessary cash provision for both the long term and short term portion hereof.
26. WCDM invested R 305 million into Capital Infrastructure in primarily Water Infrastructure and Fire Fighting Infrastructure. WCDM borrowed R 135 million to partially fund Capital Infrastructure. WCDM receives limited Fiscal Transfers for Capex and funded the balances primarily from own resources. As a result capital expenditure has reduced from levels of R 60 million to R 30 million in the past two financial years.
27. WCDM owns only one Investment Property in the form of Ganzekraal Beach Development, however the property is part a of a land claim dispute leaving WCDM unable to make any strategic decisions about managing the Investment Property for financial gain.
28. External gearing increased to a high of 62% as loans increased from R 3.7 million to R 111.7 million. The loans were all taken to fund Water Infrastructure over a 10 year term on an amortising basis. Loans were taken during a point in the cycle of low interest rates. Gearing is however presently over the acceptable level and will need to be reduced in the short term before this resource can be utilised again in the medium term.
29. WCDM boasts a strong liquidity ratio as the relationship between Current Assets and Current Liabilities is healthy at 3.7:1 in 2012/13. Short Term Cash and Investments varied between R 135 million to R 170 million, with the balance at R 159 million as at 30 June 2013. Current Liabilities have been effectively managed downwards from R 89 million to R 48 million in the past 7 financial years.
30. WCDM generates its income from three main revenue sources being its Mandated Roles and Functions, Provision of Water and Provision of Roads Function.
31. Historically there was a healthy gap between Operating Income and Operating Expenditure. This gap has however narrowed in the past three financial years as the revenue base has not grown at the same rate as the expenses. The Revenue Base has increased by a mere R 50 million from approximately R 200 million to R 250 million in 7 years.

32. Total Income increased by R 65 million (25%) whilst Total Expenditure increased by R 95 million (38%). The growth in revenue can be considered relatively flat which is concerning for longer term projections as Total Expenditure shows a more escalating profile.
33. No Cash Operating Deficits were posted and reflects on effective cash budgeting as WCDM is in a position to appropriate these funds effectively for the provisions required.
34. WCDM generated R 96 million in Accumulated Surpluses in 7 years and invested R 160 million of own funds into Capital Infrastructure over the same period.
35. Investment income has reduced in the low interest rate cycle, however WCDM should benefit from the higher interest rate cycle anticipated in the short term. Interest income makes a vital contribution to income earned, which enables WCDM to post a cash operating surplus.
36. Aggressive borrowing has resulted in interest payments on debt exceeding interest earned on investments.
37. WCDM holds sufficient cash to cover all of its statutory obligations including the long term portion of Employee Benefits. In addition WCDM is able to make provision for three months of operational expenditure. This is considered prudent given the short term view of operations and the Liquidity Policy should be documented and approved by Council.
38. WCDM has maintained a Single A credit rating over a term of 7 years. GCR ratings has performed the rating annually.
39. WCDM tabled and adopted a reasonable Medium Term Revenue and Expenditure Framework for 2014/15. It is projected that the municipality will prudently manage its Operating Expenditure given the relatively flat growth anticipated in Operating Revenue. WCDM intends reducing gearing which is considered positive and cash and investment balances will increase to R 180 million.

3. ISSUES IDENTIFIED

41. The list below is the result of a synthesis of issues identified during interviews conducted with representatives of each Directorate of the municipality. These matters were raised by officials of the Municipality and provide valuable insight into the environment within which the Municipality operates. The observations of the officials and interpreted by IPM for purposes of this report, provide insight into material issues that may impact on the longer term financial position of the West Coast DM.

42. Role and Function of the DM

The concern of many district municipalities regarding their functions was also expressed by the WCDM. Ambiguity regarding functions that exist in legislation, allocation of an increased number of unfunded mandates and division of certain functions between local and district municipalities all contribute to the uncertainty.

This uncertainty is made worse by the fact that district municipalities are to a large extent reliant on transfers from the national treasury, and whereas funding should follow function there exists confusion about the appropriate functions to perform and the funding instruments which the district can expect in future.

The view was raised that there are certain functions which are better performed at the provincial level, e.g. Spatial Development Framework and Integrated Transport Planning.

Whereas the WCDM has in the past managed its affairs diligently in accordance with a shared services approach in agreement with its local municipalities, the future uncertainty and imminent expected termination of agreements makes future financial planning difficult if not impossible.

43. Increase in Unfunded Mandates

Concern was raised at the increase in mandates delegated to district municipalities in general without the concomitant human and financial resources accompanying these mandates, e.g. the environmental protection function including the management of the integrated coastal environment was added to the functions of the municipality which it had to resource from existing sources.

The WCDM would appear to be intent in performing its mandates at a level of service much higher than the funding which it receives for the service, e.g. receiving funding for providing environmental health services at [R7.50] per household, should be approximating [R7.50] per capita to allow an acceptable performance level.

44. Partnership with the Private Sector

The WCDM promotes economic development by partnering with the private sector which is better equipped to grow the economy and unlock employment opportunities. It does so by linking up with big business in the Business Forum, always anticipating that SMEs will also benefit through their supply- or other contractual linkages with big business.

The Business Forum, including the WCDM and other stakeholders, viz., Province, Wesgro, PPC is instrumental in facilitating artisan training. They work with West Coast College FET to provide training required by big business in the region.

The WCDM also provides technical assistance to its local municipalities in developing business plans to leverage funds from big business.

WCDM initiated a relationship with Wesgro on at least two fronts, viz. (i) the IDZ pre-feasibility was done by Wesgro who will also identify a pipeline of investments but the WCDM needs to indicate the areas targeted, and (ii) Involvement in tourism development and strategy, e.g. new products and marketing. A model of regional tourism organisations is maintained, where all LMs are represented.

45. Short term duration of existing contracts

The termination of the agency function that the WCDM performs for the provincial roads department is currently on the agenda. This R70 million p.a. road maintenance contract is expected to expire by April 2015. The view is held that the district municipality can perform this function better than the Province and it is recommended that the district attempts to continue with the agency function but only if it can raise a margin or management fee on top of the recovery of costs from the Province for this purpose.

The WCDM contracted with the Water Monitoring Committee of a number of the local municipalities to provide bulk water services for these municipalities. This contract is up for renewal and the probability of its extension remains uncertain.

In the light of these uncertainties the financial model discussed in this report has differentiated between the **Roads** agency-, **Water** supply- and other **Core** functions.

46. Dependency on Government Transfers

There is little correlation between the revenues that the WCDM can generate and the local economy. The municipality is largely dependent on transfers from national government, viz. Equitable Share and the RSC Replacement Grant, which in turn is a function of policy decisions that are not directly influenced by the WCDM.

Unlike the multi-million equitable share receipts for the delivery of basic services of local municipalities the receipts of the WCDM are limited to app. R8m p.a. earmarked for Fire- and Environmental Health Services. Uncertainty about the future combination of government transfers (RSC Replacement Grant, Equitable Share and Other Operational Grants) and the formula to be used for allocation also contribute towards this uncertainty.

47. Overlapping of Fire Services

It is generally accepted that fire services delivered by local municipalities are limited to local structural fires, whereas the services delivered by the district municipalities encompass regional bush and veld fires as well as fires of hazardous materials. However, the WCDM provides the only professional fire service in all 5 local municipalities of the West Coast District, including inspections, monitoring, public awareness and training.

Saldanha contracted WCDM to provide fire services in its local municipality. This 3-year contract allows the local municipality to expect the WCDM to deliver all fire services in exchange for the provision of certain capital goods (e.g. 5 fire engines, and station at Vredenburg) and payment of operational expenses. No such formal arrangements exist in the other four local municipalities. Yet in the event of a disaster it is invariably expected of the WCDM to provide assistance.

The expenses associated with the hiring of helicopters to assist in the fighting of bush and veld fires can be very expensive. The recovery of the costs is almost impossible due to the legal precedent that the recipient of the fire service is liable for the costs and not the owner of the land where the fire started. Whereas invoices are sent to the various recipients, allocating costs correctly remains difficult and the invoices remain mostly unpaid.

There is a case to be made for the WCDM to provide all fire services in its district including those services normally expected of a local municipality. This requires a presence in a number of towns and appropriate equipping of staff. Before such an arrangement can however be negotiated a source of funding for this service has to be identified, including a dedicated levy linked to the property rates that local municipalities charge as well as increased transfers from national government. Another source of funding which should be explored collectively by organised local government (e.g. SALGA) is a contribution from the short term insurance sector.

48. Water Authority

The Water Authorities in the district are all the relevant local municipalities. The WCDM is only a quasi Water Services Provider which delivers certain bulk services on

contract. It is the Water Authority that receives the capital grants (MIG funding) associated with this service from national government and through the Water Monitoring Committee determines the tariffs.

Recovery of capital expenses from local municipalities is dealt with differently. In the case of Swartland LM these costs are included in the tariffs whereas Saldanha Bay LM makes a capital contribution.

The provision of bulk water services in the district by one single authority, viz. the WCDM that can utilise economies of scale to the benefit of all municipalities is generally regarded as beneficial, especially in the light of the profitable extension of this service to other users. (The WCDM currently serves app 1 000 farms along its pipelines.)

49. Ganzekraal Resort

The WCDM operates the Ganzekraal Resort and is keen to dispose of this asset as it does not contribute towards its core functions.

However, the land on which the resort is located is subject to a land claim which prevents it from being alienated at this time, although Cape Nature has indicated an interest to obtain the land.

WCDM operates and maintains the resort, which shows good occupancy during summer peak periods and summer weekends. Differentiated tariffs are charged to increase occupancy during winter, but the resort remains a cash drain on the municipality.

The WCDM is encouraged to dispose of the resort as soon as possible and in the event that the land claim remains unresolved to introduce incentives to the resort management in an attempt to increase the number of bed-nights sold.

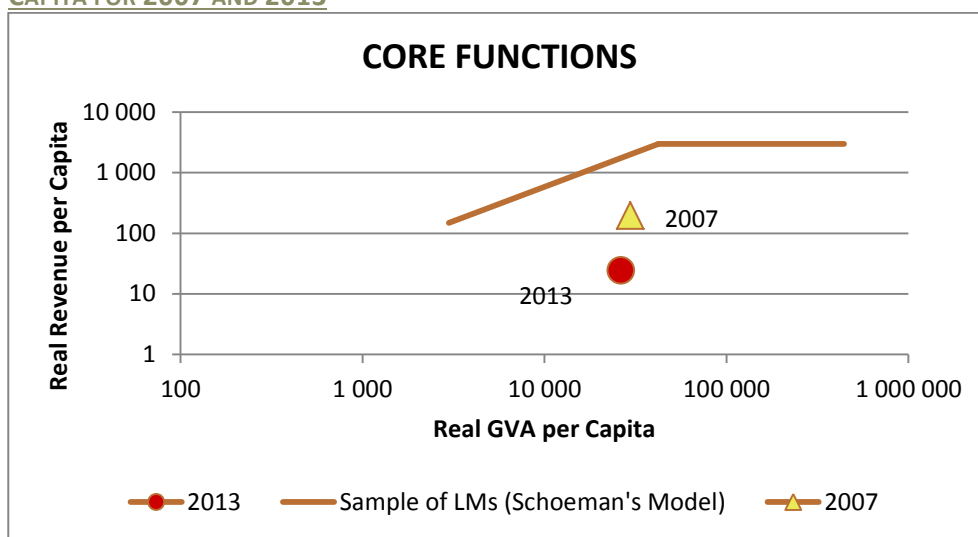
50. Cost accounting per function

The potential that exists for a complete change of functions in future, viz. possible termination of the **Roads** agency function, re-negotiation of the **Water** supply function and other **Core** functions makes the introduction of accurate cost accounting for each function essential, not in the least to be able to improve the understanding of the financial implications of revising the mandates in future.

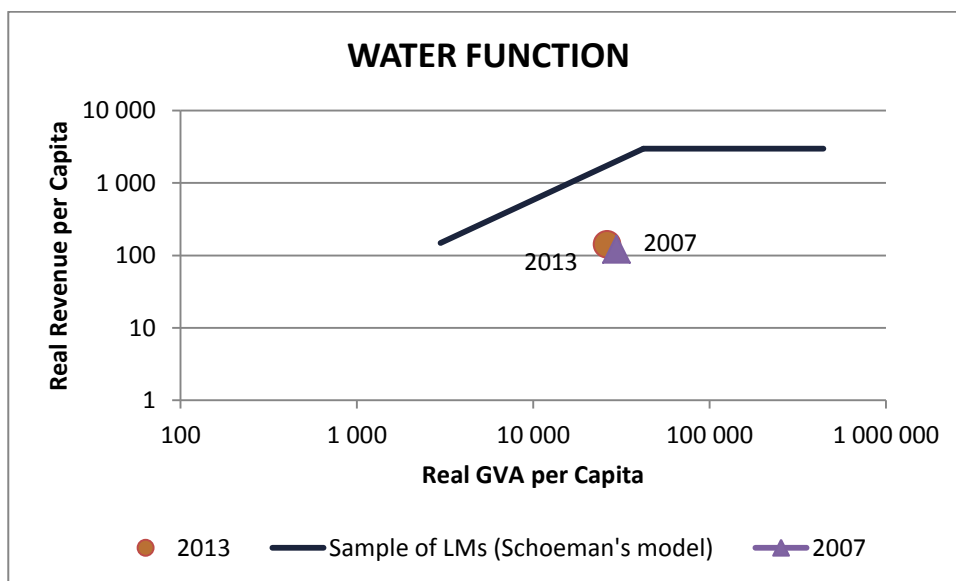
4. FUTURE MUNICIPAL REVENUES

51. A reality check of actual revenues generated in the past has influenced our estimates of revenue forecasts. The revenues that the WCDM received for the delivery of its **Core** functions in 2013 are less than the revenues received in 2007 in constant per capita terms. The **Water** revenues in constant per capita terms remain fairly constant for the same period.

GRAPH 6: WEST COAST DM: REAL CORE FUNCTION REVENUE PER CAPITA VS. REAL GVA PER CAPITA FOR 2007 AND 2013



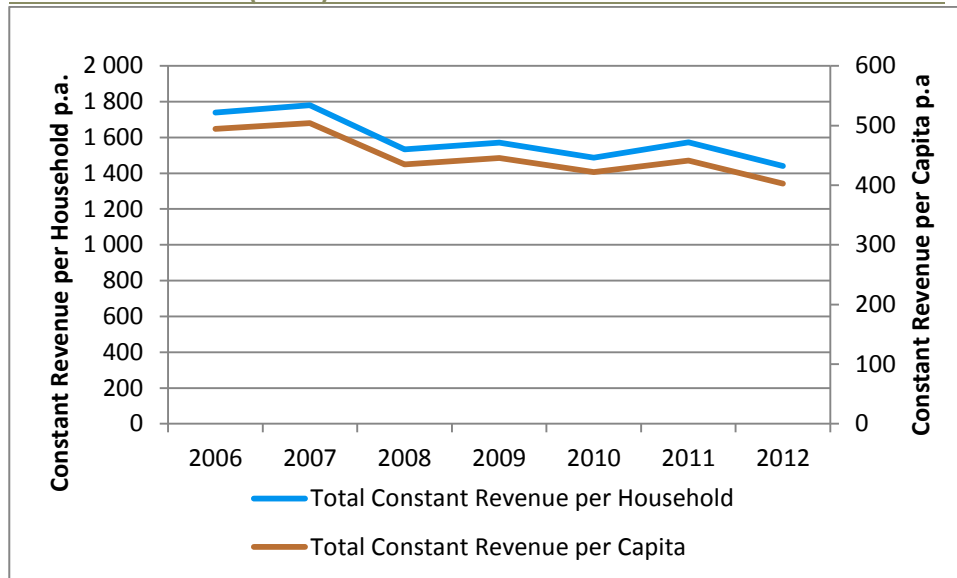
GRAPH 7: WEST COAST DM: REAL WATER REVENUE PER CAPITA VS. REAL GVA PER CAPITA FOR 2007 AND 2013



52. We conclude that WC DM’s own revenue per capita has declined over time. This is confirmed by the graph below, which illustrates how the Constant (2005) Municipal

Revenue per Household and per Capita has declined over the last 6 years. The municipality should consider other revenue sources as well as increase the pricing of the agency services it delivers. All costs must be recovered through a well-designed tariff structure and judicious application thereof and revenues must actually be collected and converted into cash.

GRAPH 8: CONSTANT (2005) MUNICIPAL REVENUE PER HOUSEHOLD AND PER CAPITA

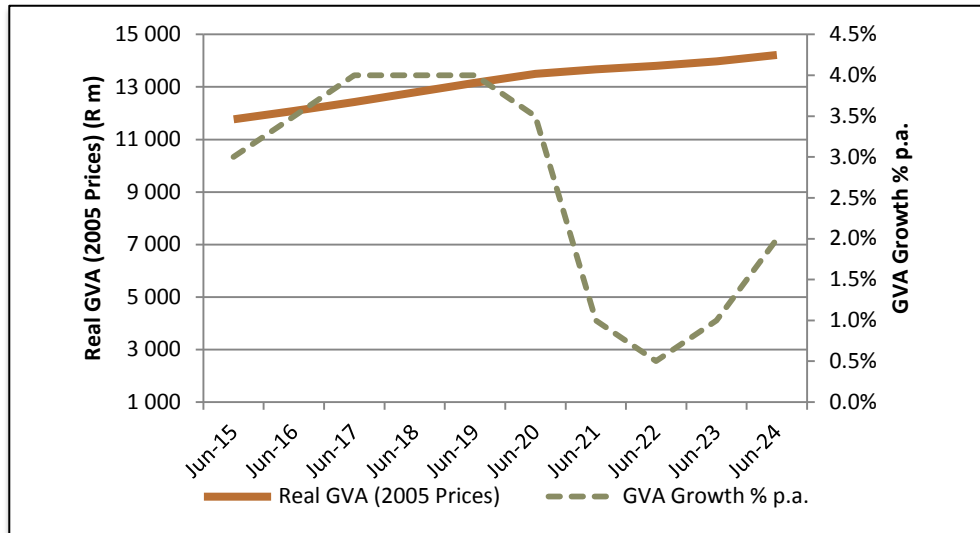


53. In proposing this long term financial plan, IPM estimated the future municipal revenues. This projection was done with reference to the research done by Schoeman².

54. The future Gross Value Add (“GVA”) of the WC DM was estimated based on a view of the future economic growth of the region and the cyclical nature thereof as well as an estimate of future population of the West Coast. The graph below illustrates the Base Case GVA and GVA growth rates used in IPM’s model:

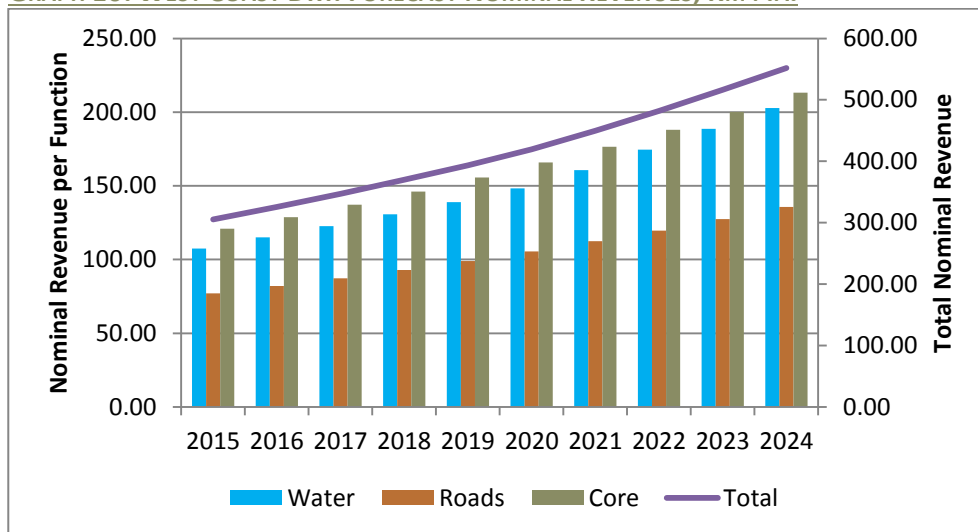
² *Fiscal Performance of Local Government in South Africa - an Empirical Analysis*; Niek Schoeman; UP 22 July 2011; https://editorialexpress.com/cgi-bin/conference/download.cgi?db_name=IIPF67&paper_id=40

GRAPH 9: WEST COAST DM: GVA FORECAST



55. The future Municipal Revenue was then calculated by employing the relationship between Municipal Revenues (“MR”), GVA and Population, i.e. $MR = f(GVA, Population)$. This estimate was calibrated against the municipality’s forecast of future revenues for each of its functions in its MTREF. The estimated 10-year municipal revenues for the 3 categories of functions as well as the total revenue is illustrated in the graph below:

GRAPH 10: WEST COAST DM: FORECAST NOMINAL REVENUES, RM P.A.



56. This represents an average annual nominal growth of municipal revenue of 6.8% p.a. over the 10 year period (Water 7.4%, Roads 6.5% and Core 6.5%), and is made up of increased revenues due to increased quantities of services delivered and sold as well as increase in tariffs. This is not much more than the 6.5% average CPI growth rate assumed for the period but is consistent with the historic stagnant constant per capita municipal revenue growth rates.

57. No structural change in the economy of the West Coast is expected that could influence the municipal revenues for the next 10 years significantly, e.g. no major industrial-, mining- or other major investment is expected in the region. Those investments / developments that do materialise are accounted for in the GVA growth figure, which is assumed to average out at 2.7% p.a. for the next 10 years.

58. Once the annual municipal revenues were determined the ability of the municipality to pay for operational- and capital expenditure and the level of expenditure was estimated based on a range of assumptions, as discussed in more detail further on in this report.

5. FUTURE OPERATIONAL EXPENDITURE

59. As the review of the current expenditure trends of WCDM has indicated there is limited scope to substantially increase any costs without negatively impacting on the overall operational performance of the Municipality, therefor requiring stringent management of the increases in current expenses.
60. In line with the flattening of the Income Curve, operating expenditure has been effectively managed to ensure that expenses do not exceed revenue.
61. In this light it is important that any future variations in expenditure needs to be closely monitored and where possible the impact needs to be anticipated and staggered over multiple years to reduce the impact. This will enable WCDM to maintain its financial position. However the continued curbing of expenditure may in the medium term lead to a rationalisation of the staff component as expenses have a natural inflationary growth.
62. WCDM should continue investigating opportunities to generate additional revenue, however the likelihood hereof is considered limited.
63. Every expenditure line item should be reviewed annually to achieve the objective of keeping expenses below the flat revenue line:
 - Salaries, wages and allowances (inclusive of Councillors)
 - Expenditure for Water Services
 - Debt Impairment
 - Depreciation
 - Repairs and maintenance
 - Finance charges
 - General Expenses.
64. From the cash flow forecast in the Independent Financial Analysis (Chapter 6) it can be seen that historically general expenses have been cut to manage operating expenses against revenue.

6. DEMAND FOR FUTURE CAPITAL EXPENDITURE

65. Integrated asset management acknowledges the link between the 3 elements of cost associated with asset management, viz. New Capital Expenditure, Asset Replacement Cost and Repairs and Maintenance Expenditure. The extension of the life of an asset beyond its Useful Life may save on Replacement Costs but will increase the Repairs and Maintenance expenditure. Any new assets created will also have an impact on the Repairs and Maintenance budget in future.
66. By analysing the asset registers and reviewing the IDP, Water Master Plan and taking into account what the directorates of the municipality had to say, a feel for the demand of future replacement cost of existing assets and investments in new assets was obtained.

Asset Replacement Expenditure

67. The “Replacement Cost” at a future “Replacement Date” for all the assets in the asset registers was determined. “Replacement” could also imply rehabilitation, enhancement (upgrade) or renewal (refurbishment) of that asset, but excludes routine repairs and maintenance.
68. The calculation is done mechanistically and does not cater for engineering judgement. The model only uses the Estimated Useful Life of the asset component as a criterion. The model calculates the Replacement Cost of assets for a 10 year period, i.e. up to and including 2024. All assets, excluding “Developed Land”, “Undeveloped Land” and “Investment Property”, were reviewed for replacement.
69. The outcome of this analysis is presented in Annexure 3. According to the analysis the nominal replacement cost for the 10-year period amounts to R278 million. This is a mechanistic calculation of the replacement cost of assets in the asset registers that have reached the end of their useful lives.
70. We have amended the estimated replacement costs by spreading the budget over the 10-year period for each of the **Water-** and **Core** Functions.
71. This was achieved by allocating the real (2014) amounts equally to each of the 10 years. And then using an index to revert the amount back to nominal values. The outcome of this calculation is presented in the table below for each of the 2 main categories of functions:

TABLE 2: REVISION OF REPLACEMENT COST (RM)

WATER FUNCTION

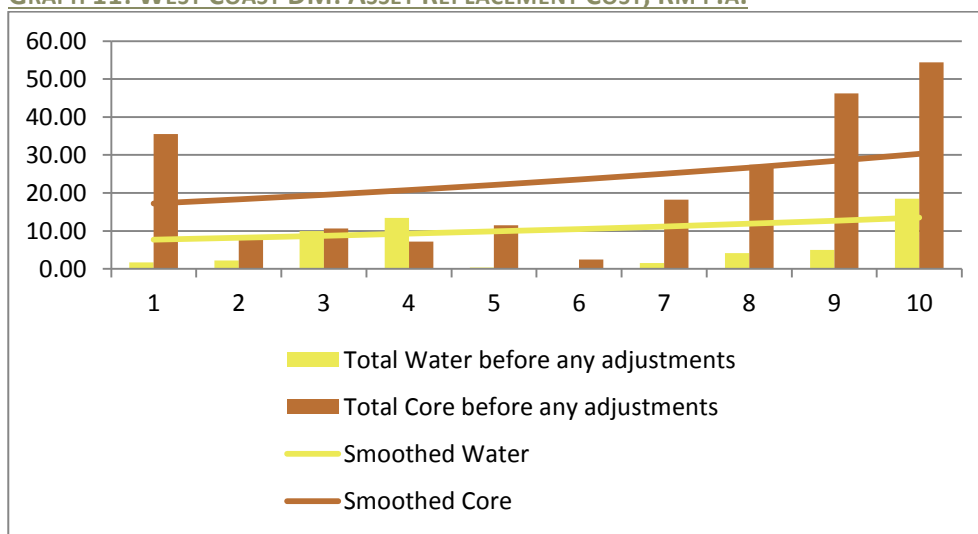
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total after deduction of doubtful Replacement Rm (Nominal)	0.17	1.78	8.57	13.08	0.18	0.00	1.06	3.48	2.77	9.03
Total after deduction of doubtful Replacement Rm (Constant 2014)	0.16	1.57	7.09	10.17	0.13	0.00	0.68	2.11	1.57	4.81
Smoothed Total Rm (Constant 2014)	7.20	7.20	7.20	7.20	7.20	7.20	7.20	7.20	7.20	7.20
Smoothed Total Rm (Nominal)	7.67	8.16	8.70	9.26	9.86	10.50	11.19	11.91	12.69	13.51

CORE FUNCTION

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total after deduction of doubtful Replacement Rm (Nominal)	35.51	7.68	10.61	7.17	11.46	2.46	18.27	27.39	46.24	54.43
Total after deduction of doubtful Replacement Rm (Constant 2014)	33.34	6.77	8.78	5.57	8.37	1.69	11.76	16.55	26.23	29.00
Smoothed Total Rm (Constant 2014)	16.13	16.13	16.13	16.13	16.13	16.13	16.13	16.13	16.13	16.13
Smoothed Total Rm (Nominal)	17.18	18.30	19.49	20.76	22.10	23.54	25.07	26.70	28.44	30.29

72. The graph below compares the Replacement Cost as determined from the asset registers and the smoothed Replacement cost after adjustment as described above:

GRAPH 11: WEST COAST DM: ASSET REPLACEMENT COST, RM P.A.



New Capital Investment

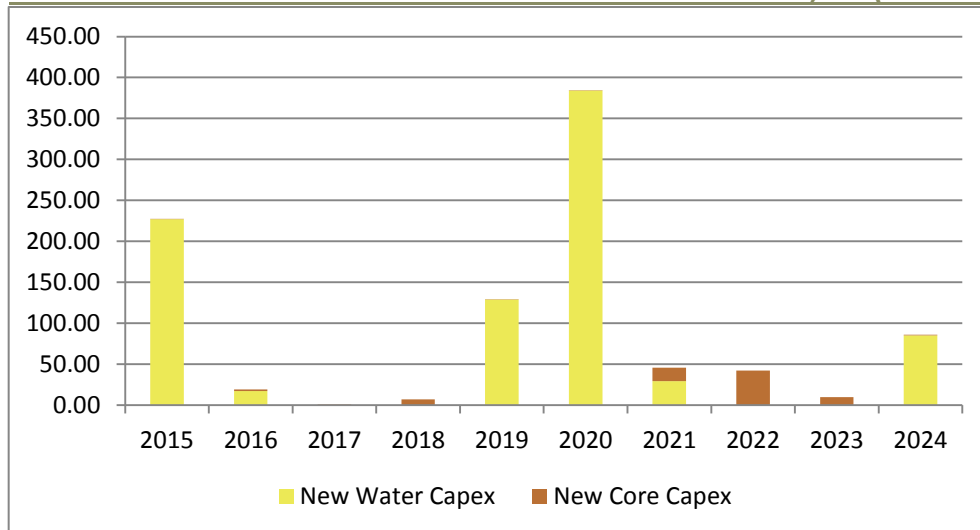
- 73. After reviewing the IDP (2012 – 2016) and the Water Master Plan and consulting the executives of the municipality we reached the following conclusions on the indicative new capital expenditure needs of the municipality. A short summary of the major items of new capital demand is presented in Annexure 4: New Capital Expenditure Assumptions.
- 74. A summary of the proposed “All Projects” new capital budget in the Water Master Plan is summarised below. The Master Plan presents the values of the different projects in one year only. We spread the values of each project over a number of years, 70% in the budgeted year, 25% in the prior year and 5% in the year after the budget year.

TABLE 3: NEW CAPITAL EXPENDITURE: RM (NOMINAL)

	Total	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
New Water Capex	871.40	227.03	17.27	0.00	0.00	128.77	383.99	29.21	0.00	0.00	85.13
New Core Capex	80.49	0.54	1.70	0.60	7.08	0.69	0.73	16.32	42.20	9.69	0.94
Total New Capex	951.89	227.57	18.97	0.60	7.08	129.45	384.72	45.53	42.20	9.69	86.07

- 75. The future new capital expenditure demand is illustrated in the graph below and illustrates the very irregular expenditure pattern, due largely to large Water Capex and the new regional waste site assumed to be implemented in 2021 to 2022.

GRAPH 12: WEST COAST DM: NEW CAPITAL EXPENDITURE DEMAND, RM (NOMINAL)



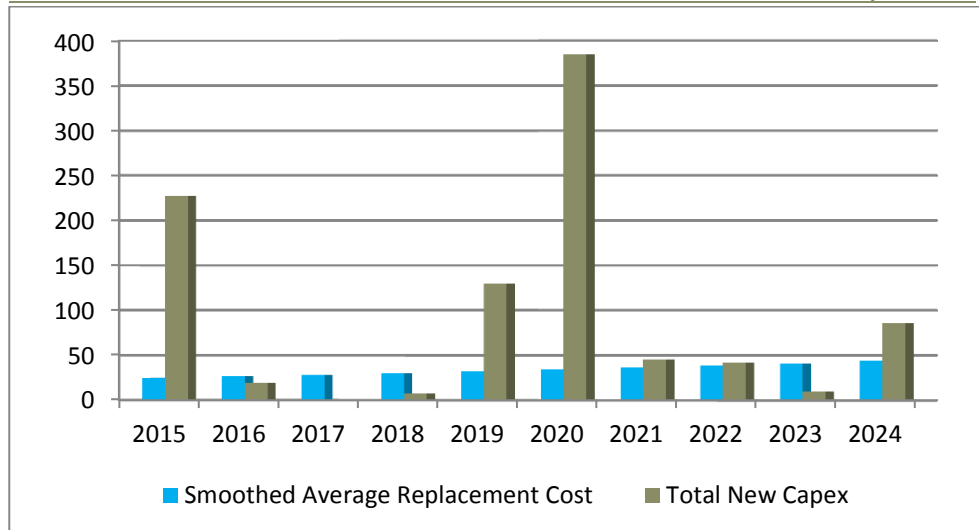
76. The combined total capex required to replace existing assets at the end of their useful lives and invest in new assets is summarised in Table 6 and illustrated in Graph 13 below.

TABLE 4: TOTAL 10 YEAR INDICATIVE CAPITAL EXPENDITURE DEMAND RM (NOMINAL)

	Total	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Smoothed Average Replacement Cost	335.3	24.9	26.5	28.2	30	32	34	36.3	38.6	41.1	43.8
Total New Capex	951.9	227.6	19	0.6	7.1	129.4	384.7	45.5	42.2	9.7	86.1
Total Capex	1 287.20	252.50	45.50	28.80	37.10	161.40	418.70	81.80	80.80	50.80	129.90

77. The first 5 years of this capex demand amounts to R525 million and is more conservative than the R368 million (excluding the Desalination Plant) that appears in the municipality’s 5-year budget. Suffice it to say that it is the affordable capex and not the capex demand that will inform our proposals in this report and the difference does not distract from the outcome of this report.

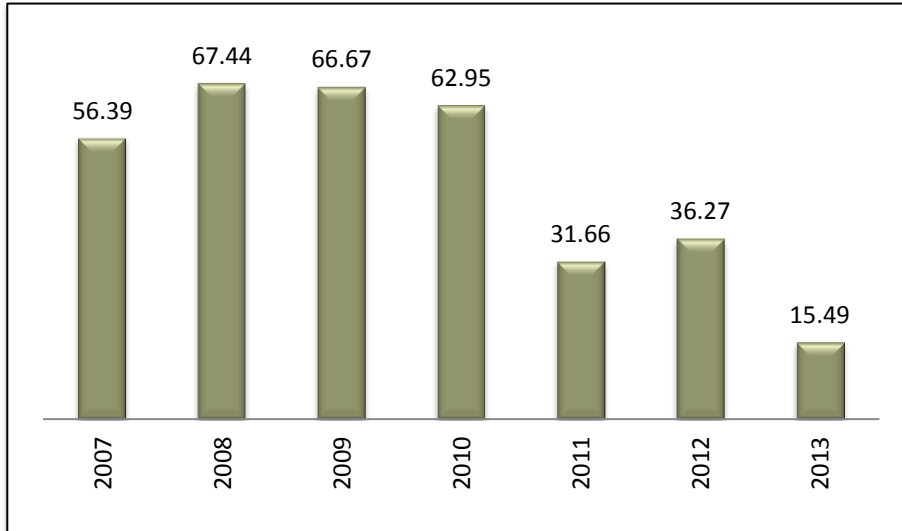
GRAPH 13: WEST COAST DM: TOTAL FUTURE CAPITAL EXPENDITURE DEMAND, RM P.A.



78. The total 10-Year Capital Expenditure Demand of R1 287 million is not affordable. In the next paragraph the Base Case capex affordability will be determined and discussed.

79. Graph 14 illustrates the historic capex that the West Coast DM expended, which also demonstrates the municipality’s ability (institutionally) to manage the implementation of a multi-million Rand capex budget. The annual capex never exceeded R67.4 million (2008) and in last 3 years averaged R27.8 million p.a.

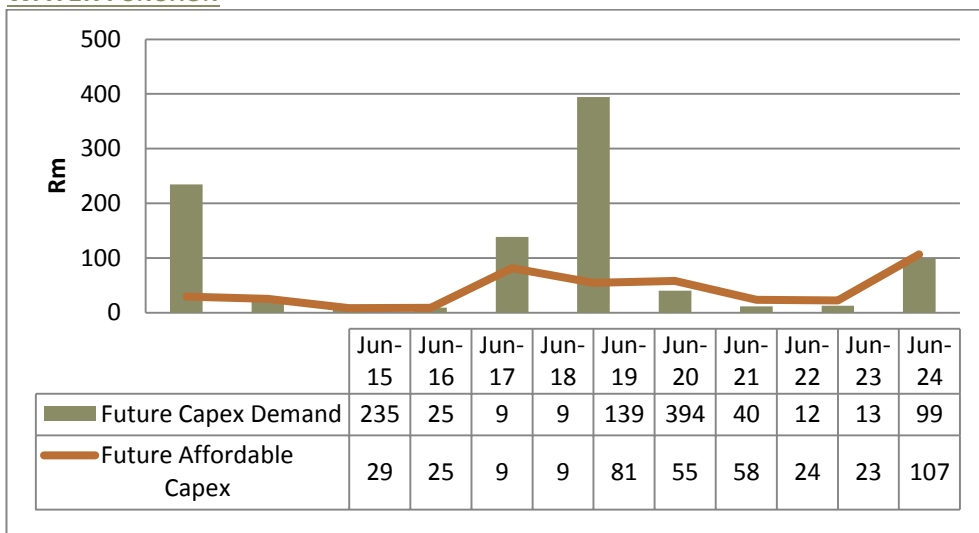
GRAPH 14: WEST COAST DM: HISTORIC CAPITAL EXPENDITURE, RM (NOMINAL)



7. AFFORDABILITY OF FUTURE CAPITAL EXPENDITURE

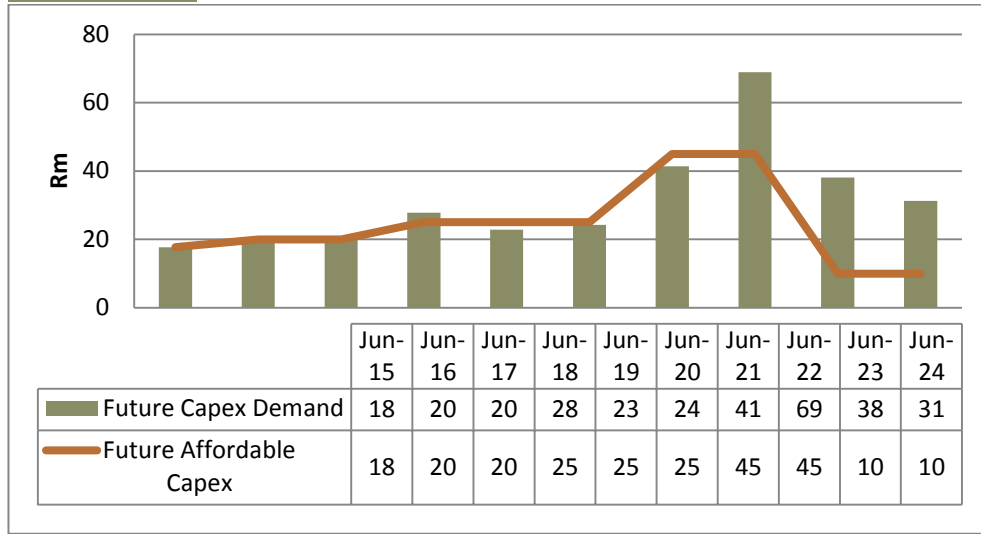
- 80. IPM has developed a “Capital Investment Model” that forecasts the future capex that a municipality can afford; based on the Revenues it can expect to generate.
- 81. The cash available to service any new debt is calculated by subtracting from the Revenues as determined in paragraph 4 above a waterfall of expenses, starting with operational expenses, existing debt service, investment for liquidity- and other reserves.
- 82. The New Debt that the municipality can afford plus any remaining cash as well as estimated capital grants and other capital contributions can then be allocated towards capital expenditure.
- 83. For purposes of this exercise the 2 categories of functions, viz. the **Water** Function and the **Core** Functions were analysed separately.
- 84. The total 10-year affordable **Water** Function capex amounts to R 420 million (nominal) and R 283 million (constant - 2014) terms. The affordable capex is approximately R555 million less than the future capex demand of R 975 million (Replacement and New Capex), and requires an adjustment downwards of the capex demand expectations.

GRAPH 15: WEST COAST DM: CAPITAL EXPENDITURE DEMAND VS AFFORDABILITY, RM P.A. WATER FUNCTION



- 85. The total 10-year affordable **Core** Function capex amounts to R 243 million (nominal) and R 173 million (constant - 2014) terms. The affordable capex is approximately R69 million less than the future capex demand of R312 million (Replacement and New Capex), and requires an adjustment downwards of the capex demand expectations.

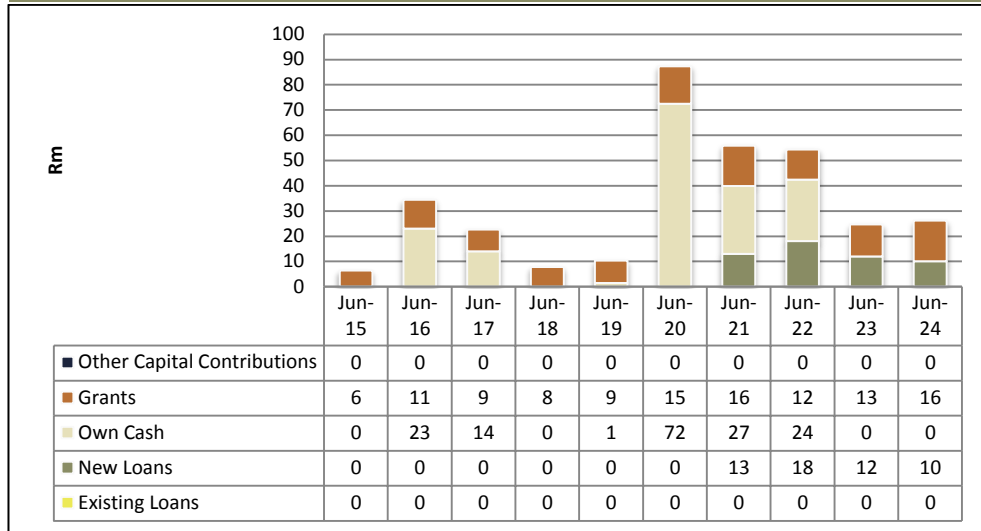
GRAPH 16: WEST COAST DM: CAPITAL EXPENDITURE DEMAND VS AFFORDABILITY, RM P.A. CORE FUNCTION



8. FUNDING OF FUTURE CAPITAL EXPENSES

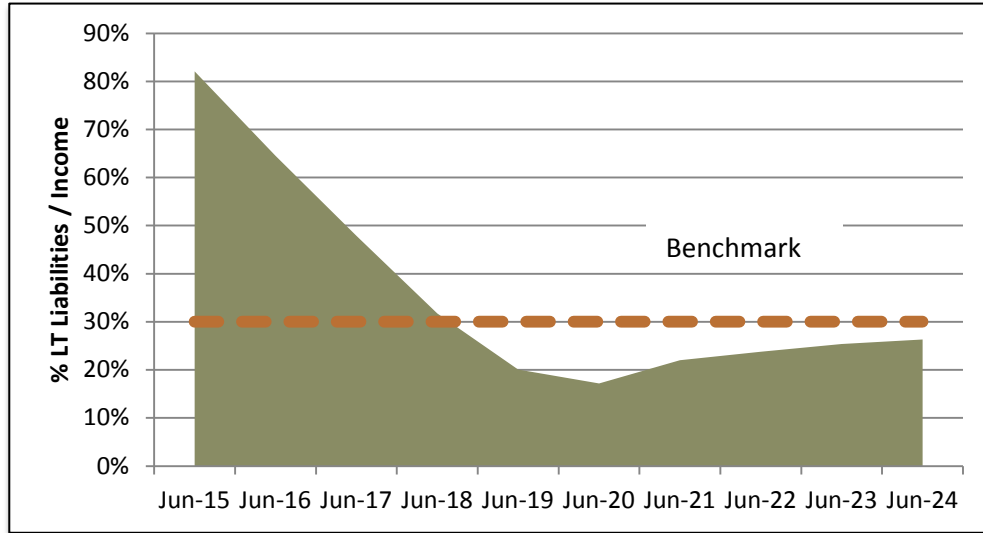
86. The funding mix to fund the future affordable capex is determined by the model by ensuring that the net cash flow, after funding cash backed reserves, is zero for future years. In accordance with the model the capex may be funded as follows:

GRAPH 17: WEST COAST DM: FUNDING OF FUTURE WATER CAPITAL INVESTMENT, RM P.A.

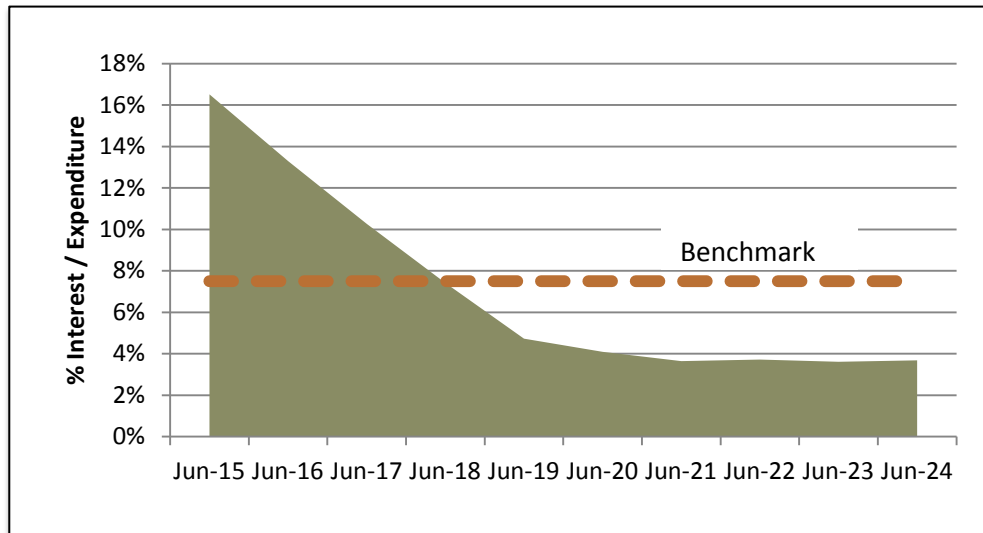


- 87. In the case of **Water** Capex the model predicts, from a cash flow perspective, that borrowing can only commence in FY 2020/21. There is a probability – albeit low - that lenders will be prepared to lend earlier on condition that the loans will be structured, e.g. that cash revenue streams are ceded to the lender in security. However, the municipality must be comfortable that sufficient cash will be generated to perform both its functions and service the additional debt.
- 88. A small percentage of the funding is assumed to come from capital grants in anticipation that the municipality will become the Water Authority. If this does not materialise, these amounts will be the equivalent capital contribution made by the municipalities.
- 89. The long term liabilities (“LTL”) as a percentage of Income already exceed the preferred benchmark of 30% and the Interest to Total Expense Ratio exceeds the benchmark of 7.5%. Only after 2018 will these benchmarks be satisfied. See graphs below.

GRAPH 18: WEST COAST DM: LONG TERM LIABILITIES AS A PERCENTAGE OF INCOME: WATER CAPEX

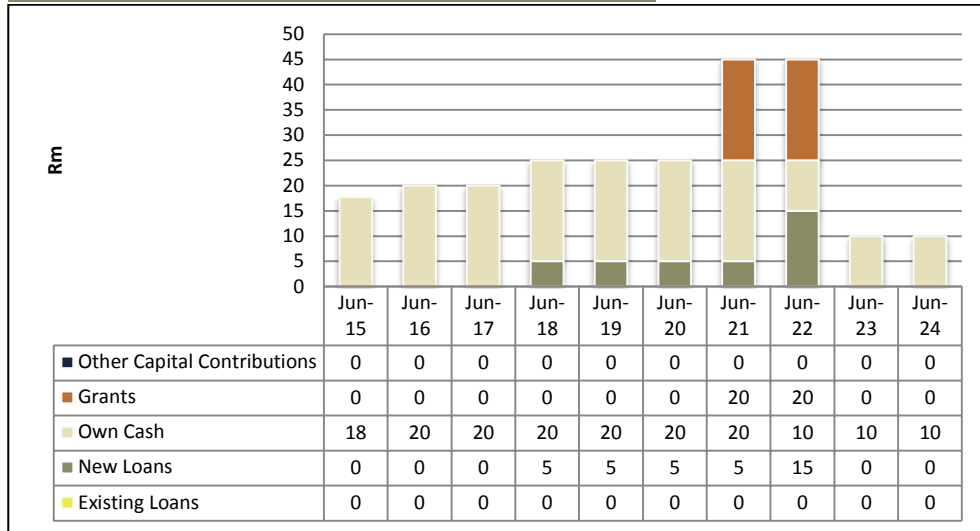


GRAPH 19: WEST COAST DM: INTEREST TO TOTAL EXPENSE RATIO: WATER CAPEX



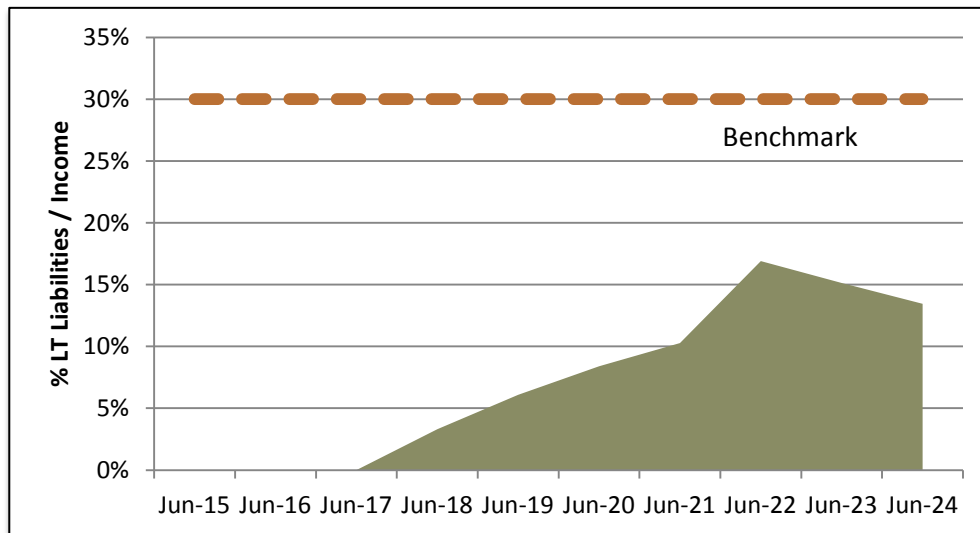
90. In the case of the **Core** Functions the funding mix is presented below:

GRAPH 20: WEST COAST DM: FUNDING MIX: CORE CAPEX

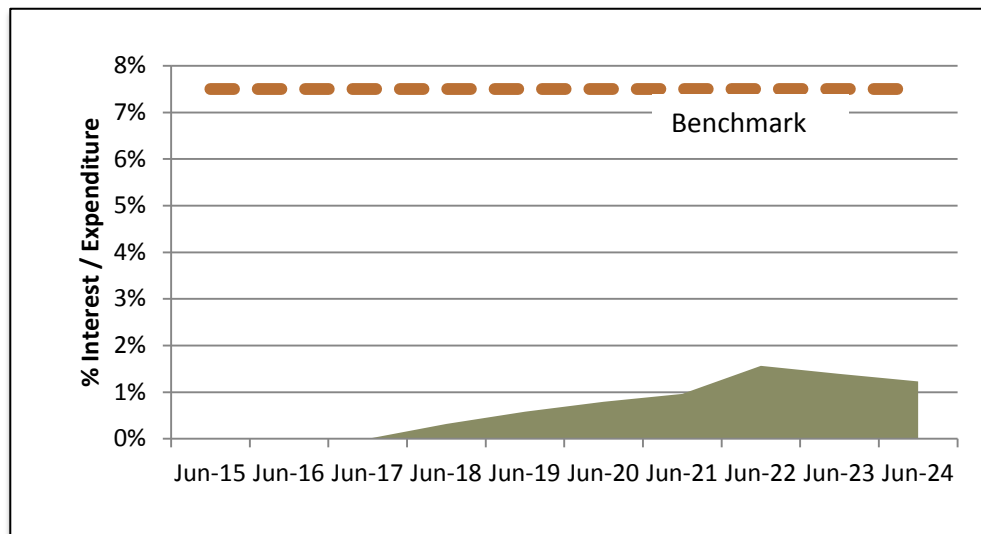


- 91. The capital grants that can be accessed are for the regional waste site assumed to be implemented in 2021-2022. Most of the capex is funded from own cash resources until 2018 when debt may be accessed at nominal amounts per year.
- 92. The 30% benchmark of long term liabilities as a percentage of Income and the 7.5% benchmark of Interest to Total Expense Ratio are both satisfied. See graphs below.

GRAPH 21: WEST COAST DM: LONG TERM LIABILITIES AS A PERCENTAGE OF INCOME: CORE FUNCTION CAPEX



GRAPH 22: WEST COAST DM: INTEREST TO TOTAL EXPENSE RATIO: CORE FUNCTION CAPEX



93. The 10-year funding mix consists of the following funding sources:

TABLE 5: FUNDING FUTURE AFFORDABLE CAPITAL EXPENDITURE

Sources of Funds	Amount WATER Capex Rm	%	Amount CORE Capex Rm	%	Total	%
New Loans	R 61 m	15%	R 35 m	14%	R 96 m	14%
Own Cash	R 245 m	58%	R 168 m	69%	R 412 m	62%
Grants	R 115 m	27%	R 40 m	16%	R 155 m	23%
Other	R 0 m	0%	R 0 m	0%	R 0 m	0%
Total	R 420 m	100%	R 243 m	100%	R 663 m	100%

94. The amount of Grants was informed by historical trends but also taking into account the ability of the municipality to co-fund some of the grant allocations from own resources. Own Cash remains the biggest source of capex funding and amounts to 62% of all funding sources in the next 10 years.

9. FINANCIAL MODEL

95. The proposed financial plan is based on the assumptions in the Base Case Financial Model. We are cognisant of the fact that future cash flows may be influenced by a variety of variables. The assumptions made for the Base Case are summarized below. These general assumptions remained the same for the 2 categories of functions, vs **Water-** and **Core** Functions. The variables that were kept constant for all scenarios are listed in Table 8 below.

TABLE 6: BASE CASE ASSUMPTIONS: GENERAL

Model Period	10 Years: 01-07-2014 to 30-06-2024
Population growth rate	Years 1 to 4: 1.80% p.a. Years 5 to 8: 1.55% p.a. Years 9 to 10: 1.40% p.a.
GVA Growth Rate	2.7% p.a.
CPI growth rate	6.50% p.a.
Days Receivable	35 days
Days Payable	45 days
Depreciation rate	4.5% p.a.
Investment Property: Acquisition	R 0 million
Investment Property: Disposal	R 0 million
No of months liquidity reserve	1 month
% of CRC Assets in Capital Replacement Reserve	0.0%
Interest Rate on Positive Bank Balance	5.0%
Interest Rate on Overdraft	10.0%
Opening balances	30-06-2013 (adapted)
New debt tenor	15 Years
New debt interest rate	CPI + 2.50% p.a.
Capital Grants as a % of Total Revenue	10.0%

96. Most of these variables are self-explanatory. Suffice it to highlight that the GVA growth rate is 2.7% p.a. average, CPI growth rate is 6.5% p.a., no acquisition nor disposal of investment property is assumed. A one month liquidity reserve is required.

97. The variables that were changed for scenario testing are presented in Table 9 below:

TABLE 7: BASE CASE ASSUMPTIONS: SCENARIOS

	WATER	CORE
Year when structural change in salaries & wages is implemented	2016	2016
Structural change in salaries and wages in 2016	0.0%	-10.0%
Escalation of salaries & wages above CPI	2.0%	2.0%
Escalation of expenditure on electricity services above CPI	0.0%	2.0%
Escalation of expenditure on water services above CPI	1.0%	1.0%
Escalation of expenditure on repairs & maintenance above CPI	5.0%	2.0%
Collection Rate	98.0%	98.0%

98. In the **Water** Base Case it is assumed that no structural change in the expenses for Salaries and Wages will be effected, but that this account will be reduced through a rationalisation by 10% in 2016 in the **Core** Base Case. The major expense items will all escalate at rates as indicated in the table at rates higher than the assumed CPI of 6.5% in the 10-year period. The Repairs and Maintenance item which will escalate at 5% above CPI for **Water** and 2% for the **Core** Functions. The revenue collection rate is 98%, i.e. 2% will be impaired. This rate was informed by historical collection rates.

99. The outcome of the Base Case is reflected in the table below:

TABLE 8: BASE CASE OUTCOME

	Water	Core	
10-year average no. of months liquidity	1.0	1.0	months
Average annual % increase in Revenue	7.4%	6.5%	% p.a.
Surplus accumulated during 10 years	403	12	Rm
10-year cash from operations after debt service	339	34	Rm
10-year LT Debt Raised	61	35	Rm
10-year capital investment programme	420	243	Rm
Cash investments after 10 years	102	28	Rm

100. In both the **Water** and **Core** Base Case a liquidity reserve of 1 month expenditure can be maintained. The annual average growth in revenues amounts to 7.4% p.a. for **Water** and 6.5% for the **Core** functions.

101. Over the 10 year period a surplus of R403 million for the **Water** and only R12 million for the **Core** Function is accumulated. Operating cash after debt service of R339 million and R34 million is available respectively. Long term debt of R61 million for **Water** and R35 million for the **Core** Functions can be raised for a total capital investment programme of R420 and R243 million respectively. The cash investments

after 10 years to back a liquidity reserve amount to R102 million and R28 million for the **Water** and **Core** Functions respectively.

102. The uncertain future functions and reliance on transfers from national and provincial government limit the opportunities for the municipality.

103. The summary projected financial statements for the Base Case are presented in Annexure 5: Base Case Summary Projected Financial Statements, and a summary Statement of Financial Performance for the following outcomes is presented below, viz.

- Outcome 1: The **Water-**, **Roads-** and **Core** functions are performed during the forecast period.
- Outcome 2: Only the **Water-** and **Core** functions are performed
- Outcome 3: Only the **Core** function is performed.

TABLE 9: SUMMARY STATEMENT OF FINANCIAL PERFORMANCE: OUTCOME 1: WATER, ROADS & CORE

YEAR	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
REVENUE										
Water Revenue	107.06	114.65	122.17	130.17	138.46	147.74	160.05	173.99	188.20	202.21
Roads Revenue	77.00	82.01	87.34	93.02	99.06	105.50	112.36	119.66	127.44	135.72
Core Revenue	120.52	128.32	136.69	145.57	155.03	165.10	175.83	187.24	199.40	212.36
Interest Income	0.81	0.91	0.95	1.01	1.09	1.14	1.22	1.28	1.36	1.45
TOTAL REVENUE	305.39	325.88	347.14	369.77	393.63	419.48	449.46	482.17	516.41	551.74
EXPENDITURE										
Salaries	-83.70	-84.79	-92.00	-99.82	-108.30	-117.51	-127.50	-138.33	-150.09	-162.85
Water services	-10.08	-10.83	-11.64	-12.52	-13.46	-14.47	-15.55	-16.72	-17.97	-19.32
Roads Expenditure	-77.00	-82.01	-87.34	-93.02	-99.06	-105.50	-112.36	-119.66	-127.44	-135.72
Repairs & maintenance	-28.23	-31.00	-34.05	-37.40	-41.09	-45.16	-49.64	-54.57	-60.00	-65.98
General expenses	-62.23	-66.28	-70.59	-75.18	-80.06	-85.27	-90.81	-96.71	-103.00	-109.69
TOTAL EXPENDITURE	-261.25	-274.91	-295.62	-317.93	-341.98	-367.90	-395.85	-425.99	-458.50	-493.56
EBITDA										
Interest on LTD	-10.88	-9.48	-7.93	-6.66	-5.18	-5.33	-5.59	-7.29	-7.40	-7.75
Interest BB/[OD]	7.87	7.04	6.87	7.42	7.90	5.09	4.28	4.00	5.50	7.25
Depreciation	-14.48	-15.94	-17.27	-17.79	-18.53	-22.48	-25.05	-28.57	-30.39	-30.49
TOTAL SURPLUS/[DEFICIT]	26.65	32.59	33.19	34.82	35.85	28.86	27.25	24.32	25.62	27.18

TABLE 10: SUMMARY STATEMENT OF FINANCIAL PERFORMANCE: OUTCOME 2: WATER & CORE

YEAR	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
REVENUE										
Water Revenue	107.06	114.65	122.17	130.17	138.46	147.74	160.05	173.99	188.20	202.21
Roads Revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Core Revenue	120.52	128.32	136.69	145.57	155.03	165.10	175.83	187.24	199.40	212.36
Interest Income	0.81	0.91	0.95	1.01	1.09	1.14	1.22	1.28	1.36	1.45
TOTAL REVENUE	228.39	243.87	259.80	276.75	294.57	313.98	337.10	362.51	388.97	416.02
EXPENDITURE										
Salaries	-83.70	-84.79	-92.00	-99.82	-108.30	-117.51	-127.50	-138.33	-150.09	-162.85
Water services	-10.08	-10.83	-11.64	-12.52	-13.46	-14.47	-15.55	-16.72	-17.97	-19.32
Roads Expenditure	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Repairs & maintenance	-28.23	-31.00	-34.05	-37.40	-41.09	-45.16	-49.64	-54.57	-60.00	-65.98
General expenses	-62.23	-66.28	-70.59	-75.18	-80.06	-85.27	-90.81	-96.71	-103.00	-109.69
TOTAL EXPENDITURE	-184.25	-192.90	-208.28	-224.91	-242.92	-262.40	-283.49	-306.33	-331.06	-357.84
EBITDA	44.14	50.97	51.53	51.84	51.66	51.58	53.61	56.18	57.91	58.18
Interest on LTD	-10.88	-9.48	-7.93	-6.66	-5.18	-5.33	-5.59	-7.29	-7.40	-7.75
Interest BB/[OD]	7.87	7.04	6.87	7.42	7.90	5.09	4.28	4.00	5.50	7.25
Depreciation	-14.48	-15.94	-17.27	-17.79	-18.53	-22.48	-25.05	-28.57	-30.39	-30.49
TOTAL SURPLUS/[DEFICIT]	26.65	32.59	33.19	34.82	35.85	28.86	27.25	24.32	25.62	27.18

TABLE 11: SUMMARY STATEMENT OF FINANCIAL PERFORMANCE: OUTCOME 3: ONLY CORE

YEAR	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
REVENUE										
Water Revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Roads Revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Core Revenue	120.52	128.32	136.69	145.57	155.03	165.10	175.83	187.24	199.40	212.36
Interest Income	0.46	0.52	0.53	0.57	0.62	0.67	0.72	0.77	0.83	0.90
TOTAL REVENUE	120.97	128.84	137.22	146.14	155.65	165.77	176.54	188.02	200.24	213.25
EXPENDITURE										
Salaries	-60.29	-59.38	-64.43	-69.91	-75.85	-82.30	-89.29	-96.88	-105.12	-114.05
Water services	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Roads Expenditure	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Repairs & maintenance	-15.90	-17.25	-18.72	-20.31	-22.04	-23.91	-25.94	-28.15	-30.54	-33.13
General expenses	-42.22	-44.97	-47.89	-51.00	-54.32	-57.85	-61.61	-65.61	-69.88	-74.42
TOTAL EXPENDITURE	-118.41	-121.60	-131.04	-141.22	-152.20	-164.05	-176.84	-190.64	-205.53	-221.60
EBITDA	2.57	7.24	6.18	4.92	3.44	1.72	-0.30	-2.62	-5.30	-8.35
Interest on LTD	0.00	0.00	0.00	-0.45	-0.88	-1.30	-1.70	-2.98	-2.86	-2.73
Interest BB/[OD]	7.50	7.04	6.69	6.28	5.76	5.09	4.28	3.28	2.52	1.59
Depreciation	-2.97	-3.63	-4.37	-5.07	-5.97	-6.83	-7.64	-9.33	-10.93	-10.89
TOTAL SURPLUS/[DEFICIT]	7.09	10.65	8.50	5.68	2.34	-1.32	-5.37	-11.65	-16.56	-20.37

104. Based on the surplus accumulated in the long term it is financially more beneficial for the municipality to perform both its **Core** functions as well as the **Water** Function. The surplus that the municipality can achieve if it performs both the **Water** and the **Core** functions remain very consistent in nominal terms for each of the 10 years. However,

if it were to perform the Core function only, the surplus will decrease each year from a surplus of app. R7 million in 2015 to a deficit of R20 million in 2024. The negative trend is not sustainable and requires both an increase in revenues as well as a reduction in expenditure.

- 105. Due to the fact that it performs the **Roads** Agency function at cost there is no difference between Outcome 1 and 2. If it were to add a 10% margin to its **Roads** function, and assuming that it continues with this agency function it would accumulate an additional R104 million in 10 years.
- 106. A scenario analysis shows the changes in outcome for a change of a number of input variables. One combined “Upside”- and one “Downside” scenario were evaluated for each of the **Water** and **Core** Functions:

TABLE 12: UPSIDE- AND DOWNSIDE SCENARIO: INPUT VARIABLES

Description	WATER		CORE	
	Upside	Downside	Upside	Downside
Year when structural change in salaries & wages is implemented	2015	2015	2016	2016
Structural change in salaries and wages in 2016	-5.0%	3.0%	-12.0%	0.0%
Escalation of salaries & wages above CPI	1.0%	3.0%	2.0%	3.0%
Escalation of expenditure on electricity services above CPI	0.0%	3.0%	1.0%	3.0%
Escalation of expenditure on water services above CPI	0.0%	3.0%	1.0%	3.0%
Escalation of repairs & maintenance above CPI	2.0%	8.0%	1.0%	5.0%
Collection Rate	99.0%	95.0%	99.0%	93.0%

- 107. In the case of the **Water** Function the “Downside” scenario’s collection rate declines to 95% and expenses are not contained. In the “Upside” scenario the collection rate improves to 99% and expenses are contained, including the reduction by 5% of the Salaries and Wages bill through rationalisation.
- 108. In the case of the **Core** Function the “Downside” scenario’s collection rate declines to 93% and expenses all increase by several percentage points above CPI. In the “Upside” scenario the collection rate improves to 99% and expenses are contained, including the reduction by 12% of the Salaries and Wages bill through rationalisation.
- 109. The outcome of these two scenarios illustrates the sensitivity of this combination of variables.

TABLE 13: UPSIDE- AND DOWNSIDE SCENARIO: OUTCOME

Description	WATER		CORE	
	Upside	Downside	Upside	Downside
10-year average no. of months liquidity	1.0	1.0	1.0	0.8
Average annual % increase in Revenue	7.4%	7.4%	6.5%	6.5%
Surplus accumulated during 10 years	498	264	53	-226
10-year cash from operations after debt service	443	185	75	-187
10-year LT Debt Raised	61	61	35	20
10-year capital investment programme	461	354	243	175
Cash investments after 10 years	166	15	69	-158

110. In the case of the **Water Function** the accumulated surplus for the 10-year period varies from almost R500 million in the Upside to R264 million in the Downside. Debt of R61 million can be raised and is constrained in both cases by the exceeding of benchmarks as discussed earlier in this report. The capital investment programme for the 2 scenarios varies between R461 million and R354 million, more than R100 million difference. Investments are precariously low in the case of the Downside scenario.
111. The **Core Function** Base Case is already at its limits and the Upside does not improve this significantly. Any negative input, such as the Downside scenario does however place the Core Function in a very precarious position, where liquidity of less than 1 month is available on average, surplus is reduced by R226 million, cash from operations is negative to the extent that the municipality will hold an overdraft of R158 million after 10 years should the council not implement corrective actions in the interim.

10. LIQUIDITY & RATIO MANAGEMENT

112. Healthy Liquidity is considered the key factor to effectively managing the financial viability of WCDM in the longer term in conjunction with the necessary financial ratios against which to monitor actual performance. A proposed framework is provided below, within which to manage liquidity, operational performance and external gearing. The indicators provided are interrelated as the weakness in one could be the reason another is limited and therefore the combined performance in terms of all indicators needs to be considered to actively monitor financial performance and against these indicators the turn-around in performance can be measured and reported on to the Management, Council and key stakeholders.
113. In January 2014 National Treasury issued MFMA Circular No. 71 under the Municipal Finance Management Act No. 56 of 2003. The purpose of this circular is to provide a set of uniform key financial ratios and norms suitable and applicable to municipalities and municipal entities. The MFMA Circular 71 provides a far broader base of ratios as a guideline than proposed below. As an indication the framework below will reflect the proposed MFMA standard where similar ratios are proposed.
114. IPM considers these ratios as the key indicators and the broader MFMA framework can be considered by the municipality as it further promotes prudent financial management.
115. A draft liquidity policy has been submitted to the Municipality and is attached hereto in Annexure 6, but in essence the policy recommends the following (to be agreed with the Client).

Liquidity Ratios

116. Standard Liquidity Ratio (The ability to fully provide for current liabilities with current assets.)
- Minimum norm: 1:1
Healthy norm: 2:1
MFMA norm: 1.5 – 2:1
117. Quick Liquidity Ratio (The ability to provide for current liabilities with liquid current assets therefore current assets including only 30 day debtors.)
- Minimum norm: 1:1
Healthy norm: 2:1
MFMA norm: None

118. Minimum Liquidity Ratio (Holding sufficient cash and investments to fully provide for the sum of unspent conditional grants, short term and long term provisions, ceded investments and at least three month's of operating expenditure (excluding non-cash expenses).

Minimum norm: 1:1

Healthy norm: 1:1

MFMA norm: 1 – 3 months

MFMA calculation excludes cash backed reserves and short term provisions, however an additional ratio is stipulated in Circular 71 regarding the Level of Cash Backed Reserves.

119. Overdraft to Total Income (Preferably a municipality should not have an overdraft facility at all at year end, however should an overdraft facility be used it should not exceed 5% of Total Income.)

Maximum norm: 5%

Healthy norm: 0%

MFMA: None

120. Other ratios as stipulated below are to be managed at levels applicable to WCDM and although industry benchmarks exist it is more prudent to set objectives given the financial context of WCDM. The following ratios are recommended for consideration and it would be prudent to report hereon on a quarterly basis to the Finance Committee:

Operational Ratios

121. Total Accounting Surplus (The ability to post an accounting operational surplus where Total Income exceeds Total Expenditure with a positive margin.)

Minimum norm: Break-even of the above calculation

Healthy norm: Positive margin that is maintained

MFMA norm: Break-even or >0

122. Cash Operating Surplus (The ability to generate surplus cash from operational performance therefore Total Income less conditional transfers less total expenditure excluding non-cash items adjusted for changes in working capital should be positive.)

Minimum norm: Break-even of the above calculation

Healthy norm: Positive margin that is maintained

MFMA norm: None

123. Repairs and maintenance to Total Expenditure (The ability of the municipality to effectively maintain the infrastructure assets from which it derives its primary income.)

Minimum norm: 5%

Healthy norm: 7%

MFMA norm: 8%

MFMA calculation differs in using the Property, Plant and Equipment (carrying value) as the base of the ratio instead of Total Expenditure.

124. Staff Costs, Allowances and Wages (The level of staff costs, allowances and wages to total operational expenditure needs to be effectively managed to ensure that costs aren't considered too high, but also that the municipality is not under capacitated and employment levels are too low.)

Minimum norm: 25%

Healthy norm: 25% to 30%

MFMA norm: 25% to 40%

External Gearing Ratios

125. It is important to note that External Gearing ratios are subject to Liquidity ratios being within in recommended levels.

126. External Loan Liability Paid Coverage Ratio (The ability to at least cover the External Interest and Capital Payable with the cash generated from operations before interest.)

Minimum norm: 1:1

Healthy norm: 2:1

MFMA norm: None

127. External Interest and Capital Paid to Total Expenditure (The percentage of Total Expenditure utilised to service external loan repayments.)

Maximum norm: 10%

Healthy norm: 7.5%

MFMA norm: 6% - 8%

128. External Gearing Ratio (The level to which the municipality has geared itself is calculated as Total External Interest Bearing Debt as a percentage of Total Income less conditional grant funding.)

Maximum: 35%

Healthy norm: 30%

MFMA norm: 45%

11.RECOMMENDATIONS

We recommend that the outcomes of our assessments, financial modelling and interaction with management are adopted for inclusion in a long term financial strategy of the West Coast District Municipality:

11.1. Role and Function of District Municipalities – WCDM’s Advocating Role

Ambiguity regarding the functions of district municipalities that exist in legislation, allocation of an increased number of unfunded mandates and division of certain functions between local and district municipalities all contribute to an uncertainty about the future role and functions of district municipalities.

This uncertainty is made worse by the fact that district municipalities are to a large extent reliant on transfers from the National Treasury, and whereas funding should follow function there exists confusion about the appropriate functions to perform and the funding instruments which the district can expect in future.

The prominence of the WCDM among its peers should be brought to bear in advocating, together with organised local government (e.g. SALGA) in promoting greater clarity of the role and function of District Municipalities as well as funding of these functions at national government level.

11.2. Facilitating Economic Development

The WCDM’s efforts in facilitating economic development in the district should proceed with increased intensity to counter the low economic growth rate and high population growth rate of the district and thereby turn around the stagnant constant (2005) municipal revenue growth experienced in the recent past. However, the WCDM should avoid performing an implementing role and rather participate together with other role players in promoting economic development.

11.3. Liquidity Policy

WCDM has a healthy and prudent approach to manage its liquidity, by making sufficient provision for the short as well as long term provisions, statutory requirements and three months’ of operating expenditure. WCDM derives useful interest income from its substantial cash reserves. It would be prudent to formally adopt a Liquidity Policy of which a draft has been attached to this report for Council’s consideration.

11.4. Maintain Healthy Credit Rating of Single A

WCDM is to maintain its healthy Credit Rating of Single A, through prudent management of liquidity, the adoption of a Liquidity Policy and a related Borrowing, Funds and Reserves Policy (drafts attached for consideration). Further, the main risk of managing expenses against revenue needs to be mitigated by realistic future planning within the MTREF and the Long Term Financial Plan.

11.5. Management Accounts of Functions

The WCDM has three main sources of revenue, viz. fiscal transfers for Core mandated functions and roles, management fees earned for managing the Water services and allocations received for providing the Roads Agency function.

Whereas the “Votes” system allows the accounting of the functions we recommend that formal management accounts for each of these functions are prepared and submitted to management on a quarterly basis in a digestible format to enable Management and Council to use the information to make the necessary strategic financial decisions.

The management accounts, indicating the financial performance of each function separately and collectively, will aid management in optimally managing these functions, identifying loss making functions and allow trend analysis to anticipate future problems. The accounts will also improve the understanding of the financial implications of revised mandates in future, e.g. if only the Core functions were to proceed without significant adjustment to the cost structure of the municipality, the operations will rapidly progress into a deficit position, as illustrated in paragraph 9 of the report.

11.6. Avoid Performing Non-Profitable Functions

In the light of paragraph 11.5 and the limited future resources available, the WCDM should limit the number of non-profitable functions it performs and attempt to pass these on to the local municipalities or the provincial government (e.g. Integrated Transport Planning, Spatial Development Framework).

11.7. Cost Recovery of Agency Services

There is some doubt whether all costs, especially overhead expense and management costs, are appropriately allocated to the different functions. To avoid a situation where the municipality in essence subsidises its principals in the case of an agency function, we recommend that the municipality increase the pricing of the agency services it delivers, at the first possible contractual opportunity. All costs must be recovered and a management fee (reflective of all unaccounted overhead expenses

and management costs), must be added to these costs, through well-designed fees/tariff structure and judicious application thereof. Services it currently renders at cost should include a margin (to the extent possible) or an enlarged management fee, e.g. Roads Agency.

11.8. Additional Revenue Sources

Because additional or new revenue sources are difficult to identify, we recommend that the WCDM should encourage staff to identify other revenue sources. We believe that staff are well positioned in their daily tasks to identify such sources but should be incentivized to do so.

Areas that could be considered include, different sources of grants, shared services, sub-letting of council property, technical assistance fees to local municipalities, fees for fire inspections, training and monitoring, fees for environmental health checks, ensuring that connection fees for water users are reflective of full- and not just marginal costs, etc.

The full recovery of Agency Services as discussed under paragraph 11.7 can also be treated as identification of a revenue stream due to WCDM.

11.9. Partnership with the Short Term Insurance Sector

The fire services that the municipality provides to its communities reduce the risks and concomitant underwriting expense of the short term insurers. Management has identified that insurers in Australia part fund the firefighting expenses.

We recommend that the WCDM initiate talks with SALGA for this association to negotiate collectively with the short term insurance sector in obtaining part funding for its fire services.

11.10. Attempt to save on Salaries and Wages

Salaries and wages are prescribed and subject to collective bargaining, with little influence that the municipality can exert. The employee costs constitute WCDM's largest expense item and the escalating nature of this expense and requirement to make provision for employee benefits, will challenge the WCDM to manage this expense effectively within the available revenue base which is expected to show limited growth.

In the absence of a clear understanding of the municipality's future role and function and the funding thereof, it will become increasingly more difficult to fund the municipality's existing organogram.

The structure needs to be reviewed regularly to ensure that the municipality remains sustainable. The implementation of a rationalisation of the Core function staff must be considered as one of the alternatives.

11.11. Sharing of Services

Sharing of services provides an opportunity to share concomitant expenses amongst all institutions that share the service, especially in cases where the capacity is not fully utilised by any one institution.

In an attempt to minimise expenditure the WCDM is advised to assess the cost/benefit of sharing services with other municipalities. The municipality best equipped and/or resourced in a certain area could deliver these services to a number, if not all the others, e.g. legal, internal audit, risk management, risk management, fire services, etc.

11.12. Manage Expenses

The municipality manages its expenses prudently and we recommend that it ensures that annual increases are reflected in tariffs and fees.

11.13. Avoid saving on Repairs and Maintenance

Repairs and Maintenance costs have been cut back in the past two financial years and whilst this is understood given the flat revenue base it may result in infrastructure not being adequately maintained and requiring replacement at high and unaffordable capital expense in the near future. The municipality is advised to adjust its Repairs and Maintenance budget upwards, by at least 5 percentage points above CPI p.a. for the Water Function and 2 percentage points above CPI p.a. for the Core Function in an attempt to achieve the MFMA Circular 71 targets of 8% of the carrying value of Property, Plant and Equipment in the longer term.

11.14. Introduce Integrated Asset Management

Integrated asset management aims to meet a required level of service, in the most cost effective manner, through the management of assets for present and future customers. This encompasses practices associated with considering management strategies as part of the asset lifecycle by minimizing long term costs. Practices such as management of assets, asset information (such as location and condition), demand forecasts, risk assessment and mitigation, maintenance procedures, refurbishment and renewal procedures.

The municipality's comprehensive asset register is a first step in implementing comprehensive asset management. We recommend that it now migrates (over a

number of years) to implementing integrated asset management where expenditure on new infrastructure, replacement infrastructure and repairs and maintenance expenditure are optimised.

11.15. Prioritisation of Projects

In addition to the recommendation made in paragraph 0, in nominal terms the municipality can afford a 10-year capital investment programme of app. R 420 million for the Water- and R 243 million for the Core Function. The demand already exceeds this amount by R 555 million for Water and R 69 million for the Core Function.

Whereas the asset register provides guidance on the assets that need replacement, a clear prioritisation of future new infrastructure projects must be undertaken. The municipality should not neglect the replacement of its existing assets and a prioritisation should compare the need for new infrastructure with the need of replacing existing infrastructure.

11.16. Consider a Capital Replacement Reserve (“CRR”)

The municipality’s accumulated surplus and associated cash investments are sufficient to cater for liquidity and capital replacement. However, in an attempt to build up dedicated reserves for all expenses associated with capital assets, especially emergency replacement, it would be prudent to dedicate a portion of the surpluses as a ring fenced CRR and preferably invest the cash in a separate investment account.

The municipality could furthermore consider the proposals made in the draft Borrowing, Funds and Reserves Policy attached, in which the objective is adopted to transfer depreciation charges and capital contributions to the cash backed Capital Replacement Reserve.

11.17. External Gearing to be Managed Prudently

External gearing has in the short term reached its maximum levels. The WCDM should avoid increasing its long term liabilities (“LTL”) in the next 3 years or at least until the acceptable benchmarks of 30% for LTL/Income and 7.5% for Interest/Expenditure for each of its Functions is reached.

Once gearing is below these benchmarks and sufficient liquidity and capital replacement reserves are held, the municipality should consider using this source of capital funding also for the WCDM’s other funding needs and not only for Water infrastructure.

11.18. Maximise Fiscal Transfers

WCDM has mainly used own funds and external gearing to fund capital infrastructure. As these resources have declined, capital investment has reduced from R 60 million per annum to R 30 million per annum. WCDM has maximised gearing in the short term. It would therefore be prudent to seek opportunities to obtain fiscal funding to add to the funding mix. Explore all grant programmes accessible to the municipality.

11.19. Explore the Feasibility of Providing All Fire Services

It is generally accepted that fire services delivered by local municipalities are limited to local structural fires, whereas the services delivered by the district municipalities encompass regional bush and veld fires as well as fires of hazardous materials. However, the WCDM provides the only professional fire service in all 5 local municipalities. In the event of a disaster it is invariably expected of the WCDM to provide assistance.

Explore the feasibility of providing all fire services in the district including those services normally expected of a local municipality. This requires a presence in a number of towns and appropriate equipping of staff. Before such an arrangement can however be negotiated a source of funding for this service has to be identified, including a dedicated levy linked to the property rates that local municipalities charge as well as increased transfers from national government.

11.20. Obtain Responsibility as Water Authority

The WCDM should attempt to become the Water Authority for the entire district. By utilising economies of scale, all municipalities will benefit. Also the provision of this commercial function will improve the revenue generating ability of the municipality. If this strategy fails the WCDM should at least attempt to extend its current Water Supply Contract at more beneficial terms.

11.21. Dispose of Ganzekraal Resort

It is our understanding that the Ganzekraal Resort is operating at a loss. The land on which the resort is located is subject to a land claim which prevents it from being alienated at this time, although Cape Nature has indicated an interest to obtain the land.

The WCDM is encouraged to dispose of the Ganzekraal Resort as soon as possible alternatively explore the cost-benefit of outsourcing the management of the resort. In the event that the land claim remains unresolved introduce incentives to the resort management in an attempt to increase the number of bed-nights sold.

Should this strategy not be considered feasible, it is proposed that Management and Council agree on the approach to be taken to address this matter.

11.22. Implementation of Recommendations

We also propose that each of the recommendations that the WCDM agrees with are allocated to staff to implement as part of their key performance measures and that the Municipal Manager oversees this cross cutting “Project”.

**ANNEXURE 1: INDEPENDENT FINANCIAL ASSESSMENT AGAINST THE
BACKGROUND OF WCDM LOCAL MUNICIPALITY'S DEMOGRAPHIC,
ECONOMIC & HOUSEHOLD INFRASTRUCTURE SITUATION, DECEMBER
2013**

ANNEXURE 2: RESPONSE TO SPECIFIC QUESTIONS RAISED AT THE MAYORAL COMMITTEE MEETING OF 14 MAY 2014

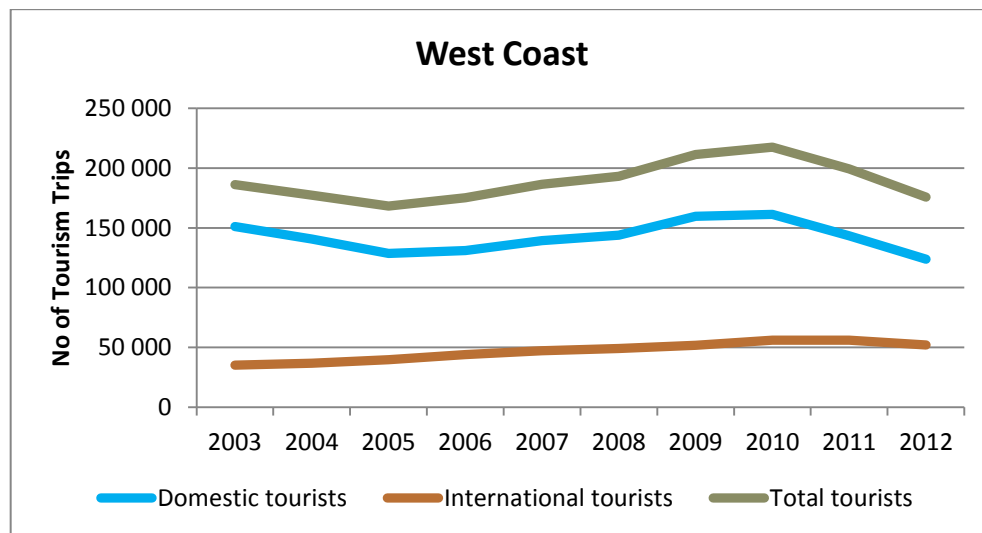
A. TOURISM IN THE WEST COAST WITH SPECIFIC REFERENCE TO SALDANHA BAY

INCA Portfolio Managers (“IPM”) subscribes to iHS Global Insight’s ReX Data Base and for purposes of its perspectives extracts information from ReX.

ReX is a system of integrated databases (i.e. not only data from one source, e.g. StatsSA, but data integrated from a variety of sources and modelled for any point in time) that provide the user with accurate and up-to-date economic, marketing and development information for each, municipality and province in South Africa. The databases are updated quarterly.

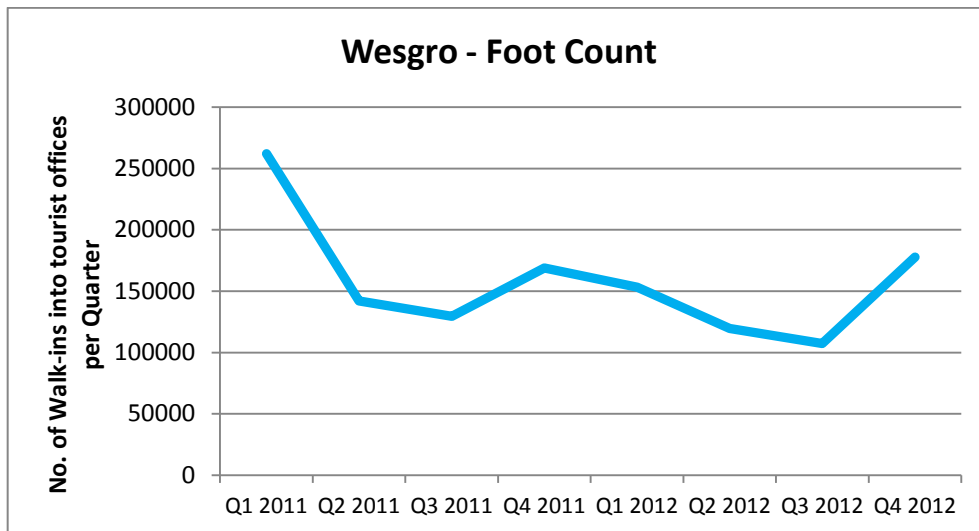
1. Tourist Trips or Number of Tourists

The *ReX Tourism Model* attempts to combine both demand and supply side data sources, using the strengths of each where applicable. For example, demand side surveys are used to help determine the absolute number of tourists whereas supply side data sources are used to determine the geographic spread of tourism.



According to ReX the tourist trips by International tourists in the West Coast District have grown consistently and at worst flattened from 2010 to 2012. The number of Domestic tourist trips has declined since 2010 and because domestic tourism represents a larger proportion to the total (70%) than international tourism (30%) the total number of tourism trips to the West Coast has declined since 2010.

This is confirmed by Wesgro who use total visitor foot count and the responses to the regional visitor tracking surveys as a proxy to indicate the key trends within the Western Cape and the various regions. It is important to note that absolute figures cannot be determined from these surveys, as the foot counts and survey responses are a sample of the tourists into the respective tourism offices across the Western Cape, and would thus represent a sample of the visitors. Wesgro’s³ foot count into the tourism offices is recorded on a quarterly basis and also shows a declining trend for the short period that these are published, i.e. Q1 2011 to Q4 2012, with an indication of a rise in foot count during the last quarter of 2012.



2. Tourism Spending

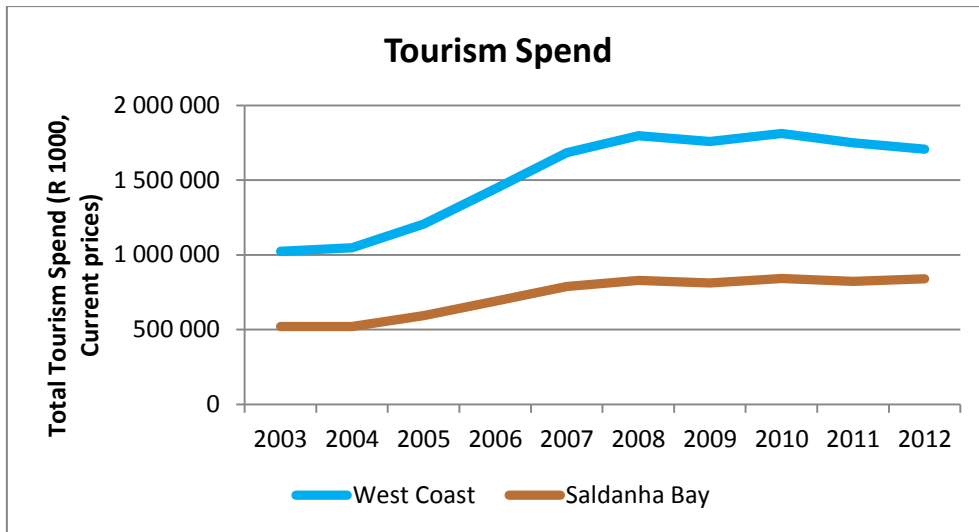
The definition of tourism spending in ReX is inherited from the StatsSA definition used in their compilation of the Tourism Satellite Account. It includes all expenditure by visitors for their trip to the particular region **excluding** capital expenditure and the shopping expenditure of traders (known as shuttle trade.)

It is important to note that this definition of spending is different to the concept of ‘contribution’ to GDP and merely represents a nominal spend of total trips made to each region.

Tourism spend is presented at current prices which means that inflation has not been accounted for in the measure.

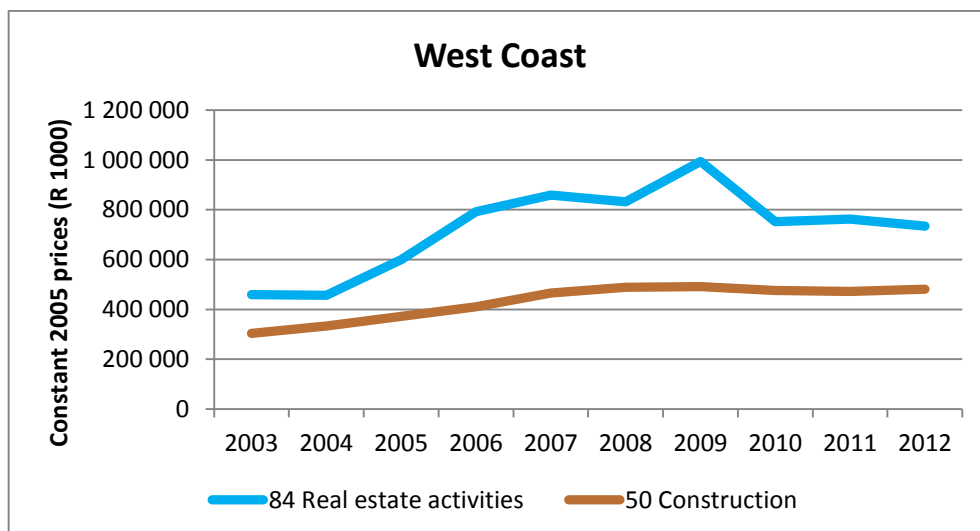
As indicated in the graph below, tourism spend in the West Coast has declined from R1.8 billion in 2010 to R1.7 billion in 2012, whereas the spending in Saldanha Bay has remained fairly constant during the same period at app. R 0.8 billion.

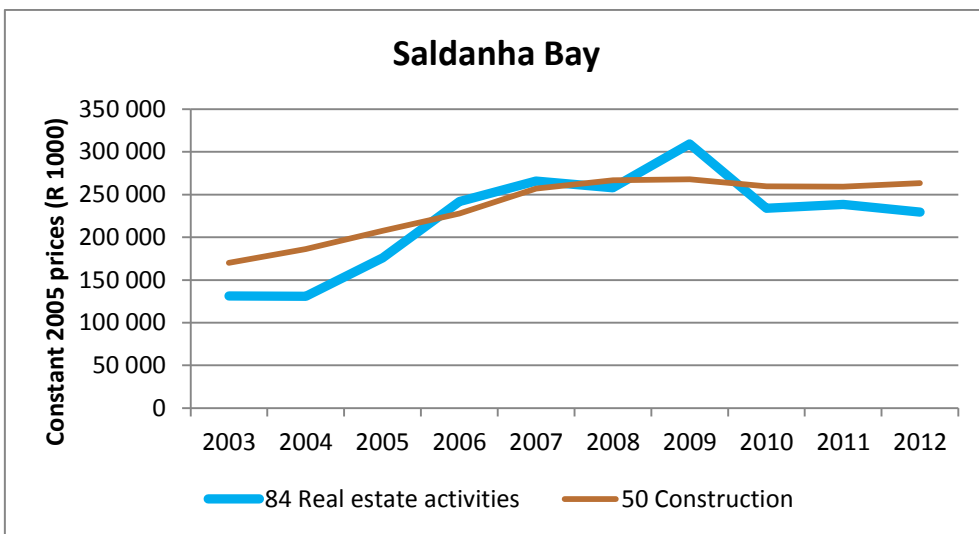
³ *Cape Town & Western Cape; Western Cape Annual Tourism Trends 2012; Wesgro; 2013*



Tourism spend occurs across the economic sectors and is not regarded as an independent sector. For this reason we also analysed the economic activity of “Real Estate Activities” as part of the “Finance” sector as well as the “Construction” sector which should provide an indication of the capital expenditure involved in the building of holiday homes.

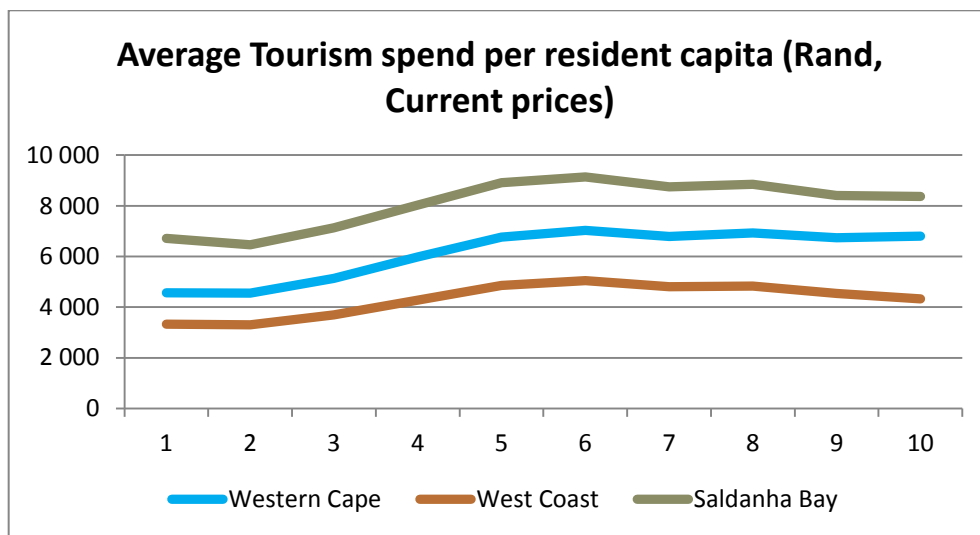
The trends in the West Coast and Saldanha Bay are similar, with a fairly flat Construction sector in real terms (Constant 2005 prices) since 2007 in both instances. Other than a short term peak that bucks this trend in the Real Estate activity during 2009 this subsector has also shown a steady decline in real terms since 2007 in both the West Coast as a whole and Saldanha specifically.





The anticipation that Tourism is a significant sector for Saldanha Bay is borne out by the average tourism spend per resident capita relative to other areas.

This measure divides total tourism spend related to visiting the specified region, by the total number of local residents living within that region. The purpose of this measure is to gauge the importance of tourism to the local economy. A higher average tourism spend per resident capita implies that the tourism industry is more important to the region than a lower figure for the same measure.



According to the graph above the average tourism spend per resident capita in 2012 in Saldanha Bay was R8 370, higher than in the Western Cape (R6 797) and the West Coast District (R4 321). This is an indication that tourism is “twice as important” in Saldanha as in the West Coast as a whole.

B. POPULATION OF SALDANHA BAY

IPM revisited the latest ReX database and also consulted the Stats SA population figures for past census years and also did a reality check to see whether the figures used in its report are reasonable. There is a very close correlation between the figures quoted by StatsSA and iHS Global Insight.

Year	StatsSA ⁴	iHS Global Insight
1996	56 557	58 555
2001	70 261	72 064
2011	99 193	97 832

We note in the Saldanha Bay IDP that the municipality also used the StatsSA figure.

iHS Global Insight’s ReX uses a model to determine the total population between and beyond census years. The methodology used, in short is as follows:

The base population P0 is based on results from Census 1970, with additional benchmarking using later Censuses for backward extrapolation. Census 1970 was chosen as a starting point due to the general consensus on this work being of a high standard and level of accuracy. Furthermore, this Census included the previously named 'National States' of Ciskei, KwaZulu, Gazankulu, Lebowa, Qwaqwa, Kangwane, Kwandebele, Transkei and Bophuthatswana - in other words, all of South Africa.

The national and provincial population estimates are obtained using a Cohort-Component Population Projection. These projections are determined by five fundamental population variables:

- Size of population in the base year, Pt
- Number of deaths occurring between the base and projected years, Dt
- Number of births occurring between the base and projected years, Bt
- Immigrants arriving in the country between the base and projected years, It
- Emigrants leaving the country between the base and projected years, Et

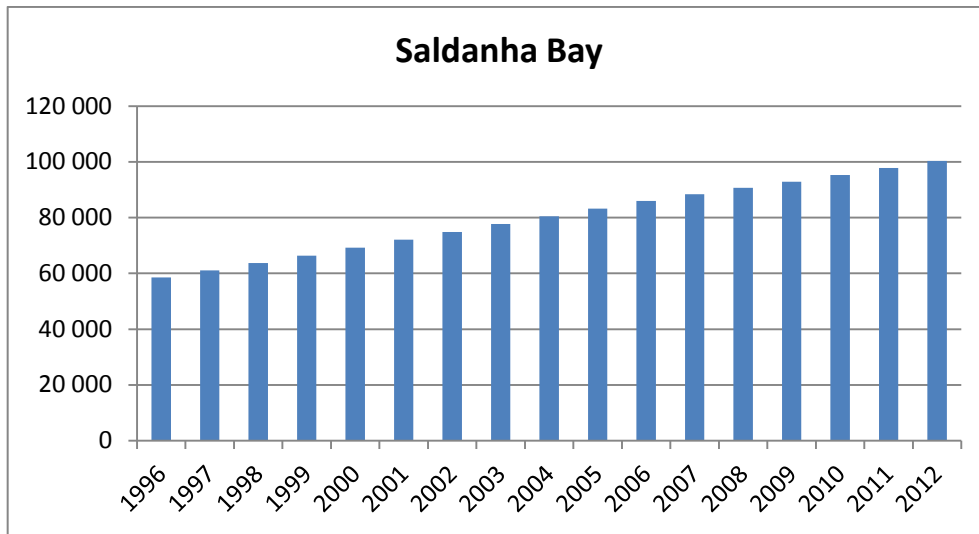
The above variables contribute to the projected population, Pt+1, within the constraints of the following demographic balancing identity:

$$Pt+1 = Pt + Bt - Dt + It - Et$$

The database is not exclusively built on information obtained from the latest Census, but includes data obtained from Retail Trade Sales, Censuses, Community Surveys, Central Statistics Service Reports, Labour Force Surveys, Household Surveys, Tourism and Migration and UNHCR Global Appeal 2000 - South Africa.

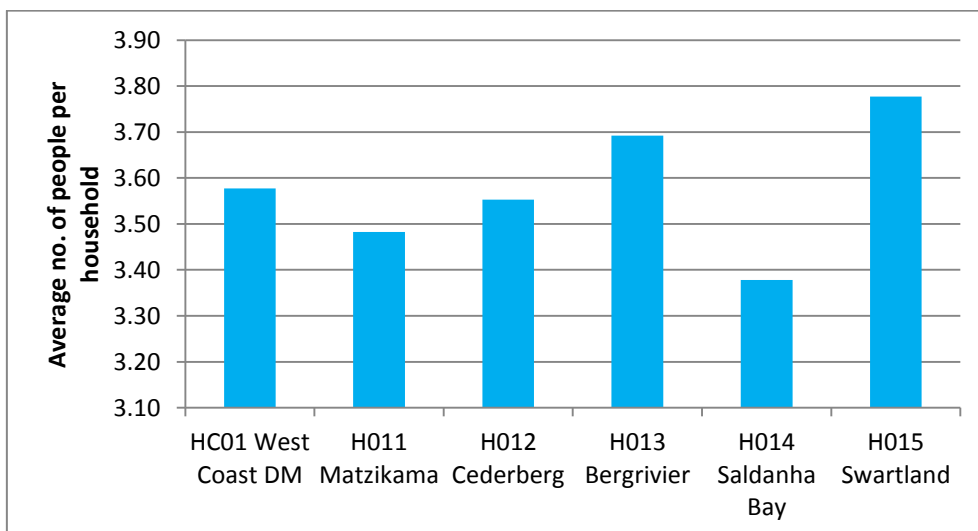
An illustration of the population, extracted from ReX for Saldanha Bay over time is presented below:

⁴ [http://www.statssa.gov.za/Census2011/Products/WC Municipal Report.pdf](http://www.statssa.gov.za/Census2011/Products/WC_Municipal_Report.pdf).



If one were to assume the 2001 StatsSA census figures of 70 261 as correct, then the population of the region would have to grow by 5.8% p.a. on average for 11 years to reach 130 000 in 2012. The average population growth according to ReX for the same period is 3.1% p.a., which is in itself quite high.

In support of the argument that the population calculated from the occupancy rate per household would indicate a much higher population number, we found that Saldanha Bay has the lowest average occupancy rate of all the municipalities in the district. (See graph below.) The larger number of households does not necessarily translate to higher population numbers. Only if one assumes an average occupancy of app. 5 people per household would the number of households in Saldanha Bay (29 714) translate to 130 000 people.



C. CONCLUSION

Other than confirming that tourism in Saldanha Bay is an important activity we have found no evidence that would suggest that the number of tourism trips and tourism spend in the West Coast has increased significantly in the recent past. In fact both the number of trips as well as tourism spend in the district has declined since 2010.

With the information at our disposal, viz. StatsSA, iHS Global Insight and Saldanha Bay's IDP we conclude that the population figure in Saldanha Bay is currently app. 100 000.

ANNEXURE 3: PROJECTED ANNUAL ASSET REPLACEMENT COST (R NOMINAL)

	TOTAL	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
ABLUTION / PUBLIC FACILITIES	69 613	0	0	0	0	54 666	0	0	0	0	14 946
AIR CONDITIONERS	2 182 118	443 811	71 504	419 686	45 819	33 065	47 864	271 167	256 998	592 205	0
AUDIOVISUAL EQUIPMENT	1 574 728	308 268	162 012	135 226	40 094	88 236	12 550	395 451	201 595	230 862	432
CABLES	0	0	0	0	0	0	0	0	0	0	0
CLINICS AND COMMUNITY HEALTH F	1 757 145	0	23 694	0	0	90 171	0	0	0	36 820	1 606 460
COMMUNITY CENTRES AND PUBLIC E	2 553 424	0	0	0	0	0	0	0	0	0	2 553 424
COMPUTER HARDWARE	12 669 824	2 631 042	947 244	983 146	703 405	438 122	386 983	2 043 839	1 155 750	3 356 997	23 296
COMPUTER SOFTWARE	4 313 421	1 513 273	26 549	134 358	33 104	0	0	31 343	24 978	2 549 816	0
CUTLERY AND CROCKERY	29 275	0	0	0	0	0	19 900	9 375	0	0	0
CYCLES	3 413	0	0	2 105	0	1 308	0	0	0	0	0
DAMS MECHANICAL AND ELECTRICAL	1 726	0	0	0	0	0	0	0	0	0	1 726
DAMS STRUCTURE CONCRETE	0	0	0	0	0	0	0	0	0	0	0
DAMS STRUCTURE EARTH	0	0	0	0	0	0	0	0	0	0	0
DEVELOPED LAND	0	0	0	0	0	0	0	0	0	0	0
DOMESTIC AND HOSTEL FURNITURE	4 860 971	515 558	78 262	299 866	184 061	2 250 700	62 395	478 487	0	768 150	223 491
DOMESTIC EQUIPMENT	148 039	39 527	11 145	12 231	0	7 685	3 553	44 235	5 105	24 559	0
ELECTRIC WIRE AND POWER DISTRI	40 763	5 917	8 597	2 765	0	545	1 621	18 686	2 631	0	0
ELECTRICITY SUPPLY / RETICULAT	0	0	0	0	0	0	0	0	0	0	0
ELEVATOR SYSTEMS	18 202	0	0	0	0	0	0	18 202	0	0	0
EMERGENCY / RESCUE EQUIPMENT	1 509 853	62 345	207 448	177 006	141 015	286 243	0	286 079	7 096	238 395	104 224
FIRE FIGHTING EQUIPMENT	9 219 728	1 803 805	479 715	480 166	917 003	20 793	0	626 249	657 648	4 163 398	70 951
FIRE STATIONS	20 434 178	0	0	17 394	0	0	0	0	0	26 491	20 390 293



	TOTAL	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
GARDENING EQUIPMENT	484 181	109 917	5 401	20 025	68 763	34 267	9 057	46 368	16 064	174 320	0
HOSPITALS AND AMBULANCE STATIO	0	0	0	0	0	0	0	0	0	0	0
INVESTMENT PROPERTY	0	0	0	0	0	0	0	0	0	0	0
KITCHEN APPLIANCES	1 229 349	177 814	77 563	219 715	60 012	245 959	10 947	68 693	16 019	271 651	80 976
LABORATORIES	0	0	0	0	0	0	0	0	0	0	0
LABORATORY EQUIPMENT	1 607 012	202 790	79 049	120 549	164 699	32 589	33 964	223 526	532 775	173 313	43 758
LABORATORY EQUIPMENT AGRICULTU	117 086	3 890	44 185	0	24 867	4 629	3 554	1 891	0	34 070	0
LANDFILL SITE PREPARATION	0	0	0	0	0	0	0	0	0	0	0
LINES OVERHEAD	0	0	0	0	0	0	0	0	0	0	0
MARKETS / SHOPS	0	0	0	0	0	0	0	0	0	0	0
MEDICAL AND ALLIED EQUIPMENT	413 369	67 217	0	89 465	10 302	0	0	11 559	122 575	112 249	0
MINI SUB STATION	0	0	0	0	0	0	0	0	0	0	0
MOTOR VEHICLES	46 768 938	7 872 693	3 775 742	2 718 045	804 192	0	973 869	6 592 864	14 232 003	7 410 686	2 388 846
NON RESIDENTIAL PERIMETER PROT	606 919	0	0	0	0	0	0	606 919	0	0	0
OFFICE BUILDINGS (INCL AIR CON	16 993 299	0	0	0	0	0	0	0	0	0	16 993 299
OFFICE EQUIPMENT	813 222	56 754	141 176	122 144	198 000	115 601	22 607	13 248	75 056	35 727	32 910
OFFICE FURNITURE	11 883 679	1 052 267	186 101	783 153	1 001 395	6 525 284	198 425	120 875	49 678	1 780 604	185 898
PAINTINGS SCULPTURES ORNAMENTS	44 748	0	0	0	44 748	0	0	0	0	0	0
PUBLIC PARKING (COVERED AND OP	1 512 601	0	0	0	0	9 233	0	0	0	0	1 503 368
PUMP STATIONS ELECTRICAL	33 699	0	8 797	586	0	0	0	0	0	13 670	10 646
PUMP STATIONS MECHANICAL	317 763	0	31 596	281	0	4 619	0	0	0	49 100	232 167
PUMP STATIONS PERIMETER PROTEC	152 525	0	0	0	143 732	0	0	0	8 793	0	0
PUMP STATIONS STRUCTURE	1 885	0	0	0	0	0	0	0	1 885	0	0
PUMPS, PLUMING, PURIFICATION A	78 417	11 555	4 664	0	0	0	0	10 334	40 836	11 027	0
RADIO EQUIPMENT	6 453 601	1 388 046	340 063	732 906	82 791	96 957	2 499	475 816	1 004 543	2 329 812	168
RESERVOIR ELECTRICAL	0	0	0	0	0	0	0	0	0	0	0

	TOTAL	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
RESERVOIR MECHANICAL	103 585	0	19 515	0	0	0	0	0	0	30 327	53 743
RESERVOIR PERIMETER PROTECTION	128 558	0	0	0	128 558	0	0	0	0	0	0
RESERVOIR STRUCTURE	3 420 370	0	0	3 417 518	0	0	0	0	0	0	2 852
RESIDENCES (PERSONNEL) INCL GA	14 474 689	0	92 979	0	0	117 876	0	0	0	144 489	14 119 345
ROADS PAVED SURFACE	4 735	0	0	4 735	0	0	0	0	0	0	0
SECURITY EQUIPMENT/ - SYSTEMS	219 357	33 047	111 951	982	0	0	0	20 382	1 346	51 648	0
SEWERS / RETICULATION	0	0	0	0	0	0	0	0	0	0	0
SPORT AND RECREATIONAL FACILIT	0	0	0	0	0	0	0	0	0	0	0
STADIUMS	0	0	0	0	0	0	0	0	0	0	0
SURVEY EQUIPMENT	8 854	3 283	0	781	0	0	0	4 790	0	0	0
TELECOMMUNICATION EQUIPMENT	2 615 575	170 930	795 934	0	0	0	1 943	1 446 153	2 230	0	198 385
TRAILERS AND ACCESSORIES	1 211 273	44 253	132 639	80 151	588 204	0	56 037	38 833	253 847	17 308	0
TRANSFORMERS	0	0	0	0	0	0	0	0	0	0	0
TRUCKS	59 061 547	17 795 494	159 168	990 285	2 127 876	830 504	642 309	4 211 937	9 046 365	22 851 545	406 064
UNDEVELOPED LAND	0	0	0	0	0	0	0	0	0	0	0
WAREHOUSES (STORAGE FACILITIES)	1 887 232	0	0	0	0	286 671	0	0	0	0	1 600 561
WASTE PURIFICATION WORKS MECHA	0	0	0	0	0	0	0	0	0	0	0
WASTE PURIFICATION WORKS STRUC	0	0	0	0	0	0	0	0	0	0	0
WATER METERS	427 863	0	65 757	562	0	137 015	0	0	33 088	56 288	135 153
WATER PURIFICATION WORKS ELECT	2 195 915	0	575 524	0	0	0	0	0	0	894 356	726 036
WATER PURIFICATION WORKS MECHA	7 299 725	79 261	301 452	2 417 019	0	602	0	154 033	3 311 878	484 266	551 214
WATER PURIFICATION WORKS METER	445 147	612	0	7 249	0	0	40	224 318	1 756	0	211 173
WATER PURIFICATION WORKS PERIM	64 521	0	653	0	31 372	0	0	0	32 495	0	0
WATER PURIFICATION WORKS STRUC	12 729 174	0	0	8 549	12 720 625	0	0	0	0	0	0
WATER SUPPLY / RETICULATION	4 331 367	18 442	771 382	2 289 089	6 811	0	0	0	0	1 229 239	16 404
WATER TELEMETRY	7 425 562	76 623	11 978	420 861	51 284	38 027	0	79 013	94 730	20 811	6 632 234



	TOTAL	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
WORKSHOP EQUIPMENT	7 492 597	746 283	136 068	3 474 784	286 359	74 869	142 976	1 225 575	337 646	1 068 037	0
WORKSHOPS / STORE ROOMS	1 799 680	0	0	0	0	23 479	0	0	0	0	1 776 201
TOTAL	278 246 039	37 234 719	9 885 507	20 583 382	20 609 091	11 849 718	2 633 094	19 800 242	31 527 406	51 232 236	72 890 644



ANNEXURE 4: NEW CAPITAL EXPENDITURE ASSUMPTIONS

WATER INFRASTRUCTURE

Project No	Cost 2012/13 Value	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
WCW.S1	26 385 800	0	0	0	0	0	0	0	0	0	0
WCW.S2	19 320 000	0	0	0	0	0	0	0	0	0	0
WCW.S3	10 092 600	0	0	0	0	0	10 092 600	0	0	0	0
WCW.S4	343 000	0	0	0	0	0	0	0	0	0	0
WCW.S5	49 592 200	0	0	0	0	0	49 592 200	0	0	0	0
WCW.S6	1 883 000	0	0	0	0	0	0	0	0	0	0
WCW.S7	1 883 000	0	0	0	0	0	0	0	0	0	0
WCW.S8	26 600 000	0	0	0	0	0	0	0	0	0	0
WCW.S9	5 243 000	0	0	0	0	0	0	0	0	0	0
WCW.S10	13 405 000	0	0	0	0	0	13 405 000	0	0	0	0
WCW.S11	894 600	0	0	0	0	0	0	0	0	0	0
WCW.S12		0	0	0	0	0	0	0	0	0	0
WCW.S13		0	0	0	0	0	0	0	0	0	0
WCW.S14	22 248 800	0	0	0	0	0	22 248 800	0	0	0	0
WCW.S15	19 635 000	0	0	0	0	0	19 635 000	0	0	0	0
WCW.S16		0	0	0	0	0	0	0	0	0	0
WCW.S17		0	0	0	0	0	0	0	0	0	0
WCW.S18	1 904 000	1 904 000	0	0	0	0	0	0	0	0	0
WCW.S19	177 800	0	0	0	0	0	177 800	0	0	0	0
WCW.S20	5 583 200	0	0	0	0	0	0	0	0	0	0
WCW.S21		0	0	0	0	0	0	0	0	0	0
WCW.S22	7 326 200	7 326 200	0	0	0	0	0	0	0	0	0
WCW.S23		0	0	0	0	0	0	0	0	0	0
WCW.S24	86 100 000	86 100 000	0	0	0	0	0	0	0	0	0
WCW.S25		0	0	0	0	0	0	0	0	0	0



WCW.S26	86 100 000	0	0	0	0	0	0	0	0	0	0	0
WCW.S27	1 260 000	1 260 000	0	0	0	0	0	0	0	0	0	0
WCW.S28	2 112 600	0	0	0	0	0	2 112 600	0	0	0	0	0
WCW.S29	809 200	0	0	0	0	0	0	0	0	0	0	0
WCW.S30	2 884 000	0	0	0	0	0	0	0	0	0	0	0
WCW.W1	42 586 600	0	0	0	0	0	0	0	0	0	0	0
WCW.W2	27 071 800	0	0	0	0	0	0	0	0	0	0	0
WCW.W3	76 440 000	0	0	0	0	0	76 440 000	0	0	0	0	0
WCW.W4	76 440 000	0	0	0	0	0	0	0	0	0	0	0
WCW.W5	76 440 000	0	0	0	0	0	0	0	0	0	0	0
WCW.W6		0	0	0	0	0	0	0	0	0	0	0
WCW.W7		0	0	0	0	0	0	0	0	0	0	0
WCW.W8	3 287 200	3 287 200	0	0	0	0	0	0	0	0	0	0
WCW.W9	31 042 200	0	0	0	0	0	0	0	0	0	0	0
WCW.W10	2 536 800	0	0	0	0	0	0	0	0	0	0	0
WCW.W11	34 591 200	34 591 200	0	0	0	0	0	0	0	0	0	0
WCW.W12	26 600 000	0	0	0	0	0	0	0	0	0	0	0
WCW.W13	48 342 000	0	0	0	0	0	0	0	0	0	0	0
WCW.W14	2 261 000	2 261 000	0	0	0	0	0	0	0	0	0	0
WCW.W15	540 400	0	0	0	0	0	540 400	0	0	0	0	0
WCW.W16	291 200	0	0	0	0	0	0	0	0	0	0	0
WCW.W17	2 506 000	0	0	0	0	0	0	0	0	0	0	0
WCW.W18	31 500 000	0	0	0	0	0	31 500 000	0	0	0	0	0
WCW.W19		0	0	0	0	0	0	0	0	0	0	0
WCW.W20	3 108 000	0	0	0	0	0	3 108 000	0	0	0	0	0
WCW.W21	94 127 600	0	0	0	0	0	0	0	0	0	0	0
WCW.W22	1 327 200	0	0	0	0	0	0	0	0	0	0	0
WCW.W23	1 365 000	0	0	0	0	0	0	0	0	0	0	0
WCW.W24		0	0	0	0	0	0	0	0	0	0	0
WCW.W25	74 751 600	74 751 600	0	0	0	0	0	0	0	0	0	0
WCW.W26	74 751 600	0	0	0	0	0	74 751 600	0	0	0	0	0
WCW.W27		0	0	0	0	0	0	0	0	0	0	0
WCW.W28		0	0	0	0	0	0	0	0	0	0	0



WCW.W29		0	0	0	0	0	0	0	0	0	0	0
WCW.W30	55 000 000	55 000 000	0	0	0	0	0	0	0	0	0	0
WCW.W31	14 778 400	0	0	0	0	0	14 778 400	0	0	0	0	0
WCW.W32	6 787 200	0	0	0	0	0	6 787 200	0	0	0	0	0
WCW.W33	235 200	0	0	0	0	0	0	0	0	0	0	0
WCW.W34		0	0	0	0	0	0	0	0	0	0	0
WCW.R1	1 563 800	0	0	0	0	0	1 563 800	0	0	0	0	0
WCW.R2	4 723 600	0	0	0	0	0	4 723 600	0	0	0	0	0
WCW.R3	352 800	0	0	0	0	0	0	0	0	0	0	0
WCW.R4	1 988 000	1 988 000	0	0	0	0	0	0	0	0	0	0
Total	1 209 119 400	268 469 200	0	0	0	0	331 457 000	0	0	0	0	0
Distributed Capex		187 946 080	13 423 460	0	0	82 864 250	232 019 900	16 572 850	0	0	0	39 984 000

CORE FUNCTION CAPEX (RM)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Environmental Integrity	0.05			0.05			0.05			0.05
Ganzekraal	0.10									
Social well being										
Fire	2.50				2.50				2.50	
Disaster Management	0.01									
Call Centre Equipment				5.00						
Waste										
Regional Site							10.00	25.00	5.00	
Buildings										
Storage		1.00								
Moveables & Other	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Total (Constant 2014)	0.51	1.50	0.50	5.50	0.50	0.50	10.50	25.50	5.50	0.50
Factor	1.07	1.13	1.21	1.29	1.37	1.46	1.55	1.65	1.76	1.88
Total Nominal	0.54	1.70	0.60	7.08	0.69	0.73	16.32	42.20	9.69	0.94

ANNEXURE 5: BASE CASE SUMMARY PROJECTED FINANCIAL STATEMENTS

BASE CASE STATEMENT OF FINANCIAL PERFORMANCE

Revenue										
Water Function										
Income water services	107.06	114.65	122.17	130.17	138.46	147.74	160.05	173.99	188.20	202.21
Roads Function										
Agency Receipts	77.00	82.01	87.34	93.02	99.06	105.50	112.36	119.66	127.44	135.72
Core Functions										
Equitable Share & Other Operational Grants	93.08	99.13	105.57	112.43	119.74	127.52	135.81	144.64	154.04	164.05
Income electricity services	0.37	0.41	0.44	0.48	0.52	0.56	0.61	0.66	0.72	0.78
Agency Services (Fire)	2.40	2.56	2.72	2.90	3.09	3.29	3.50	3.73	3.98	4.23
Resort	3.47	3.87	4.31	4.81	5.36	5.98	6.67	7.43	8.29	9.24
Other service charges and income	21.19	22.36	23.64	24.95	26.32	27.75	29.23	30.78	32.38	34.05
Interest Income	0.81	0.91	0.95	1.01	1.09	1.14	1.22	1.28	1.36	1.45
Total Revenue	305.39	325.88	347.14	369.77	393.63	419.48	449.46	482.17	516.41	551.74
Expenditure										
Water Function										
Salaries, wages and allowances	-23.42	-25.41	-27.57	-29.91	-32.45	-35.21	-38.20	-41.45	-44.98	-48.80
Expenditure water services	-10.08	-10.83	-11.64	-12.52	-13.46	-14.47	-15.55	-16.72	-17.97	-19.32
Repairs and maintenance	-12.33	-13.75	-15.33	-17.09	-19.06	-21.25	-23.69	-26.42	-29.46	-32.84
General expenses	-20.01	-21.31	-22.70	-24.17	-25.75	-27.42	-29.20	-31.10	-33.12	-35.27

Roads Function										
Roads Related Expenditure	-77.00	-82.01	-87.34	-93.02	-99.06	-105.50	-112.36	-119.66	-127.44	-135.72
Core Functions										
Salaries, wages and allowances	-60.29	-59.38	-64.43	-69.91	-75.85	-82.30	-89.29	-96.88	-105.12	-114.05
Repairs and maintenance	-15.90	-17.25	-18.72	-20.31	-22.04	-23.91	-25.94	-28.15	-30.54	-33.13
General expenses	-42.22	-44.97	-47.89	-51.00	-54.32	-57.85	-61.61	-65.61	-69.88	-74.42
Total Expenditure	-261.25	-274.91	-295.62	-317.93	-341.98	-367.90	-395.85	-425.99	-458.50	-493.56
EBITDA	44.14	50.97	51.53	51.84	51.66	51.58	53.61	56.18	57.91	58.18
Water Function										
Interest on Long Term Debt	-10.88	-9.48	-7.93	-6.21	-4.29	-4.03	-3.89	-4.31	-4.54	-5.02
Interest BB/[OD]	0.37	0.00	0.18	1.14	2.14	0.00	0.00	0.72	2.98	5.65
Depreciation	-11.51	-12.31	-12.90	-12.71	-12.56	-15.65	-17.40	-19.25	-19.46	-19.60
Core Functions										
Interest on Long Term Debt	0.00	0.00	0.00	-0.45	-0.88	-1.30	-1.70	-2.98	-2.86	-2.73
Interest BB/[OD]	7.50	7.04	6.69	6.28	5.76	5.09	4.28	3.28	2.52	1.59
Depreciation	-2.97	-3.63	-4.37	-5.07	-5.97	-6.83	-7.64	-9.33	-10.93	-10.89
Surplus / Deficit	26.65	32.59	33.19	34.82	35.85	28.86	27.25	24.32	25.62	27.18

BASE CASE STATEMENT OF FINANCIAL POSITION

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
ASSETS										
Water Function										
Current Assets										
Receivables	10.27	10.99	11.72	12.48	13.28	14.17	15.35	16.68	18.05	19.39
Investment for Liquidity	7.79	8.28	8.80	9.36	9.51	10.16	10.08	10.55	11.12	11.91
Investment for Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash in Bank	0.00	3.53	22.71	42.79	0.00	0.09	14.30	59.50	113.07	90.33
Fixed Assets										
Property Plant & Equipment	273.56	286.68	282.47	279.02	347.84	386.76	427.76	432.42	435.65	522.69
Investment Property	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Core Functions										
Current Assets										
Receivables	11.60	12.35	13.16	14.01	14.92	15.90	16.93	18.03	19.20	20.45
Investment for Liquidity	10.33	10.65	11.45	12.34	13.30	14.34	15.45	16.66	17.96	19.37
Investment for Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash in Bank	140.86	133.88	125.69	115.12	101.86	85.51	65.63	50.49	31.83	9.09
Fixed Assets										
Property Plant & Equipment	80.75	97.12	112.75	132.68	151.70	169.88	207.23	242.91	241.98	241.09
Investment Property	4.81	4.81	4.81	4.81	4.81	4.81	4.81	4.81	4.81	4.81
TOTAL ASSETS	539.96	568.30	593.56	622.62	657.23	701.61	777.54	852.05	893.67	939.12

LIABILITIES										
Water Function										
Current Liabilities										
Creditors	8.12	8.79	9.52	10.32	11.18	12.13	13.15	14.26	15.48	16.80
Bank Overdraft	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long Term Liabilities										
LT Interest Bearing	87.88	73.96	58.50	41.31	27.78	25.38	35.23	41.37	47.77	53.22
LT Non-Interest Bearing Liabilities	20.71	20.71	20.71	20.71	20.71	20.71	20.71	20.71	20.71	20.71
Accumulated Surplus & Reserves	174.90	206.02	236.97	271.32	310.95	352.96	398.40	442.81	493.93	553.58
Core Function										
Current Liabilities										
Creditors	14.60	14.99	16.16	17.41	18.76	20.23	21.80	23.50	25.34	27.32
Bank Overdraft	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long Term Liabilities										
LT Interest Bearing	0.00	0.00	0.00	4.83	9.47	13.92	18.14	31.78	30.29	28.68
LT Non-Interest Bearing Liabilities	48.33	48.33	48.33	48.33	48.33	48.33	48.33	48.33	48.33	48.33
Accumulated Surplus & Reserves	185.43	195.49	203.37	208.39	210.03	207.96	221.79	229.29	211.82	190.48
Total Liabilities	539.96	568.30	593.56	622.62	657.23	701.61	777.54	852.05	893.67	939.12

BASE CASE CASH FLOW STATEMENT

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Cash In										
Water Function										
Surplus / [Deficit]	19.56	21.94	24.69	29.13	33.50	30.19	32.62	35.97	42.18	47.56
Add Depreciation	11.51	12.31	12.90	12.71	12.56	15.65	17.40	19.25	19.46	19.60
Deduct Impairment	-2.13	-2.29	-2.44	-2.59	-2.76	-2.95	-3.19	-3.47	-3.75	-4.03
Redeem Investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Proceeds from Sale of Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Capital Grants	6.42	11.46	8.70	7.81	8.89	14.77	16.01	11.91	12.69	16.13
Other Capital Contributions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
LT Debt Raised	0.00	0.00	0.00	0.00	0.00	13.00	18.00	12.00	10.00	8.00
Core Function										
Surplus / [Deficit]	7.09	10.65	8.50	5.68	2.34	-1.32	-5.37	-11.65	-16.56	-20.37
Add Depreciation	2.97	3.63	4.37	5.07	5.97	6.83	7.64	9.33	10.93	10.89
Deduct Impairment	-0.55	-0.58	-0.62	-0.66	-0.71	-0.75	-0.80	-0.85	-0.91	-0.97
Redeem Investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Proceeds from Sale of Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Capital Grants	0.00	0.00	0.00	0.00	0.00	0.00	20.00	20.00	0.00	0.00
Other Capital Contributions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
LT Debt Raised	0.00	0.00	0.00	5.00	5.00	5.00	5.00	15.00	0.00	0.00
Total Cash In	44.87	57.13	56.10	62.15	64.80	80.42	107.31	107.48	74.04	76.81

Cash Out										
Water Function										
Invest in PPE	-29.36	-25.43	-8.70	-9.26	-81.37	-54.58	-58.40	-23.91	-22.69	-106.64
Invest in Cash Backed Reserves	-0.77	-0.49	-0.52	-0.56	-0.15	-0.64	0.08	-0.47	-0.57	-0.79
Working Capital	-0.12	-0.05	0.01	0.03	0.07	0.05	-0.16	-0.22	-0.15	-0.02
LT Debt Repaid	-12.52	-13.92	-15.46	-17.19	-13.53	-15.40	-8.15	-5.86	-3.60	-2.55
Core Function										
Invest in PPE	-17.72	-20.00	-20.00	-25.00	-25.00	-25.00	-45.00	-45.00	-10.00	-10.00
Invest in Cash Backed Reserves	-1.17	-0.32	-0.80	-0.89	-0.96	-1.04	-1.12	-1.21	-1.30	-1.40
Working Capital	0.35	-0.36	0.36	0.40	0.44	0.49	0.54	0.60	0.66	0.73
LT Debt Repaid	0.00	0.00	0.00	-0.17	-0.36	-0.56	-0.78	-1.36	-1.48	-1.62
Total Cash Out	-61.32	-60.58	-45.11	-52.64	-120.85	-96.68	-112.98	-77.43	-39.13	-122.29
Net Cashflow	-16.45	-3.45	10.99	9.51	-56.05	-16.26	-5.67	30.06	34.91	-45.48
Bank Balance	140.86	137.41	148.40	157.91	101.86	85.60	79.93	109.99	144.91	99.43

ANNEXURE 6: DRAFT LIQUIDITY POLICY

ANNEXURE 7: BORROWING, FUNDS AND RESERVES POLICY