

SENQU MUNICIPALITY

LONG TERM FINANCIAL PLAN



Date Approved	Version	Resolution Number
May 2025	2	



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1. SECTION 1: PURPOSE AND KEY OUTCOMES OF THE LONG TERM FINANCIAL PLAN

Section 215 of the Constitution of the Republic of South Africa requires that all National, Provincial and Municipal budgets and budgetary processes promote the following principles -

- Transparency;
- Accountability; and
- The effective financial management of the economy, debt and the public sector.

In order to fulfill this constitutional obligation towards the citizens of South Africa, sound financial principles and policies should be adopted by all municipalities. These policies should ensure that municipalities remain financially viable while also delivering high quality basic services.

The Municipal Budget and Reporting Regulations (section 7) requires the Accounting Officer (Municipal Manager) to prepare, or take all reasonable steps to ensure the preparation of the Budget Related Policies of the municipalities which includes a policy relating to the long term financial plan. This indicates that there must be:

- A Long Term Financial Plan Policy which guides the preparation of a long term financial plan; and
- A Long Term Financial Plan.

The long term financial plan is considered to be one of the most important plans, as this plan does not only incorporate various development and implementation plans for the provision of basic services, it is also aims to assist Municipal- Councillors and Management to make informed decisions relating to the provision of basic services and capital programs and the funding thereof.

Goals and objectives, which constitute the core of the financial plan, should be established for the short term (12 months), medium term (2 – 5 years) as well as the long term (beyond 5 years). These goals and objectives should guide all budget and policy related decisions of the municipality and should directly inform the Municipality's estimated expenditure over the medium to long term.

2. SECTION 2: STRATEGIC ALIGNMENT

The development of the Long Term Financial Plan is an output of financial and other strategies and aims to identify financial imbalances or opportunities and to develop strategies to counteract the imbalances.

The plan is informed, but not limited, to the following:

- Legislative Framework within which the municipality operates;
- Integrated Development Plan;
- Municipal Policies adopted;
- Master plans;
- National Development Plan;
- Provincial Strategic Plans;
- Sector Plans; and
- By-laws.

The National Development Plan identified the following challenges that need to be addressed in all policies in the public sector:

- Too few people work;
- The quality of school education for black people is poor;
- Infrastructure is poorly located, inadequate and under-maintained;
- Spatial divides hobble inclusive development;
- The economy is unsustainably resource intensive;
- The public health system cannot meet demand or sustain quality;
- Public services are uneven and often of poor quality;
- Corruption levels are high; and
- South Africa remains a divided society.

A District Development Model (DDM) was approved by Cabinet as a government approach to improve integrated planning and delivery across the three spheres of government with district and metro spaces as focal points of government and private sector investment. The DDM articulates an approach by which all three spheres of government and state entities work cooperatively in an impact oriented way to ensure enhanced performance and accountability for coherent service delivery and development outcomes. The DDM is anchored on the development of the One Plan. This plan is an intergovernmental plan that outlines a common vision and desired future outcomes in each of the 52 district and 8 metro spaces. The One Plan sets out a long-term strategic framework to guide investment and delivery in each district and metro spaces in the country (COGTA , June 2021).

The Joe Gqabi District Municipality developed its draft One Plan in 2021 and undertook workshops with various stakeholders in May 2022 to update and finalise the plan.

These six DDM Transformation Focal Areas are:

DDM Transformation Focal Areas	Alignment to Senqu KPA's
1. People Development and Demographics	<ul style="list-style-type: none"> - Environment and spatial development - Municipal transformation and institutional development
2. Economic Positioning	<ul style="list-style-type: none"> - Local Economic Development
3. Spatial Restructuring and Environmental Sustainability	<ul style="list-style-type: none"> - Environment and spatial development
4. Infrastructure Engineering	<ul style="list-style-type: none"> - Basic service delivery and infrastructure - Municipal Financial Management and viability
5. Integrated Services Provisioning	<ul style="list-style-type: none"> - Good Governance and Public Participation - Municipal Financial Management and viability
6. Governance and Management	<ul style="list-style-type: none"> - Good Governance and Public Participation - Municipal transformation and institutional development



Alignment to key government priorities to be implemented in district:

PILLAR NAME	NATIONAL/ PROVINCIAL MTSF PRIORITIES	EC PDP PRIORITIES	DISTRICT PRIORITIES	SENQU PRIORITIES
Pillar 1: People Development and Demographics	<p>Priority 3: Education, Skills and Health</p> <p>Priority 4: Consolidating the Social Wage through Reliable and Quality Basic Services</p> <p>Priority 6: Social Cohesion and Safer Communities</p>	<p>Goal 4: Human Development</p> <ul style="list-style-type: none"> • Increase access to Early childhood development. • Improved quality of primary and secondary education for improved educational outcomes. • Increase skills for development of the province. • Improved health profile and health outcomes in communities. • Improve the safety of the people in the Eastern Cape. • Promotion of Social Cohesion and moral regeneration. • Social Protection and Viable Communities. 	<ul style="list-style-type: none"> • Improve human capacity • Facilitate development mental health and inclusive society • Build social fabric 	<ul style="list-style-type: none"> • Programme to look at building and maintaining crèches • Poverty alleviation programme in W 5 • Revitalising CPF's and the Integrated Safety Forum



PILLAR NAME	NATIONAL/ PROVINCIAL MTSF PRIORITIES	EC PDP PRIORITIES	DISTRICT PRIORITIES	SENQU PRIORITIES
Pillar 2: Economic Positioning	Priority 2: Economic Transformation and Job Creation	<p>Goal 1: Innovative and Inclusive Growing Economy</p> <ul style="list-style-type: none"> • Stronger industry and enterprise support. • Rapid development of high-potential economic sectors. • Spatially balanced economic development, urban development and small-town revitalization. • Digital transformation and development of the ICT sector. <p>Goal 3: Rural Development and an Innovative and High-Value Agriculture Sector</p> <ul style="list-style-type: none"> • Sustainable community agriculture and diversified livelihoods. • Development of agricultural value chains. • Accelerate land reform and land rehabilitation programmes. 	<ul style="list-style-type: none"> • Facilitate and Implement job Creation and Poverty Alleviation • Facilitate and support regional economic development initiatives • Build economic and Social Infrastructure • Enhanced Tourism Development to stimulate economic growth • Thriving Agriculture and Agri-processing development in the region • Efficient and effective Investment Promotion and SMME Development • Ensure access to funding by Informal Businesses • Increased Property investment and Infrastructure Development • Thriving Light Manufacturing development • Digitally transformed service delivery platforms 	<ul style="list-style-type: none"> • Implementation of the LED strategy • Monitor and implement increased procurement from SMME's • Implementation of the Tourism Plan • Property investment unit at the Municipality



PILLAR NAME	NATIONAL/ PROVINCIAL MTSF PRIORITIES	EC PDP PRIORITIES	DISTRICT PRIORITIES	SENQU PRIORITIES
Pillar 3: Spatial Restructuring and Environmental Sustainability	Priority 5: Spatial Integration, Human Settlements and Local Government	<p>Goal 2: An enabling Infrastructure Network</p> <ul style="list-style-type: none"> Develop sustainable and integrated settlements. <p>Goal 5: Environmental Sustainability</p> <ul style="list-style-type: none"> Improvement of environmental governance. Safeguarding ecosystems and existing natural resources. Respond to climate change and green technology innovations. 	<ul style="list-style-type: none"> Establish dedicated Environmental Management units in the District and Local Municipalities. Facilitate Environmental management and conservation. Develop capacity of the District to undertake compliance and enforcement activities in terms of the National Environmental Management Act (NEMA) and the Specific Environmental Management Acts (SEMAs) Ensure communities are empowered and capacitated on environmental management issues through education and awareness campaigns, implemented through the District. 	<ul style="list-style-type: none"> Formalisation of informal settlements Increasing access to sites in urban areas Consolidation of villages around Sterkspruit Finalisation of climate change and air quality plans Utilisation of more green technologies. Senqu has already implemented a solar energy system in its main office Implementation of a waste recycling programme



PILLAR NAME	NATIONAL/ PROVINCIAL MTSF PRIORITIES	EC PDP PRIORITIES	DISTRICT PRIORITIES	SENQU PRIORITIES
Pillar 4: Infrastructure Engineering	<p>Priority 2: Economic Transformation and Job Creation</p> <p>Priority 5: Spatial Integration, Human Settlements and Local Government</p>	<p>Goal 2: An Enabling Infrastructure Network</p> <ul style="list-style-type: none"> • Build resilient economic infrastructure that promotes economic activity. • Universal access to basic infrastructure. • Sustainable energy and electricity provision. • Develop sustainable and integrated settlements. • Improve infrastructure planning, delivery, operations and maintenance. 	<ul style="list-style-type: none"> • Build economic and Social Infrastructure 	<ul style="list-style-type: none"> • Build economic and Social Infrastructure
Pillar 5: Integrated Services Provisioning	<p>Priority 4: Consolidating the Social Wage through Reliable and Quality Basic Services</p>	<p>Goal 2: An Enabling Infrastructure Network</p> <ul style="list-style-type: none"> • Universal access to basic infrastructure. 	<ul style="list-style-type: none"> • Universal Access to Basic Services 	<ul style="list-style-type: none"> • Increase access to municipal services especially refuse removal • Implementation of the Sterkspruit Urban design framework • Implementation of the SDF and precinct plan



PILLAR NAME	NATIONAL/ PROVINCIAL MTSF PRIORITIES	EC PDP PRIORITIES	DISTRICT PRIORITIES	SENQU PRIORITIES
Pillar 6: Governance and Management	Priority 1: A Capable, Ethical and Developmental State Priority 7: A Better Africa and World	Goal 6: Capable Democratic Institutions <ul style="list-style-type: none"> • Building the Capability of the State to deliver. • Transformed, Integrated and Innovative Service Delivery. • Instilling a culture of good corporate governance. • Build multi-agency partnerships. 	<ul style="list-style-type: none"> • Ensure effective financial management and reporting • Ensure integrated planning and performance management • Facilitate Intergovernmental Cooperation • Facilitate community participation in the affairs of the municipality 	<ul style="list-style-type: none"> • Increase IGR • Improve public participation programmes and communication channels • Business re-engineering programme • Innovation Hub • Enhance revenue • Promote funding partnerships

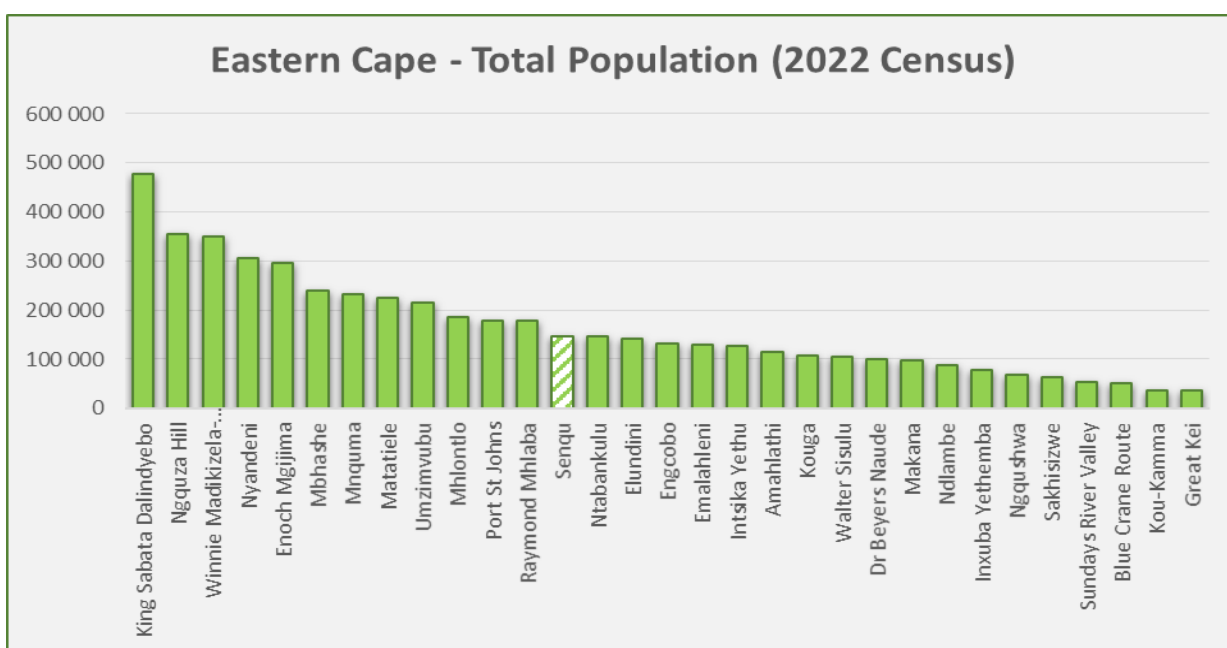
Service Delivery Backlogs remains one of the major challenges of all municipalities in South Africa. Senqu Municipality is no exception to the rule and is also confronted with various backlogs in the municipal area. It is however a balancing act to ensure backlogs is eradicated, while still ensuring that the municipality remains financially viable.

3. SECTION 3: CURRENT REALITIES

3.1 Demographic information and Local Economy Reality

Senqu Municipality has a total population of 147 073 (2022 Census), which represents 37.42% of the people living in the Joe Gqabi District. In 2011, the population in the municipal area was 134 150 (2011 Census).

Compared to other municipalities in the Eastern Cape, excluding the Nelson Mandela Bay Metro and Buffalo City, Senqu is ranked the 13th based on population size.



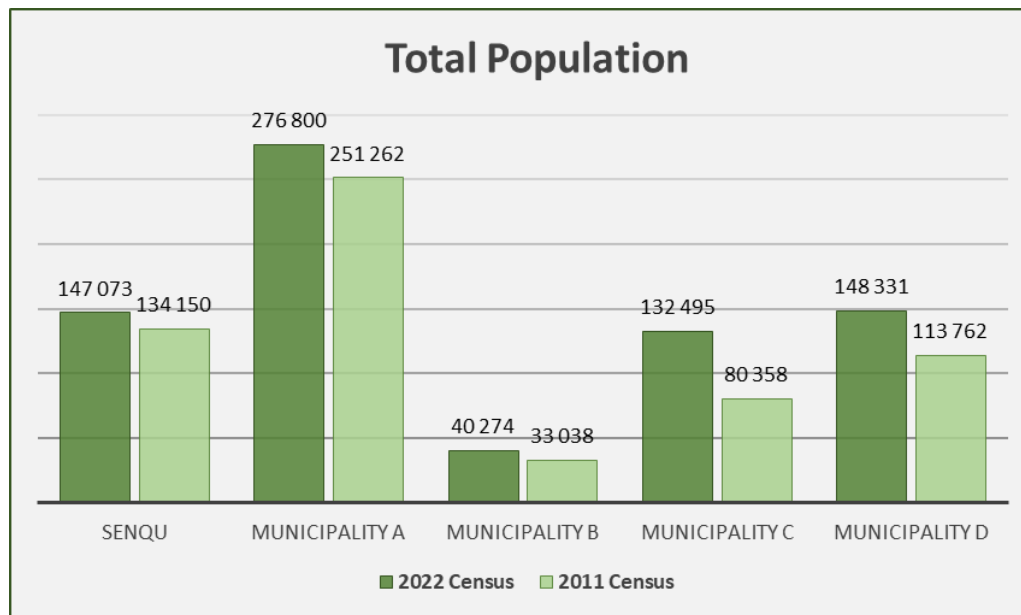
Its inhabitants are growing at 0.84% per annum which is lower than the growth rate of the district (1.10%), the provincial (0.89%), as well as the country (1.66%).

Based on an annual increase of 0.84%, it is projected that the population numbers will increase as follows:

Year	Population
2022	147 073
2023	148 308
2024	149 554
2025	150 810
2026	152 077
2027	153 355



The population/population growth compared to other municipalities (for purposes of this document will be known as the “Benchmark Group” which comprises of selected best performing Municipalities) in the country is as follows:

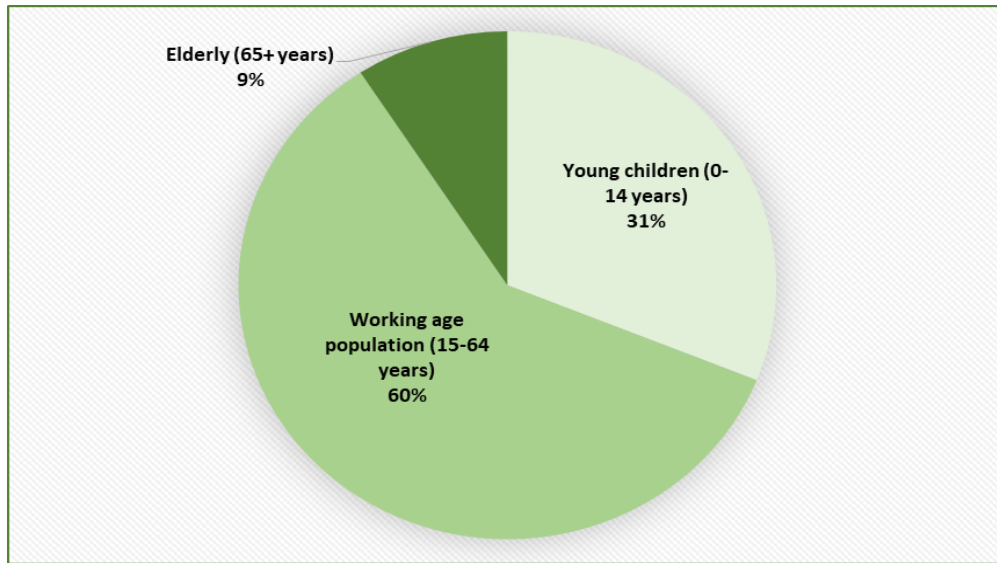


The growth rate in Senqu between 2011 and 2022 were 0.84%, which is lower than any other municipality in the Benchmark Group:

Municipality	Growth Rate
Senqu	0.84%
Municipality A	0.88%
Municipality B	1.82%
Municipality C	4.65%
Municipality D	2.44%

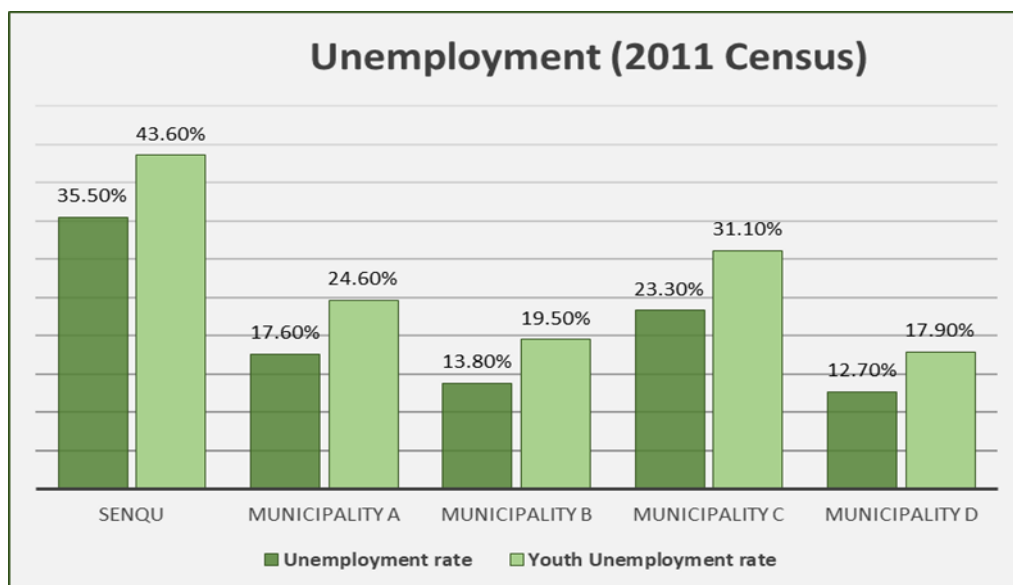


The population can be classified into three main groups namely young children (0 - 14 years); the working age population (15 - 64 years) and persons aged 65 years and older. In 2022 the Municipality's population composition was as follows: young children at 31.1%, working age population at 59.7% and persons aged 65 and older at 9.2% of the total population.

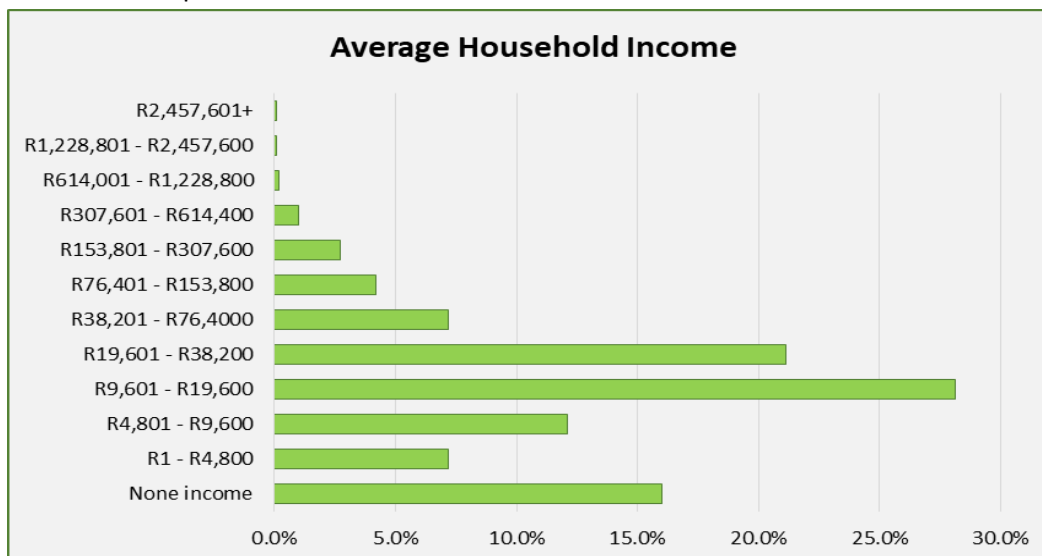


There are 28 289 economically active (ie, employed or unemployed but looking for work) individuals within the municipality, and of these 35.5% are unemployed. Of the 14 464 economically active youth (15–34 years) living in the area, 43.6% are unemployed.

The unemployment rate in the Senqu Municipal area is higher than the unemployment rates for the benchmark group.



Distribution of income per annum:



The National Treasury forecasts real GDP growth of 0.8 per cent in 2023, compared with 0.9 per cent projected in the 2023 Budget Review. Growth is projected to average 1.4 per cent from 2024 to 2026. Relative to the 2023 Budget, the weaker projection for 2023 mainly reflects lower household consumption expenditure due to higher inflation and interest rates, and lower net exports. Power cuts are expected to continue for the remainder of this year and to gradually ease in 2024. Faster, determined implementation of energy and logistics reforms remains critical to boosting economic growth.

Employment growth continues to lag South Africa's post-COVID-19 economic recovery, with 74 000 fewer people in employment in the second quarter of 2023 than in the fourth quarter of 2019. Improving employment growth sustainably over the long term requires faster GDP growth and improved education and skills development.

Headline inflation is expected to decelerate as the energy and food price shocks associated with global supply chain disruptions and the war in Ukraine dissipate. Headline consumer prices are expected to fall from an expected 6 per cent in 2023 to 4.9 per cent in 2024. Fuel prices have fallen since June 2023, largely reflecting base effects. Food price inflation, which peaked at 14.4 per cent in March 2023, slowed to 8.2 per cent by August 2023. However, the pace of deceleration has been slow relative to global food prices. This can be attributed to a weaker rand exchange rate and elevated production costs. Core inflation has remained near 5 per cent for most of 2023 due mainly to higher insurance and vehicle price inflation. Headline inflation is projected to return towards the mid-point of the 3 to 6 per cent target range in 2025.



Household consumption expenditure is expected to slow from 2.5 per cent in 2022 to 0.8 per cent in 2023 due to the cumulative effect of interest rate increases, elevated inflation and falling real disposable income, and generally weak consumer confidence. Growth in credit extended to households continues to decelerate for both secured and unsecured credit. National Credit Regulator data shows that in the first quarter of 2023, banks rejected 70 per cent of credit applications – the highest rate on record – reflecting concerns over households’ ability to repay loans. Household consumption expenditure is expected to average 1.6 per cent from 2024 to 2026.

The above economic challenges will place pressure on households’ ability to pay municipal accounts and Eskom power cuts affect sustainability of small and large businesses. Both these factors have placed pressure on municipal own revenues.

3.2 Indigent Households and Infrastructure backlogs

There are 38 046 households in the municipality, with an average household size of 3 (3.5 – 2011 Census) persons per household. In terms of services, 96.1% (81.1% - 2011 Census) of households have access to electricity for lighting. Only 34.6% (8.7% - 2011 Census) of households have access to piped water which is accessible from within the dwelling. 40.4% (13.6% - 2011 Census) of dwellings within the municipal area have access to flush toilets connected to sewerage, while 37.4% (12.5% - 2011 Census) of households receives refuse removal services once a week.

Although there were significant progress made in the provision of basic services since the previous census in 2011, much more is yet to be done. With reference to the benchmark group and National figures, Senqu is well behind in all key statistics (with the exception of electricity for lightning where the municipality is only slightly behind the benchmark group, but above the national statistic). This can be illustrated as follows:

Key Statistics (Census 2022)	Senqu Local Mun	Mun A	Mun B	Mun C	Mun D	National
Electricity for Lightning	96.1%	97.9%	99.3%	96.3%	97.8%	94.7%
Access to piped Water inside dwelling	34.6%	88.6%	94.4%	87.6%	90.6%	59.7%
Flush Toilets connected to Sewerage	40.4%	96.7%	98.6%	99.0%	96.8%	70.8%
Refuse Removal once a week	37.4%	89.2%	92.8%	91.4%	82.8%	66.3%



The municipality are providing the paraffin and candles to 650 consumers a month at R 182 971.25 as per a contract that was approved by Council. These numbers were based on the electricity backlogs when the contract was approved and are highly likely to increase as a result of the bigger demand for this form of support.

Number of Beneficiaries	Item Description	Qty	Unit Price (per household)	Total Price Excl VAT
650	10 Litres of Paraffin	23.86 per	238.60	R 155 090.00
	6 candles	400g	27.52	R 15 554.78
964.6 km	Delivery Cost	10.36 per km		R 9 993.25

The Basic Social Services Package provided to indigents assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipality's Indigent Policy.

The cost of the social package of the registered indigent households is financed by the municipality self and largely by utilizing the municipality's unconditional equitable share grant, allocated in terms of the Constitution to local government, and received in terms of the annual Division of Revenue Act.

Tariffs for indigent households are set out below:

- Rates free of charge to the value based on the market value of the property to the maximum of R60 000
- 50 kWh free electricity per month
- Free refuse x 4 removals per month

4. SECTION 4: FINANCIAL OVERVIEW: REVENUE MANAGEMENT

Senqu Municipality derives approximately 95% of revenue (excluding conditional capital and operating grants) from the following sources:

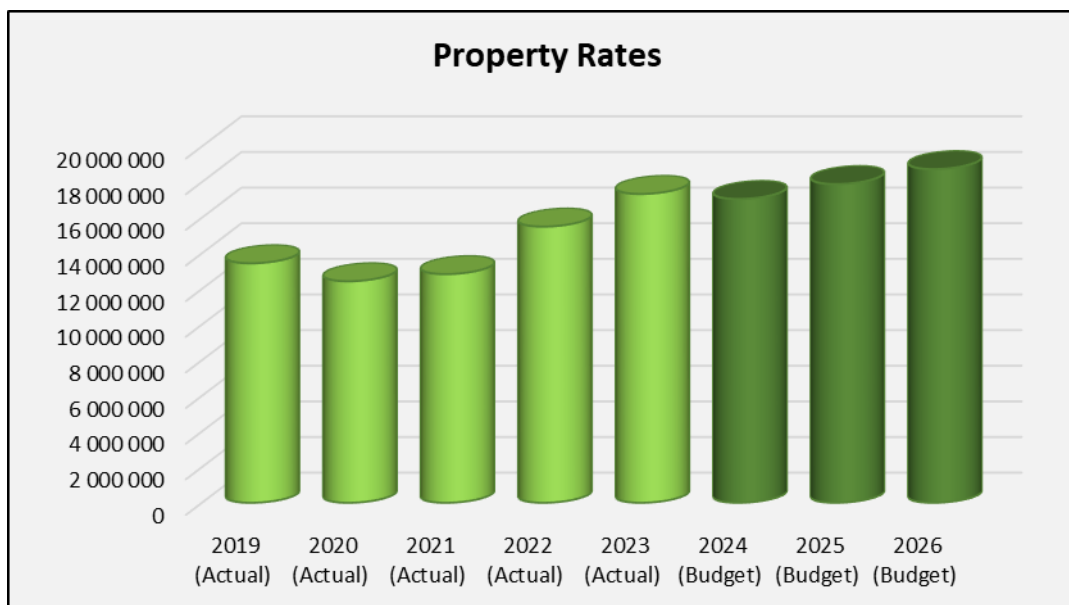
- 1) Property Rates
- 2) Service Charges
- 3) Unconditional Grant Funding (Equitable Share)
- 4) Interest Earned - external investments

Total revenue (excluding conditional capital and operating grants) amounted to R 292.335 million in 2022/2023 and is projected to grow to R 337.710 million in 2025/2026.

Main revenue streams will be analysed in more detail below.

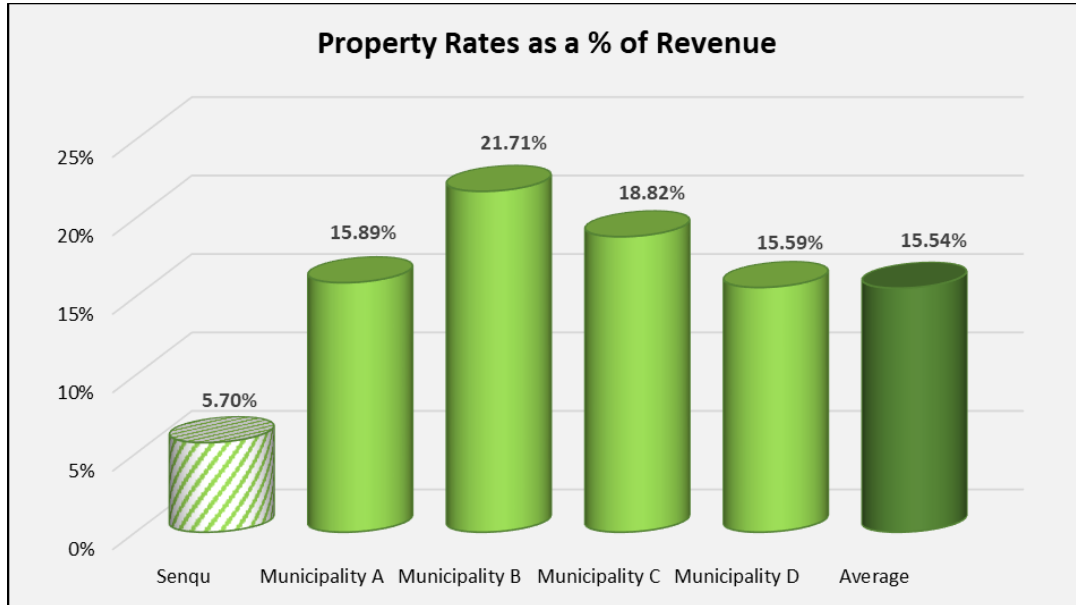
4.1 Property Rates

During 2022/2023 Property rates accounted for 5.7% of the revenue mix of Senqu Municipality. This percentage is set to remain constant over the budget period. Translated into Rand, the revenue derived from Property rates will increase from R 17.331 million in 2022/2023 to R 18.724 million in 2025/2026. This increase amounts to an average annual increase of 4.8% over the 3 year budget period as indicated below:

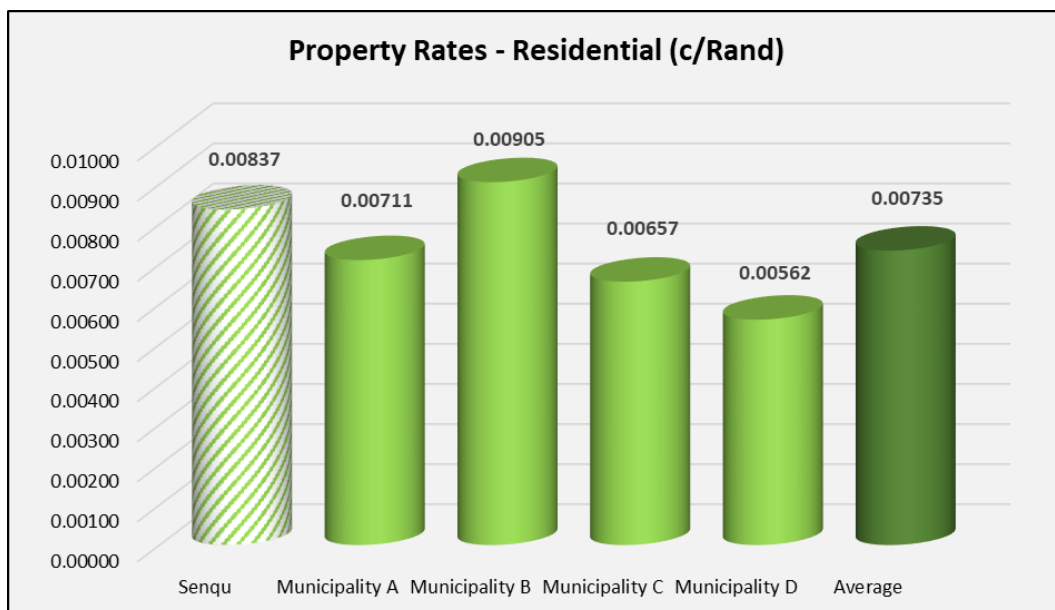


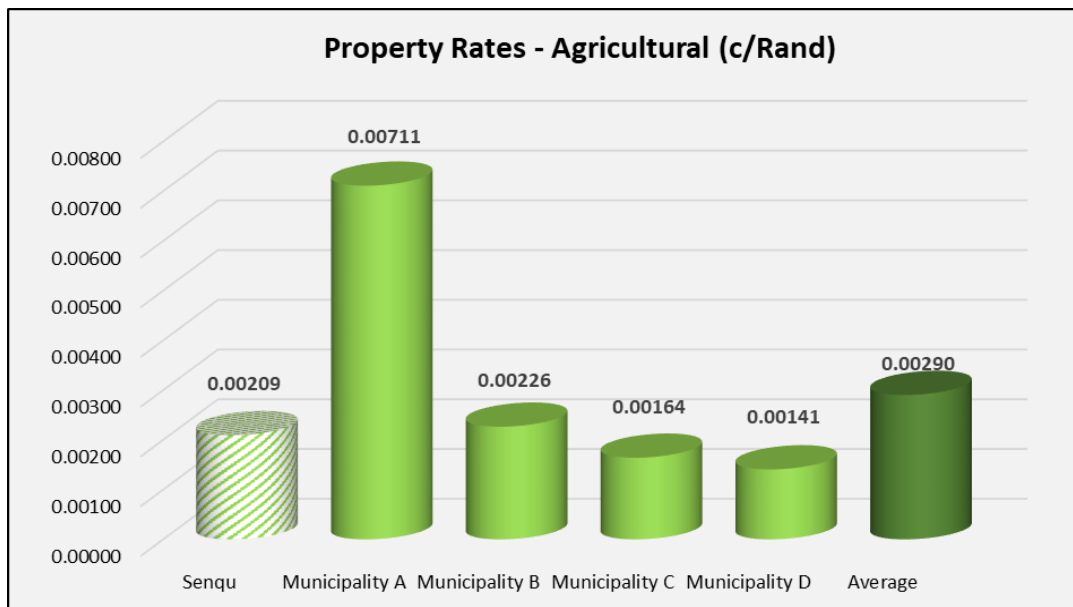
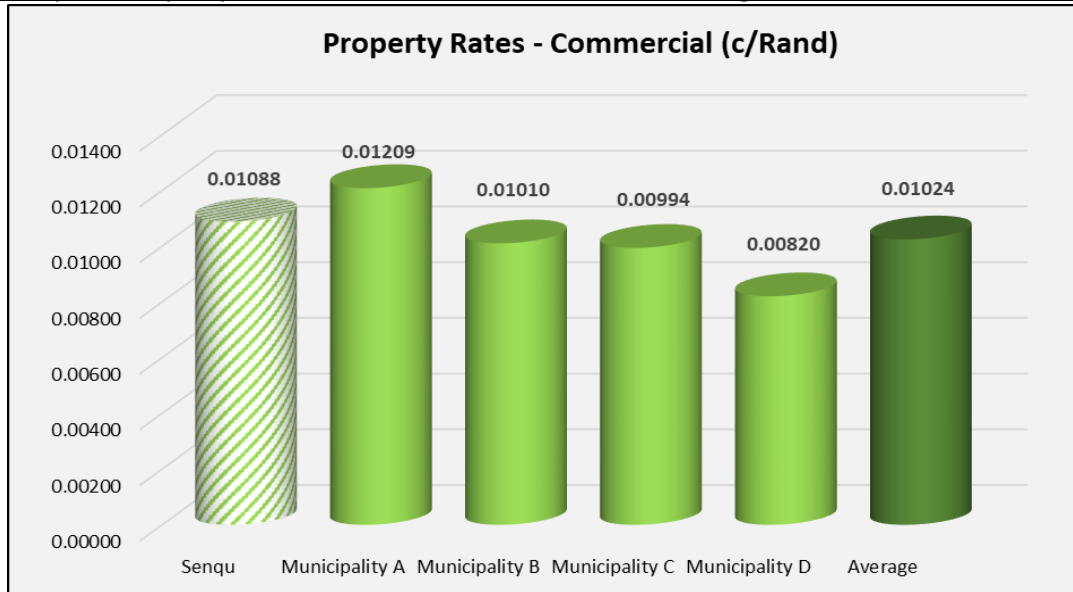


Comparing property rates to the Benchmark Group, Senqu Municipality is less dependent on Property rates to fund the total budget:



When the Benchmark group is compared based on the tariffs charged (2022/2023) for the 3 main categories of properties (Residential, Commercial and Agricultural), the results are as follows:

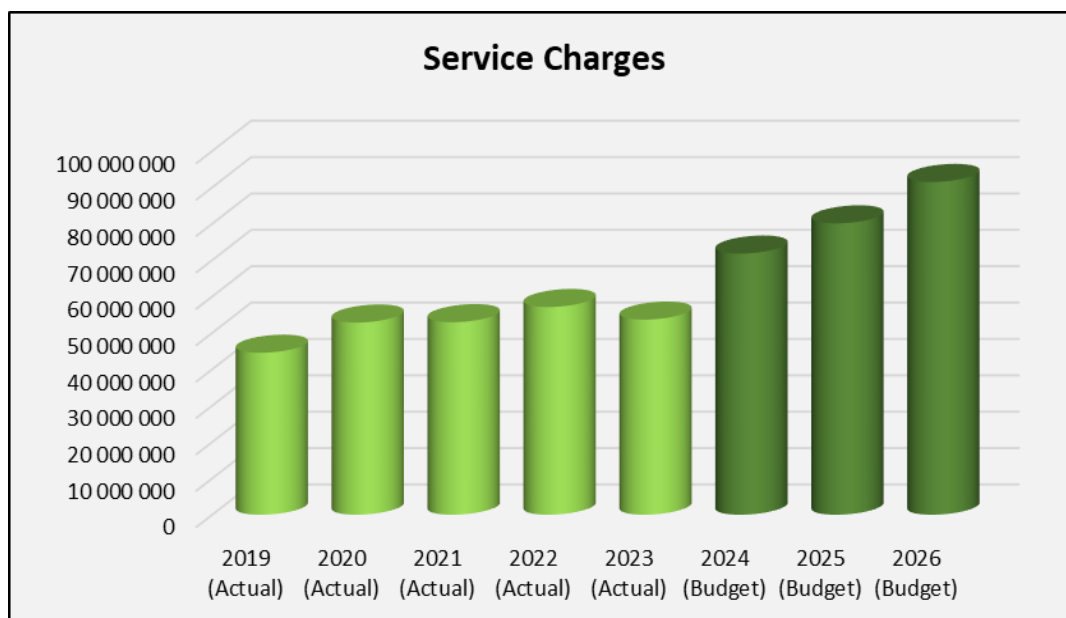




Residential rates are the second highest in the benchmark group, while agricultural rates are below the average for the group. Commercial tariffs are in aligned to the average for the group, however, any increases in this category should be carefully considered, as excessive increases might counter GDP Growth in the municipal area.

4.2 Service Charges

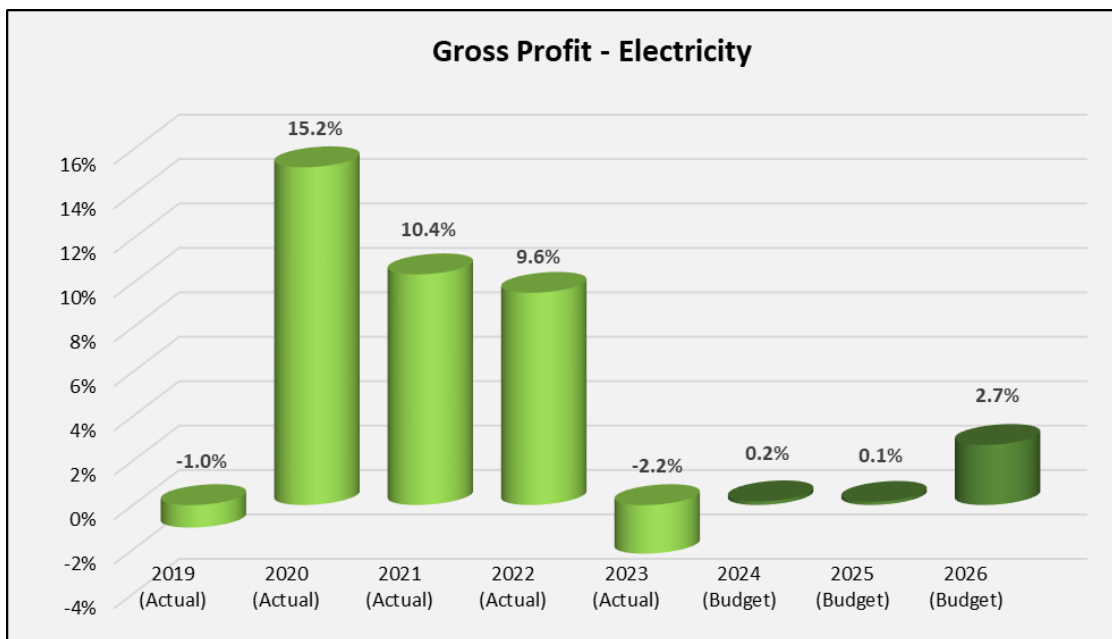
Service charges are made up of Electricity- and Refuse Revenue and accounted for R 53.643 million (or 17.64 %) of the total revenue mix in 2022/2023. It is projected that Service charges will increase at an average annual rate of 13% to R 91.481 million in 2025/2026. In 2025/2026, Service charges will represent 26.11% of the total revenue mix.



4.2.1 Service Charges – Electricity

Electricity Service charges contribute approximately 17% to 22% of the revenue mix of Senqu Municipality.

Electricity service charges have historically been a “profit making” service for most municipalities. Surpluses generated in distributing electricity is utilised to cross-subsidise other functions of the municipality where services are unable to be cost reflective. For this reason, it is very important to ensure the margins derived on Electricity services are maintained at a certain level. However, due to sharp increases in bulk service charges (Refer to Section 5), combined with the inability of the municipality to transfer all cost increases to the consumer, electricity margins came under pressure as illustrated in the following graph:

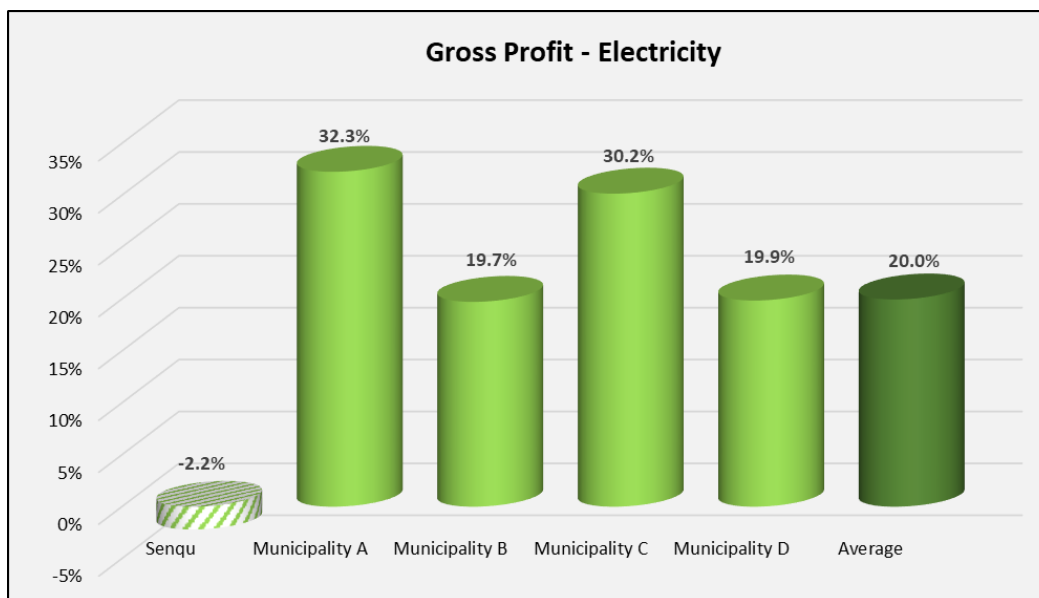


Pressure on the gross profit percentage due to the increase in costs of the bulk service, combined with relatively lower consumption charges, will result in a significant decline in the profitability of the service over the period from 2022/2023 to 2025/2026 as indicated below:

Description	2019 (Actual)	2020 (Actual)	2021 (Actual)	2022 (Actual)	2023 (Actual)	2024 (Budget)	2025 (Budget)	2026 (Budget)
Service Charges - Electricity	33 059 223	41 361 651	44 114 779	48 684 014	44 526 191	61 638 345	69 449 066	80 332 670
Bulk Purchases - Electricity	33 393 649	35 072 720	39 533 435	44 034 167	45 498 755	61 537 072	69 352 281	78 160 020
Surplus/(Deficit)	-334 426	6 288 932	4 581 344	4 649 847	-972 564	101 272	96 785	2 172 650
Gross Profit %	-1.0%	15.2%	10.4%	9.6%	-2.2%	0.2%	0.1%	2.7%



Comparing the profitability of the service to the benchmark group, the reality in the Senqu area is quite evident when it comes to passing on the cost of bulk purchases to the consumers in the area. This will be further discussed in Section 5 (Bulk Purchases):



4.2.2 Service Charges – Refuse

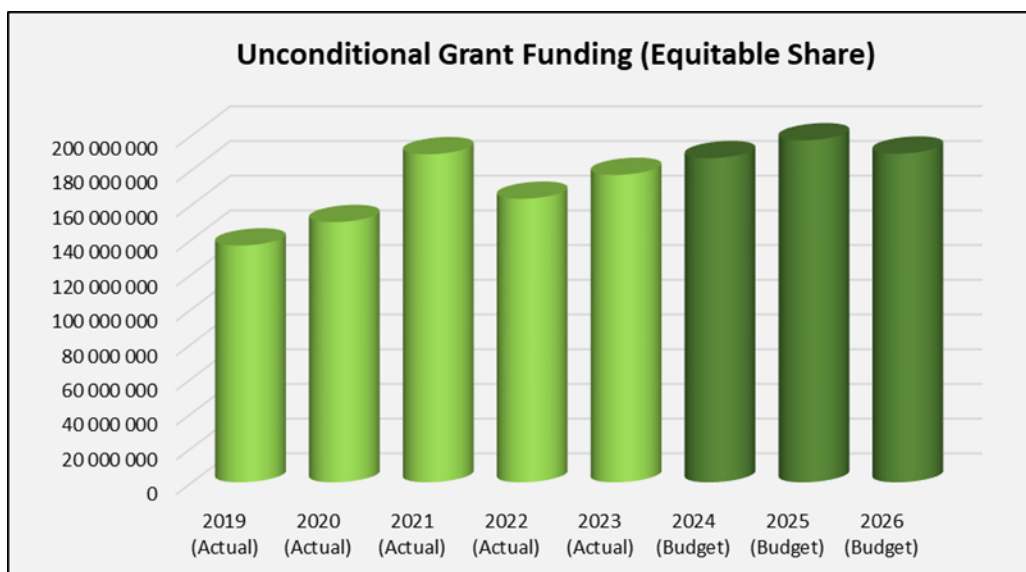
The refuse service is a small contributor to the revenue mix, contributing on average less than 3%. The service is projected to remain profitable for the foreseeable future. It should however be noted that there are significant costs associated with the rehabilitation of landfill sites (which is quantified at R36.54 million on 30 June 2023). The rehabilitation of landfill sites should also be funded from these surpluses over time.

Description	2019 (Actual)	2020 (Actual)	2021 (Actual)	2022 (Actual)	2023 (Actual)	2024 (Budget)	2025 (Budget)	2026 (Budget)
Revenue - Waste Management	40 019 587	41 505 759	50 411 042	41 891 151	52 025 352	49 342 854	51 981 589	51 164 662
Expenditure - Waste Management	30 685 212	33 012 211	35 186 514	31 443 754	23 029 717	40 655 764	36 016 167	40 493 680
Surplus/(Deficit)	9 334 375	8 493 548	15 224 528	10 447 398	28 995 634	8 687 090	15 965 422	10 670 983
Surplus/(Deficit) %	23.3%	20.5%	30.2%	24.9%	55.7%	17.6%	30.7%	20.9%

Compared to the revenue and expenditure per function, it should be noted that the revenue figures above does not include indigent rebates financed from equitable share as well as any capital grant revenue (if any). Expenditure only relates to operating expenditure.

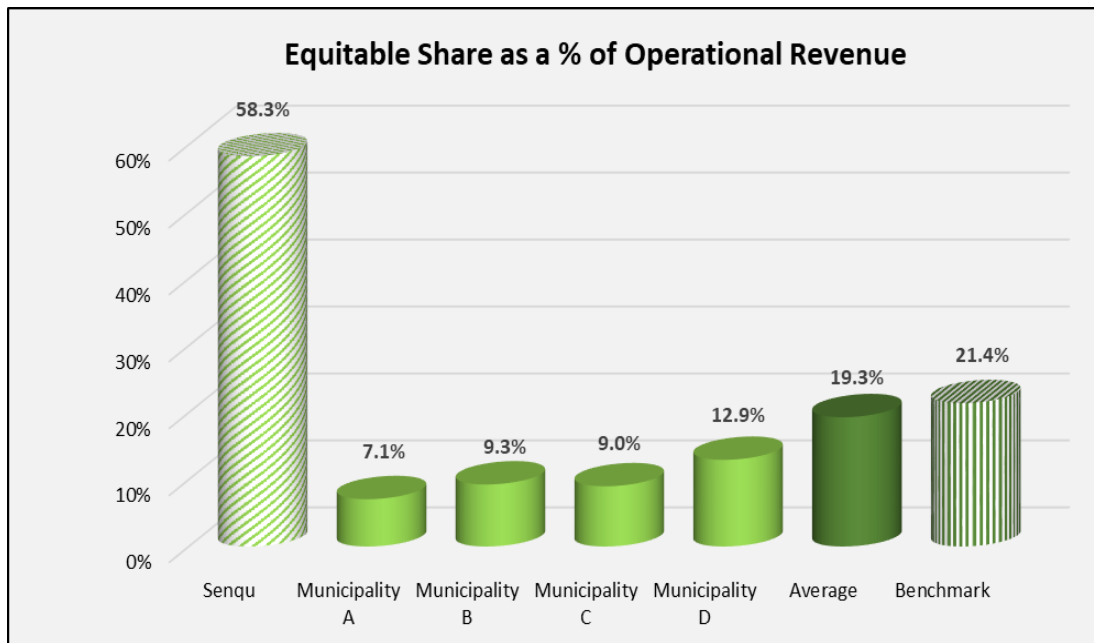
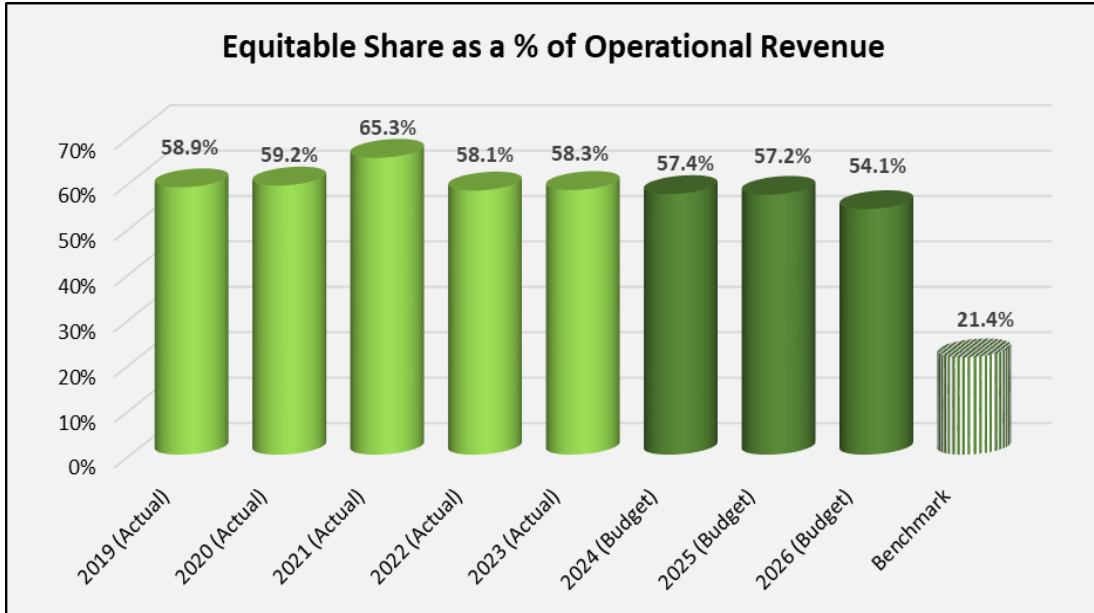
4.3 Unconditional Grant Funding (Equitable Share)

Senqu municipality is to a very large degree dependent on grants (Equitable share) to sustain the budget (as illustrated on the graph below). The unconditional Equitable Share Grant is a grant growing annually according to a formula determined nationally and such formula is applicable to all local authorities on an equal basis.



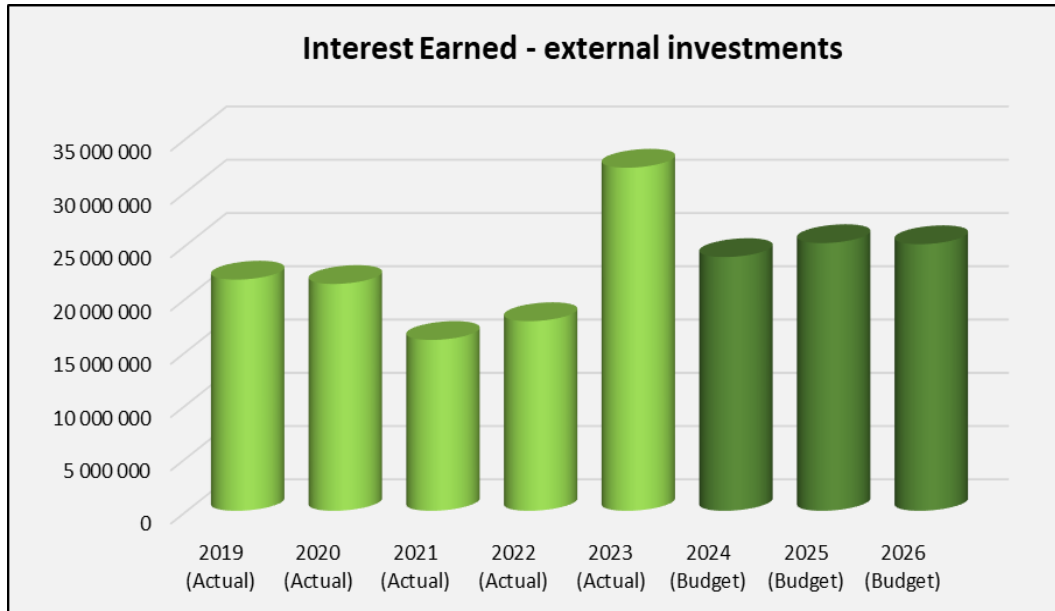
This growth in the Equitable Share grant allocation is aligned to the growth in the population experienced over the recent years. National government has allocated an additional R30.5 million Equitable Share grant for 2020/2021 to the municipality to assist in responding to the Covid-19 pandemic.

Approximately 60% of the revenue basket can be attributed to equitable share. This, together with the lower percentage for rates and service charge revenues, is an indication of the high unemployment rate in the area. The dependence on grant funding to balance the budget has always been very high when compared to the good practice benchmark which is set at 21.4%:



4.4 Interest Earned - external investments

During 2022/2023 Interest Earned – external investments accounted for 10.6% of the revenue mix of Senqu Municipality. This percentage is set to decrease to an average of 7% over the budget period. Translated into Rand, the revenue derived from Interest Earned – external investments will decrease from R 32.209 million in 2022/2023 to R 25.029 million in 2025/2026 as indicated below:





5. SECTION 5: FINANCIAL OVERVIEW: EXPENDITURE MANAGEMENT

Given the current economic environment, the financial opportunities available on the revenue side of the budget is very limited (i.e. to raise tariff or introduce new tariff). This requires from municipalities to also focus on the expenditure side of the budget to promote the long term sustainability of the budget. With regards to expenditure management, the municipality should focus on the following areas:

- 1) Management of creditors and ensuring that the payment period of 30 days granted in the MFMA is utilised in full without contravening the act.
- 2) Management of the municipalities main cost drivers (i.e. bulk purchases and employee related costs) to ensure that expenditure is within the norms
- 3) Management of effective spending (also refer to SCM section) and the improvement of productivity associated with spending
- 4) Effective management of assets needed to deliver services

In the municipal environment, the following line items are considered to be the main cost drivers, as it represents more than 80% of the total operating expenditure of Senqu Municipality:

- Employee Related Costs
- Bulk Purchases
- Contracted Services (Including Repairs and Maintenance)
- Operational Cost (Including Repairs and Maintenance)

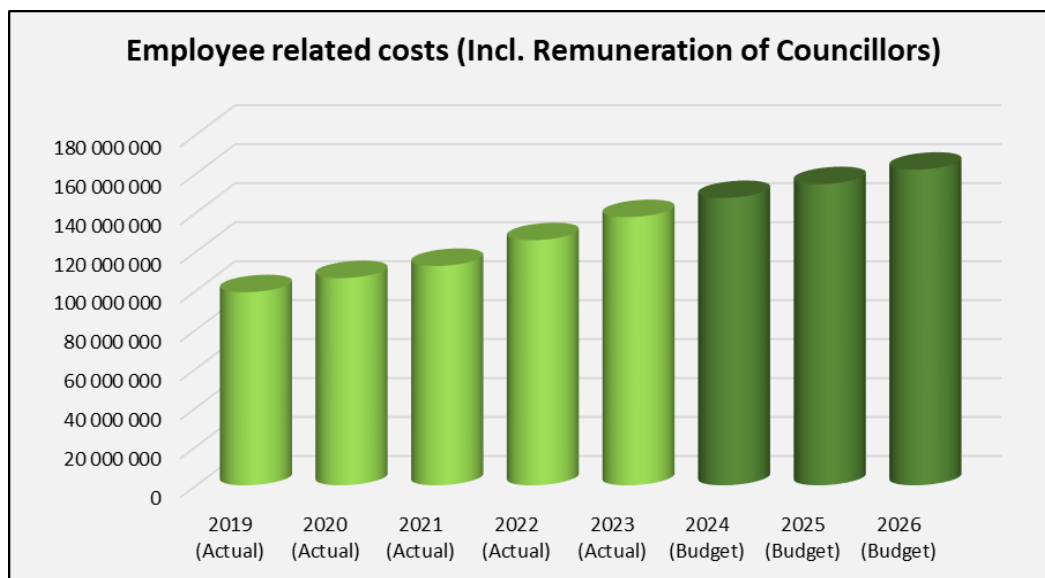
Total operating expenditure amounted to R 261.249 million in 2022/2023. This figure is expected to increase to R 348.426 million in 2025/2026.

These major line items is analysed in detail below.

5.1 Employee Related Costs

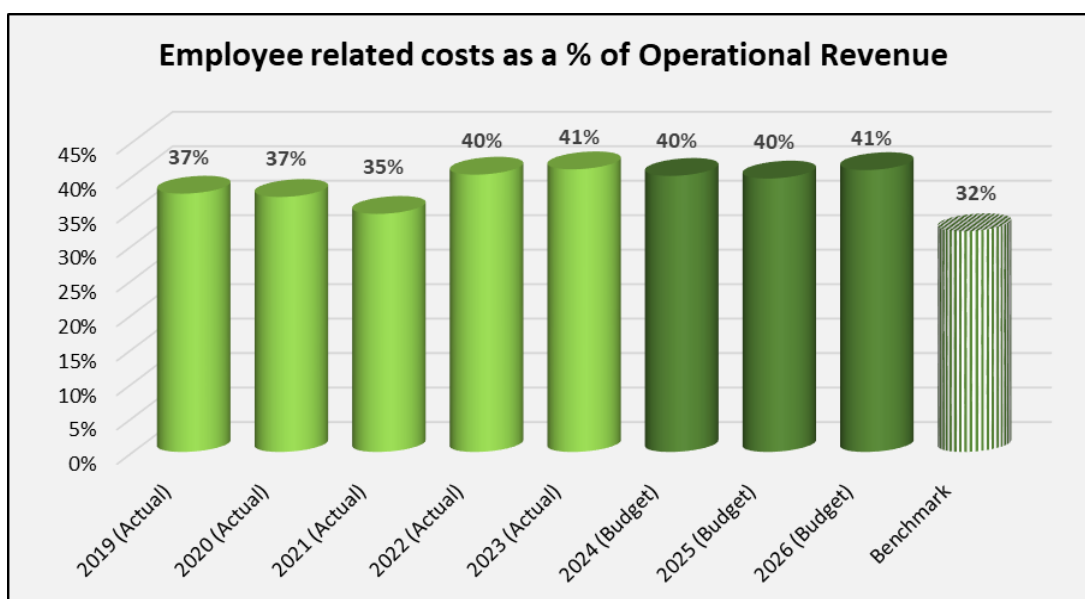
Employee related costs (including Remuneration of Councillors) make up approximately a 46% of the total operating expenditure of the municipality. Thus, it is of the utmost importance to monitor this line item on a regular basis to ensure that it is within set limits. Excessive increases, without the corresponding increase in revenue, could negatively impact on the long term sustainability of the municipality.

The wage bill of Senqu Municipality is set to increase from R 137.592 million in 2022/2023 to R161.910 million in 2025/2026. Management should explore options to ensure that strategies are implemented to reduce the ratio within the set norms.



To evaluate the projected employee related cost figure, it is compared to good practice benchmarks. Employee related cost is benchmarked against both revenue and expenditure to evaluate the contribution of the projected figures towards the long term sustainability of the municipality.

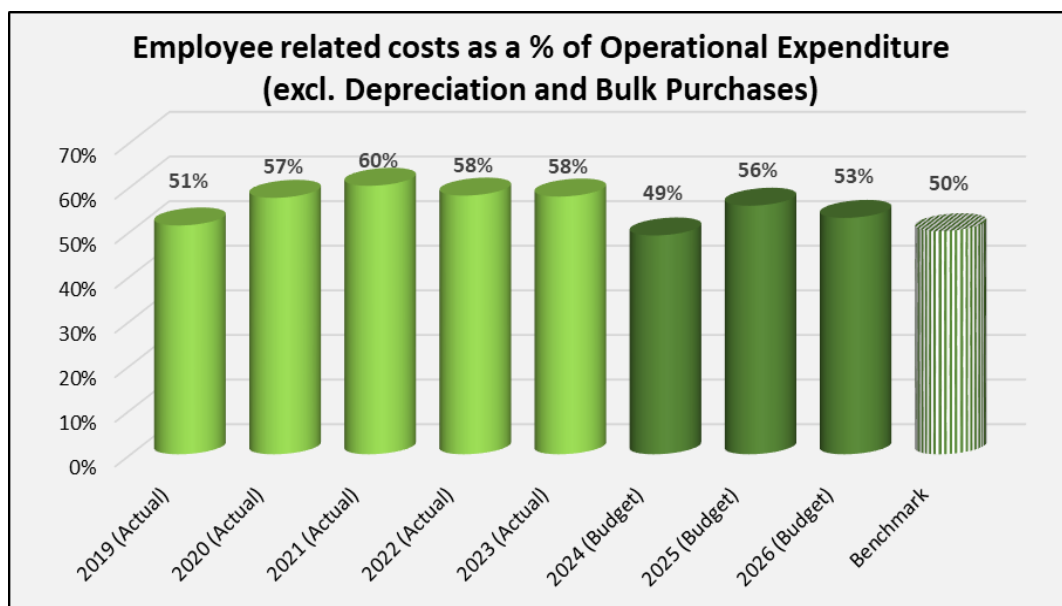
Firstly, Employee Related Costs is benchmarked against revenue. As indicated below, the employee related costs ratio will be above the benchmark of 32%.





Secondly, Employee Related Costs is benchmarked against an operating expense indicator. When good practice benchmarks were set, the team that was tasked to determine the benchmarks, specifically focussed on significant items that might distort ratio's when comparing one municipality with another. For this reason, a benchmark was established that excludes material items such as Depreciation and Bulk Purchases. These items can fluctuate significantly between different municipalities due to different asset valuation techniques or service delivery areas .

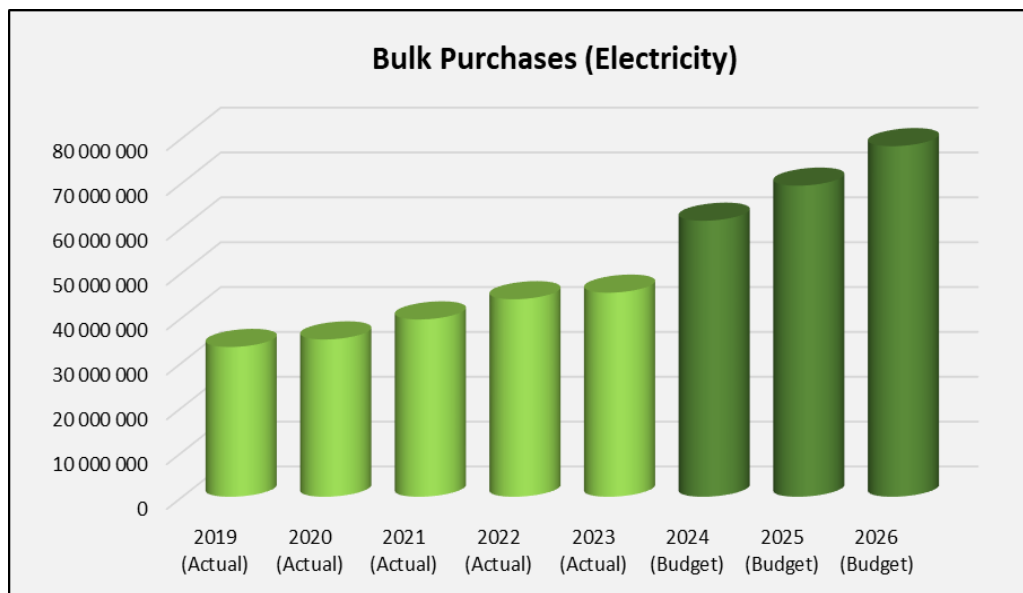
Based on this indicator, the municipality is projected to be marginally above the benchmark throughout the projected period (with the exception of 2023/24), as indicated below:



5.2 Bulk Purchases

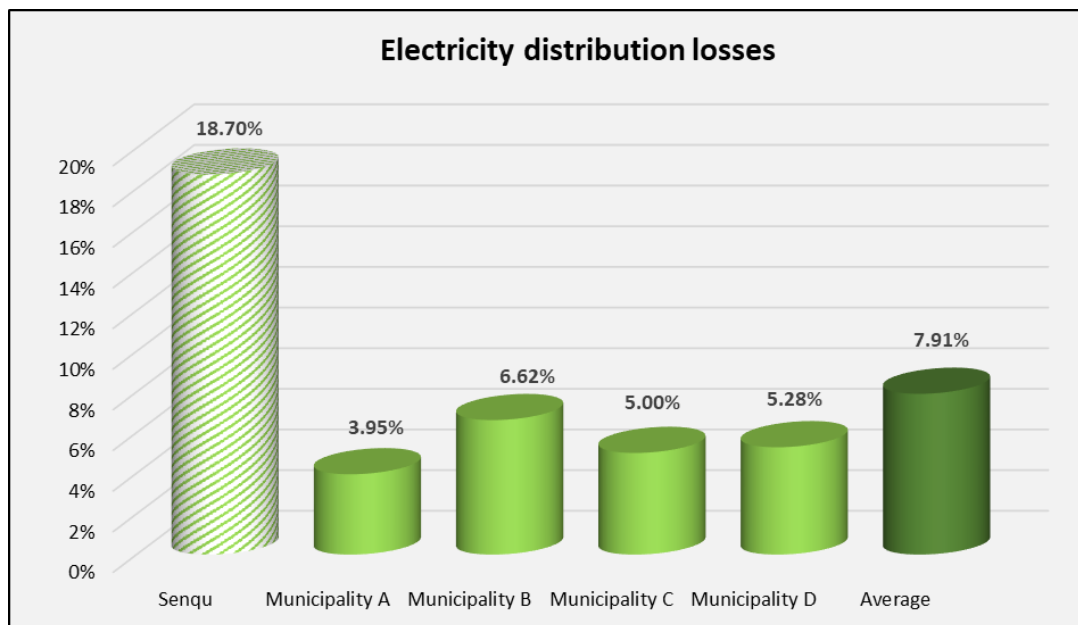
The increase in bulk purchases is largely beyond the control of the municipality, as this expenditure line item is linked to the level of consumption by consumers as well as increases passed onto the municipality by Eskom (Bulk electricity).

Bulk Purchases for Electricity is set to increase from R 45.499 million in 2022/2023 to R 78.160 million in 2025/2026. These increases represents an average annual increase of 12.7% over the 3 year forecast as indicated below:



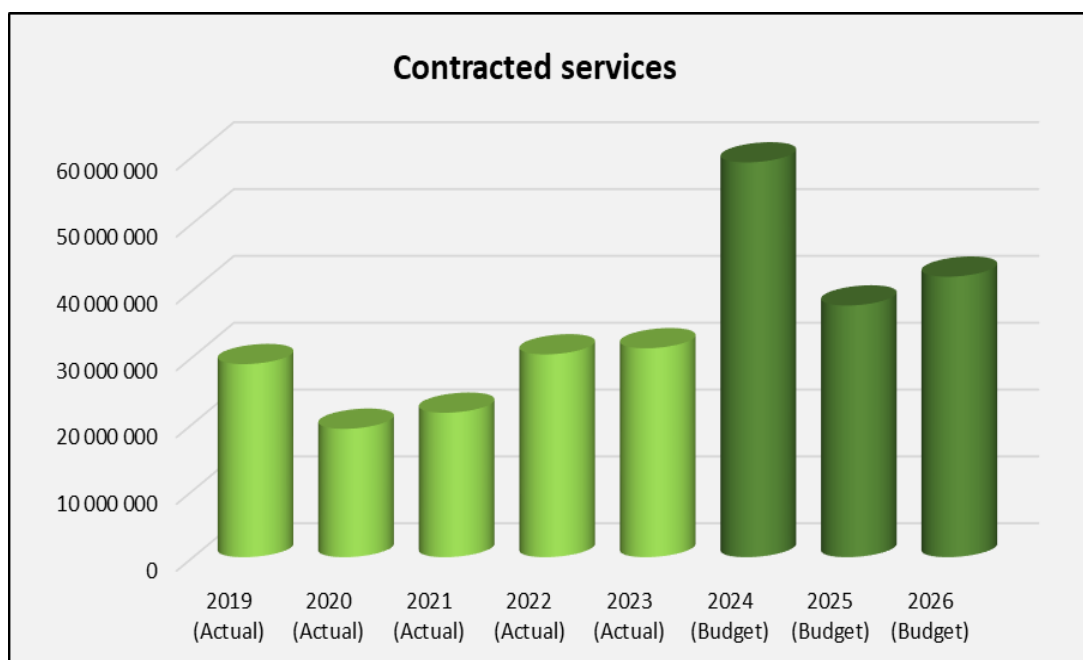
The municipality can however control internal consumption of electricity to a certain extent by applying strict measures that will ensure that departments within the municipality use the “commodity” sparingly.

The municipality can control electricity distribution losses to a certain extent by ensuring that infrastructure assets are well maintained, all consumers are billed accurately for electricity consumption and by implementing strict controls to limit illegal connections. However, based on statistics for the 2022/2023 year, Senqu municipality is the worst performing municipality when it comes to electricity losses, as indicated in the following graph:



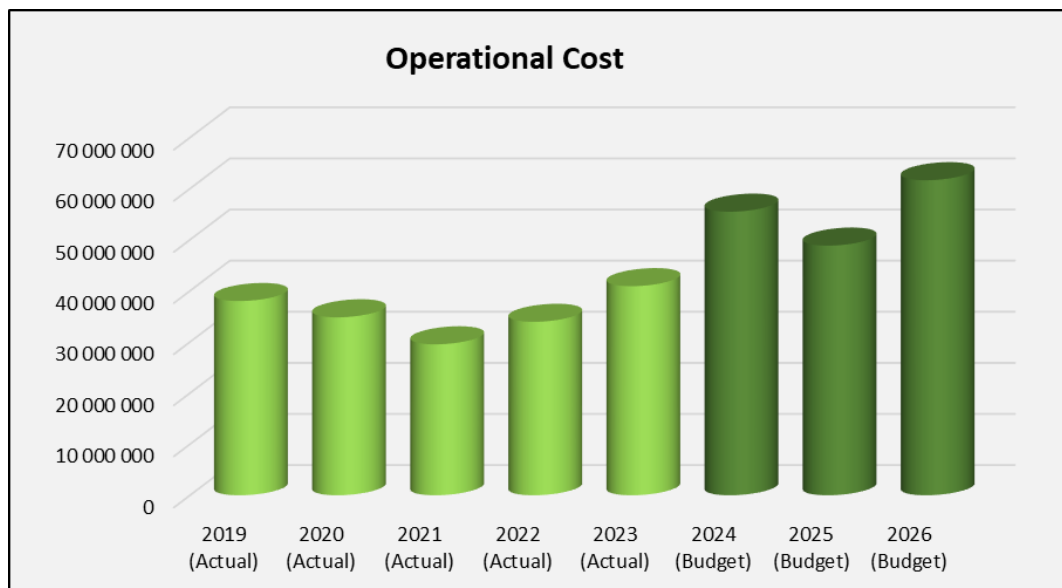
5.3 Contracted Services

Contracted services consists of the delivery of primary services and the classification was largely influenced by the mSCOA chart of accounts. Approximately 23% of the Contracted Services for 2022/2023 relates to Repairs and Maintenance projects. Contracted Services is set to increase from R 31,251 million in 2022/2023 to R 41,959 million in 2025/2026.



5.4 Operational Cost

Operational Cost comprises of various line items relating to the daily operations of the municipality, including repairs and maintenance which marks approximately 11% of the 2022/2023 expenditure. Operational Cost represents between 16% and 18% of total operating expenditure. This line item is projected to increase from R 40.917 million in 2022/2023 to R 61.652 million in 2025/2026 as indicated below:

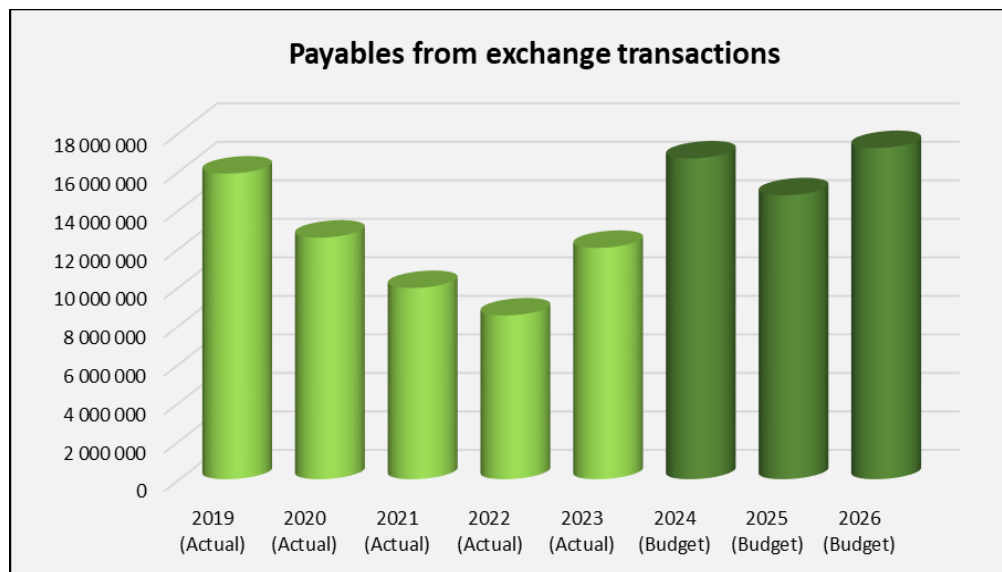


The municipality should review and assess the necessity of all expenditure included in this balance to identify any areas where expenditure can be curbed. The municipality should also refrain from allocating own revenue sources to functions of other spheres of government (unfunded/underfunded mandates). These allocations could pose a financial risk to the municipality due to the fact that funds are being allocated to non-core functions at the expense of basic service delivery. This is also a specific instruction from National Treasury in former budget documentation.

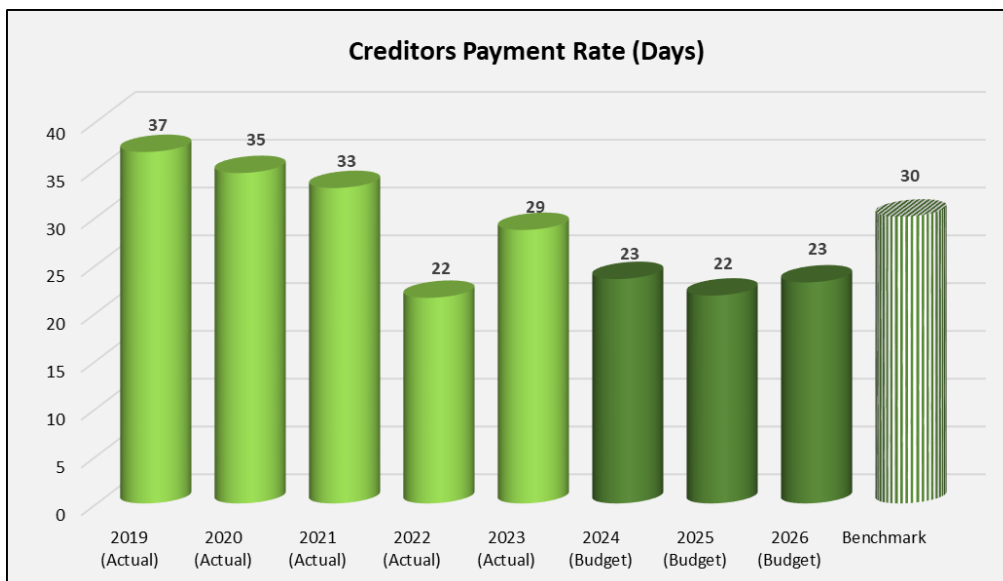
6. SECTION 6: FINANCIAL OVERVIEW: DEBTORS AND CREDITORS MANAGEMENT

Debtor and creditor management forms an integral part of any municipality's long term financial strategy. Municipalities should ensure that they fully utilise credit terms (within the limits of the MFMA) provided to them by suppliers, while also ensuring that any money owing to them is collected as soon as possible. This will ensure that maximum cash levels are maintained at all times, which in turn will result in higher possible returns on money invested by the municipality.

The municipality has always managed to pay creditors when they become due and payable. It is assumed in the compilation of the budgeted figures for the period 2023/2024 to 2025/2026 that the status quo will be maintained and for this reason payables are projected to move in line with estimated operating and capital expenditure programs.

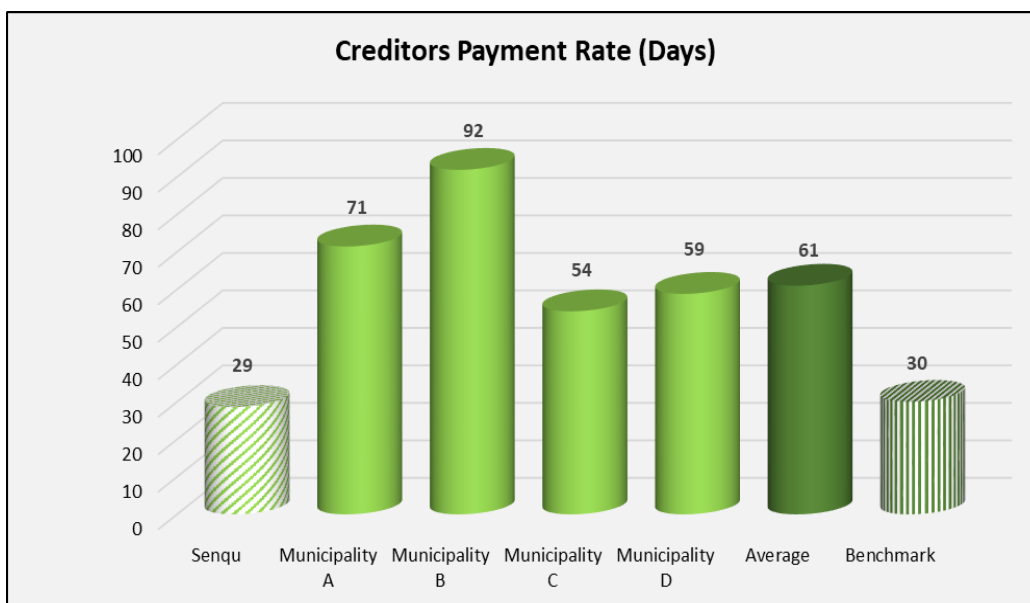


The payment rate of the municipality is expected to be very consistent for the next 3 years. However, any decline in cash balances (refer to section 7) could negatively impact on this ratio.

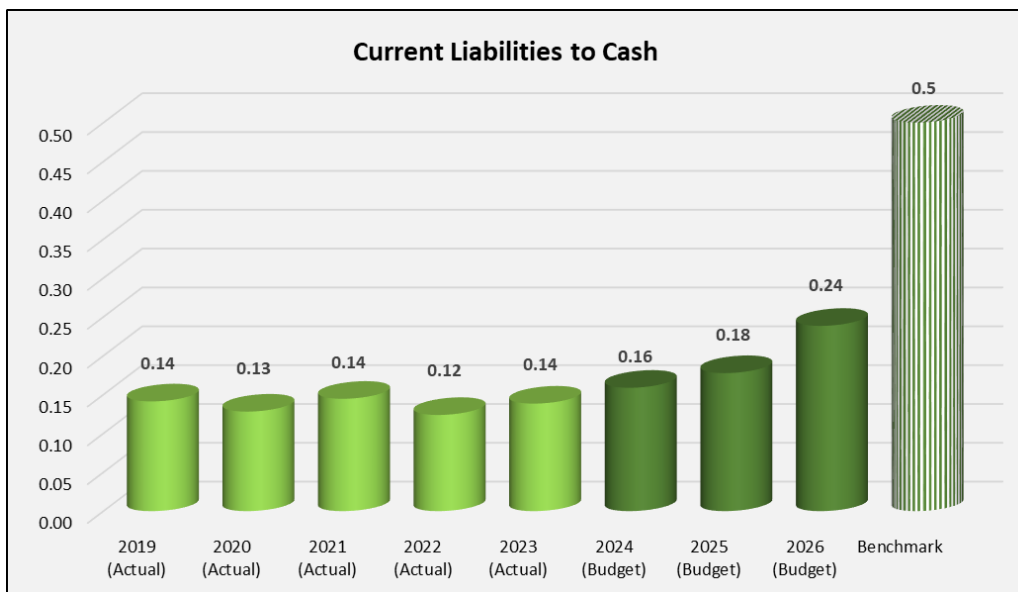


The Municipality has managed to ensure that creditors are settled within the legislated 30 days of (receipt of) invoice. It should be noted that payables include items such as retentions that will not necessarily be converted into cash within the norm of 30 days.

Comparing the payment rate to the benchmark group, Senqu Municipality is well below its major peers. This is expected to benefit the Municipality in the form of more competitive pricing of tenders, as suppliers compete for the Municipality's business.

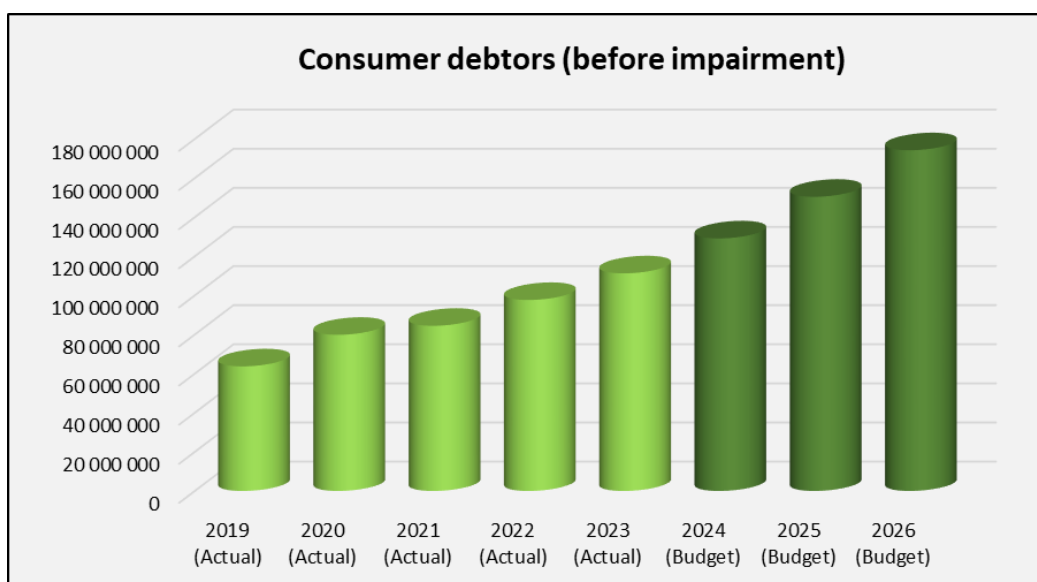


With reference to indicators that can be evaluated, the municipality should review the ratio between current liabilities and cash. This ratio is indicating a negative trend that should be managed as indicated below:

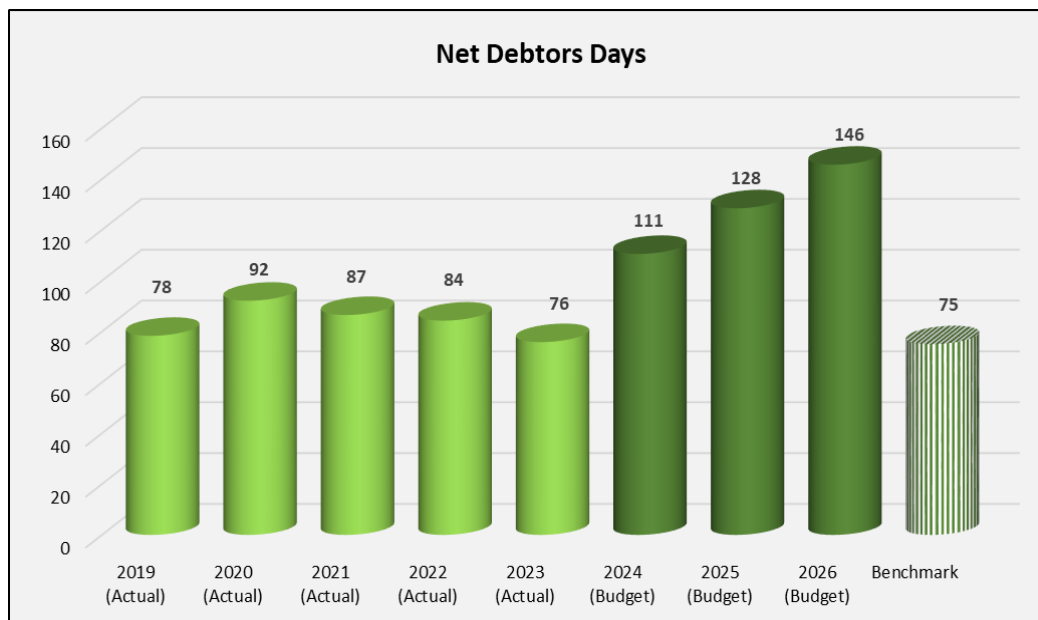
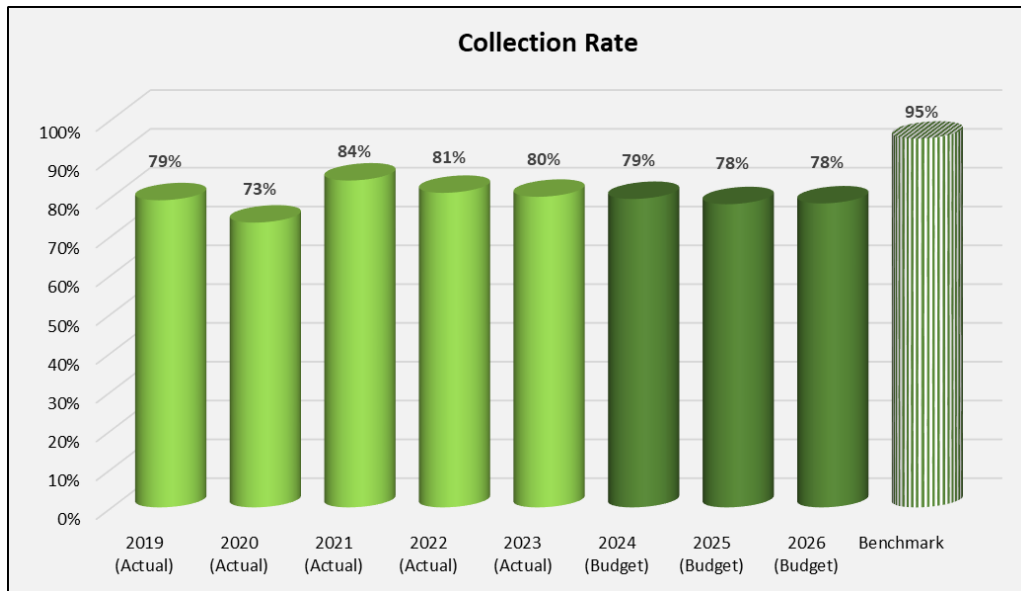


No major issues exist with regards to the management of payables. This deteriorating trend can be attributed to diminishing cash resources that will be discussed in Section 7 of the report.

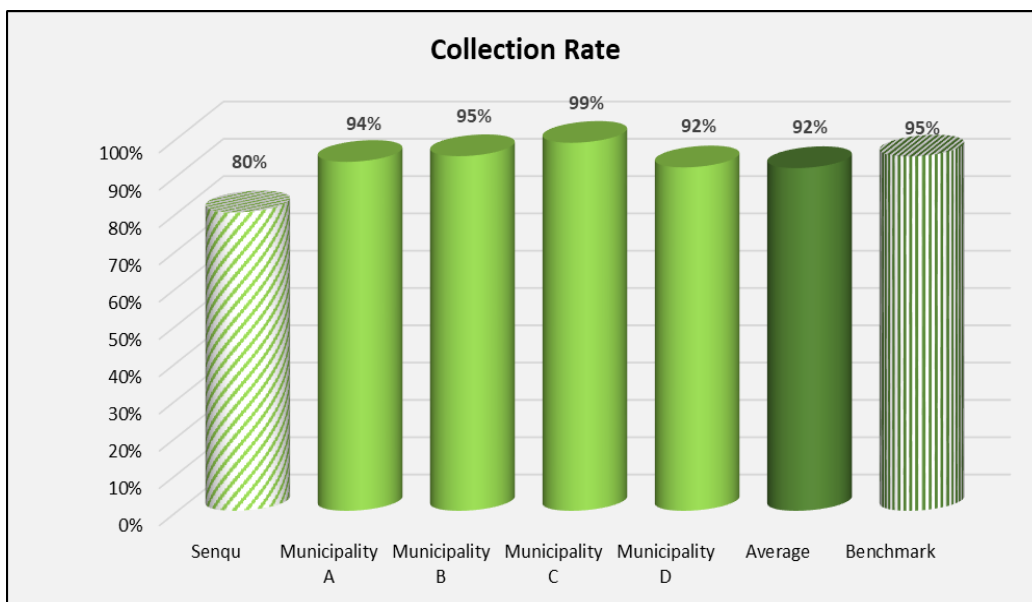
Debt collection is considered to be one of the major areas that contribute significantly to the financial well-being of any municipality. As the municipal collection rate is below 100%, the municipality will always experience an increase in outstanding receivables from one year to another, as illustrated below:



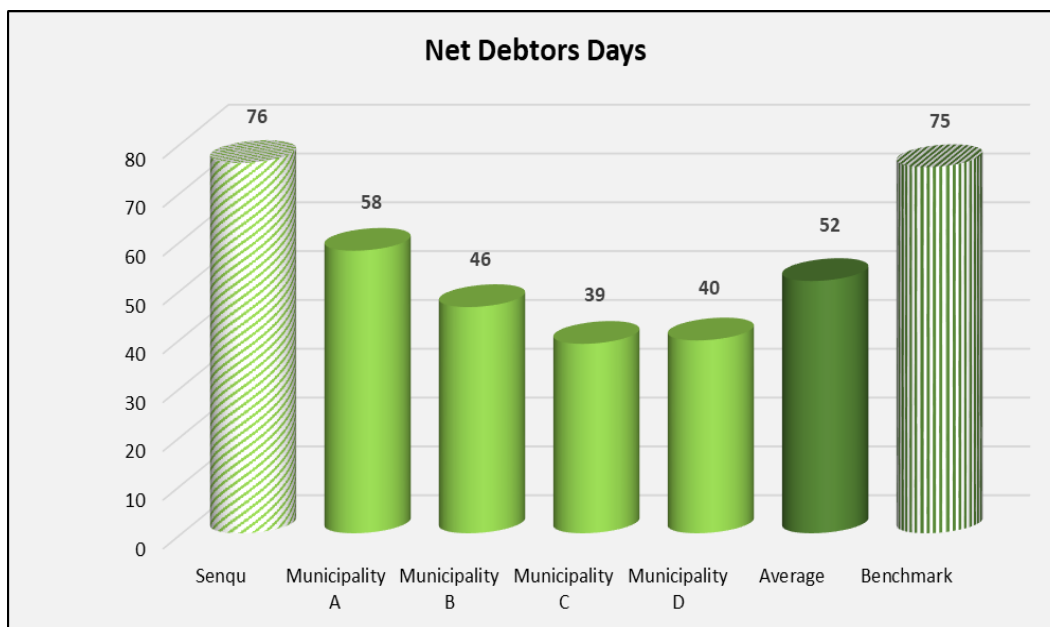
The Debtors collection rate is a measurement of revenue raised during a 12 month period compared to the physical cash receipts over the same period. Accordingly, the cash collected during the year relates to current and old outstanding debt. The Debtors collection rate of the municipality is well below the norm of 95%. This is indicative of the challenging economic environment within the municipal area.



Compared to the benchmark group, the municipality's performance relating to debtors is the lowest:



Although the net debtor days are in line with the good practice benchmark, is well below the benchmark group. Improving collection procedures could improve not only the net debtor days, but also the collection rate as alluded to above.





Analysing the difference between the actual results for 2022/2023 and the budgeted figures for 2022/2023, the following results became evident:

The final cash position on 30 June 2023 exceeded expectations by R 101 046 665.

	Final Adjustment Budget 2022/23	Actual Outcome 2022/23	Difference
Cash and Cash Equivalents	396 785 160	497 831 824	101 046 665

This result was made possible by the following material variances between the budget forecast for 2022/2023 and the actual results.

- Savings due to not implementing the operating and capital program in full

	Final Adjustment Budget 2022/23	Actual Outcome 2022/23	Positive effect on cash
Cost Containment measures:			
- Capital program not implemented in full	77 677 212	35 579 389	42 097 823
- Operating program not implemented in full (excluding non-cash items)	339 159 818	296 032 005	43 127 813
Total savings	416 837 030	331 611 394	85 225 636

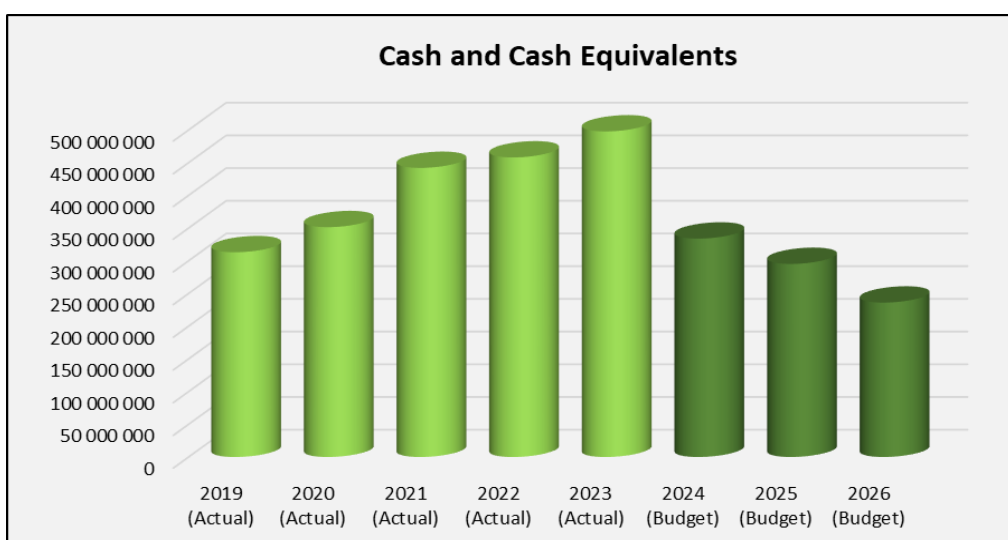
It is recognised that there are other items that could also influence the variance between the actual- and projected results (ie movement in debtors, payables, inventory, revenue raised, unspent grants), but these items above are considered to be the most material.

If the proposed budget (capital and operating) were to be implemented in full, the actual cash balance would have been significantly lower.

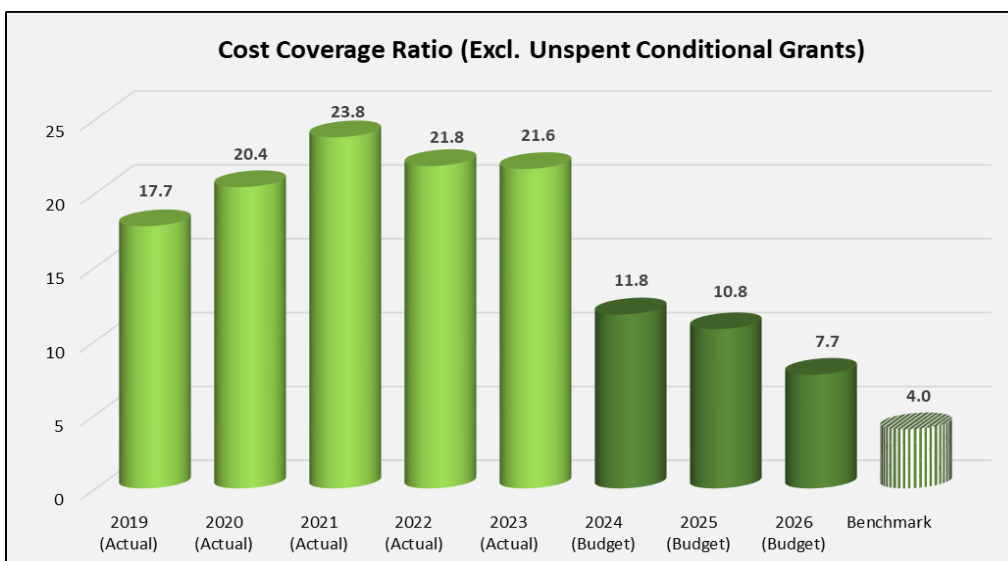
7. SECTION 7: FINANCIAL OVERVIEW: CASH MANAGEMENT

Cash management is the legal obligation to maximize all available resources and productivity levels and minimise ineffective expenditure and risks. This is done to accumulate sufficient cash and cash equivalents to secure the achievement of present and future constitutional objectives within the framework of the long-term financial plan as informed by the institution's integrated development plan.

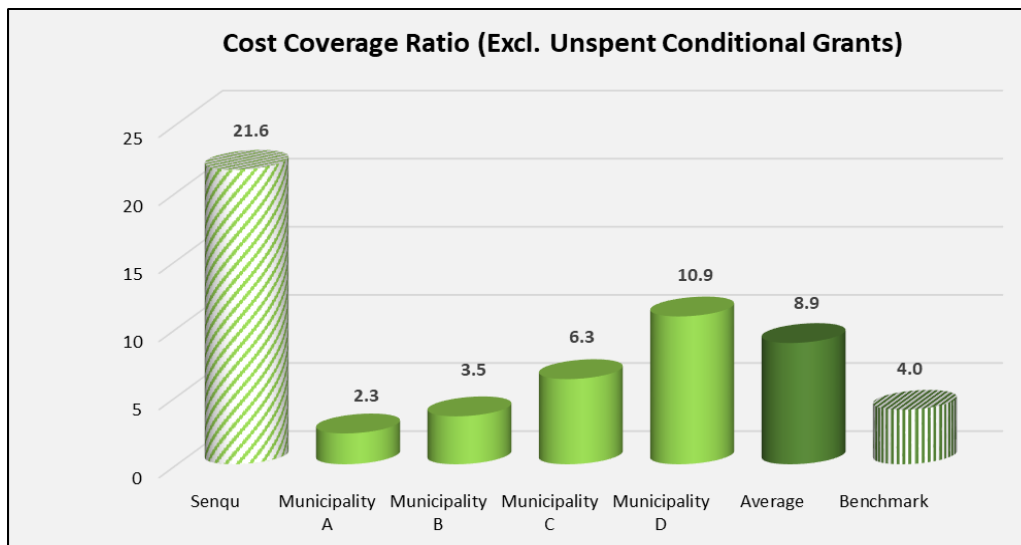
On the assumption that the municipality will fully implement the capital- and operating programs over the next 3 years, it is projected that there will be a significant decline in cash resources as illustrated below:



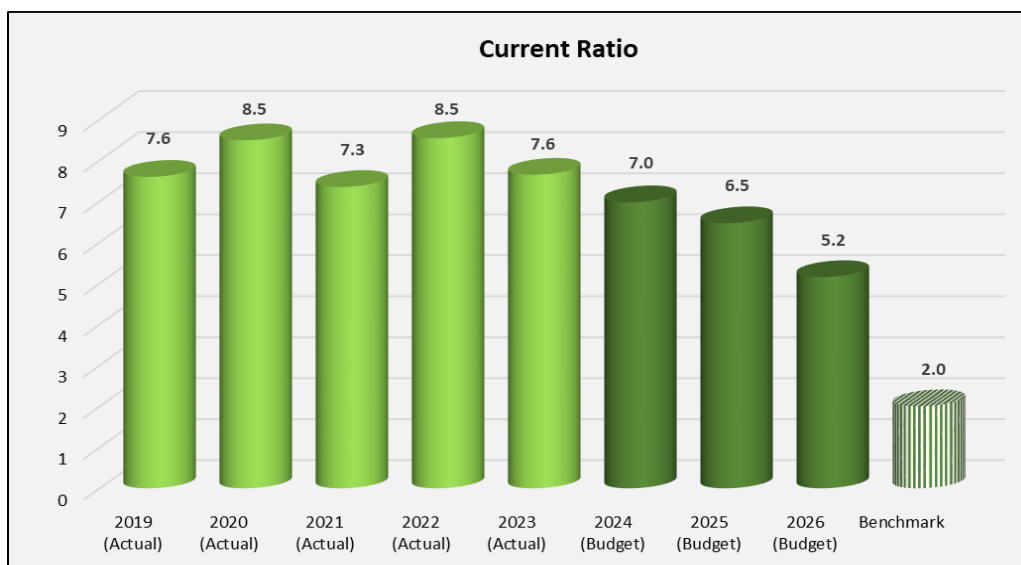
This decline in resources will negatively impact on a cost coverage ratio of the municipality up to a point where the municipality will fully deplete its cash resources.



The municipality is currently in a relatively strong financial position (even compared to the peers in the benchmark group on 30 June 2023):



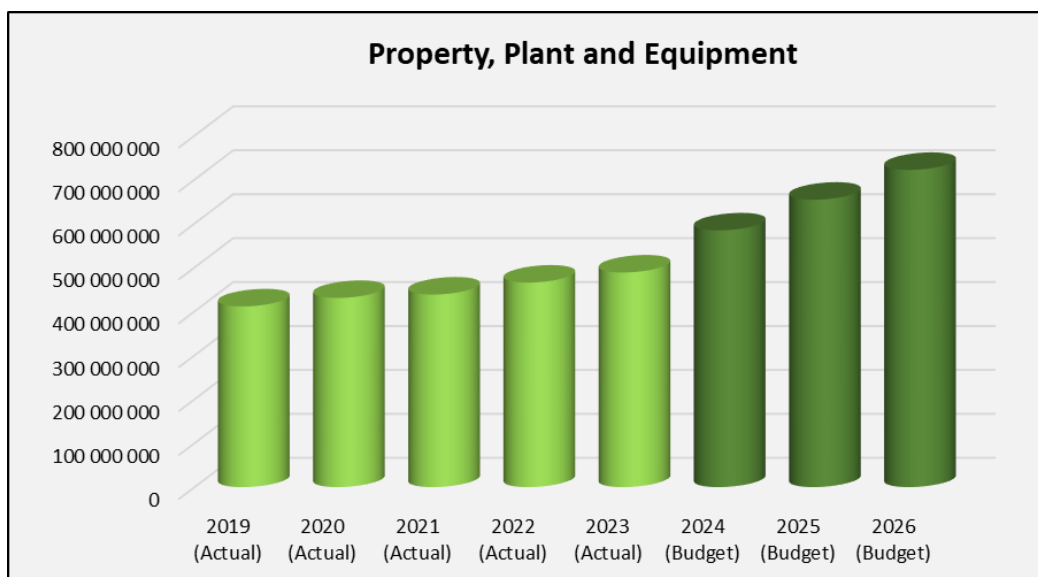
The declining trend in cash is also negatively impacting in the current ratio of the municipality. This downward trend needs to be curbed to ensure that the municipality does not eventually fall below the good practice benchmark of 2:1.



To ensure the financial viability of the municipality, that is largely dependent on the preservation of cash reserves, the municipality should address the downward trend in cost coverage and current ratio as a matter of urgency. Even though it is prescribed by Circular 71 of the National Treasury that a cost coverage ratio of 1 to 3 months should be maintained at all times, the municipality is best advised to ensure that this ratio remains at a level of 4, which is considered a good practice benchmark.

8. SECTION 8: FINANCIAL OVERVIEW: ASSET MANAGEMENT

Senqu Municipality has a large investment in property, plant and equipment (PPE) (Carrying Value).



This large investment in PPE is basically the result of a continued large capital program employed at the municipality to ensure that basic services are delivered at all times and service delivery backlogs are addressed. The municipality should however be conscious of the fact that a significant capital program, if not financed through a well-balanced mix (grants, long term liabilities and accumulated internal funds), can have a negative effect on the financial sustainability of the municipality. Not only does the outflow of cash (as a result of the acquisition) have a potential negative impact on the financial viability of the municipality, the maintenance burden placed on the municipality could also be significant.

It is projected that the municipality will employ the following capital program over the next 3 years (2023/2024 to 2025/2026):

	Budget 2023/24	Budget 2024/25	Budget 2025/26
Total Capital Expenditure	82 881 350	91 662 631	89 705 234
<u>Funded by:</u>			
Government Grants - National	37 574 565	41 804 870	45 234 174
Internally generated funds	45 306 785	49 857 762	44 471 060
Total Capital Funding	82 881 350	91 662 631	89 705 234

To ensure that the above structure is affordable, the program should be evaluated against the municipality's ability to generate cash to meet the demand of the program:

	Budget 2023/24	Budget 2024/25	Budget 2025/26
Net Cash from/(used) Operating Activities	20 876 898	53 717 874	31 437 450
Funding available	37 574 565	41 804 870	45 234 174
Capital Program	(82 881 350)	(91 662 631)	(89 705 234)
Surplus (Shortfall)	(24 429 886)	3 860 112	(13 033 610)

It is evident that insufficient funds are generated from operations to meet the demand of the capital program. The capital program will significantly contribute to the decline in cash resources as identified in Section 7 of this report.

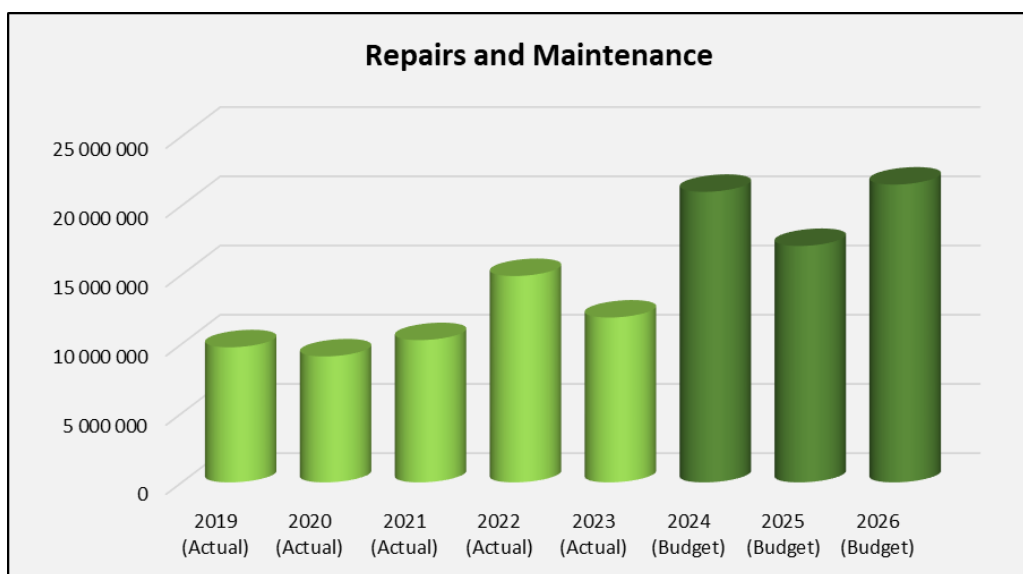
The municipality is left with the following alternatives to ensure that the capital program is affordable:

- 1) Raise loans to fund the program. This will require a further study into the level of external funding the municipality can afford (Refer to Section 9);
- 2) Cut back on operational expenditure and/or increase internal revenue sources;
- 3) Explore further avenues to obtain more grant funding (keeping in mind the additional maintenance expenditure that will still be the liability of the municipality even though the additional acquisition is financed from external sources); and/or
- 4) Reduce the capital program to ensure that it is affordable within the limitations of the current structure the municipality is operating in.

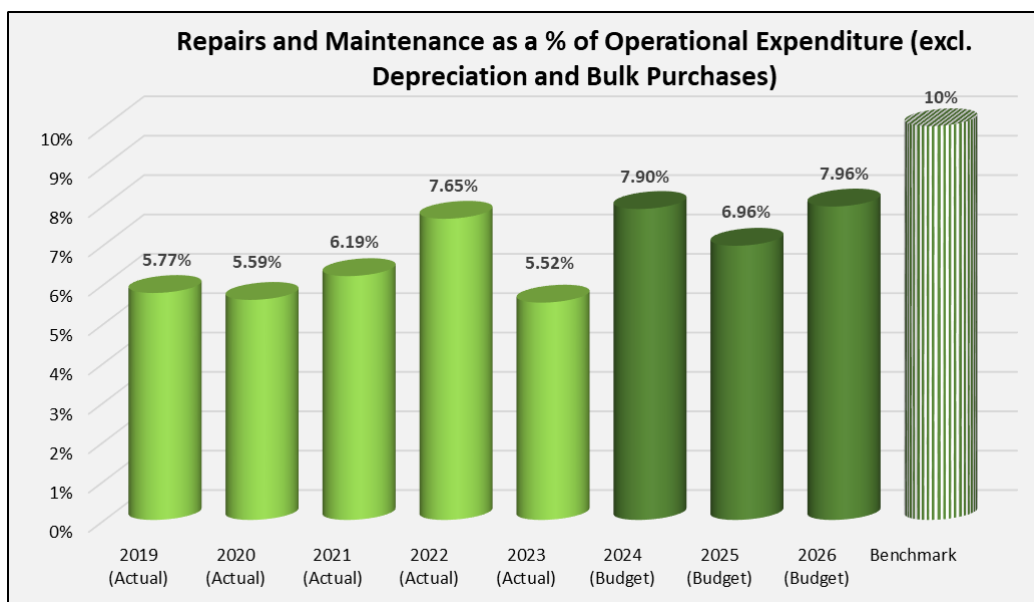
Decisions relating to the perfect capital program to be employed are one of the toughest in the municipal environment. The municipality needs to strike a balance between providing high quality basic services and eradicating service backlogs **versus** the availability of funding.

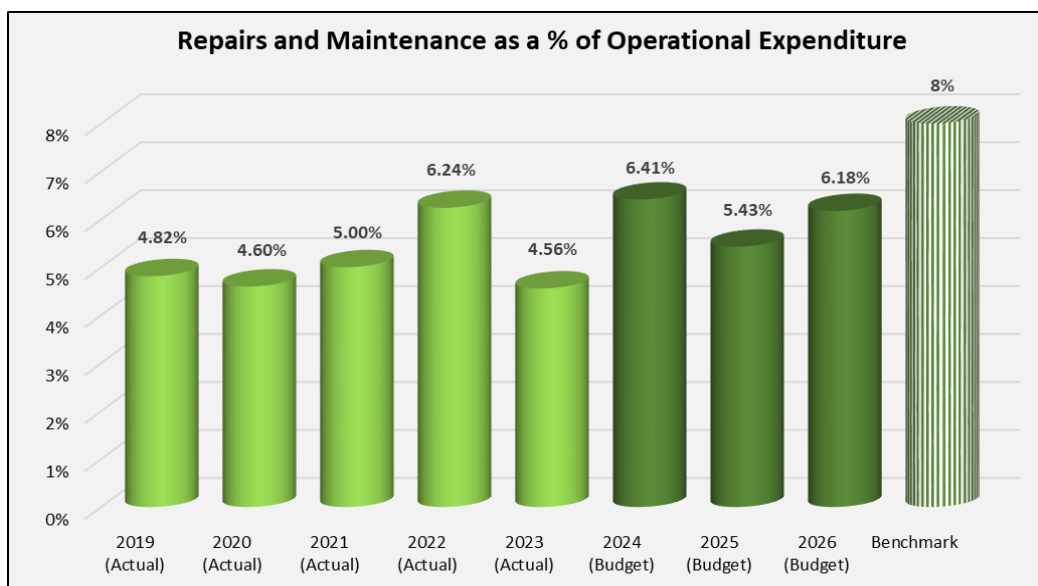
The funding mix of the capital program should never compromise the long term sustainability of the municipality. Once the financial sustainability of the municipality is compromised, it will inevitably result in a negative outcome for all parties involved due to the fact that the municipality will not be in a position to meet the service delivery expectations of the community for the foreseeable future. This scenario is very common at a number of municipalities in South Africa.

Repairs and maintenance is also considered to be one of the major line items relating to asset management. Repairs and maintenance is very important to ensure that full benefits are derived from assets over the initial expected life time of the assets. Insufficient allocations to repairs and maintenance could result in shortened useful lives of assets. This in turn will result in assets needing replacement sooner rather than later. The following allocations are made towards repairs and maintenance:



Compared to set benchmarks, the municipality is not contributing sufficient resources to the maintenance of assets:



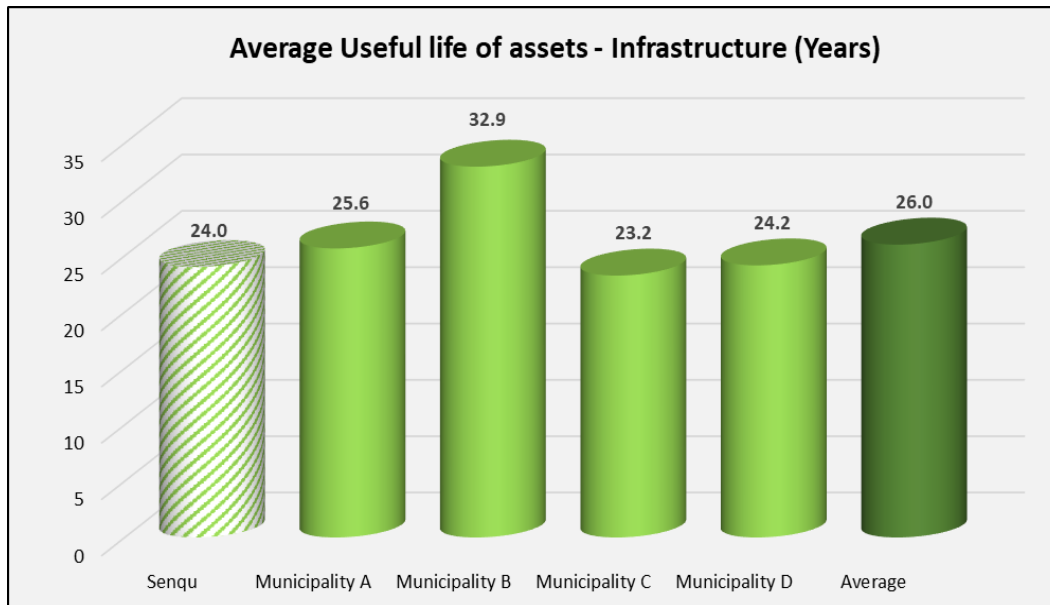


The expenditure on repairs and maintenance is well below acceptable levels. It should however be noted that the municipality is currently not allocating items such as employee related cost utilised in repairs and maintenance projects to the repairs and maintenance line items. This is mainly due to a lack of a costing system to provide for such allocations.

	Average Remaining useful life of Assets
Infrastructure	24
Community Assets	27
Other assets	8
Average for all assets	20

The table above illustrates that on average Senqu municipality should replace its assets every 20 years. Where possible, the municipality should implement strategies that will see this ratio improve over time. This will include an effective maintenance program which will extent the useful life of the assets and reduce the need to replace assets on a more regular basis.

When comparing the useful life of infrastructure assets, which is an integral part of delivering basic services, to the average useful life of the benchmark group, Senqu is lagging slightly behind:



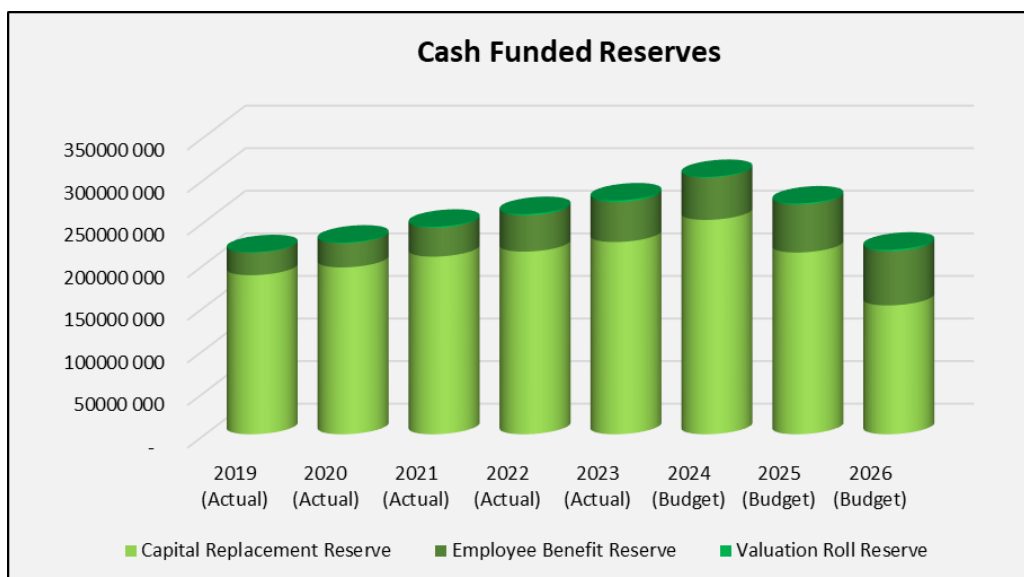
9. SECTION 9: FINANCIAL OVERVIEW: FUNDING AND RESERVE STRATEGY

The funding and reserve strategy consists out of three components:

- Management of Reserves
- Investment Strategy
- Management of external debt

In order to maintain any form of reserve, the municipality needs to ensure that sufficient cash resources are available to back the reserve. With the downward trend in cash identified in Section 7 of this report, the municipality will not be able to maintain, let alone increase, any of the current reserves that is being utilised.

Senqu municipality managed to successfully implement the Funding and Reserves Policy over the long-term which previously had a positive effect on the financial viability and sustainability of the municipality. Any decline in cash reserves could however have a negative impact on the progress previously made.

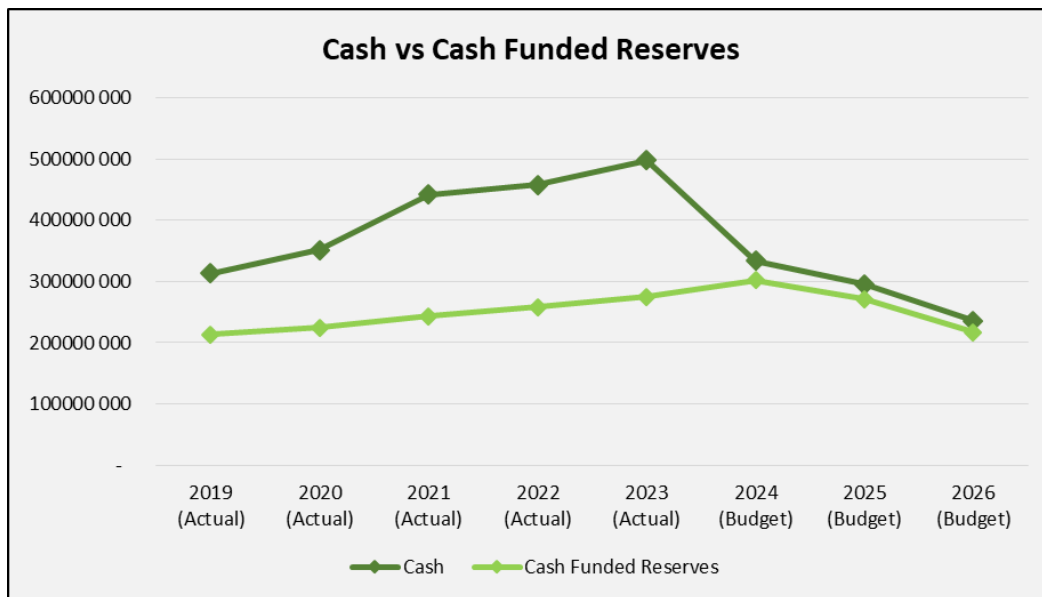


Financial Sustainability = Maintaining/Improving cash and cash backed reserves that will enable the municipality to:

- Settle liabilities when they become due
- Provide for future infrastructure requirements (against the backdrop of ageing infrastructure)
- Withstand any temporary/permanent setbacks (such as COVID-19)
- Reduced debtor recovery rates and uncertainties, with regards to economic recovery time frames
- Possible reduction of National and Provincial allocations

The graph below illustrates the direct relationship between Cash and Cash Equivalents and the Reserves in the municipality.

“More Reserves = More Cash = More Interest on Investment”



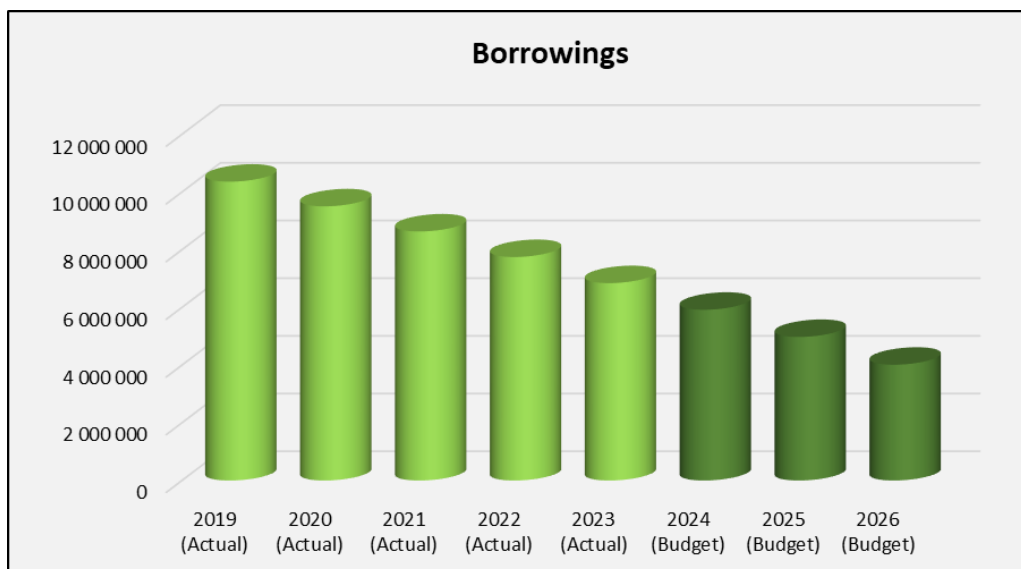
It should be emphasised that the projections above is based on the fact that the municipality recover revenue in line with historical actual trends and that all appropriations made towards capital and operating programs are fully utilised. This downward trend is due to the expected decrease in operating revenue (including Grant revenue), while operating expenditure is expected to grow.

The requirement to adopt cash funded budget is not only a requirement in MFMA section 18, it also supports the concept of sustainable budgeting. In this regard, the municipality have managed to accumulated significant cash reserves during the years, which is a direct consequence of always adopting cash funded budgets.

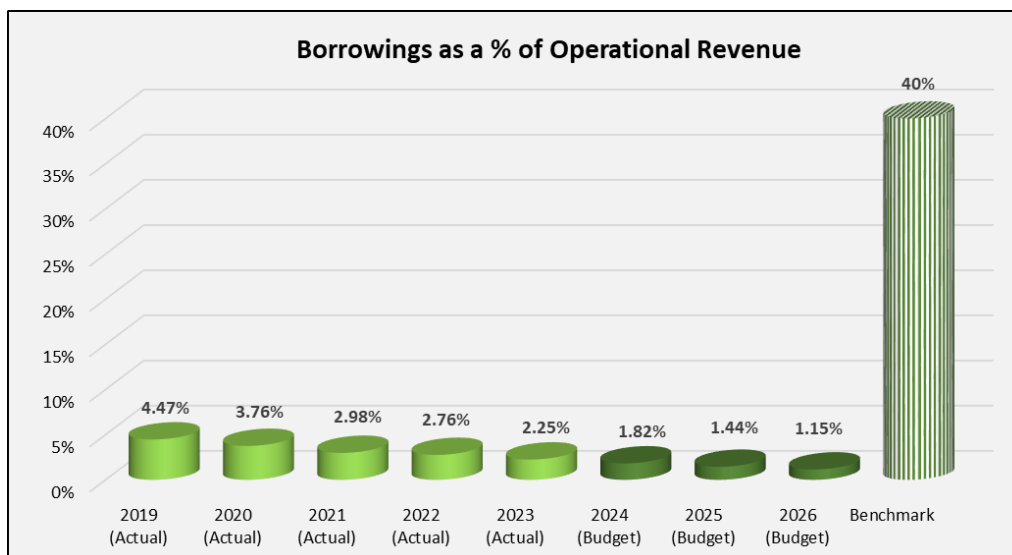
These reserves assist in the accumulation of capital and forms part of the investment strategy where the interest on investments are re-invested again. The working capital balance after all commitments are met, are also included in the investment accounts and transferred to the primary bank account as needed. It is imperative for the municipality to maintain its current investment strategy and practices to ensure the long term financial sustainability and survival of the municipality.

External borrowing is an important part of the funding model of the municipality. Not only does it instantly provide the municipality with relatively inexpensive capital to fast-track service delivery and infrastructure backlogs, but it also ensures that the user of the infrastructure pay for the use over the lifetime of the asset. The ability of a municipality to raise long term borrowing is largely dependent on its creditworthiness and financial position. As with all other municipalities, Senqu Municipality's borrowing strategy is primarily informed by the affordability of debt repayments.

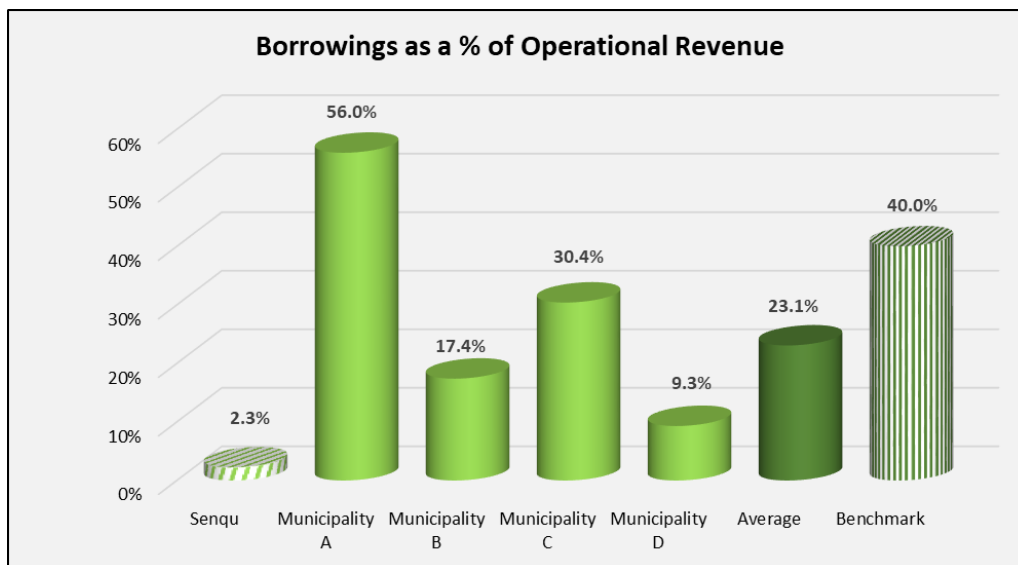
Senqu municipality have two Annuity loans with redemption dates of 2029 and 2030 respectively.



The municipality utilises a debt-ceiling of 40% of revenue. Based on this ratio, it can be seen that the municipality is operating well within this limit.



Compared to the other municipalities in the benchmark group, Senqu Municipality is the best geared towards any additional external loans.



10. SECTION 10: RISK MANAGEMENT

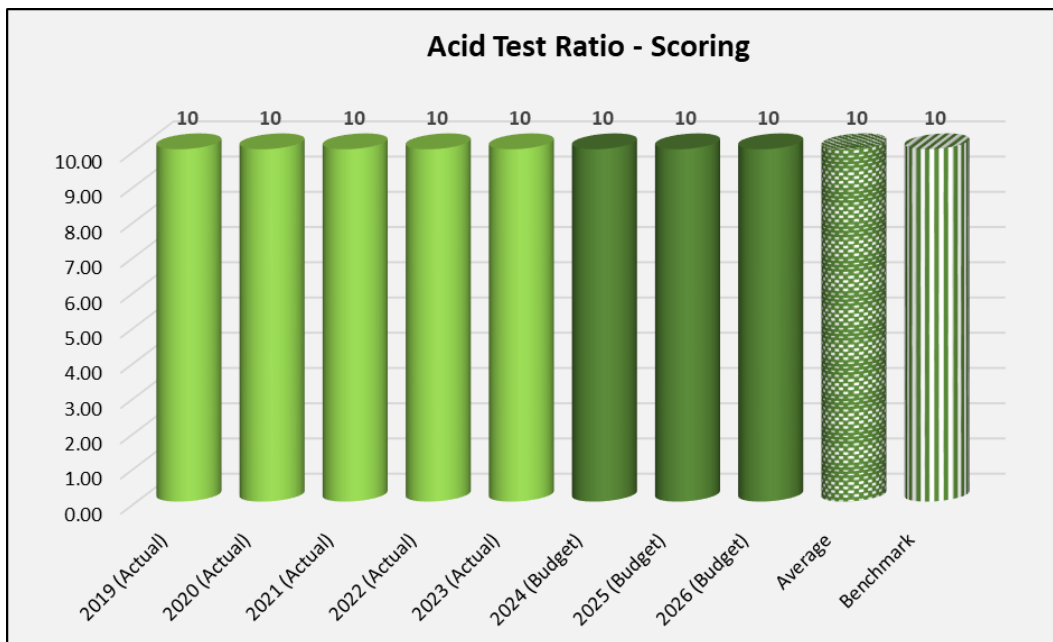
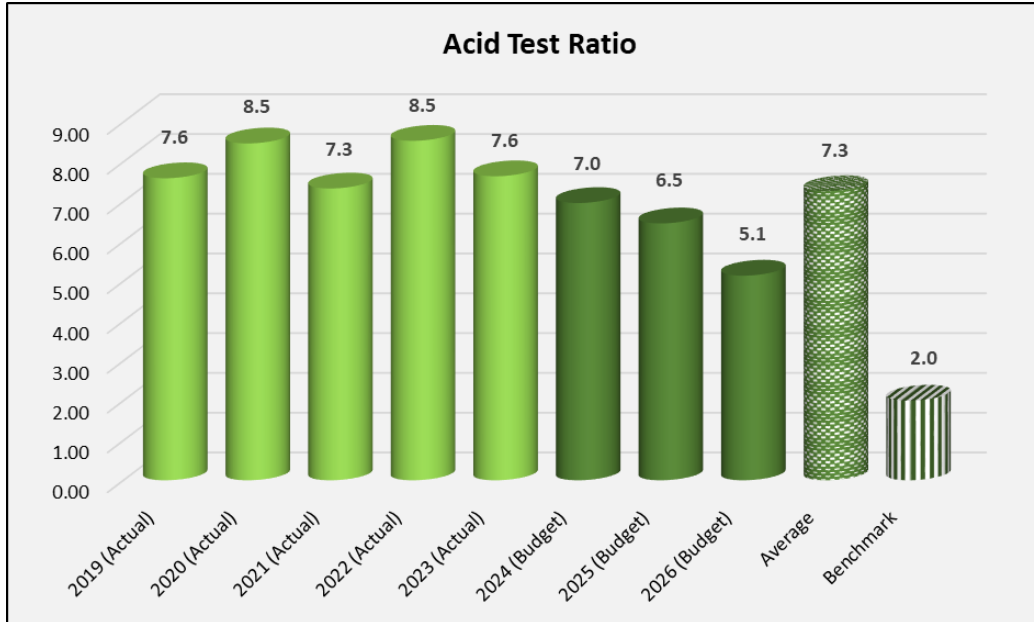
The risk analysis assesses 10 key ratios that is considered the most important indicators when assessing the long term viability of the municipality. A weighting is attached to each indicator that will eventually provide the municipality with a viability score out of 100.

The 10 indicators, along with the proposed benchmark and weight are included in the following table:

ITEM	Bench- mark	Viability Weight	Std 1	Measure ment 1	Std 2	Measure ment 2	Std 3	Measure ment 3	Std 4	Measure ment 4	Std 5	Measure ment 5
Acid Test Ratio	2	10	2	10	1.5	8	1	5	0.5	2	-	0
Payment Level (Excluding write-off of bad debts)	> 95%	15	95%	15	90%	11	85%	6	80%	3	75%	0
Cash Generated from Operations as % of Revenue	> 20%	8	20%	8	15%	6	10%	4	5%	2	0%	0
Purchase of PPE as % of Cash Generated	< 100%	8	100%	8	110%	6	120%	4	135%	2	150%	0
Cost Coverage (Excluding Unspent Grants)	4	15	4	15	4	10	3	5	2	2	1	0
Debtors Turnover (days) (Before impairment)	< 45 days	2	75	2	90	1	110	0	130	0	150	0
Long-term debt as % of Revenue	< 40%	5	40%	5	50%	4	75%	3	95%	2	100%	0
Debt servicing cost to Revenue	< 7,5%	8	5%	8	7.50%	6	10%	4	12.50%	2	15%	0
Short-term debt as % of Cash	< 100%	4	50%	4	70%	3	80%	2	100%	1	125%	0
Cash Funded Budget over MTREF	> R0	25	Yes	25	No	0	0	0	0	0	0	0

10.1 Acid Test Ratio

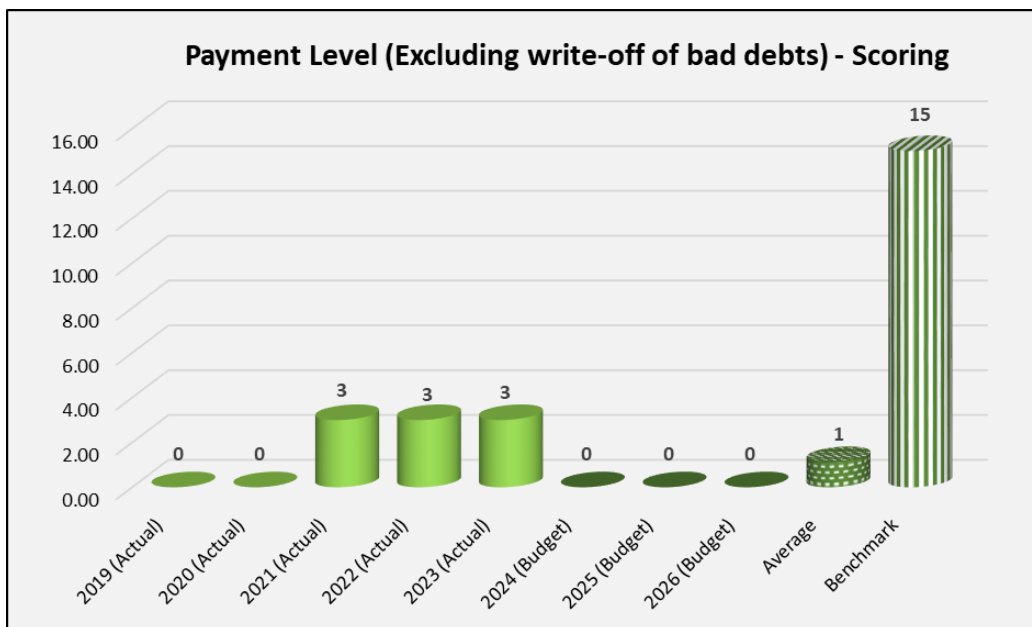
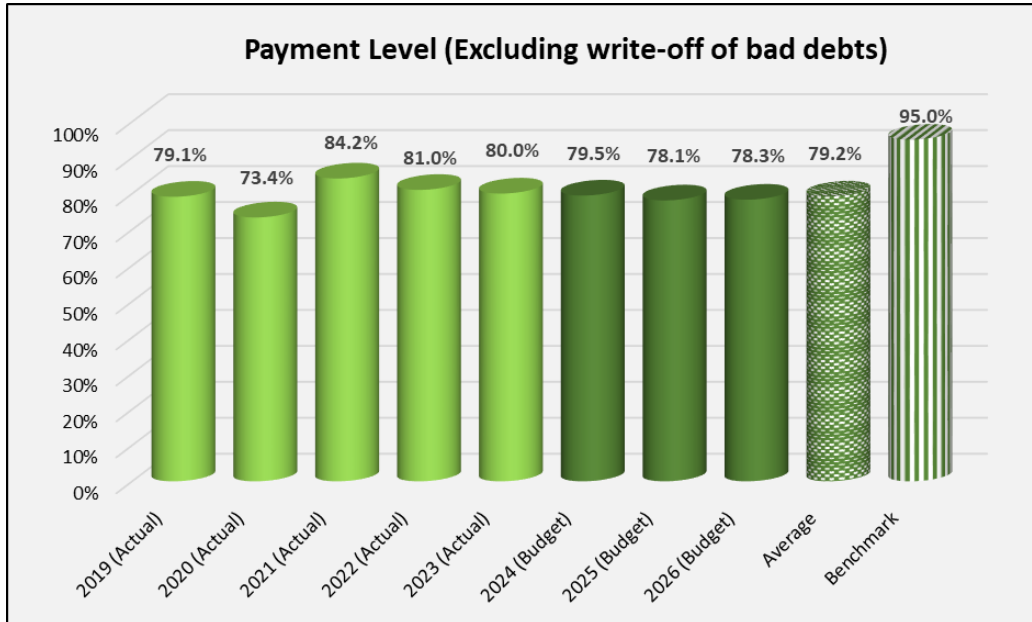
The downward trend in the Acid Test Ratio can mainly be attributed to the decline in cash resources as discussed in Section 7 of this report.





10.2 Payment Level

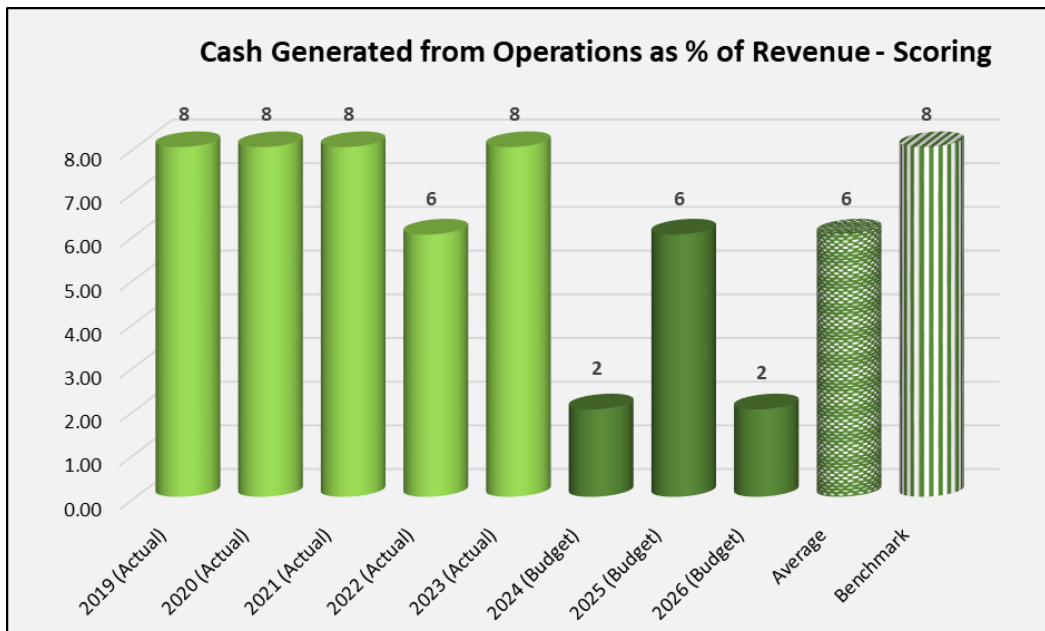
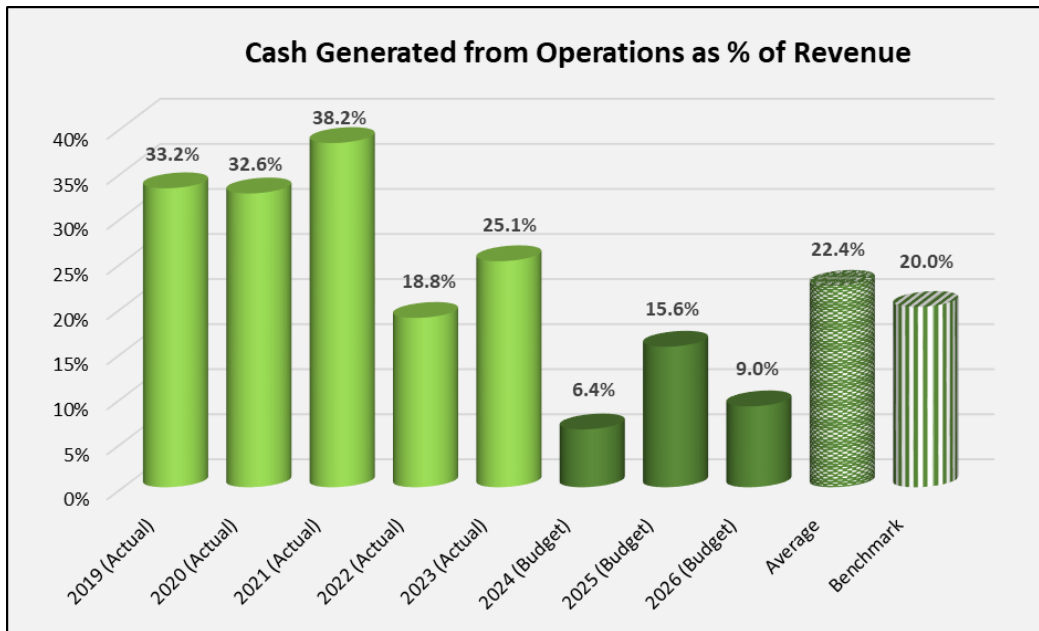
The payment level of the municipality remains fairly consistent throughout the entire period under review. As part of the financial sustainability strategy, an aggressive revenue management framework has been implemented to increase cash inflow, not only from current billings but also from debtors that are in arrears in excess of 90 days. The intention of the strategy is to streamline the revenue value chain by ensuring accurate billing, customer service, credit control and debt collection.





10.3 Cash Generated from operations as % of revenue

This ratio is concerning over the period from 2023/2024 to 2025/2026. The ratio indicates the ability to convert revenue raised into cash. The trend is more an indication of the municipality's inability to pass on increases in major expenditure line items (ie Employee Related Costs, Bulk Purchases etc) to the consumer in the form of tariff and rates increases (Section 1 and 2).

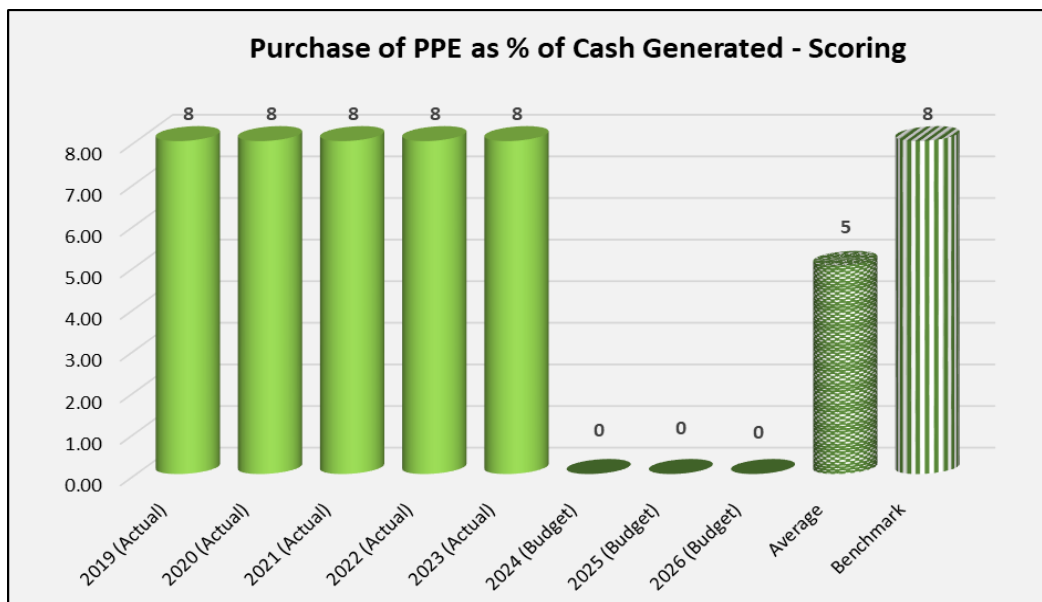
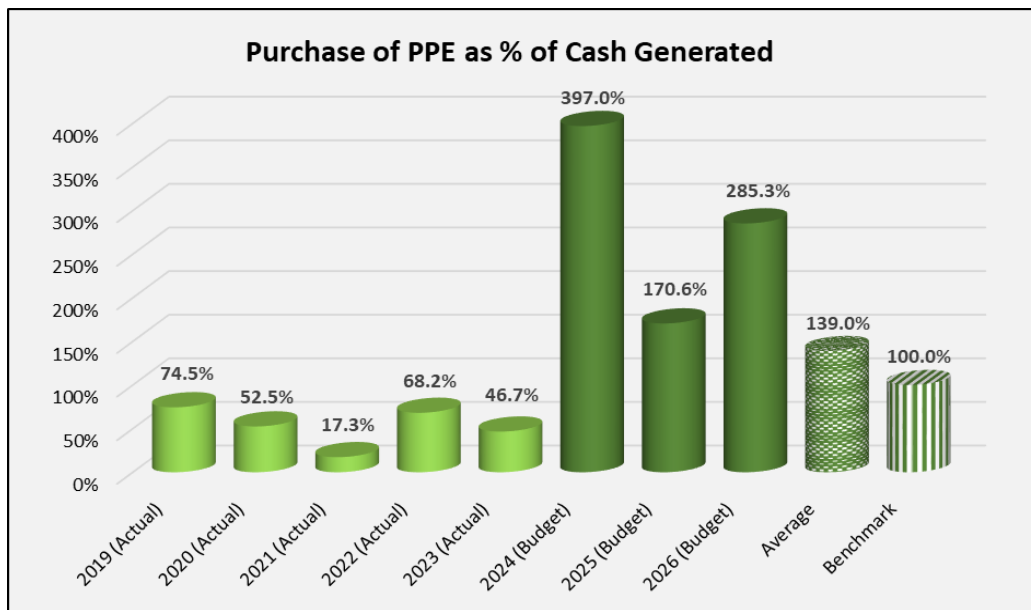




10.4 Purchase of PPE as % of Cash Generated by operations

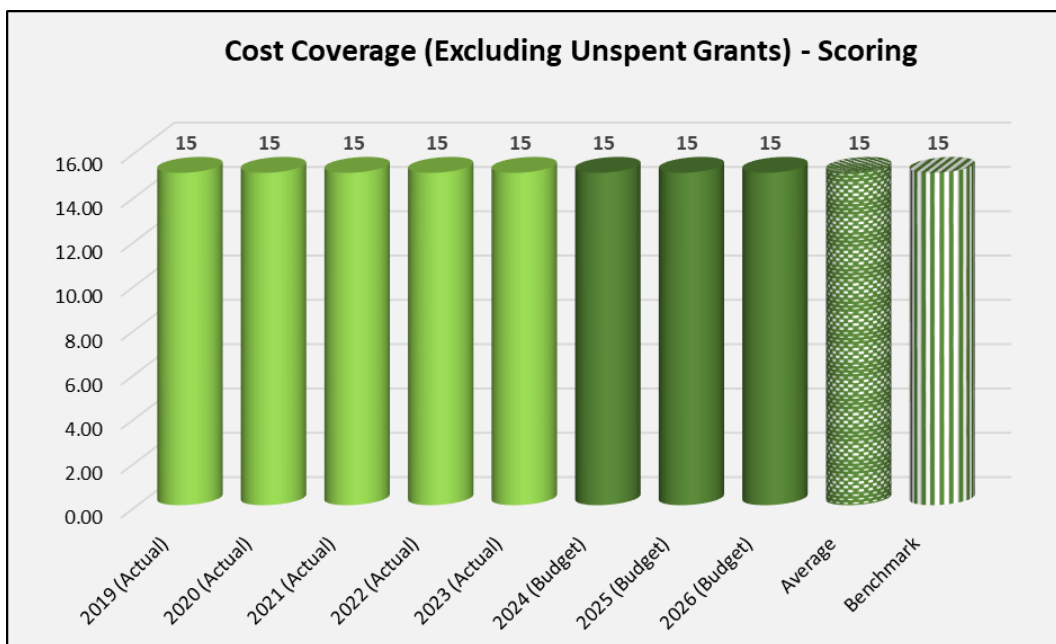
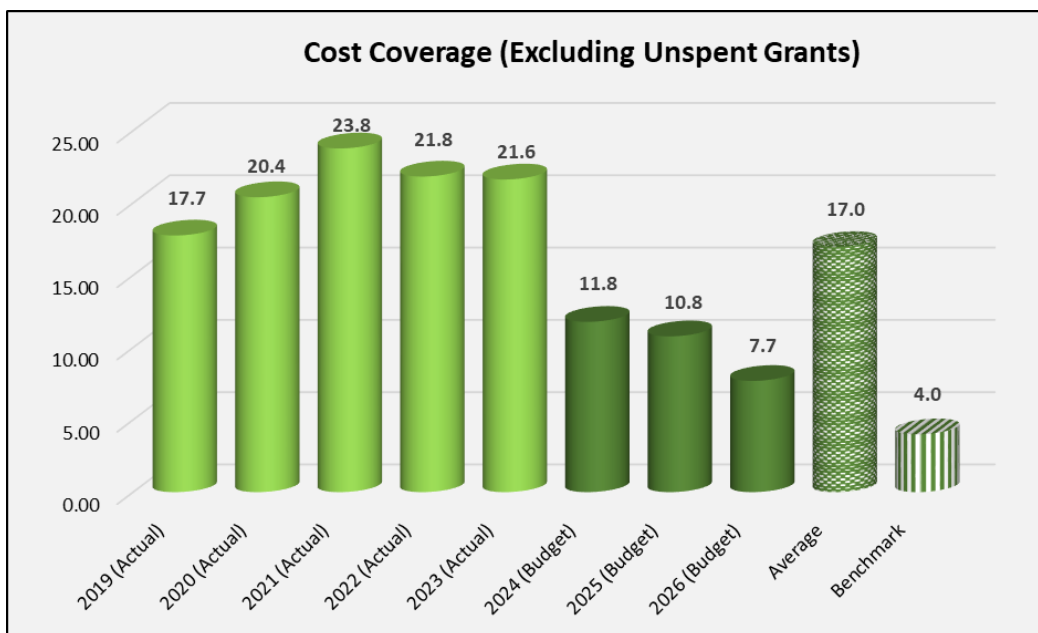
This indicator measures the ability of the municipality's operations to generate sufficient cash to fund the capital program of the municipality. Any ratio in excess of 100% entails that insufficient cash is generated to meet the proposed capital outflow. Any shortfall will need to be financed using accumulated cash reserves or new external financing in the form of loans. As discussed in Section 8, the capital program is placing enormous pressure on the accumulated cash reserves of the municipality.

This indicator does not contribute to the financial viability scoring of the municipality and should be addressed.



10.5 Cost Coverage

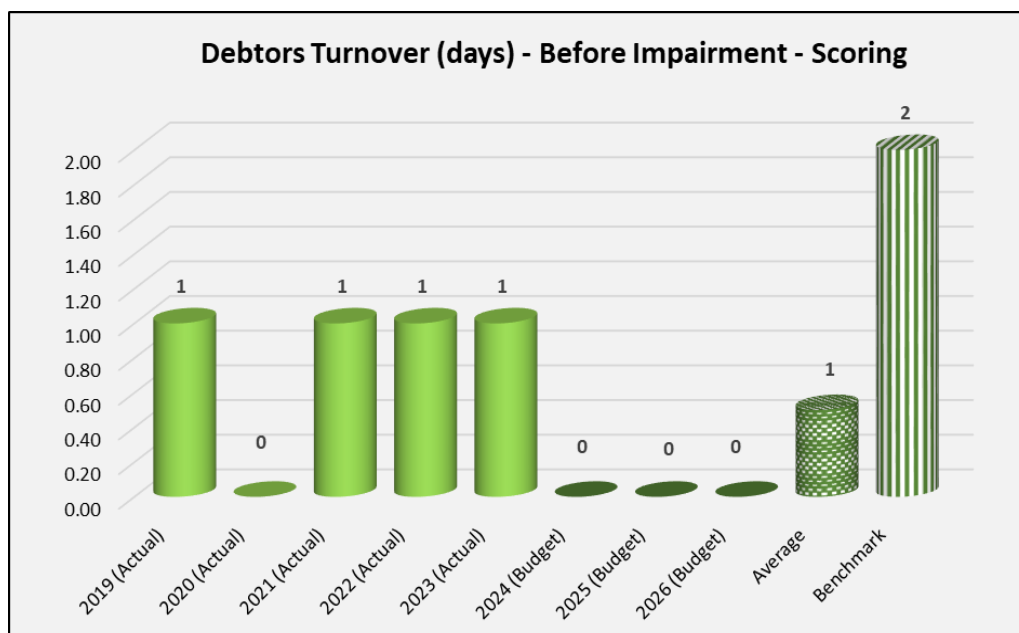
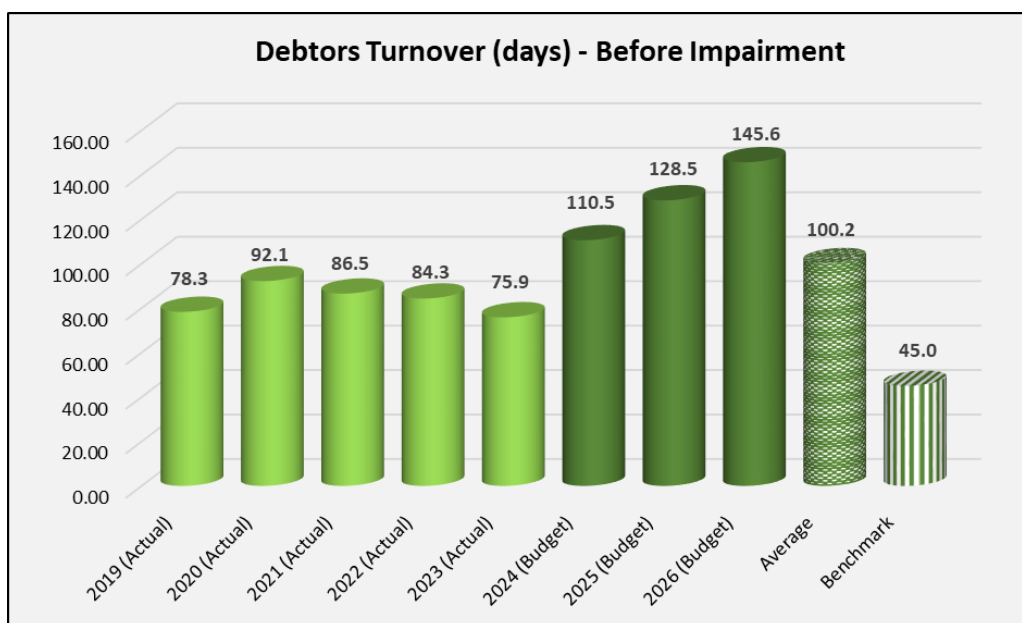
As is the case with the Acid Test Ratio in Section 10.1, this indicator is negatively affected by the declining trend in cash and cash equivalents expected over the period 2022/2023 to 2025/2026.





10.6 Debtor Turnover Days

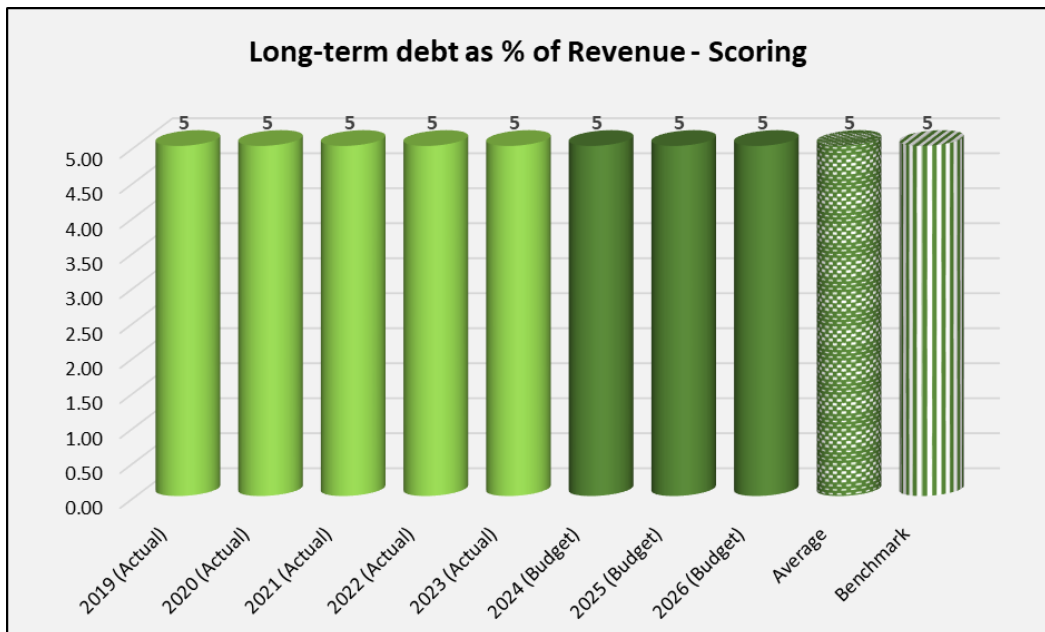
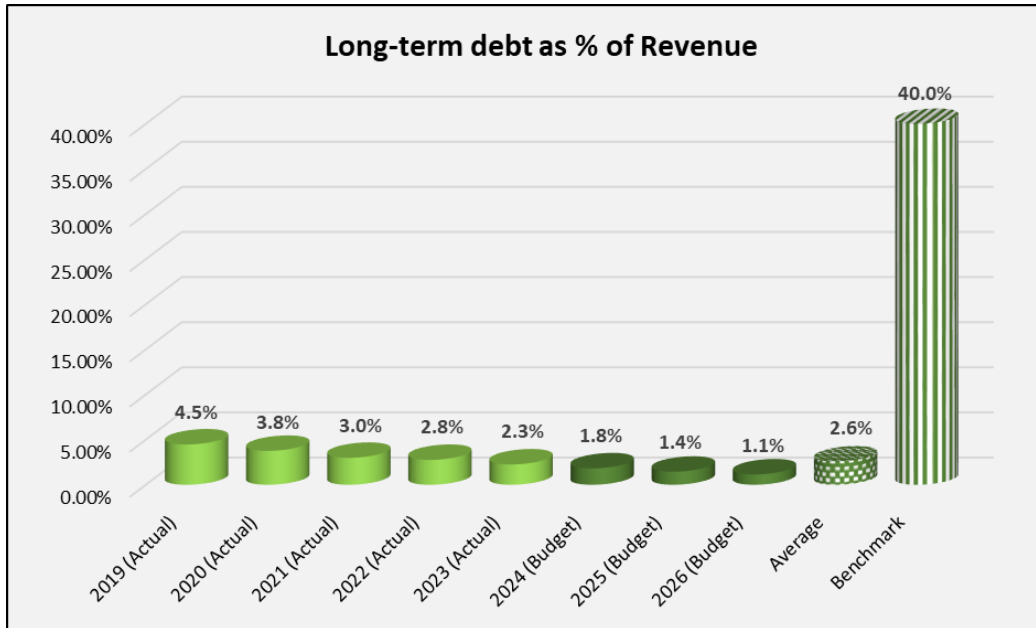
High levels of debtor non-payment and receipt delays will have a greater requirement for working capital, potentially resulting in cash flow challenges. Improved debt collection procedures and processes could significantly improve this focus area.





10.7 Long Term Debt as % of Revenue

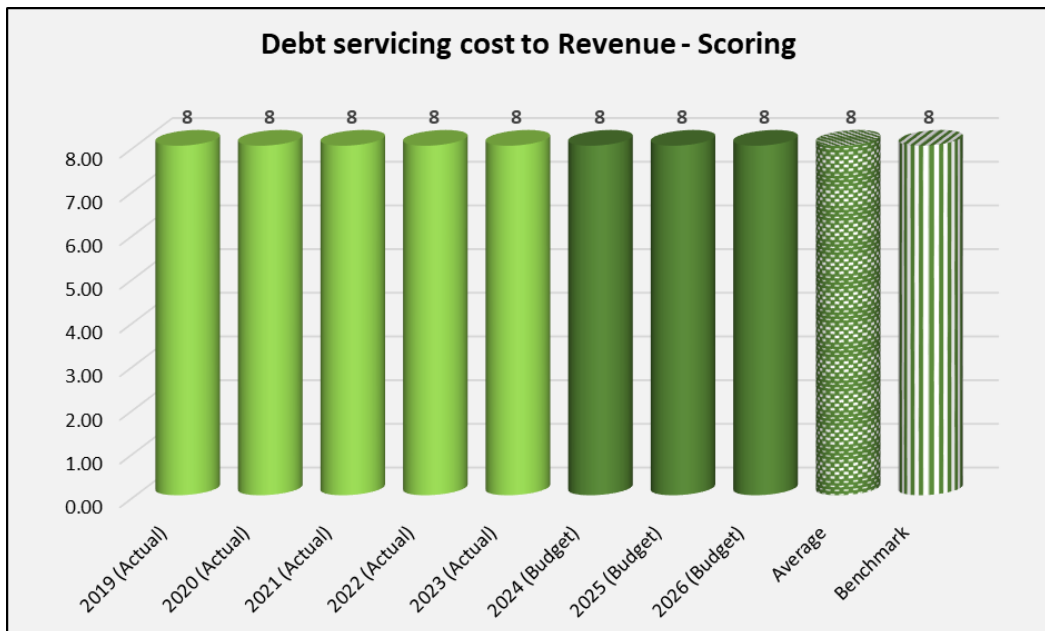
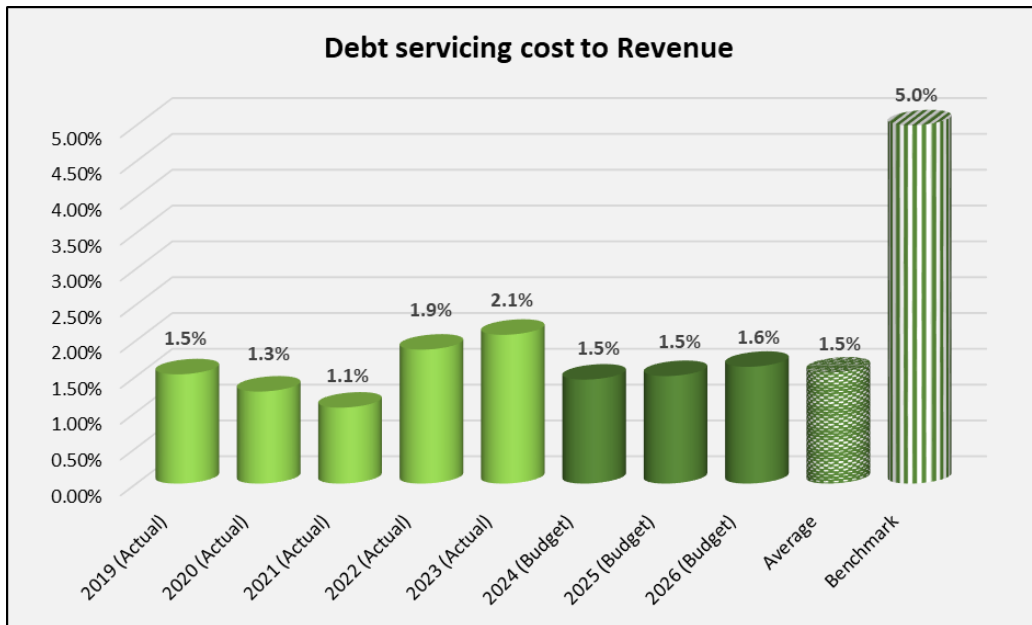
This indicator measures the debt ceiling as discussed in Section 9. Currently, the municipality is projected to be well below the limits of the ceiling.





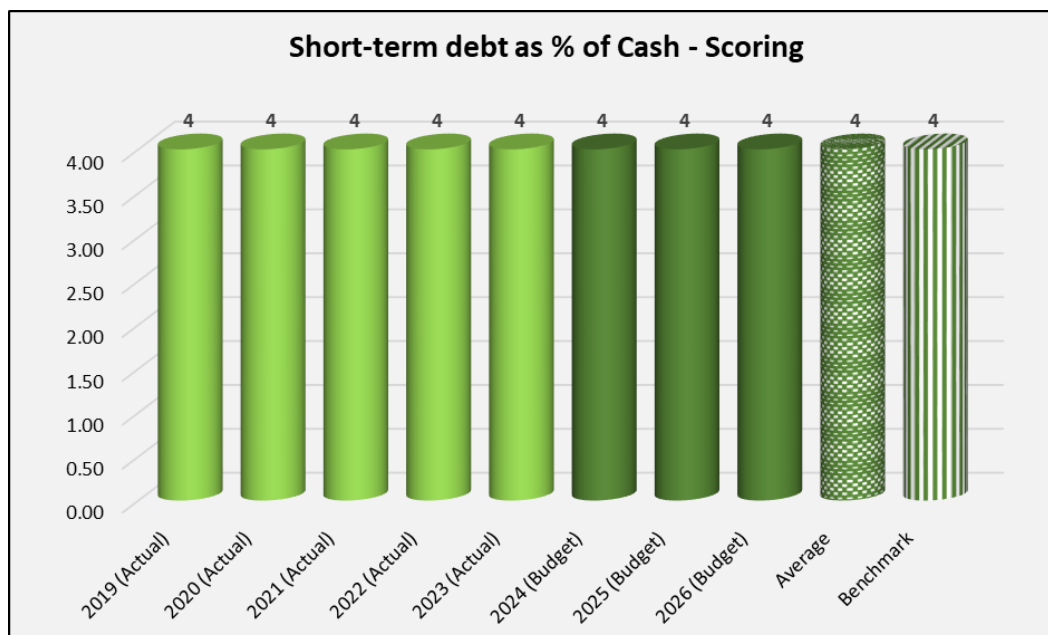
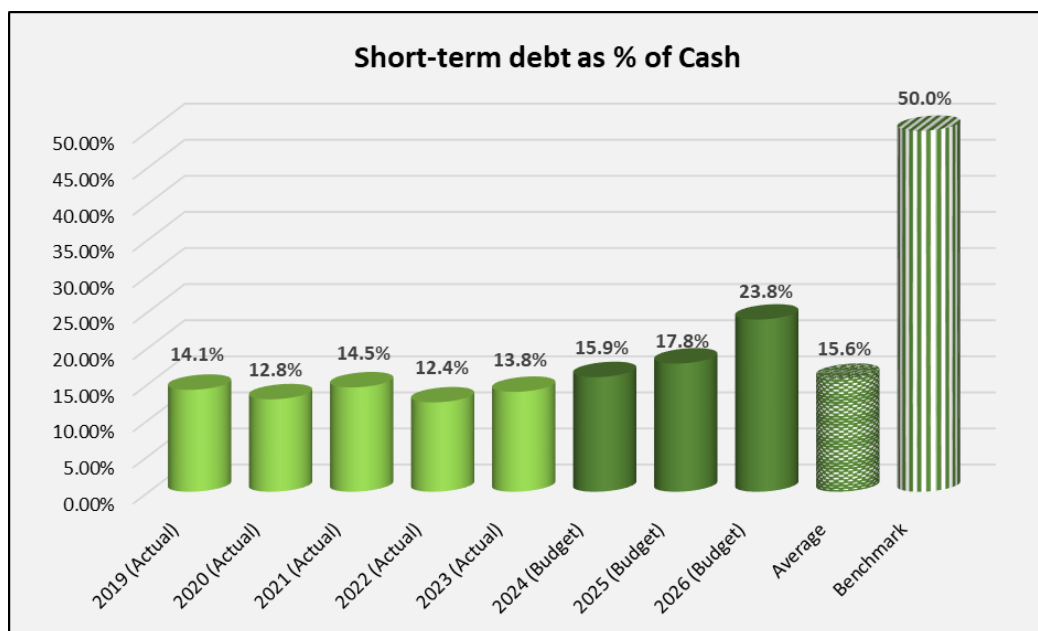
10.8 Debt Servicing cost to Revenue

This indicator measure the portion of revenue spent on the repayment of borrowing and should be reviewed in conjunction with the debt ceiling indicator in section 10.7. It is projected that the municipality will be well below the limit of 5% throughout the period under review.



10.9 Short-term debt as % of Cash

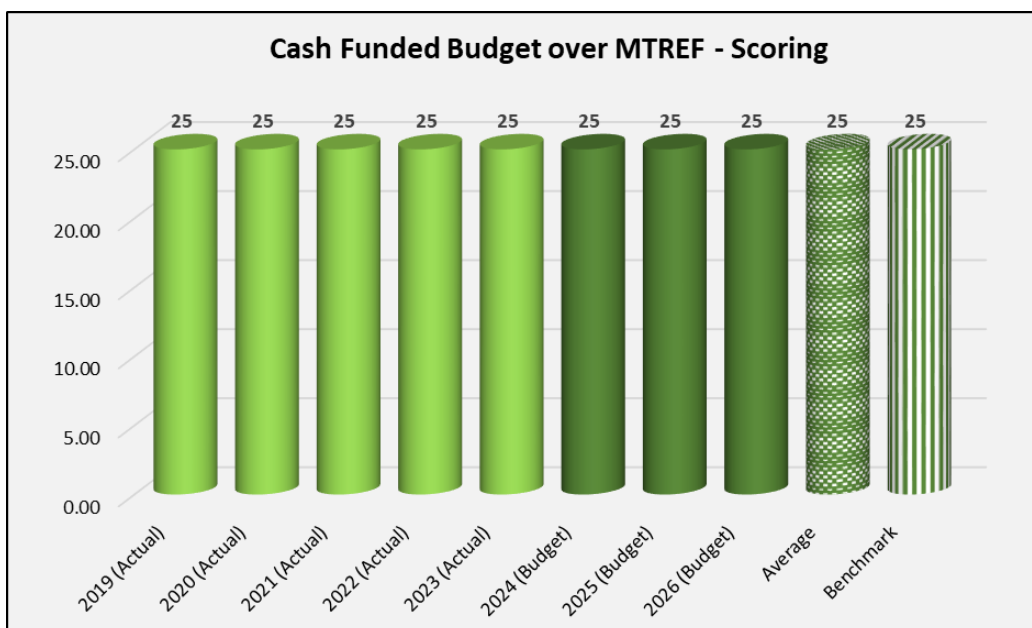
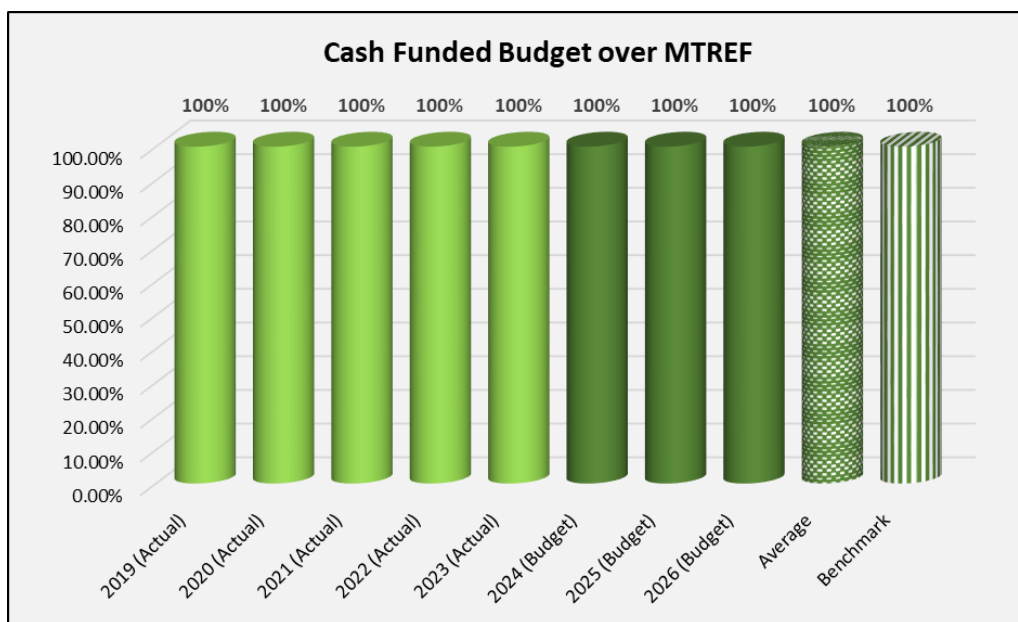
Similar to the Acid Test Ratio (Section 10.1) and the Cost coverage (Section 10.5), this ratio is negatively affected by the declining trend in cash and cash equivalents.



10.10 Cash Funded Budget

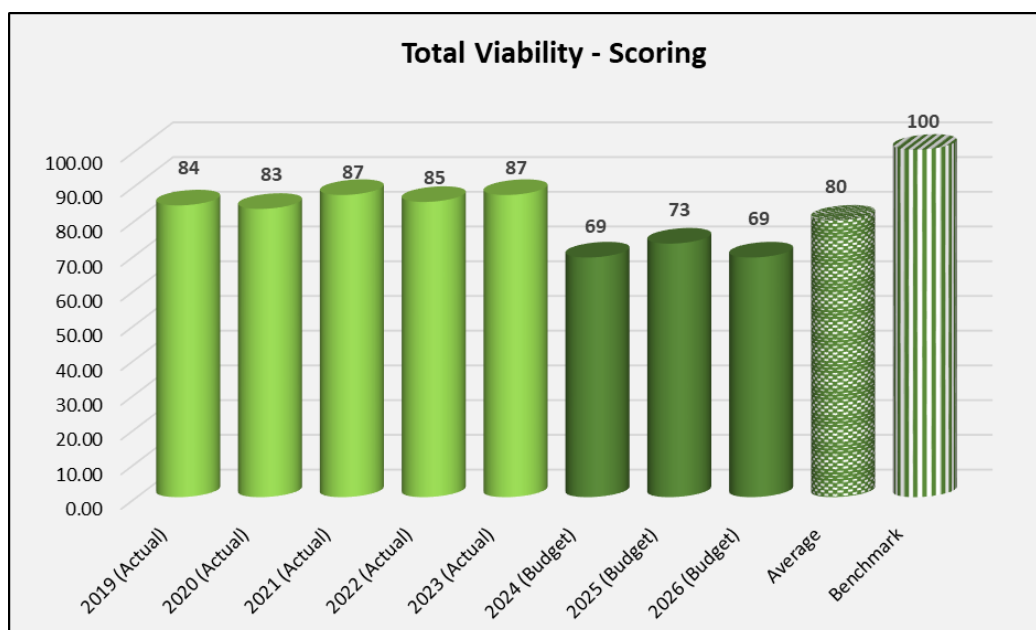
The “Cash funded budget” indicator is one of the most important indicators when assessing the credibility and sustainability of any budget. For this reason, the indicator contributes 25% to the total viability scoring of the municipality.

The indicator shows that the municipality will be cash funded through to 2025/2026 and thus the municipality will score the maximum points from this indicator.



10.11 Conclusion

Based on the 10 indicators above, the viability scoring of the municipality is projected to decline over the 2023/2024 MTREF compared to the 2022/2023 financial year. This decline can mainly be attributed to the projected decline in cash reserves resulting from a full implementation of the operating and capital budget.

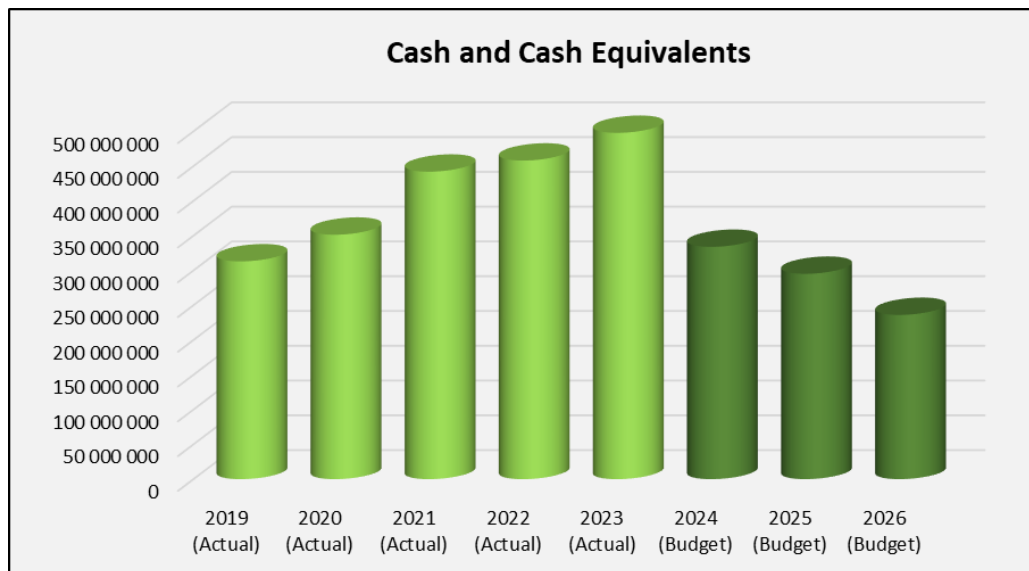


The municipality is currently in a very fortunate position. Despite the many challenges identified in this report, the municipality will still be in a position to present a cash funded budget by 2025/2026.

The municipality is still very much in control of their own destiny and by making good informed decisions relating to the capital and operating budget, the municipality should strive to increase its viability scoring to a level as close as possible to the benchmark of 100.

11. SECTION 11: MODELING OF FINANCIAL PLAN AND SCENARIO SETTING

Service delivery backlogs as well as the downward trend identified in cash and cash equivalents is considered the main challenges for the municipality (i.e. the balancing act between delivering high quality basic services to all versus ensuring that the municipality remains financially sound.



Specific areas contributing to the overall challenges experienced by the Municipality, including Management's risk assessment, identified in the report can be summarised as follows:



CHALLENGES		RISK LEVEL
1	High unemployment in the municipal area contributing to the inability of consumers to settle debt when it becomes due.	Medium
2	Dependency on Grants (i.e. Equitable Share) to finance the municipal budget.	Low
3	The inability to transfer all costs associated with delivering electricity services to the consumers in the area. Significant distribution losses could also be indicative of ageing infrastructure or procedures not adequate to ensure all consumers are billed accurately (or at all) for actual consumption	Medium
4	Although the service is currently being operated at a surplus, the significant cost associated with future rehabilitation of landfill sites could pose a significant risk to the financial viability of the municipality if not adequately provided for in future budgets.	Medium
5	High Salary costs above good practice norm is considered a significant risk for all municipalities, not only Senqu.	High
6	Adequate allocations towards the maintenance of assets are critical to ensure assets are utilised to its full potential.	Medium
7	Procedures relating to the recovery of outstanding debt is crucial to ensure all billed revenue is recovered from consumers.	Medium
8	Appropriations towards the capital and operating budget should be within administrative and financial capabilities. Underspensing on crucial projects could negatively impact on the eradication of service delivery backlogs if all planned projects are not implemented	Medium
9	Under-utilisation of Long-term Liabilities as funding source to fast track critical infrastructure projects and promote the “user pay” principle.	Medium
10	Affordability of Capital Program, especially the portion funded from internal revenue sources and historical cash reserves.	High

Plans and strategies should be developed and incorporated into this document to address the areas of concern above. These plans and strategies, while addressing the service delivery backlogs, should also ensure that the municipality improves its viability scoring as discussed in Section 10 to a score as close as possible to 100.