INCA
Portfolio Managers

LANGEBERG MUNICIPALITY

Long-Term Financial Plan – *Update 2026*

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Prepared by
INCA Portfolio Managers
May 2026

Report Overview – Introduction and Background

The Langeberg Municipality appointed INCA Portfolio Managers in 2020 to develop a Long-Term Financial Plan. The deliverable of that assignment was a report entitled *Langeberg; Long-Term Financial Plan: 2019/20 – 2028/29*; July 2020. The initial report was updated in 2021-2025. This 2026 update, done in terms of a new contract with Langeberg Municipality, aims to update the LTFP based on the latest available information and report on the findings.

A Long-Term Financial Plan (LTFP) is a strategic financial management tool that provides a forward-looking assessment of a municipality's financial position, sustainability, and capacity to deliver services over an extended planning horizon that spans beyond the 3-year budget cycle. The LTFP, underpinned by IPM's Long-Term Financial Model (LTFM), aims to provide a framework for the municipality to remain financially sustainable over the long-term and thus in a position to execute on its core mandate of providing services to its communities.

The Long-Term Financial Plan plays a critical role in informing the budget process. It serves as the financial foundation upon which the MTREF is developed, ensuring that short and medium-term financial decisions are consistent with long-term sustainability. Key assumptions from the LTFP, including revenue growth rates, operating cost drivers, capital funding strategies, and debt affordability limits, guide budget preparation and scenario analysis. In this way, the LTFP enhances the credibility of the budget by grounding it in realistic projections and clearly defined financial constraints.

A summary of the demographic, economic and household infrastructure perspective was updated with the latest available information as published by S&P Global Market Intelligence. The historic financial analysis was updated with the information captured in the municipality's audited financial statements of 30 June 2025 along with the Tabled Budget for FY2026/27. The LTFM, as institutionalised in Langeberg Municipality, was populated and run with this latest information, and the outcome thereof is reported herein.

ABBREVIATIONS USED

AFS	Annual Financial Statements
CAPEX	Capital Expenditure
CRR	Capital Replacement Reserve
CPI	Consumer Price Index
FY	Financial Year
FYE	Financial Year Ended
GVA	Gross Value Added
IP	Investment Property
IPM	INCA Portfolio Managers
LM	Local Municipality
LTFM	Long-Term Financial Model
LTFP	Long-Term Financial Plan
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts
MRRI	Municipal Revenue Risk Indicator
MTREF	Medium Term Revenue and Expenditure Framework
NERSA	National Energy Regulator of South Africa
NT	National Treasury
OPEX	Operational Expenditure
PPE	Property, Plant and Equipment
R ‘000	Rand x 1 000
SA	South Africa
S&P	S&P Global Market Intelligence ReX v2540

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EXECUTIVE SUMMARY

KEY FINDINGS AND CONCLUSIONS DRAWN FROM THE 2026 LTFP UPDATE

HIGHLIGHTS FROM THE FY2024/25 FINANCIAL RESULTS

- Langeberg's liquidity position deteriorated. The current ratio declined to 1.51:1 in FY2024/25, from 1.77:1 in the prior year. When excluding debtors older than 30 days, the ratio weakened further to 1.19:1.
- Upon exclusion of capital grants, the municipality recorded an operating surplus of R7.2 million, a marginal improvement from R6.8 million posted in FY2023/24.
- Cash generated from operations (excluding capital grants) decreased significantly to R14.2 million during FY2024/25, down from R78 million in the prior year.
- From an efficiency perspective, electricity distribution losses deteriorated significantly to 16.89% in FY2024/25 (FY2023/24: 5.76%), and water distribution losses lessened from 18.7% to 10.59%.
- The municipality's total cash and cash equivalents declined by 34% in FY2024/25, down from R297.1 million in the prior year to R196.3 million.
- Gearing and debt-service-to-total-expenditure ratios remain low at 2.5% and 0.79%, respectively, underscoring a conservatively leveraged position.
- Repairs and maintenance expenditure decreased to R33.8 million, down from R41.7 million in FY2023/24. This resulted in repairs and maintenance spending representing approximately 3% of total operating expenditure. Ideally, this ratio should trend closer to the National Treasury norm of 8% (as a percentage of PPE and Investment Property).
- The total capital outlay over the review period amounted to R786.3 million, at an annual average of R98.3 million. The municipality's FY2024/25 capital programme was primarily funded through own cash reserves and funds (68%) and capital grants (32%).

LONG-TERM FINANCIAL PLAN UPDATE

Langeberg LM has budgeted for operating deficits over the MTREF period in the Tabled Budget. This is contrary to the historic performance in which operating surpluses were posted in 6/8 years under review. Due to this, we are of the view that Langeberg will likely outperform the operating budget. This has been factored into the Base Case assumptions. Prior to making any adjustments to the latest Tabled Budget, an MTREF Case was developed in order to assess the viability of the Budget. The MTREF Case provides an indication of the long-term outcome should the status quo be maintained and the budget be implemented as is. The result thereof was characterised by poor financial performance, cash generation as well as a strained liquidity position.

The MTREF Case serves to allow key strengths and weaknesses to be identified. This informs the Base Case assumptions as key target areas are identified. The first priority is to address the key weaknesses, whilst maintaining key strengths. The underlying causes of the unfavourable outcome have been addressed through the Base Case assumptions. The Base Case outcome reflects a sustainable long-term liquidity position underpinned by improved financial performance, healthy cash generation and a sustainable capital investment programme. Forecast growth in creditors has been curtailed, further supporting the healthy liquidity position. Other key improvements include reduced distribution losses as well as increased operational repairs and maintenance expenditure.

To develop a realistic Base Case model, the figures from the Tabled Budget 2026/27 – 2028/29 were used. The objective of the model is to utilise realistic assumptions to support future financial sustainability. These assumptions have been discussed and agreed upon with the municipality. The following are the key assumptions:

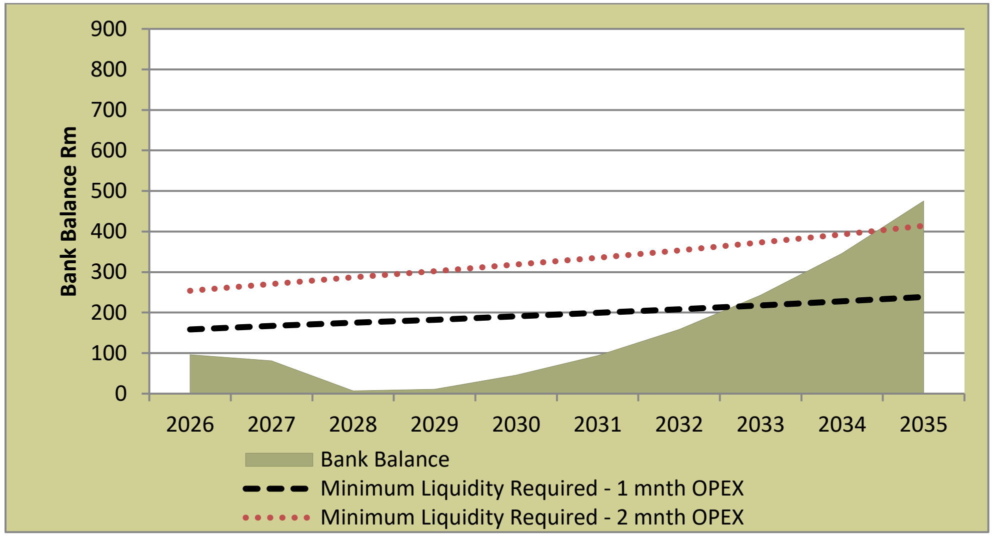
1. A collection rate of 95% is assumed to be maintained throughout the planning period.
2. Operating expenditure was cut by 1%.
3. The Tabled Capital Budget was adjusted as follows:
    - FY2026/27: R108.4m (Budget: R108.4m)
    - FY2027/28: R162.5m (Budget: R162.5m)
    - FY2028/29: **R120.0m** (Budget: R105.1m)
4. Growth in capex beyond the MTREF period of 6% p.a. was modelled.
5. No borrowings were included over the planning period.
6. Repairs and maintenance expenditure was increased to 4.5% of PPE & IP over 5 years (from 2.9%).
7. Electricity and water distribution losses were maintained at 8% and 15.00% respectively.
8. Creditors days were reduced to 30 days from 88 days over the planning period.
9. Tariff increases were included as put forward in the Tabled Budget Document.

LONG-TERM FINANCIAL MODEL OUTCOMES

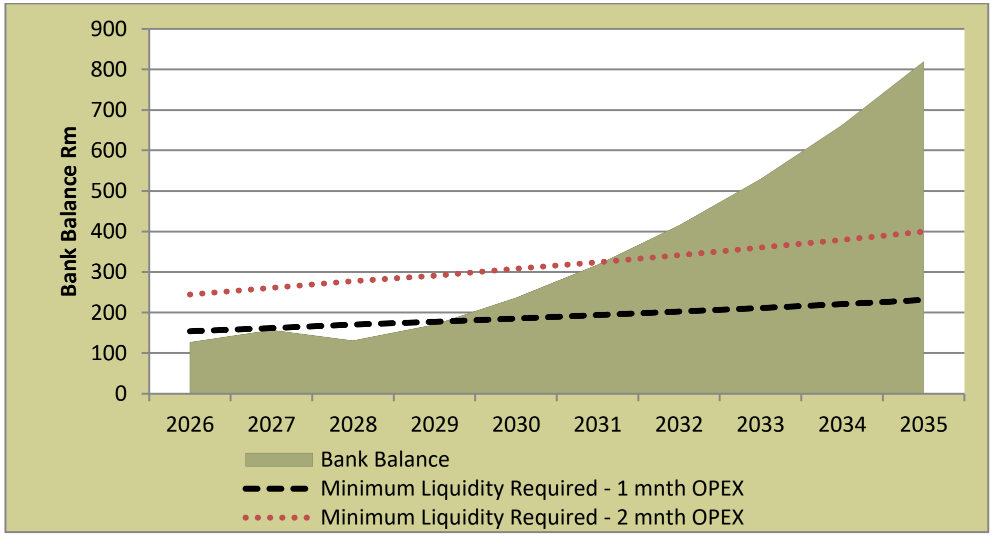
Based on these assumptions, key outcomes for the 10-year planning period are as follows:

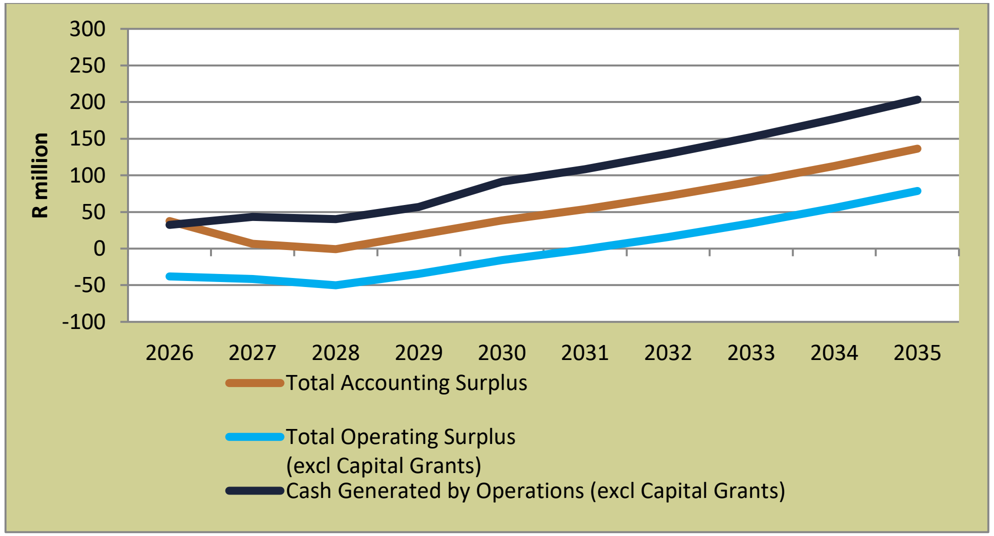
Outcome	MTREF Case	Base Case
Average annual % increase in Revenue	7,1%	7,2%
Average annual % increase in Expenditure	6,9%	6,6%
Accounting Surplus accumulated during Planning Period (Rm)	R 567	R 1 325
Operating Surplus accumulated during Planning Period (Rm)	R 4	R 761
Cash generated by Operations during Planning Period (Rm)	R 1 035	R 1 555
Average annual increase in Gross Consumer Debtors	12,8%	12,8%
Capital investment programme during Planning Period (Rm)	R 1 321	R 1 498
External Loan Financing during Planning Period (Rm)	R 0	R 0
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 476	R 819
No of Months Cash Cover at the end of the Planning Period (Rm)	2,7	4,9
Liquidity Ratio at the end of the Planning Period	1,5 : 1	4,7 : 1
Gearing at the end of the Planning Period	0,1%	0,1%
Debt Service to Total Expense Ratio at the end of the Planning Period	0,0%	0,0%

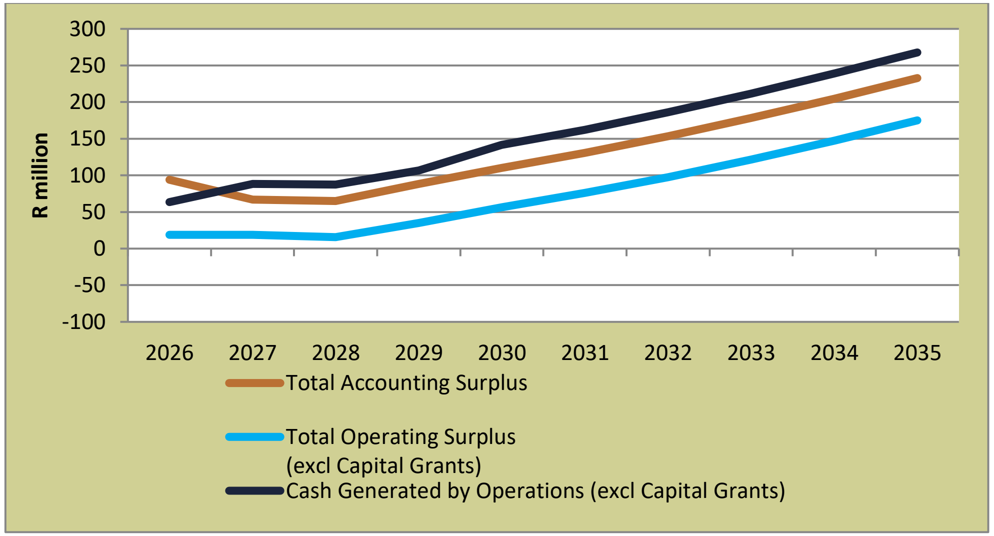
MTREF CASE SCENARIO



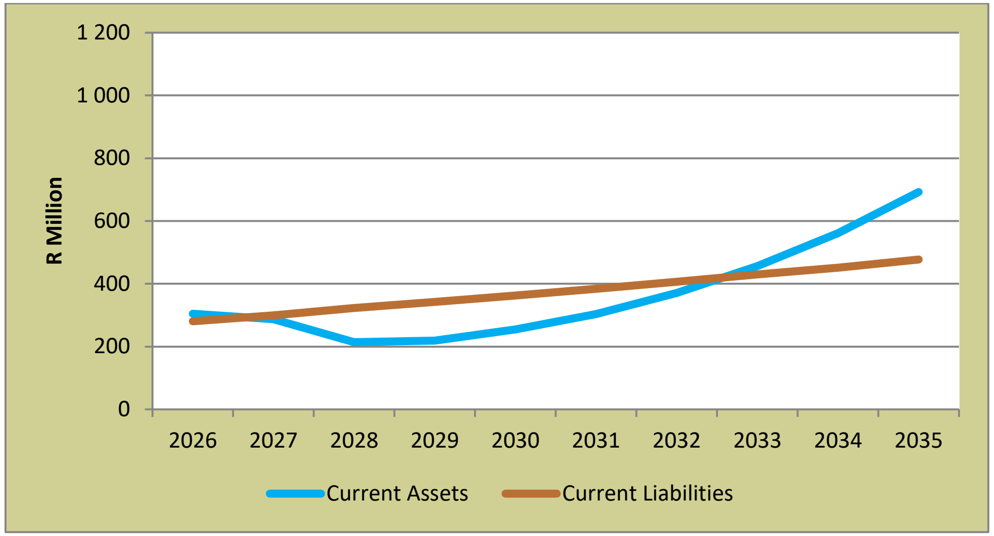
BASE CASE SCENARIO



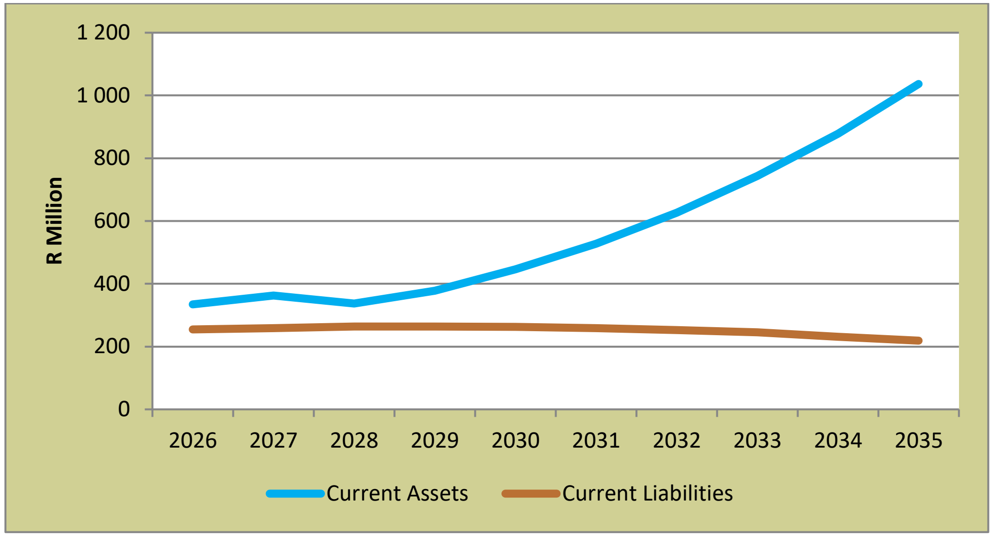


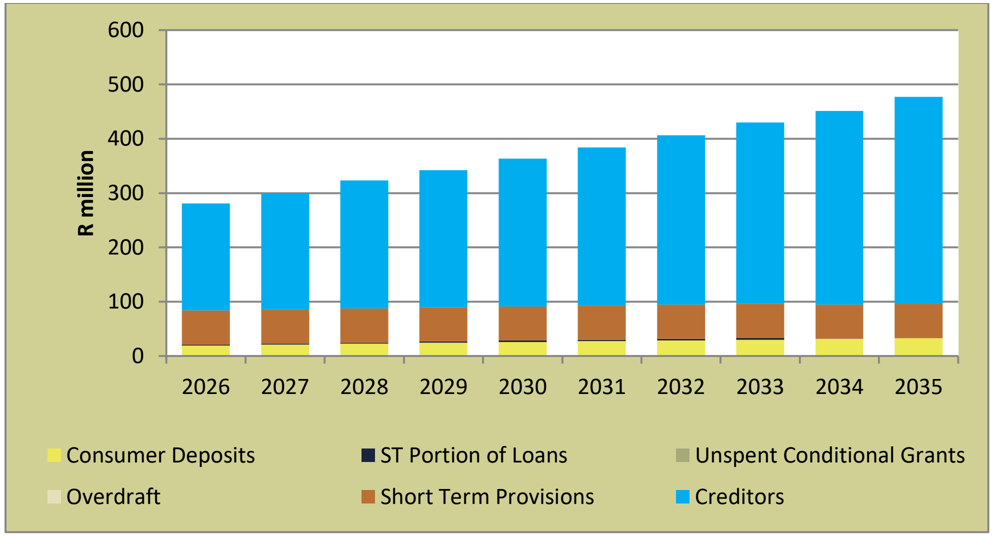


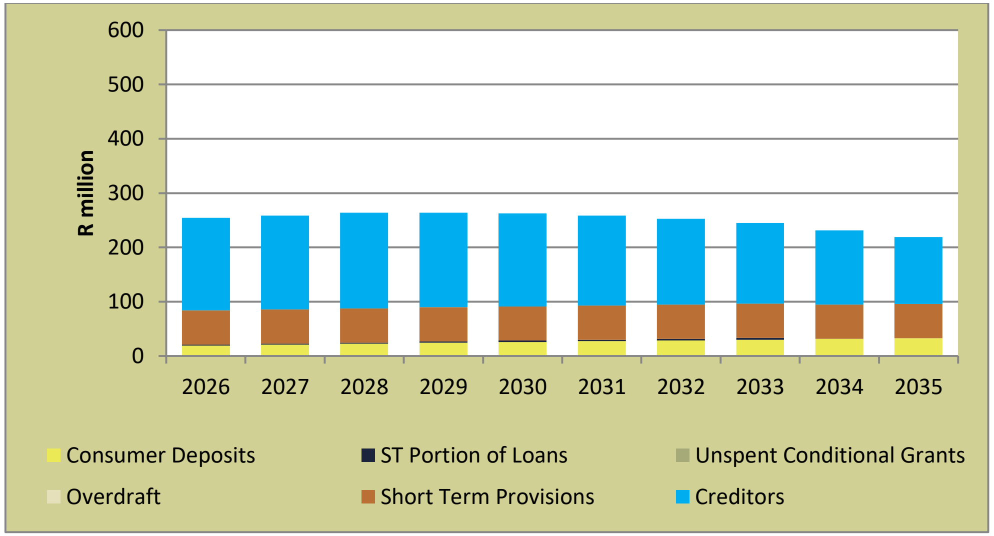
MTREF CASE SCENARIO



BASE CASE SCENARIO







Capex Affordability and Funding Mix

Base Case 10-Year Capital Funding Mix

Source	Rm	%
Public & Developers' Contributions	0	0 %
Capital Grants	563	38 %
Financing	0	0 %
Cash Reserves and Funds	935	62 %
Cash Shortfall	0	0 %
Capital Expenditure	**1 498**	**100 %**

Base Case Distribution of Future Capital Funding (R'm)

		2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Public & Developers' Contributions	0	0	0	0	0	0	0	0	0	0	0
Capital Grants	563	75	48	49	53	54	55	56	57	57	58
Financing	0	0	0	0	0	0	0	0	0	0	0
Cash Reserves and Funds	935	141	60	113	67	74	80	88	95	104	113
Cash Shortfall	0	0	0	0	0	0	0	0	0	0	0
Capital Expenditure	**1 498**	216	108	163	120	128	135	143	152	161	171

Key Takeaways

- The Base Case capital funding mix was developed with the aim of maintaining long-term financial sustainability.
- This Base Case funding strategy aims to leverage the healthy cash position, with no borrowings included.
- The Base Case outcome indicates that the affordable capital envelope remains sustainable.

RECOMMENDATIONS

Based on the results of the Long-Term Financial Model, ***it is recommended that*** Langeberg:

1. Maintains the collection rate at 95% over the planning period – this is crucial in ensuring that sufficient operational cash flows are realised to fund operations as well as the capital investment programme.

2. Implements an operating expenditure cut of at least 1% - this is aimed at ensuring more realistic financial performance given the conservative budget. As such, it is likely that the improvement in financial performance that the 1% opex cut would bring will be met with ease, provided the operating budget is outperformed as expected.

3. Accelerate capital investment in FY2028/29 – this will allow capital investment to remain at elevated levels over the MTREF period thus enabling the required investment in infrastructure to occur. Capital projects that are geared towards revenue generating, infrastructure related projects must be prioritised to create an enabling environment for economic growth.

4. Avoid material increases in trade payables – this is aimed at curbing growth in current liabilities, specifically creditors, to ensure a continual strengthening of the liquidity position.

5. Increase repairs and maintenance expenditure to a minimum of 4% of PPE & IP – this must be coupled with ensuring that a proactive approach to asset management is undertaken, thus avoiding expensive repair and potential replacement costs.

6. Formalise a capital investment prioritisation and tracking system to optimise management's capital investment decisions and mitigate the risk of underspending on capital projects. The affordable envelope presented in this report reflects the available capacity for affordable capital investment.

7. Institutionalise the utilisation of a robust tariff model to ensure that tariffs reflect the true cost of delivering the service, on an organisation-wide approach (also taking into account property rates and organisational overheads).

8. Update the long-term financial plan at least annually with the most recent information to remain a relevant and valuable strategic tool that serves as input to the annual budgeting process. The utilisation of IPM's Long-Term Financial Model as institutionalised within Langeberg must form part of the budgeting and decision-making process within the municipality. This underpins the model of evidence-based decision making, thus providing comfort to stakeholders that a scientific and considered approach has been taken towards the financial decision making within the municipality.

DEMOGRAPHIC, ECONOMIC AND HOUSEHOLD INFRASTRUCTURE

- Langeberg LM's total population grew with 1.5% in 2025 equating to 127 282 in 2025 according to the 2025-26 Municipal Economic Review and Outlook (MERO; 2025-26). Langeberg's total population represents approximately 12.7% of the Cape Winelands District's total population of 1.03 million people.

- Of the 32 889 households in 2024, it should be noted that 18.5% of Langeberg's households are registered for indigent support (MERO; 2025-26).

- When considering households above the RDP threshold, the Langeberg LM, in comparison to the collective Cape Winelands district, provides better access to water (99.3% vs 98.9%), refuse removal (93.2% vs 86.5%), and sanitation (97.1% vs 96.5%) and electricity in comparison to the district (97.4% vs 97.2%), which is commendable.

- In terms of housing types, an examination of housing in Langeberg and the broader CWD shows that most households in these regions resided in formal housing in 2024 (70.5 per cent of households in Langeberg and 73.7 per cent of households in the CWD). However, the municipal area exhibited a marginally higher reliance on semi-formal and informal housing typologies than the District. In Langeberg, the aggregate share of backyard informal dwellings (6.6 per cent), flats (6.1 per cent) and townhouses (7.8 per cent) totals 20.5 per cent, surpassing the CWD aggregate of 13.5 per cent for the same categories (MERO; 2025-26).

- Langeberg's total Gross Value Add (GVA) amounted to R7.25 billion (constant 2015 prices) in 2024, accounting for 11.2% of the Cape Winelands District GVA of R64.9 billion (constant 2024 prices). According to the 2025-26 Municipal Economic Review and Outlook (MERO), analysis of the GDPR per capita of Langeberg reveals a trajectory of prolonged stagnation with significant socioeconomic implications. From 2014 to 2024, the economy of the municipal area entered a period of limited growth, with per person output increasing by a marginal 1.9 per cent.

- The local economy is largely primary and secondary sector driven, with agriculture (19% GVA contribution) and manufacturing (20% GVA contribution) forming the backbone of economic activity.

- Employment figures for Langeberg Municipality reveals that employment was lost during 2024, representing a decrease of 1.1% in 2024. The total number of employment opportunities increased to 52 018. Employment in the LM is underpinned primarily by the Finance (23.5%), Trade (22.1%), Community Services (17.9) sectors, and manufacturing (14.3%).

- It is evident that tourism visits have not yet returned to pre-pandemic levels. However. despite the lower number of visits, tourist spending has exceeded pre-pandemic levels, with the exception of 2019, which appears as an outlier—likely due to travel restrictions preventing tourists from returning to their places of origin, thus resulting in heightened spending.

1 **Planning Process**

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long-Term Financial Model Outcomes

5 Future Revenues

6 Affordable Future Capital Investment

7 Scenario Analysis

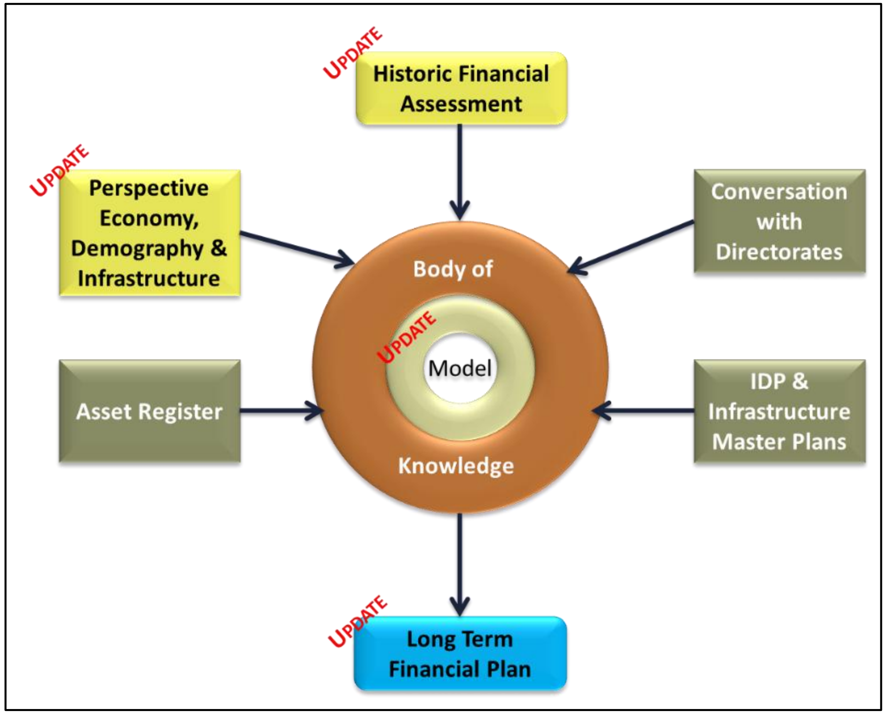
8 Ratio Analysis

9 Conclusions

PLANNING PROCESS

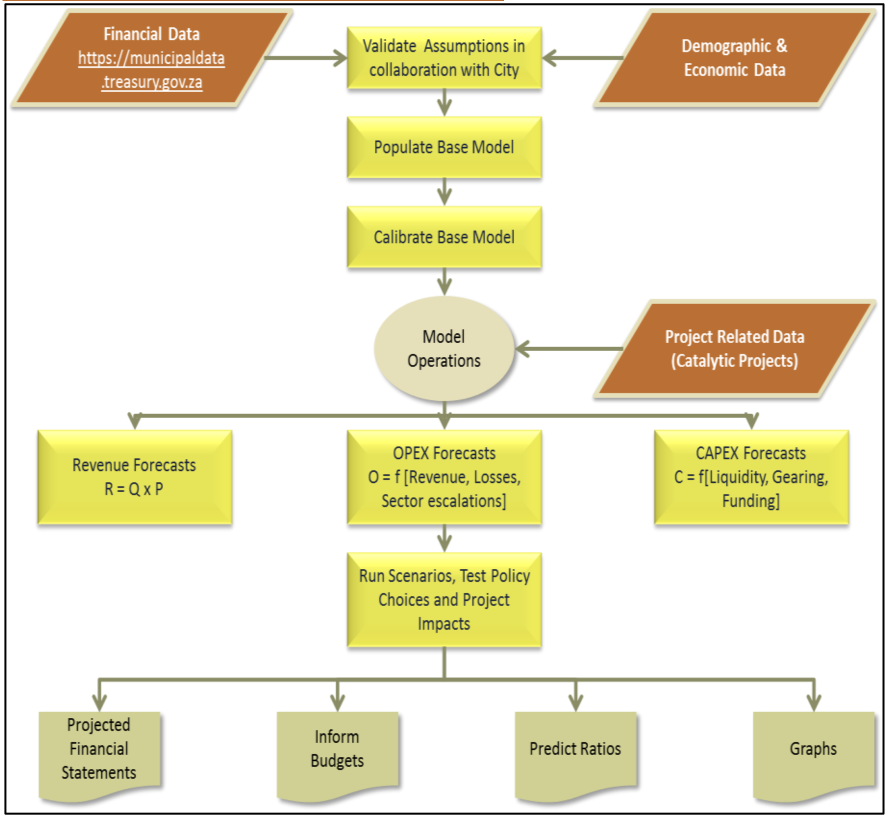
The diagram below illustrates the steps in the process that were followed in drafting the LTFP and the steps taken during this 2026 "LTFP Update":

FIGURE 1: PLANNING PROCESS



The long-term financial model was populated with the latest information of Langeberg and used to make a base case financial forecast of the future financial performance, financial position, and cash flow of the municipality. The diagram below illustrates the outline of the model.

FIGURE 2: FINANCIAL MODEL FRAMEWORK



The model methodology remains the same and the capital budget as presented in the MTREF was utilised and forecasts of an affordable future capex were made.

1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long-Term Financial Model Outcomes

5 Future Revenues

6 Affordable Future Capital Investment

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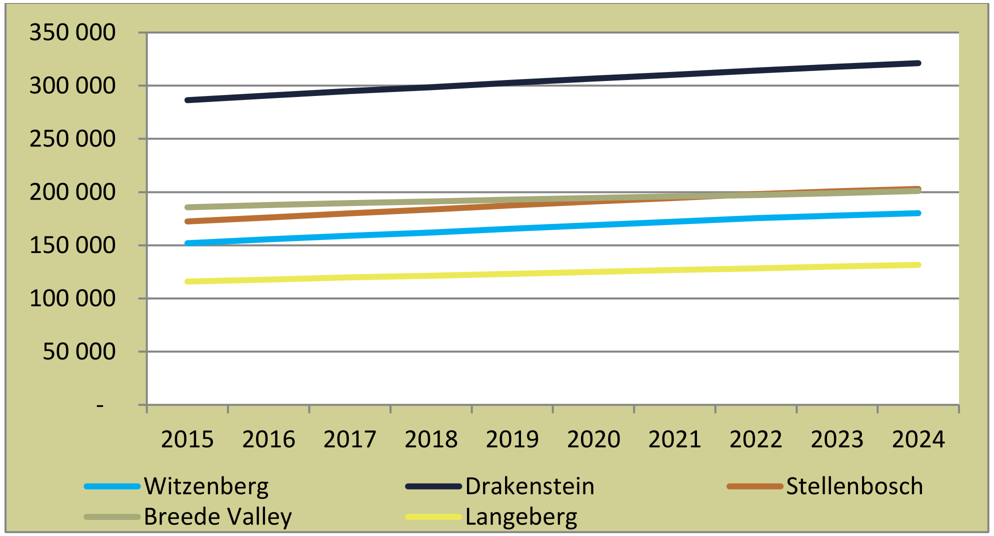
9 Conclusions

Updated Perspectives (Demographic, Economic, Household Infrastructure)

Demography

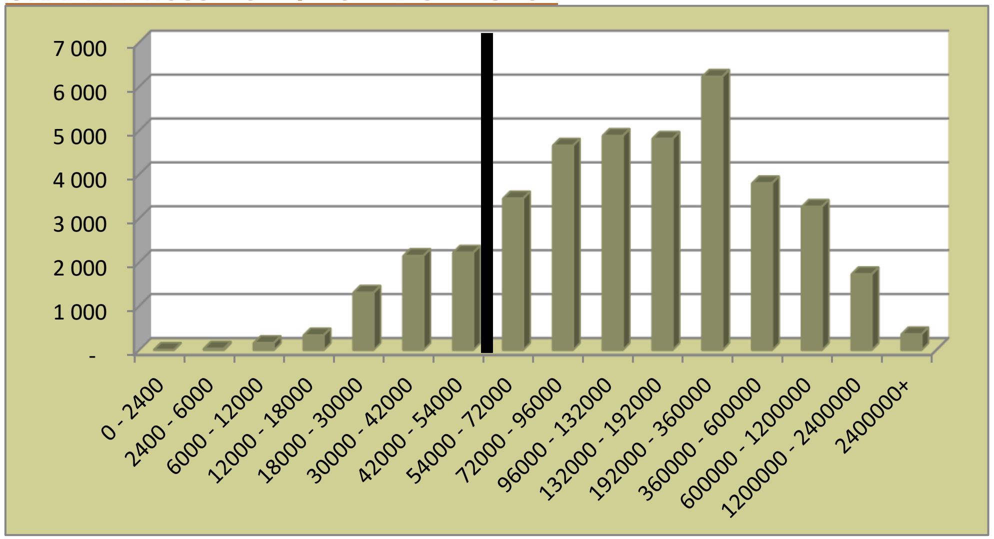
Langeberg LM's total population grew with 1.5% in 2025 equating to 127 282 in 2025 according to the 2025-26 Municipal Economic Review and Outlook (MERO; 2025-26). Langeberg's total population represents approximately 12.7% of the Cape Winelands District's total population of 1.03 million people. Over the past nine years (2015 – 2024), Langeberg's average population growth was in line with the growth rate of the district, amounting to 1.4%. While moderate population growth suggests manageable service delivery pressures, any acceleration, especially driven by lower-income in-migration, may heighten demand for basic services, housing, and infrastructure investment.

Graph 1: Total Population



Households earning less than R54 000 p.a. are indicative of the number of indigent households in the municipal area and reflect those who qualify for and/or are largely reliant on government grants as a source of income. According to the MERO, 6 088 households are registered for indigent support, a decline from 7 556 households in 2018. This equates to approximately 18.5% of the total of 32 889 households within Langeberg in 2024.

Graph 2: Household Income Distribution

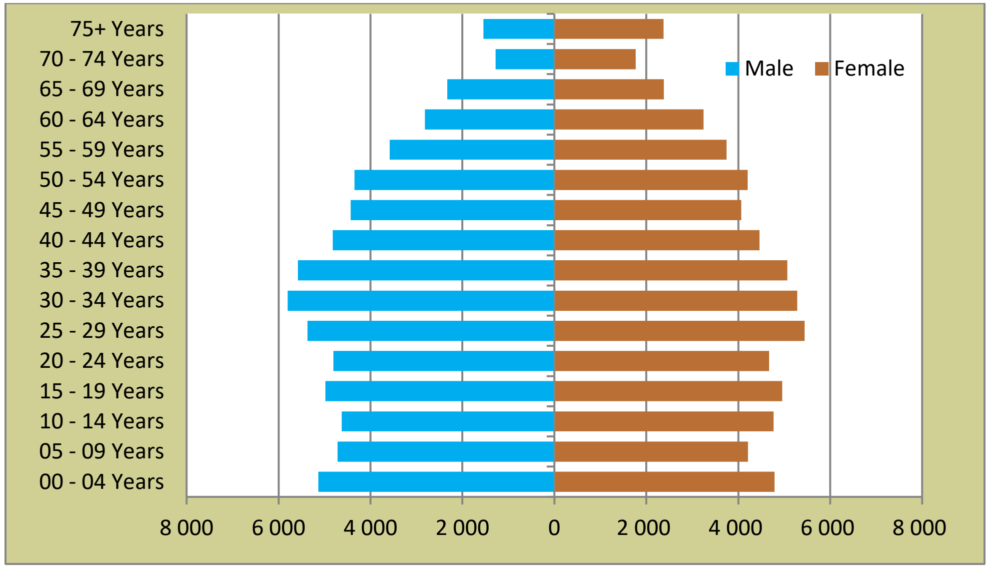


This significant proportion of households being registered for indigent support directly affects the municipality's financial performance, as no surplus margin is generated from the provision of services to these households. In addition, reliance on a smaller base of paying consumers increases financial risk. Should even a portion of this group default on payments for municipal services, the impact on revenue is proportionally greater than it would be if the paying base were broader. Consequently, the municipality's financial stability becomes more vulnerable due to its dependence on a limited number of revenue-contributing households.

While the proportion of the population living below the food poverty line (FPL) has shown a notable improvement, falling from 40.0 per cent in 2014 to 33.0 per cent in 2024, the more comprehensive lower-bound poverty line (LBPL) reveals a far more stubborn reality.

The share of the population that is below the LBPL has increased significantly over the past decade, from 39.5 per cent in 2014 to 51.6 per cent in 2019, before declining slightly to 49.9 per cent in 2024. This indicates that half the population continues to live in poverty (MERO; 2025-26).

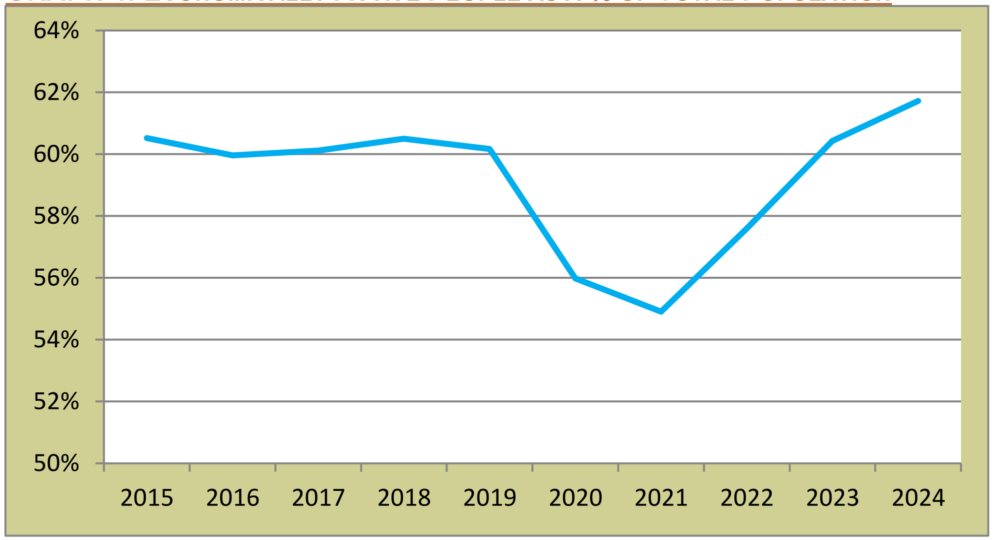
GRAPH 3: AGE PROFILE



GRAPH 3 illustrates the age profile of Langeberg's population. The structure reflects a broad base, indicating a relatively youthful population, with a large proportion of individuals under the age of 35 years. Approximately 53.6% of the population falls within the 0–34-year age group, while the working-age population (15–64 years) constitutes the bulk of residents (67.2%). The largest age cohorts are concentrated between the 20–39-year brackets, highlighting the municipality's potentially strong labour force. Conversely, only a small proportion, around 7.6%, of the population is aged 65 years and older, suggesting that Langeberg is not yet a significant retirement destination, but rather an area characterised by a young, economically active demographic.

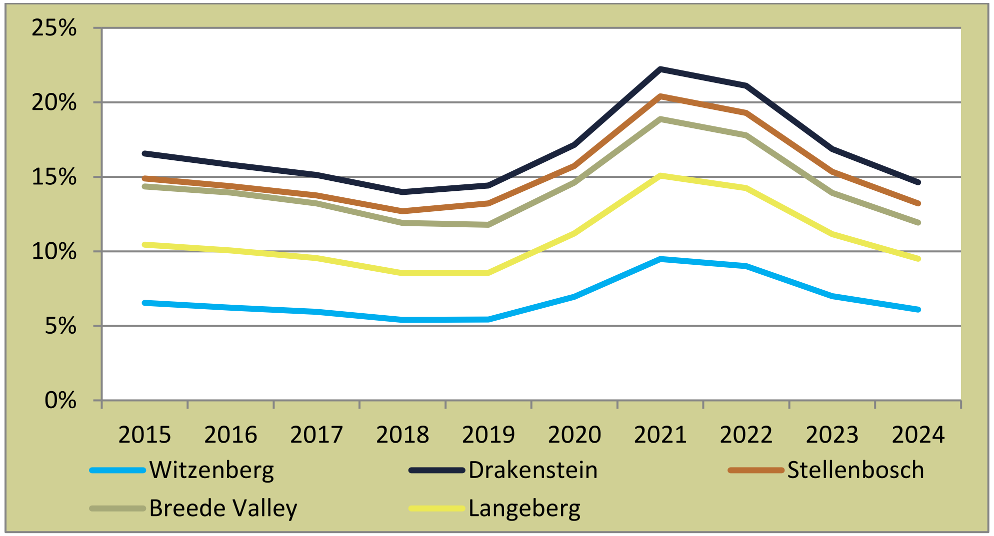
Related to the working age population, the economically active population as a percentage of the total population has increased to 61.7% in 2024 from 60.4% in 2023. It is positive to note that this marks the second consecutive year of growth in this indicator, following the sharp contraction experienced during 2020–2021.

GRAPH 4: ECONOMICALLY ACTIVE PEOPLE AS A % OF TOTAL POPULATION



The observed improvement in economically active can directly be correlated with an improved official unemployment rate, as observed on the graph below.

GRAPH 5: OFFICIAL UNEMPLOYMENT RATE



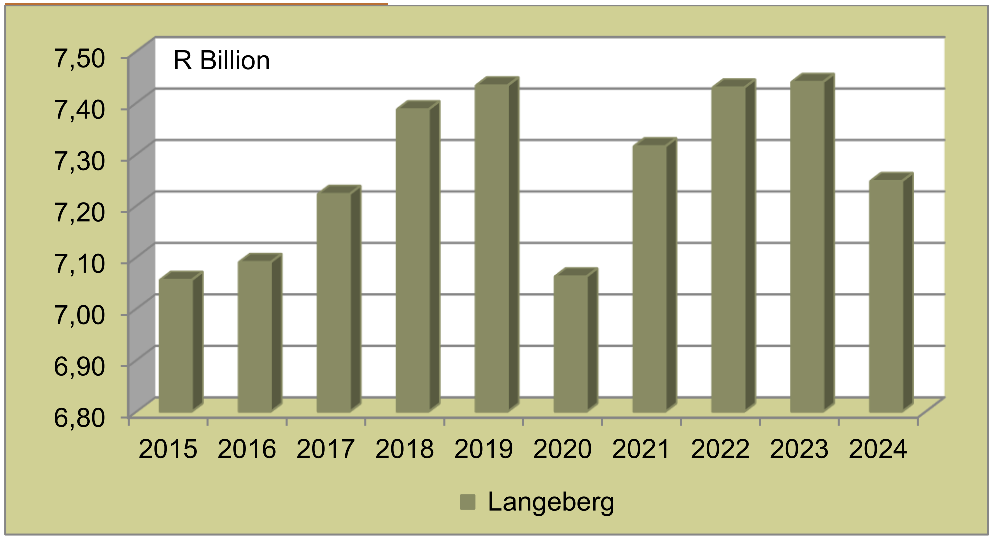
The continued downward trend experienced since 2021 is evident, with the unemployment rate declining to 9.5% in 2024. This marks the third consecutive year of improvement, following a sharp rise during the Covid-19 period when unemployment peaked at 15.1% in 2021. A commendable trend from the figure above, is that Langeberg is notably the LM with the second lowest unemployment rate (9.5%) in the district. Moreover, the level of unemployment is far lower than that experienced within the nation (32.6%) and province (20.9%) in 2024.

It must be noted that the official unemployment rate is based on a narrow definition, excluding discouraged jobseekers and those not actively seeking employment. Therefore, it is reasonable to assume that the true rate of unemployment is considerably higher when these groups are included.

ECONOMIC

Notwithstanding the positive economic growth recorded in the post-Covid period, Langeberg continues to operate within an environment of sluggish and uneven recovery. Various external and domestic pressures — including geo-political instability, persistently high inflation, and rising input costs — have constrained household disposable income. Consequently, the municipality must closely monitor the extent to which households can be levied going forward. A sustained decline in household income, coupled with rapid increases in municipal service costs, could place significant strain on the municipality's future revenue base and collection performance.

GRAPH 6: ECONOMIC SECTORS

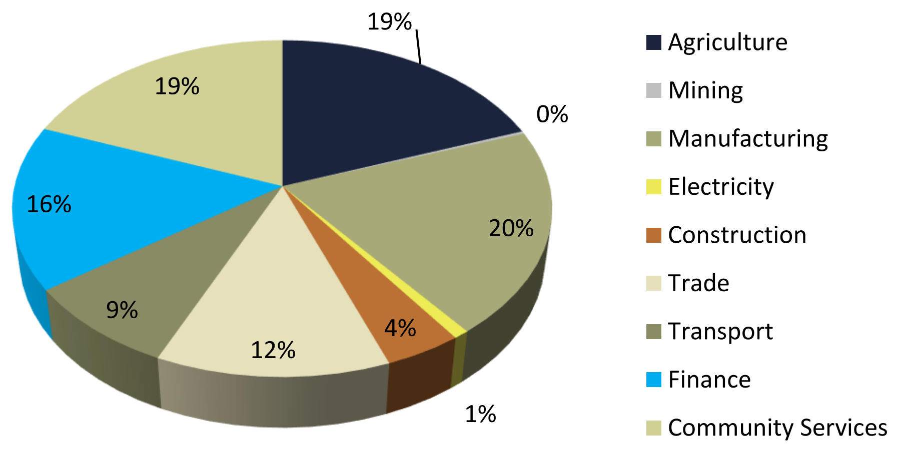


Langeberg's total Gross Value Add (GVA) amounted to R7.25 billion (constant 2015 prices) in 2024, accounting for 11.2% of the Cape Winelands District GVA of R64.9 billion (constant 2015 prices). The municipality's economy was severely impacted by the pandemic, recording a sharp contraction of 5% in 2020. A recovery followed in the subsequent two years, with growth of 3.6% in 2021 and 1.6% in 2022, reflecting the rebound in agricultural and trade activity. However, this recovery lost momentum, as the economy contracted by 2.6% in 2024, highlighting the fragility of growth within the local economy. According to the 2025-26 Municipal Economic Review and Outlook (MERO), analysis of the GDPR per capita of Langeberg reveals a trajectory of prolonged stagnation with significant socioeconomic implications. From 2014 to 2024, the economy of the municipal area entered a period of limited growth, with per person output increasing by a marginal 1.9 per cent.

There is growing concern over the sluggish pace of economic growth relative to population expansion. Over the past five years, population growth averaged approximately 1.17% per annum, while the economy contracted in 2024. Efforts to stimulate sustainable, inclusive growth through diversification and improved productivity will be essential to enhance living standards and economic resilience in the years ahead.

Langeberg's economy is moderately diversified as evidenced by a Tress Index of 44.4 in 2024 (MERO; 2025-26). The Tress Index measures economic concentration, where a higher value indicates a lower degree of diversification. The gradual upward trend in Langeberg's index over the past decade suggests that while the economy remains fairly broad-based, it has become increasingly concentrated in fewer key sectors.

GRAPH 7: ECONOMIC SECTORS

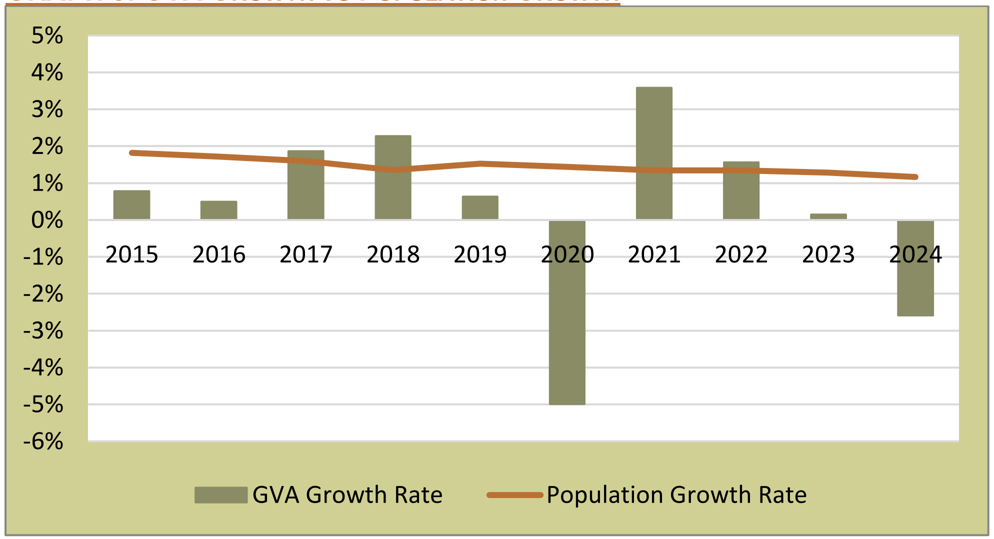


The local economy is largely primary and secondary sector driven, with agriculture and manufacturing forming the backbone of economic activity. In 2024, agriculture contributed 19% and manufacturing 20% to total Gross Value Added (GVA). It should be mentioned that the significant contribution of these two industries are extremely advantageous to Langeberg's local economy, as their significant presence allows for logistical efficiency leading to greater economic "spin off" in other industries.

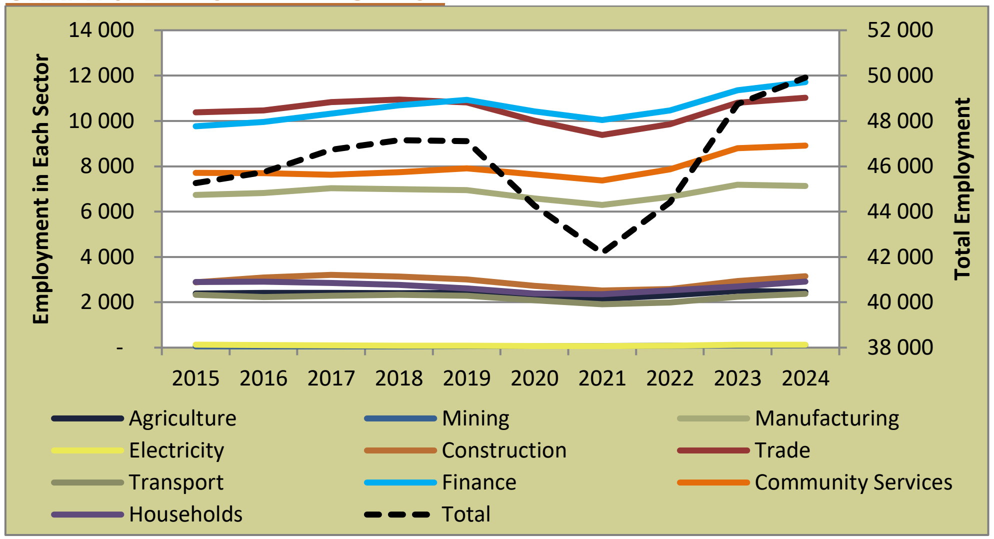
TABLE 1: CONTRIBUTION OF SUB-SECTORS TO GVA (CONSTANT 2015 PRICES)

Subsector	2014	2024
Agriculture	18,9%	19,4%
Mining	0,3%	0,2%
Manufacturing	18,9%	19,8%
Electricity	1,0%	0,8%
Construction	6,5%	4,1%
Trade	13,6%	12,4%
Transport	7,3%	8,4%
Finance	15,4%	15,8%
Community Services	18,1%	19,1%

GRAPH 8: GVA GROWTH VS POPULATION GROWTH



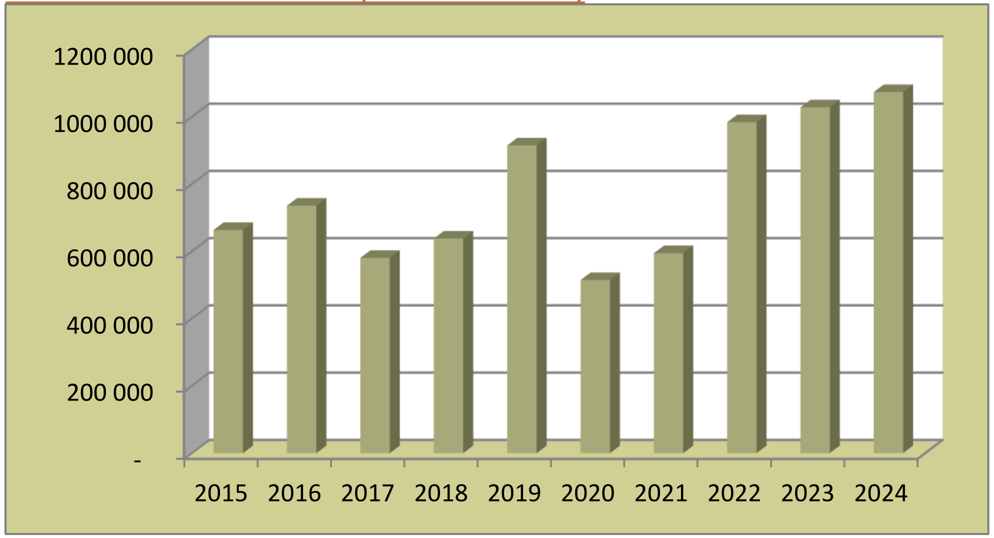
GRAPH 9: EMPLOYMENT BY SECTOR



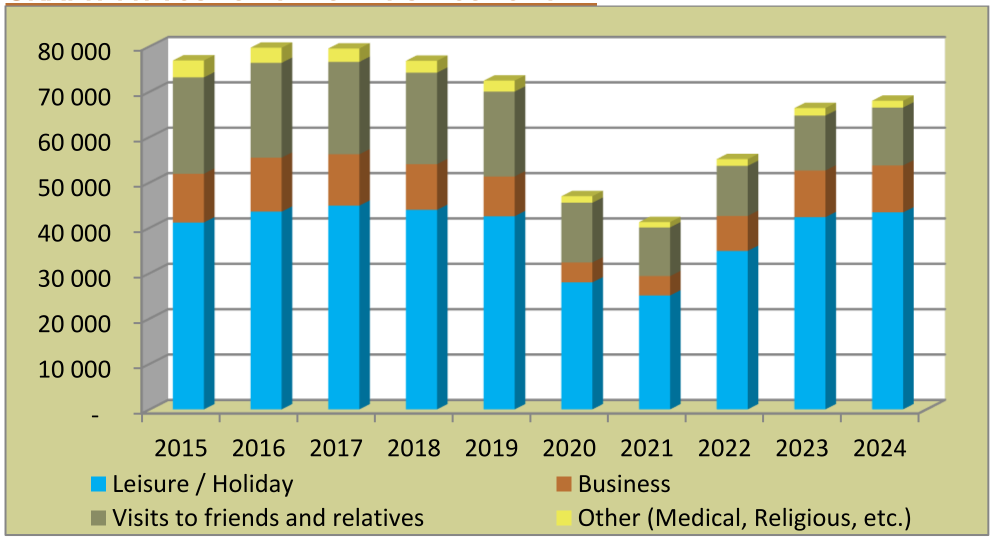
Employment figures for Langeberg Municipality reveals that employment was lost during 2024, representing a decrease of 1.1% in 2024. The total number of employment opportunities increased to 52 018.

Employment in the LM is underpinned primarily by the Finance (23.5%), Trade (22.1%), Community Services (17.9) sectors, and manufacturing (14.3%). These sectors remain the backbone of the local economy, demonstrating resilience despite broader economic challenges.

GRAPH 10: TOURISM SPEND (CURRENT PRICES)



GRAPH 11: TOURISM TRIPS BY PURPOSE OF TRIP



An analysis of the tourism sector would be incomplete without considering the number and purpose of tourism trips into Langeberg Municipality. The total number

Although tourism is not classified as a distinct economic sector, it plays a pivotal role as a cross-cutting driver of economic activity. The municipality is therefore encouraged to continue promoting tourism investment and events while ensuring that infrastructure and service delivery standards are maintained to strengthen Langeberg's attractiveness as a tourism destination.

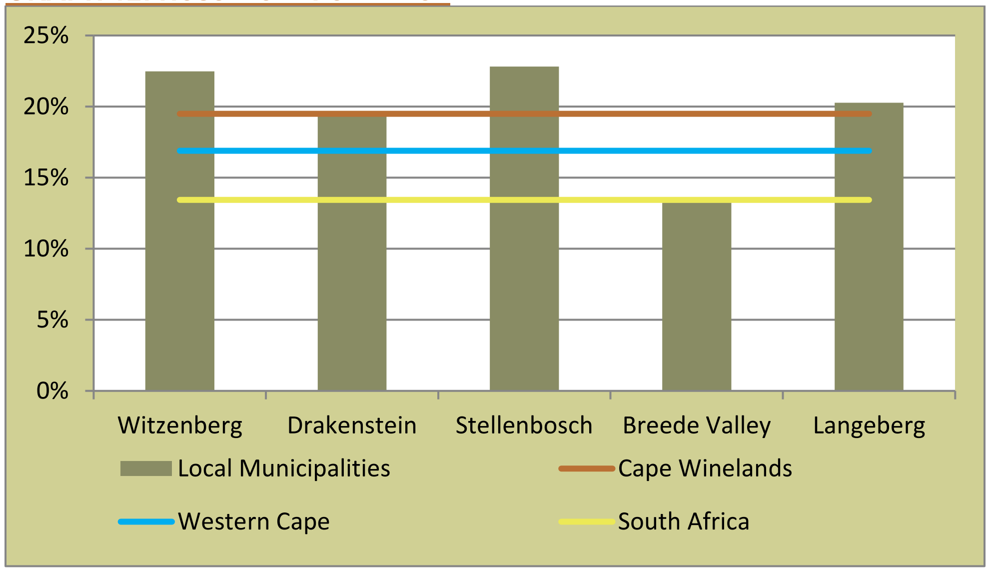
GRAPHS 10 AND 11 collectively illustrate the historical and current state of tourism within Langeberg Local Municipality, depicting tourism visits and tourist expenditure, respectively. From **GRAPH 10**, it is evident that tourism visits have not yet returned to pre-pandemic levels. However, **GRAPH 16** shows that, despite the lower number of visits, tourist spending has exceeded pre-pandemic levels, with the exception of 2019, which appears as an outlier—likely due to travel restrictions preventing tourists from returning to their places of origin, thus resulting in heightened spending.

Household Infrastructure

Langeberg's rate of household formation is higher than that of the Cape Winelands District and Western Cape Province, with the Langeberg municipal area including 32 889 households in 2024 (MERO; 2025-26).

Growth in the number of households — in conjunction with population growth — places increasing pressure on the municipality to expand and maintain the provision of basic services such as water, sanitation, and electricity. The municipality must therefore ensure that infrastructure investment keeps pace with household formation to avoid service delivery constraints in the medium to long term.

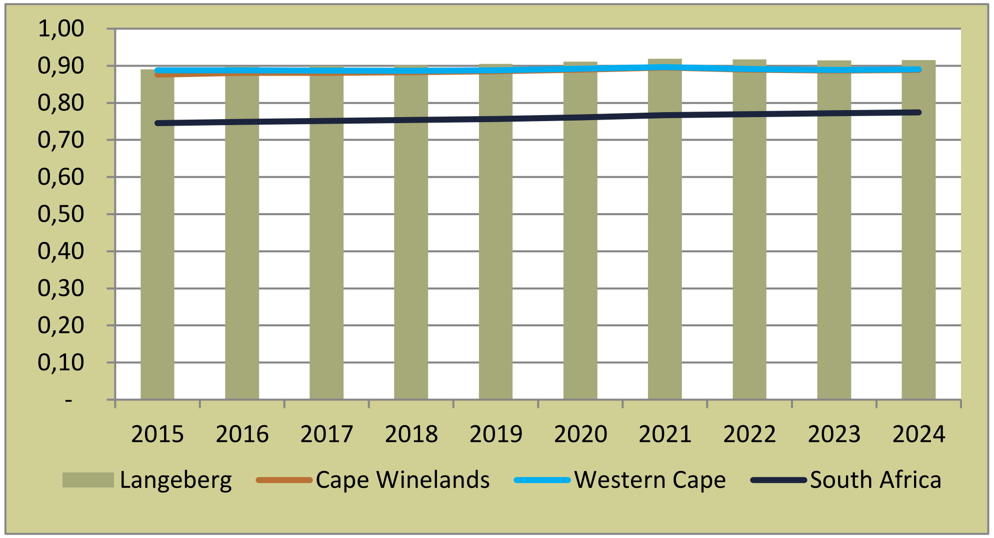
Graph 12: Household Formation



Langeberg has maintained a consistently high Infrastructure Index throughout the review period, improving marginally from 0.89 in 2015 to 0.91 in 2024. This stable performance reflects the municipality's ability to provide widespread access to basic municipal services and to keep pace with the rate of household formation. The Infrastructure Index serves as an indicator of access to services such as water, sanitation, electricity, and refuse removal, but it does not evaluate the quality, reliability, or sustainability of these services. This distinction is important, as maintaining infrastructure and service quality amid fiscal and operational pressures remains a critical challenge.

It is encouraging to note that Langeberg's infrastructure index remains above the national (0.77) average, demonstrating the municipality's relative success in maintaining a well-developed service network. Sustaining this performance will require continued investment in infrastructure maintenance and capacity expansion, particularly in response to ongoing household and population growth.

Graph 13: Infrastructure Index



The table on the following page compares service provision between Langeberg Local Municipality and the Cape Winelands District. When considering households above the RDP threshold, the Langeberg LM, in comparison to the collective Cape Winelands district, provides better access to water (99.3% vs 98.9%), refuse removal (93.2% vs 86.5%), and sanitation (97.1% vs 96.5%) and electricity in comparison to the district (97.4% vs 97.2%), which is commendable.

TABLE 1: HOUSEHOLD INFRASTRUCTURE PROVISION

Infrastructure	Langeberg	Cape Winelands
Above RDP Level		
Sanitation	97.1%	96.5%
Water	99.3%	98.9%
Electricity	97.4%	97.2%
Refuse Removal	93.2%	86.5%
Below RDP or None		
Sanitation	2.9%	3.5%
Water	0.7%	1.1%
Electricity	2.6%	2.8%
Refuse Removal	6.8%	13.5%

It should be noted that the provision of basic services is of paramount importance to the municipality's economic prosperity, as it creates a conducive environment for both business activity and household development, which in turn contribute to sustained economic growth. Failure to provide adequate basic services will inevitably undermine any strategic efforts aimed at improving the municipality's economic condition. However, as seen within the figures below, improvements have been made which the local municipality can be commended for.

In terms of housing types, an examination of housing in Langeberg and the broader CWD shows that most households in these regions resided in formal housing in 2024 (70.5 per cent of households in Langeberg and 73.7 per cent of households in the CWD). However, the municipal area exhibited a marginally higher reliance on semi-formal and informal housing typologies than the District. In Langeberg, the aggregate share of backyard informal dwellings (6.6 per cent), flats (6.1 per cent) and townhouses (7.8 per cent) totals 20.5 per cent, surpassing the CWD aggregate of 13.5 per cent for the same categories (MERO; 2025-26).

1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long-Term Financial Model Outcomes

5 Future Revenues

6 Affordable Future Capital Investment

7 Scenario Analysis

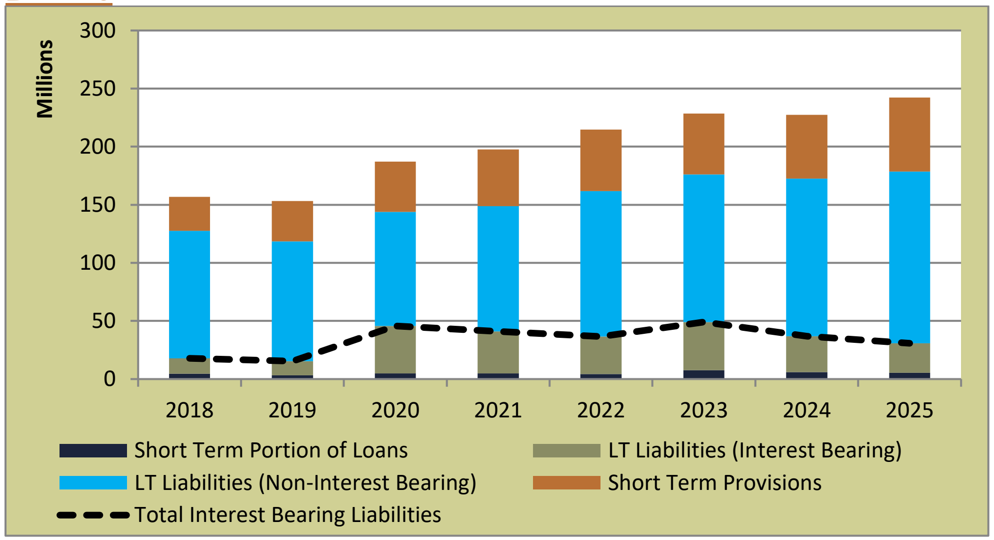
8 Ratio Analysis

9 Conclusions

Updated Historic Financial Assessment

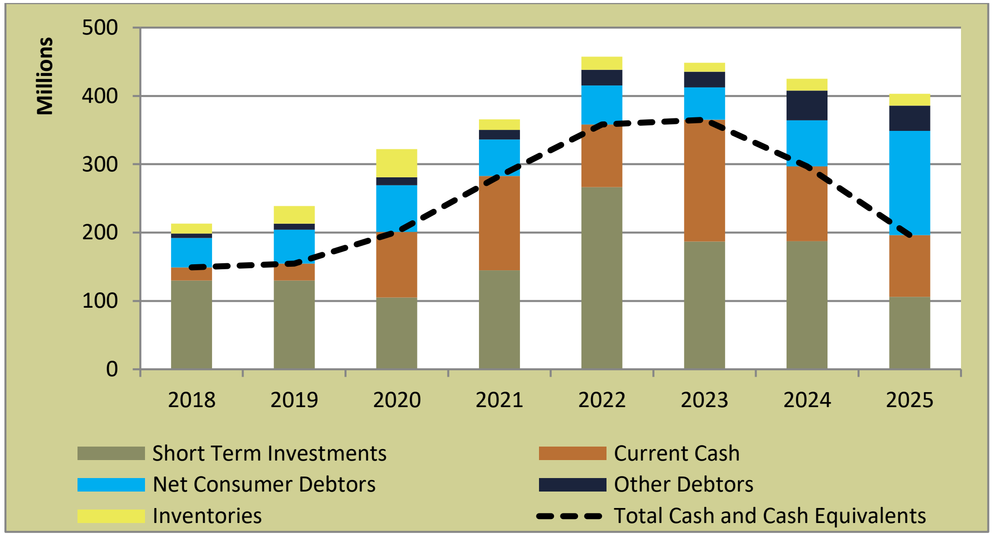
Financial Position

Graph 14: Long-Term Liabilities: Interest Bearing vs Non-Interest Bearing



When considering the findings in the above graph, it should firstly be noted that there were no additional loans undertaken during the year (green bar). The absence of new borrowings is reflected by the decline in interest-bearing long-term liabilities to R25.4 million (FYE2023/24: R30.9 million). Gearing and debt-service-to-total-expenditure ratios remain low at 2.5% and 0.79%, respectively, underscoring a conservatively leveraged position. Throughout the review period, the municipality's gearing ratio remained significantly below the NT norm of 45%, indicating that the municipality still has ample scope to access external financing within affordable parameters, as outlined in Chapter 7 of this report. It is therefore recommended that the municipality considers accelerating its borrowing programme to leverage this capacity and fund capital expenditure more effectively. It is noteworthy that Langeberg has not included any borrowings in the budgeted capital funding mix over the MTREF period. The inclusion of borrowings into the funding mix, coupled with the extent of capital grants expected to be received, would enable a material acceleration of capital investment without compromising the municipality's sound liquidity position.

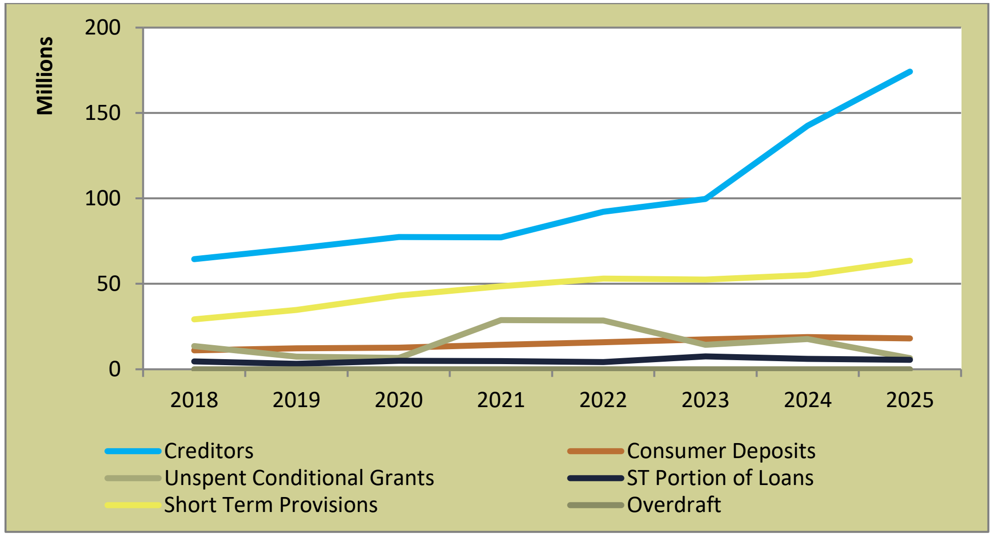
Graph 15: Current Assets



Current assets declined by 17% during FY2024/25, down to R599.54 million from R722.15 million in the prior year. This decrease was mainly driven by reductions in short-term investments and cash holdings, partially offset by a significant increase in consumer debtors, which rose to R152.4 million. It is noted that the rise in debtors was impacted by billing errors pursuant to the implementation of the new billing system. It is expected that these errors will not persist in future years. The decline in cash and investment balances underscores the need to strengthen liquidity management to ensure adequate cash reserves for operational sustainability.

As per the following graph, current liabilities increased by 22.3% during FY2024/25, rising to R267.8 million from R240.2 million in FY2023/24. The increase was primarily driven by a growth in trade and other payables, which escalated to R174.2 million, alongside higher short-term provisions. The rising liability base, coupled with a weaker cash position, places pressure on the municipality's short-term solvency. Priority should be given to reducing the creditors balance and enhancing collection efficiency to stabilise liquidity over the medium term.

GRAPH 16: CURRENT LIABILITIES



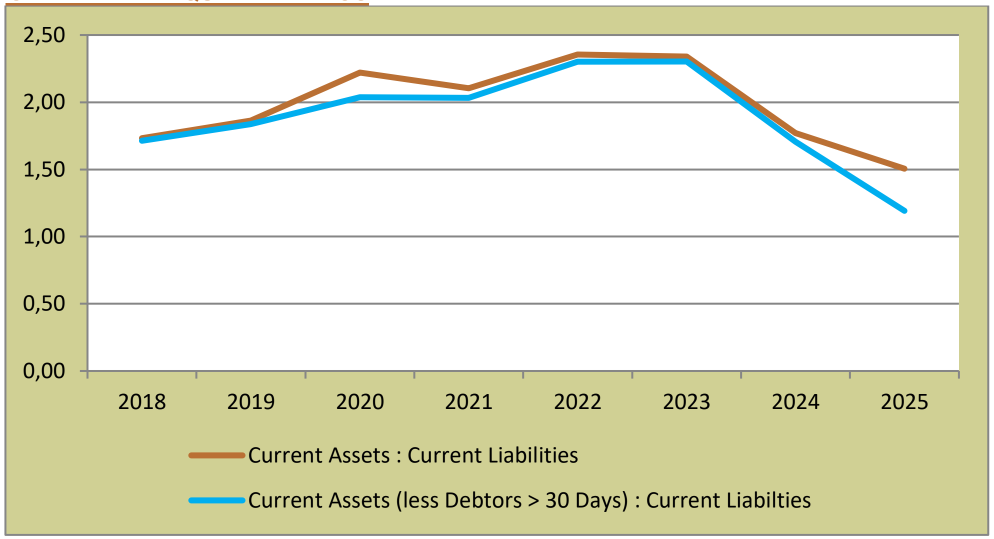
The combined impact of movements in current assets and liabilities resulted in a deterioration of the municipality's liquidity position. The current ratio declined to 1.51:1 in FY2024/25, from 1.77:1 in the prior year, indicating that current assets are no longer expanding at the same pace as short-term obligations. When excluding debtors older than 30 days, the ratio weakened further to 1.19:1 (FY2024/25: 1.51:1), reflecting that a significant portion of current assets is not readily available to meet immediate obligations.

While the ratio remains above 1:1, the downward trend highlights increasing liquidity pressure and a narrowing cash buffer. The persistent growth in consumer debtors and trade payables, coupled with declining cash and investment balances, continues to weigh on short-term solvency. The improvement of the cash position and enhancement of collection efficiency must be prioritised to prevent further erosion of liquidity. Sustained improvements in financial performance and working capital management would provide a much-needed boost to the municipality's liquidity position going forward.

TABLE 2: LIQUIDITY RATIOS

	2018	2019	2020	2021	2022	2023	2024	2025
Current Assets: Current Liabilities	1,73	1,86	2,22	2,10	2,35	2,34	1,77	1,51
Current Assets (less Debtors > 30 Days): Current Liabilities	1,71	1,84	2,04	2,03	2,30	2,30	1,71	1,19

GRAPH 17: LIQUIDITY RATIOS



Gross consumer debtors increased significantly by 94.9% during FY2024/25, rising to R278.8 million as at year-end, up from R143 million in the prior year. The provision for bad debts also increased by 66.5%, reaching R126.4 million to account for the growing portion of long-outstanding debt. Consequently, net consumer debtors increased by 127%, from R67.1 million in FY2023/24 to R152.4 million in FY2024/25. The collection rate declined to 82.7% (FY2023/24: 92.4%), reflecting reduced collection efficiency and rising arrear levels. This trend is concerning, as it indicates that a substantial portion of billed income remains uncollected despite growth in overall billing. As indicated, the decline in the collection rate was influenced by billing errors related to the implementation of the new billing system. It is expected that this is likely to be a once-off event and will not persist into the future.

Electricity debtors remained the largest category of consumer debtors, accounting for approximately 55% of total net consumer debtors as at FYE2024/25, increasing significantly to R83.3 million from R37.1 million in the prior year. This was followed by water debtors, which rose sharply to R29 million (19% of the total), reflecting both higher consumption levels and weaker collection performance. Rates debtors increased to R17.8 million, representing 12% of the total, while refuse and sewerage debtors amounted to R11.5 million (8%) and R10.7 million (7%), respectively.

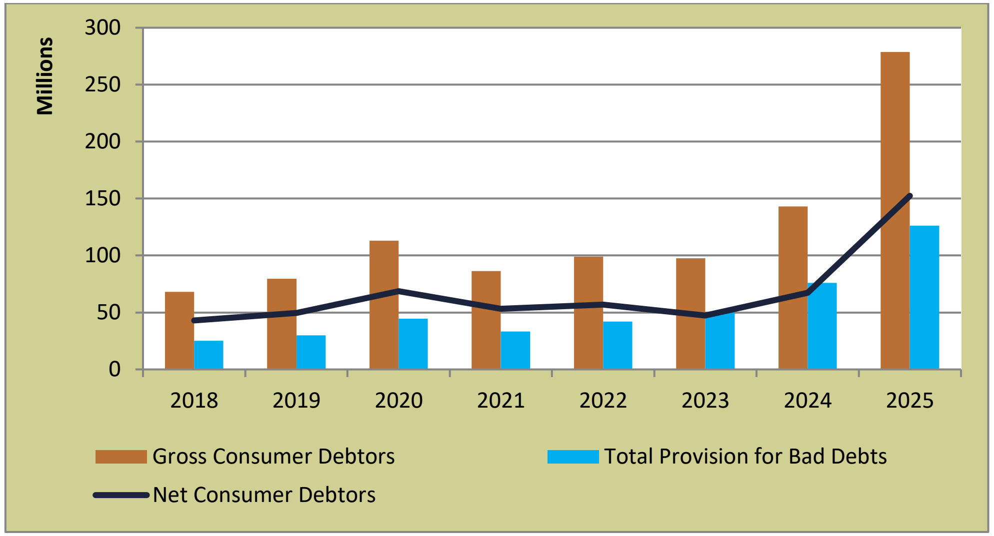
The substantial growth across all debtor categories indicates mounting affordability pressures on households and reduced collection efficiency across core service charges. Electricity and water debtors, together comprising nearly three-quarters of the total balance, continue to drive the overall growth in arrears.

The provision for bad debts of R126.4 million fell slightly short of the debtors older than 90 days balance of R129.9 million. While full coverage of long-outstanding debt is ideal, it is reasonable to conclude that the risk of non-payment was largely provided for during FY2024/25. Strengthening revenue management, improving billing accuracy, and enhancing debt recovery efforts remain key priorities to contain further growth in arrears and improve the municipality's liquidity position.

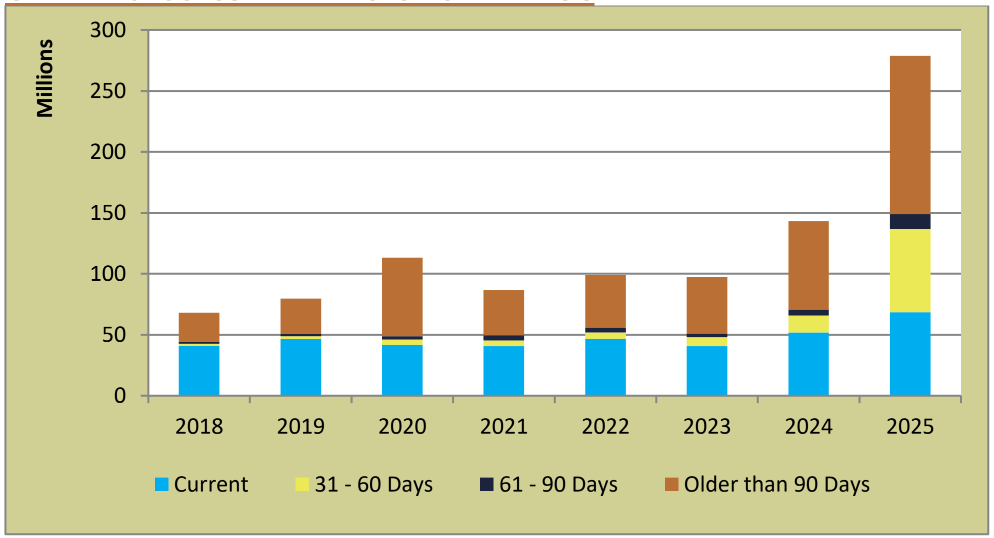
TABLE 3: DEBTORS RATIOS

	2019	2020	2021	2022	2023	2024	2025
Increase in Billed Income p.a. (R'm)	61	71	34	118	(33)	83	163
% Increase in Billed Income p.a.	14%	14%	6%	19%	-4%	12%	21%
Gross Consumer Debtors Growth	17%	42%	-24%	14%	-1%	47%	95%
Payment Ratio/Collection Rate (%)	95%	94%	103%	95%	98%	92%	823%

GRAPH 18: GROSS CONSUMER DEBTORS VS NET CONSUMER DEBTORS

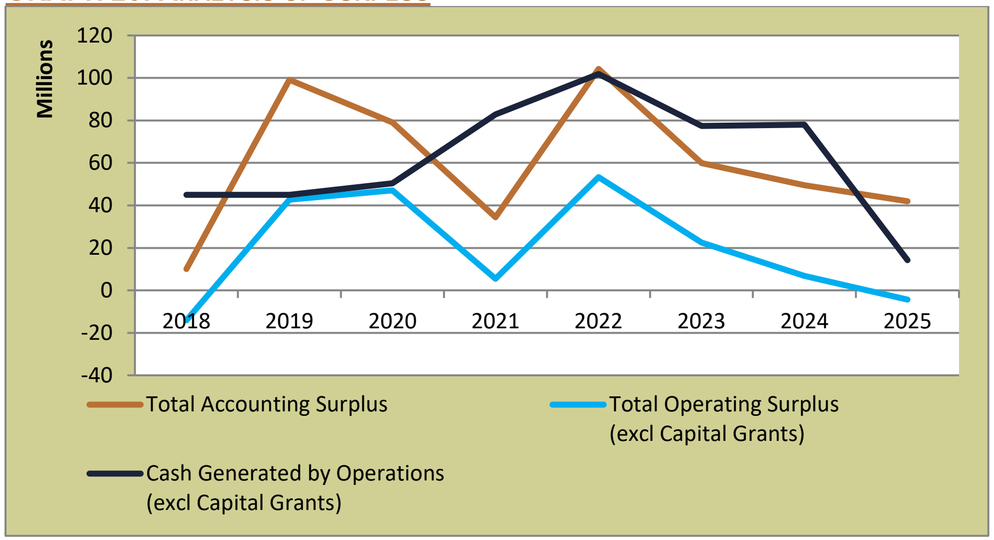


GRAPH 18: CONSUMER DEBTORS AGE ANALYSIS

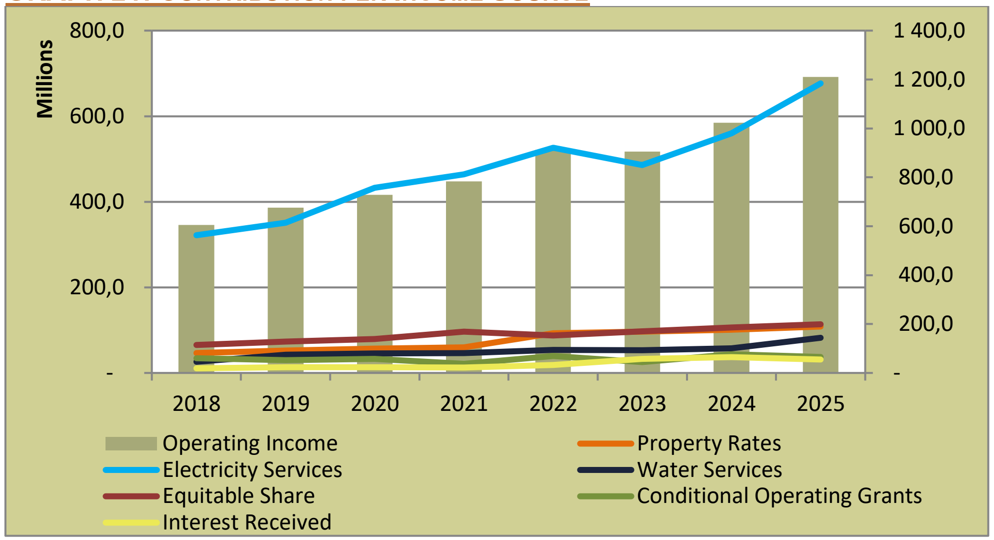


Financial Performance

GRAPH 20: Analysis of Surplus



GRAPH 21: Contribution per Income Source



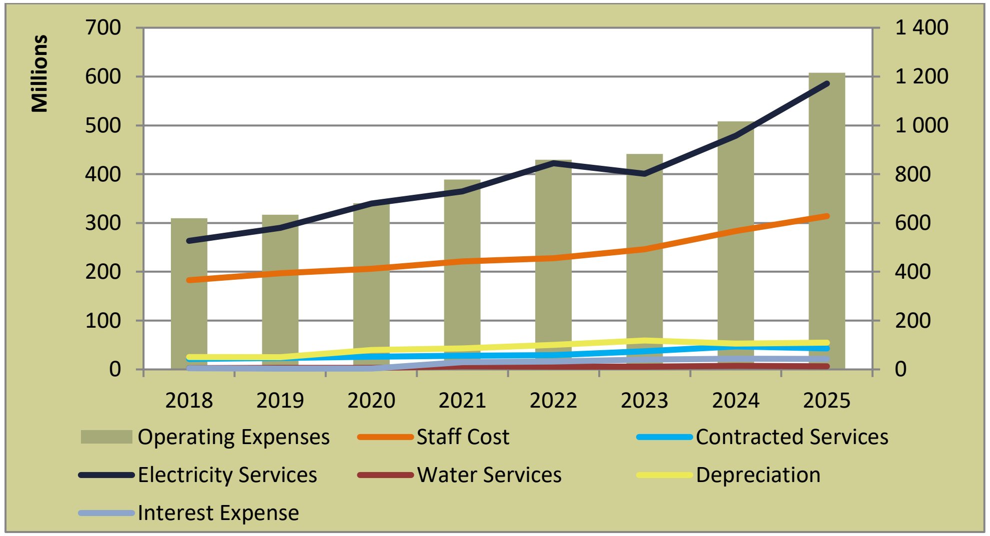
Total income increased by 17.9% during FY2024/25, rising to R1.26 billion from R1.07 billion in the prior year. Total operating expenditure grew by a slightly higher 19.5%, reaching R1.22 billion compared to R1.02 billion in FY2023/24. This resulted in a slight decline in the total accounting surplus to R47.5 million during FY2024/25, down from R49.5 million in the prior year. Upon the exclusion of capital grants, the municipality recorded an operating surplus of R7.2 million, a marginal improvement from R6.8 million posted in FY2023/24.

Cash generated from operations (excluding capital grants) decreased significantly to R14.2 million during FY2024/25, down from R78 million in the prior year. This decline suggests increased pressure on liquidity and is consistent with the decline in the collection rate. While the municipality has demonstrated consistent growth in total income and maintained a positive operating balance, enhanced expenditure management and improved billing and collection efficiency will be critical to ensure stronger and more sustainable cash generation going forward.

The strong growth in income during FY2024/25 was driven primarily by increases in water services (43%), electricity services (21%), and other operating income (36%). The growth in electricity revenue is particularly positive, following periods of slower growth linked to the national energy constraints and consumption volatility. Electricity services remained the predominant contributor to total revenue, accounting for approximately 55% of total operating income during FY2024/25. This was followed by property rates (9%), equitable share allocations (10.5%), and other operating income (12.5%). Total grants (equitable share and conditional grants combined) accounted for roughly 14.4% of total income, reflecting a moderate reliance on external transfers. This indicates that Langeberg Municipality remains largely self-sufficient, generating the bulk of its revenue from own sources — a key indicator of fiscal resilience.

With electricity services remaining Langeberg's main source of income, accounting for over half of total operating revenue, there remains a significant risk to the municipality's revenue stability should persistent load shedding or reduced consumption patterns re-emerge. To mitigate this risk, the municipality must work towards diversifying its revenue base by maximising income from alternative sources such as property rates, water services, and other trading services. More importantly, stringent management of operating expenditure is essential, as this remains an area where the municipality has a degree of control. Cost containment and efficiency improvements should be prioritised to protect the operating surplus and liquidity position. Furthermore, it is recommended that the municipality undertake a detailed tariff review, supported by a comprehensive cost-of-service and tariff modelling exercise, to ensure that tariffs accurately reflect the true cost of providing municipal services. This will help ensure financial sustainability while maintaining affordability for consumers in the long term.

GRAPH 22: CONTRIBUTION PER EXPENDITURE ITEM



Total operating expenditure increased by 19.5% during FY2024/25, underpinned by growth in staff costs (15%) and electricity bulk purchases (22.5%). Electricity bulk purchases remained the predominant expenditure item in FY2024/25, accounting for 48% of total operating expenditure. This was followed by staff costs, which contributed 25.8%.

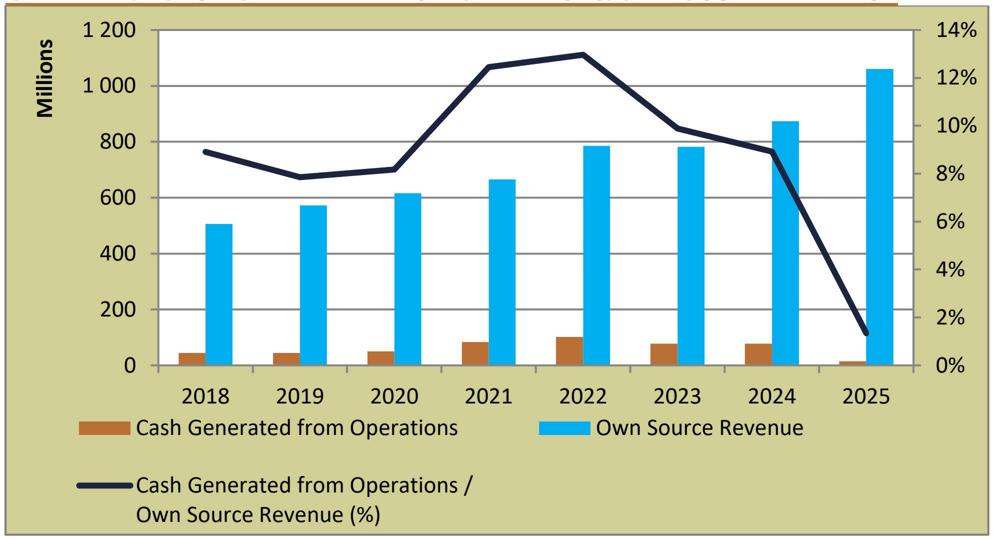
While the contribution of staff costs remains below the National Treasury norm of 40%, this figure must be viewed alongside contracted services, which often serve as an alternative to in-house capacity. Contracted services declined slightly during FY2024/25, down by 3.5%, reflecting success in implementing cost-containment measures. However, caution must be exercised to ensure that reduced contracted services spending does not negatively impact the municipality's service delivery or maintenance programmes.

Repairs and maintenance expenditure decreased to R33.8 million, down from R41.7 million in FY2023/24. This resulted in repairs and maintenance spending representing approximately 3% of total operating expenditure. Ideally, this ratio should trend closer to the National Treasury norm of 8% (as a percentage of PPE and Investment Property). While the municipality continues to allocate a portion of its capital budget towards the upgrading of existing assets, increased focus on preventative maintenance is encouraged to safeguard asset condition and prolong useful lives.

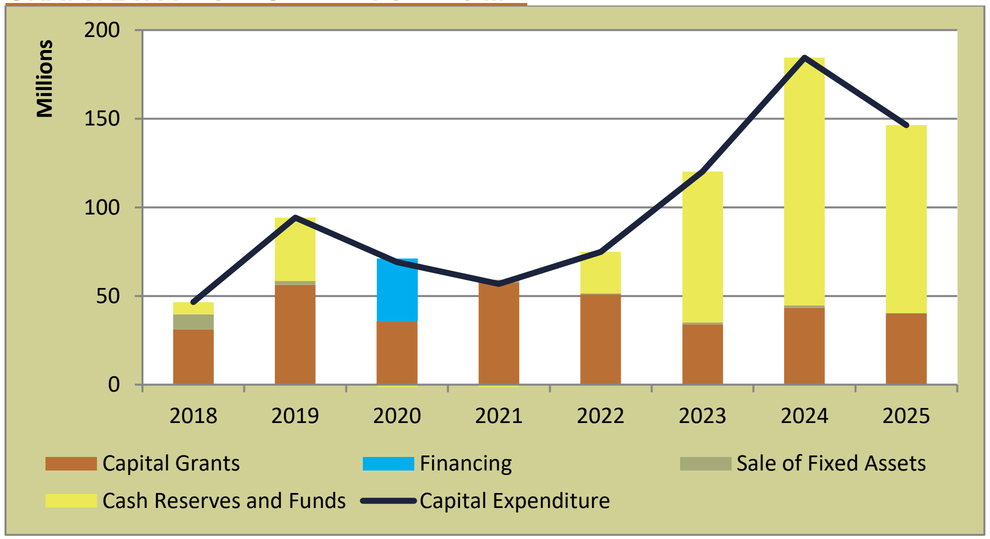
From an efficiency perspective, electricity distribution losses deteriorated significantly to 16.89% in FY2024/25 (FY2023/24: 5.76%), and water distribution losses lessened from 18.7% to 10.59%. While both electricity and water losses remain within their respective norm ranges as prescribed by NT, the drivers of the increase in losses should be identified and addressed.

Cash Flow

GRAPH 23: Cash Generated from Operations/Own Source Revenue



GRAPH 24: Annual Capital Funding Mix



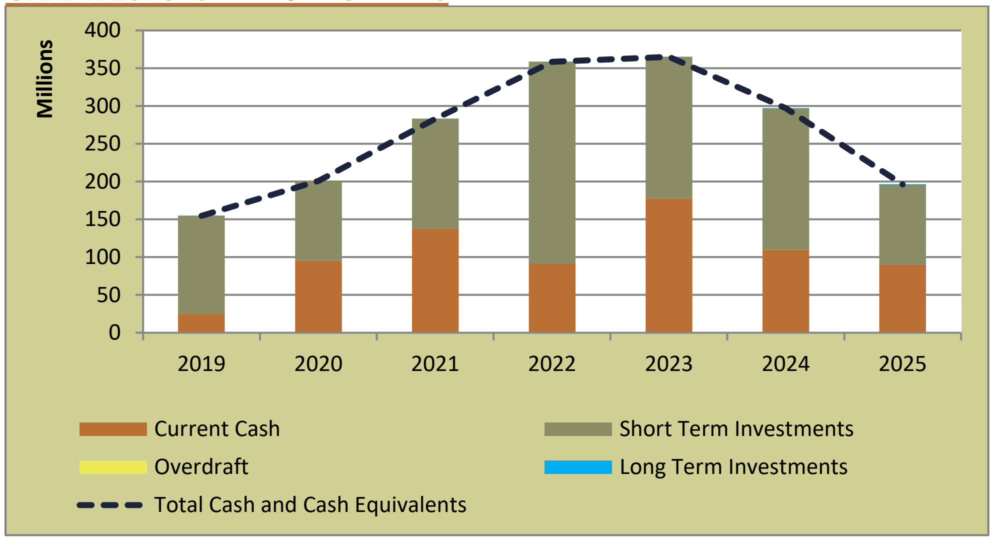
The total capital outlay over the review period amounted to R786.3 million, at an annual average of R98.3 million. The municipality's FY2024/25 capital programme was primarily funded through own cash reserves and funds (68%) and capital grants (32%). As discussed, the municipality's conservative stance on accessing debt financing has resulted in an underleveraged debt profile. It is appreciated that there is an aversion to borrowing within municipal structures, however, it is recommended that the undertaking of borrowings is considered in order to structure an optimal funding mix. The introduction of affordable borrowings creates scope to accelerate capital investment without compromising the liquidity position.

The growing reliance on internal funds to finance capital projects is, however, noteworthy. This trend, particularly the significant utilisation of own cash reserves since FY2022/23, may place pressure on the municipality's liquidity if not carefully managed. While self-financing provides greater autonomy and reduces debt servicing costs, it should ideally be balanced with external funding sources to preserve working capital and liquidity buffers.

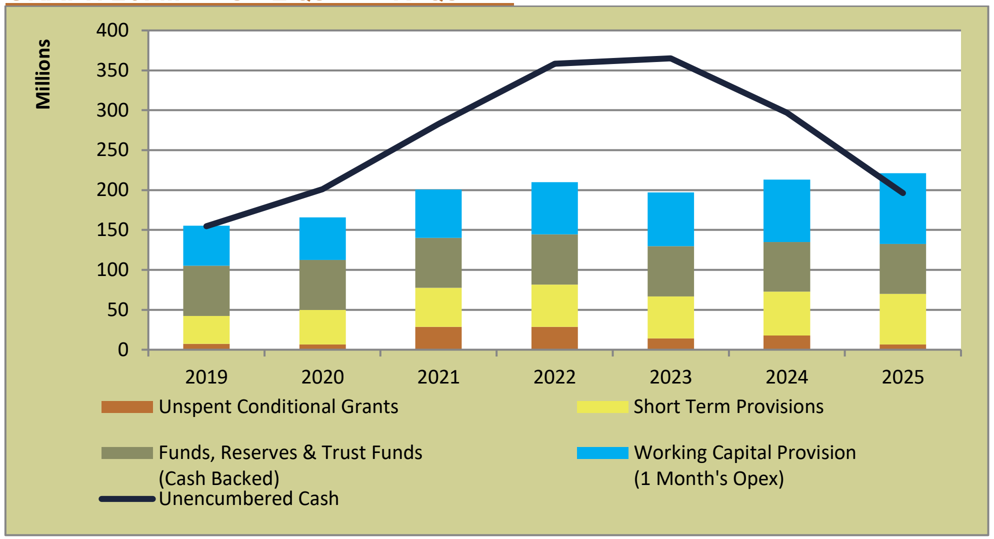
Capital expenditure peaked at R178.3 million in FY2023/24, driven by the increased need for investment in roads infrastructure following the impact of floods during that period. This has since moderated slightly to R146.3 million in FY2024/25. This indicates a consistent commitment to asset maintenance and expansion.

Given the reliance on internal funding, it is recommended that the municipality closely monitor its cash flow position to ensure that operational liquidity is not compromised. The municipality may consider modest borrowings to fund future capital investment, provided that debt servicing remains within sustainable thresholds. Maintaining a healthy balance between internally generated funds and external financing will be key to ensuring the long-term sustainability of the capital investment programme

GRAPH 25: CASH AND INVESTMENTS



GRAPH 26: MINIMUM LIQUIDITY REQUIRED



Total cash and cash equivalents declined by 34% in FY2024/25, down from R297.1 million in the prior year to R196.3 million. This decline followed a notable decrease in both current cash, which fell from R109.9 million to R90.2 million, and short-term investments, which dropped from R187.2 million to R106.1 million. The decrease indicates a weakening liquidity position during the year, reversing the strong growth trend observed between FY2021 and FY2023 when cash balances reached a peak of R365.0 million.

It is recommended that the municipality prioritises strengthening cash reserves through improved revenue collection and prudent expenditure control. The reliance on cash reserves to fund capital expenditure should remain limited until such time that liquidity improves. Sustaining a healthy cash position is essential to ensuring that the municipality can meet its short-term obligations and maintain operational stability.

As per TABLE 6 below, the municipality is required to maintain sufficient cash reserves to cover the minimum liquidity requirements that include unspent conditional grants, short-term provisions, funds, reserves and trust funds, as well as the working capital provision of one month's operating expenditure.

Langeberg's unencumbered cash and cash equivalents of R196.3 million were insufficient to meet the minimum liquidity requirement of R221.3 million during FY2024/25, resulting in a cash shortfall of R24.9 million. This represents a deterioration from the prior year's cash surplus of R84.1 million, highlighting a decline in the municipality's ability to meet its short-term obligations.

The cash coverage ratio (excluding working capital) weakened to 1.5:1 in FY2024/25, down from 2.2:1 in the previous year. When including the working capital provision, the cash coverage ratio further decreased to 0.9:1, below the National Treasury norm of 1–3 months. It is recommended that the municipality focuses on restoring and sustaining its liquidity levels through enhanced revenue collection, strict expenditure management, and limiting the use of cash reserves to fund capital projects.

TABLE 4: Minimum Liquidity Requirements

	2018	2019	2020	2021	2022	2023	2024	2025
Unspent Conditional Grants	13,7	7,4	6,6	28,8	28,5	14,3	17,7	6,5
Short Term Provisions	29,2	34,7	43,1	48,6	53,1	52,5	55,1	63,6
Funds, Reserves & Trust Funds (Cash Backed)	56,4	62,9	62,9	62,9	62,9	62,9	62,3	62,3
Total	**99,3**	**105,1**	**112,6**	**140,3**	**144,5**	**129,7**	**135,1**	**132,4**
Unencumbered Cash	149,1	154,7	201,0	283,1	358,4	365,0	297,1	196,3
Cash Coverage Ratio (excl Working Capital)	1,5	1,5	1,8	2,0	2,5	2,8	2,2	1,5
Working Capital Provision (1 Month's Opex)	49,5	50,5	53,1	60,3	65,3	67,2	77,9	88,9
Cash Coverage Ratio (incl Working Capital)	1,0	1,0	1,2	1,4	1,7	1,9	1,4	0,9
Minimum Liquidity Required	148,8	155,5	165,8	200,6	209,8	196,9	213,0	221,3
Cash Surplus/(Shortfall)	**0,3**	**(0,8)**	**35,2**	**82,4**	**148,6**	**168,1**	**84,1**	**(24,9)**

IPM Shadow Credit Score

***Note**: The IPM Shadow Credit Score is based on the latest available information (2025 audited financial statements and previous audit reports)*

Langeberg LM was assessed for an IPM shadow credit score to provide information to management and to council as to the current risk rating that the municipality may receive from external lenders, which will determine the municipality's cost of funding. Any improvements to the shadow credit rating over time will result in more affordable lending rates.

The Model calculates a credit score considering the following factors in order of weighting: Finance, Economic, Institutional, Socio Economic and Environmental. Although financial performance outweighs other factors, the other factors are by no means considered of less importance. Institutional strength and stability are as important to the sustainability of the municipality as the financial performance and having a sizeable economic base. The individual credit score of each municipality is calculated through scoring its performance against IPM's own predefined norms to derive a score.

Based on the FY2024/25 performance of Langeberg, the IPM credit model reflects a score of **5.5** which is comparable to a **High BBB+ to BBB-** on a national ratings scale. This credit score is relatively high compared to other municipalities, and it is at **Investment Grade** level - which means that Langeberg should be successful in accessing external borrowing at competitive rates.

The results obtained from the assessment, per module, are presented below:

TABLE 5: IPM CREDIT MODEL OUTCOMES

Modules	2025 (5)
Financial	2,1
Institutional	3,5
Socio-Economic	2,2
Infrastructure	3,4
Environmental	3,7

The assessment indicates that the socio-economic and financial module are the municipality's main impediments to achieving higher credit scores. This could be linked to slow economic growth within the municipal area. Investment in productive assets that aim to create an enabling environment for economic growth may assist in improving this score over time. The municipality performed well in the infrastructure and environment module. This is linked to the maintenance of a high infrastructure index of 0.91, indicative of the ability to keep up with the rate of household formation. Langeberg has been able to consistently provide access to quality services throughout the review period.

The high score achieved under institutional capacity module had a positive impact on the credit score. Strong governance and prudent financial management remain the key factors to be considered. The municipality must maintain the clean audit report received from the Auditor General.

The high score achieved in the financial module is driven by a sustained healthy liquidity position, a strong collection rate and solid financial performance. Through implementing the recommendations included as part of this LTFP Update report, maintaining financial discipline and continuing to make wise financial decisions, the municipality will be able to improve this score further over time.

Long-Term Financial Model Outcomes

MTREF Case Scenario

The starting point for our modelling exercise is to develop the MTREF Case. This entails utilising unadjusted figures from the Tabled Budget for 2026/27-2028/29 along with the 2024/25 AFS. The purpose of the MTREF Case is to assess the LTFM's long-term forecast should the budget be implemented as is and the status quo be maintained. Essentially, this allows us to see if the budget will "hold", given the municipality's current situation. Part of this process includes an analysis of the operating and capital budgets. Beginning with the operating budget, it is our view that Langeberg has been reasonably conservative in compiling the budget. This view is informed through comparing the budget estimates with the recent historic levels of financial performance. This reveals that the municipality has budgeted for a decline in financial performance from levels seen in the FY2024/25 AFS. For context, an operating deficit (excluding capital grants) of R4.3 million was posted during FY2024/25, which was heavily impacted by higher-than-normal debt impairment. The tabled budget reflects operating deficits of R26.3 million, R33.9 million and R33.9 million over the MTREF period. With this in mind, we determine that there is reasonable probability that the operating budget will be outperformed.

In arriving at the MTREF Case, no adjustments were made to the tabled operating and capital budgets. A collection rate of 95% for rates and service charges was assumed throughout the planning period, in line with the budget. Furthermore, items such as the level of repairs and maintenance expenditure (2.9% of PPE), creditors days (88 days), distribution losses (electricity & water at 16.9% & 15.6% respectively) etc. were maintained at their respective FY2024/25 levels. Assumed growth in capital investment beyond the MTREF period (FY2028/29) is 4%.

Beginning with financial performance, the short-term outlook is negative, with operating deficits forecast over the MTREF period. This is impacted by the conservative budget estimates as well as higher than budgeted debt impairment expenditure. The high level of electricity distribution losses contributes further to this. The longer-term forecast reflects improvement, with operating surpluses expected from FY2031/32 onwards.

Despite the negative outlook for financial performance, the municipality is expected to continue to generate healthy cash from operations. This is underpinned by the maintenance of a strong collection rate of 95% throughout the planning period. Given the historical performance, barring the outlier year of FY2024/25, Langeberg maintained strong collection rates over the review period. As a result, we are confident that the 95% collection rate will be achieved. It must however be noted that the current geopolitical climate and its impact on fuel prices and the economy at large is likely to place significant strain on the consumer. This impact will worsen the longer the conflict in the Middle East continues. This is likely to have a notable impact on household affordability and as a result may impact the municipality in the form of reduced collection rates. This is something the municipality must remain cognisant of.

A further factor influencing the positive cash generation is the notable growth in creditors expected over the planning period, as illustrated in Graph 30. Creditors are expected to rise from R196.7 million at FYE2025/26 to R381.3 million at FYE2034/35. This poses a notable concern as the impact on the liquidity position is profound.

Another point of concern in the MTREF Case outcome is the short-term cash position. As illustrated in Graph 27, a severe decline in cash and cash equivalents is expected over the MTREF period. This places the municipality at high risk of being unable to meet current obligations. Factors driving the decline in cash include consistent operating deficits as well as the high degree of own cash utilisation to fund capital investment over the MTREF period. This poses a major concern and indicates that severe liquidity pressures will be felt over the short to medium term.

Looking now at the liquidity position in more detail, the forecast growth in current liabilities combined with the expected downturn in cash and cash equivalents will result in an unsustainable liquidity position over the MTREF period. Graph 31 illustrates that current liabilities are expected to exceed current assets until FY2032/33, indicating an inability to meet current obligations. The longer-term outlook is more favourable, with the liquidity ratio expected to improve to 1.5:1 by the end of the planning period.

Moving on to the capital investment programme, Langeberg's capital budget is reasonably aggressive, particularly from a cash utilisation standpoint. This contributes to the forecast decline in cash discussed above. The decline in cash is expected to be sufficiently severe that the capital investment programme is expected to prove unaffordable. This is indicated by the cash shortfalls on capital investment presented in Graph 34.

In summary, the MTREF Case reflects a sustainable but suboptimal long-term outcome. However, significant liquidity pressures are expected over the short to medium term. Key weaknesses include reduced financial performance, growth in creditors and an unaffordable capital investment programme. These will be addressed in the Base Case, with key strengths consolidated.

Strengths:

- Healthy operational cash flows.

Weaknesses:

- Reduced financial performance.
- Forecast growth in creditors.
- Inability to meet current obligations of majority of planning period.
- Insufficient repairs and maintenance expenditure.

Base Case Scenario

With the MTREF Case outcomes analysed and key strengths and weaknesses identified, we now arrive at the sustainable Base Case. The MTREF Case and historic financial assessment discussed in the previous section of this report, inform the Base Case through allowing key strengths and weaknesses to be identified which, in turn, are addressed in the Base Case. Realistic and achievable assumptions are incorporated to ensure that Langeberg remains financially sustainable over the long-term and that the key strengths and weaknesses identified in the MTREF Case are addressed. In doing so, the Base Case utilises the same data sources as the MTREF Case, being the 2026/27 Tabled Budget and 2024/25 AFS.

The key assumptions are provided below:

1. A collection rate of 95% is assumed to be maintained throughout the planning period.
2. Operating expenditure was cut by 1%.
3. The Tabled Capital Budget was adjusted as follows:
    - FY2026/27: R108.4m (Budget: R108.4m)
    - FY2027/28: R162.5m (Budget: R162.5m)
    - FY2028/29: **R120.0m** (Budget: R105.1m)
4. Growth in capex beyond the MTREF period of 6% p.a. was modelled.
5. No borrowings were included over the planning period.
6. Repairs and maintenance expenditure was increased to 4.5% of PPE & IP over 5 years (from 2.9%).
7. Electricity and water distribution losses were maintained at 8% and 15.00% respectively.
8. Creditors days were reduced to 30 days from 88 days over the planning period.
9. Tariff increases were included as put forward in the Tabled Budget Document.

Beginning once again with financial performance, the Base Case presents an improved outlook relative to the MTREF Case, with operating surpluses expected throughout the planning period. The level of operating surpluses over the MTREF period is expected to remain quite consistent, before a strong growth trajectory is forecast from FY2028/29 onwards. This improvement is impacted by the modelling of a 1% cut of operating expenditure (equivalent to approximately R13.6 million), as well as the reduced electricity distribution losses. Given the conservative operating budget, we expect that the municipality will be able to meet the 1% opex cut with relative ease. The reduction of electricity distribution losses to 8% was arrived at through consultation with the municipality. As such, we feel that the levels of financial performance presented in the Base Case are indeed realistic and achievable. Further to this, we expect that debt impairment will return closer to historic levels, given the increase in FY2024/25 being considered an outlier. This further supports the Base Case forecast for financial performance. Finally, the improved financial performance is achieved whilst modelling an increase in repairs and maintenance expenditure. Relative to the MTREF Case, an additional R95.9 million is expected to be spent on repairs and maintenance over the planning period. This, coupled with accelerated capital investment is aimed at promoting effective asset management.

As in the MTREF Case, Langeberg is expected to continue to generate strong operational cash flows, with a total of R1.56 billion expected over the planning period. This is underpinned by the healthy collection rate of 95%, modelled to be maintained at this level throughout the planning period. This is in line with historic levels seen in Langeberg and we thus believe the municipality is likely to maintain it at this level. However, the municipality must remain cognisant that the unstable geopolitical and economic environment may have a notable impact on household affordability. Should elevated oil and fuel prices persist over the medium-term, a decline in the collection rate may very well transpire.

The Base Case presents an adjusted capital investment programme from the Tabled Budget, with a minor acceleration to R120.0 million in FY2028/29. This was aimed at utilising the municipality's healthy liquidity position to accelerate capital investment over the longer-term. The LTFM suggests that this will remain affordable. Langeberg must continue to strike a balance between necessary social spending and investment in infrastructure to stimulate the local economy. Maintaining high levels of service delivery is integral in creating a positive perception of the municipality for would-be investors.

No borrowings were included over the planning period in either the MTREF or Base Case. This is due to the general aversion to borrowings shown by the municipality over recent years. We strongly recommend that the municipality at the very least considers the incorporation of borrowings into the capital funding mix as notable liquidity and cash flow benefits can be derived. Further to this, accelerated capital investment can be unlocked through borrowings. With the current strategy of utilising cash reserves as the sole supplement to capital grant funding, any acceleration of capital investment must come from increased own cash utilisation. As seen in the MTREF Case, this can contribute to a deterioration of cash reserves if not managed correctly. A scenario has been included to highlight the importance of incorporating sustainable borrowings into the capital funding mix.

In contrast to the MTREF Case, the Base Case presents a positive outlook for the liquidity position over the medium to long-term. This is underpinned by a healthy forecast for cash and cash equivalents. Looking at the short-term outlook, minor liquidity pressures are expected, primarily driven by the high degree of own cash utilisation to fund capital investment over the MTREF period. This is expected to result in an inability to meet the minimum liquidity requirement of 1-months opex over the MTREF period, though the shortfalls are not expected to be severe. Thereafter, a strong growth trajectory is forecast, with a total of R820 million expected in cash at the end of the planning period. This equates to approximately 5 months cash cover, indicative of a healthy liquidity buffer and a sustainable financial situation.

Focusing on current liabilities now, the forecast growth in creditors was identified as a key weakness in the MTREF Case outcome and thus an important issue to address in the Base Case. The reduction of creditors days to 30 days in the Base Case has resulted in a reduction in creditors over the planning period. Creditors are expected to fall to R122.8 million by FYE2034/25, a notable improvement on the MTREF Case forecast. This results in a decline in current liabilities, particularly in the latter half of the planning period. This, coupled with strong growth in current assets, results in a strengthening of the liquidity position. The liquidity ratio is expected to improve to 4.7:1 by FYE2034/35, indicative of a sustainable outcome.

Overall, the Base Case presents a sustainable long-term outcome and addresses key issues identified in the MTREF Case. The maintenance of healthy liquidity remains the priority, and this is reflected in the Base Case assumptions. It is essential that the collection rate of 95% is maintained and that creditors are settled timeously.

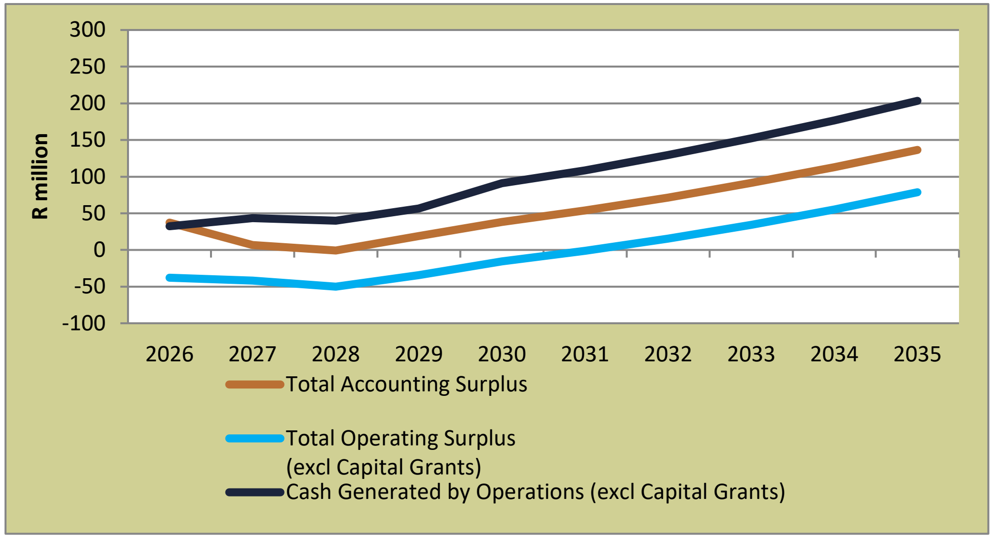
Strengths:

- Strong ability to generate cash from operations.
- Healthy financial performance.
- Sufficient expenditure on repairs and maintenance.
- Healthy cash and cash equivalents providing liquidity buffer.
- Reduction of creditors over long-term.
- Improved liquidity position.

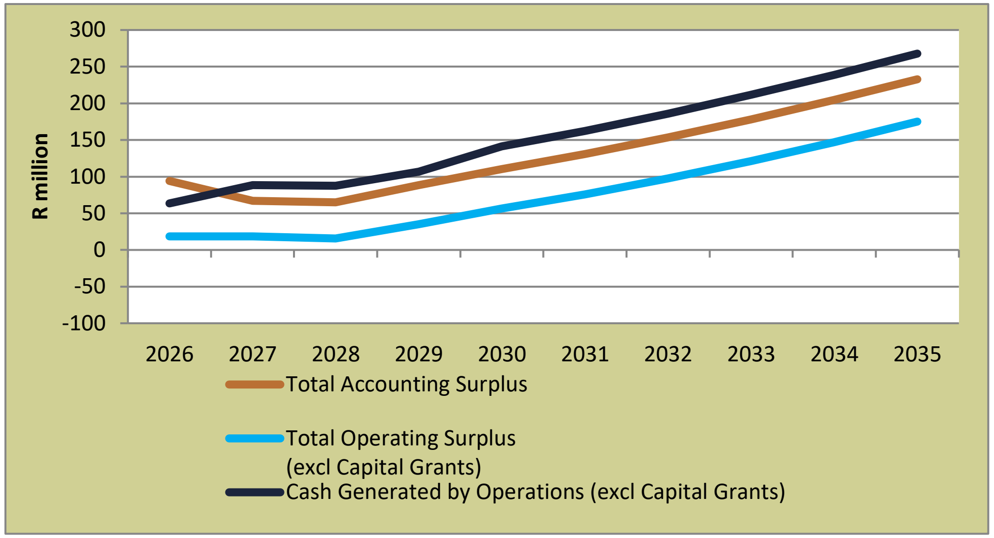
TABLE 8: MTREF VS BASE CASE OUTCOMES

Outcome	MTREF Case	Base Case
Average annual % increase in Revenue	7,1%	7,2%
Average annual % increase in Expenditure	6,9%	6,6%
Accounting Surplus accumulated during Planning Period (Rm)	R 567	R 1 319
Operating Surplus accumulated during Planning Period (Rm)	R 3	R 756
Cash generated by Operations during Planning Period (Rm)	R 1 034	R 1 551
Average annual increase in Gross Consumer Debtors	12,8%	12,8%
Capital investment programme during Planning Period (Rm)	R 1 321	R 1 498
External Loan Financing during Planning Period (Rm)	R 0	R 0
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 475	R 810
No of Months Cash Cover at the end of the Planning Period (Rm)	2,7	4,8
Liquidity Ratio at the end of the Planning Period	1,5 : 1	4,7 : 1
Gearing at the end of the Planning Period	0,1%	0,1%
Debt Service to Total Expense Ratio at the end of the Planning Period	0,0%	0,0%

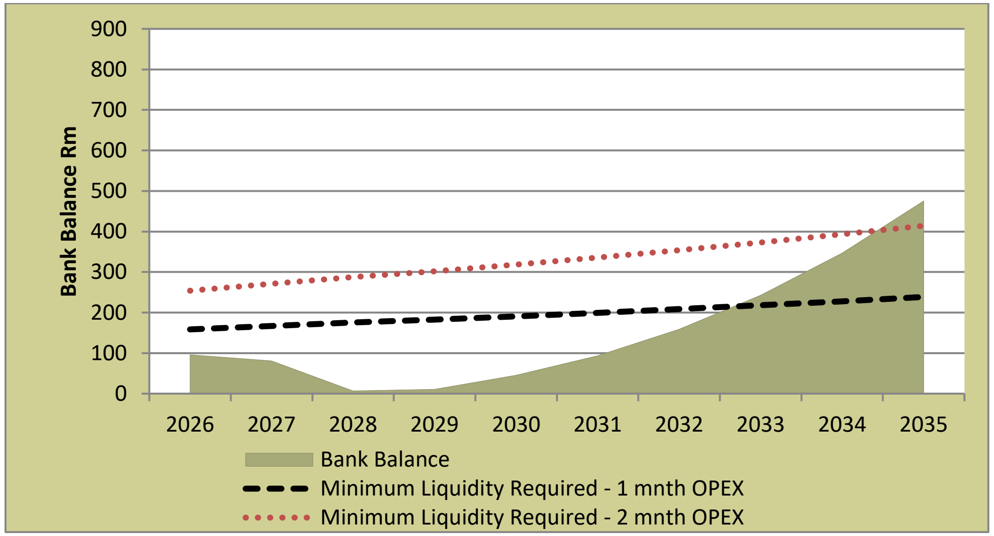
GRAPH 26: MTREF CASE SCENARIO: ANALYSIS OF SURPLUS



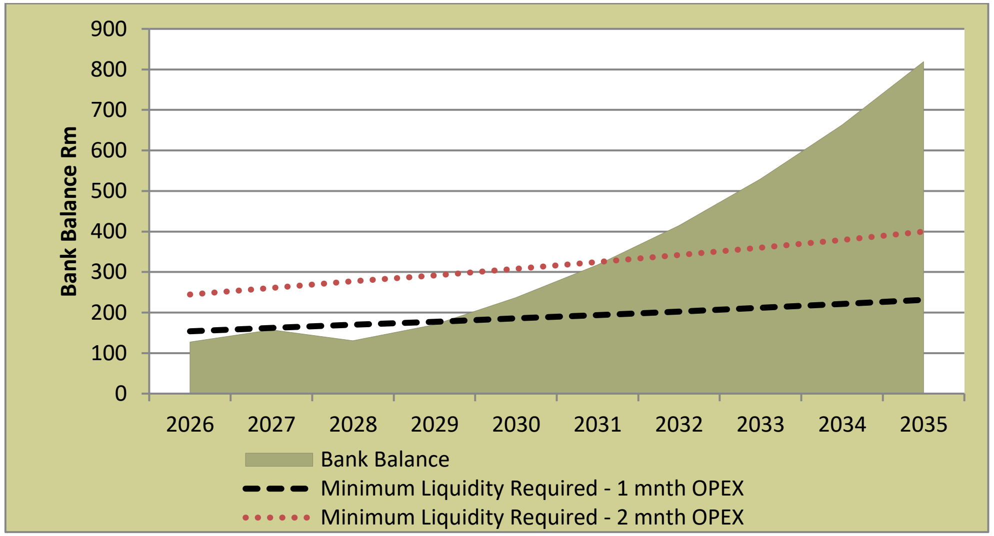
GRAPH 28: BASE CASE SCENARIO: ANALYSIS OF SURPLUS



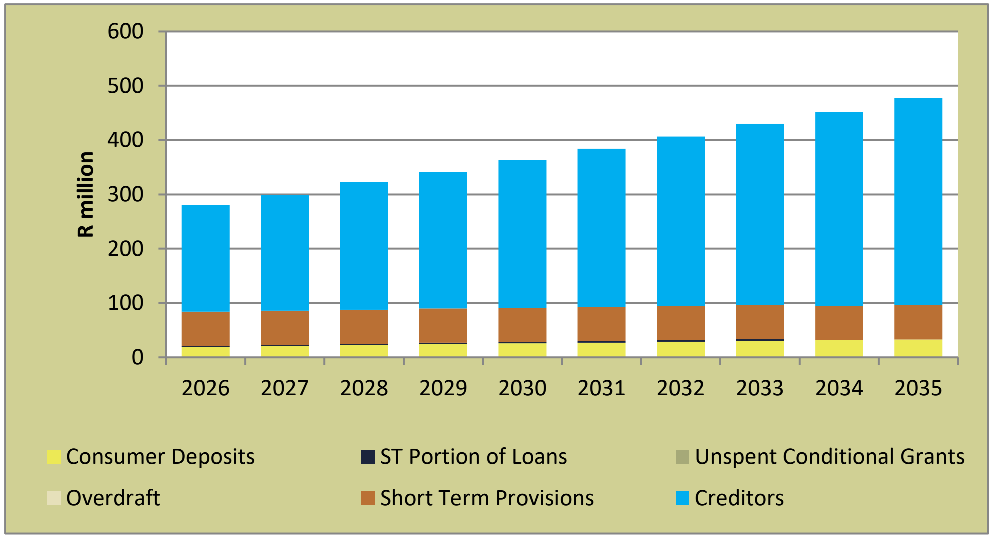
GRAPH 27: MTREF CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY



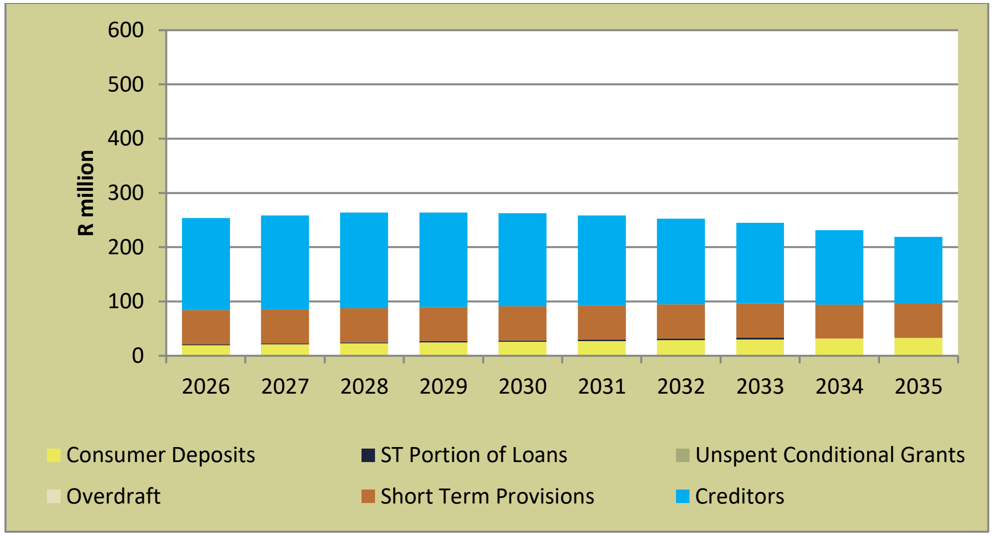
GRAPH 29: BASE CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY



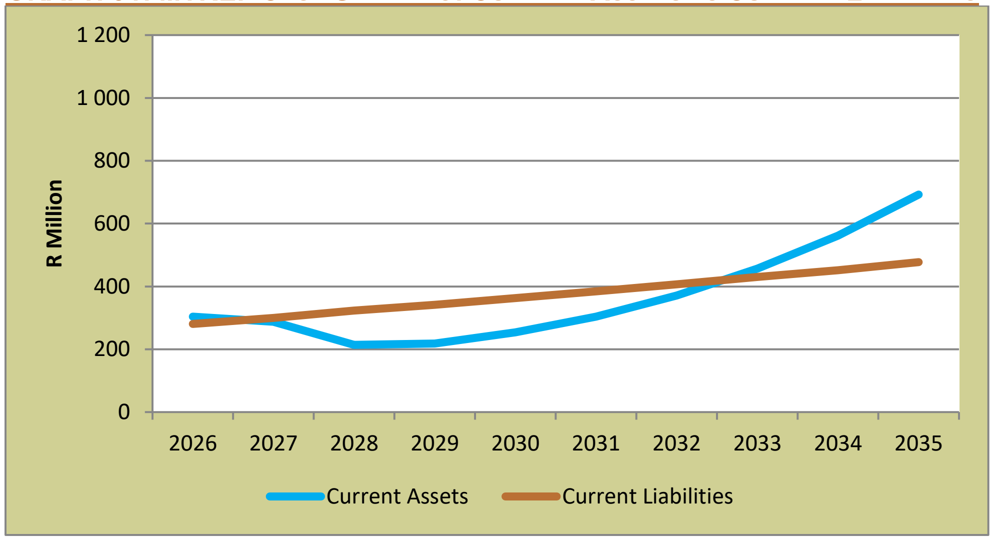
GRAPH 30: MTREF CASE SCENARIO: CURRENT LIABILITIES



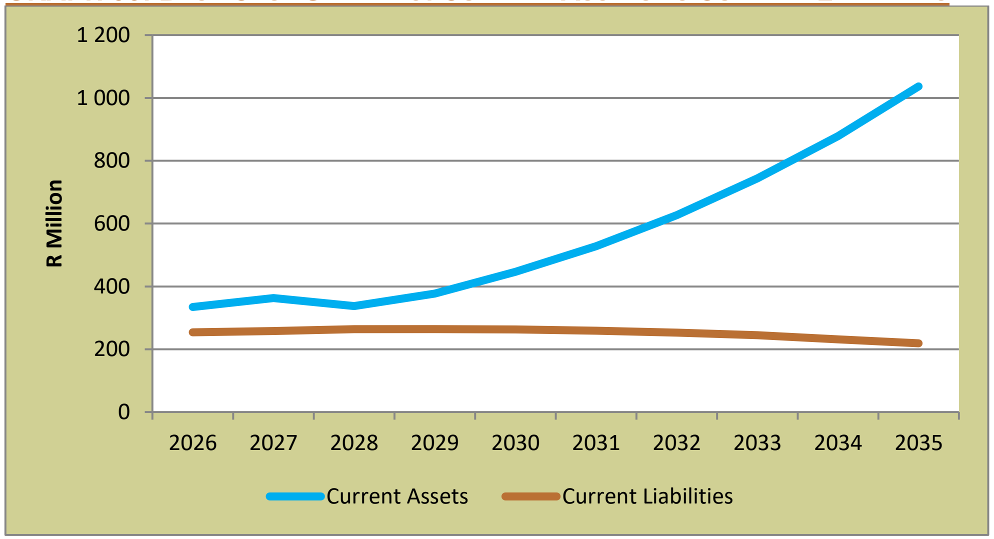
GRAPH 32: BASE CASE SCENARIO: CURRENT LIABILITIES



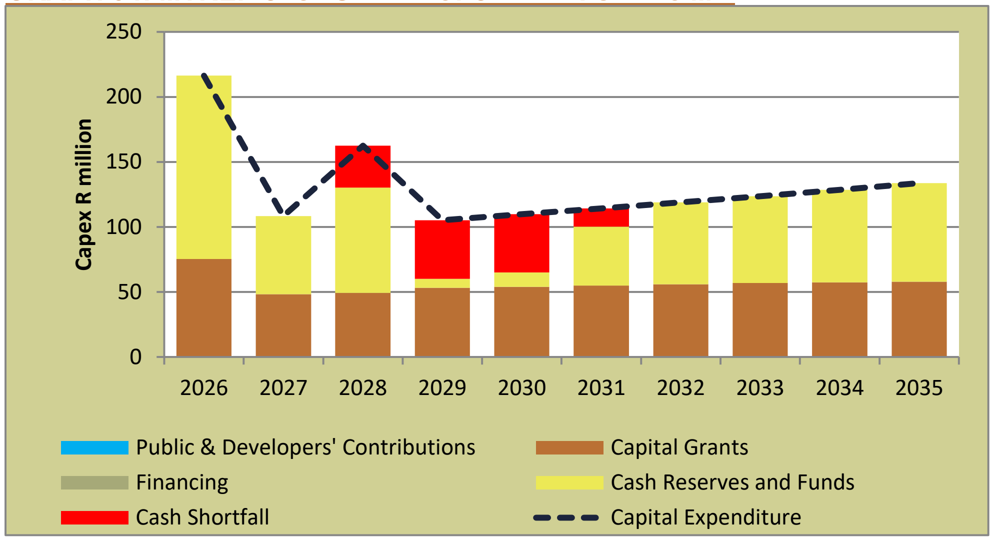
GRAPH 31: MTREF CASE SCENARIO: CURRENT ASSETS VS CURRENT LIABILITIES



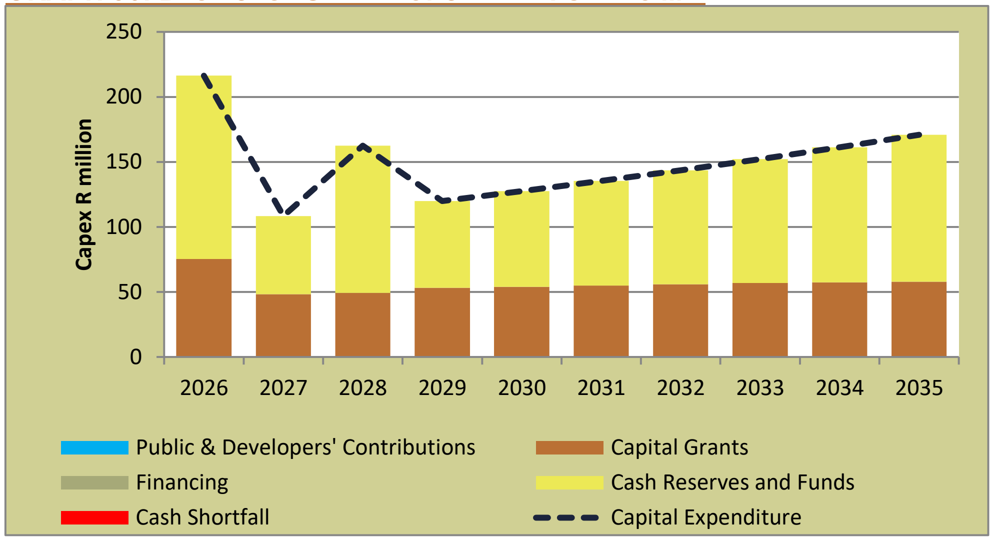
GRAPH 33: BASE CASE SCENARIO: CURRENT ASSETS VS CURRENT LIABILITIES



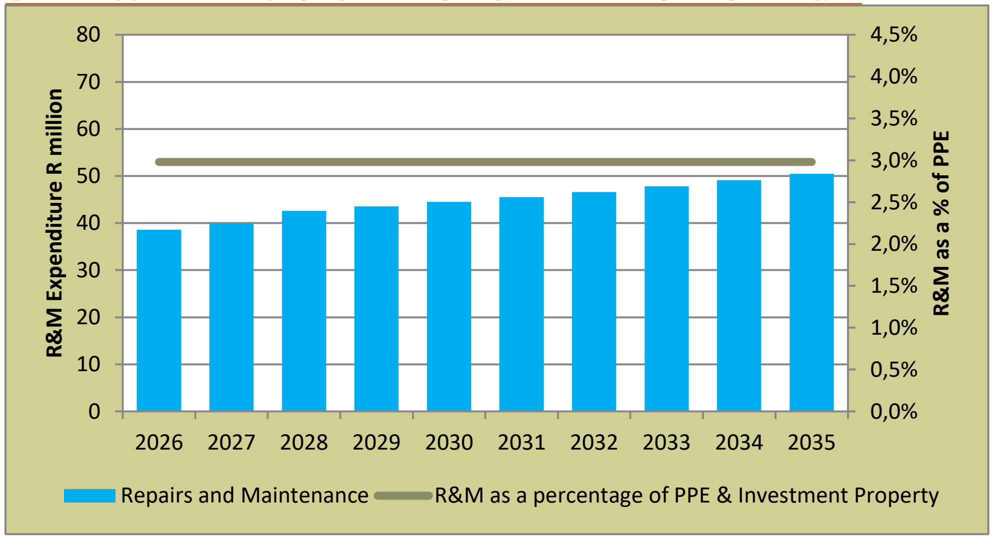
GRAPH 34: MTREF CASE SCENARIO: CAPITAL FUNDING MIX



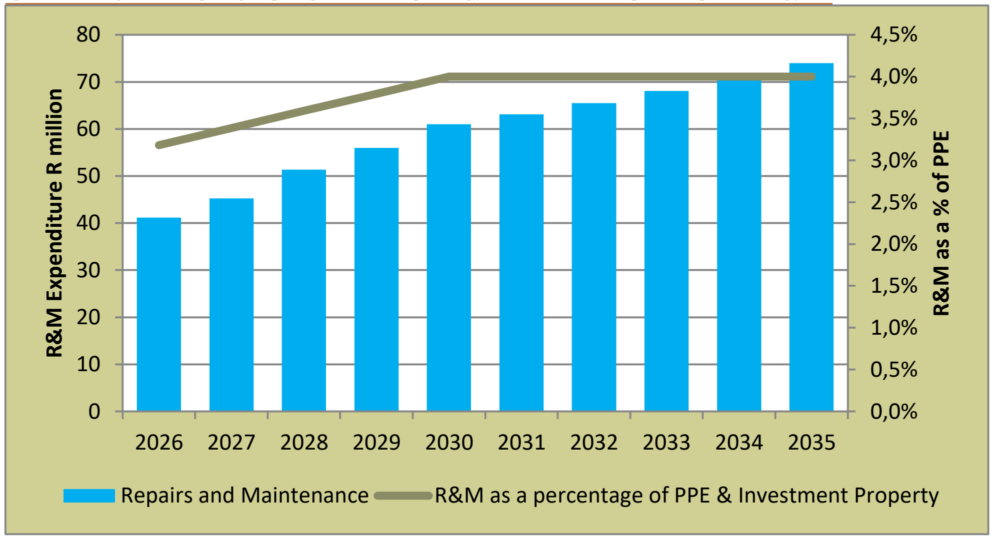
GRAPH 36: BASE CASE SCENARIO: CAPITAL FUNDING MIX



GRAPH 35: MTREF CASE SCENARIO: R&M EXPENDITURE TO PPE & IP



GRAPH 37: BASE CASE SCENARIO: R&M EXPENDITURE TO PPE & IP



1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long-Term Financial Model Outcomes

5 Future Revenues

6 Affordable Future Capital Investment

7 Scenario Analysis

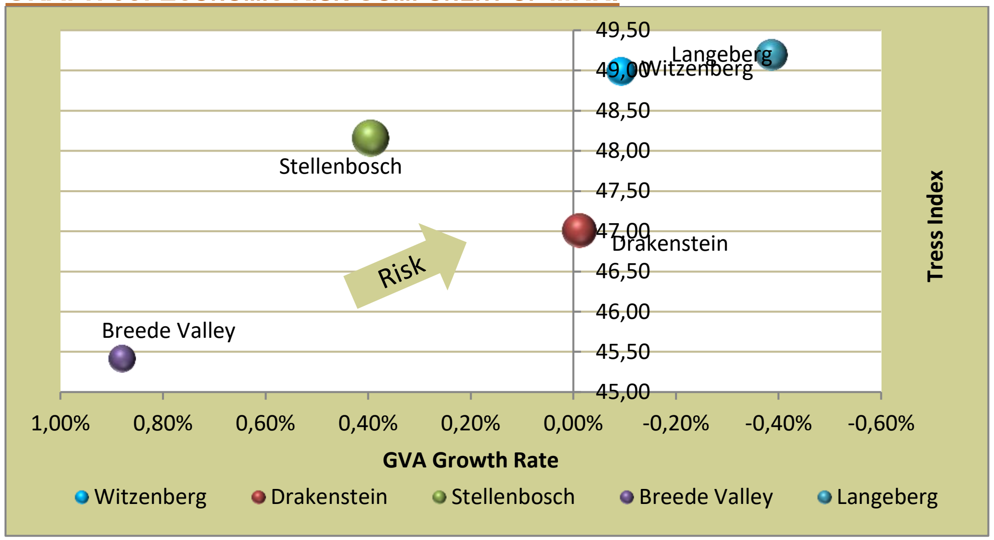
8 Ratio Analysis

9 Conclusions

Future Revenues

Municipal Revenue Risk Indicator (MRRI) = "Medium"

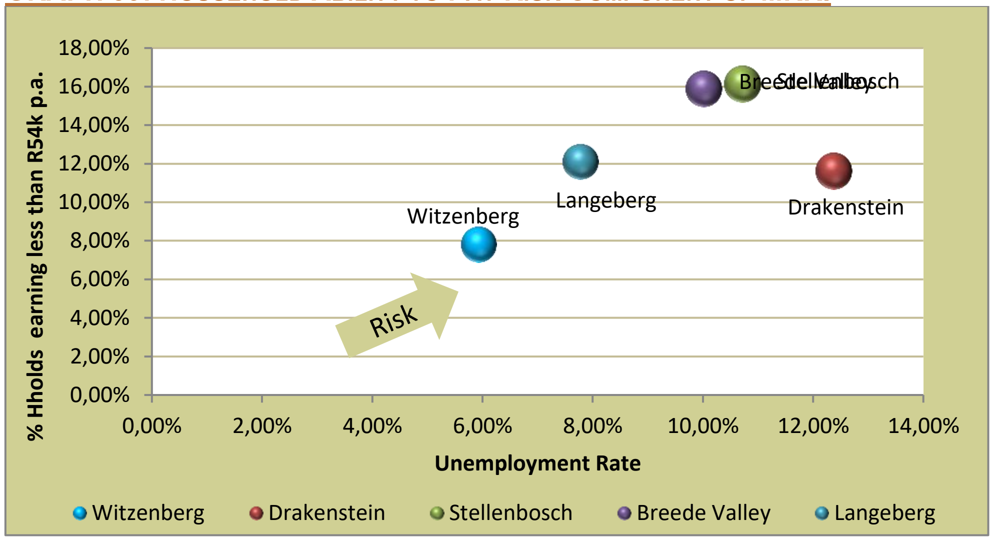
GRAPH 38: Economic Risk Component of MRRI



The Municipal Revenue Risk Indicator (MRRI) measures the risk of the municipality's ability to generate its own revenues. This is a function of the economy (size of the economy as measured by GVA per capita, GVA growth rate and Tress Index); and the household ability to pay (measured by percentage of households with income below R54 000 p.a., unemployment rate and human development index).

Langeberg's economy has been stagnant in recent years, as evidenced by the 5-year annual average GVA growth rate of -0.39%. This is well exceeded by the population growth rate of 1.35% p.a. over the same period. GVA per capita of R57 091 in 2024, and the reasonably concentrated economy contribute to the "**High**" rating on the economic risk component of the MRRI. This is predominantly attributable to a lack of economic growth.

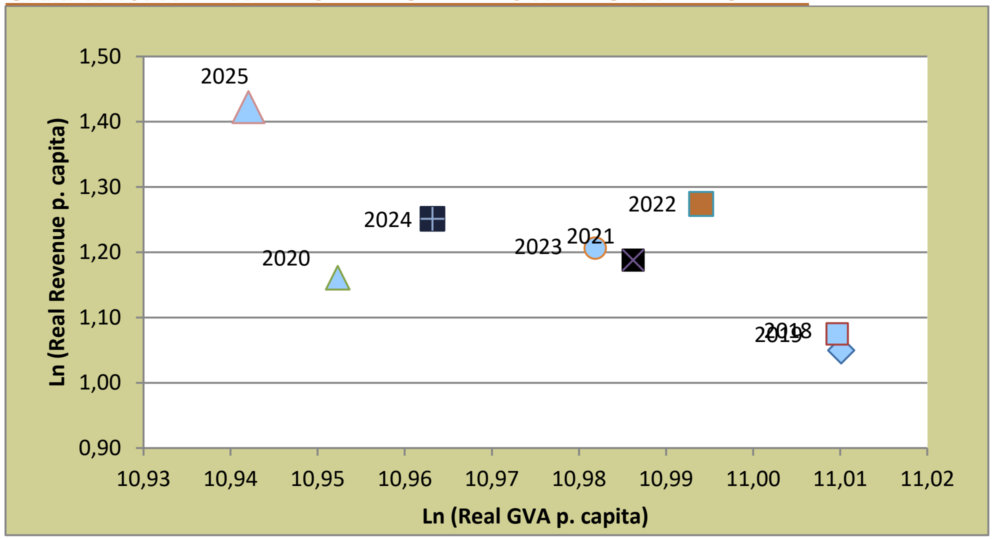
GRAPH 39: Household Ability to Pay Risk Component of MRRI



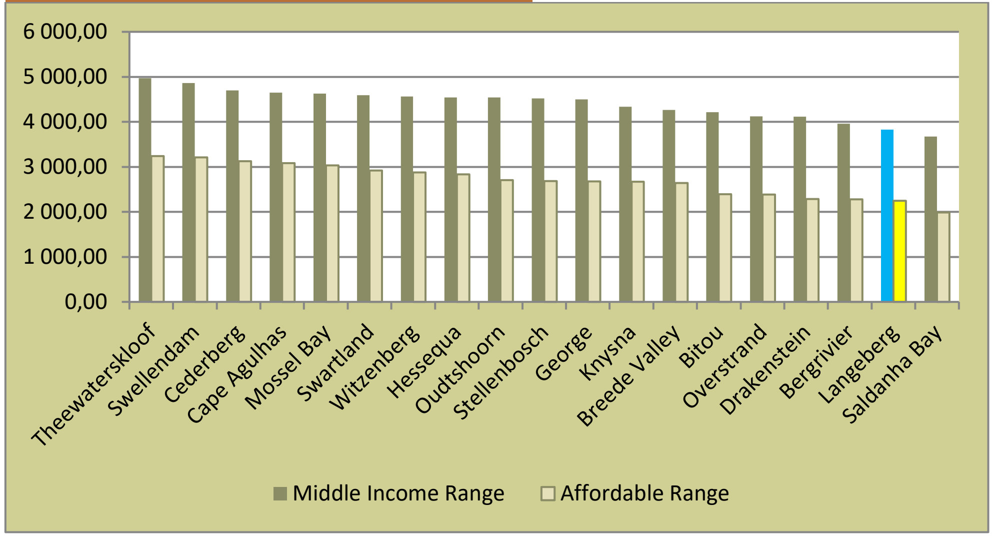
The percentage of indigent households reliant on support of 12.11%, the official unemployment rate of 7.78% and the human development index of 0.70 resulted in a **"Low"** rating on the household ability to pay risk component of MRRI. The driving force behind this rating is the high rate of unemployment. Knysna is in the on the higher end of risk in relation to some of the other municipalities in the district.

As a result, Langeberg has a "**Medium**" risk rating on the MRRI indicator scale - i.e., there is a medium risk that the municipality will not be able to generate the forecast cash revenue expected in future.

GRAPH 40: REAL REVENUE PER CAPITA VS REAL GVA PER CAPITA



GRAPH 41: AVERAGE HOUSEHOLD BILL (R)



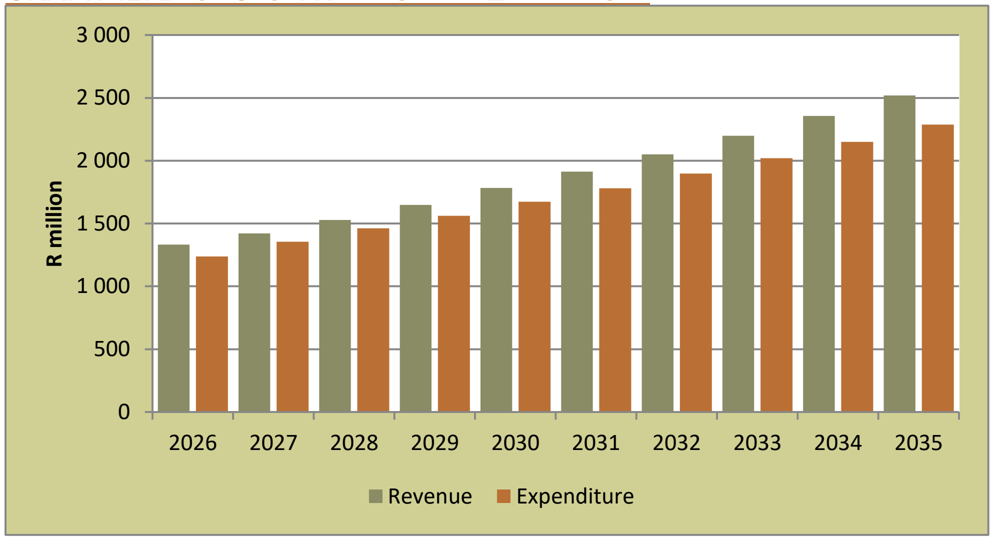
Real municipal revenue (excluding capital transfers) per capita reflects a general increase over the review period, with a minor reduction noted in 2023. Thereafter, a notable recovery was observed with a new high watermark posted in 2025. GVA per capita has steadily declined over the review period, with minor improvements noted in 2021 & 2022 following the severe contraction pursuant to Covid-19. The improvements in 2021 & 2022 are more representative of the extent of decline observed in 2020 than actual economic growth. This is further reflected in the subsequent declines in 2023, 2024 and 2025.

It is imperative that the municipality begins to foster and enabling environment for economic growth within the municipal area. The stagnant economy requires stimulation which can be achieved through investment in productive assets. Improvements to service delivery will assist in manifesting a perception of the municipality being an attractive destination for capital to be invested. This must be a priority for the municipality as the ripple effects of economic growth can be exponential.

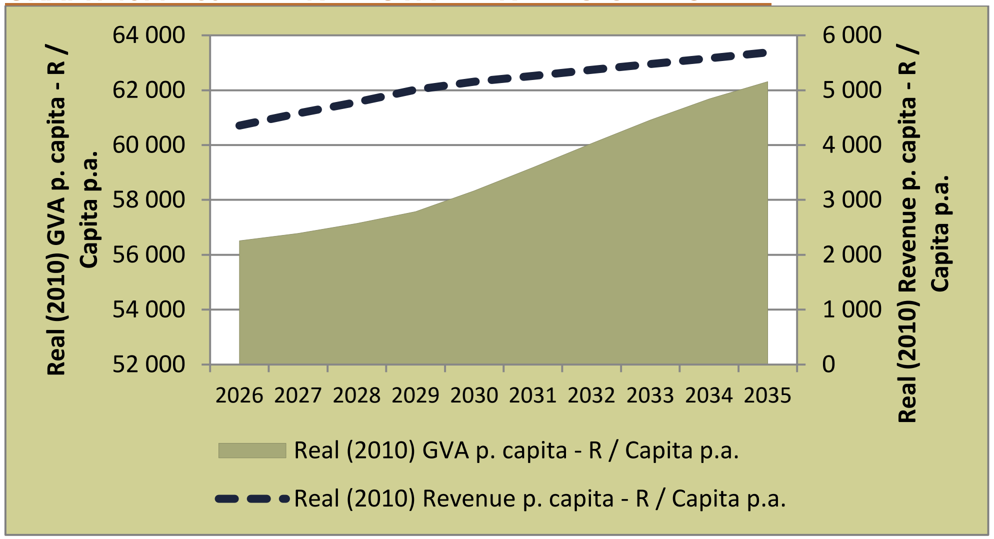
A comparison of the average household bill for the middle income and affordable income range of a selected number of municipalities in the Western Cape province (extracted from Budget Table: SA14) based on the 2025/26 tariffs, reveals that Langeberg LM features in the top half of the range. Considering the level of service provided by Langeberg LM and the size of the municipality, the current household bill is reasonably low compared to other municipalities. This would suggest that there is scope for the municipality to increase tariffs, but this must be considered against the household ability to pay. This is particularly prevalent given the current fuel crisis and its expected impact on inflation expectations and the general cost of living.

MUNICIPAL REVENUES

GRAPH 42: BASE CASE: REVENUE AND EXPENDITURE



GRAPH 43: PROJECTED REAL GVA AND REVENUES PER CAPITA



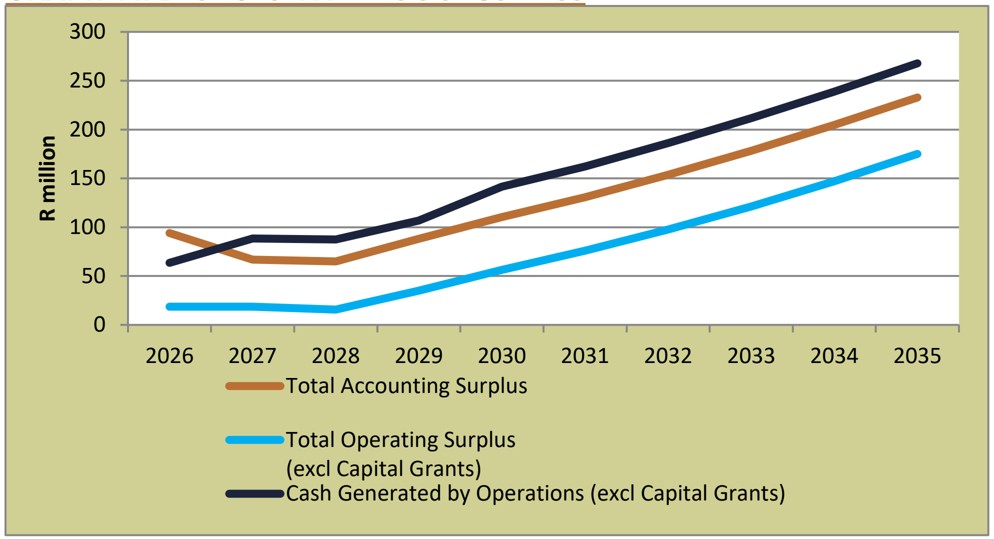
The Base Case estimates that, over the planning period, future nominal revenue (including capital grants) will grow at an average rate of 7.2% p.a. This growth in revenue includes: (i) tariff increases, (ii) increased sales and (iii) additional revenue sources. Future nominal expenditure is estimated to grow at a lower rate of 6.6% over the same period.

Electricity services are forecast to remain the predominant revenue generator for the municipality with an annual average contribution of 62.7%. This presents a notable risk should a return to electricity supply issues transpire. Given the challenges with diversifying revenue sources within the municipal sector, the focus must be on ensuring that operating expenditure remains under control.

Electricity bulk purchases are forecast to remain the predominant expenditure item with an annual average contribution of 49.8%. It has been expressed that there is a possibility that the already increased NERSA bulk purchases tariff increases may increase further. This will pressure financial performance and is likely to erode surplus margins. This will be modelled as part of the final LTFP Update.

Real GVA per capita is forecast to increase gradually over the planning period, from R56 504 p.a. in 2025 to R62 312 in 2035, for an increase of 10.2%. Real revenue per capita on the other hand, is forecast to increase at a comparatively higher rate of 31.1% from R4 337 p.a. in 2025 to R5 689 p.a. in 2035. Growth of the local economy is crucial to the municipality as it has a direct impact on the municipality's ability to generate revenue (MRRI). Growth of the local economy will result in an expansion of the municipality's revenue base, which will enable growth and an acceleration of the capital investment programme. This is particularly necessary to keep up with the growing population and associated increased demand for municipal services.

GRAPH 44: BASE CASE: ANALYSIS OF SURPLUS



The municipality is forecast to generate cash from operations throughout the planning period. A total of R1 555 million in cash is forecast to be generated by operations over the planning period. This is underpinned by the forecast improvements to financial performance as well as the assumed improvement in the collection rate. This is expected to underpin the sustainable liquidity position presented in the Base Case.

AFFORDABLE FUTURE CAPITAL INVESTMENT

CAPEX AFFORDABILITY AND FUNDING

The total affordable capital envelope for the 10-year period FY2025/26-FY2034/35 was calculated at R1 498 million.

TABLE 9: CAPEX AFFORDABILITY

Total 10-year CAPEX **Affordability:**	=	R 1 498 million

MTREF CAPITAL FUNDING MIX

Langeberg's Tabled Budget FY2026/27 to FY2028/29 expects a capital budget amounting to R375 million, funded as follows:

TABLE 10: MTREF CASE 3-YEAR MTREF FUNDING MIX R'M

R'm	Total	2026/27	2027/28	2028/29
Public & Developers Contributions	**0**	0	0	0
Capital Grants	**150**	48	49	53
Financing	**0**	0	0	0
Cash Reserves and Funds	**225**	60	113	52
Total	**375**	**108**	**162**	**105**

Langeberg's historic capital funding mix was a combination of capital grants, which accounted for 45.2% and cash reserves with 48.7%. The remainder was funded through the sale of fixed assets (1.9%) and financing (4.4%). While the municipality has placed reliance on grant funding, a notable increase in the utilisation of own cash reserves was observed in recent years. Overutilisation of own cash to fund capital expenditure may begin to erode the municipality's liquidity position. This must be carefully managed, with capital investment decisions made with the maintenance of adequate liquidity in mind.

10-YEAR CAPITAL FUNDING MIX

The capital funding mix for the 10-year planning period is forecast to be as follows:

TABLE 11: BASE CASE 10-YEAR CAPITAL FUNDING MIX

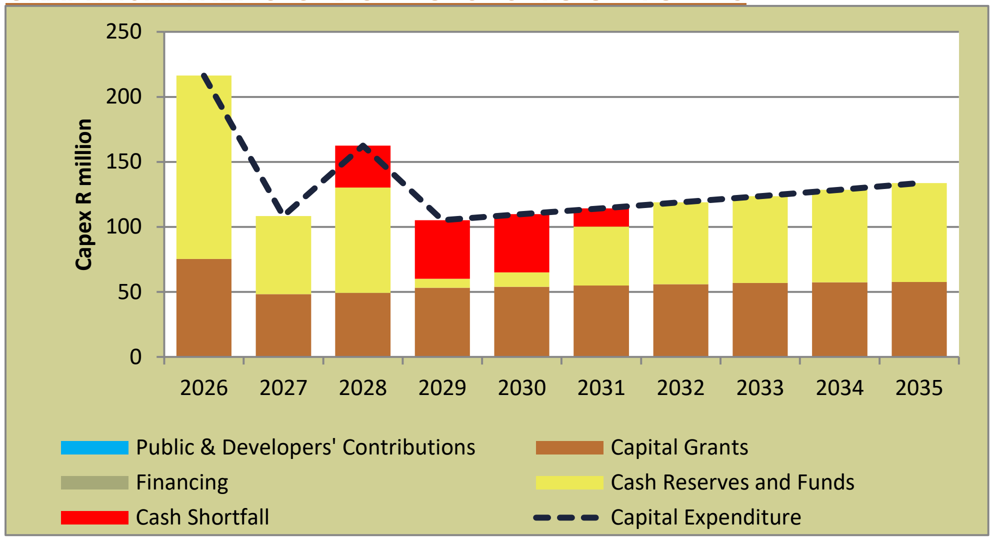
Source	Rm	%
Public & Developers' Contributions	0	0 %
Capital Grants	563	37 %
Financing	0	0 %
Cash Reserves and Funds	935	63 %
Cash Shortfall	0	0 %
Capital Expenditure	**1 498**	**100 %**

The Tabled Capital Budget aims to continue the accelerated capital investment programme observed in recent years. A key adjustment made in arriving at the Base Case is to accelerate capital investment in FY2028/29. This is aimed at maintaining elevated levels of capital investment over the planning period in an attempt to further support the municipality's infrastructure investment requirements. These adjustments have been made with the prioritisation of maintaining healthy levels of liquidity in mind, whilst also aiming to support productive infrastructure investment that will stimulate the local economy and ultimately contribute towards an expansion of the revenue base.

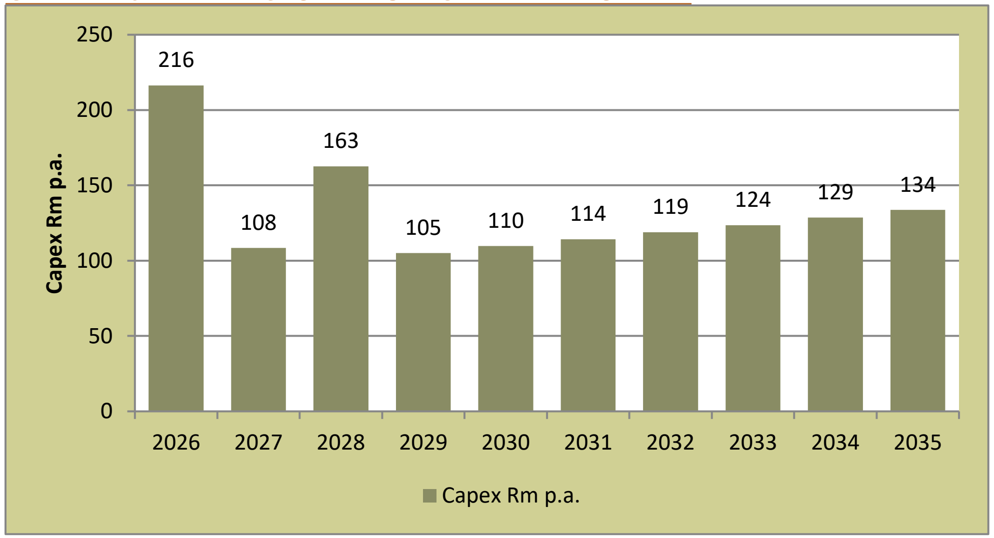
The 10-year affordable capital envelope represents an acceleration from the previous LTFP Update (March 2026), with an acceleration of R280 million included in this update. This is achieved through additional own cash utilisation (R935 million vs R753 million) whilst remaining financially sustainable. Additional capital grant funding (R563 million vs R465 million) also contributes to the increased affordable envelope. The bulk of the acceleration takes place beyond the MTREF period. It must be stated that given the forecast cash shortfalls in the MTREF Case, the meeting of the Base Case assumptions, particularly the reduction of opex and electricity distribution losses, is essential for the Base Case affordable envelope to remain viable.

The MTREF Case's funding mix and annual borrowings are presented in the graphs below:

GRAPH 45: MTREF CASE DISTRIBUTION OF FUTURE FUNDING

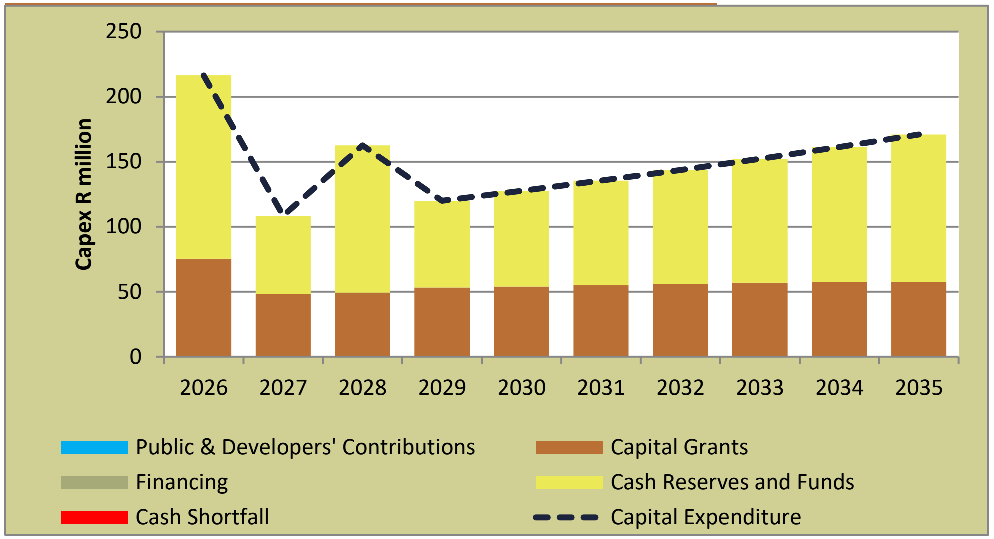


GRAPH 46: MTREF CASE ANNUAL CAPITAL INVESTMENT



The Base Case's funding mix and annual borrowings are presented in the graphs below:

GRAPH 47: BASE CASE DISTRIBUTION OF FUTURE FUNDING



GRAPH 48: BASE CASE ANNUAL CAPITAL INVESTMENT

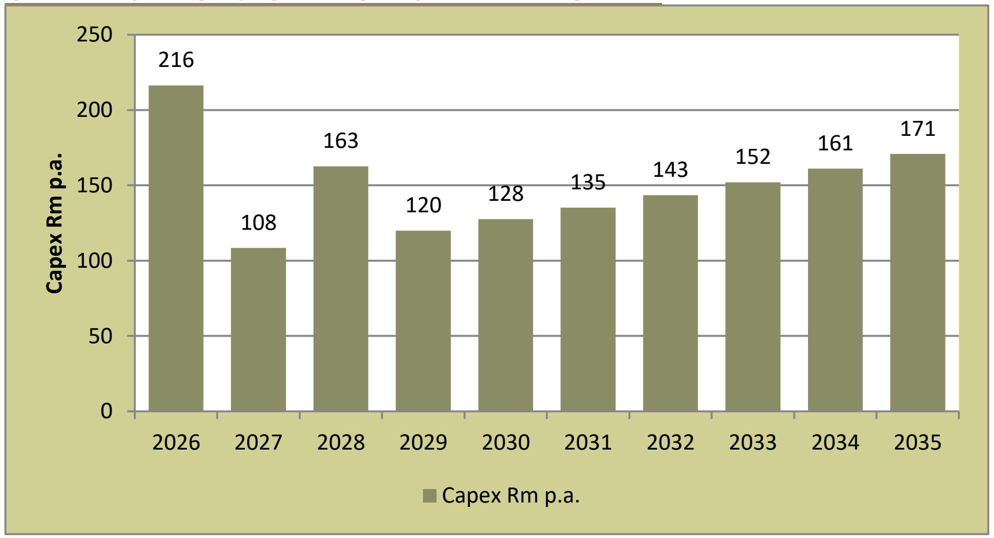


TABLE 12: MTREF Case Distribution of Future Capital Funding (R'm)

R'm	Total	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Public & Developers' Contributions	0	0	0	0	0	0	0	0	0	0	0
Capital Grants	563	75	48	49	53	54	55	56	57	57	58
Financing	0	0	0	0	0	0	0	0	0	0	0
Cash Reserves and Funds	622	141	60	81	7	11	45	63	67	71	76
Cash Shortfall	136	0	0	32	45	45	14	0	0	0	0
Capital Expenditure	**1 321**	216	108	163	105	110	114	119	124	129	134

TABLE 13: Base Case Distribution of Future Capital Funding (R'm)

R'm	Total	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Public & Developers' Contributions	0	0	0	0	0	0	0	0	0	0	0
Capital Grants	563	75	48	49	53	54	55	56	57	57	58
Financing	0	0	0	0	0	0	0	0	0	0	0
Cash Reserves and Funds	935	141	60	114	67	74	80	88	95	104	113
Cash Shortfall	0	0	0	0	0	0	0	0	0	0	0
Capital Expenditure	**1 498**	216	108	163	120	128	135	143	152	161	171

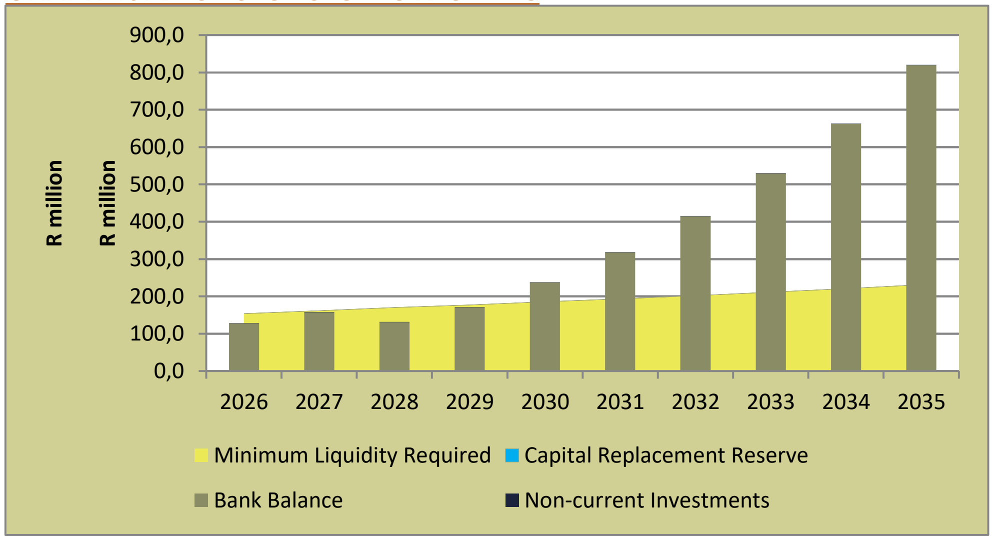
Liquidity and Capital Replacement Reserve

The minimum liquidity levels cater for unspent conditional grants, cash-backed reserves, short-term provisions and 1-month's working capital (operating expenditure). The municipality is forecast to maintain sufficient cash and cash equivalents to meet the minimum liquidity requirements from FY2029/30 onwards. This is underpinned primarily by the maintenance of a high collection rate, and through reduced opex and electricity losses. The inclusion of consistent, affordable borrowings would aid the municipality's cash flow management through reducing reliance on own cash reserves to fund capital investment. This funding strategy will allow the municipality to continue building its cash reserves, whilst maintaining affordability of the long-term capital programme. This must be considered by the municipality.

Langeberg has diligently contributed to a capital replacement reserve (CRR) in recent years, steadily increasing the balance to R62.9 million as at FYE2024/25. This has left Langeberg well placed to employ its cash reserves to accelerate capital investment. This is reflected in the Tabled Capital Budget, and the same philosophy applies to the Base Case capital program.

In order for a municipality to sustainably contribute to a CRR, it must first ensure that it is able to meet the minimum liquidity requirements. This is illustrated in Graph 49 below, which highlights that Langeberg's forecast bank balance (green bar) is expected to remain sufficient to comfortably meet the minimum liquidity requirements from FY2029/30 onwards. Beyond this point, the municipality would be able to begin funding the CRR. The annual depreciation charge should be utilised as a yardstick as to the annual contribution to the CRR. The level of own cash utilisation to fund the Base Case capital programme is expected to result in the inability to fund a CRR as the full funding will be withdrawn to meet the Base Case capital investment programme.

GRAPH 49: Base Case Cash vs Reserves



GEARING

The use of borrowing as part of a municipality's capital funding mix can strengthen its financial position when applied prudently and within sustainable debt limits. One of the primary benefits relates to the preservation of liquidity. When municipalities rely exclusively on internal cash reserves to fund capital projects, large infrastructure investments can significantly reduce available cash balances. By financing a portion of capital expenditure through borrowing, municipalities are able to preserve a stronger cash position, thereby maintaining healthier liquidity ratios and ensuring that sufficient working capital remains available for day-to-day operations.

Borrowing also enables municipalities to maintain adequate cash reserves, which are critical for financial resilience. Strong reserves provide a buffer against revenue volatility, unexpected expenditure pressures, or delays in intergovernmental transfers. Maintaining higher levels of unrestricted cash can improve a municipality's overall financial stability and may enhance its creditworthiness, which in turn can improve access to financing at more favourable borrowing terms.

In light of the above, the historically low level of debt does provide scope to consider borrowing as a funding source for capital expenditure. However, before undertaking such commitments, it is essential to assess the financial implications to determine whether the benefits of borrowing translate into meaningful and sustainable financial gains. Accordingly, a dedicated scenario has been incorporated in the following chapter to evaluate a borrowing strategy as part of the capital funding mix.

SCENARIOS ANALYSIS

1. **To demonstrate the impact of incorporating external financing into the capital funding mix:**

   This scenario assesses the impact of the inclusion of borrowings to fund CAPEX. All other input variables are assumed to be consistent with the Base Case.

Scenario 1: Introduction of Borrowings

This scenario introduces an alternative approach to financing capital expenditure by incorporating borrowings into the funding mix, rather than relying exclusively on capital grants and internally generated cash. Building on the Base Case, which already reflects a notable increase in capital investment relative to the MTREF Case, the inclusion of debt is intended to alleviate pressure on cash reserves while sustaining elevated levels of infrastructure spending. This approach is particularly relevant given the municipality's historically low reliance on external debt.

The borrowing programme was adjusted for the scenario as follows, and assuming an annual growth in borrowing beyond FY2028/29 is 6%:

- FY2026/27: R30 million (Budget: R0 million)
- FY2027/28: R30 million (Budget: R0 million)
- FY2028/29: R20 million (Budget: R0 million)

The effect of introducing borrowings is most clearly observed in the municipality's cash position. Over the planning period, cash and cash equivalents are projected to improve relative to the Base Case, with an increase of approximately R68 million by the end of the period. Financial performance and cash generation do decline modestly, driven by the increased debt service charges. The increase in the short-term portion of loans contributes to a minor reduction of the liquidity ratio, which remains healthy at 4.5:1.

The inclusion of debt also has implications for key financial ratios. Given that the municipality has not made use of borrowings in recent years, both the gearing ratio and the debt service to total expenditure ratio were forecast to reach % by the end of the planning period. Under this scenario, these ratios increase to 5.3% and 1.6% respectively. Despite this shift, both indicators remain comfortably within recommended thresholds, which are 30% for gearing and 7% for debt service relative to total expenditure.

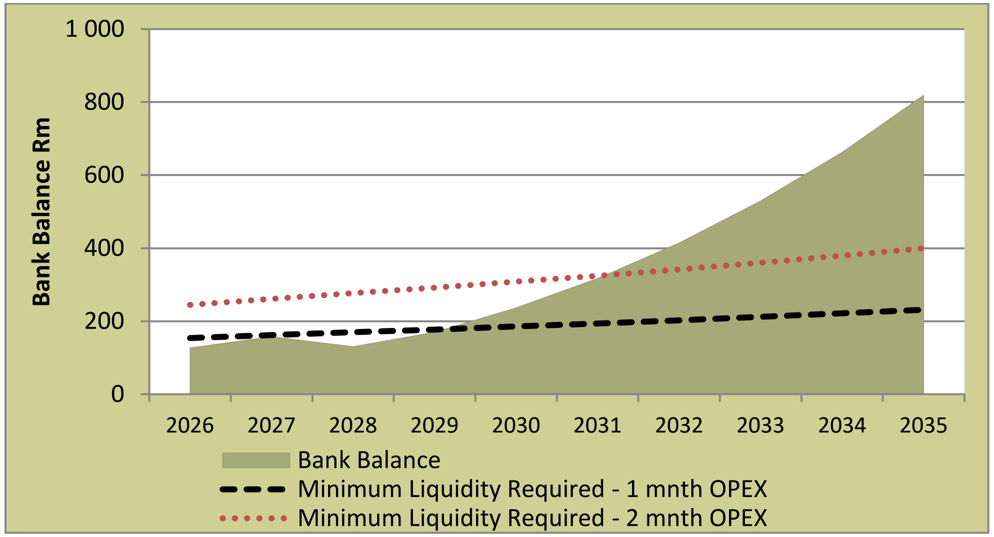
The key benefit of the inclusion of borrowings is reflected in comparison of the bank balance graphs below. In the Base Case, Langeberg is expected to fall short of meeting the minimum liquidity requirements over the MTREF period. In this scenario, the inclusion of borrowings provides a cash flow benefit which enables the minimum liquidity requirements to be met despite maintaining the Base Case capital investment programme. This highlights the liquidity and cash flow management benefits derived from the inclusion of borrowings into the funding mix.

Table 14: Scenario 1: Introduction of Borrowings

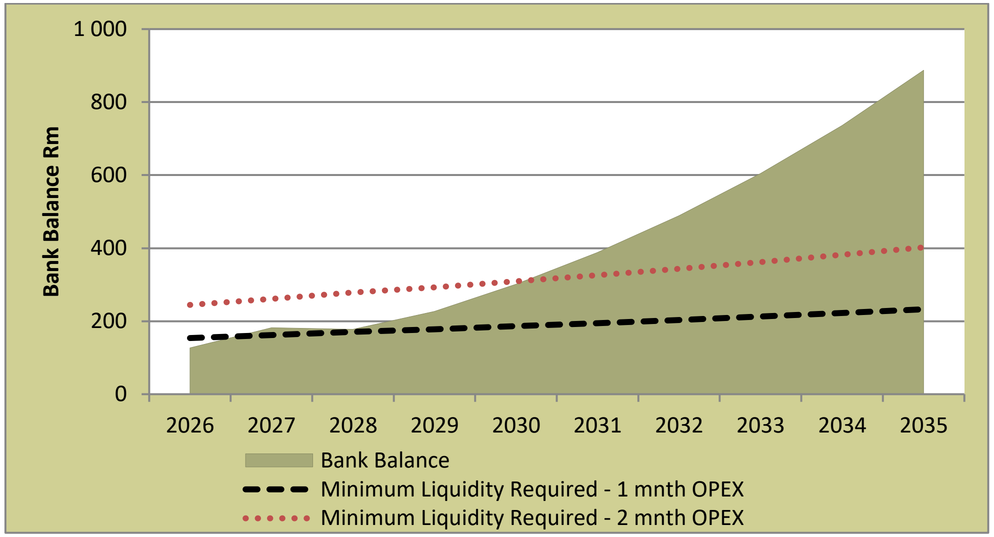
Outcome	Base Case	Borrowing Strategy
Average annual % increase in Revenue	7,2%	7,2%
Average annual % increase in Expenditure	6,6%	6,6%
Accounting Surplus accumulated during Planning Period (Rm)	R 1 325	R 1 265
Operating Surplus accumulated during Planning Period (Rm)	R 761	R 702
Cash generated by Operations during Planning Period (Rm)	R 1 555	R 1 495
Average annual increase in Gross Consumer Debtors	12,8%	12,8%
Capital investment programme during Planning Period (Rm)	R 1 498	R 1 498
External Loan Financing during Planning Period (Rm)	R 0,0	R 223
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 819	R 887
No of Months Cash Cover at the end of the Planning Period (Rm)	4,9	5,2
Liquidity Ratio at the end of the Planning Period	4,7 : 1	4,5 : 1
Gearing at the end of the Planning Period	0,1%	5,3%
Debt Service to Total Expense Ratio at the end of the Planning Period	0,0%	1,6%

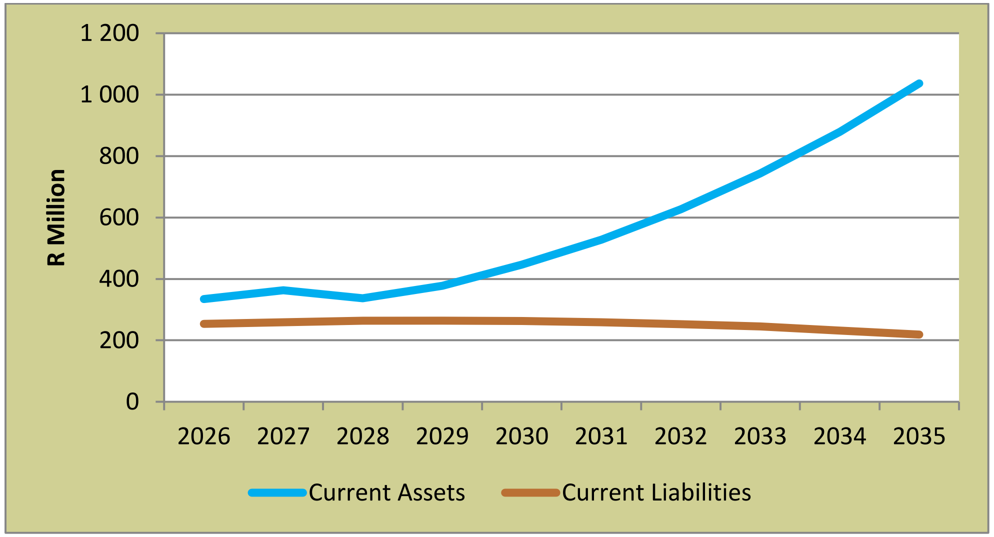
Scenario 1: Introduction of Borrowings

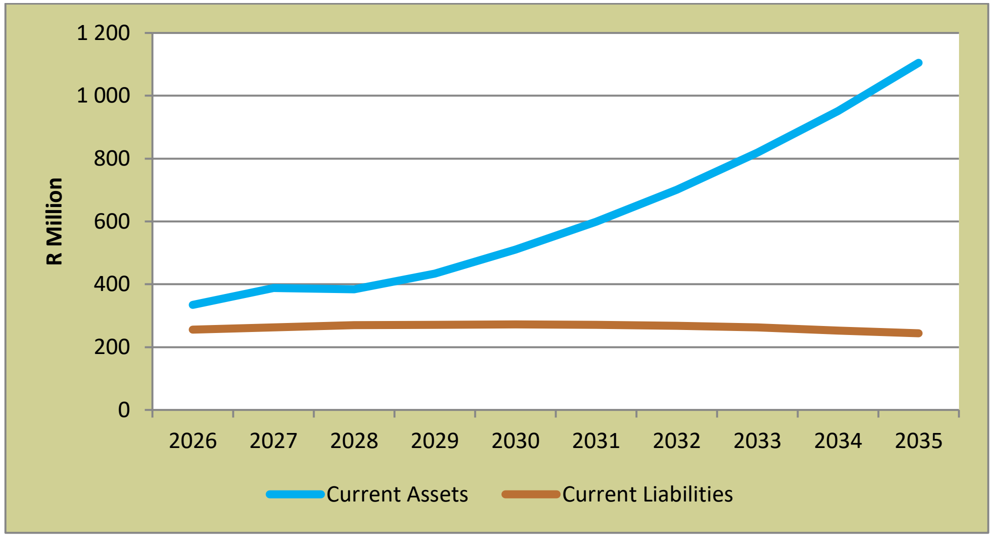
Base Case (No Borrowing)



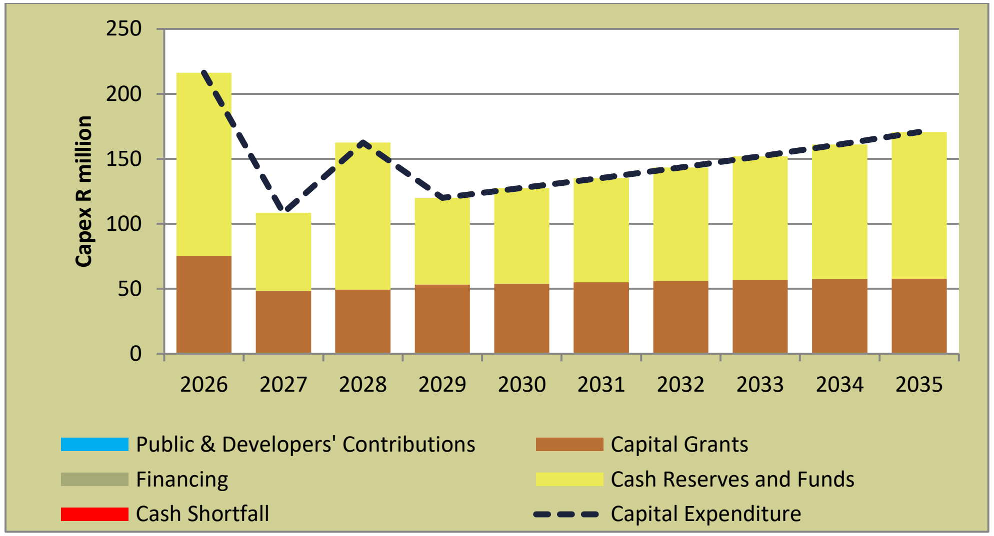
Borrowing



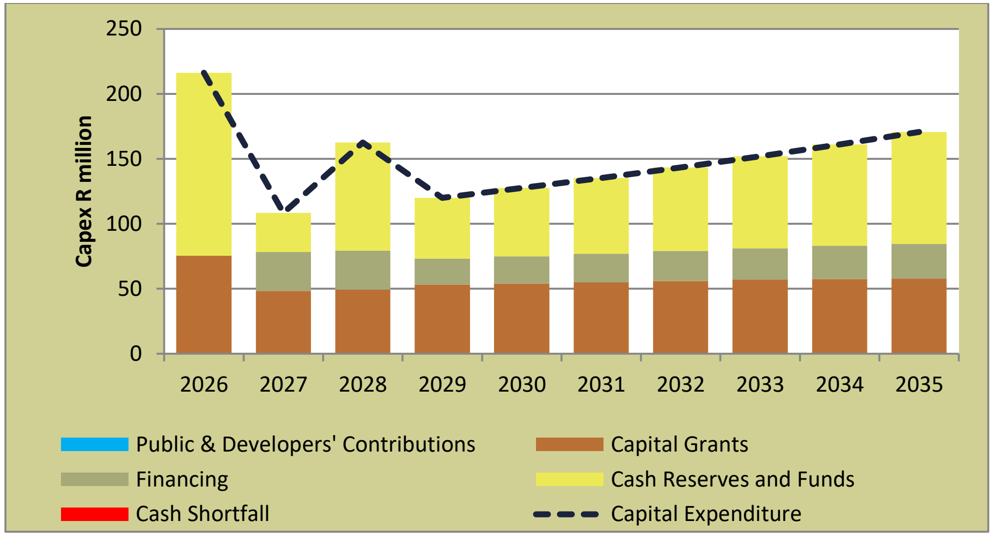


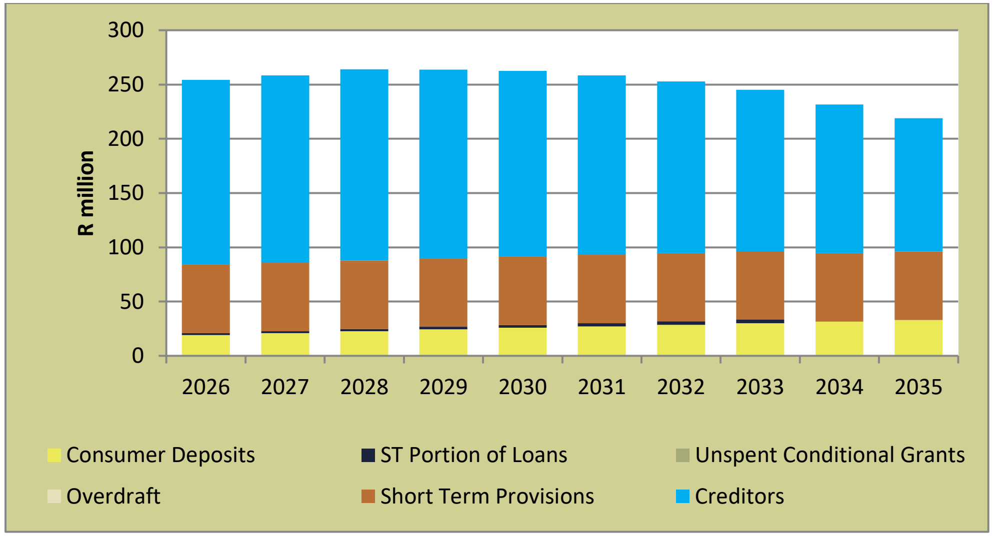


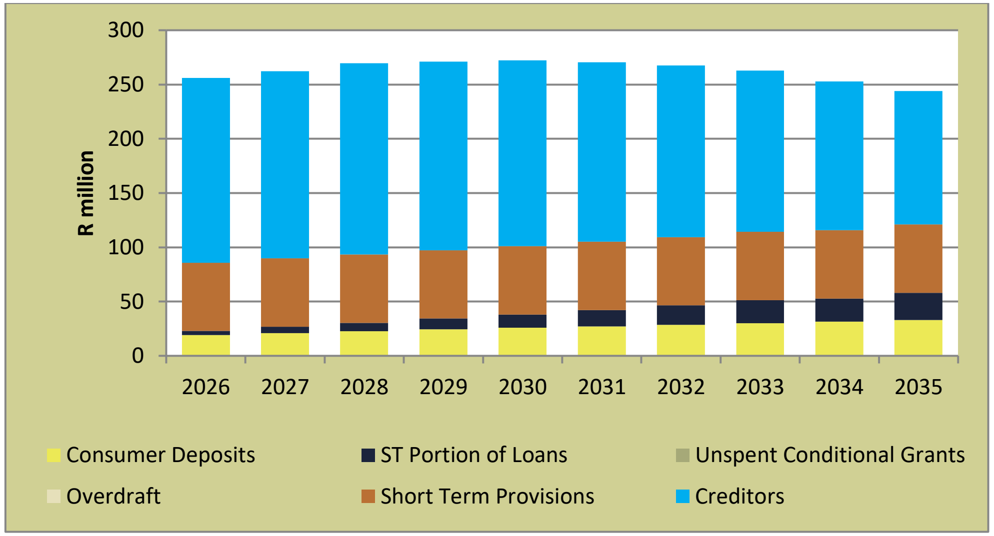
Base Case (No Borrowing)



Borrowing







FORECAST RATIOS

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

		N.T. NORM	2026	2028	2030	2032	2034	2035	COMMENTS
FINANCIAL POSITION									
ASSET MANAGEMENT									
R29	Capital Expenditure / Total Expenditure	10% - 20%	14,9%	10,0%	7,1%	7,0%	7,0%	7,0%	CAPEX as a % of Total Expenditure will remain within the recommended range throughout the planning period.
R27	Repairs and Maintenance as % of PPE and Investment Property	8%	3,2%	3,6%	4,0%	4,0%	4,0%	4,0%	Repairs and maintenance as a percentage of PPE and IP will be increase to 4.0% over 5 years.
DEBTORS MANAGEMENT									
R4	Gross Consumer Debtors Growth		16,3%	14,5%	12,9%	11,6%	10,6%	10,2%	The Collection Rate is maintained at 95% throughout the planning period.
R5	Payment Ratio / Collection Rate	95%	95,0%	95,0%	95,0%	95,0%	95,0%	95,0%	
LIQUIDITY MANAGEMENT									
R49	Cash Coverage Ratio (excl Working Capital)		2 : 1	2,1 : 1	3,8 : 1	6,6 : 1	10,5 : 1	13 : 1	The bank balance will meet the minimum liquidity requirement throughout the forecast period. The liquidity position will rise to 4.7:1 by the end of the planning period.
R50	Cash Coverage Ratio (incl Working Capital)		0,8 : 1	0,8 : 1	1,3 : 1	2 : 1	3 : 1	3,5 : 1	
R51	Cash Surplus / Shortfall on Minimum Liquidity Requirements		-R 27,8 m	-R 40,8 m	R 49,6 m	R 210,4 m	R 439,4 m	R 585,3 m	
R1	Liquidity Ratio (Current Assets: Current Liabilities)	1:1.5 - 1:2.1	1,3 : 1	1,3 : 1	1,7 : 1	2,5 : 1	3,8 : 1	4,7 : 1	
LIABILITY MANAGEMENT									
R45	Debt Service as % of Total Operating Expenditure	6% - 8%	0,3%	0,3%	0,2%	0,2%	0,2%	0,0%	The external financing programme is forecast to remain within the recommended benchmarks.
R6	Total Debt (Borrowings) / Operating Revenue	45%	1,8%	1,3%	0,9%	0,5%	0,1%	0,1%	
R7	Repayment Capacity Ratio		0,17	0,14	0,08	0,04	0,01	0,01	

		N.T. NORM	2026	2028	2030	2032	2034	2035	COMMENTS
SUSTAINABILITY									
	Net Financial Liabilities Ratio	< 60%	7,5%	6,6%	-0,3%	-8,8%	-18,4%	-23,5%	Net Financial Liabilities are below the benchmark, but the Operating Surplus Ratio remains below the recommended lower benchmark for the majority of the planning period. Asset Sustainability is not calculated but entered as an assumption in the model. The municipality must ensure that a greater proportion of CAPEX is spent on asset replacement should it be required.
	Operating Surplus Ratio	0% - 10%	1,5%	1,1%	3,3%	4,9%	6,4%	7,1%	
	Asset Sustainability Ratio	> 90%	39,6%	59,4%	35,3%	36,9%	38,6%	39,5%	
FINANCIAL PERFORMANCE									
EFFICIENCY									
R42	**Net Operating Surplus / Total Operating Revenue**	>= 0%	1,5%	1,1%	3,3%	4,9%	6,4%	7,1%	The net operating surplus improves to 7.1% by 2035, an indication that the municipality should endeavour to improve profitability by managing expenditure and improving surplus margins on electricity services and maintaining the high-water surplus margin.
R43	**Electricity Surplus / Total Electricity Revenue**		18,8%	18,3%	20,0%	20,0%	20,0%	20,0%	
R44	**Water Surplus / Total Water Revenue**		100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	
REVENUE MANAGEMENT									
R8	**Increase in Billed Income p.a. (R'm)**		R 69,1 m	R 106,8 m	R 106,6 m	R 113,8 m	R 127,8 m	R 134,7 m	Billed Revenue and Operating Revenue Growth is, for the most part, marginally above forecast CPI over the planning period. Cash generated from operations is expected improve throughout the planning period.
R9	**% Increase in Billed Income p.a.**	CPI	7,2%	9,4%	7,9%	7,3%	7,1%	7,0%	
R12	**Operating Revenue Growth %**	CPI	3,7%	7,7%	8,3%	7,4%	7,2%	7,1%	
R47	**Cash Generated by Operations / Own Revenue**		12,6%	10,3%	12,5%	13,4%	14,2%	14,6%	
R48	**Cash Generated by Operations / Total Operating Revenue**		11,1%	9,3%	11,3%	12,1%	12,9%	13,2%	

		N.T. NORM	2026	2028	2030	2032	2034	2035	COMMENTS
EXPENDITURE MANAGEMENT									
	Creditors Payment Period	30	82	70	59	47	36	30	Creditors' payment period will meet the NT norm by the end of the planning period.
R30	**Contribution per Expenditure Item: Staff Cost (Salaries, Wages and Allowances)**	25% - 40%	22,7%	22,9%	22,8%	22,4%	21,9%	21,7%	
	Contribution per expenditure item: Contracted Services	2% - 5%	4,6%	4,7%	4,9%	4,7%	4,6%	4,5%	Staff costs & contracted services as a percentage of total expenditure are forecast to remain within the recommended benchmark throughout the planning period.
GRANT DEPENDENCY									
R10	**Total Grants / Total Revenue**		17,0%	13,1%	12,3%	11,9%	11,6%	11,4%	The municipality can generate funds from its own sources and is not overly reliant on grants. This is positive to note, as the tightening of the national fiscus will result in a declining reliance on transfers from other spheres of government.
R11	**Own Source Revenue to Total Operating Revenue**		88,0%	89,8%	90,5%	90,5%	90,6%	90,7%	
	Capital Grants to Total Capital Expenditure		34,9%	30,3%	42,3%	39,0%	35,7%	33,8%	

1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long-Term Financial Model Outcomes

5 Future Revenues

6 Affordable Future Capital Investment

7 Scenario Analysis

8 Ratio Analysis

9 Conclusions

Conclusion

Outcome of the Independent Financial Assessment

Langeberg Municipality's liquidity position weakened during FY2024/25, reflecting increasing short-term financial pressure. The current ratio declined from 1.77:1 in the prior year to 1.51:1, indicating a reduced ability to meet short-term obligations. This position becomes more concerning when excluding debtors older than 30 days, with the ratio further declining to 1.19:1, suggesting that the municipality's liquidity is heavily reliant on the recoverability of outstanding receivables. In line with this deterioration, total cash and cash equivalents decreased by 34%, falling from R297.1 million to R196.3 million, signalling a notable erosion of cash reserves.

Despite these liquidity constraints, the municipality maintained a modest level of operating performance. When excluding capital grants, Langeberg recorded an operating surplus of R7.2 million in FY2024/25, representing a slight improvement from the R6.8 million surplus achieved in FY2023/24. However, this marginal growth in surplus was not supported by strong cash generation, as cash generated from operations (excluding capital grants) declined sharply to R14.2 million, down from R78 million in the previous year. This divergence between accounting surplus and cash generation raises concerns regarding the underlying sustainability and quality of earnings.

From an operational efficiency perspective, performance was mixed. Electricity distribution losses increased significantly to 16.89% in FY2024/25, up from 5.76% in the prior year, indicating substantial inefficiencies and potential revenue leakage within the electricity network. Conversely, water distribution losses improved notably, declining from 18.7% to 10.59%, suggesting progress in managing water infrastructure and reducing wastage. These contrasting trends highlight uneven performance across key service delivery functions.

In terms of financial structure and asset management, Langeberg remains conservatively leveraged, with gearing and debt-service-to-total-expenditure ratios at low levels of 2.5% and 0.79%, respectively. While this indicates limited reliance on debt, it may also suggest underutilisation of borrowing as a funding mechanism for infrastructure investment. Repairs and maintenance expenditure declined to R33.8 million from R41.7 million, representing only 3% of total operating expenditure, which is well below the National Treasury benchmark of 8%. Over the review period, total capital expenditure amounted to R786.3 million, averaging R98.3 million annually, with the FY2024/25 capital programme primarily funded through own cash reserves (68%) and capital grants (32%), further contributing to the observed pressure on liquidity..

Strengths

- Low gearing and debt service ratios indicate a strong, low-risk balance sheet.
- Improved water distribution efficiency (reduced losses).
- Continued investment in capital infrastructure.

Weaknesses

- Deteriorating liquidity and declining cash reserves.
- Significant drop in cash generated from operations.
- Increased electricity distribution losses.
- Underinvestment in repairs and maintenance (well below benchmark).
- Reliance on internal cash to fund capital expenditure.

Outcome of the Future Forecasts

Base Case Scenario

The assumptions made in the Base Case were focused on maintaining liquidity whilst also ensuring that the capital investment is maximised in a sustainable manner. The Base Case debt profile remains sustainable, whilst enabling a healthy capital investment programme to aid productive infrastructure investment.

Financial Performance

- Projected operating surpluses throughout the planning period.
- Healthy cash generation as a result of this and the maintenance of a high collection rate.
- Liquidity expected to improve and facilitate the implementation of the capital programme that is underpinned by sustainable own cash utilisation.

Key Adjustments in the Base Case

- Acceleration of capex in FY2028/29.
- Reduction in operating expenditure in order to reflect more realistic levels of financial performance given the conservative operating budget.
- Increased R&M expenditure.
- Reduction of creditors days.
- Reduced distribution losses.

Key Assumptions

- **Collection rate** maintained at 95% throughout the planning period.
- **Tariff increases** incorporated as per the Budget Document.
- **Creditors' payment period** reduced from 88 days to 30 days over 10 years to manage rising creditor balances.
- **Repairs and maintenance** expenditure increased to 4.0% of PPE & IP over 5 years.
- **Electricity and water distribution losses** maintained at the following respective levels:
    - Electricity: 8.0%
    - Water: 15.0%
- **Capital Investment Programme**
  Adjustments made to align with productive infrastructure investment whilst remaining sustainable:
    - FY2028/29: R120.0 million
    - Growth beyond MTREF: Assumed 6% per annum.

Outcome of the Base Case

- More sustainable financial outlook.
- Affordable capital investment and borrowing programmes.
- Improved financial performance and liquidity position.

Conclusion

Conservative Forecast Financial Performance: The Tabled Budget presented a conservative outlook. The Base Case has adjusted operating expenditure levels to be more reflective of the historic performance. With that said, we expect the budget to be outperformed.

Financial Stability: Through maintaining healthy financial performance, maintaining a healthy collection rate and continuing prudent management of the municipality's capital investment and borrowing programmes, Langeberg will maintain the sustainable financial position over the long-term. This will provide a basis for further growth and development to be fostered.

Financial Sustainability and Resilience: The report serves as a roadmap for fostering financial sustainability and resilience. The municipality must apply the recommendations to strengthen its financial position while navigating economic challenges and potential financial shocks.

Investment and Growth: Sustained prudent financial management will enable greater investment in infrastructure and economic development, with the investment in renewable energy an example of this.

Key Priorities: Langeberg should adopt the Base Case with a strong focus on maintaining the collection rate and reducing the creditors payment period.

ANNEXURE 1: PROJECTED FINANCIAL STATEMENTS

Municipal Financial Model - Langeberg Local Municipality
Statement of Financial Position

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
R thousands											
Non-current assets:	1 151 035	1 301 983	1 342 836	1 436 791	1 482 426	1 532 049	1 586 359	1 645 788	1 710 770	1 781 745	1 859 158
Property, plant and equipment	1 105 559	1 265 035	1 307 470	1 400 778	1 445 754	1 494 935	1 548 757	1 607 657	1 672 075	1 742 462	1 819 276
Intangible assets	6 029	6 029	6 029	6 029	6 029	6 470	6 959	7 489	8 052	8 640	9 240
Investment properties	29 475	29 475	29 475	29 475	29 475	29 475	29 475	29 475	29 475	29 475	29 475
Investments	156	143	143	144	144	144	144	144	144	144	144
Long-term receivables	9 540	1 026	1 026	1 047	1 067	1 067	1 067	1 067	1 067	1 067	1 067
Other non-current assets	275	275	(1 307)	(682)	(44)	(44)	(44)	(44)	(44)	(44)	(44)
Current assets:	403 204	334 429	362 906	337 455	377 536	445 950	528 046	626 868	743 465	878 556	1 036 644
Inventories	17 333	20 143	18 689	19 603	20 432	21 996	23 500	25 131	26 870	28 690	30 573
Trade and other receivables	189 531	187 033	187 033	187 033	187 033	187 033	187 033	187 033	187 033	187 033	187 033
Cash & Short term investments	196 340	127 252	157 184	130 819	170 071	236 921	317 513	414 704	529 562	662 832	819 038
TOTAL ASSETS	**1 554 239**	**1 636 411**	**1 705 742**	**1 774 246**	**1 859 962**	**1 977 998**	**2 114 405**	**2 272 657**	**2 454 236**	**2 660 300**	**2 895 802**
Municipal Funds:	1 113 197	1 207 293	1 274 243	1 339 220	1 427 441	1 537 813	1 668 646	1 822 148	2 000 358	2 205 020	2 437 815
Housing development fund	–	–	–	–	–	–	–	–	–	–	–
Reserves	62 921	62 921	62 921	64 179	65 463	65 463	65 463	65 463	65 463	65 463	65 463
Accumulated surplus	1 050 276	1 144 372	1 211 322	1 275 040	1 361 978	1 472 350	1 603 183	1 756 685	1 934 895	2 139 557	2 372 352
Non-current liabilities:	173 202	174 983	173 160	171 146	168 873	177 627	187 331	197 801	208 807	223 814	239 135
Long-term liabilities (Interest Bearing)	18 666	20 983	19 160	17 146	14 873	12 361	9 584	6 515	3 124	3 124	3 124
Long-term trade payables: Eskom	–	–	–	–	–	–	–	–	–	–	–
Non-current provisions	154 536	154 000	154 000	154 000	154 000	165 266	177 747	191 286	205 683	220 690	236 011
Current liabilities:	267 840	254 136	258 339	263 880	263 648	262 559	258 428	252 708	245 072	231 467	218 853
Consumer deposits	18 045	19 251	20 862	22 629	24 524	25 824	27 197	28 607	30 039	31 483	33 001
Provisions	63 563	63 000	63 000	63 000	63 000	63 000	63 000	63 000	63 000	63 000	63 000
Trade payables	174 246	170 236	172 654	176 237	173 851	171 223	165 454	158 032	148 641	136 985	122 852
Current portion of long-term trade payables: Eskom	–	–	–	–	–	–	–	–	–	–	–
Unspent conditional grants	6 529	–	–	–	–	–	–	–	–	–	–
Bank overdraft	–	–	–	–	–	–	–	–	–	–	–
Current portion of interest bearing liabilities	5 458	1 649	1 822	2 014	2 273	2 512	2 777	3 069	3 392	–	–
TOTAL MUNICIPAL FUNDS AND LIABILTIES	**1 554 239**	**1 636 412**	**1 705 742**	**1 774 246**	**1 859 962**	**1 977 999**	**2 114 405**	**2 272 657**	**2 454 236**	**2 660 301**	**2 895 802**

Municipal Financial Model - Langeberg Local Municipality
Statement of Financial Performance

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**
R thousands											
Revenue											
Property rates	108 425	114 147	120 926	128 614	136 973	147 038	158 026	169 904	182 622	196 107	210 274
Service Charges	842 301	905 332	1 005 466	1 104 442	1 209 698	1 305 983	1 400 617	1 502 174	1 610 206	1 724 178	1 844 373
Service charges - electricity	682 128	736 621	827 352	916 327	1 010 905	1 094 681	1 175 549	1 262 412	1 354 896	1 452 554	1 555 699
Service charges - water	82 700	87 060	91 710	96 347	101 303	107 640	114 769	122 422	130 579	139 211	148 273
Service charges - waste water management	39 127	40 932	43 315	46 003	48 872	51 966	55 293	58 823	62 528	66 379	70 384
Service charges - waste management	38 346	40 719	43 090	45 764	48 618	51 696	55 006	58 517	62 203	66 034	70 018
Service charges - other	–	–	–	–	–	–	–	–	–	–	–
Rental from fixed assets	3 769	4 163	4 317	4 460	4 603	4 894	5 207	5 540	5 889	6 251	6 629
Interest	23 120	8 947	6 173	7 990	6 883	9 152	12 908	17 348	22 518	28 325	34 609
Interest earned from receivables	10 074	6 973	7 230	7 469	7 708	15 871	17 194	18 490	19 732	20 889	21 936
Dividends	–	–	–	–	–	–	–	–	–	–	–
Fines, penalties and forfeits	37 003	37 003	38 372	39 638	40 907	43 496	46 282	49 236	52 337	55 561	58 913
Licences and permits	3 842	2 514	2 608	2 694	2 780	3 012	3 270	3 553	3 858	4 179	4 512
Agency services	16 936	6 107	6 333	6 542	6 751	7 179	7 638	8 126	8 638	9 170	9 723
Transfer and subsidies - Operational	150 964	151 272	157 279	151 243	153 829	164 652	176 316	188 733	201 826	215 507	229 786
Other revenue	15 842	19 414	20 133	20 797	21 390	22 744	24 201	25 745	27 367	29 053	30 805
Gains on disposal of Assets	131	1 000	4 073	4 317	4 577	5 158	5 849	6 653	7 571	8 596	9 718
Total revenue before Capital Grants	1 212 406	1 256 872	1 372 911	1 478 205	1 596 099	1 729 180	1 857 509	1 995 503	2 142 563	2 297 814	2 461 278
Transfers and subsidies - capital (monetary allocations)	46 317	75 441	48 312	49 305	53 190	53 949	54 928	55 950	56 852	57 484	57 741
Public & developers contributions	–	–	–	–	–	–	–	–	–	–	–
Total Revenue after Capital Grants	1 258 724	1 332 313	1 421 223	1 527 510	1 649 290	1 783 129	1 912 437	2 051 453	2 199 415	2 355 299	2 519 019
Operating expenditure											
Employee related costs	290 279	316 392	347 282	358 321	375 308	395 477	417 000	439 764	463 627	488 410	513 899
Remuneration of councillors	12 349	13 716	13 616	14 161	14 727	15 298	15 901	16 530	17 179	17 840	18 503
Debt impairment	94 116	77 198	83 514	89 745	96 324	103 477	110 732	118 499	126 735	135 393	144 488
Depreciation and amortisation	54 736	56 807	65 972	69 243	75 024	78 018	81 010	84 023	87 079	90 200	93 408
Interest	21 695	2 209	2 052	1 879	1 687	1 475	1 236	972	680	357	–
Bulk purchases - electricity	592 038	598 244	670 821	748 191	808 239	875 220	939 875	1 009 324	1 083 267	1 161 346	1 243 813
Inventory Consumed	38 260	37 257	42 179	45 084	47 509	52 191	56 347	60 978	66 018	71 375	76 950
Contracted services	43 041	67 167	71 766	77 116	81 677	87 540	91 720	96 172	100 877	105 815	111 001
Transfers and subsidies	3 500	4 369	4 504	4 504	4 504	4 743	4 999	5 267	5 546	5 831	6 124
Other expenditure	49 791	64 859	52 564	54 291	56 070	59 317	62 783	66 423	70 198	74 068	78 038
Losses on disposal of Assets	11 462	–	(0)	–	–	–	–	–	–	–	–
Total Expenditure	1 211 267	1 238 218	1 354 272	1 462 534	1 561 069	1 672 757	1 781 604	1 897 952	2 021 205	2 150 637	2 286 224
Suplus/ (Shortfall) for the year	**47 456**	**94 096**	**66 951**	**64 976**	**88 221**	**110 373**	**130 833**	**153 501**	**178 210**	**204 662**	**232 795**

Municipal Financial Model - Langeberg Local Municipality
Cash Flow Statement

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**
R thousands											
Cash flows from Operating Activities											
Suplus/Deficit for the year *including* Capital Grants	47 456	94 096	66 951	64 976	88 221	110 373	130 833	153 501	178 210	204 662	232 795
Suplus/Deficit for the year *excluding* Capital Grants & Contributions		18 655	18 639	15 671	35 030	56 424	75 905	97 551	121 358	147 178	175 054
Capital Grants & Contributions		75 441	48 312	49 305	53 190	53 949	54 928	55 950	56 852	57 484	57 741
Adjustments for non-cash items:											
Depreciation, amortisation and impairment loss	54 736	56 807	65 972	69 243	75 024	78 018	81 010	84 023	87 079	90 200	93 408
Revaluation on investment property (gain) / loss	–	–	–	–	–	–	–	–	–	–	–
Increase / (Release from) current provisions & non-interest bearing liabilities	–	(563)	–	–	–	–	–	–	–	–	–
Increase / (Release from) other non-current provisions & non-interest bearing liabilities	–	(536)	–	–	–	11 266	12 481	13 539	14 397	15 007	15 321
(Increase) / Release from non-current interest bearing assets	–	13	(0)	(0)	(0)	–	–	–	–	–	–
Capitalised interest	–	–	–	–	–	–	–	–	–	–	–
Eskom Debt Relief (synthetic grant)	–	–	–	–	–	–	–	–	–	–	–
Operating surplus before working capital changes:	102 192	149 817	132 922	134 219	163 244	199 657	224 325	251 063	279 686	309 869	341 524
Change in W/C Investment	–	(10 851)	3 872	2 670	(3 216)	(4 192)	(7 272)	(9 054)	(11 130)	(13 477)	(16 015)
(Increase)/decrease in inventories	–	(2 810)	1 454	(914)	(829)	(1 564)	(1 504)	(1 631)	(1 739)	(1 820)	(1 883)
(Increase)/decrease accounts receivable	–	2 498	–	–	–	–	–	–	–	–	–
Increase/(decrease) in trade payables	–	(4 010)	2 418	3 583	(2 387)	(2 628)	(5 769)	(7 422)	(9 391)	(11 657)	(14 132)
Eskom Debt Relief (movement out of creditors)		–	–	–	–	–	–	–	–	–	–
Increase/(decrease) in unspent grants	–	(6 529)	–	–	–	–	–	–	–	–	–
Net cash flow from Operating activities	102 192	138 967	136 794	136 889	160 029	195 465	217 052	242 010	268 556	296 392	325 509
Cash flows from Investing Activities											
Capital expenditure	–	(216 283)	(108 407)	(162 551)	(120 000)	(127 641)	(135 321)	(143 452)	(152 061)	(161 175)	(170 822)
Decrease/(Increase) in non-current receivables	–	8 514	1 582	(646)	(659)	–	–	–	–	–	–
(Additions) / Disposals of investment property	–	(0)	–	–	–	–	–	–	–	–	–
Net cash flow from Investing activities	–	(207 768)	(106 825)	(163 197)	(120 659)	(127 641)	(135 321)	(143 452)	(152 061)	(161 175)	(170 822)
Cash flows from Financing Activities											
New loans raised	–	–	–	–	–	–	–	–	–	–	–
Loans repaid	–	(1 492)	(1 649)	(1 822)	(2 014)	(2 273)	(2 512)	(2 777)	(3 069)	(3 392)	–
(Decrease) / Increase in consumer deposits	–	1 206	1 611	1 766	1 895	1 299	1 373	1 410	1 432	1 444	1 518
Net cash flow from Financing activities	–	(286)	(38)	(56)	(119)	(974)	(1 139)	(1 366)	(1 637)	(1 948)	1 518
Change in Cash	102 192	(69 087)	29 932	(26 364)	39 251	66 850	80 592	97 191	114 858	133 270	156 205
Cash/(Overdraft), Beginning		196 340	127 252	157 184	130 819	170 071	236 921	317 513	414 704	529 562	662 832
Cash/(Overdraft), Ending	**196 340**	**127 252**	**157 184**	**130 819**	**170 071**	**236 921**	**317 513**	**414 704**	**529 562**	**662 832**	**819 038**

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