MUBESKO AFRICA
MUNICIPAL BUSINESS SPECIALISTS

# Garden Route District Municipality

Garden Route
DISTRICT MUNICIPALITY | UMASIPALA WESITHILI | DISTRIKSMUNISIPALITEIT

# LONG-TERM FINANCIAL PLAN FOR THE PERIOD

# 2020/21 TO 2029/30

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## Mayor's Preface

I present to you Garden Route District Municipality's proposed 2020-2030 Long-Term Financial Plan (LTFP), demonstrating how Council will continue to responsibly deliver community services and infrastructure while maintaining a sound financial position over the next decade.

This Council has the constitutional obligation to successfully rise to the challenge of preparing a sound LTFP that is capable of withstanding the National and Western Cape Government's expectations of fulfilment and compliance to all the functions and responsibilities as set out in the constitution.

Council's focus throughout this document has been on delivering services, maintaining assets and investing in new infrastructure that will support our growing population while cementing Garden Route District Municipality as the leading, enabling and inclusive district, characterised by equitable and sustainable development, high quality of life and equal opportunities for all.

This is the first year that the provision for a regional landfill site has been included in Council's LTFP in an effort to provide exceptional state-of-the-art facilities to the 7 Municipalities within our area of jurisdiction.

Council will continue to passionately advocate to The Western Cape and National Governments alongside our community for funding towards projects that continue transforming our beautiful area into the perfect place to live, learn, work, invest and enjoy.

Councillor Memory Booysen

**MAYOR – GARDEN ROUTE DISTRICT MUNICIPALITY**

# 1. EXECUTIVE SUMMARY

## 1.1. Purpose of the Long-Term Financial Plan (LTFP)

The Long-Term Financial Plan has been developed to provide the following outcomes for the Garden Route District Municipality:

- establishing a prudent and sound financial framework, combining and integrating financial strategies to achieve a planned outcome;
- establishing a financial framework against which Council's strategies, policies and financial performance can be measured;
- ensuring that Council complies with sound financial management principles, as required by the *Municipal Finance Management Act, Act 56 of 2003* and plan for the long-term financial sustainability of Council; and
- allow Council to meet the objectives of the *Constitution Act (108) of 1996* to promote the social, economic and environmental viability of this regional municipality and its role in maintaining the viability of Council to ensure that resources are managed in a responsible manner.

This LTFP represents a comprehensive approach to the document and integrates the various financial strategies of Council. The development of the long-term financial projections represents the output of several strategy areas, that when combined, produce the financial direction of Council, as shown below:

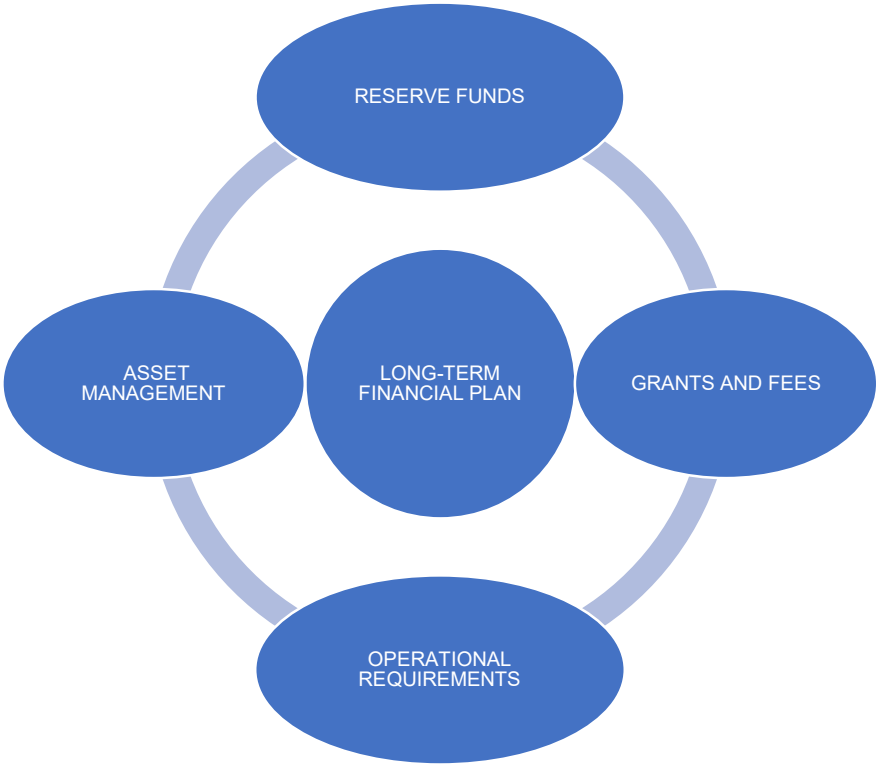



***Figure 1: Output of Strategy Areas***

## 1.2. Objectives of the Long-term Financial Plan

The objectives that this LTFP aims to achieve are as follows:

- The achievement of a prudent balance between meeting the service needs of our communities (both now and future) and remaining financially sustainable for future generations.
- An increased ability to fund both new capital works in general and meet the asset renewal requirements as outlined in asset management planning.
- Endeavouring to maintain a sustainable Municipality in an environment where Council has to probably constrain its net operational costs due to limited available grants funding (capping).

For the purposes of this Plan, financial sustainability is defined in the below diagram, modelled essentially on a hierarchy of needs approach.

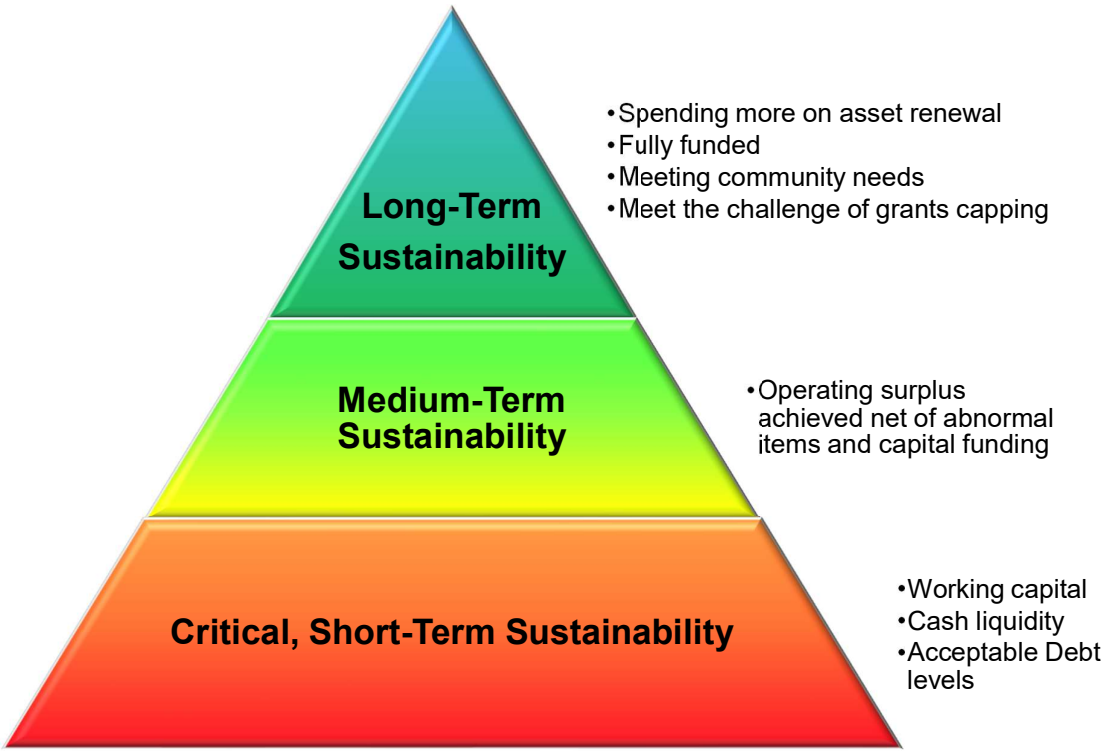



***Figure 2: Hierarchy of needs approach for financial sustainability***

Over the past years, Garden Route District Municipality has reached a position as outlined in the 'Long-Term Sustainability' section of the triangle above. However, the challenge for Council will be to avoid an outcome where it gradually reverts through the sections back into the orange/red zone over the next 10 years on the back of capped revenue capacity and rising costs.

To avoid this outcome, Council will continue to critically evaluate all of its current service provision and may have to make a series of difficult decisions, particularly where costs in services increase by an amount greater than Council's ability to increase general revenues.

## 1.3. Key outcomes / challenges of this and future LTFP's

This revision of the Long-Term Financial Plan represents a critical document for Garden Route District Municipality. The most significant challenge is to maintain Council's capacity to deliver its mandated services and maintaining existing assets whilst preserving a sound financial position.

The challenges in this LTFP are very much around what actions Council may take to mitigate the very significant impacts of a restriction on Council's ability to raise revenue in the future.

## 1.4. The impact of grants capping on Council's Long-Term Financial Plan

Despite Council being in a healthy financial position with satisfactory liquidity requirements, cash flow, reserve balances and base asset renewal requirements being met, grants capping presents a significant challenge to Council's longer-term financial sustainability.

Continuing to accumulate cash reserves is critical for the municipality to continue to meet its annual asset renewal targets as well as providing a funding base that would allow Council to deliver mandatory services to the community.

Council is confident that it can continue to manage the grants capping challenge in the 2020-2021 financial year. Beyond this period however, the ongoing challenges will begin to become more difficult particularly due to the impact of cost inflation to Council's operational budgets, without the ability to offset this via increased grants and/or alternative new revenue sources.

This challenge in the medium- to long-term will require Council to fundamentally review the sustainability of its operations. A 'business as usual' approach will not be sufficient to meet the challenge into the future. It will be necessary for Council to undertake an annual review of all services in line with community expectations and Council's resource availability. Here in particular, the continuation of the non-lucrative holiday resorts needed to be critically reconsidered.

## 1.5. Service level and planning

To maintain financial sustainability in the face of the above challenge, Council needs to fundamentally review its approach to service delivery. Council will need to assess what levels of services can be provided for a given maximum grant increase and other revenues. The primary outcome from the LTFP is the quantification of the cost of existing service requirements and the associated long-term cash flow implications to maintain those service levels. This allows for the ongoing review of the affordability of existing service levels and their priority relative to emerging service demands and the capacity and willingness to pay for it.

## 1.6. National Government Budget impacts – recurrent grant funding

Recurrent grants, in particular the equitable share, constitute almost 73% of Council's total underlying operational revenue and hence are an important source of revenue for Council.

Recurrent grant revenue however has consistently failed to keep pace with the cost of providing these same services that the grant supports, therefore requiring Council to continue to 'top-up' the government shortfall with other revenue in order to continue to provide the current levels of services to the community.

## 1.7. Strategic Major Projects

During the past several years, facilities of the Council have improved markedly and contribute towards making the Council a better place for its residents to live and work. Council retains a strong focus on the future needs of this Municipality. Due to cash constraints, Council however has to focus only on key projects that need to be considered.

## 1.8. Outcomes incorporated in the LTFP

The purpose of the LTFP is to provide a financial framework to Council in terms of what can be prudently achieved over the period of this LTFP with a strong focus in terms of capital planning.

In preparing the 2020-2029 LTFP, the following items have impacted or will impact the finances of Council and the preparation of this Plan:

The key outputs included in the LTFP are:

- The achievement of an ongoing underlying operational surplus throughout the life of the LTFP.
- A stable funding in asset replacements/renewals of R91.194 million over the 10-year period of the LTFP.
- The achievement of a financial structure where annual asset renewal needs are funded from reserves and asset sales are used to refund reserves.
- The retention and/or abolition of holiday resorts at present levels for 2020-2021 with a review to reduce service provision spending for the years 2021-2022 to 2028- 2029

In summary, the LTFP highlights the considerable challenges faced by Council over the coming 10-year period and beyond in order for Council to remain viable and sustainable, and at the same time endeavouring to deliver on key infrastructure projects, and in particular the commissioning of the new district landfill site that is critical to the community.

The table below highlights the strategic outcomes contained in this LTFP.

*Table 1: Strategic Outcomes of this LTFP*

| Section | Strategic Direction |
|---|---|
| **Macro View** | 1. That Council revise its ten-year forward financial plan on an annual basis.<br>2. That Council seek to maintain an underlying operational cash surplus (in the Income Statement) prior to the recognition of capital income over the life of the Long-Term Financial Plan.<br>3. That Council seeks to continue its capital works investment to sufficient levels that allows it to adequately fund its asset renewal requirements and continue to deliver major project funding.<br>4. That the asset renewal requirements identified in asset management plans be funded over the period of this Long-Term Financial Plan.<br>5. That Council endorse through this Long-Term Financial Plan, the principle that ongoing asset renewal requirements must be funded from sources such as asset sales and reserve funds and to refrain from borrowing.<br>6. That Council continue to conduct a detailed review of all current service provision and determine which services can in the future either be discontinued or reduced. |
| **Section 3** Operational Requirements | 1. That sufficient cash is generated annually from operations to fully cover Council policy goals in terms of contributions to the Capital Replacement Reserve with regard to depreciation.<br>2. That sufficient cash is generated annually from operations to fully cover Council policy goals in terms of contributions to the Cash Reserves with regard to the short-term portion of employee benefits.<br>3. That sufficient cash is generated annually from operations to fully cover Council policy goals in terms of contributions to the Cash Reserves with regard to long-term employee benefits. The current policy goal is 10% of the total annual valuation.<br>4. That serious consideration be given by Council to alienate the "non-core" holiday resorts' function which is operating at relatively large deficits.<br>5. That Council embark on a process to downscale on employee cost which is in absolute and comparative terms much bigger than their counterparts.<br>6. That Council continue to strictly enforce and apply the regulations on cost containment measurements as gazetted in an effort to improve on the spending of General Expenditure. |

| | |
|---|---|
| **Section 4** Asset Management | 1. That Council note the forecast level of capital expenditure over the ten-year period of the LTFP and adequately fund its asset renewal requirements.<br>2. Proceeds from sale of land will be transferred to the strategic Capital Replacement Reserve for the purpose of funding and replacing new assets. Proceeds from sale of land are not to be utilised to fund operational expenditure.<br>3. That Council continues to enhance existing asset management planning to further enhance the knowledge of future asset renewal, compliance and maintenance requirements, including reviewing the service potential of the existing asset infrastructure and how this matches the current community needs.<br>4. That Council endorse an in-principle strategy of allocating funds to meet asset renewal, compliance and maintenance requirements as a priority in the development of the Annual Budget and the Integrated Development Plan. |
| **Section 5** Long-term Borrowing | 1. That Council approves the principle that loan funding will only be utilised on specific capital infrastructure projects whose financial feasibility indicate that the project will generate sufficient revenue to cover the interest cost and capital cost associated with said project. |
| **Section 6** Cash Reserves and Cash Reserves Application | 1. That reserve funds be drawn down to fund expenditure that is consistent with the purpose of the reserve as noted in this section.<br>2. That Councils' cash and reserve funds policies be reviewed and accordingly adjusted to accommodate the LTFP strategies.<br>3. According to Councils existing Cash Management and Reserves Policies, an Employee Benefits Reserve Fund must be established which does not exist at present. Recommend that the Reserve Fund be established and the backlog be funded.<br>4. That a new Landfill Site Rehabilitation Reserve Fund be established, as well as a Sinking Fund into which annual contributions be exclusively invested. |
| **Section 7** Long-term Financial Plan Matrix | 1. Projected revenue based on assumptions and recommendations emanating from analysis be applied.<br>2. Projected expenditure based on assumptions and recommendations emanating from analysis be applied.<br>3. Cash Reserves to cover projected asset replacement.<br>4. Cash Reserves cover at least 3 months' average operating cost.<br>5. Cash Reserves to cover the accumulated reserves for Employee Benefits.<br>6. Cash Reserves to cover the accumulated reserves for the newly established Landfill Site Rehabilitation Reserve Fund. |

7. The matrix must also be in Excel format to be utilised as a tool to interactively adjust to changes in assumptions, policy changes, and predictions.

# 2. LINK BETWEEN LONG-TERM FINANCIAL PLAN AND COUNCIL'S PLANNING FRAMEWORK

## 2.1. Planning Phase

The following diagram (figure 3) highlights the various long-term financial planning phases:

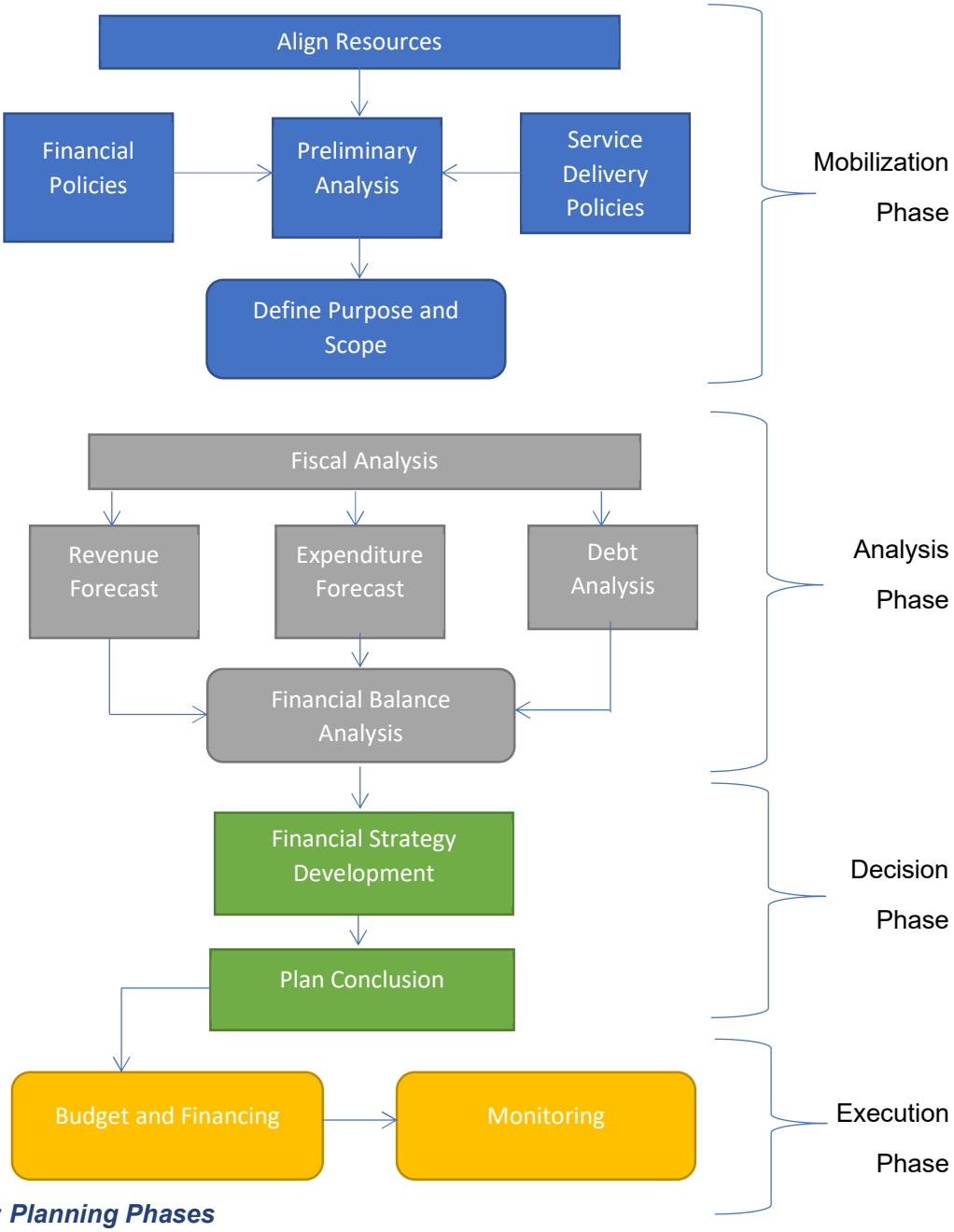



*Figure 3: Planning Phases*

### *Mobilization Phase*

The mobilization phase prepares the organization for long-term planning by creating consensus on what the purpose and results of the planning process should be.

### *Analysis Phase*

The analysis phase is designed to produce information that supports planning and strategizing. The analysis phase includes the projections and financial analysis commonly associated with long-term financial planning. The analysis phase involves information gathering and trend projections.

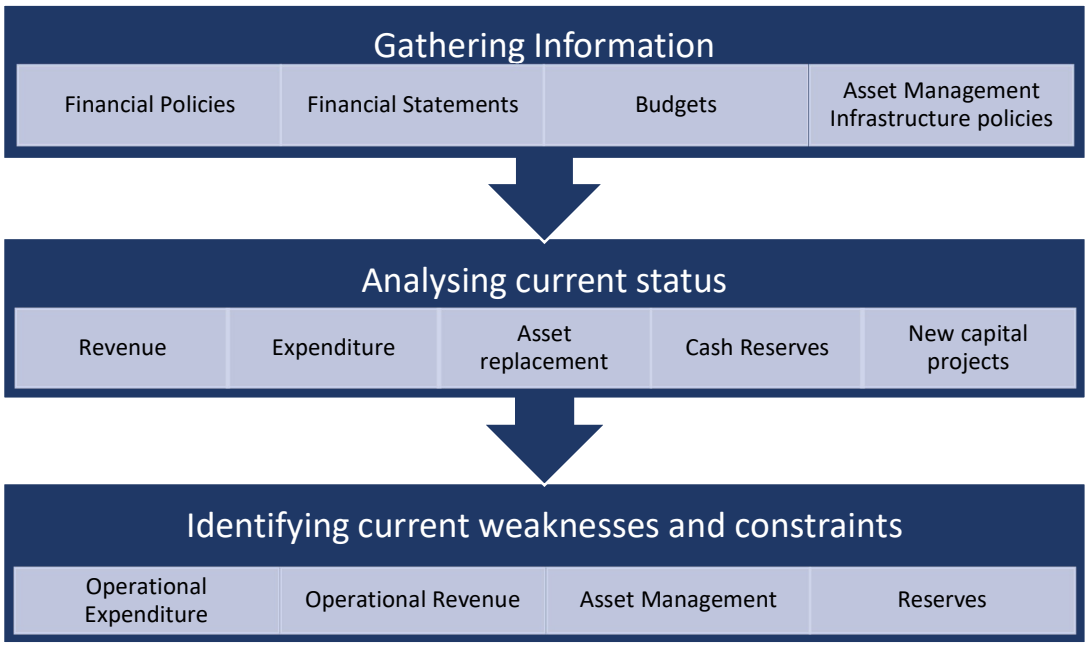
### *Decision Phase*

After the analysis phase is completed, the municipality must decide how to use the information provided. Key to the decision phase is a highly participative process that involves officials, staff, and the public. The decision phase also includes a culminating event where the stakeholders can assess the planning process to evaluate whether the purposes for the plan described in the mobilization phase were fulfilled and where a sense of closure and accomplishment can be generated. Finally, the decision phase should address the processes for executing the plan to ensure tangible results are realized.

### *Execution Phase*

After the plan is officially adopted, strategies must be put into action (e.g. funding required in achieving goals). The execution phase is where the strategies become operational through the **budget, financial performance measures and action plans**. Regular monitoring should be part of this phase.

## 2.2. Methodology followed compiling the Long-Term Financial Plan



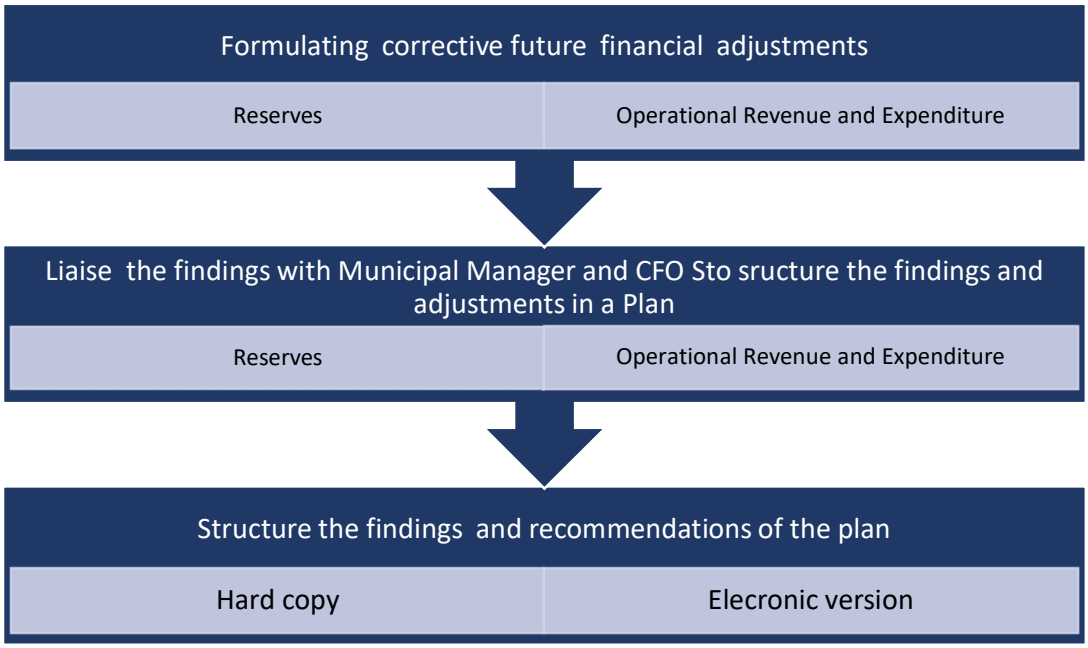



***Figure 4: Methodology phases***

Information was gathered from the following documents:

- Financial Statements 2015-2019
- Medium Term Revenue and Expenditure Framework for 2018/19
- Integrated Development Plan
- Spatial Development Plan
- Asset Management Policy

The following Policies have been inspected **and may need some future adjustments to support the Long-Term Financial Plan** effectiveness:

- Tariff policy
- Budget policy
- Asset Management policy
- Investment policy
- Borrowing policy

The asset registers of the municipality have been analysed in an attempt to determine future asset replacement costs and maintenance requirements. The IDP and relevant sector master plans have been reviewed and interviews with the executive management of the municipality have been conducted to identify material matters with a financial impact and the capital investment requirements of the municipality have been determined.

The cash needs of the municipality's needs against the revenues it can expect to generate based on the economy and population of the sub-region was modelled in an attempt to determine the affordability of future capital expenses.

# 3. ANALYSIS OF THE CURRENT STATUS

## 3.1. Socio-economic status

### 3.1.1. The municipality at a glance

**MUNICIPALITY: At a Glance**

**Demographics, 2017**

**POPULATION**

623 000

**HOUSEHOLDS**

189 345

**Education**

**LITERACY RATE**

73.4%

**Poverty**

**HOUSEHOLDS EARNING <THAN R400 PM -2011**

33.4%

**Access to Basic Service Delivery**

96.9%

88.8%

94.3%

96.1%

Economic Growth

**GDP Growth 2005 – 2013**

**1%**

*Table 2: Largest Economic Sectors*

| Industry | % |
|---|---|
| Finance | 24.87 |
| Retail, trade and accommodation | 17.90 |
| Manufacturing | 14.54 |
| Construction | 6.58 |
| Agriculture, forestry and fishing | 5.70 |
| Government | 10.19 |
| Community, social and personal services | 6.74 |
| Transport, Storage and Communication | 10.20 |
| Other | 3.28 |

### 3.1.2. Economic sector performance

The local economy of the Garden Route municipal area is dominated by the finance, insurance, real estate and business services sector (R10 014.3 million or 24.9 percent), followed by the wholesale and retail trade, catering and accommodation sector (R7 223.4 million or 17.9 percent), manufacturing sector (R5 853.9 million or 14.5 percent in 2016), general government (R4 106.2 million or 10.2 percent) and transport, storage and communication (R4 019.8 million or 10.0 percent). Combined, these five sectors contributed to R31.2 billion (or 77.5 percent) of the Garden Route District municipal economy, which was estimated to be worth R40.3 billion in 2016.

*Table 3: GRD Performance per Sector, 2006 – 2017e*

| Garden Route District GDPR performance per sector, 2006 – 2017e | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Sector | Contribution to GDPR (%) 2016 | R million value 2016 | Trend | | Real GDPR growth (%) | | | | |
| | | | 2006 - 2016 | 2013 – 2017e | 2013 | 2014 | 2015 | 2016 | 2017e |
| **Primary Sector** | **6.1** | **2 443.0** | **1.4** | **0.5** | **1.8** | **6.4** | **-2.7** | **-7.3** | **4.4** |
| Agriculture, forestry and fishing | 5.7 | 2 295.1 | 1.5 | 0.4 | 1.7 | 6.4 | -2.9 | -7.7 | 4.2 |
| Mining and quarrying | 0.4 | 148.0 | 0.2 | 3.5 | 2.7 | 6.8 | -0.1 | 0.5 | 7.7 |
| **Secondary Sector** | **24.2** | **9 750.3** | **1.8** | **0.8** | **2.0** | **1.0** | **0.2** | **0.9** | **-0.2** |
| Manufacturing | 14.5 | 5 853.9 | 1.9 | 0.9 | 1.7 | 0.6 | 0.3 | 1.6 | 0.4 |
| Electricity, gas and water | 3.1 | 1 244.6 | -1.1 | -1.4 | -0.7 | -1.2 | -2.2 | -2.7 | -0.1 |
| Construction | 6.6 | 2 651.8 | 3.2 | 1.2 | 3.9 | 2.9 | 0.6 | 0.4 | -1.8 |
| **Tertiary Sector** | **69.7** | **28 077.6** | **3.3** | **2.4** | **3.2** | **2.8** | **2.4** | **2.1** | **1.3** |
| Wholesale and retail trade, catering and accommodation | 17.9 | 7 223.4 | 2.5 | 1.4 | 2.4 | 1.5 | 1.9 | 1.9 | -0.7 |
| Transport, storage and communication | 10.0 | 4 019.8 | 3.4 | 2.5 | 3.2 | 4.0 | 1.5 | 1.5 | 2.4 |
| Finance, insurance, real estate and business services | 24.9 | 10 014.3 | 4.2 | 3.4 | 3.8 | 3.5 | 3.9 | 3.2 | 2.7 |
| General government | 10.2 | 4 106.2 | 2.7 | 1.2 | 3.5 | 2.6 | 0.3 | 0.4 | -0.6 |
| Community, social and personal services | 6.7 | 2 714.0 | 2.1 | 1.6 | 2.5 | 1.8 | 1.1 | 1.5 | 1.2 |
| **Total Garden Route District** | **100.0** | **40 270.9** | **2.8** | **1.9** | **2.9** | **2.6** | **1.5** | **1.2** | **1.2** |

*Source: Quantec Research, 2017 (e denotes estimate)*

The 10-year trend, between 2006 and 2016, shows that the finance, insurance, real estate and business services sector registered the highest average growth rate (4.2 percent) in the Garden Route District during this period, followed by the transport, storage and communication (3.4 percent) and construction (3.2 percent) sectors. Growth of the agriculture sector shrunk into negative territory in 2015 and 2016 due to the severe drought, but the estimated growth rate for 2017 is 4.2 percent.

### 3.1.3. Labour

This section highlights key trends in the labour market within the Garden Route District municipal area.

The wholesale and retail trade, catering and accommodation sector contributed the most jobs in the Garden Route municipal area in 2016 (52 954 or 23.9 percent), followed by the finance, insurance, real estate and business services sector (38 3571or 17.3 percent); community, social and personal services (33 584 or 15.1 percent); agriculture, forestry and fishing (29 192 or 13.1 percent) and general government (22 767 or 10.3 percent). Combined, these top five sectors contributed 176 854 or 79.7 percent of the 222 010 jobs in 2016.

### *Table 4: GRD Employment Growth per Sector 2006 – 2017e*

| Garden Route District employment growth per sector 2006 – 2017e | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Sector | Contribution to employment (%) 2016 | Number of jobs 2016 | Trend | | Employment (net change) | | | | |
| | | | 2006 - 2016 | 2013 – 2017e | 2013 | 2014 | 2015 | 2016 | 2017e |
| **Primary Sector** | **13.2** | **29 381** | **-13 853** | **3 656** | **1 633** | **-1 203** | **5 166** | **-1 189** | **-751** |
| Agriculture, forestry and fishing | 13.1 | 29 192 | -13 860 | 3 639 | 1 633 | -1 207 | 5 155 | -1 188 | -754 |
| Mining and quarrying | 0.1 | 189 | 7 | 17 | 0 | 4 | 11 | -1 | 3 |
| **Secondary Sector** | **16.2** | **35 905** | **-569** | **2 568** | **788** | **816** | **222** | **353** | **389** |
| Manufacturing | 8.9 | 19 715 | -553 | 1 558 | 645 | 190 | 341 | -192 | 574 |
| Electricity, gas and water | 0.4 | 875 | 279 | 105 | 7 | 20 | 25 | 35 | 18 |
| Construction | 6.9 | 15 315 | -295 | 905 | 136 | 606 | -144 | 510 | -203 |
| **Tertiary Sector** | **70.6** | **156 724** | **34 929** | **18 568** | **4 196** | **3 857** | **5 020** | **154** | **5 341** |
| Wholesale and retail trade, catering and accommodation | 23.9 | 52 954 | 9 520 | 6 835 | 977 | 615 | 2 214 | 80 | 2 949 |
| Transport, storage and communication | 4.1 | 9 062 | 2 972 | 1 121 | 574 | 270 | 607 | -753 | 423 |
| Finance, insurance, real estate and business services | 17.3 | 38 357 | 12 948 | 7 069 | 1 503 | 1 436 | 1 941 | 950 | 1 239 |
| General government | 10.3 | 22 767 | 4 262 | -415 | -306 | 1 019 | -550 | 279 | -857 |
| Community, social and personal services | 15.1 | 33 584 | 5 227 | 3 958 | 1 448 | 517 | 808 | -402 | 1 587 |
| **Total Garden Route District** | **13.2** | **222 010** | **20 507** | **24 792** | **6 617** | **3 470** | **10 408** | **-682** | **4 979** |

*Source: Quantec Research, 2018 (e denotes estimate)*

Only the agriculture, forestry and fishing, manufacturing and construction sectors in the Garden Route District municipal area reported average decreases in jobs (-13 860, -553, and -295 respectively) between 2006 and 2016. There were also some job losses reported in the agriculture, forestry and fishing sector in 2016 and 2017 due to the severe drought. This is concerning considering that it provides a significant contribution to Garden Route District's employment. The sector which reported the largest increase in jobs between 2006 and 2016 was the finance, insurance, real estate and business services (12 948), wholesale, retail and trade (2 658) and community, social and personal services (5 227).

The majority of workers in the Garden Route labour force in 2016 was dominated by semi-skilled workers (41.0 percent) and 27.5% percent were skilled.

### *Table 5: GRD Trends in Labour Force Skills, 2006-2017*

| Garden Route District trends in labour force skills, 2006 - 2017 | | | | | |
|---|---|---|---|---|---|
| Formal employment by skill | Skill level contribution (%) 2016 | Average growth (%) 2006 – 2016 | Average growth (%) 2013 – 2017e | Number of jobs 2016 | |
| | | | | 2016 | 2017e |
| Skilled | 27.5 | 3.4 | 3.7 | 44 472 | 45 114 |
| Semi-skilled | 41.0 | 0.7 | 2.0 | 66 293 | 66 149 |
| Low skilled | 31.5 | -0.6 | 1.9 | 50 907 | 50 587 |
| **Total Garden Route District** | **100,0** | **0,9** | **2,4** | **161 672** | **161 850** |

*Source: Quantec Research, 2018 (e denotes estimate)*

The number of skilled workers increased relatively fast over the 2006 – 2016 period, while growth was slower for semi-skilled workers and low-skilled employment declined over this period. An improvement in education and economic performance can contribute to further increases in the number of higher skilled workers.

***Table 6: Unemployment Rates for the Western Cape (%)***

| Unemployment Rates for the Western Cape (%) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Area | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017e |
| City of Cape Town | 16.2 | 15.2 | 16.5 | 17.8 | 17.9 | 18.1 | 18.1 | 18.5 | 19.1 | 20.3 | 21.1 |
| West Coast | 4.7 | 6.5 | 7.9 | 9.3 | 9.7 | 9.6 | 9.2 | 10.0 | 9.0 | 10.1 | 11.1 |
| Cape Winelands | 6.5 | 7.2 | 8.3 | 9.6 | 9.8 | 9.7 | 9.4 | 9.9 | 9.1 | 10.1 | 10.7 |
| Overberg | 6.2 | 6.9 | 8.3 | 9.7 | 10.0 | 10.0 | 9.8 | 10.5 | 9.8 | 11.1 | 11.8 |
| **Garden Route** | **13.2** | **12.7** | **13.8** | **15.0** | **14.9** | **15.0** | **14.8** | **15.1** | **15.0** | **16.3** | **17.0** |
| Central Karoo | 20.5 | 21.0 | 22.0 | 22.9 | 22.6 | 22.4 | 22.1 | 22.6 | 21.7 | 23.0 | 24.0 |
| **Western Cape** | **13.3** | **12.9** | **14.2** | **15.5** | **15.7** | **15.8** | **15.7** | **16.1** | **16.2** | **17.4** | **18.2** |

*Source: Quantec Research, 2018 (e denotes estimate)*

Over the last decade, the Garden Route District's unemployment rate has been rising steadily; it has increased from 15.0 percent in 2015 to 16.3 percent in 2016 and an estimated 17.0 percent in 2017. The Garden Route District's unemployment rate in 2017 is slightly lower than that of the Province's 18.2 percent.

SOCIO ECONOMIC RISKS

From the above demographic indicators, the following socio-economic risks are evident:

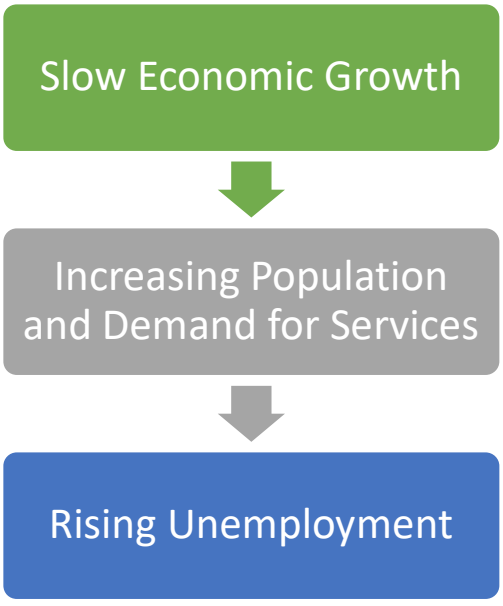



***Figure 5: Socio-economic Risks***

## 3.2. Financial performance

When determining the financial performance of the municipality, the following three measuring principles are applied as analysing mechanism tools:

- Accounting Surplus/Loss
- Underlying Surplus/Loss
- Cash Generated Surplus/Loss

### 3.2.1. Differences between Accounting surplus/loss, Underlying surplus/loss and Cash Generating Surplus/Loss

When municipalities publish their financials, Generally Recognised Accounting Practices (GRAP) require them to disclose the operating surplus/loss generated. This is calculated by subtracting all costs from revenue, which include numerous non-recurrent accounting adjustments, and the surplus or loss is then referred to as an accounting surplus/loss.

An accounting surplus/loss is however misleading of the reality, and although the Annual Financial Statements are reported in terms of the GRAP standards which obliges municipalities to report in this manner, it is more realistic to determine underlying surplus/loss for planning purposes.

Underlying surplus/loss is a calculation made internally to show what it believes is a more accurate reflection of how much money it generates. The number focuses on regular accounting cycle events and often excludes one-time charges or infrequent occurrences. Underlying surpluses differ from the required accounting surpluses that are recorded on financial statements and other mandatory documents that follow pre-set practices, rules and regulations.

For this financial planning, the municipality will choose to supplement the reported figures with their own calculation. Underlying profit is designed to offer a more useful indicator of performance on a year-by-year basis.

Stripping out unusual, non-recurring costs irons out random fluctuations and should, in theory, make it easier for decision-makers to get a better idea of how the municipality's surplus/loss from its everyday, standard business operations is accrued.

The goal here is to eliminate any distractions caused by random occurrences. Losses or gains that do not regularly crop up, are usually not taken into account because they do not occur often and, as a result, are not deemed to reflect the everyday costs of running the municipality.

In general, only regular operating expenses considered to be predictable or required will be deducted from predictable revenue.

When the underlying surplus/loss is then further excluded from all the accounting adjustments, the result is only a Cash Generating surplus/loss.

This is the most important and relevant indicator, as this principal serves the purpose to determine the future cash flow which fundamentally would form the basis of the projections and assumptions applied further in the analysing phase.

### 3.2.2. Accounting surplus/loss

Below is a summary of the municipality's operational performance as reflected in the published Annual Financial Statements as at 30 June 2019, reflecting all the accounting practices as prescribed by GRAP.

*Table 7: Accounting Surplus (Source: 2019 Annual Financial Statements)*

| Statement of Performance | 2017/18 | 2018/19 | % Increase |
|---|---|---|---|
| **Revenue** | **397 005 845** | **441 317 427** | |
| | | | |
| Government Grants and subsidies | 154 142 467 | 165 934 347 | 7.65% |
| Public Contributions and Donantions | 920 850 | 339 711 | |
| Acturial Gains | 4 173 621 | | |
| Dept of Transport-Roads services | 206 563 793 | 213 747 583 | 3.48% |
| Sales of goods and redering of Services | 16 227 717 | 21 572 639 | 32.94% |
| Rent on land | 444 513 | 704 013 | 58.38% |
| Rental of Facilities | 347 585 | 978 020 | 181.38% |
| Interest Earnd-Debtors | 1 639 116 | 2 423 660 | 47.86% |
| Interest Earnd-Investments | 11 276 945 | 12 966 268 | 14.98% |
| Licences and Permits | 213 594 | 484 416 | 126.79% |
| Reversal of Impairment Loss | 57 060 | 18 829 335 | |
| Reversal of Inventory | - | 34 596 | |
| Gains on Sale of Fixed Assets | | 2 188 768 | |
| Operational Revenue | 998 584 | 1 114 071 | 11.57% |
| | | | |
| | | | |
| **Expenditure** | **389 782 984** | **425 973 289** | |
| | | | |
| Employee related costs | 202 820 676 | 220 306 483 | 8.62% |
| Remuneration of Councillors | 10 980 692 | 11 053 302 | 0.66% |
| Bad Debts Written Off | 3 527 609 | 3 994 605 | 13.24% |
| Inventories Written off | 50 064 | | |
| Impairment Losses-Receivables | 7 300 140 | 8 560 292 | 17.26% |
| Contracted Services | 26 977 749 | 32 674 297 | 21.12% |
| Depreciation and Amortisation | 3 974 117 | 4 033 309 | 1.49% |
| Finance Cost | 79 372 | 1 725 216 | 2073.58% |
| Inventory Consumed | 73 172 033 | 78 190 579 | 6.86% |
| Operating Leases | 975 205 | 541 897 | -44.43% |
| Transfers and Subsidies | 2 303 540 | 2 355 601 | 2.26% |
| Operating Costs | 57 047 790 | 61 029 283 | 6.98% |
| Acturial Losses | - | 1 508 425 | |
| Losses on Sale of Fixed Assets | 573 997 | | -100.00% |
| | | | |
| **SURPLUS** | **7 222 861** | **15 344 138** | |

### 3.2.3. Underlying surplus/loss

For the purpose of the operational financial performance analysis to be meaningful, the underlying principle as described above is more appropriate, and therefore the following items have been isolated and excluded to transform the accounting surplus/loss to an underlying surplus /loss:

- The Roads Service that is rendered by the municipality on behalf of the Western Cape Government, is a service which is in its entirety 100% subsidised and are all the revenue, (except for the 12% administrative fee) and expenditure items influenced by this service adjusted accordingly to exclude it from the applicable items.
- Conditional Government Grants of which capital expenditure is excluded from the applicable operational items.
- Accounting adjustments for Inventories written off, Gains or Losses on sale of assets, Reversal of Inventory, Reversal of impairment losses and Actuarial Gains/losses, which all only constitute non-recurrent book entries of accounting adjustments.

***Table 8: Underlying Loss***

| Adjusted Operational Revenue and Expenditure | 2018/19 | Percentage |
|---|---|---|
| **Revenue** | **223 421 140** | |
| | | |
| Government Grants and Subsidies | 165 934 347 | 74.27% |
| Dept of Transport - Roads | 17 243 706 | 7.72% |
| Sales of Goods and Services | 21 572 639 | 9.66% |
| Rent on Land | 704 013 | 0.32% |
| Rental of Facilities | 978 020 | 0.44% |
| Interest Earned- Debtors | 2 423 660 | 1.08% |
| Interest Earned- Investments | 12 966 268 | 5.80% |
| Licences and Permits | 484 416 | 0.22% |
| Operational Revenue | 1 114 071 | 0.50% |
| | | |
| **Expenditure** | **227 960 988** | |
| | | |
| Employee related costs | 139 528 758 | 61.21% |
| Renumeration of Councilors | 11 053 302 | 4.85% |
| Bad debts written off | 3 994 605 | 1.75% |
| Impairment losses - Receivables | 8 560 292 | 3.76% |
| Depreciation and Amortisation | 4 033 309 | 1.77% |
| Contracted Services | 27 851 016 | 12.22% |
| Finance Cost | 127 408 | 0.06% |
| Inventory Consumed | 2 862 069 | 1.26% |
| Operating Leases | 541 897 | 0.24% |
| Transfers and Subsidies | 1 417 183 | 0.62% |
| Operating Costs | 27 991 149 | 12.28% |
| | | |
| **Loss** | **4 539 848** | |
| | | |

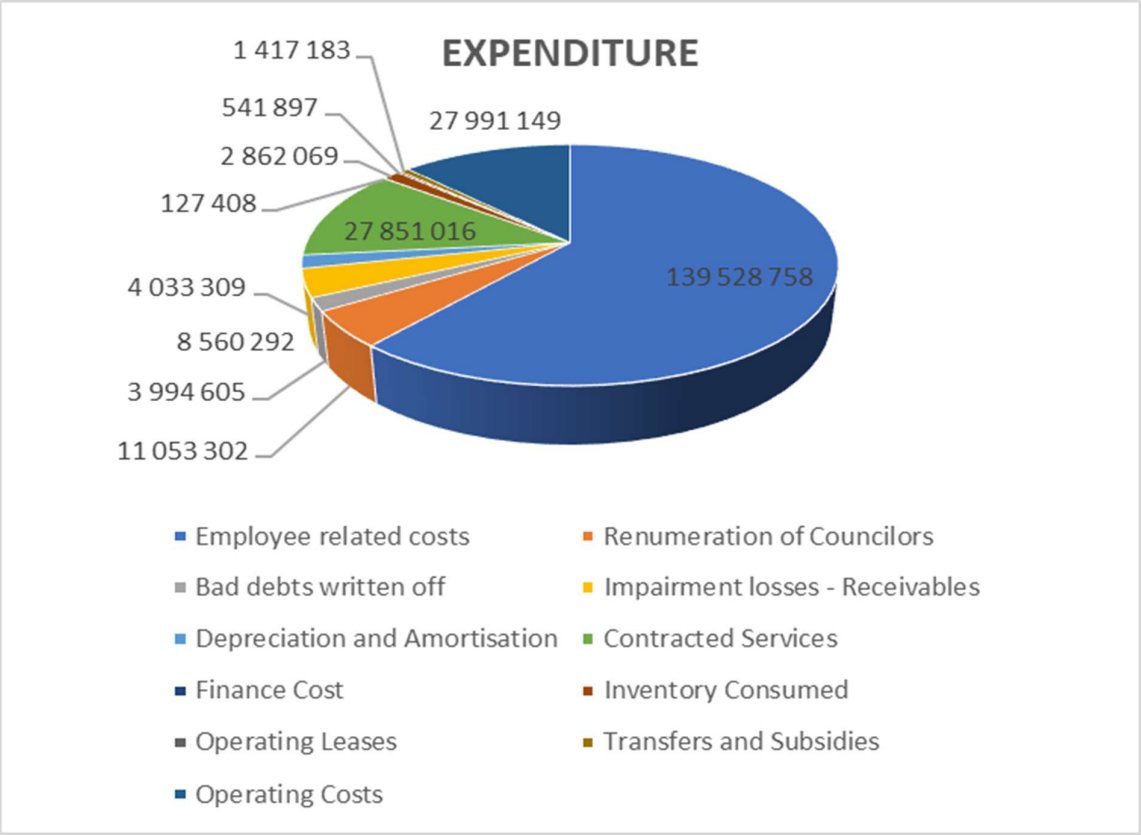



*Figure 6: Expenditure*

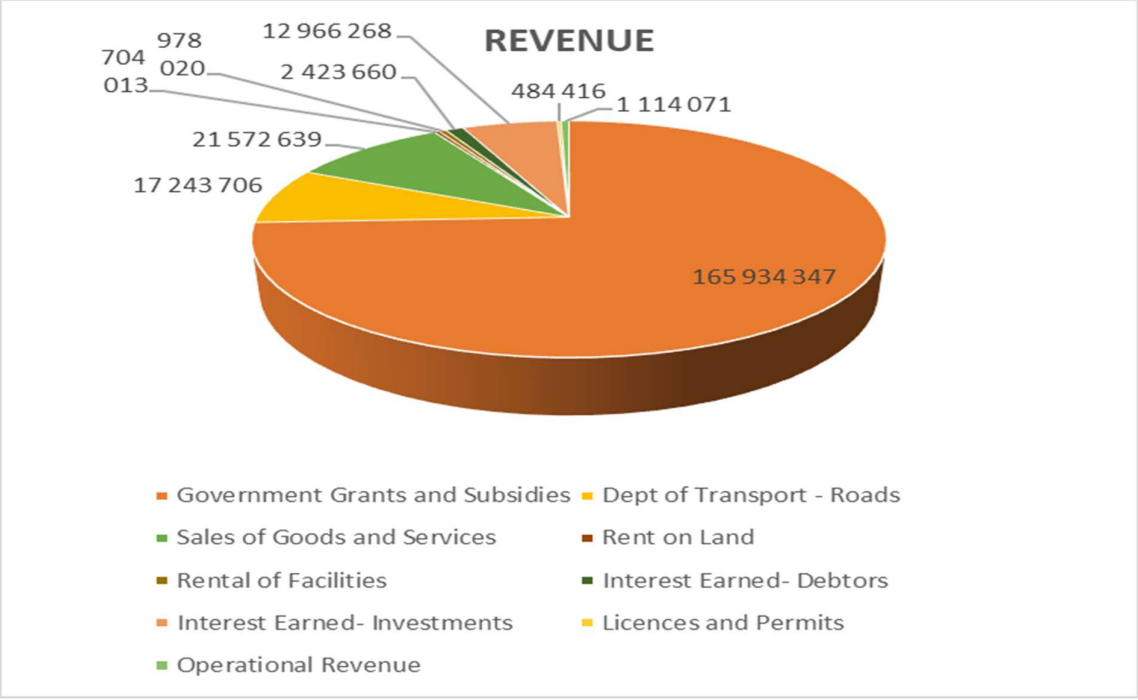



*Figure 7: Revenue*

At first glance, the information reflected in table 7 suggests that the municipality is operating at a healthy surplus. However, looking at the information reflected in table 8, and illustrated in graphs 6 and 7, the municipality is operating at an actual loss when the identified accounting adjustments have been excluded.

The difference between the accounting surplus and the actual underlying loss has the potential to give a misplaced impression that the municipality is operating at a satisfactory level and that decision-makers, as in this municipality's case, the Councillor's, make uninformed decisions with financial implications, resulting in an impairment on accumulated cash reserves, without knowing the true and real state of affairs.

It is also clear that the municipality is absolutely dependent on Government Grants which total 74% of all the revenue sources and that the municipality is operating with an extremely high load on employee-related cost of 62% of the total cost, which is way above acceptable norms and criteria. Furthermore, the information also indicates that a very small portion of expenditure is spent on borrowing cost, which is an indication of a window of opportunity for future borrowing should it become necessary.

As indicated in paragraph 1.2, one of the key objectives of the LTFP is to increase the municipality's ability to fund both future capital works in general and meet the asset renewal requirements as outlined in asset management planning and endeavour to maintain a sustainable Council in an environment where Council must either constrain its net operational costs or reduce funds available to capital expenditure due to the capping of Council increases in government grant funding. Thus, it all boils down to the municipality's ability to maintain a positive cash flow.

In order to achieve this, the future cash flow has to be predicted.

### 3.2.4. Cash generated surplus/loss

The future cash generated from operations is projected in tables as reflected in Appendix 1.

Important assumptions used in the cash generated surplus/loss are the following:

- The status quo in the current operations is maintained.
- The operational revenue and expenditure of the 2018/19 financial year is used as base information.
- All non-cash expenditure items are excluded.

In terms of National Government's fiscal policy, inflation is set to be in a band ranging from 3 to 6 percent. The current relatively low inflation rate of 4.5% is stable and economists are of the opinion that the inflation rate could be expected to fluctuate with not more than 1% from the existing inflation rate. Therefore, for projection purposes, an inflation rate of 4.5%, 3.5% and 5.5% have been projected over the next 10 years to determine estimated cash surpluses or losses.

From the information reflected in tables 1 to 3 in Appendix 1, the estimated projected cash surpluses are as follows:

### *Table 9: Projected Cash Surpluses Generated from Operations*

| Cash Surplus Generated | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---|---|---|---|---|---|
| Current Inflation rate | 49 097 | 99 046 | 469 502 | 524 047 | 581 046 |
| Current Inflation rate plus 1% | 49 097 | 110 145 | 492 811 | 560 759 | 632 444 |
| Current Inflation rate minus 1 % | 49 097 | 87 946 | 446 414 | 488 030 | 531 102 |

| Cash Surplus Generated | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|---|---|---|---|---|---|---|
| Current Inflation rate | 640 610 | 702 855 | 767 901 | 835 874 | 906 906 | 981 134 |
| Current Inflation rate plus 1% | 708 072 | 787 859 | 872 035 | 960 840 | 1 054 530 | 1 153 373 |
| Current Inflation rate minus 1 % | 575 682 | 621 822 | 669 578 | 719 004 | 770 160 | 823 107 |

The projected cash surpluses generated from operations indicated that very small marginal cash surpluses are predicted. The predicted surpluses are way below the cash surpluses needed to secure sufficient future accumulated cash surpluses needed in terms of standing Council's policy conditions as set out in Appendix 2.

In terms of Council's policy for Reserves and Funds, as well as the Cash Management policy, the following important policy conditions are applicable:

- Employee-related costs include contributions to non-current and current employee benefits. It is acknowledged that the non-current benefits' requirements are well above the initial cash capabilities of the municipality and it is therefore determined that provision for the short-term portion of employee benefits, as well as an operating surplus calculated at the minimum of 10% of the prior year balance of the long-term benefits not yet cash-funded, be included in the operating budget, in order to build sufficient cash for these requirements. The cash portion of the employee benefits must be accounted for in an "Employee Benefits Reserve".
- In order to ensure a sufficient accumulation of cash for the replacement of Property, Plant and Equipment and Intangible Assets, the amount of depreciation on assets funded from own sources, excluding assets funded from grants, public contributions and external loans must be reflected as a surplus on the cash flow budget. The Capital Replacement Reserve must be fully cash funded equivalent to the annual depreciation/amortization and must be transferred to the Capital Replacement Reserve annually.

Council policies are extensions of Council's decisions and resolutions and are binding to be executed by management. Any deviations and/or non-execution of official council policies are contraventions and non-compliance of the legislated authority of Council, except when policy changes had been officially amended by Council.

Thus, with the above policies applicable, the following minimum compulsory cash reserves are projected:

### *Table 10: Projected Cash Surpluses Generated from Operations Needed*

| Cash Surplus Generated | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---|---|---|---|---|---|
| Surplus (Current Inflation rate) | 49 097 | 99 046 | 469 502 | 524 047 | 581 046 |
| Depreciation | 4 033 309 | 4 033 309 | 4 033 309 | 4 033 309 | 4 033 309 |
| 10% of Employee Benefits | 7 966 251 | 8 324 732 | 8 699 345 | 9 090 816 | 9 499 902 |
| Shortterm portion of Employee Benefits | 27 629 000 | 28 872 305 | 30 171 559 | 31 529 279 | 32 948 096 |
| **Total** | **39 677 657** | **41 329 392** | **43 373 714** | **45 177 450** | **47 062 354** |

| Cash Surplus Generated | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|---|---|---|---|---|---|---|
| Surplus (Current Inflation rate) | 640 610 | 702 855 | 767 901 | 835 874 | 906 906 | 981 134 |
| Depreciation | 4 033 309 | 4 033 309 | 4 033 309 | 4 033 309 | 4 033 309 | 4 033 309 |
| 10% of Employee Benefits | 9 927 398 | 10 374 131 | 10 840 967 | 11 328 810 | 11 838 607 | 12 371 344 |
| Shortterm portion of Employee Benefits | 34 430 761 | 35 980 145 | 37 599 252 | 39 291 218 | 41 059 323 | 42 906 992 |
| **Total** | **49 032 078** | **51 090 440** | **53 241 428** | **55 489 211** | **57 838 144** | **60 292 779** |

### *Table 11: Projected Cash Surpluses Generated from Operations Shortfall*

| Needed Cash Surplus Generated | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---|---|---|---|---|---|
| **Total** | **39 579 463** | **41 131 301** | **42 434 711** | **44 129 357** | **45 900 262** |

| Needed Cash Surplus Generated | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|---|---|---|---|---|---|---|
| **Total** | **47 750 857** | **49 684 730** | **51 705 626** | **53 817 463** | **56 024 333** | **58 330 511** |

According to table 11, it appears that a shortfall of at least R5 million cash is currently generated should Council's policies be applied, which would accumulate to approximately R60 million in year 10 of the LTFP, should the status quo prevail. To put the predicted shortfall in perspective, it means that the current cash reserves of R174,24 million would gradually diminish over the 10-year period of the LTFP with a possible R58 million in year 10 if no adjustments are instituted to improve operational activities and/or embark on processes to increase cash from sale of assets or make changes to existing cash and reserve policy requirements. It must be emphasized that the above is predicted on current scenarios and does not include the future impact of the landfill site which would be effective from 2020/2021 of which the extent of it on the future cash reserves is analysed in more detail in section 6.

From the above information it is clear that policy changes, operational changes, or a combination of policy and operational revenue and expenditure changes have to be instituted to improve on the current cash generated operations in an effort to achieve the goals of financial stability and sustainability.

The indicative reasons for the cash shortfall are investigated in the following sections to identify and focus on the current results of the individual votes of the municipality, as well as

comparative figures of Garden Route Municipality in relation to the other four District Municipalities in the Western Cape Province with the focus on obvious issues and concerns that may need more careful consideration and possible reform to improve the operations of the municipality and thereby improve cash generation.

## 3.3. Analyses of relating factors causing the operating losses

### 3.3.1. Municipal Votes and Sub-Votes Analysis

In terms of section 152 (1) (b) of the Constitution, Garden Route municipality **must** ensure the provision of services in a **sustainable** manner and in terms of section (2), the municipality **must** strive within its **financial** and administrative capacity to achieve it.

Furthermore, schedule 4 (B) of the constitution indicates which functions are concurrent legislative competencies between Municipalities and other spheres of government, of which the following functions are listed, inter alia:

- Building regulations
- Firefighting
- Local tourism
- Municipal Health services
- Water and sanitation services
- Electricity reticulation
- Municipal Planning
- Public safety
- Air quality control

As a Category C municipality with executive and legislative authority in an area that includes more than one Category B municipality, all the municipal consumer services are delivered by the Category B municipalities in the area of jurisdiction, which leaves Garden Route municipality with other core functions in the likes of firefighting, environmental health and shared responsibilities for public safety and tourism.

The broad and imprecise criteria of equitable and sustainable service delivery in terms of section 155(4) of the Constitution must be interpreted in the context of the Constitution. The term "equitable" means that the allocation of resources is according to need, that is the redistribution of services from well-serviced areas to those that are under-serviced. The reference to "sustainable" is to ensure service delivery based on a municipality's capacity to finance such services from its own funds. The explicit purposes of a district municipality can thus be described as follows:

a) in order to meet the basic needs of the community, it must ensure that services are provided throughout the district on an equitable manner, that is according to need; and

b) it must ensure that services are provided in a sustainable manner, that is, that the consumers of services can afford them and the supplier can provide them within its own means on an ongoing basis.

These purposes can also be expressed as follows: a district municipality must firstly redistribute resources within a district according to need; secondly, assist and capacitate local municipalities to enable them to provide and sustain the provision of services in their areas; and thirdly, promote economic development in the district, because sustainability of service provision (as well as the general well-being of the inhabitants) is **dependent on a productive local economy.**

When inspecting and analysing the municipality's votes and sub-votes grouped in the financial records and reported in the Annual Financial Statements, it immediately catches the eye that a "non-core" function to the likes of Sport and Recreation with sub-votes containing the financial results of holiday resorts, results in a relatively large deficit of R4.28 million (see table 16 below).

All other functions, apart from the administrative votes which are not applicable, and which are making losses, are all subsidized from government grants received and is justified in terms of the municipality's role and function to make losses on these functions and therefore does not have much to do beyond instituting cost containment measures to lower cost. The expenditure on these votes are a given and cost containment measurements would only have a very small impact on total expenditure.

For this reason, it is then fair and justified to say that the only single vote which is excluded from the above is the holiday resorts and it is then meaningful to analyse why losses are incurred and what could be done to prevent the losses made by the holiday resorts.

In **Appendix 4,** a comprehensive analysis of the performance of the five holiday resorts has been made for the past five financial years.

The main findings of the analyses are as follows:

- All the resorts, except Swartvlei, are making losses.
- All the resorts are running only on a fraction of their capacity, meaning available days/nights vs. actual occupancies are uneconomically used.
- All the resorts' fixed costs represent fifty percent and more of total cost of which employment costs are the biggest contributor.
- All the resorts have only peak periods during the December/January school holiday periods with almost no other noticeable occupancies.

The tendency of losses made with the managing and operation of a "non-core" function is in conflict with the provisions of the Constitution in the sense that the municipality are persevering a service and function that is **not sustainable** and **not financially viable,** as described above**.**

Should the municipality decide to persist with the operations of the holiday resorts and continue in terms of the status quo, it is projected that the following losses would be realized for the following ten years:

*Table 12: Projected Deficits of Holiday Resorts if Status Quo Prevails*

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|
| Total Revenue | 8 898 327 | 9 298 752 | 9 717 196 | 10 154 469 | 10 611 420 | 11 088 934 |
| Total Expenditure | -13 189 276 | -13 782 793 | -14 403 019 | -15 051 155 | -15 728 457 | -16 436 238 |
| Total loss | -4 290 949 | -4 484 042 | -4 685 824 | -4 896 686 | -5 117 036 | -5 347 303 |

| | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|---|---|---|---|---|
| Total Revenue | 11 587 936 | 12 109 394 | 12 654 316 | 13 223 761 | 13 818 830 |
| Total Expenditure | -17 175 868 | -17 948 782 | -18 756 477 | -19 600 519 | -20 482 542 |
| Total loss | -5 587 932 | -5 839 389 | -6 102 161 | -6 376 758 | -6 663 713 |

According to the projections, a minimum deficit of R6.67 million is predicted for year 10 and an accumulated deficit of R59.392 million is predicted for the 10-year period. This amount would be much more if the time value of money is also taken in consideration should the losses not be made.

The principle of making losses on holiday resorts is also an unacceptable practice due to the fact that the municipality is subsidising the holidays of families coming from other provinces and municipal areas with moneys which could have been utilised in the jurisdiction area of this municipality.

For this very reason, the Council must seriously consider discontinuing the operation of the resorts and/or ultimately alienating the holiday resorts. By doing this, the following benefits could be achieved:

- The most important and obvious benefit would be that no further losses would be realized.
- The municipality assisting in creating independent productive local economic opportunities if the resorts are privatized.
- The prevention of losses previously incurred, plus any additional revenue from possible forms of alienation would result in nett income of revenue, overshadowing the losses.

The following possible options could be considered:

- The complete closing down of the operations. However, this is not a workable alternative due to the fact that the fixed cost would still remain off which employee cost makes out the majority of the cost.

*Table 13: Projected Fixed Cost of Holiday Resorts, Should Status Quo Prevail*

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|
| Total Fixed Cost | 6 971 358 | 7 285 069 | 7 612 897 | 7 955 477 | 8 313 474 | 8 687 580 |

| | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|---|---|---|---|---|
| Total Fixed Cost | 9 078 521 | 9 487 055 | 9 913 972 | 10 360 101 | 10 826 305 |

- The total projected fixed cost amounting to R10.83 million in year 10 and the accumulated fixed cost for the 10 years amounting to R96.491 million, exceeds the projected deficit of R59.392 million, should the status quo with the operations continue.
- The transfer of resorts to the B municipalities in the area of jurisdiction in which they are situated, with the transfer of the applicable employees. This option is only possible if mutual consent on this matter is found and would also be difficult in terms of labour-relation processes. However, this would only constitute to be a shift of the problem from one authority to another and is therefore not a preferred option.
- The privatization of all the resorts. This would be in line with the measurements which, for example, Mossel Bay Municipality has already instituted. Privatization could be in the form of alienation on long-term leasing contracts with annual rentals based on escalation clauses or the overall selling of the resorts. The latter is the most appropriate and financially viable option and therefore, the preferred option due to the fact that the selling of the property could raise a substantial amount of capital to strengthen the Municipality's Cash Reserves and the Capital Replacement Reserve Fund, which would also increase the operational revenue in the form of interest received on investments.

The only negative consequence of privatization is the human factor and the social impact of job losses, although mandatory inevitable retrenchment due to operational reasons is an acceptable practice in terms of the South African Labour Law. However, to mitigate job-losses, severance packages could be offered to affected employees, funded from the funds yielded from the proceeds of the sales of the property.

To illustrate the preferred alternative, the following assumptions are used only for illustration purposes to give perspective and a better understanding of the financial effect, should alienation be instituted:

## *Lease contracts*

| | | |
|---|---|---|
| Annual Lease: | Calitzdorp Spa | R 500 000 |
| | De Hoek | R 200 000 |
| | Kleinkrantz | R 100 000 |
| | Swartvlei | R 400 000 |
| | Victoria Bay | R 300 000 |
| Annual Escalation: | 4.5% | |
| Period: | > 10 years | |

***Table 14: Projected Revenue from Holiday Resorts, Should it be Leased Out***

| | 2020 | 2 021 | 2 022 | 2 023 | 2 024 |
|---|---|---|---|---|---|
| Calitzdorp Spa | 500 000 | 522 500 | 546 013 | 570 583 | 596 259 |
| De Hoek | 200 000 | 209 000 | 218 405 | 228 233 | 238 504 |
| Kleinkrantz | 100 000 | 104 500 | 109 203 | 114 117 | 119 252 |
| Swart Vlei | 400 000 | 418 000 | 436 810 | 456 466 | 477 007 |
| Victoria Bay | 300 000 | 313 500 | 327 608 | 342 350 | 357 756 |
| | | | | | |
| Total | **1 500 000** | **1 567 500** | **1 638 038** | **1 711 749** | **1 788 778** |

| | 2 025 | 2 026 | 2 027 | 2 028 | 2 029 |
|---|---|---|---|---|---|
| Calitzdorp Spa | 623 091 | 651 130 | 680 431 | 711 050 | 743 048 |
| De Hoek | 249 236 | 260 452 | 272 172 | 284 420 | 297 219 |
| Kleinkrantz | 124 618 | 130 226 | 136 086 | 142 210 | 148 610 |
| Swart Vlei | 498 473 | 520 904 | 544 345 | 568 840 | 594 438 |
| Victoria Bay | 373 855 | 390 678 | 408 259 | 426 630 | 445 829 |
| | | | | | |
| Total | **1 869 273** | **1 953 390** | **2 041 293** | **2 133 151** | **2 229 143** |

If the resorts could be leased out, the leasing option could result R18.432 million (table 14) rental revenue possibly being raised. This action would result in the 10-year projected losses of R59.392 million (see table 12) then being transformed to an annual revenue of R77.824 million. Although this action results in a remarkable turn-around, it is not necessarily the best option which could be substantial and could be improved on, when considering the option to sell the resorts, as illustrated below.

## *Selling*

According to the 2019/20 valuations performed by Willem De Kock Town Planners, the current market values of the resorts are as follows:

- Calitzdorp Spa R16 000 000
- De Hoek R20 600 000
- Kleinkrantz R14 600 000
- Swartvlei R31 690 000
- Victoria Bay R13 700 000

Just for illustration purposes, lets presume that the resorts are all sold and the proceeds received are immediately invested as a fixed deposit at a 7% interest rate for a minimum period of 10-years. Due to the effect of compound interest, the original Capital amount of R96.59 million would yield almost double the originally invested amount, amounting to R190 million at maturity.

***Table 15: Projected Interest on Investments Yielded from Holiday Resorts, Should it be Sold***

| | | |
|---|---|---|
| Investment | | 96 590 000 |
| Interest | | 7% |
| Period | | 10 |
| Future value | | -R190 007 149.60 |
| | | |
| | | |
| | | |
| | **Interest** | **Investment** |
| **2020/21** | 6 761 300 | 103 351 300 |
| **2021/22** | 7 234 591 | 110 585 891 |
| **2022/23** | 7 741 012 | 118 326 903 |
| **2023/24** | 8 282 883 | 126 609 787 |
| **2024/25** | 8 862 685 | 135 472 472 |
| **2025/26** | 9 483 073 | 144 955 545 |
| **2026/27** | 10 146 888 | 155 102 433 |
| **2027/28** | 10 857 170 | 165 959 603 |
| **2028/29** | 11 617 172 | 177 576 775 |
| **2029/30** | 12 430 374 | 190 007 150 |
| | | |
| **Total** | **93 417 150** | |

The combined effect of the savings generated from the exclusion of the projected deficits (table 12), and the illustrated additional revenue streams as projected in table 15, could lead to an increase in the projected cash surplus generated from operations (table 9) from R6.56 million to an astonishing R152.809 million in the 10-year forecasted period.

The total impact of the above could not be better described and more appropriate than the words of Albert Einstein, who said: *"Compound interest is the eighth wonder of the world. He who understands it earns it… He who doesn't, pays it."*

The initial investment resulting from the proceeds above would increase the immediate cash reserves with a conservative estimated additional R96.6 million, which represents a more than 50% growth of the present total accumulated Cash Reserves from R180 million, to R276.6 million. This would put the municipality's Cash Reserves in a highly favourable position.

Again, it must be emphasized that the above is based only on assumptions and that the amounts as illustrated are not accurately adjusted for the passage of time and the time value of money. This is just to illustrate that the selling of the resorts is clearly by far the best option to improvise a vast improvement in cash reserves. A more realistic and phased-in approach is incorporated into the suggested long-term financial model in section 7.

### *Table 16: Surpluses and Losses per Municipal Vote and Sub-Vote*

| UNDERLYING SURPLUS/LOSS | | | |
|---|---|---|---|
| VOTES AND COST CENTRES | Expenditure | Revenue | Surplul/Loss |
| | | | |
| Public Safety | 36421142.35 | -1200 | 36419942.35 |
| Disaster Management | 5 423 031 | -1 200 | 5 421 831 |
| Fire fighting | 27 203 411 | | 27 203 411 |
| Fire services: Kannaland | 2 173 881 | | 2 173 881 |
| Fire services: Riversdal | 1 620 820 | | 1 620 820 |
| Budget and Treasury Office | 21464933.88 | -22.81 | 21464911.07 |
| BTO & AFS | 133 248 | | 133 248 |
| Budgets/income/expenditure | 990 793 | | 990 793 |
| Expenditure | 7 030 387 | -23 | 7 030 364 |
| Finance interns | 728 761 | | 728 761 |
| FMG Interns | 6 210 | | 6 210 |
| Income | 30 711 | | 30 711 |
| Management services | 2 389 389 | | 2 389 389 |
| Manager: finance | 1 288 189 | | 1 288 189 |
| Manager: Finance (CFO) | 3 344 259 | | 3 344 259 |
| SCM | 5 522 988 | | 4 508 395 |
| Corporate Services | 43932844.99 | -295945.87 | 43636899.12 |
| Executive Manager: Corporate Services | 1 364 031 | | 1 364 031 |
| HR Manager | 592 955 | | 592 955 |
| Human resources | 9 902 834 | | 9 902 834 |
| Informarion Technology | 9 581 449 | | 9 581 449 |
| Manager: Management services | 6 158 387 | | 6 158 387 |
| Manager: support services | 13 066 908 | | 13 066 908 |
| Support Services:committee | 125 098 | | 125 098 |
| Support servives: registry | 2 937 404 | | 2 937 404 |
| Task unit | 203 780 | -295 946 | -92 166 |
| Environment Protection | 5417644.26 | -484415.71 | 4933228.55 |
| Air quality control | 603 182 | -484 416 | 118 766 |
| Enviromental Management | 4 814 462 | | 4 814 462 |
| Executive and Council | 61073018.65 | -217 279 787 | -156 206 768 |
| Internal audit | 2 500 056 | | 2 500 056 |
| Legal services | 1 683 365 | | 1 683 365 |
| Manager strategic services | 7 700 263 | | 7 700 263 |
| Marketing publicity& media cor | 580 199 | | 580 199 |
| Mayor and Council | 35 104 888 | -217 279 787 | -182 174 898 |
| Municipal Manager | 6 876 926 | | 6 876 926 |
| Office : of the speaker | 603 327 | | 603 327 |
| Office: of ex dep Mayor | 2 755 360 | | 2 755 360 |
| Office: of Ex Mayor | 2 055 914 | | 2 055 914 |
| Office: of Ex Mayor | 11 800 | | 11 800 |
| Performance Management | 1 036 913 | | 1 036 913 |
| Risk Management unit | 15 984 | | 15 984 |
| Section 79/80 committees | 120 347 | | 120 347 |
| Strategic Manager | 27 677 | | 27 677 |
| Health | 27683288.44 | -449096.69 | 27234191.75 |
| Executive Manager: Community Services | 31 496 | | 31 496 |
| Municipal Health Services: Administratio | 4 613 914 | -449 097 | 4 164 817 |
| Municipal Health Services: George | 5 544 956 | | 5 544 956 |
| Municipal Health Services: Klein Karoo | 5 381 199 | | 5 381 199 |
| Municipal Health Services: Lakes Areas | 5 706 276 | | 5 706 276 |
| Municipal Health Services: Langeberg | 6 405 449 | | 6 405 449 |
| Planning and Development | 17001012.31 | Column1 | 17001012.312 |
| EPWP Manager | 64 261 | | 238 309 |
| EPWP Projects | 726 974 | | 726 974 |
| Executive Manager: Planning and Econom | 2 076 098 | | 2 076 098 |
| Expanded public works program | 880 418 | | 880 418 |
| IDP | 5 704 210 | | 5 704 210 |
| LED | 2 354 862 | | 2 354 862 |
| PMU | 1 583 896 | | 1 583 896 |
| Regional planning | 1 407 483 | | 1 407 483 |
| Tourism | 2 202 809 | | 2 202 809 |
| Roads Transport | 2865123.68 | Column1 | 2865123.682 |
| Public transport | 2 865 124 | | 2 865 124 |
| Sport and Recreation | 13187407.84 | -8898327.85 | 4289079.99 |
| Resorts: Calitzdorp Spa Kiosk | 53 947 | | 53 947 |
| Resorts: Calitzdorp Spa Resort | 5 127 936 | -3 046 529 | 2 081 407 |
| Resorts: De Hoek Mountain Resort | 4 610 741 | -2 392 599 | 2 218 142 |
| Resorts: De Hoek Mountain Shop | 3 094 | 0 | 3 094 |
| Resorts: Kleinkrantz | 239 191 | | 239 191 |
| Resorts: Swartvlei | 1 206 954 | -1 722 616 | -515 662 |
| Resorts: Victoriabaai | 1 945 545 | -1 736 583 | 208 961 |
| Waste Mangement | 1372540.07 | -835106.11 | 537433.96 |
| Bulk infrastructure:(m hubbe) | 774 102 | -835 106 | -61 004 |
| Landfill Sites | 46 837 | 0 | 46 837 |
| Refuse | 551 601 | | 551 601 |
| | | | |
| Grand Total | 230 418 956 | -228 243 902 | 2 175 055 |

### 3.3.2. Comparative Expenditure Analyses

For this analysis, expenditure is not compared in terms of National Treasury's benchmarks and norms as set out in Circular 71. The reason for this, is for example the impact of purchase of electricity and water bulk services which contribute to a very large portion of the municipality's total expenditure, who delivers consumer services. Category C municipalities on the other hand, are not delivering consumer services and for this reason we are compelled to compare expenditure figures for only Category C, and in particular the Category C municipalities in the Western Cape to determine the efficiency and inefficiency of Garden Route Municipality in comparison with Cape Winelands, West Coast, Overberg and Central Karoo (see Appendix 3).

In **Appendix 3,** a comprehensive analysis of the comparative figures of the five Category C municipalities has been made and are illustrated in graphs. The graphs pertaining to operational indicators have been summarized in **table 17** below.

In this case, unlike that illustrated in paragraph 3.2 where the roads agent function revenue and expenditure have been excluded and only the nett administrative fee levied was included, all the revenue and expenditure, including the roads agency function, are included for analysing purposes. To compare apples with apples, the non-cash once-off adjustment for the reversal of impairments on assets is excluded from revenue in determining the indicators.

The major important indicators are listed below and indicate how Garden Route Municipality compares to the **average** figures of all the applicable Category C municipalities instead of national **benchmarks** as already described above.

As only expenditure was analysed, indicators which are higher than average, is an indication of possible inefficiencies and probable reason for concern.

According to the above norms, the following obvious indicators are identified which compare negatively:

- Total Operating expenditure excluding Depreciation & Debt Impairment as percentage of revenue
- Employee costs as a percentage of revenue
- Debt Impairment as percentage of Gross Trade Receivables
- Operating (General Expenses) Cost as a percentage of revenue

***Table 17: Comparative Figures***

| | Cape Winelands | Central Karoo | Overberg | West Coast | Average | Garden Route |
|---|---|---|---|---|---|---|
| **Employee costs as a % of revenue** | 44.92% | 42.78% | 46.56% | 48.87% | **45.78%** | 52.15% |
| **Employee-Related Costs as part of Operating Expense excluding Depreciation & Debt Impairment** | 53.30% | 45.53% | 48.51% | 54.05% | **50.35%** | 53.81% |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Remuneration of Councillors as a % of Revenue** | 3.05% | 3.43% | 2.88% | 1.70% | **2.77%** | 2.62% |
| **Remuneration of Councillors as part of Operating Expense excluding Depreciation & Debt Impairment** | 3.62% | 3.65% | 3.00% | 1.88% | **3.04%** | 2.70% |
| **Depreciation as a % of Revenue** | 2.95% | 0.47% | 1.87% | 2.43% | **1.93%** | 0.95% |
| **Depreciation as part of Operating Expense excluding Debt Impairment** | 3.38% | 0.50% | 1.91% | 2.62% | **2.10%** | 0.98% |
| **Contracted Services as a % of Revenue** | 10.91% | 12.30% | 7.14% | 0.00% | **10.12%** | 7.73% |
| **Contracted Services as part of Operating Expense excluding Depreciation and Debt Impairment** | 12.94% | 13.09% | 7.44% | 0.00% | **11.16%** | 7.98% |
| **Operating Cost as a % of revenue** | 22.30% | 34.52% | 34.52% | 33.54% | **31.22%** | 33.08% |
| **Operating Cost as part of Operating Expense excluding Depreciation & Debt Impairment** | 26.46% | 36.73% | 36.73% | 34.94% | **33.71%** | 34.14% |
| **Interest Paid as a % of Revenue** | 0.00% | 0.01% | 1.02% | 1.02% | **0.51%** | 0.41% |
| **Interest Paid as part of Operating Expense excluding Depreciation and Debt Impairment** | 0.00% | 0.01% | 1.06% | 1.12% | **0.55%** | 0.42% |
| **Debt Impairment as % of Gross trade receivables** | 0.19% | 0.00% | 6.33% | 1.08% | **1.90%** | 24.46% |
| **Total Operating expenditure excluding Depreciation & Debt Impairment as percentage of revenue** | 84.27% | 93.98% | 95.99% | 92.73% | **91.74%** | 96.90% |
| **Loan debt servicing cost** | - | R10 131.00 | R2 209 449.00 | R3 663 215.00 | **R1 960 931.67** | R1 725 215.77 |
| **Grants as a % of revenue** | 58.20% | 33.81% | 34.45% | 26.87% | **38.33%** | 39.28% |
| **Rental of Facilities and Equipment as % of Revenue** | 0.06% | 0.07% | 6.99% | 0.00% | **1.78%** | 0.40% |

It is obvious that the higher-than-average Employee costs as a percentage of revenue, Debt Impairment as percentage of Gross Trade Receivables and General Expenses Cost as a percentage of revenue, are the indicative reasons for the municipality's above-average ratio of Total Operating expenditure excluding Depreciation and Debt Impairment as percentage of revenue. It is a clear indication, that for every rand revenue received, Garden Route Municipality spends almost 6c more than the average.

Due to the fact that the debt impairment, which is higher than average, is a once-off adjustment, it is excluded for now and it is meaningful to only concentrate on the two main concerns, namely Employee Cost and Operational Cost (General Expenditure).

#### 3.3.2.1. Employee Cost

The largest contributing reason for this is the extremely higher-than-average expenditure on employee cost which is 6.37% higher than average. To put this percentage into perspective, the nominal values of the 5 Category C municipalities are illustrated in table 18 below.

***Table 18: Nominal Values of Employee Costs***

| | Cape Winelands | Central Karoo | Overberg | West Coast | Average | Garden Route |
|---|---|---|---|---|---|---|
| **Total Employee cost** | 179 039 248 | 45 661 437 | 101 195 223 | 176 125 850 | | 220 306 483 |
| **Total Revenue** | 398 608 615 | 106 723 966 | 217 324 687 | 360 403 749 | | 422 488 090 |
| **% Employee cost** | 44.92% | 42.78% | 46.56% | 48.87% | 45.78% | 52.15% |

Although Garden Route Municipality tends to compare in size and nature to Cape Winelands and West Coast District Municipality, Garden Route Municipality's nominal value in employee expenditure exceeds Cape Winelands by R41 267 235 and West Coast by R44 180 633 respectively.

When the employee corps of the municipalities are compared, the reason for the substantial difference in the total employee cost is clearly evident in the total number of personnel employed, which is as follows:

***Table 19: Employees per Comparable Municipality***

| | Number of employees | Average cost per employee |
|---|---|---|
| **Garden Route** | **557** | **R395 523** |
| **West Coast** | **506** | **R348 074** |
| **Cape Winelands** | **406** | **R440 983** |

The information set out above only illustrates the total number of employees and the composition of comparative information between administrative and technical personnel, as the information between managers and the lower ranks is not available to be analysed.

From the high average annual cost per employee, it could be deducted that in the municipality's composition of employees, a large number of employees are employed in the managerial and senior ranks, which is supported by the figures of the distribution of employee cost between the different votes, where it is evident that a large concentration (31.62%) of the total employee cost is for administrative functions, which is illustrated in table 20 below.

*Table 20: Employee Cost per Vote*

| | Employee cost |
|---|---|
| Public Safety | R22 073 858 |
| Budget and Treasury | R16 317 097 |
| Corporate Services | R30 193 613 |
| Environment Protection | R4 372 376 |
| Roads | R80 777 725 |
| Executive and Council | R23 147 308 |
| Health | R23 3312 973 |
| Planning and Development | R11 763 622 |
| Sport and Recreation | R8 326 259 |
| Waste Management | R2 653 |
| Total | R220 306 483 |

It is however, clear that the municipality has a definitive disadvantage in effectiveness to deliver services in comparation with its counterparts and that this trend is not sustainable.

Downscaling in the order of at least 5% on employee cost is imperative, which could lead to a cost saving of approximately R40 million per annum. This is a process which could only be successfully implemented after a comprehensive organizational structure study including an organisational and methods analyses within the ambit of solid labour relations.

### 3.3.2.2. Operational Cost (General Expenditure)

According to the comparative performances as reflected in table 17, Garden Route Municipality's spending on General Expenses as a percentage of its revenue is 1.86% higher than the average of the other 4 Category C municipalities.

To put this percentage in perspective, the nominal values of the 5 Category C municipalities are illustrated in table 21 below.

*Table 21: General Expenditure as % of Total Revenue*

| | Cape Winelands | Central Karoo | Overberg | West Coast | Average | Garden Route |
|---|---|---|---|---|---|---|
| | | | | | | |
| Total General Expenditure | 88 875 573 | 36 838 024 | 72 883 572 | 133 026 347 | 82 905 879 | 139 761 760 |
| | | | | | | |
| Total Revenue | 398 608 615 | 106 723 966 | 217 324 687 | 360 403 749 | | 422 488 090 |
| | | | | | | |
| % General Expenditure | 22.30% | 34.52% | 33.54% | 36.91% | 31.82% | 33.08% |

For the same reasons as already explained in section 3.3.2.1, it is meaningful to compare Garden Route Municipality only with its counterparts Cape Winelands and West Coast, where it is evident that Garden Route municipality's spending on General Expenses exceeds Cape Winelands' expenditure by R51.19 million and West Coast by R6.74 million.

Included in General Expenditure, is all 3 municipalities' spending on repairs and maintenance.

It is a concern that Garden Route is spending substantially more on general expenditure. Looking at the higher-than-average spending on employee cost and the relatively high administrative component of the organizational structure, it is however expected that it would simultaneously, indirectly impact on general cost as well.

In table 22 below, an exposition of all the General Expenditure types are indicated.

***Table 22: Exposition of General Expenditure***

| Operational Cost | Total Spending |
|---|---|
| Advertising, Publicity and Marketing | R2 298 367 |
| Assets less than the Capitalisation Threshold | R135 241 |
| Audit Fees | R2 815 773 |
| Bank Charges, Facility and Card Fees | R269 067 |
| Bursaries (Employees) | R273 476 |
| Cleaning Services | R315 359 |
| Communication | R3 610 624 |
| Courier and Delivery Services | R28 496 |
| Deeds | R32 104 |
| Drivers Licences and Permits | R217 019 |
| Entertainment | R31 091 |
| External Computer Service | R3 104 542 |
| Hire Charges | R985 829 |
| Insurance Underwriting | R896 901 |
| Learnerships and Internships | R331 305 |
| Licences | R81 113 |
| Management Fee | R19 826 172 |
| Municipal Services | R4 755 301 |
| Printing, Publications and Books | R524 425 |
| Professional Bodies, Membership and Subscription | R2 528 585 |
| Registration Fees | R834 845 |
| Repairs and Maintenance | R78 190 579 |
| Repayment of Forfeited Deposits | R160 339 |
| Rewards Incentives | R4 884 |
| Samples and Specimens | R1 051 218 |
| Skills Development Fund Levy | R1 077 354 |
| Travel and Subsistence | R13 671 567 |
| Uniform and Protective Clothing | R991 276 |
| Vehicle Tracking | R2 073 |
| Wet Fuel | R223 619 |
| Workmen Compensation Fund | R493 218 |
| Total | **R139 761 760** |

The biggest contributing item included is Repairs and Maintenance amounting to R78 190 579 of which R75.33 million was spend on Roads maintenance and Management Fees, which is also only applicable to the Roads function.

Apart from Travel and Subsistence spending, amounting to R13 671 567, the remainder of spending is on day-to-day operational activities.

To save on the normal daily operational activities is not recommended, due to the risk of an impairment or neglection of service delivery.

Therefore, it is recommended that:

- The normal cost containment regulations as gazetted (42514) and National Treasuries' Guideline on Cost Containment Measurements are not only implemented but also enforced by management in an effort to save on cost without a reduction in the quality of service delivery.
- An extra effort to save on Travel and Subsistence.

# 4. ASSET MANAGEMENT

Asset management is surely one of the most important and challenging risks that a municipality has to face where a balance between responsible and sound financial management and affordability must be found. The replacement of assets when needed and the maintenance of existing assets should never be compromised, because the long-term sustainability of the municipality is totally dependent on reliable assets which are needed to deliver services. Poor asset management is one of the main reasons for failing municipalities.

## 4.1. Assets composition

The Municipality does not have a large investment in property, plant and equipment (PPE) relative to other municipalities, due the fact that no service infrastructure is applicable. Therefore, the carrying value of PPE is projected to not increase substantially over the 10-year period, as the expected capital expenditure is more concentrated in the roads agency function, which is not included in the municipality's asset register. The new district landfill disposal site, which is expected to come into operation during November 2020, is the only significant asset addition.

As at 30 June 2019, the composition of all the assets are as follows:

| | Book Value (ZAR) |
|---|---|
| **Property Plant and Equipment** | 159 923 096 |
| **Investment Property** | 86 108 386 |
| **Intangible Assets** | 2 138 885 |

### 4.1.1. Property Plant and Equipment (PPE)

The largest investment in PPE is basically the municipal Operational Buildings and Land, amounting to R142 453 758. The remainder of the PPE is for Loose Assets, which is Furniture, Machinery and Equipment, Computer Equipment and Vehicles. These assets are the only assets which could possibly have a negative effect on the financial sustainability of the municipality.

Financing from own funds and the subsequent maintenance of these assets have an impact, although not significant, on the future outflow of cash and constitutes a potential negative impact on the financial viability of the municipality if not properly planned and managed for in the long-term planning processes.

For the reason set out above, Land and Buildings and Community Assets are not included. For these assets, no depreciation is applicable to the Land and the depreciation on the Buildings is based on very long useful lives and therefore not material. Thus, for the planning purposes, Land and buildings depreciation is excluded. These assets are in fact, other than the loose assets, rather appreciating in value.

### 4.1.2. Landfill Site (Service concession asset)

The landfill site and its operations are outsourced to be established by a Public Private Partnership (PPP) of which the municipality is a partner. The capital cost to established the landfill site would be fully covered by the PPP and the asset transferred to the municipality as a contributed asset. The municipality as the licence-holder is responsible for the rehabilitation of the site of which the first rehabilitation is earmarked to be done after a 10-year period.

As the construction cost of the landfill site is fully born by the PPP, there is no outflow of funds

from the municipality. It is however part of the PPP agreement that a once-off cash transfer of R8 million would be paid to the municipality which has to be transferred to Council's Capital Replacement Reserve.

The landfill site agreement meets all the conditions of GRAP 32 and IGRAP 17 as a service concession arrangement where the municipality controls a significant residual interest in the asset. Consequently, an asset and liability resulting from this must be recognised by the municipality (see **Appendix 6** for comprehensive detail).

The municipality has the responsibility for the future rehabilitation cost in terms of GRAP 19 and IGRAP 2. For this reason, an engineering specialist was appointed to do a calculation to determine the future rehabilitation cost (see **Appendix 7**).

The annual calculated contribution for the rehabilitation and the depreciation cost must be transferred to a special Rehabilitation Reserve Fund.

All the above costs would be recovered from the participating municipalities who would be contractually obliged to utilize the facility and accounts would be issued on a monthly basis for pre-calculated, fixed cost and variable cost plus administrative fees.

Thus, it is comprehended that the financial impact of the landfill sites would realize a nett inflow of funds to the municipality.

#### 4.1.3. Intangible Assets

The Intangible Assets include computer software and the useful life periods for these assets are relatively short, which could possibly also have a negative effect. Although it would not be significant in terms of the financial sustainability of the municipality, these assets are included for this planning purposes.

#### 4.1.4. Investment Property

Investment Property is similar to Land and Buildings where no depreciation is applicable to the Land and the depreciation on the Buildings is based on very long useful lives and therefore not material. Thus, for these planning purposes, Investment Property's depreciation is excluded. These assets are also in fact rather appreciating than depreciating in value.

Included in Investment Property is prime land which could be alienated and sold for very good prices. A study is in process to identify such assets which is saleable in terms of section 90 of the Municipal Finance Management Act (the study and its proposals are not yet available at the time of this draft document).

Disposal of Investment Property and the profits deriving from it is potentially a significant source of cash to fund Cash Reserves should it become necessary (this will be further discussed in section 6).

### 4.2. Graphical Synopsis

For reasons explained above, Land and Buildings, Investment Properties and Infrastructure assets are excluded for the purpose of determining future asset replacement costs, and the further focus is now only applicable to Loose assets and landfill sites as graphically illustrated below.

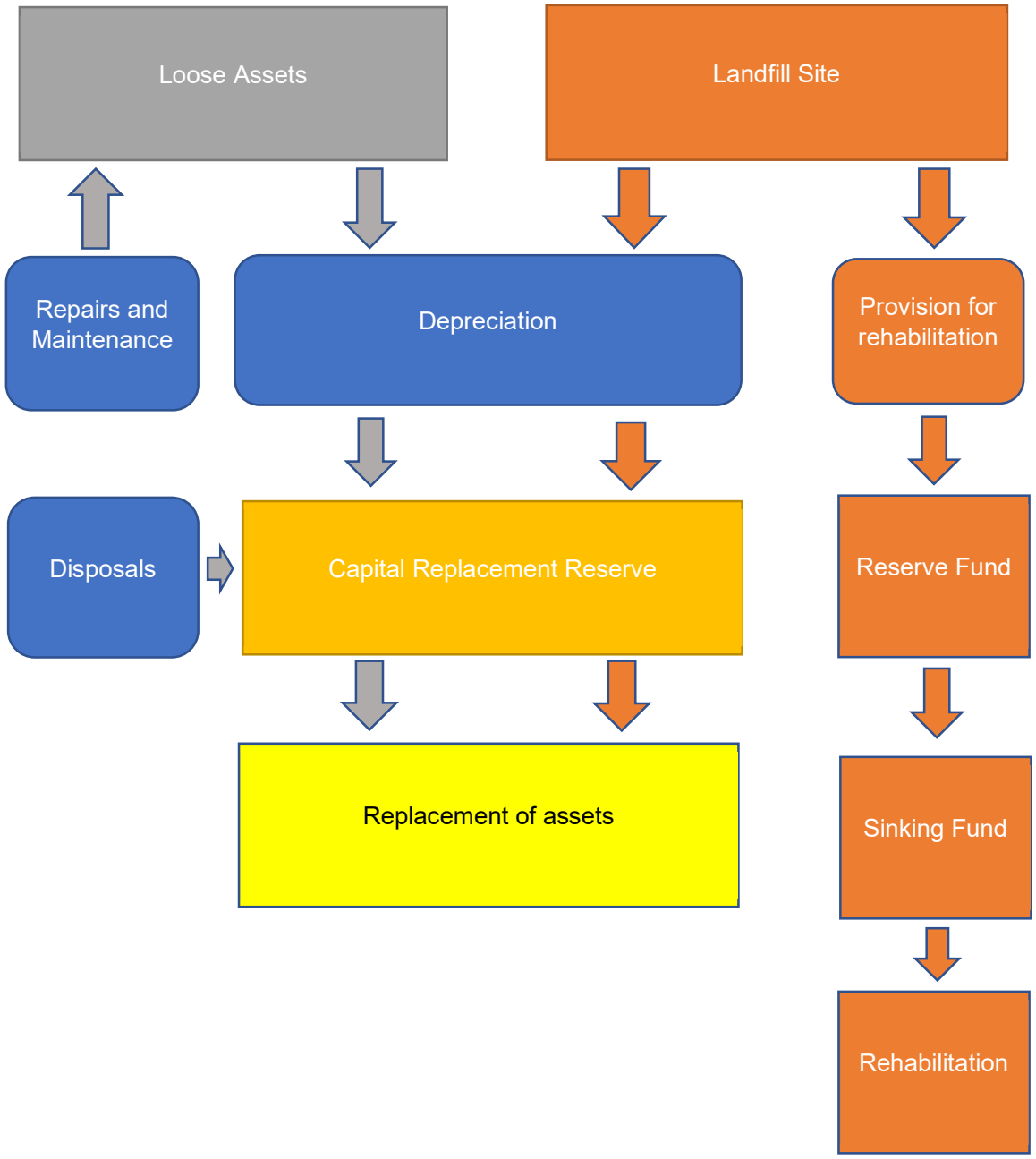



*Figure 8: Synopsis of Assets Process for Planning*

To ensure that the above structure (figure 8) is affordable, the program should be evaluated against the municipality's ability to generate cash to meet the demand of the program.

### 4.2.1. Repairs and Maintenance

Repairs and maintenance are a necessity relating to asset management. Repairs and maintenance are very important to ensure that full benefits are derived from assets over the initial expected lifetime of the assets. Insufficient allocations to repairs and maintenance could result in shortened useful lives of assets, as opposed to extending the useful lives of the assets considerably when properly maintained.

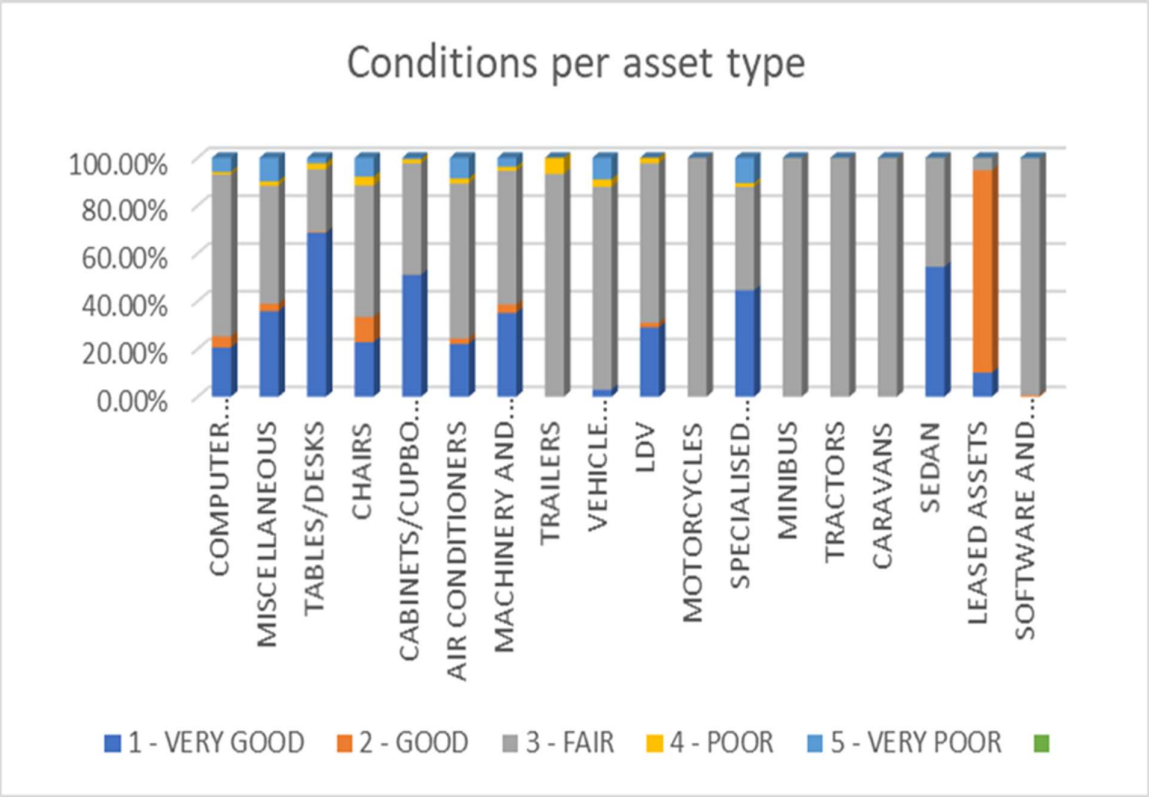



***Figure 9: Present Condition of Loose Assets***

From the content as illustrated in Figure 9, it is an indication that the majority of the loose assets are in a fair- to very good condition, which is a good indication that proper and timeous repairs and maintenance are applied. For this reason, it is recommended that the current spending trend on repairs and maintenance continue and that cost containment measures and budgetary saving measures are not applied to this critical issue.

### 4.2.2. Depreciation and impairment

Depreciation is widely considered a proxy for the measurement of the rate of asset consumption. Although depreciation is a non-cash item, the expense should still be factored into tariffs charged by the municipality to ensure that sufficient resources are available when assets need to be replaced.

Depreciation is a compulsory accounting principle in terms of GRAP and is therefore a given over which the municipality has no control. If the municipality continues to properly maintain its assets as discussed in paragraph 4.2.1, then asset impairment would also have no impact and impairment adjustments would only be applicable in very rare and extraordinary circumstances.

Currently, the municipality's allocation for depreciation amounts only to 0.98% of total expenditure and the conclusion is that depreciation and impairment ratios would continue, which implies that no future additional adjustments which would affect the LTFP is needed.

## 4.3. Replacement of Assets

A comprehensive study was performed to evaluate the state of PPE Assets as set out in section 4.1.1 and 4.1.2 (study included as **ANNEXURE 5**).

The following important information was revealed from it:

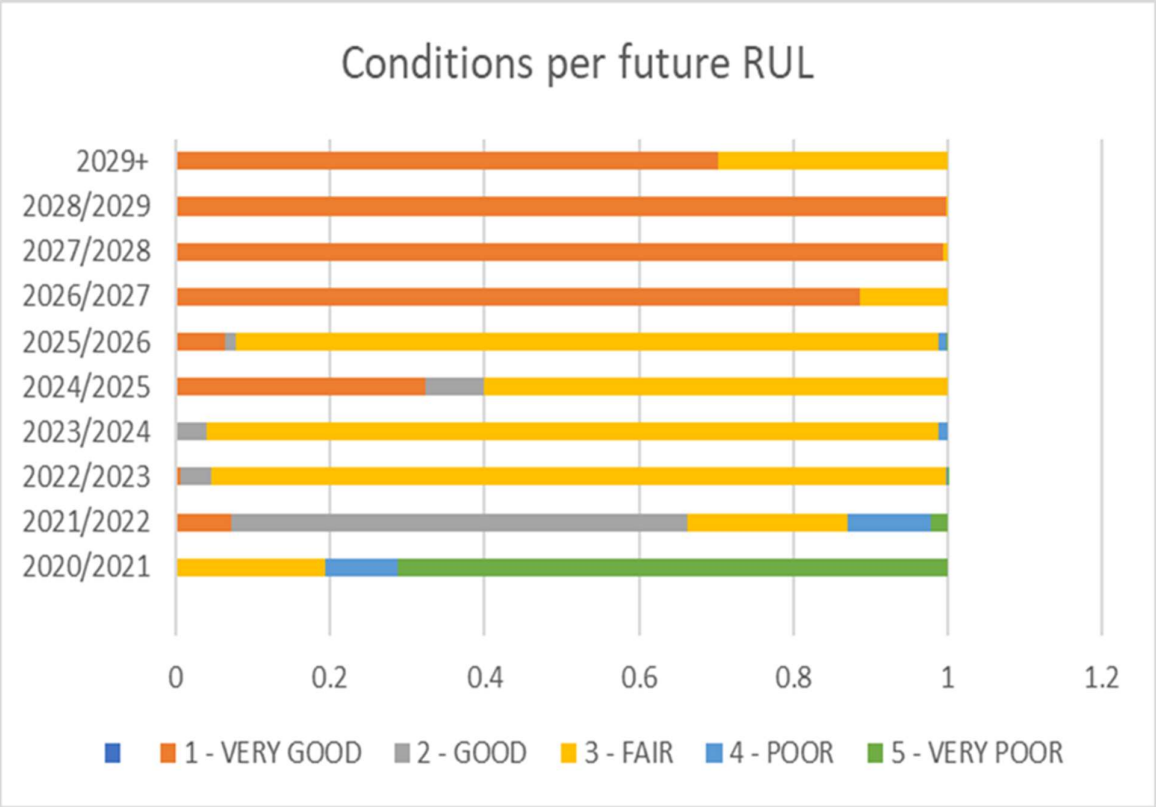



***Figure 10: Present Conditions of Loose Assets Indicated at Future RUL Ending Periods***

- Assets with poor to very poor condition ratings for the outer years are immaterial with the result that the assets would most probably be operational for its total useful life period and that no early replacements are applicable.
- That for the 2020/21 year, no assets with a good to very good rating is indicated, with the result that no assets seem to be in such conditions to extend its operational period.
- Assets with poor to very poor conditions, tend to be applicable only to assets in the year where its useful life periods lapsed.

## *Conclusion*

Firstly, to understand the above, it must be emphasized that the matrix of the conditions reflect the present conditions of the future remaining useful lives of the assets at future discounted prices in an effort to predict what the future replacement cost would be forecasted for planning purposes only and is not a reflection of exact amounts.

Secondly, new additions to the assets register are excluded for these planning purposes, and the view is maintained that existing assets would primarily be replaced and that these replacements use full lives that would expire beyond this 10-year LTFP period.

Therefore, the total amounts as indicated per RUL year in the matrix is a fair and realistic forecast as replacement cost values for the assets and could be utilized for planning purposes in the LTFP.

The following replacement values emanating from the analysis and these figures will be used to determine future cash reserves in section 6.

*Table 23: Total Predicted Asset Replacement Cost per Annum*

| Year | Total Replacement Value |
|---|---|
| **2020/2021** | 6 881 860 |
| **2021/2022** | 3 251 996 |
| **2022/2023** | 24 212 138 |
| **2023/2024** | 12 255 970 |
| **2024/2025** | 5 950 670 |
| **2025/2026** | 10 534 593 |
| **2026/2027** | 4 653 766 |
| **2027/2028** | 6 302 706 |
| **2028/2029** | 2 414 220 |
| **2029** | 14 735 617 |

# 5. BORROWING

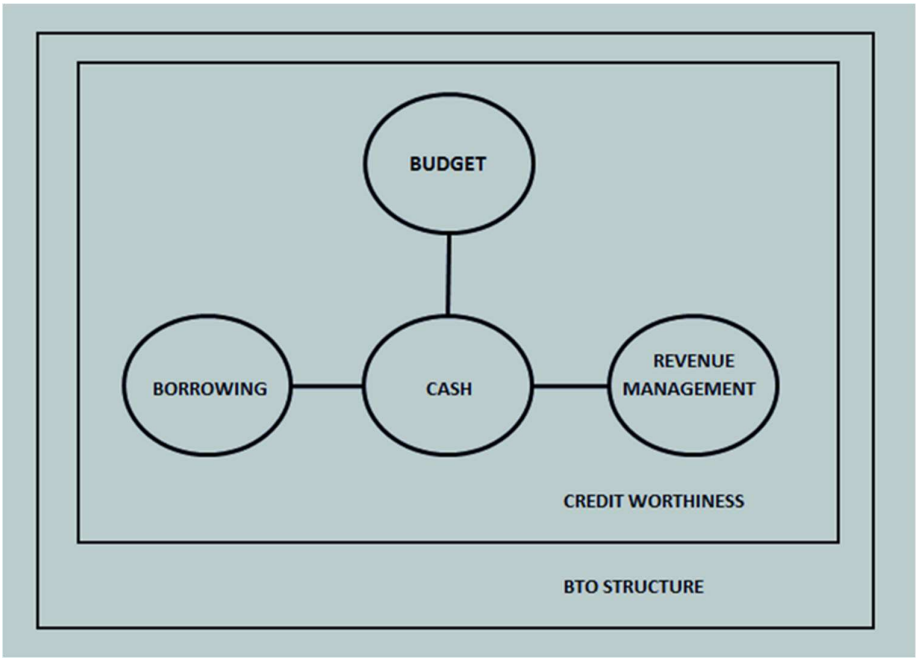



*Figure 11: Synopsis – Borrowing as part of Cash and Revenue Management*

Garden Route Municipality historically has financed their capital projects mainly with National Government Grants and relatively small contributions towards capital expenditure were made from own resources.

The municipality has a history of responsible borrowing when the borrowing cost is compared to those of the Municipalities in the Western Cape. At present, the only long-term liability in the form of borrowing, is the financial leases entered into with a service provider for the leasing of cell phones. The current lease periods lapsed this year, and management has indicated that new lease contracts to replace the existing leases were already negotiated and will be effective as of year 1 of this LTFP.

## 5.1. Borrowing benefits

Borrowing is permitted in terms of section 18(1)(c) of the Municipal Finance Management Act, but only for financing budgeted capital projects and not to finance budgeted operating deficits.

Borrowing allows the costs of infrastructure in particular to be shared with future beneficiaries of that infrastructure. Infrastructure investment is generally `lumpy' in the sense that the project costs must be incurred in one or a few financial years. However, if the infrastructure is well-maintained, its benefits can continue to be incurred for up to twenty or more years into the future. Relying only on current surpluses to finance infrastructure development therefore imposes undue costs on current beneficiaries of the infrastructure, and gives undue benefits to future beneficiaries.

Borrowing therefore allows a better matching of costs paid and benefits derived across time. Spreading costs over time through borrowing is therefore more equitable, and also conforms more closely to standard cost-recovery principles. It should also strengthen the sense of community ownership over inherited municipal infrastructure.

The benefits of borrowing are broadly explained as follows:

- Firstly, and most obviously, borrowing allows the municipality to deliver more infrastructure services within in a shorter timeframe than it could if it invested only its own annual operating surpluses (`savings') each year. The demand for infrastructure is generally urgent, and legal and political mandates are such that governments all over the world incur debt because this demand far exceeds their ability to fund it from surpluses on current budgets.
- Like a home owner borrowing to fund his or her house, a long-term loan allows the benefits of the infrastructure to be gained before its costs have been fully paid.
- Borrowing effectively blends commercial funding with public resources, which are scarce and insufficient to meet the demand for infrastructure, and therefore permits an accelerated investment programme. This has enormous quality of life implications for urban households as well as productivity implications for all economic activity. Such acceleration benefits are often so obvious and tangible that borrowing also becomes a means of relieving community and political pressures on municipal governments.
- Many large infrastructure projects only become affordable if financed through borrowing, as their scale is such that they cannot be afforded if they must be paid for by only current surpluses.
- Borrowing can mean saving on infrastructure costs. In Southern Africa, the rate of building inflation (the rate of increase of building costs) has often exceeded the interest rate that a municipality might pay on borrowed funds. In such circumstances, borrowing means that overall infrastructure costs will be lower than if the project is postponed until sufficient own savings have been generated to pay for the project. By that stage, project costs will have increased by more than the total interest cost of the loan. This is an important consideration and an appropriate loan can permit substantial real savings in overall infrastructure costs.
- Borrowing can increase the municipal management focus on financial sustainability due to a borrower-lender relationship that develops. This is because the lender is entitled to be kept informed about the financial results of the borrower, and the borrower has a real interest in ensuring that the lender retains confidence in the ability of the municipality to service the debt. A lender concerned about deteriorating creditworthiness can therefore prompt management action within a municipality to correct any deterioration and to remain operationally and financially effective. While most municipalities are of course under some form of financial supervision by their national government, the attention paid by a lender to the financial results of a borrowing municipality provides a complementary form of financial accountability. A municipality with infrastructure loans has a financial incentive to promote transparency, good governance and reform. Under the best circumstances, public entities that borrow will find themselves being scrutinised regularly and rigorously by private lenders. This can have a substantial impact, improving financial discipline, encouraging management reforms, and promoting good management in general. Since a well-run municipality will achieve more than one which is poorly managed, such scrutiny indirectly further improves effectiveness and reduces unit costs, while making higher capital spending possible.
- Borrowing builds a credit history, because a municipality which borrows regularly and services its debts establishes relationships with lenders and builds up a credit history.

This tends to reduce future borrowing costs and improve access to future loans, which can be invaluable if there is ever a definite and urgent need for an infrastructure loan and all other options are closed. By contrast, a municipality without a credit history is an unknown entity to lenders and will tend to find it both harder and more expensive to raise infrastructure finance. A good credit history will also tend to attract general investment within the municipal area due the confidence and benefits those investors and businesses derive from operating in a well-managed municipality which provides the required services and at a reasonable cost.

## 5.2. Prospects

When looking at the benefits of borrowing as set out above, it is recommended that the municipality must look at the prospects of borrowing, **but only** when the municipality envisages to invest **in future infrastructure projects** that enable GRDM to deliver on their mandate and that is able to generate sufficient revenue to cover the associated financing and capital costs.

From this point of view, it is then **strongly recommended that the status quo regarding financing of capital expenditure be maintained and that for the purpose of this LTFP no external borrowing, except for financial leases and instances explained above, be considered.**

# 6. CASH AND APPLICATION OF RESERVES

In order to maintain any form of reserves, municipalities need to ensure that sufficient cash resources are available. Reserves must always be cash-funded in terms of GRAP.

Apart from the Capital Replacement Reserve, which is utilised to provide funding for internally funded projects, the municipality also recognised the need for other reserves to be created by way of the municipality's Funding and Reserves Policy in terms of the Municipal Budget and Reporting Regulations. With reference to the statement of financial position, the municipality has material non-current provisions in the form of Employee Benefit Provisions (Long-term awards and Post-retirement medical benefits) and Rehabilitation Costs. There is currently no legal requirement to ensure that these provisions must be cash-backed. However, the municipality should implement strategies that will enable the cash-backing of reserves to ensure that these provisions are cash-funded when it becomes due and payable.

Cash and Reserves entails only an important sub-function of a broader function, namely Cash Management. For this reason, is it then important to firstly elaborate and focus on cash management as a whole and indicate the role and function of reserves and where it fits in.

## 6.1. Cash Management

Cash Management refers to the collection, handling, control and investment of the organizational cash and cash equivalents, to ensure optimal utilization of the municipality's liquid resources. Money is the lifeline of the business of the municipality, and therefore it is essential to maintain a sound cash flow position. Cash management involves decision making at every step. It is not an immediate solution but a strategic approach to financial problems. Following are the strategies of cash management:

### 6.1.1. Principles of Cash

#### *Receivables Cash Management*

Any amount which the municipality has earned however not yet received, i.e. its outstanding and is expected to be received in future, is known as receivables.

A municipality must manage its receivables to maintain the surplus cash inflow. It helps to fulfil immediate cash requirements.

The cash receivables must be planned in such a way that the municipality can realise its debts quickly and should allow a short credit period to the debtors.

#### *Payables Cash Management*

Payables refer to the payment which is unpaid by the municipality and is to be paid off shortly.

The municipality should plan its cash outflow in such a manner that it can acquire an extended credit period from the creditors within the timeframe as set out in terms of section 65 of the Municipal Finance Management Act.

This helps to retain its cash resources for a longer duration to meet the short-term requirements and sudden expenses. Even the municipality can invest this cash as a profitable opportunity for that particular credit period to generate additional income.

### 6.1.2. Objectives

#### *Fulfil Working Capital Requirement*

The municipality needs to maintain ample liquid cash to meet its routine expenses which is only possible through effective cash management.

#### *Planning Capital Expenditure*

It helps in planning the capital expenditure and determining if a need exists to acquire finance for this purpose.

#### *Handling Unorganized Costs*

There are times when the municipality encounters unexpected circumstances like the breakdown of machinery. These are unforeseen expenses to cope with; cash surplus is a lifesaver in such conditions.

#### *Initiates Investment*

The other aim of cash management is to invest the idle funds in the right opportunity and the correct proportion.

#### *Better Utilization of Funds*

It ensures the optimum utilization of the available funds by creating a proper balance between the cash in hand and investment.

#### *Avoiding Financial distress and Ultimately Insolvency*

If the municipality does not plan for efficient cash management, the situation of financial distress may arise. It is either due to lack of liquid cash or not making a return out of the money available.

### 6.1.3. Functions

#### *Investing Idle Cash*

The municipality needs to look for various short- term investment alternatives to utilize surplus funds.

#### *Controlling Cash Flows*

Restricting the cash outflow and accelerating the cash inflow is an essential function of business.

#### *Planning of Cash*

Cash management is all about planning and decision making in terms of maintaining sufficient cash in hand and making wise investments.

### *Managing Cash Flows*

Maintaining the proper flow of cash through cost-cutting and profit generation from investments is necessary to attain a positive cash flow.

### *Optimizing Cash Level*

The municipality should continuously function to maintain the required level of liquidity and cash for business operations.

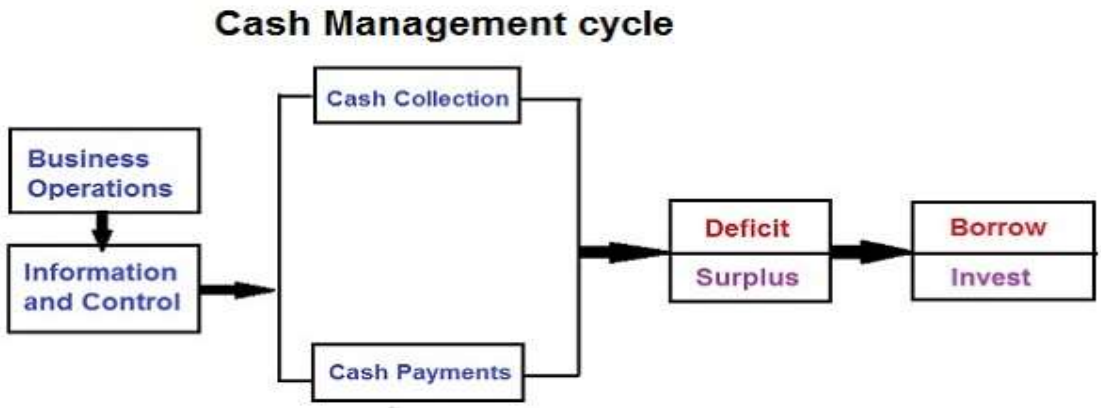



*Figure 12: Cash Management Cycle*

## 6.2. Cash Reserves in the context of Cash Management

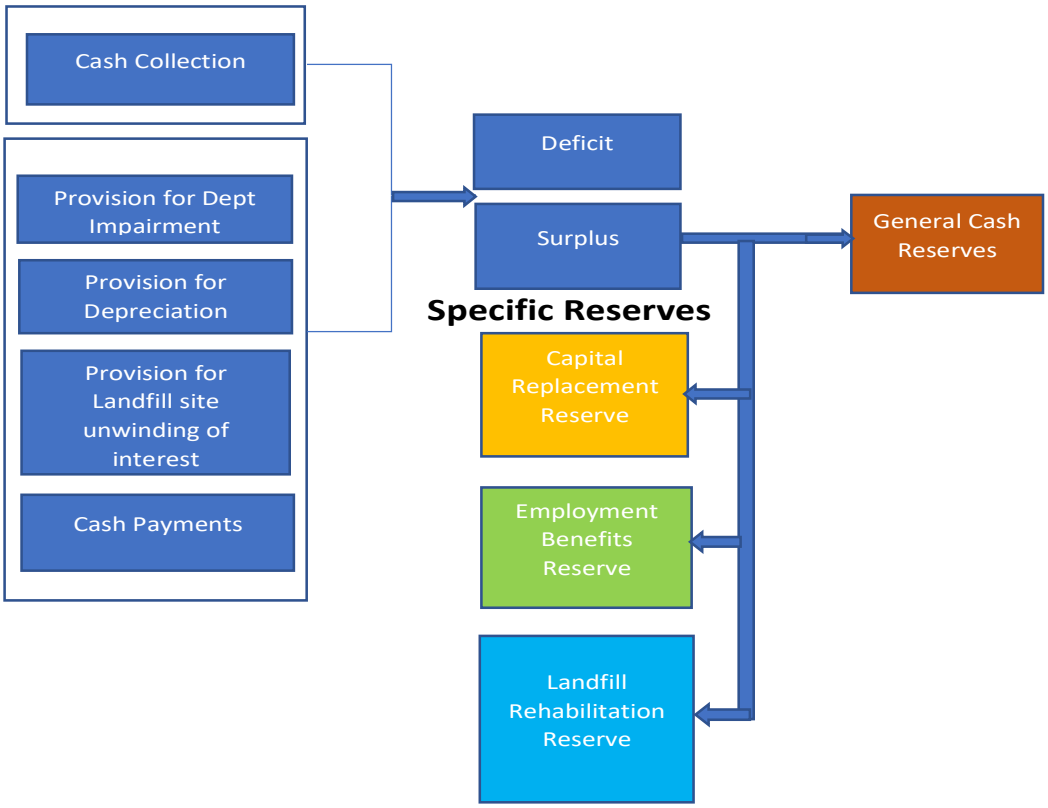



*Figure 13: Synopsis of Cash Reserves in the Context of Cash Management*

### 6.2.1. What are Cash Reserves?

Cash reserves refer to the money kept on hand to meet short-term and emergency funding needs. Short-term investments that enable municipalities to quickly gain access to their money, often in exchange for a lower rate of return, can also be called cash reserves. A financial reserve is any amount of money that is kept purely for the purpose of having cash on hand in the event of unexpected changes.

### 6.2.2. Difference between Provisions and Reserves

Provisions and reserves are two terms which are often confused, but they carry different meanings.

Provisions implies money set aside to cover an anticipated liability or loss. Reserves, on the other hand, refers to withholding some amount for any use in the future.

While running a municipality's business, some expenses or losses relate to the current financial year, but their amount is not known, as they have not yet been incurred. For such expenses/losses, provision is made as a charge against profit. Likewise, a certain portion of the profit is retained in the business as reserves, to utilize them at a time of need, invest it in growth activities, or to cover future contingencies. Reserves are the only appropriation of profit.

So, the basic difference between provision and reserve is that nett profit is calculated only after giving effect to all provisions, whereas reserves are created only after calculating profit.

Provision means to keep some money for a known liability which is probable to arise after a certain time. The Reserve is to retain some money from the profit to be utilized for any particular future use.

### 6.2.3. Kinds of Reserves

There are different types of reserves used in financial accounting like general reserves and specific reserves. They are taken from different sources of income and are usually set aside for different purposes.

General reserves: as suggested by the name, general reserves are not kept aside for any particular purpose, but for the general financial strengthening of the company.

Specific reserves: unsurprisingly, specific reserves are set aside for a specific purpose and cannot be used for any other reason. Specific reserves are sometimes known as special reserves.

#### 6.2.3.1. General Reserves

This is the amount of cash needed to pay for the day-to-day operations of the municipality, and its ability to pay the municipality's current liabilities (liabilities of less than one year).

To determine the amount of cash reserves for this purpose, the acid test and cash ratio are the norms to give guidance in this regard.

The acid test ratio, which is also known as the quick ratio, compares the total cash and accounts receivable to the total amount of the current liabilities, or a common alternative formula is: Acid-Test Ratio = (Current assets – Inventory) / Current Liabilities

Generally, the acid test ratio should be 1:1 or higher. In general, the higher the ratio, the greater the municipality's liquidity (i.e., better able to meet current obligations using liquid assets).

The cash ratio is a measurement of liquidity, specifically the ratio of total cash and cash equivalents to current liabilities. This calculates a municipality's ability to repay its short-term debt with cash.

The cash ratio is much more restrictive than the current ratio or quick ratio because no other current assets can be used to pay off current debt–only cash.

#### 6.2.3.2. Specific Reserves

Normally, these reserves are statutory in nature and are compulsory in terms of legislation and/or established in terms of Council's policies.

No direct transactions against these reserves are allowed and only adjustments/transfers to or from the accumulated surplus is permitted.

Thus, specific reserves are set aside for a specific purpose and cannot be used for any other reason.

As set out in Annexure 2 (Council's Policies) two specific Reserves are on record, namely Capital Replacement Reserve (CRR) and an Employee Benefits Reserve (EBR).

According to the latest Annual Financial Statements of the Municipality, only a CRR is established and no indication of the EBR is present on the face of the Balance Sheet or in the Accounting Policy, which is contrary and in conflict of existing policies of Council.

With the commissioning of the new Landfill site, the provision for rehabilitation would also be a statutory obligation and management has indicated that a Landfill Rehabilitation Reserve must be established were at least the annual provision for depreciation and the unwinding of interest must be transferred. Unwinding of discount is adding the interest element (time value of money) to an amount discounted to present value, which is payable in the future, to build up the cost until the date of repayment.

## 6.3. Current state of the Reserves

### 6.3.1. Total Accumulated Cash:

The total amount of Cash on 30 June 2019 was R174.238 million. This amount of cash, when evaluated against the overall responsibility of the municipality to pay for its current outstanding liabilities, is indicated as follows:

Cash Ratio = Cash/Current Liabilities

Current Liabilities: R75.303 million

Total Cash on hand: R174.238

Ratio 2.31:1

This ratio is not only indicating that the municipality's available Cash exceeds its short-term liabilities by almost 250%, which is evident of a very sound state of affairs, but also that financial management, and in particular cash management, is from a high professional standard and instrumental to the reason that the municipality's Cash Reserves are relatively favourable at present.

**To maintain the present favourable cash flow position is however a challenge and as responsible professionals, management has the view and responsibility to advise Council that certain strategic operational and ideologic reforms by Council are**

**inevitable to secure its future cash reserves necessary to comply with the minimum policy and operational requirements due to a sharp projected decline of 35% in the General Cash Reserves. This is explained further below, and strategic changes to improve is explained in section 7.**

### 6.3.2. Specific Cash Reserves:

#### 6.3.2.1. Capital Replacement Reserve (CRR)

In terms of council's policies, the CRR must be at least cash-backed equal to the value of the accumulated depreciation on the Loose Assets and buildings, which amounts to R45.11 million on 30 June 2019. In the Financial Statements, the CRR is however stated as R31.326 million, which indicates that the CRR is understated by about R13.8 million and the General Reserves overstated. The nett assets need to be adjusted accordingly to rectify these under- and over-statements.

#### 6.3.2.2. Employee Benefits Reserve (EBR)

In terms of the current council's policy, the EBR must be cash-backed to at least the value of 10% of the previous financial years' total valuated Employee Benefits which amounts to R13.74 million and the total value of the Current Employee Benefits Liabilities, which amounts to R13.39 million. The Annual Financial Statements as at 30 June 2019 however, does not reflect an EBR reserve at all. The total amount of R27.13 million is thus understated in the Statement of changes in nett assets and is included as part of the Accumulated Surplus and therefore included as part of the General Reserves. The nett assets need to be adjusted accordingly to rectify these under- and over-statements, or alternatively the particular policy prescription has to be rescinded or amended.

#### 6.3.2.3. Landfill Site Rehabilitation Reserve (LRR)

Not operational yet. Applicable and effective after the landfill site operations have started, which is foreseen to commence from November 2020 (see **Appendix 7** for future obligations).

#### 6.3.2.4. General Cash Reserves (GCR)

The short-term cash position is at best indicated by the acid ratio, which is a test to measure how well the municipality can satisfy its short-term (current) financial obligations. As at 30 June 2019, the liquidity in terms of the acid test is as follows:

| | (R million) |
|---|---|
| Total Cash: | 174.237 |
| Plus: Current Assets (excluding Inventory) | 31.270 |
| Less: Current Liabilities | - 75.302 |
| Liquidity | 130.205 |

With the adjustments as indicated in sections 6.3.2.1 and 6.3.2.2, taken into account, the total distribution of the Cash Reserves as at 30 June 2019 are as follows:

| | (R million) |
|---|---|
| Total available Cash (Liquidity) | 174.237 |
| Less: CRR | - 45 110 |
| Less: EBR | - 27.130 |
| General Reserves | 101.997 |

Although there is not a prescribed minimum norm applicable to this, it is generally regarded as good practice to have at least one-month average operational expenditure available in cash. During the 2018/19 financial year, the total cash outflows from operations was R385.23 million, which results in a one-month average of cash expenditure amounting to R32.1 million.

With a present General Cash Reserve of R101.997 million, it is indicated that 3.18 months' worth of operational expenditure is available in cash as a liquidity buffer to cover for these costs, which exceed acceptable norms. This favourable ratio is however expected to dramatically changed during the course of the next 10-years, as set out in section 6.4.1.

It is recommended that the understated reserve amounts of R13.8 million and R27.13 million for the CRR and EBR respectively, be corrected in the Statement of Capital Nett Assets (SOCNA) as movements from the Accumulated Surplus, to reflect the correct reserve values as prescribed in the existing council's policies.

## 6.4. Projected Future Cash Reserves for the 10-year period of the LTFP

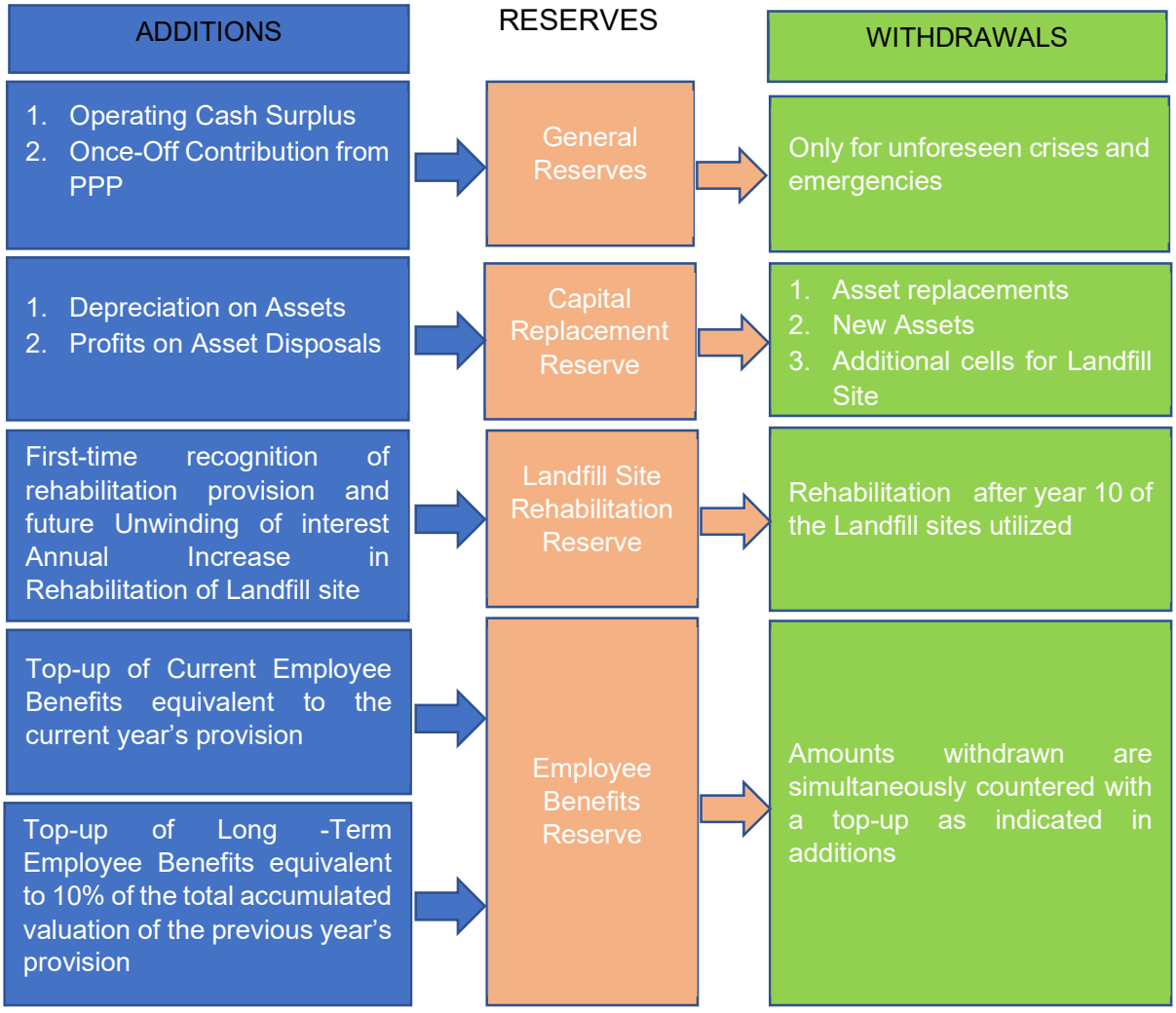



*Figure 14: Graphical Illustration of 10-year Period Cash Flow in Reserves*

***Figure 15: Graphical Illustration of Allocation Transfers of the Reserves***

### 6.4.1. Nett projected Cash movement

The projected portions of the total Cash movements, are based on the latest budget information presented by management for 2020/21 and the two outer years. These budgets figures for the subsequent years have been adjusted for inflation, and the impact of the landfill site has been incorporated into the projected estimates. The projections of the budget have no reflection of any strategic changes and are based purely on the status quo scenario. Strategic changes are recommended and applicable in section 7.

The projected 10-year budget and the calculation of the total estimated cash generation is set out in section 1.2 of Appendix 1.

The projected nett cash generated by operations amounting to R564 916 184 and the outflow of funds amounting to R478 071 950, results in a nett cash inflow of R86 844 234.

As illustrated in figure 15 above, the nett cash inflow of R86.844 million is by far insufficient to meet the minimum requirements. This correlates with the predictions made in section 3.2 of the analysing phase. The minimum requirements are set out below.

### 6.4.2. Rehabilitation of the Landfill Site Reserve

The principle, calculations and method are comprehensively set out in section 1.3.3 of Appendix 7.

The R94.974 million represent the outflow of funds invested into accumulating funds to be available at the end of the useful life of the landfill site for rehabilitation.

The cash inflow after maturity of the investment, occurs after this 10-year period and is excluded for this reason.

### 6.4.3. Employee Benefits Reserve

The minimum requirements of the EBR in term of the policy are as follows:

- The value of 10% of the previous year Long-Term Liability-Provision for Employee Benefits, amounting to R13.74 million on 30 June 2018.
- The current portion of Post-Employee benefits, amount to R13.39 million on 30 June 2019.

When the above initial amounts are adjusted to make provision for an annual 5% inflation increase, the projected future total reserve liability on 30 June 2030, comes to R43.15 million.

### 6.4.4. Capital Replacement Reserve

The minimum requirements in terms of Council policy are as follows:

- Depreciation on assets funded from own sources must be reflected as a surplus on the cash flow budget and the annual depreciation/amortization must be transferred to the Capital Replacement Reserve annually.
- Financing capital projects and the acquisition of assets.
- Appropriate cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
- Additional amounts appropriated as contributions in each annual or adjustments budget; and
- Sale of land and profit or loss on the sale of assets

To comply with the above requirements, the following are included to determine the reserve value as at 30 June 2030.

- Outflow of funds: Replacements of assets as set out in section 4.3, amount to R91.194 million.
- Transfer of once-off Landfill Site contribution from PPP amounting to R8.215 million.

- Transfer of depreciation provisions, amounting to R94.974 million

From the above, it is calculated that the annual nett movement is an amount of R11.995 million, and that the accumulated funds total to R57.105 million as at 30 June 2030.

### 6.4.5. General Reserves

The General Cash reserves refer to the money on hand to meet short-term and emergency funding needs, which are inter alia the following:

- Unspent conditional grants;
- Trade Payables;
- Current Employee Benefits (excluding the current portion of the Employee benefits included in the EBR);
- Unspent conditional public contributions;
- Unspent borrowings;
- VAT due to SARS;
- Secured investments; and
- At least 1 month operational expenditure.

As indicated in section 6.3.2.4 above, the current liquidity buffer was such that available cash could cover 3.18 months' worth of operational expenditure costs.

The projected General Cash Reserves is experiencing a decline of 35% in comparison to 30 June 2019. The projected operational expenditure for year 10 (30 June 2030) now amounts to R645.445 million and is one month's average operational expenditure worth R53.787 million. This amount now represents only a projected 1.22 months' worth of liquidity buffer, which is a dramatic decline from the previous 3.18.

It is not possible for projecting or predicting the applicable current liabilities for year 10 accurately, and for this reason, the total amount of the current liabilities as at 30 June 2019, amounting to R61.21 million, is adjusted with an annual average inflation of 5%, as a method to estimate the value of the current liabilities (excluding the current portion of the Employee Benefits which is already included in the EBR). Based on this assumption, the projected estimated value of the current liabilities amounts to R99.7 million by 30 June 2030.

In order to meet the minimum requirements of the available general cash reserves, the estimated current liabilities of R99.7 million and the liquidity buffer of at least one month's worth of average operational expenditure of R53.787 million totalling R153.487 million, exceeds the available projected general cash reserve worth R65.852 million, with a substantial projected cash deficit of R87.635 million.

As already mentioned in section 6.1.3 above, this projected deficit is reason for concern and needs some affirmative action to prevent it, and to rather prematurely embarked on a process to secure the Municipality's current favourable cash flow and cash reserves.

In Section 7, remedial actions are recommended.

# 7. LONG-TERM FINANCIAL FINDINGS AND RECOMMENDATIONS

## 7.1. Key findings

### 7.1.1. Cash paradox

At first glance, the information in the Financial Statements and Budgets suggest that the municipality is operating at a healthy surplus and that the present favourable cash reserves are sufficient. However, when analysing the information by isolating the actual cash-generating items, the underlying actual cash-generating financial information indicates the contrary and that the municipality is operating at an actual operating loss. This conclusion is supported by the analysis done in section 3, which also correlates with the projected future cash-generating budgets as set out in section 6. This indicates that although cash surpluses are generated, these surpluses are not sufficient to maintain the future minimum reserves requirements. From the projections, it appears that as a result of this paradox in cash generation, a minimum cash deficit amounting to almost R90 million is predicted. If the new additional administrative levy received for the landfill site service as mentioned in section 7.1.5 below was not effective, the cash deficit was in the order of almost R170 million.

### 7.1.2. Underlying reason for operating losses

#### 7.1.2.1. Holiday Resorts

As indicated in section 3.3.1, the main indicative reason for operating losses is found in the relatively high fiscal losses made by operating the holiday resorts. It is projected that the continuation of this “non-core” function would realize accumulated deficits amounting to R55.096 million over the next 10-year period of this LTFP. This unacceptable practice makes no business sense and results in the municipality subsidising the holidays of the public, of which the vast majority resides outside the juridical boundaries of this municipality.

To simply close the resorts is also not an option, as this would lead to even much higher losses due to the remaining fixed cost and the loss of revenue.

It appears that the alienation of the resorts by way of leases and/or selling is inevitable. By doing this, the outright selling of the resorts, based on the latest market valuations, could dramatically reform the cash reserves of the municipality from a predicted deficit of R90 million to a cash reserve surplus in excess of R90 million.

This additional cash injection would also dramatically increase operating revenue due to the additional interest yield from the additional cash invested.

#### 7.1.2.2. Employee-Related Cost

As indicated in section 3.3.2.1, the relatively high employee cost also contributes to operating losses. From the comparative analysis, it is evident that the employee-related cost is 6.37% higher than average expenditure on employee cost of the 5 Western Cape Category C municipalities. To put this in perspective, Garden Route Municipality, which tends to compare in size and nature similar to that of Cape Winelands and West Coast District Municipality, has a nominal value in employee costs exceeding that of Cape Winelands’ by R41.3 million and West Coast by R44.181 million.

When the employee corps of the municipalities are compared, the reason for the substantial difference in the total employee cost is clearly evident, where the Garden Route District municipality employed 557, as opposed to the West Coast Municipality’s 506, and Cape

Winelands' 406 employees.

#### 7.1.2.3. Operating Cost (General Expenditure)

As indicated in section 3.3.2.2, the Municipality's spending on General Expenses as a percentage of its revenue is 1.86% higher than the average of the other 4 Category C municipalities. This is largely emanating from the higher-than-average spending on employee cost and the relatively high administrative component of the organizational structure which is expected to simultaneously impact general cost directly as well.

### 7.1.3. Council's budget and reserves policies

The applicable policies as set out in Appendix 2 have statutory status and are therefore obligatory. However, several policy prescriptions and directions are not evident in the current financial applications of which the absence of an Employee Benefits Reserve is the most important concern.

### 7.1.4. Assets replacements

In section 4, it is indicated that the loose assets are fairly well maintained with the result that assets normally reach their expected useful life and even longer, with the result that asset impairments and early write-offs are irrelevant.

In section 4.3, it is indicated that assets to the value of R91 million are predicted to be replaced. This amount represents the future replacement values and not the book values.

### 7.1.5. The Landfill Site

It is anticipated that the commissioning of the district landfill site would be effective from November 2020.The pro rata 7 months period for the 2020/21 and the subsequent years are included in the projections. The landfill site constitutes the recognition of a service concession asset and an accompanied unpaid asset liability due to the control of a significant residual interest that vested after maturity of the Public Private Partnership (PPP) agreement. The service concession asset and the municipality's statutory rehabilitation responsibility are comprehensively set out in Appendices 6 and 7. An asset and liability of R309.5 million is calculated in terms of GRAP 32, as a first time recognition responsibility and the rehabilitation provision in terms of GRAP 19 amounting to a present value of R61 million projected to R94.47 million at the time of decommissioning.

The PPP would pay for the service with funds recovered from the participating municipalities.

The municipality received a once-off payment amounting to R8.215 million, which must be transferred to the municipality's Capital Replacement Reserve, and a 10% administrative fee payable by the participating municipalities. It is projected that an amount of R78 million would be received during the 10-year period of this financial plan.

### 7.1.6. Borrowing

When looking at the benefits of borrowing, the municipality must look at the prospects of borrowing but only when the municipality envisages to invest in future infrastructure projects that enable GRDM to deliver on their mandate and that is able to generate sufficient revenue to cover the associated financing and capital costs..

## 7.2. Recommendations

- Except for capital expenditure which is funded from other external sources, for example

grants, donations and financial leases as a result of GRAP standard applications, it is strongly recommended that the status quo practice be to fund capital expenditure from own funds accumulated in the Capital Replacement Fund. Only when an unexpected, compulsory investment in a capital-intensive infrastructure project, occurs, the benefits of borrowing as set out is section 5 could be considered. Otherwise, no borrowing is recommended.

- This long-term financial plan is based and modelled in terms of the current conditions as set out in the policies, although it is recommended that the budget, cash and cash reserves policies in particular be reviewed to make sure that the policies are still relevant.
- In an effort to effectively cut on the extremely high employee cost as the result of an extraordinary excessive personnel corps, the municipality needs to streamline the organisation. For this reason, council has to seriously consider the appointment of a specialist to do an organisation- and method analysis, and to establish an organogram which is more cost-effective.
- To save on the higher-than-average operational cost expenditure, it is recommended that the normal cost containment regulations as gazetted (National Treasuries Guideline on Cost Containment Measurements) are not only implemented but also enforced by management in an effort to save on costs. This must carefully be managed, and a balance must be found between saving and the quality of service delivery. Furthermore, a special effort is needed to save on Travel and Subsistence expenditure.
- The municipality should continue with the responsible manner to timeously and regularly maintain the loose assets, and that the cost of repairs and maintenance be carefully monitored to ensure that money is not unnecessarily spent on repairs and maintenance instead of replacing assets. The replacement of assets, as set out in section 4 and Appendix 5, amounts to a predicted amount of R91 million, to be funded from the Asset Replacement Reserve as determined in the Funds and Reserve policy.
- The understatements of the Capital Replacement Reserve (R13.8 million) and the Employee Benefits Reserves (R27.13 million) as indicated in section 6.3, retroactively be corrected by transferring the understatements from the Accumulated Surplus to the applicable Reserves. This entails only accounting entries with movements in the Statement of Changes in the Nett Assets statement in the Financial Statements.
- The reality is that the municipality does not have the ability to turn around or reform the holiday resorts from non-profitable to profitable entities. This scenario is a given. As this is certainly the main reason for the deterioration of the municipality's cash reserves, the municipality has no other option than to follow the trend of the neighbouring municipalities to privatize the resorts. As indicated in the analysis, by doing this, this could have a massive impact on the predicted accumulated cash deficit as set out in section 6.4, where the deficit could be transformed to a substantial cash reserve surplus. When the municipality is in a position where a cash reserve surplus is reached, money makes money as a direct result of the compound interest effect. Privatization could be a long and expansive process, and in order to give this effect, it is recommended that the municipality has to urgently initiate the process to ensure that the proceeds could be realized as quickly as possible.
- The only negative consequence of privatization is the human factor and the social impact of job losses, although mandatory inevitable retrenchment due to operational reasons is

an acceptable practice in terms of the South African Labour Law. However, to mitigate job-losses, severance packages could be offered to affected employees, funded from the funds yielded from the proceeds of the sales of the property.

- The rehabilitation cost portion, which is included in the total recoverable amount receivable from the participating municipalities, is calculated at an annual fixed amount of R7.2 million. This amount is substantially more than originally anticipated in the financial model calculated by the PPP. Thorough knowledge of this must be had, and the participating municipalities must be informed about this difference, because this has an impact on their budgets.
- The rehabilitation cost portion amount is calculated to ultimately cover the total projected rehabilitation cost of R94 million. To achieve this, the annual amounts must be invested to earn interest to yield the projected rehabilitation cost of R94 million. Therefore, it is recommended that a separate investment be made solely for this rehabilitation account in order to monitor the interest yield, to secure that the investment growth is sufficient.

## 7.3. Planning Matrix

The matrix is a collection of the figures and numbers emanating from the latest Financial Statements, latest budget information, PPP agreement, official policies and other planning documents, which were carefully and thoroughly analysed and projected and the results reflected in this document have been arranged into an excel format which contains the following:

- Budget items format
- 10-year period (2020/21 – 2029/30)
- Distinguishing between cash generating items and non-cash generating items
- Cash flow
- Variables and assumptions

The hard copy of the matrix is included in Appendix 1.2 (tables 4 and 5).

The excel format is an interactive document and responsive to any changes in the variables and/or assumptions. The excel format is an integral component of this document and would be submitted to management with this plan.

# APPENDIX 1 – CASH GENERATING SURPLUS

## 1. CASH-GENERATING SURPLUS (ANALYSING PHASE)

With the tables (1-3 below), the status quo (operations as at 30 June 2019 without any changes or adjustments) is projected for the next 10 years. All the non-cash items (depreciation, debt impairment etc.) are excluded.

The redemption portion of the borrowing cost is included as a cash outflow. Borrowing cost is only for financial leases which lapsed at 30 June 2020. A new leased contract is finalized, replacing the lease of cell phones at a 30 % lower cost. Although the leases are for a two-year period only, the leases would be renewed, and therefore the cost is used as a constant for the 10 years period.

The tables reflecting the current inflation rate of 4.5% with adjustment for fluctuations in inflation of 1% or -1% respectively.

***Table 1: Projected revenue and expenditure when the status quo is maintained, projected at the current inflation rate of 4.5%***

| Current Inflation 4.5% | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|---|---|---|---|---|---|
| Revenue | 223 421 140 | 233 475 091 | 243 981 470 | 254 960 637 | 266 433 865 |
| Government Grants and Subsidies | 165 934 347 | 173 401 393 | 181 204 455 | 189 358 656 | 197 879 795 |
| Dept of Transport - Roads | 17 243 706 | 18 019 673 | 18 830 558 | 19 677 933 | 20 563 440 |
| Sales of Goods and Services | 21 572 639 | 22 543 408 | 23 557 861 | 24 617 965 | 25 725 773 |
| Rent on Land | 704 013 | 735 694 | 768 800 | 803 396 | 839 549 |
| Rental of Facilities | 978 020 | 1 022 031 | 1 068 022 | 1 116 083 | 1 166 307 |
| Interest Earned- Debtors | 2 423 660 | 2 532 725 | 2 646 697 | 2 765 799 | 2 890 260 |
| Interest Earned- Investments | 12 966 268 | 13 549 750 | 14 159 489 | 14 796 666 | 15 462 516 |
| Licences and Permits | 484 416 | 506 215 | 528 994 | 552 799 | 577 675 |
| Operational Revenue | 1 114 071 | 1 164 204 | 1 216 593 | 1 271 340 | 1 328 550 |
| Expenditure | 227 960 988 | 238 219 232 | 248 939 098 | 260 141 357 | 271 847 718 |
| Employee related costs | 139 528 758 | 145 807 552 | 152 368 892 | 159 225 492 | 166 390 639 |
| Remuneration of Councillors | 11 053 302 | 11 550 701 | 12 070 482 | 12 613 654 | 13 181 268 |
| Bad debts written off | 3 994 605 | 4 174 362 | 4 362 209 | 4 558 508 | 4 763 641 |
| Impairment losses - Receivables | 8 560 292 | 8 945 505 | 9 348 053 | 9 768 715 | 10 208 307 |
| Depreciation and Amortisation | 4 033 309 | 4 214 808 | 4 404 474 | 4 602 676 | 4 809 796 |
| Contracted Services | 27 851 016 | 29 104 312 | 30 414 006 | 31 782 636 | 33 212 855 |
| Finance Cost | 127 408 | 133 141 | 139 133 | 145 394 | 151 936 |
| Inventory Consumed | 2 862 069 | 2 990 862 | 3 125 451 | 3 266 096 | 3 413 071 |
| Operating Leases | 541 897 | 566 282 | 591 765 | 618 394 | 646 222 |
| Transfers and Subsidies | 1 417 183 | 1 480 956 | 1 547 599 | 1 617 241 | 1 690 017 |
| Operating Costs | 27 991 149 | 29 250 751 | 30 567 034 | 31 942 551 | 33 379 966 |
| Loss | 4 539 848 | 4 744 141 | 4 957 627 | 5 180 721 | 5 413 853 |

| Current Inflation 4.5% | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 |
|---|---|---|---|---|---|---|
| Revenue | 278 423 389 | 290 952 442 | 304 045 302 | 317 727 340 | 332 025 070 | 346 966 199 |
| Government Grants and Subsidies | 206 784 386 | 216 089 683 | 225 813 719 | 235 975 337 | 246 594 227 | 257 690 967 |
| Dept of Transport - Roads | 21 488 795 | 22 455 791 | 23 466 301 | 24 522 285 | 25 625 788 | 26 778 948 |
| Sales of Goods and Services | 26 883 433 | 28 093 188 | 29 357 381 | 30 678 463 | 32 058 994 | 33 501 649 |
| Rent on Land | 877 328 | 916 808 | 958 064 | 1 001 177 | 1 046 230 | 1 093 311 |
| Rental of Facilities | 1 218 791 | 1 273 636 | 1 330 950 | 1 390 843 | 1 453 431 | 1 518 835 |
| Interest Earned- Debtors | 3 020 321 | 3 156 236 | 3 298 266 | 3 446 688 | 3 601 789 | 3 763 870 |
| Interest Earned- Investments | 16 158 329 | 16 885 454 | 17 645 299 | 18 439 338 | 19 269 108 | 20 136 218 |
| Licences and Permits | 603 670 | 630 836 | 659 223 | 688 888 | 719 888 | 752 283 |
| Operational Revenue | 1 388 335 | 1 450 810 | 1 516 097 | 1 584 321 | 1 655 615 | 1 730 118 |
| Expenditure | 284 080 866 | 296 864 505 | 310 223 407 | 324 183 461 | 338 771 716 | 354 016 444 |
| Employee related costs | 173 878 218 | 181 702 738 | 189 879 361 | 198 423 932 | 207 353 009 | 216 683 895 |
| Remuneration of Councillors | 13 774 425 | 14 394 274 | 15 042 017 | 15 718 908 | 16 426 258 | 17 165 440 |
| Bad debts written off | 4 978 005 | 5 202 015 | 5 436 105 | 5 680 730 | 5 936 363 | 6 203 499 |
| Impairment losses - Receivables | 10 667 681 | 11 147 727 | 11 649 375 | 12 173 596 | 12 721 408 | 13 293 872 |
| Depreciation and Amortisation | 5 026 237 | 5 252 417 | 5 488 776 | 5 735 771 | 5 993 881 | 6 263 606 |
| Contracted Services | 34 707 433 | 36 269 267 | 37 901 385 | 39 606 947 | 41 389 259 | 43 251 776 |
| Finance Cost | 158 774 | 165 918 | 173 385 | 181 187 | 189 340 | 197 861 |
| Inventory Consumed | 3 566 659 | 3 727 158 | 3 894 880 | 4 070 150 | 4 253 307 | 4 444 706 |
| Operating Leases | 675 302 | 705 691 | 737 447 | 770 632 | 805 310 | 841 549 |
| Transfers and Subsidies | 1 766 068 | 1 845 541 | 1 928 590 | 2 015 377 | 2 106 069 | 2 200 842 |
| Operating Costs | 34 882 064 | 36 451 757 | 38 092 086 | 39 806 230 | 41 597 511 | 43 469 398 |
| Loss | 5 657 476 | 5 912 063 | 6 178 106 | 6 456 121 | 6 746 646 | 7 050 245 |

***Table 2: Projected revenue and expenditure when the status quo is maintained, projected at the current inflation rate of 4.5% plus 1%***

| Current Inflation +1 % | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|---|---|---|---|---|---|
| Revenue | 223 421 140 | 235 709 303 | 248 673 314 | 262 350 347 | 276 779 616 |
| Government Grants and Subsidies | 165 934 347 | 175 060 736 | 184 689 077 | 194 846 976 | 205 563 559 |
| Dept of Transport - Roads | 17 243 706 | 18 192 110 | 19 192 676 | 20 248 273 | 21 361 928 |
| Sales of Goods and Services | 21 572 639 | 22 759 134 | 24 010 887 | 25 331 485 | 26 724 717 |
| Rent on Land | 704 013 | 742 734 | 783 584 | 826 681 | 872 149 |
| Rental of Facilities | 978 020 | 1 031 811 | 1 088 561 | 1 148 432 | 1 211 595 |
| Interest Earned- Debtors | 2 423 660 | 2 556 961 | 2 697 594 | 2 845 962 | 3 002 490 |
| Interest Earned- Investments | 12 966 268 | 13 679 413 | 14 431 780 | 15 225 528 | 16 062 932 |
| Licences and Permits | 484 416 | 511 059 | 539 167 | 568 821 | 600 106 |

| | | | | | |
|---|---|---|---|---|---|
| **Operational Revenue** | **1 114 071** | **1 175 345** | **1 239 989** | **1 308 188** | **1 380 139** |
| **Expenditure** | **227 960 988** | **240 498 842** | **253 726 279** | **267 681 224** | **282 403 691** |
| **Employee related costs** | **139 528 758** | **147 202 840** | **155 298 996** | **163 840 441** | **172 851 665** |
| **Remuneration of Councillors** | **11 053 302** | **11 661 234** | **12 302 601** | **12 979 245** | **13 693 103** |
| **Bad debts written off** | **3 994 605** | **4 214 308** | **4 446 095** | **4 690 630** | **4 948 615** |
| **Impairment losses - Receivables** | **8 560 292** | **9 031 108** | **9 527 819** | **10 051 849** | **10 604 701** |
| **Depreciation and Amortisation** | **4 033 309** | **4 255 141** | **4 489 174** | **4 736 078** | **4 996 563** |
| **Contracted Services** | **27 851 016** | **29 382 822** | **30 998 877** | **32 703 815** | **34 502 525** |
| **Finance Cost** | **127 408** | **134 415** | **141 808** | **149 608** | **157 836** |
| **Inventory Consumed** | **2 862 069** | **3 019 483** | **3 185 554** | **3 360 760** | **3 545 602** |
| **Operating Leases** | **541 897** | **571 701** | **603 145** | **636 318** | **671 315** |
| **Transfers and Subsidies** | **1 417 183** | **1 495 128** | **1 577 360** | **1 664 115** | **1 755 641** |
| **Operating Costs** | **27 991 149** | **29 530 662** | **31 154 849** | **32 868 365** | **34 676 125** |
| **Loss** | **4 539 848** | **4 789 540** | **5 052 964** | **5 330 877** | **5 624 076** |

**Current Inflation +1 %**

| | **2024/25** | **2025/26** | **2026/27** | **2027/28** | **2028/29** | **2029/30** |
|---|---|---|---|---|---|---|
| **Revenue** | **292 002 495** | **308 062 632** | **325 006 077** | **342 881 411** | **361 739 888** | **381 635 582** |
| **Government Grants and Subsidies** | **216 869 555** | **228 797 381** | **241 381 237** | **254 657 205** | **268 663 351** | **283 439 835** |
| **Dept of Transport - Roads** | **22 536 834** | **23 776 360** | **25 084 060** | **26 463 683** | **27 919 186** | **29 454 741** |
| **Sales of Goods and Services** | **28 194 576** | **29 745 278** | **31 381 268** | **33 107 238** | **34 928 136** | **36 849 184** |
| **Rent on Land** | **920 117** | **970 723** | **1 024 113** | **1 080 439** | **1 139 863** | **1 202 556** |
| **Rental of Facilities** | **1 278 233** | **1 348 536** | **1 422 705** | **1 500 954** | **1 583 507** | **1 670 599** |
| **Interest Earned- Debtors** | **3 167 627** | **3 341 846** | **3 525 648** | **3 719 558** | **3 924 134** | **4 139 961** |
| **Interest Earned- Investments** | **16 946 394** | **17 878 445** | **18 861 760** | **19 899 157** | **20 993 610** | **22 148 259** |
| **Licences and Permits** | **633 112** | **667 934** | **704 670** | **743 427** | **784 315** | **827 453** |
| **Operational Revenue** | **1 456 046** | **1 536 129** | **1 620 616** | **1 709 750** | **1 803 786** | **1 902 994** |
| **Expenditure** | **297 935 894** | **314 322 368** | **331 610 099** | **349 848 654** | **369 090 330** | **389 390 298** |
| **Employee related costs** | **182 358 506** | **192 388 224** | **202 969 577** | **214 132 903** | **225 910 213** | **238 335 275** |
| **Remuneration of Councillors** | **14 446 224** | **15 240 766** | **16 079 008** | **16 963 354** | **17 896 338** | **18 880 637** |
| **Bad debts written off** | **5 220 789** | **5 507 932** | **5 810 869** | **6 130 466** | **6 467 642** | **6 823 362** |
| **Impairment losses - Receivables** | **11 187 959** | **11 803 297** | **12 452 478** | **13 137 365** | **13 859 920** | **14 622 215** |
| **Depreciation and Amortisation** | **5 271 374** | **5 561 299** | **5 867 171** | **6 189 865** | **6 530 308** | **6 889 474** |
| **Contracted Services** | **36 400 164** | **38 402 173** | **40 514 292** | **42 742 579** | **45 093 420** | **47 573 559** |
| **Finance Cost** | **166 517** | **175 676** | **185 338** | **195 531** | **206 286** | **217 631** |
| **Inventory Consumed** | **3 740 610** | **3 946 343** | **4 163 392** | **4 392 379** | **4 633 960** | **4 888 827** |
| **Operating Leases** | **708 238** | **747 191** | **788 286** | **831 642** | **877 382** | **925 638** |
| **Transfers and Subsidies** | **1 852 202** | **1 954 073** | **2 061 547** | **2 174 932** | **2 294 553** | **2 420 753** |
| **Operating Costs** | **36 583 312** | **38 595 394** | **40 718 141** | **42 957 639** | **45 320 309** | **47 812 926** |
| **Loss** | **5 933 400** | **6 259 737** | **6 604 022** | **6 967 243** | **7 350 442** | **7 754 716** |

### *Table 3: Projected revenue and expenditure when the status quo is maintained, projected at the current inflation rate of 4.5% minus 1%*

| Current Inflation -1 % | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|---|---|---|---|---|---|
| Revenue | 223 421 140 | 231 240 880 | 239 334 311 | 247 711 012 | 256 380 897 |
| Government Grants and Subsidies | 165 934 347 | 171 742 049 | 177 753 021 | 183 974 377 | 190 413 480 |
| Dept of Transport - Roads | 17 243 706 | 17 847 236 | 18 471 889 | 19 118 405 | 19 787 549 |
| Sales of Goods and Services | 21 572 639 | 22 327 681 | 23 109 150 | 23 917 970 | 24 755 099 |
| Rent on Land | 704 013 | 728 653 | 754 156 | 780 552 | 807 871 |
| Rental of Facilities | 978 020 | 1 012 251 | 1 047 679 | 1 084 348 | 1 122 300 |
| Interest Earned- Debtors | 2 423 660 | 2 508 488 | 2 596 285 | 2 687 155 | 2 781 206 |
| Interest Earned- Investments | 12 966 268 | 13 420 087 | 13 889 790 | 14 375 933 | 14 879 091 |
| Licences and Permits | 484 416 | 501 371 | 518 919 | 537 081 | 555 879 |
| Operational Revenue | 1 114 071 | 1 153 063 | 1 193 421 | 1 235 190 | 1 278 422 |
| Expenditure | 227 960 988 | 235 939 622 | 244 197 509 | 252 744 422 | 261 590 477 |
| Employee related costs | 139 528 758 | 144 412 265 | 149 466 694 | 154 698 028 | 160 112 459 |
| Remuneration of Councillors | 11 053 302 | 11 440 168 | 11 840 573 | 12 254 994 | 12 683 918 |
| Bad debts written off | 3 994 605 | 4 134 416 | 4 279 121 | 4 428 890 | 4 583 901 |
| Impairment losses - Receivables | 8 560 292 | 8 859 902 | 9 169 999 | 9 490 949 | 9 823 132 |
| Depreciation and Amortisation | 4 033 309 | 4 174 475 | 4 320 581 | 4 471 802 | 4 628 315 |
| Contracted Services | 27 851 016 | 28 825 801 | 29 834 705 | 30 878 919 | 31 959 681 |
| Finance Cost | 127 408 | 131 867 | 136 483 | 141 260 | 146 204 |
| Inventory Consumed | 2 862 069 | 2 962 241 | 3 065 920 | 3 173 227 | 3 284 290 |
| Operating Leases | 541 897 | 560 863 | 580 494 | 600 811 | 621 839 |
| Transfers and Subsidies | 1 417 183 | 1 466 784 | 1 518 122 | 1 571 256 | 1 626 250 |
| Operating Costs | 27 991 149 | 28 970 839 | 29 984 819 | 31 034 287 | 32 120 487 |
| Loss | 4 539 848 | 4 698 743 | 4 863 199 | 5 033 411 | 5 209 580 |

| Current Inflation -1 % | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 |
|---|---|---|---|---|---|---|
| Revenue | 265 354 228 | 274 641 626 | 284 254 083 | 294 202 976 | 304 500 080 | 315 157 583 |
| Government Grants and Subsidies | 197 077 952 | 203 975 680 | 211 114 829 | 218 503 848 | 226 151 482 | 234 066 784 |
| Dept of Transport - Roads | 20 480 113 | 21 196 917 | 21 938 810 | 22 706 668 | 23 501 401 | 24 323 950 |
| Sales of Goods and Services | 25 621 528 | 26 518 281 | 27 446 421 | 28 407 046 | 29 401 293 | 30 430 338 |
| Rent on Land | 836 147 | 865 412 | 895 701 | 927 051 | 959 497 | 993 080 |
| Rental of Facilities | 1 161 581 | 1 202 236 | 1 244 315 | 1 287 866 | 1 332 941 | 1 379 594 |
| Interest Earned- Debtors | 2 878 548 | 2 979 297 | 3 083 572 | 3 191 497 | 3 303 200 | 3 418 812 |
| Interest Earned- Investments | 15 399 859 | 15 938 854 | 16 496 714 | 17 074 099 | 17 671 692 | 18 290 202 |
| Licences and Permits | 575 334 | 595 471 | 616 312 | 637 883 | 660 209 | 683 317 |
| Operational Revenue | 1 323 167 | 1 369 478 | 1 417 409 | 1 467 019 | 1 518 364 | 1 571 507 |
| Expenditure | 270 746 144 | 280 222 259 | 290 030 038 | 300 181 089 | 310 687 427 | 321 561 487 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Employee-related costs | 165 716 395 | 171 516 469 | 177 519 545 | 183 732 729 | 190 163 375 | 196 819 093 |
| Remuneration of Councillors | 13 127 855 | 13 587 330 | 14 062 887 | 14 555 088 | 15 064 516 | 15 591 774 |
| Bad debts written off | 4 744 338 | 4 910 389 | 5 082 253 | 5 260 132 | 5 444 237 | 5 634 785 |
| Impairment losses - Receivables | 10 166 942 | 10 522 785 | 10 891 082 | 11 272 270 | 11 666 799 | 12 075 137 |
| Depreciation and Amortisation | 4 790 306 | 4 957 967 | 5 131 495 | 5 311 098 | 5 496 986 | 5 689 381 |
| Contracted Services | 33 078 270 | 34 236 010 | 35 434 270 | 36 674 469 | 37 958 076 | 39 286 609 |
| Finance Cost | 151 321 | 156 617 | 162 099 | 167 772 | 173 644 | 179 722 |
| Inventory Consumed | 3 399 240 | 3 518 214 | 3 641 351 | 3 768 798 | 3 900 706 | 4 037 231 |
| Operating Leases | 643 604 | 666 130 | 689 444 | 713 575 | 738 550 | 764 399 |
| Transfers and Subsidies | 1 683 169 | 1 742 080 | 1 803 053 | 1 866 159 | 1 931 475 | 1 999 077 |
| Operating Costs | 33 244 704 | 34 408 269 | 35 612 558 | 36 858 998 | 38 149 063 | 39 484 280 |
| Loss | 5 391 915 | 5 580 632 | 5 775 954 | 5 978 113 | 6 187 347 | 6 403 904 |

## 2. CASH-GENERATING SURPLUS (2020/21 BUDGET PROJECTED)

With the tables (4-5) below, the status quo operations as reflected in the latest budget for the period 2020/2023, is projected for the next 10 years. All the non-cash items (depreciation, debt impairment etc.) are indicated “below the line” separately, to isolate the cash-generated items.

With status quo, it means that no strategic or operational changes have been incorporated, in order to determine what the projected cash deficit would be, and what is needed to rectify any predicted deficits. The landfill site responsibility is incorporated.

***Table 4: Projected revenue and expenditure of the 2020/21 budget with the status quo maintained and projected at a 5% inflation rate.***

| | Approved Budget | Adjusted Budget | Adjusted Budget | Adjusted Budget |
|---|---|---|---|---|
| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
| **REVENUE** | **401 423 235** | **438 314 312** | **483 458 740** | **510 414 626** |
| Government Grants | 175 792 732 | 174 268 915 | 178 902 230 | 182 686 804 |
| Agency Fees | 21 615 000 | 19 200 000 | 20 544 000 | 21 982 080 |
| Sales of Goods and Rendering of Services | 20 678 874 | 13 413 281 | 14 137 763 | 15 372 168 |
| Rental of Facilities | 1 523 075 | 1 614 459 | 1 711 327 | 2 314 006 |
| Services Charges- Disposal Facilities | | 38 782 693 | 68 252 609 | 71 373 851 |
| Interest Earned -Investment Landfill Restoration | | 0 | 252 192 | 699 652 |
| Interest Earned -Investments | 13 293 435 | 14 091 041 | 15 936 503 | 18 832 694 |
| Interest Earned -Debtors | 3 500 000 | 3 710 000 | 3 932 600 | 4 968 556 |
| Licences and Permits | 105 000 | 111 300 | 117 978 | 125 057 |
| Gains on Sale of Fixed Assets | | | | |
| Operational Revenue | 164 915 119 | 161 029 353 | 172 846 277 | 184 922 374 |
| Operational Revenue: Landfill Site Once Off Fee | | 8 215 000 | | |
| Operational Revenue: Landfill Site Admin Fee | | 3 878 269 | 6 825 261 | 7 137 385 |

| | | | | |
|---|---|---|---|---|
| **EXPENDITURE** | **389 676 506** | **402 607 040** | **441 416 073** | **463 740 532** |
| Employee Related Cost | 137 824 954 | 152 124 439 | 160 309 309 | 170 388 481 |
| Remuneration of Councillors | 12 827 664 | 13 360 009 | 13 893 642 | 14 448 618 |
| Contracted Services | 31 279 581 | 23 326 894 | 24 021 120 | 21 797 678 |
| Contracted Services: Landfill Site | | 7 972 417 | 15 434 992 | 18 556 233 |
| Financial Cost: Service Concession Asset | | 13 993 906 | 23 012 033 | 21 260 524 |
| Financial Cost: Unwinding of interest Landfill | | 2 377 484 | 2 377 484 | 2 377 484 |
| Inventory consumed | 3 634 873 | 3 158 880 | 3 353 855 | 3 066 443 |
| Operating Lease | 641 674 | 303 865 | 311 558 | 327 136 |
| Transfers and Subsidies | 1 635 785 | 965 000 | 1 085 299 | 926 434 |
| Operating Cost | 201 831 975 | 185 024 146 | 197 616 781 | 210 591 500 |
| **CASH FLOW** | **11 746 729** | **35 707 272** | **42 042 667** | **46 674 095** |
| **LESS NON-CASH ITEMS** | **-15 449 129** | **-29 213 544** | **-41 958 121** | **-44 692 500** |
| Post Employee Benefits | -8 431 580 | -8 291 803 | -8 653 329 | -9 518 662 |
| Impairment Losses-Receivables | -3 593 642 | -1 841 087 | -1 969 963 | -2 107 860 |
| Depreciation and Amortisation | -3 423 907 | -3 651 149 | -3 906 728 | -3 886 369 |
| Depreciation and Amortisation- SCA | | -12 613 177 | -22 600 110 | -24 351 618 |
| Depreciation and Amortisation- Landfill Provision | | -2 816 328 | -4 827 991 | -4 827 991 |
| | **-3 702 400** | **6 493 728** | **84 547** | **1 981 595** |

| | Projected 2023/24 | Projected 2024/25 | Projected 2025/26 | Projected 2026/27 |
|---|---|---|---|---|
| **REVENUE** | **536 058 036** | **562 992 441** | **591 282 882** | **620 997 685** |
| Government Grants | 191 821 144 | 201 412 201 | 211 482 811 | 222 056 952 |
| Agency Fees | 23 081 184 | 24 235 243 | 25 447 005 | 26 719 356 |
| Sales of Goods and Rendering of Services | 16 140 776 | 16 947 815 | 17 795 206 | 18 684 966 |
| Rental of Facilities | 2 429 706 | 2 551 192 | 2 678 751 | 2 812 689 |
| Services Charges- Disposal Facilities | 74 654 683 | 78 103 266 | 81 728 179 | 85 538 436 |
| Interest Earned -Investment Landfill Restoration | 1 173 959 | 1 676 725 | 2 209 657 | 2 774 565 |
| Interest Earned -Investments | 19 774 329 | 20 763 045 | 21 801 197 | 22 891 257 |
| Interest Earned -Debtors | 5 216 984 | 5 477 833 | 5 751 725 | 6 039 311 |
| Licences and Permits | 131 310 | 137 875 | 144 769 | 152 008 |
| Gains on Sale of Fixed Assets | | | | |
| Operational Revenue | 194 168 493 | 203 876 917 | 214 070 763 | 224 774 301 |
| Operational Revenue: Landfill Site Once Off Fee | | | | |
| Operational Revenue: Landfill Site Admin Fee | 7 465 468 | 7 810 327 | 8 172 818 | 8 553 844 |
| **EXPENDITURE** | **486 211 428** | **509 757 679** | **534 429 221** | **560 278 184** |

| | | | | |
|---|---|---|---|---|
| Employee-Related Cost | 178 907 905 | 187 853 300 | 197 245 965 | 207 108 264 |
| Remuneration of Councillors | 15 171 049 | 15 929 601 | 16 726 081 | 17 562 385 |
| Contracted Services | 22 887 562 | 24 031 940 | 25 233 537 | 26 495 214 |
| Contracted Services: Landfill Site | 21 837 066 | 25 285 649 | 28 910 561 | 32 720 819 |
| Financial Cost: Service Concession Asset | 19 373 274 | 17 339 761 | 15 148 652 | 12 787 731 |
| Financial Cost: Unwinding of interest Landfill | 2 377 484 | 2 377 484 | 2 377 484 | 2 377 484 |
| Inventory consumed | 3 219 765 | 3 380 753 | 3 549 791 | 3 727 281 |
| Operating Lease | 343 493 | 360 667 | 378 701 | 397 636 |
| Transfers and Subsidies | 972 756 | 1 021 393 | 1 072 463 | 1 126 086 |
| Operating Cost | 221 121 075 | 232 177 129 | 243 785 985 | 255 975 284 |
| | | | | |
| **CASH FLOW** | **49 846 608** | **53 234 761** | **56 853 661** | **60 719 500** |
| **LESS NON-CASH ITEMS** | **-47 355 395** | **-50 203 334** | **-53 249 592** | **-56 508 418** |
| Post Employee Benefits | -9 994 595 | -10 494 325 | -11 019 041 | -11 569 993 |
| Impairment Losses-Receivables | -2 213 253 | -2 323 916 | -2 440 111 | -2 562 117 |
| Depreciation and Amortisation | -4 080 687 | -4 284 722 | -4 498 958 | -4 723 906 |
| Depreciation and Amortisation- SCA | -26 238 869 | -28 272 381 | -30 463 490 | -32 824 411 |
| Depreciation and Amortisation- Landfill Provision | -4 827 991 | -4 827 991 | -4 827 991 | -4 827 991 |
| | **2 491 213** | **3 031 427** | **3 604 069** | **4 211 083** |

| | Projected | Projected | Projected |
|---|---|---|---|
| | **2027/28** | **2028/29** | **2029/30** |
| **REVENUE** | **652 208 617** | **684 991 067** | **719 424 225** |
| | | | |
| Government Grants | 233 159 800 | 244 817 790 | 257 058 679 |
| Agency Fees | 28 055 323 | 29 458 090 | 30 930 994 |
| Sales of Goods and Rendering of Services | 19 619 215 | 20 600 175 | 21 630 184 |
| Rental of Facilities | 2 953 323 | 3 100 989 | 3 256 039 |
| Services Charges- Disposal Facilities | 89 543 516 | 93 753 380 | 98 178 499 |
| Interest Earned -Investment Landfill Restoration | 3 373 368 | 4 008 098 | 4 680 913 |
| Interest Earned -Investments | 24 035 820 | 25 237 611 | 26 499 492 |
| Interest Earned -Debtors | 6 341 276 | 6 658 340 | 6 991 257 |
| Licences and Permits | 159 608 | 167 588 | 175 968 |
| Gains on Sale of Fixed Assets | | | |
| Operational Revenue | 236 013 016 | 247 813 667 | 260 204 351 |
| Operational Revenue: Landfill Site Once Off Fee | | | |
| Operational Revenue: Landfill Site Admin Fee | 8 954 352 | 9 375 338 | 9 817 850 |

| | | | |
|---|---|---|---|
| **EXPENDITURE** | **587 358 980** | **615 728 388** | **645 445 650** |
| Employee Related Cost | 217 463 677 | 228 336 861 | 239 753 704 |
| Remuneration of Councillors | 18 440 505 | 19 362 530 | 20 330 656 |
| Contracted Services | 27 819 975 | 29 210 973 | 30 671 522 |
| Contracted Services: Landfill Site | 36 725 898 | 40 935 762 | 45 360 881 |
| Financial Cost: Service Concession Asset | 10 243 840 | 7 502 796 | 4 549 322 |
| Financial Cost: Unwinding of interest Landfill | 2 377 484 | 2 377 484 | 2 377 484 |
| Inventory consumed | 3 913 645 | 4 109 327 | 4 314 793 |
| Operating Lease | 417 518 | 438 394 | 460 313 |
| Transfers and Subsidies | 1 182 391 | 1 241 510 | 1 303 586 |
| Operating Cost | 268 774 049 | 282 212 751 | 296 323 389 |
| **CASH FLOW** | **64 849 637** | **69 262 679** | **73 978 575** |
| **LESS NON-CASH ITEMS** | **-59 995 110** | **-63 726 095** | **-67 719 007** |
| Post Employee Benefits | -12 148 493 | -12 755 917 | -13 393 713 |
| Impairment Losses-Receivables | -2 690 223 | -2 824 734 | -2 965 971 |
| Depreciation and Amortisation | -4 960 101 | -5 208 106 | -5 468 511 |
| Depreciation and Amortisation- SCA | -35 368 303 | -38 109 346 | -41 062 821 |
| Depreciation and Amortisation- Landfill Provision | -4 827 991 | -4 827 991 | -4 827 991 |
| | **4 854 527** | **5 536 584** | **6 259 568** |

### *Table 5: Projected cash flow and cash reserves based on information from table 4*

| | | | Approved Budget | Adjusted Budget | Adjusted Budget | Adjusted Budget |
|---|---|---|---|---|---|---|
| | | | **2019/20** | **2020/21** | **2021/22** | **2022/23** |
| **AVAILABLE CASH AND CASH EQUAVALENTS** | **30/06/2019** | **174 237 000** | 174 237 000 | 185 983 729 | 194 990 489 | 203 543 247 |
| PLUS: CASH GENERATED FROM OPERATIONS | | | 11 746 729 | 35 707 272 | 42 042 667 | 46 674 095 |
| LESS: CAPITAL -ASSET REPLACEMENTS | | | | -6 881 860 | -3 251 996 | -24 212 138 |
| LESS: INVESTMENTS: LANDFILL RESTOURATION | | | | -7 205 475 | -7 637 804 | -8 096 072 |
| LESS: REPAYMENTS OF LT-LIABILTY (SCA) | | | | -12 613 177 | -22 600 110 | -24 351 618 |
| **AVAILABLE CASH AND CASH EQUIVALENTS** | **30/06/2030** | | **185 983 729** | **194 990 489** | **203 543 247** | **193 557 514** |

| | Projected | Projected | Projected | Projected |
|---|---|---|---|---|
| | **2023/24** | **2024/25** | **2025/26** | **2026/27** |
| **AVAILABLE CASH AND CASH EQUAVALENTS** | 193 557 514 | 196 327 447 | 206 242 412 | 212 455 438 |
| PLUS: CASH GENERATED FROM OPERATIONS | 49 846 608 | 53 234 761 | 56 853 661 | 60 719 500 |
| LESS: CAPITAL -ASSET REPLACEMENTS | -12 255 970 | -5 950 670 | -10 534 593 | -4 653 766 |
| LESS: INVESTMENTS: LANDFILL RESTOURATION | -8 581 836 | -9 096 746 | -9 642 551 | -10 221 104 |
| LESS: REPAYMENTS OF LT-LIABILTY (SCA) | -26 238 869 | -28 272 381 | -30 463 490 | -32 824 411 |
| **AVAILABLE CASH AND CASH EQUIVALENTS** | **196 327 447** | **206 242 412** | **212 455 438** | **225 475 657** |

| | Projected 2027/28 | Projected 2028/29 | Projected 2029/30 | TOTAL |
|---|---|---|---|---|
| **AVAILABLE CASH AND CASH EQUAVALENTS** | 225 475 657 | 237 819 915 | 255 074 595 | **174 237 000** |
| PLUS: CASH GENERATED FROM OPERATIONS | 64 849 637 | 69 262 679 | 73 978 575 | **564 916 184** |
| LESS: CAPITAL -ASSET REPLACEMENTS | -6 302 706 | -2 414 220 | -14 735 617 | **-91 193 536** |
| LESS: INVESTMENTS: LANDFILL RESTOURATION | -10 834 370 | -11 484 433 | -12 173 499 | **-94 973 890** |
| LESS: REPAYMENTS OF LT-LIABILTY (SCA) | -35 368 303 | -38 109 346 | -41 062 821 | **-291 904 524** |
| **AVAILABLE CASH AND CASH EQUIVALENTS** | **237 819 915** | **255 074 595** | **261 081 234** | **261 081 234** |

# APPENDIX 2 – POLICIES AFFECTING THE RESERVES

## 1. RELEVANT POLICY EXTRACTS

The following policies of council have a direct impact on the extent of councils Accumulated Cash Reserves, and is appropriate and relevant to inform the long-term financial plan analysis phase and to follow a methodology to advise on future cash reserves needed to ultimately secure financial viability, sustainability and sufficiency.

### 1.1. Budget Policy

#### *General Principle when Compiling the Operating Budget*

The following specific principles apply when compiling the budget:

a) The budget must be cash-funded, i.e. revenue and expenditure projections must be realistic and the provision for impairment of receivables must be calculated on proven recovery rates;

b) Growth parameters must be realistic and based on historic patterns adjusted for current reliable information and in line with any budget circulars issued by National and Provincial Treasury;

c) Tariff adjustments must be fair;

d) Revenue from Government Grants and Subsidies must be in accordance with the amounts promulgated in the Division of Revenue Act, proven provincial transfers and any possible transfers to or from other municipalities.

   For the purpose of the Cash flow budget, any National or Provincial grants that has been re-appropriated for roll–over purposes must be excluded from the calculation, as it must be included in changes in Cash and Cash Equivalents and Payables.

   Furthermore, in the budget, the total grants recognized as revenue must equal the total expected expenditure from grants, inclusive of capital expenditure and VAT as per directive given in MFMA circular 48.

e) Projected revenue from service charges must be reflected as net (all billing less revenue foregone, which is free basic services, discounts and rebates).

f) Only changes in fair values related to cash may be included in the cash flow budget. Changes to unamortized discount must be included in the Operating Budget but excluded from the cash flow budget.

g) Employee-related costs include contributions to non-current and current employee benefits. It is acknowledged that the 'non-current benefits' requirements are well above the initial cash capabilities of the municipality, and it is therefore determined that provision for the short-term portion of employee benefits, as well as an operating surplus calculated at the minimum of 10% of the prior year balance of the long–term benefits not yet cash-funded, be included in the operating budget, in order to build sufficient cash for these requirements. The cash portion of the employee benefits must be accounted for in an "Employee Benefits Reserve".

h) Depreciation must be fully budgeted for in the operating budget.

In order to ensure a sufficient accumulation of cash for the replacement of Property, Plant and Equipment and Intangible Assets, the amount of depreciation on assets funded from own sources, excluding assets funded from grants, public contributions and external loans must be reflected as a surplus on the cash flow budget. Capital Replacement Reserve must be fully cash-funded and an amount equal to the annual depreciation/amortization must be transferred to the Capital Replacement Reserve annually.

i) Contributions to provisions (non-current and current) do not form part of the cash flow. It is however, necessary to provide for an increase in cash resources in order to comply with the conditions of the provision at the time when it is needed. All provisions must be cash-backed and cash be set aside for the payment of these contributions as they become due and payable.

## 1.2. Asset Management Policy

### *Contents of a strategic management plan - Assets*

Executive Managers need to manage assets under their control to provide the required level of service or economic benefit at the lowest possible long-term cost. To achieve this, the Executive Manager will need to develop strategic asset management plans that cover: -

- Alignment with the Integrated Development Plan;
- Operational guidelines;
- Performance monitoring;
- Maintenance programs;
- Renewal, refurbishment and replacement plans;
- Disposal and Rehabilitation plans;
- Operational, financial and capital support requirements, and
- Risk mitigation plans, including insurance strategies

The operational budgets are the short- to medium-term plans for implementing this strategic asset management plan.

### *Replacement Strategy*

The Municipal Manager, in consultation with the Chief Financial Officer and other Heads of Departments, shall formulate norms and standards for the replacement of all normal operational assets. Such norms and standards shall be incorporated in a formal strategy, which shall be submitted to the Council for approval. **This strategy shall cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items.**

Such strategy shall also provide for the replacement of assets which is required for service delivery but which have become uneconomical to maintain.

## 1.3. Reserves and Funds policy

In order to provide for sufficient cash resources for future expenditure, the municipality hereby approves the establishment of the following reserves:

### a) Capital Replacement Reserve (CRR)

The CRR is to be utilized for future capital expenditure from own funds and may not be used for maintenance– or other operating expenditure. This fund must be fully cash-backed.

### b) Employee benefit reserve

To be utilized for any provision of employee-related benefits/provisions and must be cash-backed.

## *Capital Replacement Reserve (CRR)*

- Council shall establish a CRR for the purpose of financing capital projects and the acquisition of assets. Such reserve can be funded from:
    - appropriate cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
    - interest on the investments of the CRR, appropriated in terms of the investments policy;
    - additional amounts appropriated as contributions in each annual or adjustments budget; and
    - interact on investments of unutilised grants;
    - only VAT claimed back on grants and subsidies; and
    - Sale of land and profit or loss on the sale of assets.
- Before any asset can be financed from the CRR, the financing must be available within the reserve and available as cash, as this fund must be cash-backed;
- If there is insufficient cash available to fund the CRR, this reserve fund must then be adjusted to equal the available cash;
- Transfers to the CRR must be budgeted for in the cash budget

The overall cash position of the municipality must be sufficient to include:

- unspent conditional grants;
- unspent conditional public contributions;
- unspent borrowings;
- VAT due to SARS;
- secured investments;
- other working capital requirements;

## 1.4. Cash Management Policy

In order to promote sound cash management, the Municipality shall adhere to the following principles:

- It shall collect revenue when it is due and bank it promptly;
- It shall make payments, including transfers to other levels of government and non-government entities, no earlier than necessary, with due regard for efficient, effective and economical programme delivery and the creditor's normal terms for account payments;
- It shall avoid pre-payment of goods or services (i.e. payments in advance of the receipt of goods or services), unless required by the contractual arrangements with the supplier;
- It shall accept discounts to effect early payment only when the payment has been included in the monthly cash flow estimates provided to the relevant treasury;
- It shall pursue and apply its debt collection policy to ensure that amounts receivable by the municipality are collected and banked promptly;
- It shall accurately forecast its cash flow requirements;
- It shall synchronise the inflow and outflow of cash;
- It shall recognise the time value of money by economically, efficiently and effectively managing cash;
- It shall take any other action as may promote the efficient utilisation of cash resources, such as managing inventories to the minimum level necessary for efficient and effective programme delivery, and selling surplus or underutilised assets; and
- It shall avoid bank overdrafts.

# 2. MINIMUM CASH RESERVES

Council policies are extensions of Council's decisions and resolutions and are binding to be executed by management. Any deviations and/or non-execution of official council policies are contraventions and non-compliance of the legislation authority of Council, except when policy changes had been officially passed through Council.

Thus, with all the above policies applicable, the following **minimum** cash reserves are **compulsory**:

## 2.1. Specific Cash Reserves

- Capital Replacement Reserve
    - Value of the total accumulated depreciation on the assets
- Employee Benefits Reserve
    - Current portion of Employee Benefits plus 10% of previous year provision for long-term Employee Benefits

## 2.2. General Cash Reserves

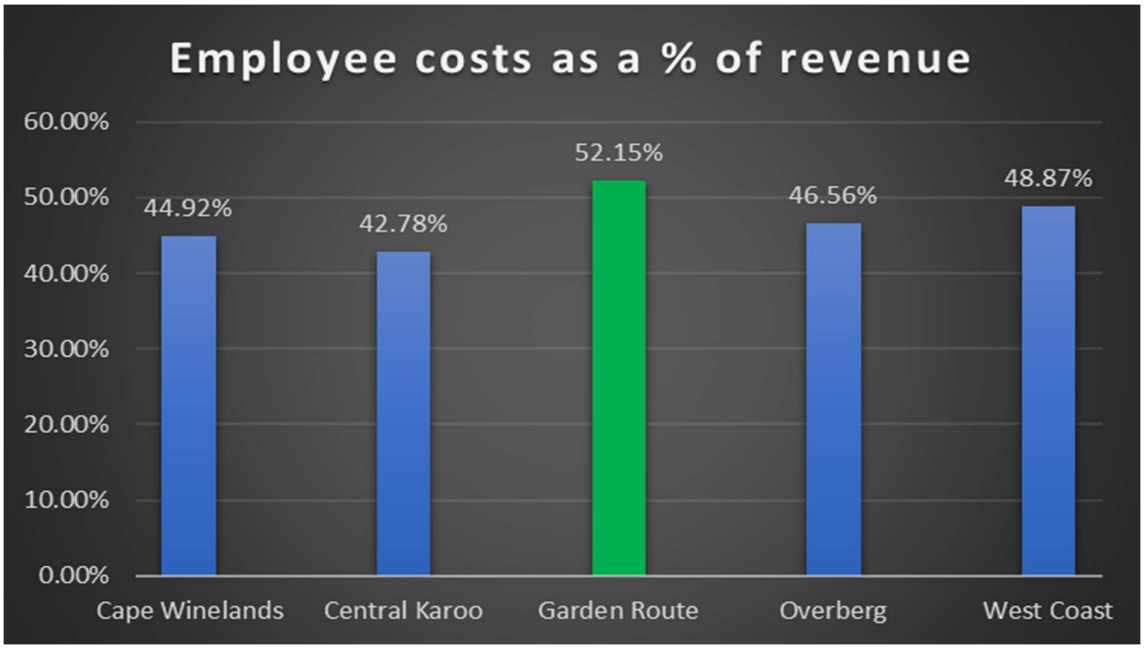
### *Current Liabilities*

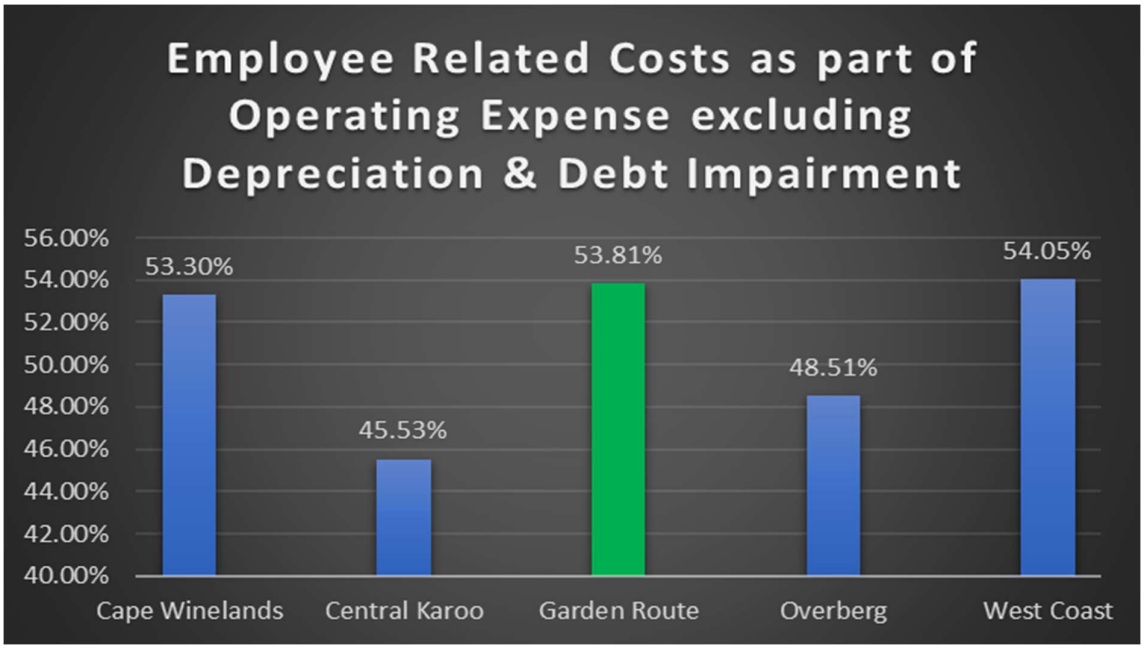
- Unspent conditional grants;
- Unspent conditional public contributions;
- Unspent borrowings;
- VAT due to SARS;
- Secured investments

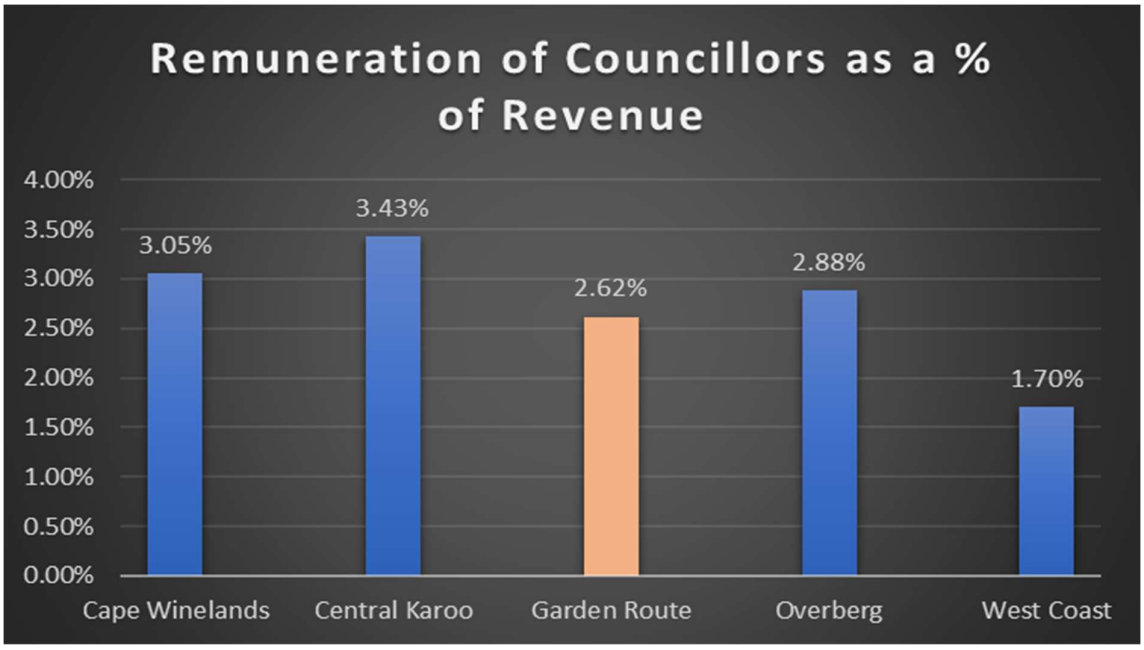
### *Operational Requirements*

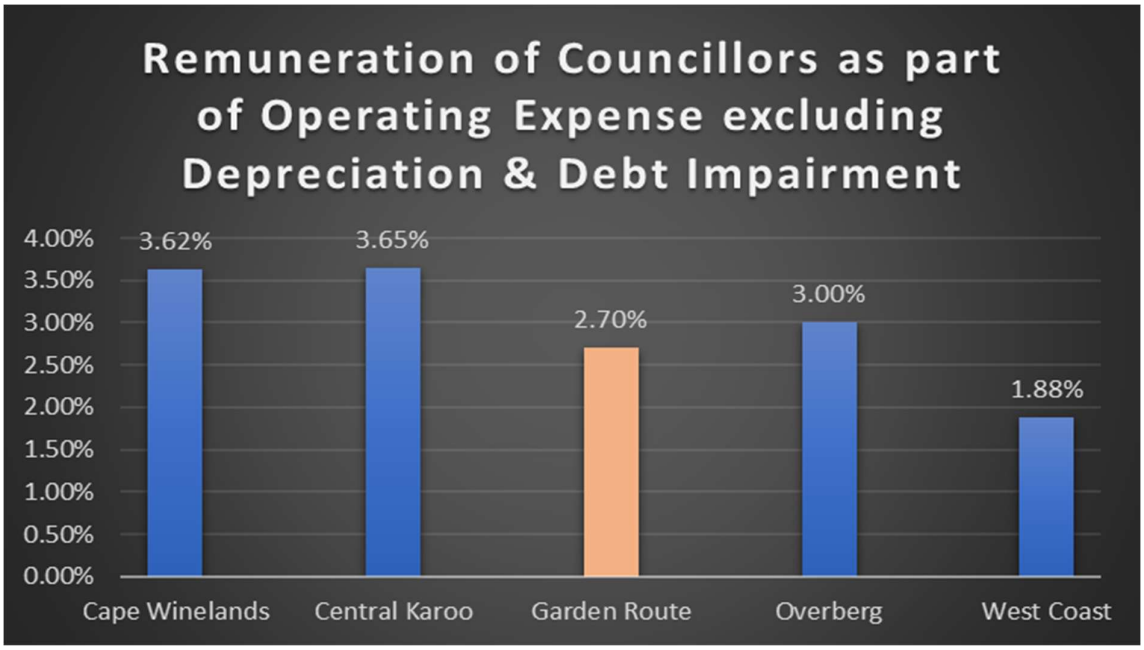
- At least 1 month operational expenditure

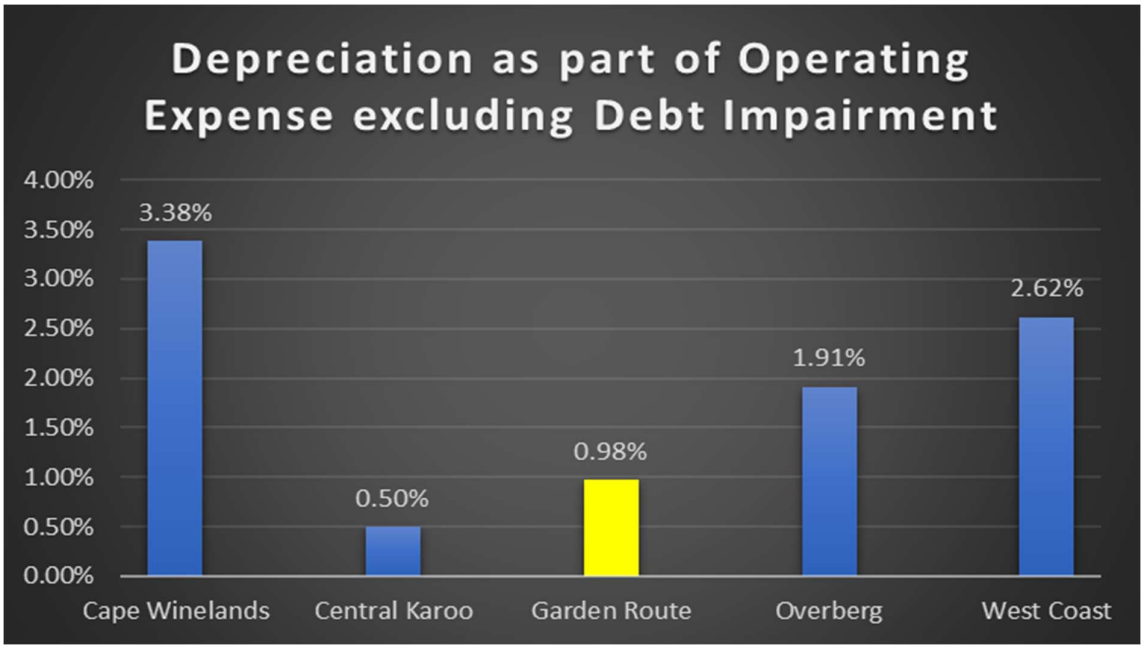
## APPENDIX 3 – GRAPH OF COMPARATIVE RATIOS

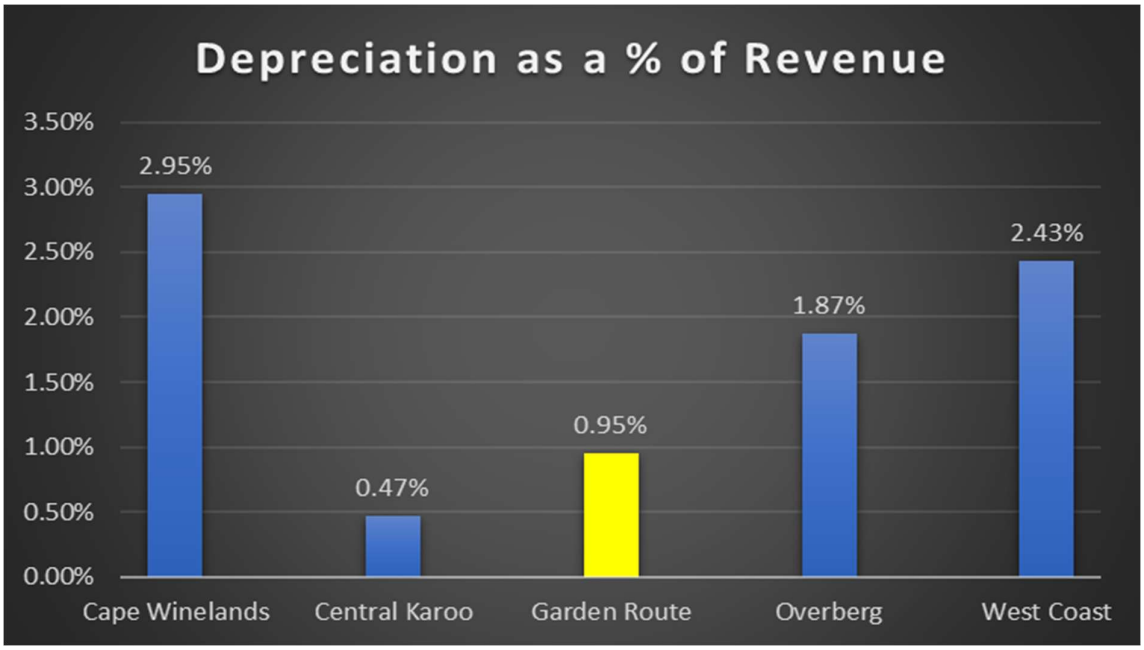


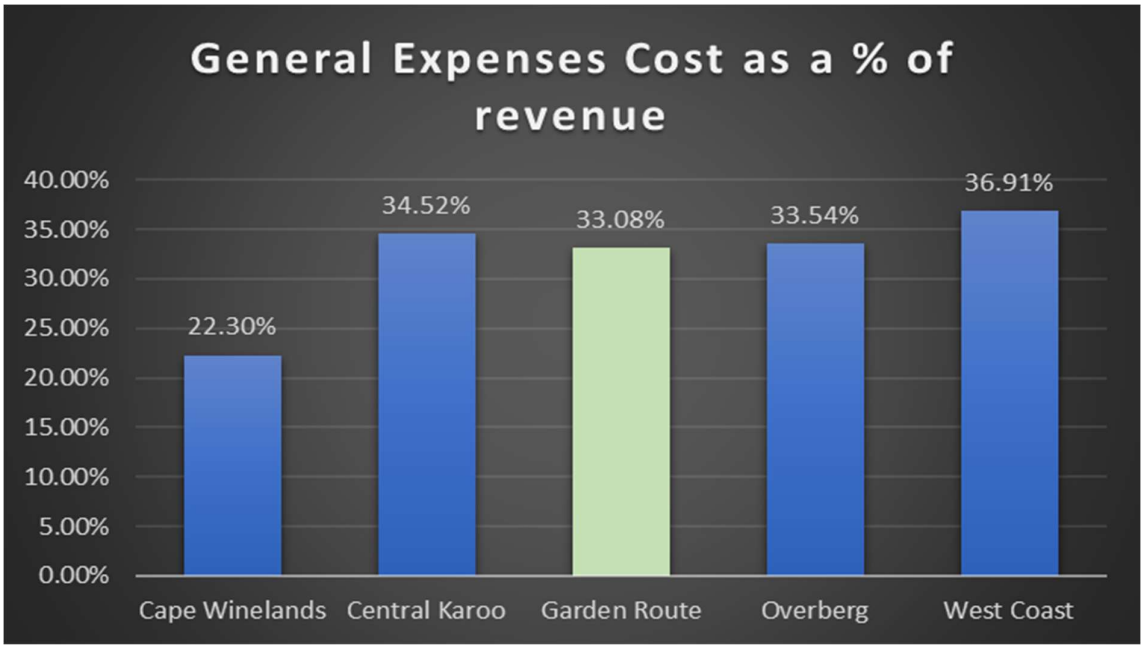



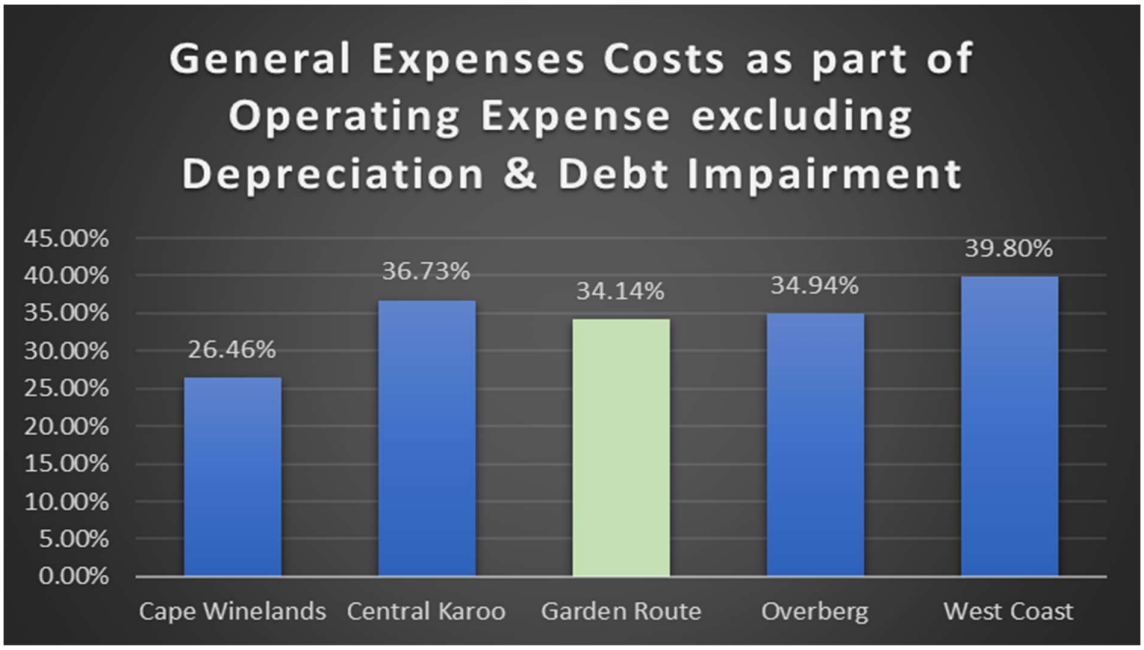

Remuneration of Councillors as a % of Revenue
4.00%
3.50%
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
3.05%
3.43%
2.62%
2.88%
1.70%
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast

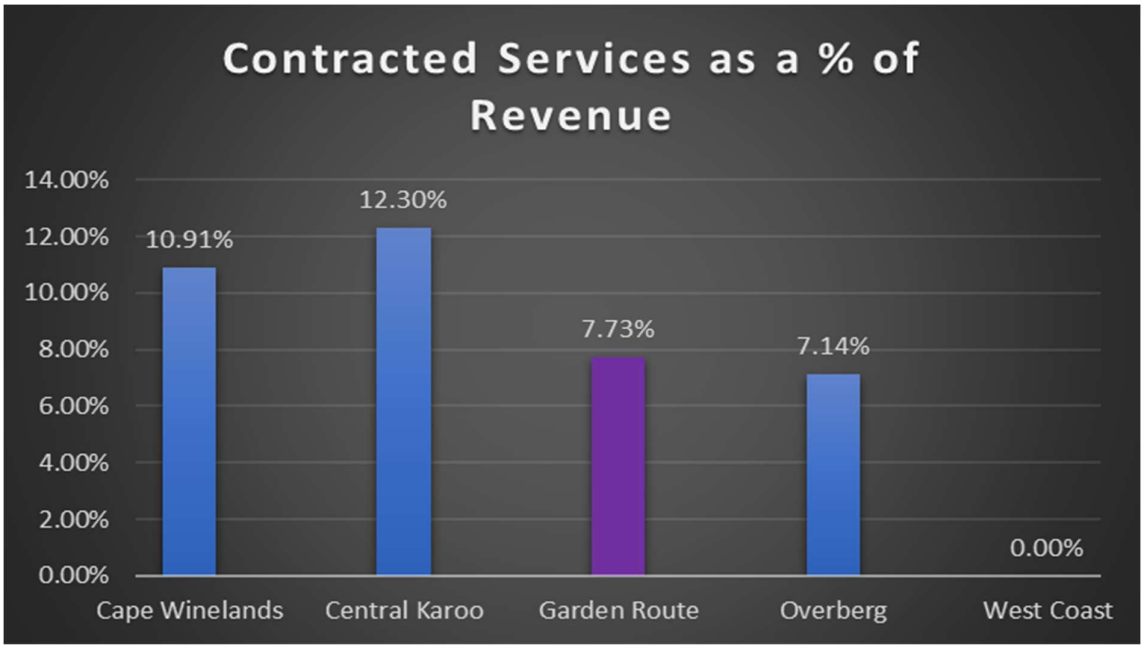

Remuneration of Councillors as part of Operating Expense excluding Depreciation & Debt Impairment
4.00%
3.50%
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
3.62%
3.65%
2.70%
3.00%
1.88%
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast

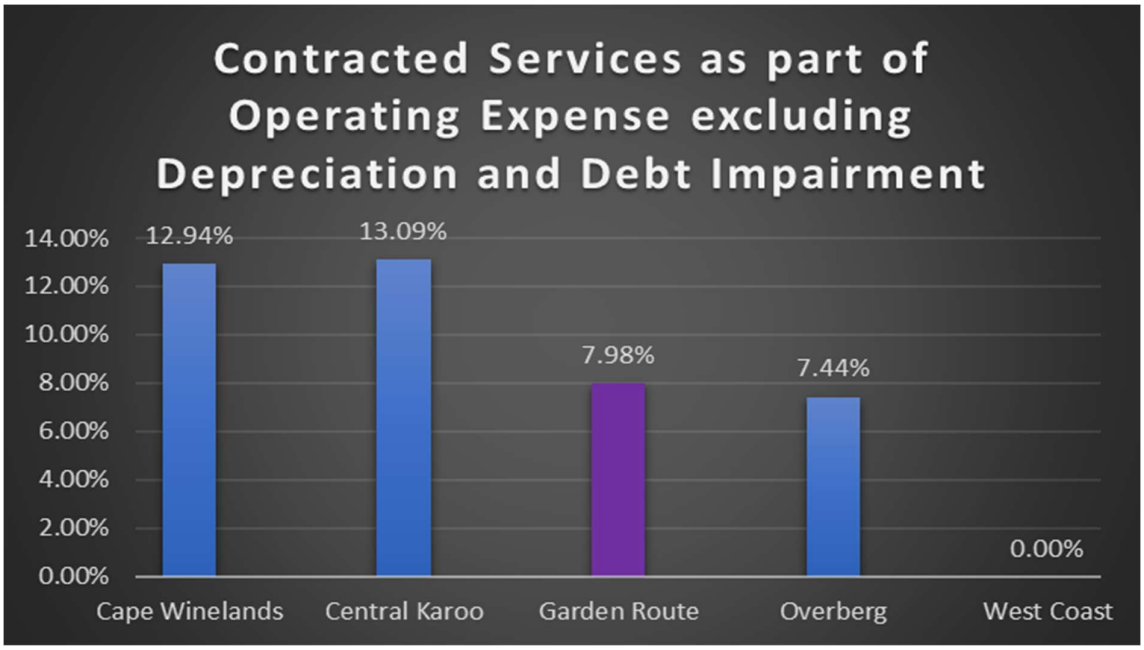

Depreciation as part of Operating Expense excluding Debt Impairment
4.00%
3.50%
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
3.38%
0.50%
0.98%
1.91%
2.62%
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast

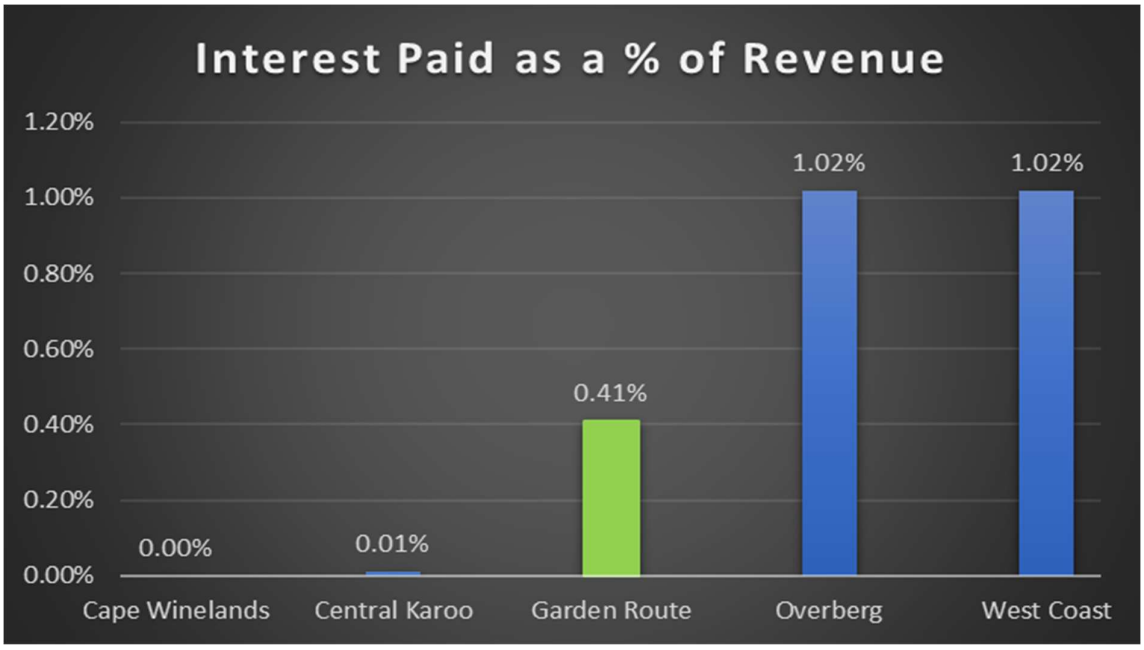

Depreciation as a % of Revenue
3.50%
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
2.95%
0.47%
0.95%
1.87%
2.43%
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast

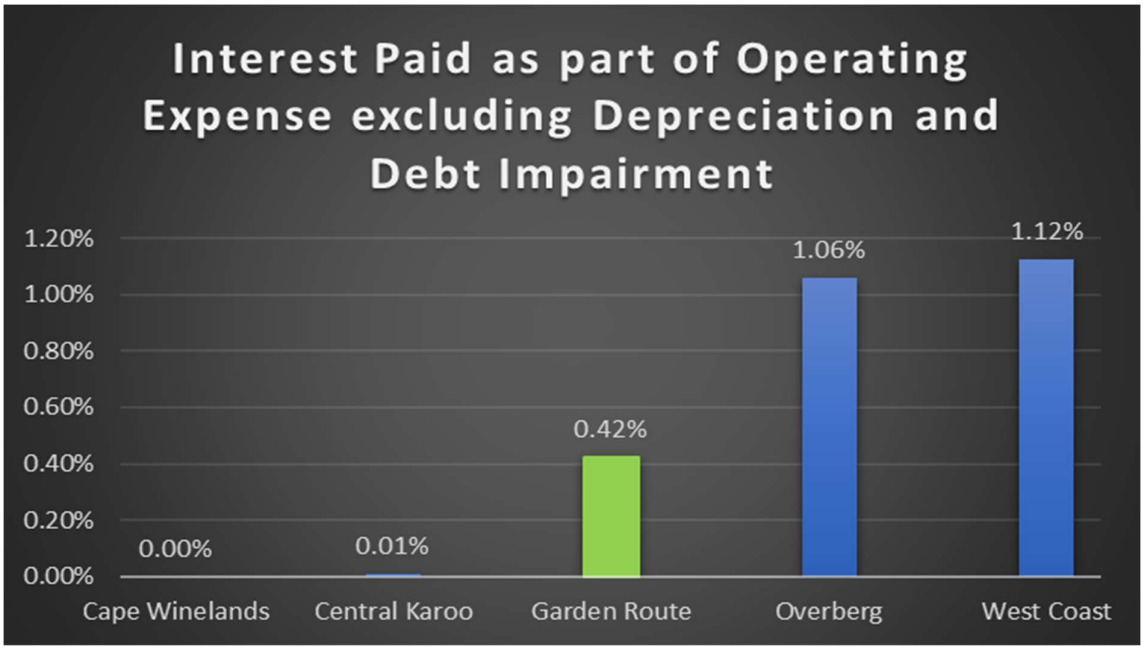

General Expenses Cost as a % of revenue
40.00%
35.00%
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
22.30%
34.52%
33.08%
33.54%
36.91%
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast

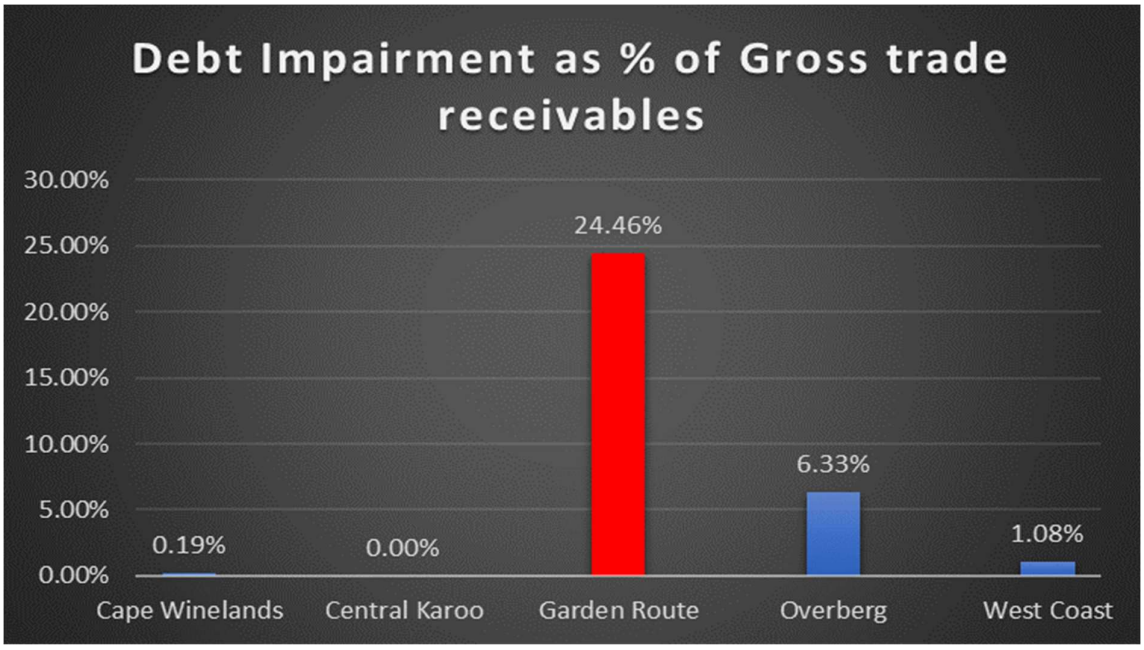

General Expenses Costs as part of Operating Expense excluding Depreciation & Debt Impairment
45.00%
40.00%
35.00%
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
26.46%
36.73%
34.14%
34.94%
39.80%
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast

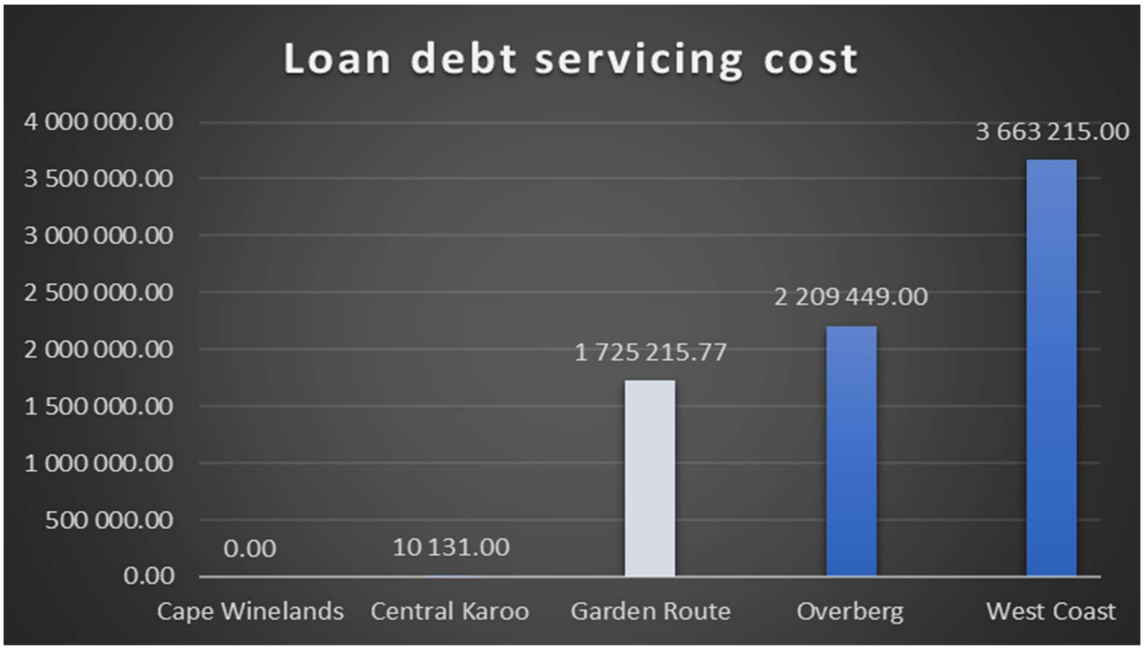

Contracted Services as a % of Revenue
14.00%
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
10.91%
12.30%
7.73%
7.14%
0.00%
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast

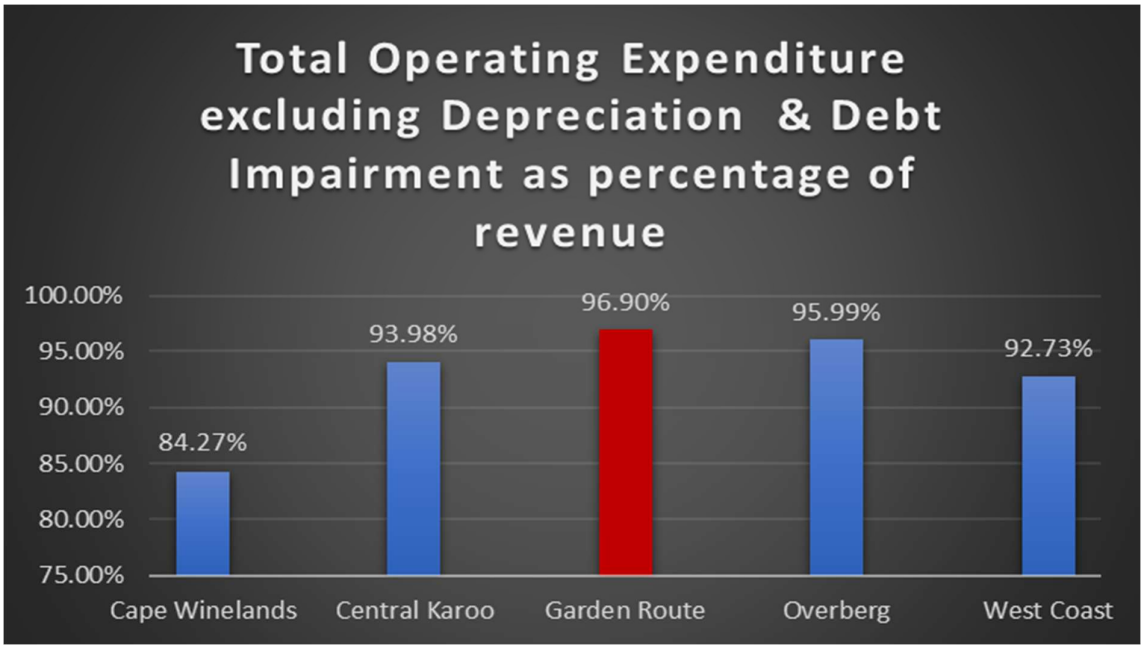

Contracted Services as part of Operating Expense excluding Depreciation and Debt Impairment
14.00%
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
12.94%
13.09%
7.98%
7.44%
0.00%
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast

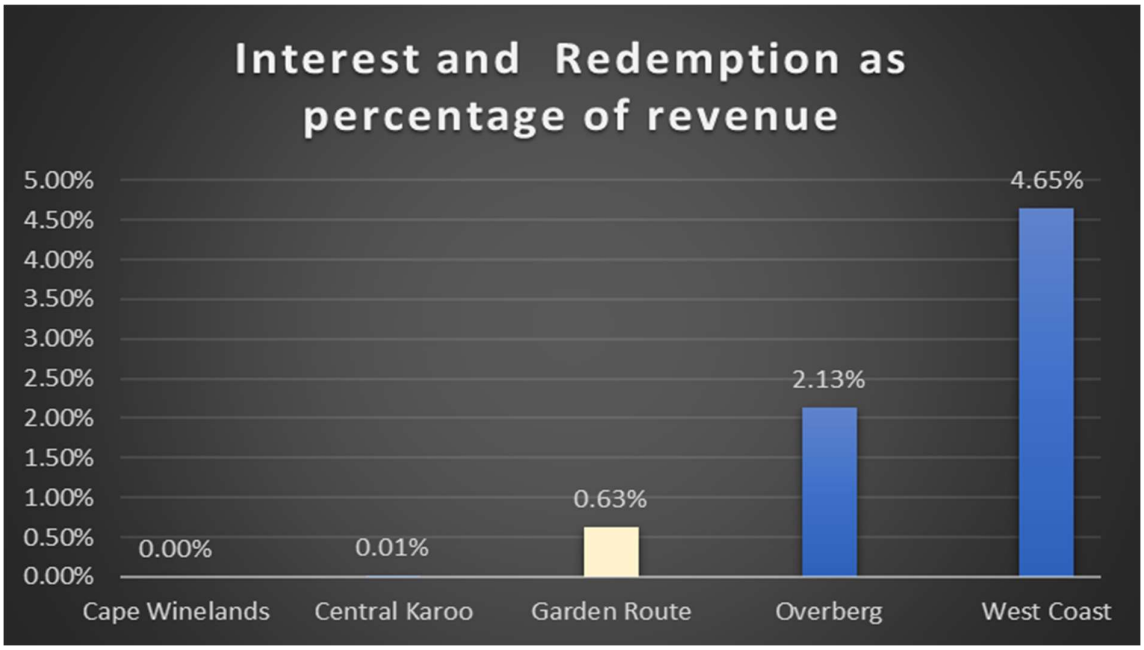

Interest Paid as a % of Revenue
1.20%
1.00%
0.80%
0.60%
0.40%
0.20%
0.00%
0.00%
0.01%
0.41%
1.02%
1.02%
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast

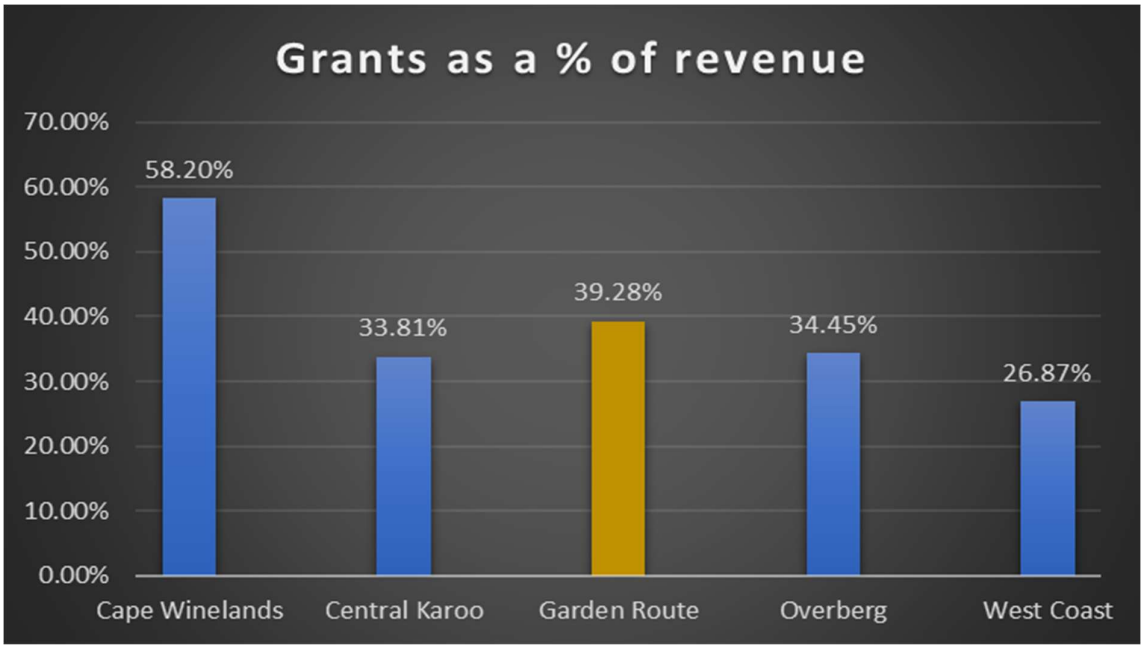

Interest Paid as part of Operating Expense excluding Depreciation and Debt Impairment
1.20%
1.00%
0.80%
0.60%
0.40%
0.20%
0.00%
0.00%
0.01%
0.42%
1.06%
1.12%
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast

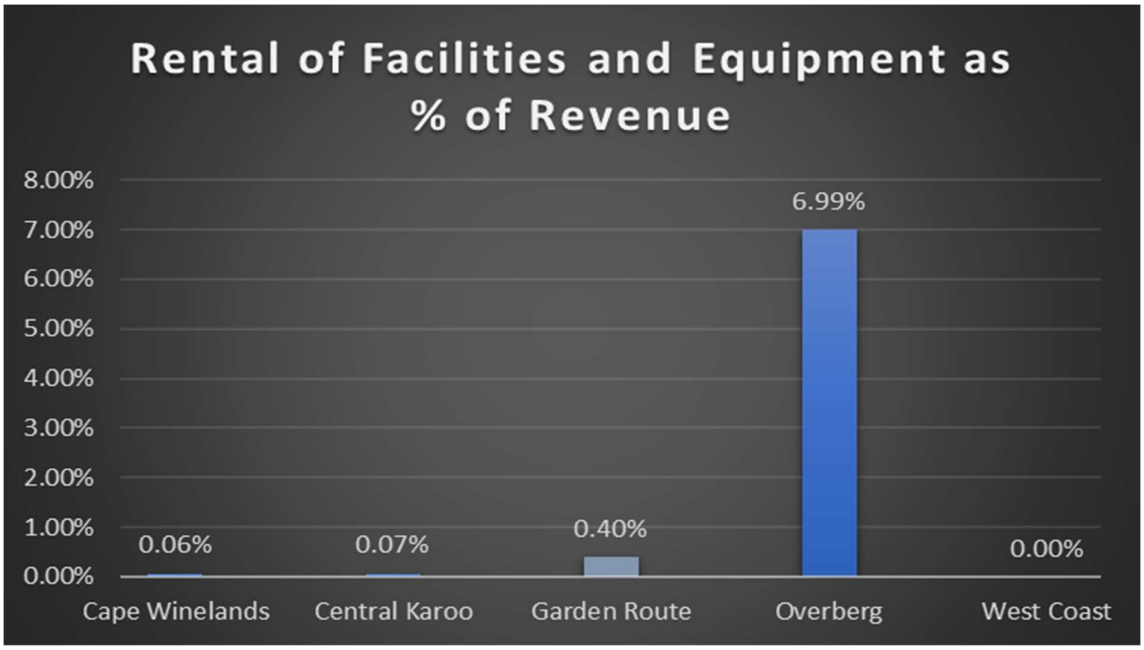

Debt Impairment as % of Gross trade receivables
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
0.19%
0.00%
24.46%
6.33%
1.08%
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast

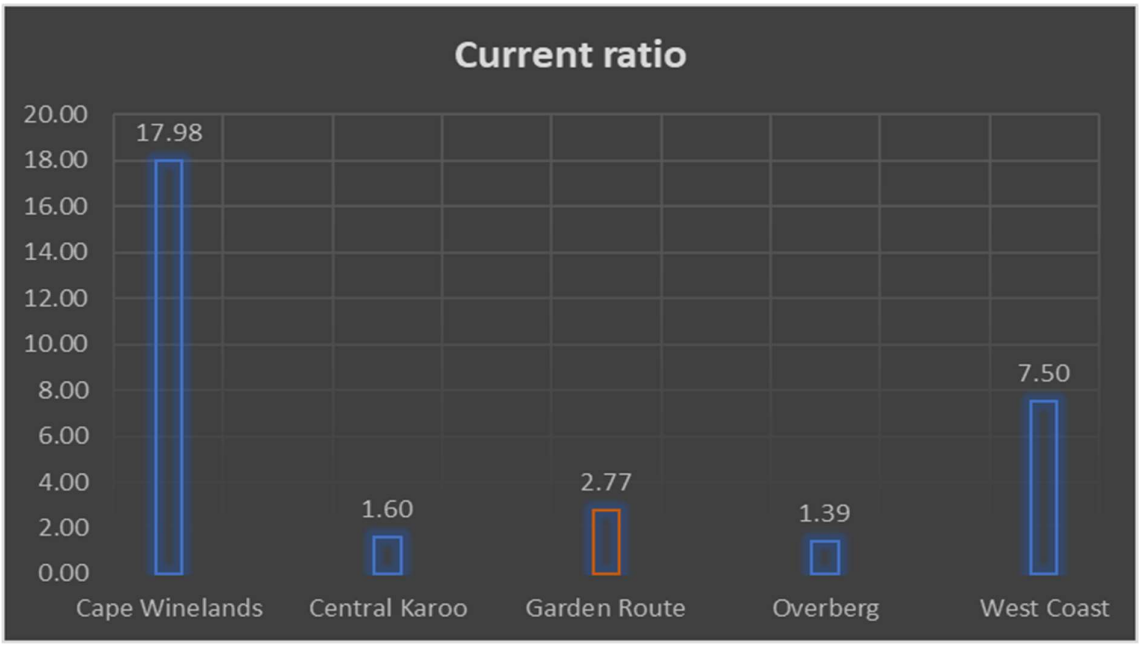

Loan debt servicing cost
4 000 000.00
3 500 000.00
3 000 000.00
2 500 000.00
2 000 000.00
1 500 000.00
1 000 000.00
500 000.00
0.00
0.00
10 131.00
1 725 215.77
2 209 449.00
3 663 215.00
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast

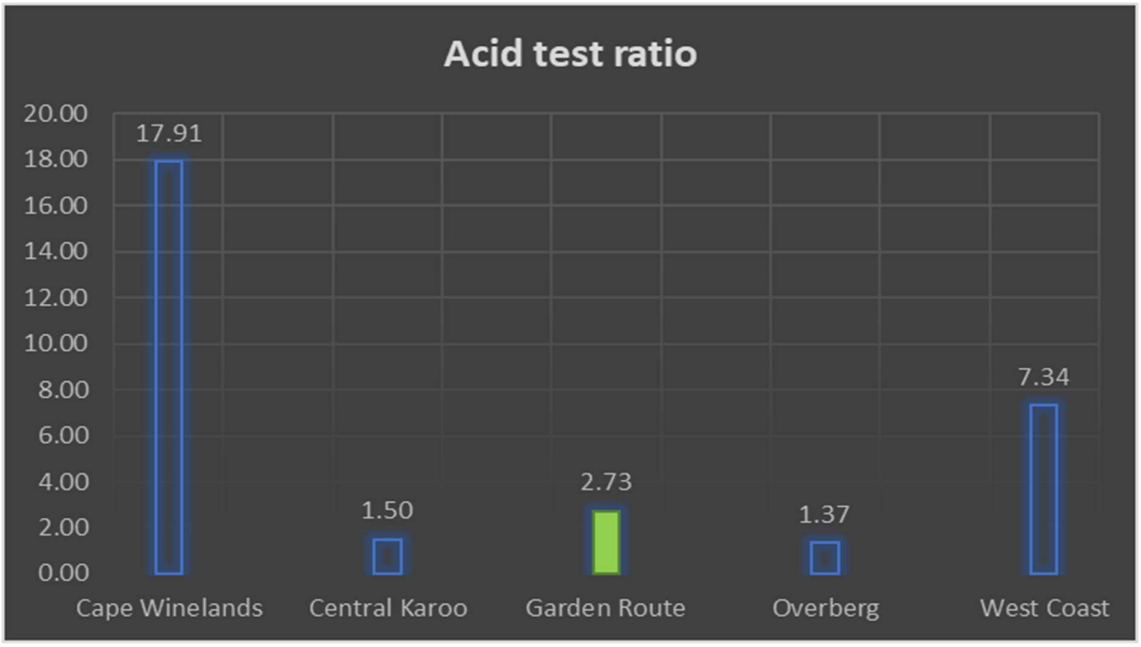

Total Operating Expenditure excluding Depreciation & Debt Impairment as percentage of revenue
100.00%
95.00%
90.00%
85.00%
80.00%
75.00%
84.27%
93.98%
96.90%
95.99%
92.73%
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast

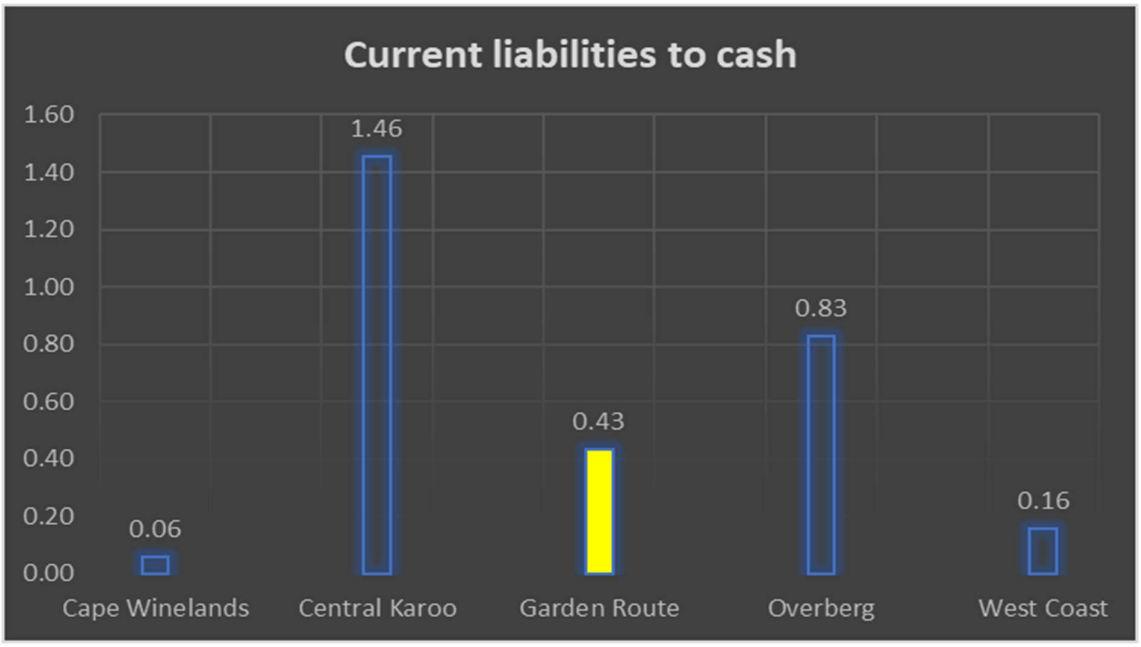

Interest and Redemption as percentage of revenue
5.00%
4.50%
4.00%
3.50%
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
0.00%
0.01%
0.63%
2.13%
4.65%
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast

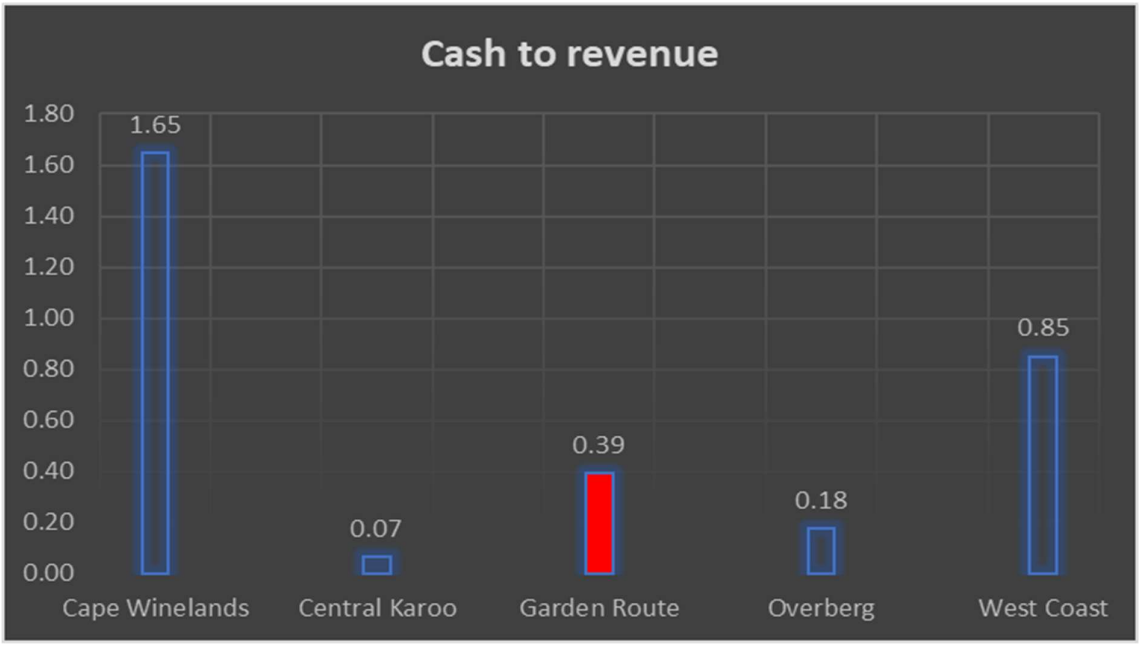

Grants as a % of revenue
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
58.20%
33.81%
39.28%
34.45%
26.87%
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast

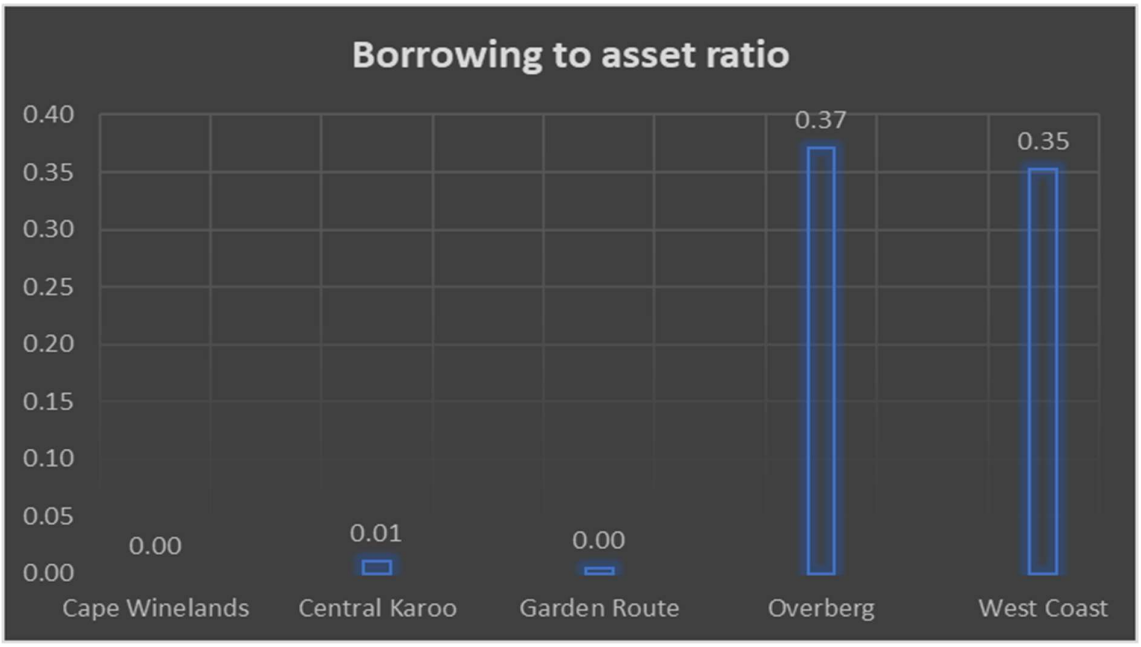

Rental of Facilities and Equipment as % of Revenue
8.00%
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
0.06%
0.07%
0.40%
6.99%
0.00%
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast

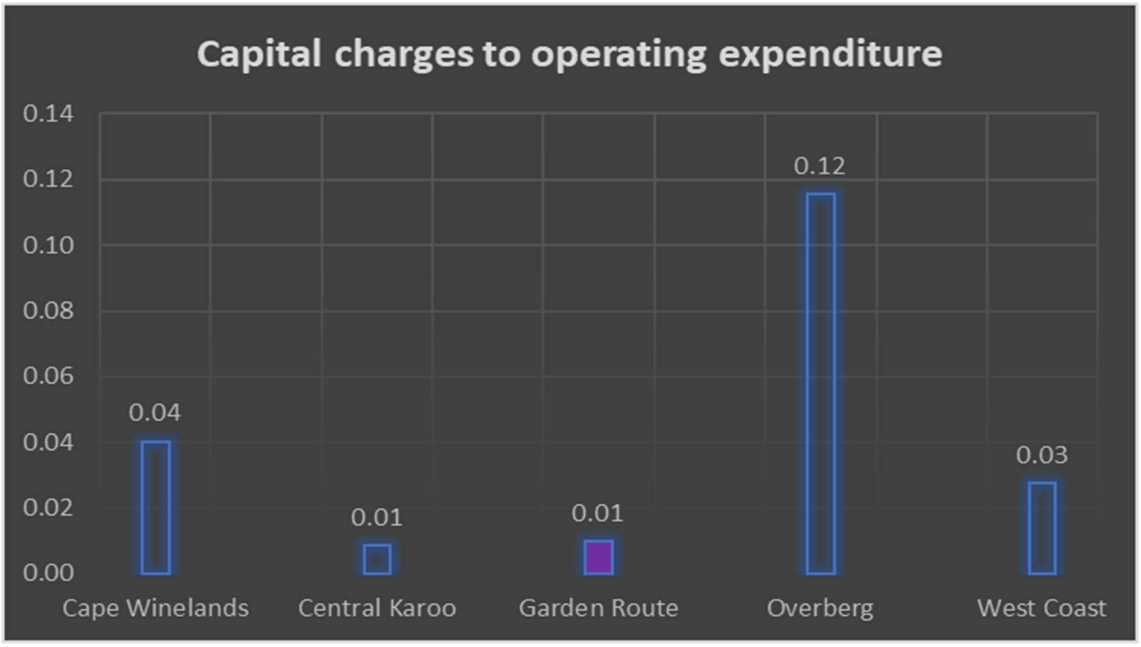

Current ratio
20.00
18.00
16.00
14.00
12.00
10.00
8.00
6.00
4.00
2.00
0.00
17.98
1.60
2.77
1.39
7.50
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast

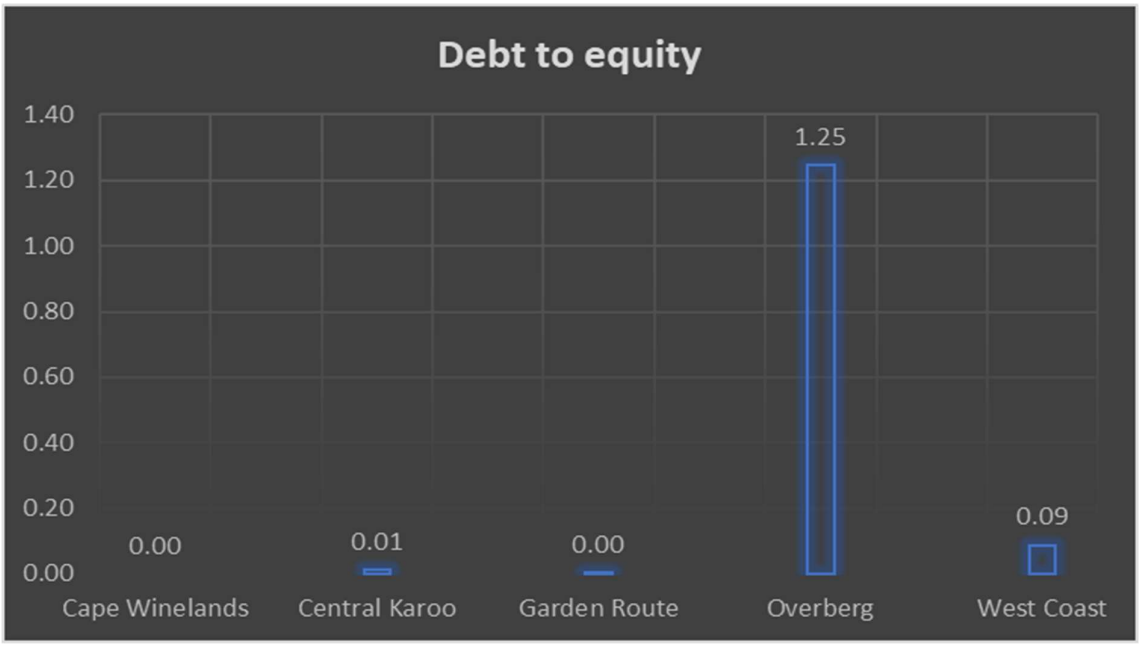

Acid test ratio
20.00
18.00
16.00
14.00
12.00
10.00
8.00
6.00
4.00
2.00
0.00
17.91
1.50
2.73
1.37
7.34
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast

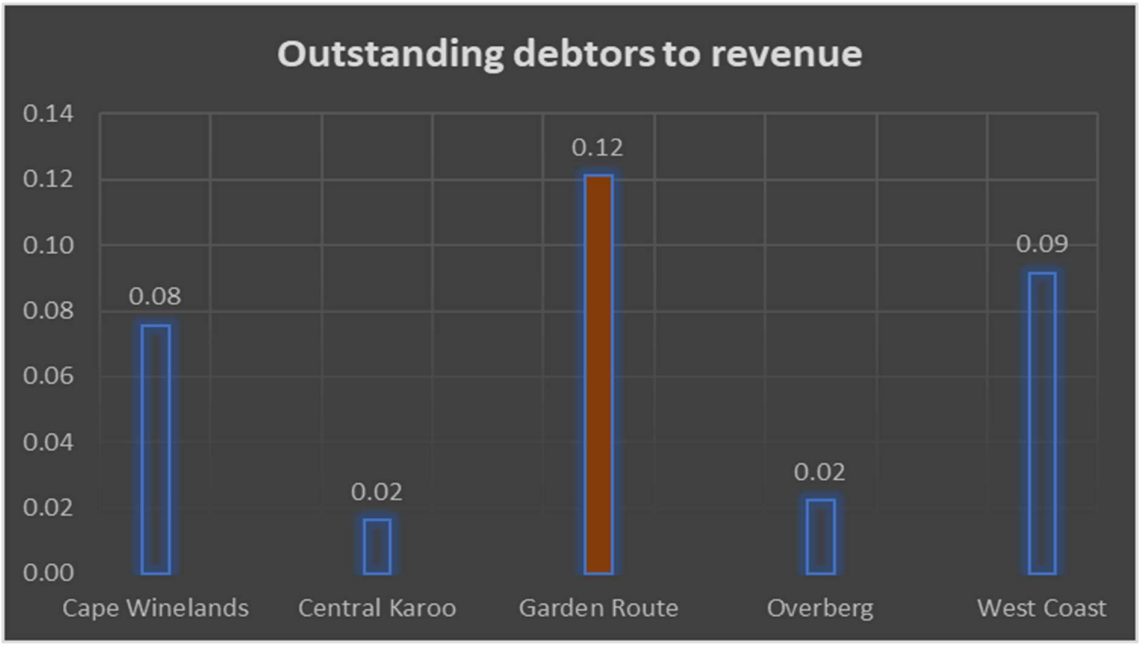

Current liabilities to cash
1.60
1.40
1.20
1.00
0.80
0.60
0.40
0.20
0.00
0.06
1.46
0.43
0.83
0.16
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast

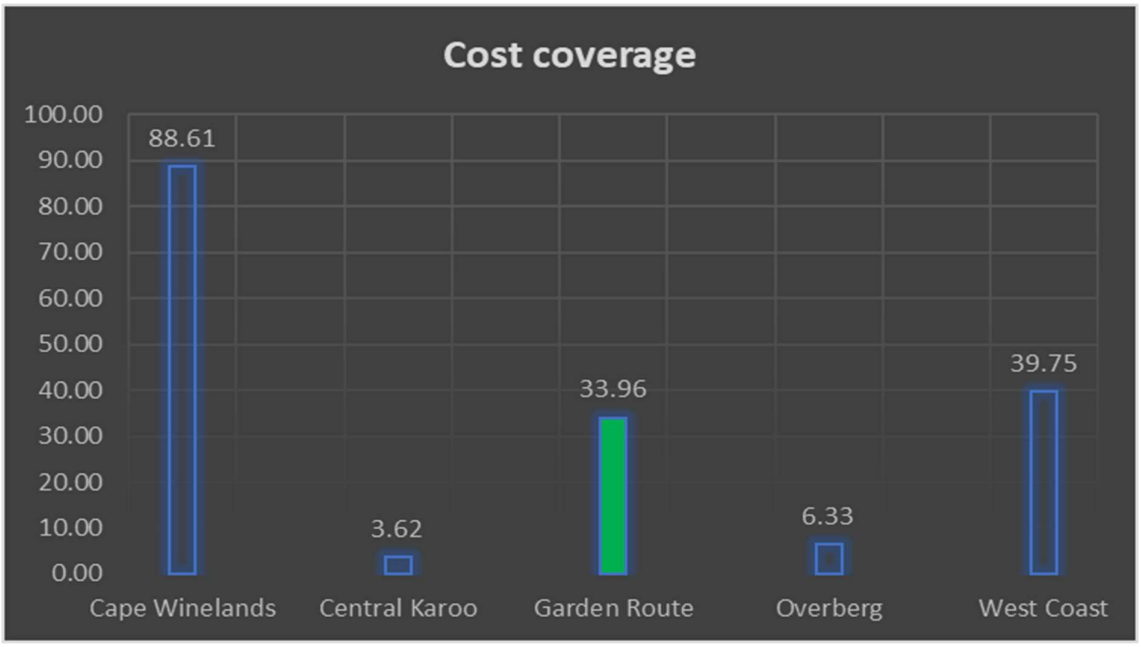

Cash to revenue
1.80
1.60
1.40
1.20
1.00
0.80
0.60
0.40
0.20
0.00
1.65
0.07
0.39
0.18
0.85
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast

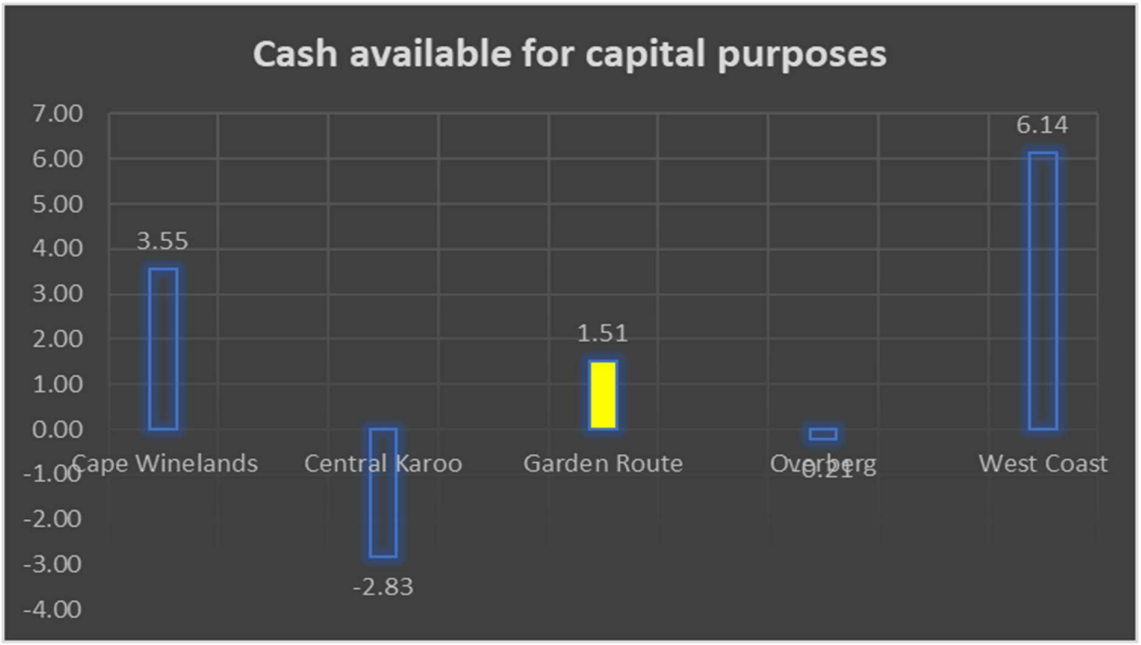

Borrowing to asset ratio
0.40
0.35
0.30
0.25
0.20
0.15
0.10
0.05
0.00
0.00
0.01
0.00
0.37
0.35
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast

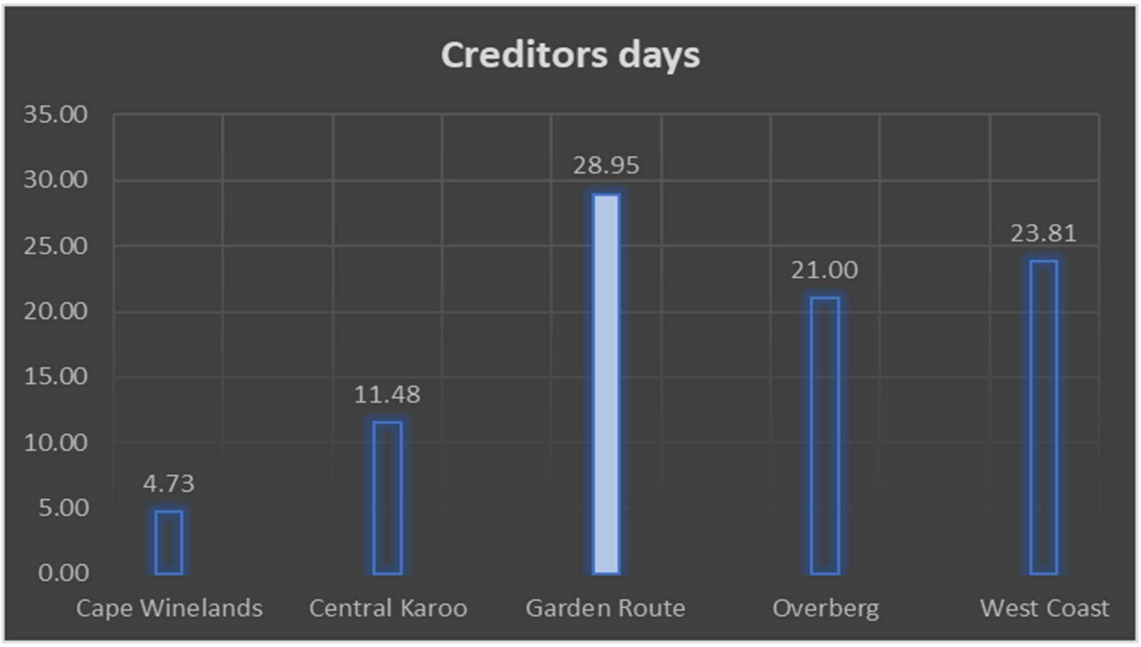

Capital charges to operating expenditure
0.14
0.12
0.10
0.08
0.06
0.04
0.02
0.00
0.04
0.01
0.01
0.12
0.03
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast

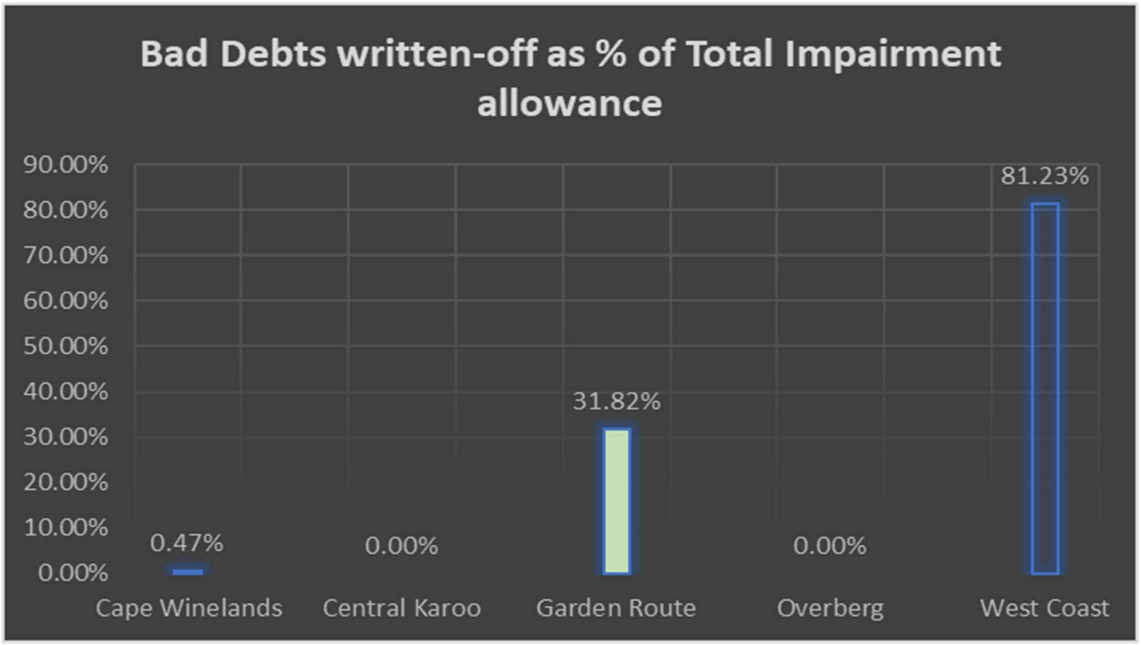

Debt to equity
1.40
1.20
1.00
0.80
0.60
0.40
0.20
0.00
0.00
0.01
0.00
1.25
0.09
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast

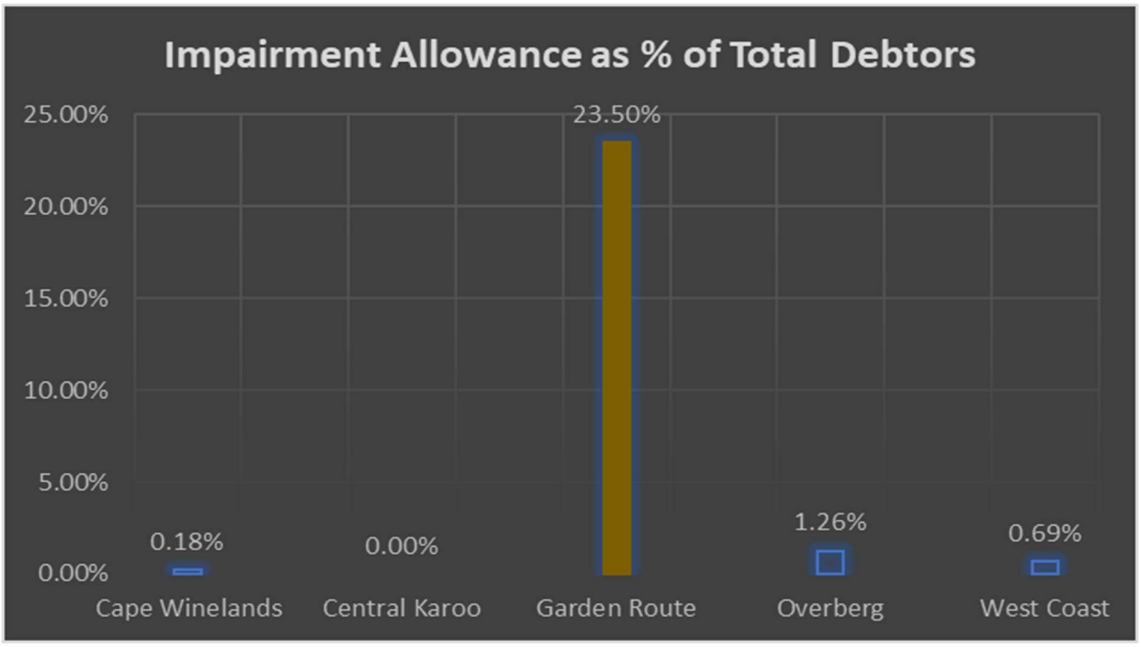

Outstanding debtors to revenue
0.14
0.12
0.10
0.08
0.06
0.04
0.02
0.00
0.08
0.02
0.12
0.02
0.09
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast


Cost coverage
100.00
90.00
80.00
70.00
60.00
50.00
40.00
30.00
20.00
10.00
0.00
88.61
3.62
33.96
6.33
39.75
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast


Cash available for capital purposes
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
-1.00
-2.00
-3.00
-4.00
3.55
-2.83
1.51
0.21
6.14
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast


Creditors days
35.00
30.00
25.00
20.00
15.00
10.00
5.00
0.00
4.73
11.48
28.95
21.00
23.81
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast


Bad Debts written-off as % of Total Impairment allowance
90.00%
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
0.47%
0.00%
31.82%
0.00%
81.23%
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast


Impairment Allowance as % of Total Debtors
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
0.18%
0.00%
23.50%
1.26%
0.69%
Cape Winelands
Central Karoo
Garden Route
Overberg
West Coast

# APPENDIX 4 – CRITICAL ANALYSIS OF HOLIDAY RESORTS' INCAPABILITY TO MAKE PROFITS

## *Background*

This is a subjective expression of opinion of the resort's evaluation. In order to do a meaningful evaluation, the following have been considering as appropriate and applicable:

- The analyses are based upon the relation between capacity, cost and revenue.
- "capacity" is the total number of days/nights occupied vs. actual days/nights occupied.
- "cost" is the breakdown of the total cost between fixed and variable cost.
- "revenue" is the total income received per resort.

## 1. CALITZDORP SPA

### 1.1. Occupancy - (units)

| Capacity 2015 | Days | Actual occupied days | % Occupancy |
|---|---|---|---|
| | | | |
| Day visitors (150 stands) | 54750 | 0 | 0.00% |
| Camp Site with Electricity (20 stands) | 7300 | 227 | 3.11% |
| Camp Site without Electricity (10 stands) | 3650 | 21 | 0.58% |
| Mountain Chalet 4 sleep (9 chalets) | 3285 | 190 | 5.78% |
| Mountain Chalet 6 sleep (13 chalets) | 4745 | 217 | 4.57% |
| Swimming Pool Chalet (20 chalets) | 7300 | 400 | 5.48% |

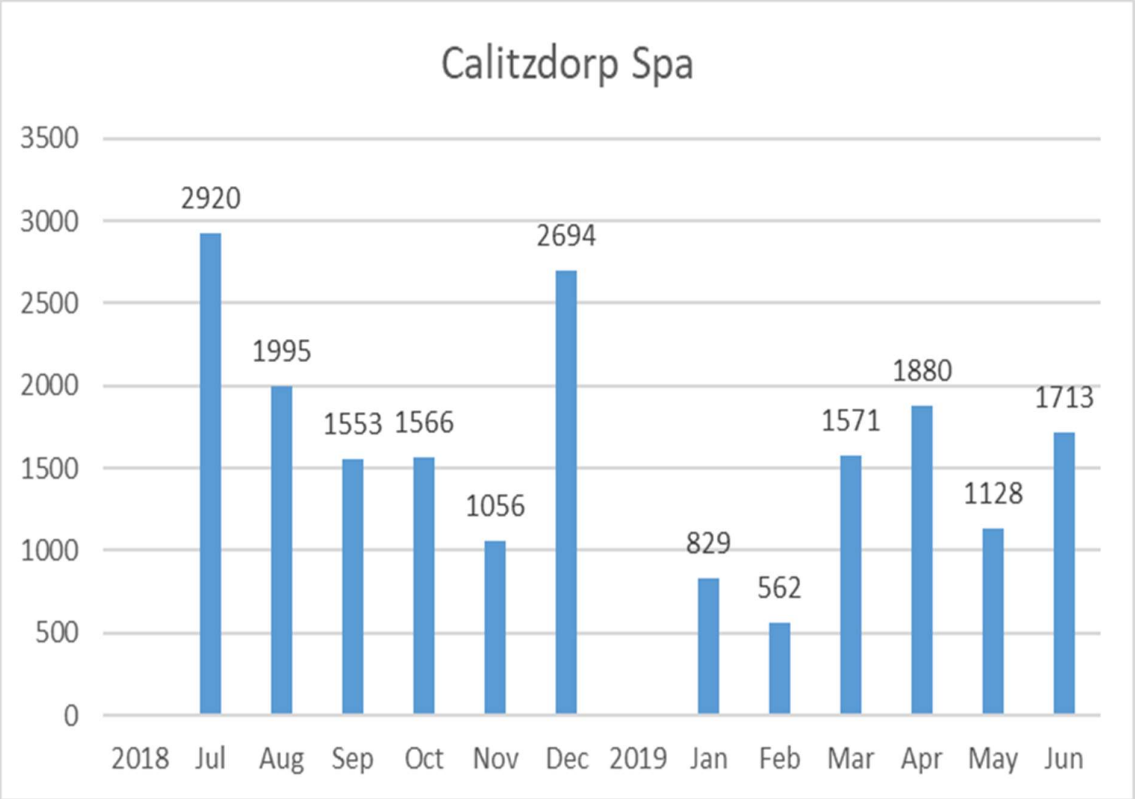
| Capacity 2016 | Days | Actual occupied days | % Occupancy |
|---|---|---|---|
| | | | |
| Day visitors (150 stands) | 54750 | 4 | 0.01% |
| Camp Site with Electricity (20 stands) | 7300 | 1632 | 22.36% |
| Camp Site without Electricity (10 stands) | 3650 | 168 | 4.60% |
| Mountain Chalet 4 sleep (9 chalets) | 3285 | 911 | 27.73% |
| Mountain Chalet 6 sleep (13 chalets) | 4745 | 1060 | 22.34% |
| Swimming Pool Chalet (20 chalets) | 7300 | 2013 | 27.58% |

| Capacity 2017 | Days | Actual occupied days | % Occupancy |
|---|---|---|---|
| | | | |
| Day visitors (150 stands) | 54750 | 0 | 0.00% |
| Camp Site with Electricity (20 stands) | 7300 | 1250 | 17.12% |
| Camp Site without Electricity (10 stands) | 3650 | 71 | 1.95% |
| Mountain Chalet 4 sleep (9 chalets) | 3285 | 934 | 28.43% |
| Mountain Chalet 6 sleep (13 chalets) | 4745 | 1009 | 21.26% |
| Swimming Pool Chalet (20 chalets) | 7300 | 2095 | 28.70% |

| Capacity 2018 | Days | Actual occupied days | % Occupancy |
|---|---|---|---|
| | | | |
| Day visitors (150 stands) | 54750 | 12 | 0.02% |
| Camp Site with Electricity (20 stands) | 7300 | 1547 | 21.19% |
| Camp Site without Electricity (10 stands) | 3650 | 135 | 3.70% |
| Mountain Chalet 4 sleep (9 chalets) | 3285 | 1125 | 34.25% |
| Mountain Chalet 6 sleep (13 chalets) | 4745 | 1306 | 27.52% |
| Swimming Pool Chalet (20 chalets) | 7300 | 2480 | 33.97% |

| Capacity 2019 | Days | Actual occupied days | % Occupancy |
|---|---|---|---|
| | | | |
| Day visitors (150 stands) | 54750 | 6 | 0.01% |
| Camp Site with Electricity (20 stands) | 7300 | 986 | 13.51% |
| Camp Site without Electricity (10 stands) | 3650 | 160 | 4.38% |
| Mountain Chalet 4 sleep (9 chalets) | 3285 | 1029 | 31.32% |
| Mountain Chalet 6 sleep (13 chalets) | 4745 | 1318 | 27.78% |
| Swimming Pool Chalet (20 chalets) | 7300 | 2217 | 30.37% |

## 1.2. Seasonal spread of Occupancy – (heads)



## 1.3. Financial Performance

| | | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| | Sales of goods and rendering of services | 2 120 656 | 2 382 821 | 2 463 398 | 2 675 035 | 3 046 529 |
| | | | | | | |
| | **Total Revenue** | **2 120 656** | **2 382 821** | **2 463 398** | **2 675 035** | **3 046 529** |
| | | | | | | |
| **Expenditure** | | | | | | |
| | Employee Related Costs | -2 860 951 | -2 832 796 | -2 737 372 | -3 202 122 | -2 882 841 |
| | Depreciation | -64 011 | -121 451 | -166 842 | -95 138 | -113 338 |
| | Operational cost | -1 531 810 | -1 060 191 | -1 376 281 | -1 084 853 | -1 096 348 |
| | Contracted services | | | -476 487 | -512 902 | -1 016 956 |
| | Inventory consumed | | | | 15 779 | -72 400 |
| | Gains/(Loss) on Sale of Fixed Assets | | | | | -1 868 |
| | | | | | | |
| | **Total Expenditure** | **-4 456 772** | **-4 014 438** | **-4 756 982** | **-4 879 237** | **-5 183 751** |
| | | | | | | |
| **Net Loss** | | **-2 336 116** | **-1 631 617** | **-2 293 584** | **-2 204 202** | **-2 137 222** |

## 1.4. Workings

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| | | | | | |
| Sales | 2 120 655.76 | 2 382 821.00 | 2 463 398.21 | 2 675 034.73 | 3 046 529.28 |
| Variable cost | 1 279 791.85 | 849 503.94 | 1 503 734.78 | 1 308 351.01 | 1 930 364.82 |
| Fixed cost | 3 176 980.33 | 3 164 934.47 | 3 253 247.63 | 3 570 885.52 | 3 253 386.53 |
| Total expenses | 4 456 772.18 | 4 014 438.41 | 4 756 982.41 | 4 879 236.53 | 5 183 291.05 |
| Contribution | 840 863.91 | 1 533 317.06 | 959 663.43 | 1 366 683.72 | 1 116 164.46 |
| Operating loss | - 2 336 116.42 | - 1 631 617.41 | - 2 293 584.20 | - 2 204 201.80 | - 2 136 761.77 |
| Employee cost | 2 860 950.75 | 2 832 795.85 | 2 737 372.05 | 3 202 122.29 | 2 882 840.56 |

## 1.5. Fixed Cost

| Expense | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Employee Related Costs | 2 798 295.55 | 2 791 845.38 | 2 660 560.22 | 3 086 443.92 | 2 764 525.83 |
| Depreciation | 64 011.33 | 121 451.46 | 166 842.23 | 95 137.80 | 113 338.48 |
| Operational cost | 314 673.45 | 251 637.63 | 425 845.18 | 389 303.80 | 373 654.39 |
| Gains/(Loss) on Sale of Fixed Asse | - | - | - | - | 1 867.83 |
| | | | | | |
| Total | 3 176 980.33 | 3 164 934.47 | 3 253 247.63 | 3 570 885.52 | 3 253 386.53 |

## 1.6. Ratios

| Ratio | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Operational gearing | -35.99% | -93.98% | -41.84% | -62.00% | -52.24% |
| Nett profit margin | -110.16% | -68.47% | -93.11% | -82.40% | -70.14% |
| Employee cost as % of revenue | 134.91% | 118.88% | 111.12% | 119.70% | 94.63% |

## 2. DE HOEK

### 2.1. Occupancy - (units)

| Capacity 2015 | Days | Actual occupied days | % Occupation |
|---|---|---|---|
| Caravan Sites (30 stands) | 10950 | 172 | 1.57% |
| Chalet sleeps 4 (17 stands) | 6205 | 901 | 14.52% |
| Chalet sleeps 6 (10 stands) | 3650 | 337 | 9.23% |
| 2 Dormitories ( sleeps 12) | 730 | 155 | 21.23% |
| 2 Dormitories ( sleeps 24) | 730 | 97 | 13.29% |
| Tent Sites (30 stands) | 10950 | 81 | 0.74% |
| Day Visitor (100 stands) | 36500 | 0 | 0.00% |

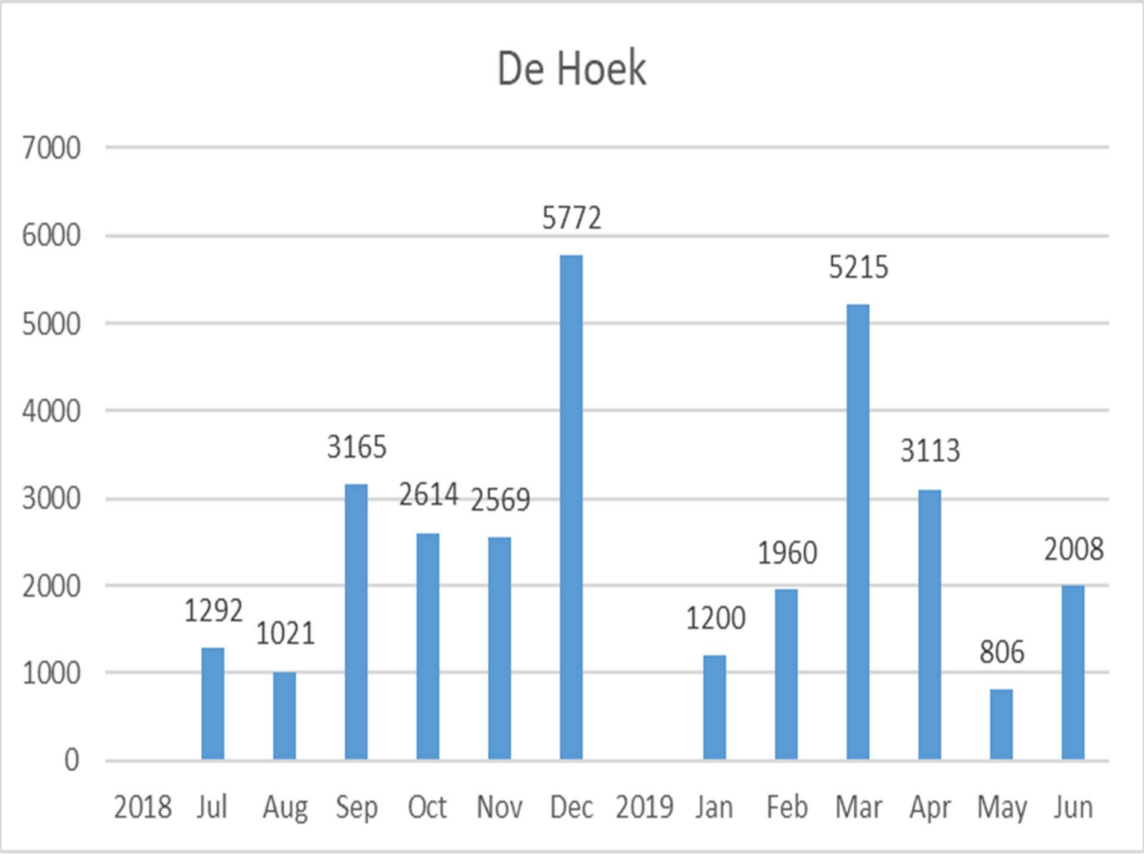
| Capacity 2016 | | | |
|---|---|---|---|
| Tent Sites (30 stands) | 10950 | 469 | 4.28% |
| Caravan Sites (30 stands) | 10950 | 1945 | 17.76% |
| Chalet sleeps 4 (17 stands) | 6205 | 761 | 12.26% |
| Chalet sleeps 6 (10 stands) | 3650 | 455 | 12.47% |
| 2 Dormitories ( sleeps 12) | 730 | 347 | 47.53% |
| 2 Dormitories ( sleeps 24) | 730 | 278 | 38.08% |
| Day Visitor (100 stands) | 36500 | 16 | 0.04% |
| | | | |

| Capacity 2017 | | | |
|---|---|---|---|
| Tent Sites (30 stands) | 10950 | 561 | 5.12% |
| Caravan Sites (30 stands) | 10950 | 1646 | 15.03% |
| Chalet sleeps 4 (17 stands) | 6205 | 880 | 14.18% |
| Chalet sleeps 6 (10 stands) | 3650 | 446 | 12.22% |
| 2 Dormitories ( sleeps 12) | 730 | 374 | 51.23% |
| 2 Dormitories ( sleeps 24) | 730 | 611 | 83.70% |
| Day Visitor (100 stands) | 36500 | 19 | 0.05% |

| Capacity 2018 | | | |
|---|---|---|---|
| Tent Sites (30 stands) | 10950 | 546 | 4.99% |
| Caravan Sites (30 stands) | 10950 | 1463 | 13.36% |
| Chalet sleeps 4 (17 stands) | 6205 | 754 | 12.15% |
| Chalet sleeps 6 (10 stands) | 3650 | 450 | 12.33% |
| 2 Dormitories ( sleeps 12) | 730 | 372 | 50.96% |
| 2 Dormitories ( sleeps 24) | 730 | 412 | 56.44% |
| Day Visitor (100 stands) | 36500 | 6 | 0.02% |

| Capacity 2019 | | | |
|---|---|---|---|
| Tent Sites (30 stands) | 10950 | 396 | 3.62% |
| Caravan Sites (30 stands) | 10950 | 1525 | 13.93% |
| Chalet sleeps 4 (17 stands) | 6205 | 854 | 13.76% |
| Chalet sleeps 6 (10 stands) | 3650 | 538 | 14.74% |
| 2 Dormitories ( sleeps 12) | 730 | 402 | 55.07% |
| 2 Dormitories ( sleeps 24) | 730 | 627 | 85.89% |
| Day Visitor (100 stands) | 36500 | 12 | 0.03% |

## 2.2. Seasonal spread of Occupancy – (heads)



## 2.3. Financial Performance

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| | | | | | |
| Rental of Facilities and Equipment | 11 689 | 10 680 | 0 | 0 | 0 |
| Rental from fixed assets | 0 | 0 | 7 183 | 0 | 14 673 |
| Sales of goods and rendering of services | 1 622 274 | 1 820 869 | 1 974 187 | 1 868 956 | 2 377 926 |
| | | | | | |
| **Total Revenue** | **1 633 962** | **1 831 549** | **1 981 371** | **1 868 956** | **2 392 599** |
| | | | | | |
| | | | | | |
| Employee Related Costs | -2 452 804 | -2 329 210 | -2 671 307 | -2 881 859 | -3 127 261 |
| Laundry Services | -10 443 | -10 930 | 0 | 0 | 0 |
| Operational cost | -558 724 | -601 393 | -932 995 | -568 924 | -739 979 |
| Contracted services | 0 | 0 | -106 702 | -220 300 | -555 917 |
| Depreciation and amortisation | 0 | 0 | 0 | -77 389 | -70 444 |
| Inventory consumed | -147 573 | -171 521 | 0 | -13 915 | -120 234 |
| | | | | | |
| | | | | | |
| **Total Expenditure** | **-3 169 543** | **-3 113 054** | **-3 711 005** | **-3 762 387** | **-4 613 835** |
| | | | | | |
| **Nett Loss** | **-1 535 581** | **-1 281 505** | **-1 729 634** | **-1 893 431** | **-2 221 236** |

## 2.4. Workings

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| | | | | | |
| Sales | 1 622 274 | 1 820 869 | 1 974 187 | 1 868 956 | 2 377 926 |
| Variable cost | 668 914 | 744 707 | 1 088 218 | 860 287 | 1 528 492 |
| Fixed cost | 2 500 629 | 2 368 347 | 2 622 787 | 2 902 100 | 3 085 343 |
| Total expenses | 3 169 543 | 3 113 054 | 3 711 005 | 3 762 387 | 4 613 835 |
| Contribution | 953 360 | 1 076 162 | 885 969 | 1 008 669 | 849 434 |
| Operating surplus | -1 535 581 | -1 281 505 | -3 711 005 | -3 762 387 | -4 613 835 |
| Employee cost | 2 452 804 | 2 329 210 | 2 671 307 | 2 881 859 | 3 127 261 |
| | | | | | |

## 2.5. Fixed Cost

| Expense | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Employee Related Costs | 2 403 356 | 2 283 228 | 2 584 102 | 2 764 207 | 2 987 637 |
| Operational cost | 97 274 | 85 119 | 38 685 | 60 504 | 27 262 |
| Depreciation and amortisatic | 0 | 0 | 0 | 77 389 | 70 444 |
| | | | | | |
| | 2 500 629 | 2 368 347 | 2 622 787 | 2 902 100 | 3 085 343 |

## 2.6. Ratios

| Ratio | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Operational gearing | -62.08% | -83.98% | -23.87% | -26.81% | -18.41% |
| Net profit margin | -94.66% | -70.38% | -187.98% | -201.31% | -194.03% |
| Employee cost as % of revenue | 151.20% | 127.92% | 135.31% | 154.20% | 131.51% |

## 3. SWARTVLEI

### 3.1. Occupancy - (units)

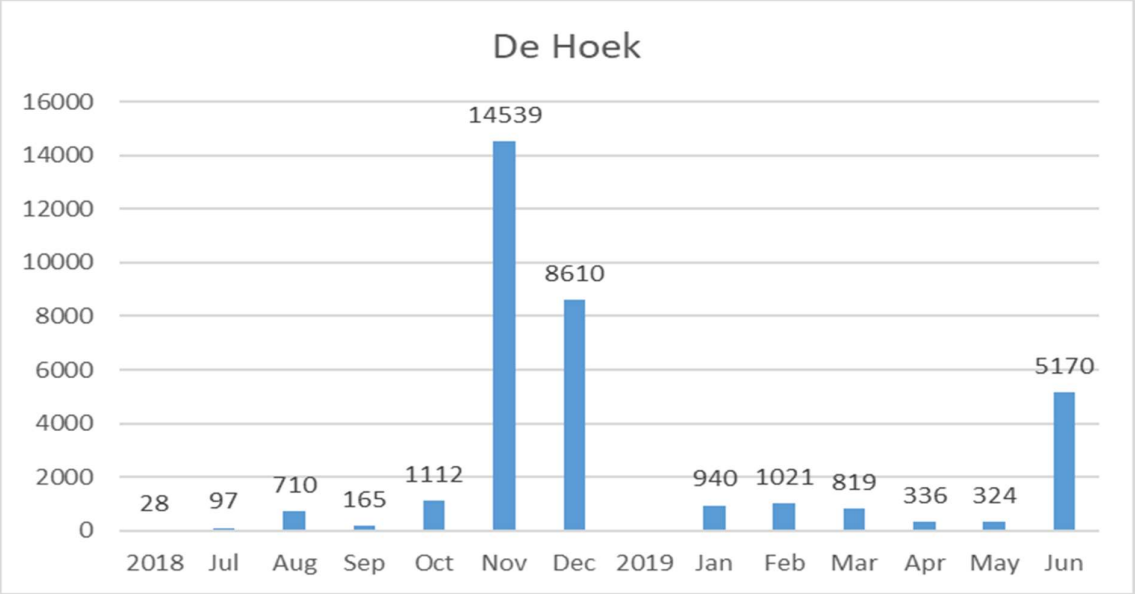
| Capacity 2015 | Days | Acctual days occupied | % Occupancy |
|---|---|---|---|
| Day visitors | 36500 | 0 | 0.00% |
| Caravan Sites | 56940 | 986 | 1.73% |

| Capacity 2017 | Days | Acctual days occupied | % Occupancy |
|---|---|---|---|
| Day visitors | 36500 | 4 | 0.01% |
| Caravan Sites | 56940 | 5757 | 10.11% |

| Capacity 2018 | Days | Acctual days occupied | % Occupancy |
|---|---|---|---|
| Day visitors | 36500 | 26 | 0.07% |
| Caravan Sites | 56940 | 6545 | 11.49% |

| Capacity 2019 | Days | Acctual days occupied | % Occupancy |
|---|---|---|---|
| Day visitors | 36500 | 2 | 0.01% |
| Caravan Sites | 56940 | 5403 | 9.49% |

## 3.2. Seasonal spread of Occupancy – (heads)




## 3.3. Financial Performance

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Sales of goods and rendering of services | 1 217 047 | 1 549 868 | 1 395 649 | 1 262 480 | 1 722 616 |
| **Total Revenue** | **1 217 047** | **1 549 868** | **1 395 649** | **1 262 480** | **1 722 616** |
| Employee Related Costs | -639 040 | -651 013 | -592 263 | -776 202 | -784 037 |
| Operational cost | -67 784 | -68 776 | -138 358 | -71 841 | -79 588 |
| Contracted services | -40 979 | -44 034 | -106 795 | -43 653 | -265 530 |
| Depreciation and amortisation | 0 | 0 | 0 | -38 726 | -52 311 |
| Inventory consumed | -68 917 | -105 673 | 0 | -147 049 | -25 489 |
| Total Expenditure | **-816 720** | **-869 496** | **-837 416** | **-1 077 471** | **-1 206 954** |
| **Net Surplus** | **400 328** | **680 372** | **558 233** | **185 008** | **515 662** |

## 3.4. Workings

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| | | | | | |
| Sales | 1 217 047.31 | 1 549 868.34 | 1 395 649.48 | 1 262 479.67 | 1 722 616.25 |
| Variable cost | 209 299.09 | 244 420.45 | 301 428.92 | 343 278.63 | 457 955.38 |
| Fixed cost | 607 420.72 | 625 075.65 | 535 987.57 | 734 192.74 | 748 998.66 |
| Total expenses | 816 719.81 | 869 496.10 | 837 416.49 | 1 077 471.37 | 1 206 954.04 |
| Contribution | 1 007 748.22 | 1 305 447.89 | 1 094 220.56 | 919 201.04 | 1 264 660.87 |
| Operating surplus | 400 327.50 | 680 372.24 | 558 232.99 | 185 008.30 | 515 662.21 |
| Employee cost | 639 040.32 | 651 012.67 | 592 262.86 | 776 202.25 | 784 036.61 |

## 3.5. Fixed Cost

| Expense | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Employee Related Costs | 573 186.17 | 592 972.05 | 506 747.40 | 662 310.36 | 667 189.20 |
| Operational cost | 34 234.55 | 32 103.60 | 29 240.17 | 33 156.06 | 29 498.96 |
| Depreciation and amortisatic | - | - | - | 38 726.32 | 52 310.50 |
| | | | | | |
| | **607 420.72** | **625 075.65** | **535 987.57** | **734 192.74** | **748 998.66** |

## 3.6. Ratios

| Ratio | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| **Operational gearing** | 251.73% | 191.87% | 196.02% | 496.84% | 245.25% |
| **Net profit margin** | 32.89% | 43.90% | 40.00% | 14.65% | 29.93% |
| **Employee cost as % of revenue** | 52.51% | 42.00% | 42.44% | 61.48% | 45.51% |

## 4. VICTORIA BAY

### 4.1. Occupancy - (units)

| Capacity 2015 | Days | Actual days | % Occupancy |
|---|---|---|---|
| Sites (38) | 13870 | 1099 | 7.92% |

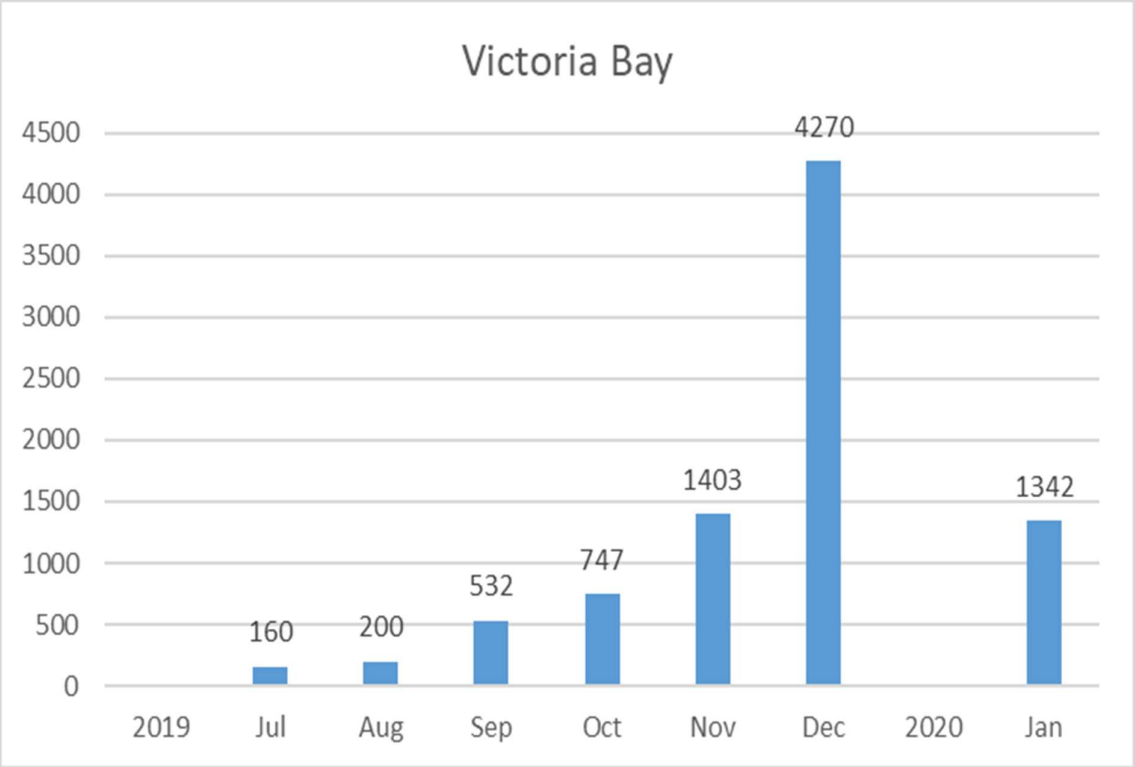
| Capacity 2016 | Days | Actual days | % Occupancy |
|---|---|---|---|
| Sites (38) | 13870 | 3994 | 28.80% |

| Capacity 2017 | Days | Actual days | % Occupancy |
|---|---|---|---|
| Sites (38) | 13870 | 4848 | 34.95% |

| Capacity 2018 | Days | Actual days | % Occupancy |
|---|---|---|---|
| Sites (38) | 13870 | 5232 | 37.72% |

| Capacity 2019 | Days | Actual days | % Occupancy |
|---|---|---|---|
| Sites (38) | 13870 | 4683 | 33.76% |

## 4.2. Seasonal spread of Occupancy – (heads)




## 4.3. Financial Performance

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| | | | | | |
| Sales of goods and rendering of services | 657 115 | 808 556 | 1 159 625 | 1 247 460 | 1 736 583 |
| | - | - | - | - | - |
| | - | - | - | - | - |
| | | | | | |
| **Total Revenue** | **657 115** | **808 556** | **1 159 625** | **1 247 460** | **1 736 583** |
| | | | | | |
| | | | | | |
| | | | | | |
| Employee Related Costs | - 869 678 | - 990 331 | - 910 426 | - 1 155 895 | - 1 532 120 |
| Operational cost | - 373 589 | - 258 668 | - 179 259 | - 169 141 | - 200 324 |
| Contracted services | - | - | - 164 163 | - 195 193 | - 183 021 |
| Depreciation and amortisation | - | - | - | - 10 899 | - |
| Inventory consumed | - 46 503 | - 60 979 | - | 5 866 | - 30 079 |
| Security services | - 22 827 | - 15 297 | - | - | - |
| | - | - | - | - | - |
| | | | | | |
| **Total Expenditure** | **- 1 312 597** | **- 1 325 275** | **- 1 253 848** | **- 1 525 262** | **- 1 945 545** |
| | | | | | |
| | **- 655 482** | **- 516 719** | **- 94 223** | **- 277 802** | **- 208 961** |

## 4.4. Workings

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| | | | | | |
| Sales | 657 115.07 | 808 556.04 | 1 159 625.09 | 1 247 459.52 | 1 736 583.18 |
| Variable cost | 387 078.11 | 319 671.78 | 307 588.64 | 335 537.85 | 490 069.05 |
| Fixed cost | 925 519.02 | 1 005 603.16 | 946 259.34 | 1 189 723.70 | 1 455 475.54 |
| Total expenses | 1 312 597.13 | 1 325 274.94 | 1 253 847.98 | 1 525 261.55 | 1 945 544.59 |
| Contribution | 270 036.96 | 488 884.26 | 852 036.45 | 911 921.67 | 1 246 514.13 |
| Operating surplus | - 655 482.06 | - 516 718.90 | - 94 222.89 | - 277 802.03 | - 208 961.41 |
| Employee cost | 869 678.36 | 990 330.83 | 910 426.46 | 1 155 895.25 | 1 532 120.37 |

## 4.5. Fixed Cost

| Expenditure | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Employee Related Costs | 758 042.08 | 869 772.27 | 789 340.91 | 1 005 248.56 | 1 315 525.00 |
| Operational cost | 144 650.12 | 120 533.76 | 19 476.74 | 26 521.70 | 9 636.31 |
| Contracted services | - | - | 137 441.69 | 147 054.67 | 130 314.23 |
| Depreciation and amortisatic | - | - | - | 10 898.77 | - |
| Security services | 22 826.82 | 15 297.13 | - | - | - |
| | | | | | |
| | **925 519.02** | **1 005 603.16** | **946 259.34** | **1 189 723.70** | **1 455 475.54** |

## 4.6. Ratios

| Ratio | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| **Operational gearing** | -41.20% | -94.61% | -904.28% | -328.26% | -596.53% |
| **Net profit margin** | -99.75% | -63.91% | -8.13% | -22.27% | -12.03% |
| **Employee cost as % of revenue** | 132.35% | 122.48% | 78.51% | 92.66% | 88.23% |

## 5. KLEINKRANTZ

This resort is not in use.

There is fixed cost for insurance and security services for the 2018/19 financial year with the result that a nett loss of R239 190.54 has been realized.

## 6. PROJECTED FUTURE LOSSES

If the status quo is maintained regarding occupancy, and an inflation rate of 4.5% is projected on the cost and revenue, the following losses are forecasted:

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|
| | | | | | | |
| **Total Revenue** | **8 898 327** | **9 298 752** | **9 717 196** | **10 154 469** | **10 611 420** | **11 088 934** |
| **Total Expenditure** | **-13 189 276** | **-13 782 793** | **-14 403 019** | **-15 051 155** | **-15 728 457** | **-16 436 238** |
| **Total loss** | **-4 290 949** | **-4 484 042** | **-4 685 824** | **-4 896 686** | **-5 117 036** | **-5 347 303** |
| | | | | | | |

| | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|---|---|---|---|---|
| | | | | | |
| **Total Revenue** | **11 587 936** | **12 109 394** | **12 654 316** | **13 223 761** | **13 818 830** |
| **Total Expenditure** | **-17 175 868** | **-17 948 782** | **-18 756 477** | **-19 600 519** | **-20 482 542** |
| **Total loss** | **-5 587 932** | **-5 839 389** | **-6 102 161** | **-6 376 758** | **-6 663 713** |

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|
| **Calitzdorp Spa** | | | | | | |
| Revenue | 3 046 529 | 3 183 623 | 3 326 886 | 3 476 596 | 3 633 042 | 3 796 529 |
| Expenditure | -5 183 751 | -5 417 020 | -5 660 786 | -5 915 521 | -6 181 719 | -6 459 897 |
| **Total loss** | **-2 137 222** | **-2 233 397** | **-2 333 900** | **-2 438 925** | **-2 548 677** | **-2 663 367** |
| | | 0 | | | | |
| **De Hoek** | | 0 | | | | |
| Revenue | 2 392 599 | 2 500 266 | 2 612 778 | 2 730 353 | 2 853 219 | 2 981 614 |
| Expenditure | -4 613 835 | -4 821 458 | -5 038 423 | -5 265 152 | -5 502 084 | -5 749 678 |
| **Total loss** | **-2 221 236** | **-2 321 192** | **-2 425 645** | **-2 534 799** | **-2 648 865** | **-2 768 064** |
| | | 0 | | | | |
| **Swart Vlei** | | 0 | | | | |
| Revenue | 1 722 616 | 1 800 134 | 1 881 140 | 1 965 791 | 2 054 252 | 2 146 693 |
| Expenditure | -1 206 954 | -1 261 267 | -1 318 024 | -1 377 335 | -1 439 315 | -1 504 084 |
| **Total Surplus** | **515 662** | **538 867** | **563 116** | **588 456** | **614 937** | **642 609** |
| | | 0 | | | | |
| **Victoria Bay** | | 0 | | | | |
| Revenue | 1 736 583 | 1 814 729 | 1 896 392 | 1 981 730 | 2 070 908 | 2 164 098 |
| Expenditure | -1 945 545 | -2 033 095 | -2 124 584 | -2 220 190 | -2 320 099 | -2 424 503 |
| **Total loss** | **-208 962** | **-218 365** | **-228 192** | **-238 460** | **-249 191** | **-260 405** |
| | | 0 | | | | |
| **Kleinkrantz** | | 0 | | | | |
| Revenue | 0 | 0 | 0 | 0 | 0 | 0 |
| Expenditure | -239 191 | -249 955 | -261 203 | -272 957 | -285 240 | -298 076 |
| **Total loss** | **-239 191** | **-249 955** | **-261 203** | **-272 957** | **-285 240** | **-298 076** |
| | | | | | | |

| | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|---|---|---|---|---|
| **Calitzdorp Spa** | | | | | |
| Revenue | 3 967 373 | 4 145 905 | 4 332 471 | 4 527 432 | 4 731 166 |
| Expenditure | -6 750 592 | -7 054 369 | -7 371 815 | -7 703 547 | -8 050 207 |
| **Total loss** | **-2 783 219** | **-2 908 464** | **-3 039 345** | **-3 176 115** | **-3 319 040** |
| | | | | | |
| **De Hoek** | | | | | |
| Revenue | 3 115 786 | 3 255 997 | 3 402 517 | 3 555 630 | 3 715 633 |
| Expenditure | -6 008 413 | -6 278 792 | -6 561 338 | -6 856 598 | -7 165 145 |
| **Total loss** | **-2 892 627** | **-3 022 795** | **-3 158 821** | **-3 300 968** | **-3 449 512** |
| | | | | | |
| **Swart Vlei** | | | | | |
| Revenue | 2 243 294 | 2 344 242 | 2 449 733 | 2 559 971 | 2 675 170 |
| Expenditure | -1 571 768 | -1 642 498 | -1 716 410 | -1 793 648 | -1 874 363 |
| **Total Surplus** | **671 526** | **701 745** | **733 323** | **766 323** | **800 807** |
| | | | | | |
| **Victoria Bay** | | | | | |
| Revenue | 2 261 483 | 2 363 250 | 2 469 596 | 2 580 728 | 2 696 860 |
| Expenditure | -2 533 606 | -2 647 618 | -2 766 761 | -2 891 265 | -3 021 372 |
| **Total loss** | **-272 123** | **-284 368** | **-297 165** | **-310 537** | **-324 512** |
| | | | | | |
| **Kleinkrantz** | | | | | |
| Revenue | 0 | 0 | 0 | 0 | 0 |
| Expenditure | -311 489 | -325 506 | -340 154 | -355 461 | -371 456 |
| **Total loss** | **-311 489** | **-325 506** | **-340 154** | **-355 461** | **-371 456** |

## 7. TOTAL PROJECTED FIXED COST, SHOULD THE RESORTS BE CLOSED

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|
| | | | | | | |
| Total Fixed Cost | 6 971 358 | 7 285 069 | 7 612 897 | 7 955 477 | 8 313 474 | 8 687 580 |
| | | | | | | |

| | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|---|---|---|---|---|
| | | | | | |
| Total Fixed Cost | 9 078 521 | 9 487 055 | 9 913 972 | 10 360 101 | 10 826 305 |
| | | | | | |

# APPENDIX 5 – ANALYSIS OF ASSET REPLACEMENT

## *Definitions*

**"Carrying amount"** is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

**"Class of assets"** means a grouping of assets of a similar nature or function in an entity's operations, that is shown as a single item for the purpose of disclosure in the financial statements.

**"Cost"** is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition.

**"Current Replacement Cost (CRC)"** is a measure of replacement value – the cost of replacing an existing asset with a new asset of equivalent capacity.

**"Loose Assets"** refers to capital assets that usually include the following:

a) Computer Equipment;

b) Furniture and Office Equipment;

c) Machinery and Equipment;

d) Transport Assets and;

e) Other

In this document, the broad interpretation of loose assets, includes all core capital assets which are integral to the delivery of municipal functions and excluding the roads agency asset, but also including leased assets and intangible assets.

**"Depreciable amount"** is the cost of an asset, or other amount substituted for cost, less its residual value.

**"Expected Useful Life (EUL)"** means the life of a capital asset over which it can be expected to meet the required performance given its operational requirements, including parameters such as climate, soil conditions, topography, utilisation and operations and maintenance regime, and over which it will be productively used;

**"Remaining Useful Life (RUL)"** means the life of a capital asset over which it can be expected to meet the required performance given its operational requirements, and over which it will be productively used;

Useful life is:

a) the period over which an asset is expected to be available for use by an entity; or

b) the number or production of similar units expected to be obtained from the asset by an entity

# 1. INTRODUCTION

The purpose of this report is to provide a high-level overview of the Loose Assets which are all reflected in the municipality's Fixed Assets Register (FAR), documenting the nature, extent, condition, values and remaining useful life (RUL) of the Loose Assets.

The roads agency assets are excluded.

The report focuses on the Loose Assets as a class of assets in the following categories:

- Computer Equipment;
- Furniture and Office Equipment;
- Machinery and Equipment;
- Transport Assets and;
- Other.

The outcome for each loose asset category informs the reader of the following:

- What do we have and where is it?
- What is it worth?
- What is its condition and expected remaining service life?
- What do we need to replace?

# 2. ASSET COMPOSITION

***Table 1: Composition of assets (Source: Fixed Assets Register)***

| OTHER ASSETS | | | | | | | |
|---|---|---|---|---|---|---|---|
| **OTHER ASSETS VALUES** | | | | | | | |
| ASSET CATEGORY | COST | RESIDUAL | DISPOSAL | ACC DEPRECIATION | BOOK VALUE | CRC | FUTURE VALUE |
| **COMPUTER EQUIPMENT** | | | | | | | |
| COMPUTER EQUIPMENT | 17 046 047.21 | - | 159 263.35 | 11 011 767.88 | 5 870 611.25 | 19 689 640.95 | 23 515 570.74 |
| **FURNITURE AND OFFICE EQUIPMENT** | | | | | | | |
| MISCELLANEOUS | 4 129 770.97 | - | 104 046.91 | 2 578 994.58 | 1 445 597.19 | 6 291 980.09 | 8 005 831.30 |
| TABLES/DESKS | 1 333 670.94 | - | 21 150.10 | 1 075 805.64 | 236 560.43 | 2 719 993.75 | 3 644 847.05 |
| CHAIRS | 1 499 755.27 | - | 15 016.61 | 977 599.03 | 507 086.06 | 2 502 601.11 | 3 028 169.83 |
| CABINETS/CUPBOARDS | 1 248 775.14 | - | 15 467.88 | 952 306.85 | 281 000.40 | 2 083 344.19 | 2 676 955.59 |
| AIR CONDITIONERS | 791 294.01 | - | 11 491.19 | 574 698.71 | 205 086.25 | 2 074 461.49 | 2 495 148.94 |
| **MACHINERY AND EQUIPMENT** | | | | | | | |
| MACHINERY AND EQUIPMENT | 5 678 559.26 | - | 115 758.19 | 3 487 712.54 | 2 072 666.06 | 5 568 686.80 | 6 903 848.28 |
| **TRANSPORT ASSETS** | | | | | | | |
| TRAILERS | 930 238.06 | - | 11 542.57 | 819 546.35 | 98 681.53 | 891 635.34 | 1 024 478.39 |
| VEHICLE EQUIPMENT | 467 820.02 | 26 758.74 | 16 900.00 | 388 300.10 | 62 619.92 | 253 234.84 | 289 364.87 |
| LDV | 4 684 173.23 | 787 711.60 | 16 650.00 | 2 626 730.95 | 2 040 792.28 | 5 894 687.00 | 7 330 377.41 |
| MOTORCYCLES | 60 000.00 | - | - | 59 979.21 | 20.79 | 22 332.00 | 25 484.52 |
| SPECIALISED VEHICLES | 7 361 639.52 | 476 785.36 | - | 2 140 575.96 | 5 197 419.65 | 12 581 849.49 | 16 638 586.78 |
| MINIBUS | 187 011.40 | 45 000.00 | - | 108 044.07 | 78 967.33 | 189 900.00 | 226 459.28 |
| TRACTORS | 40 000.00 | 35 151.03 | - | 4 848.97 | 35 151.03 | 69 923.20 | 83 384.71 |
| CARAVANS | 54 000.00 | - | - | 51 922.57 | 2 077.43 | 95 719.63 | 109 231.99 |
| SEDAN | 1 444 526.76 | 348 896.54 | - | 577 178.82 | 867 347.94 | 1 468 683.19 | 1 990 476.20 |
| **LEASED ASSETS** | | | | | | | |
| FURNITURE AND OFFICE EQUIPMENT | 1 950 672.15 | - | 109 530.04 | 769 849.99 | 1 071 292.12 | 2 078 811.55 | 2 271 208.41 |
| **INTANGIBLE ASSETS** | | | | | | | |
| COMPUTER SOFTWARE AND APPLICATIONS | 6 510 261.11 | - | 682 036.34 | 3 568 944.55 | 2 138 885.34 | 8 409 864.17 | 10 934 111.05 |
| **TOTAL** | **55 418 215.04** | **1 720 303.27** | **1 278 853.18** | **31 774 806.77** | **22 211 863.01** | **72 887 348.77** | **91 193 535.35** |

## 3. REPLACEMENT VALUE OF THE ASSETS

Table 1 is a summary of the loose assets.

The book value (cost prices less accumulated depreciation and accumulated impairments) amounts to R22 211 862 as at 30 June 2019, and to replace it with new assets (CRC), will amount to an estimated amount of R72 887 348 (current prices).

The estimated replacement values have been factored to calculate the future cost to replace the assets at the time when it has reached the end of its useful life. This amounts to R91 193 535.

## 4. WHERE ARE THE ASSETS?

Eden District Municipality's loose assets are distributed in the area of jurisdiction as set out in table 2 below.

***Table 2: Distribution of assets***

| ASSET CATEGORY | CALITZDORP | DE HOEK | FRANSMANSHOEK | GEORGE | HEIDELBERG | KNYSNA | LADISMITH |
|---|---|---|---|---|---|---|---|
| **COMPUTER EQUIPMENT** | | | | | | | |
| COMPUTER EQUIPMENT | 103 511.12 | 38 190.78 | - | 20 249 549.72 | 463 957.89 | 1 121 995.01 | 69 915.71 |
| **FURNITURE AND OFFICE EQUIPMENT** | | | | | | | |
| MISCELLANEOUS | 1 101 344.96 | 1 040 247.15 | 7 742.56 | 5 270 825.46 | - | 49 950.25 | 66 917.50 |
| TABLES/DESKS | 174 294.21 | 350 509.70 | - | 2 555 494.64 | - | 29 267.85 | 43 660.61 |
| CHAIRS | 332 111.71 | 56 133.15 | - | 2 164 470.69 | - | 20 195.97 | 27 030.57 |
| CABINETS/CUPBOARDS | 93 476.14 | 95 871.05 | 7 699.29 | 2 005 164.27 | - | 29 580.24 | 24 792.56 |
| AIR CONDITIONERS | 52 061.20 | 26 423.57 | - | 1 725 805.25 | - | 2 416.15 | 25 359.19 |
| **MACHINERY AND EQUIPMENT** | | | | | | | |
| MACHINERY AND EQUIPMENT | 281 415.31 | 339 489.55 | - | 3 817 377.32 | - | 57 925.59 | 318 283.69 |
| **TRANSPORT ASSETS** | | | | | | | |
| TRAILERS | 91 004.77 | 92 404.60 | - | 811 889.37 | - | - | - |
| VEHICLE EQUIPMENT | 21 644.58 | 67 203.53 | - | 149 977.40 | - | - | 22 539.92 |
| LDV | 489 802.49 | 321 839.74 | - | 2 992 091.14 | - | - | 1 003 525.59 |
| MOTORCYCLES | - | - | - | 25 484.52 | - | - | - |
| SPECIALISED VEHICLES | - | - | - | 16 452 038.83 | - | - | 186 547.95 |
| MINIBUS | - | - | - | 226 459.28 | - | - | - |
| TRACTORS | - | 83 384.71 | - | - | - | - | - |
| CARAVANS | - | - | - | 109 231.99 | - | - | - |
| SEDAN | - | - | - | 1 990 476.20 | - | - | - |
| LEASED FURNITURE AND OFFICE EQUIPMENT | - | - | - | 2 271 208.41 | - | - | - |
| COMPUTER SOFTWARE AND APPLICATIONS | 25 780.49 | 12 890.25 | - | 10 534 254.20 | - | 34 691.81 | 15 963.58 |
| **TOTAL** | **2 766 446.98** | **2 524 587.77** | **15 441.85** | **73 351 798.69** | **463 957.89** | **1 346 022.87** | **1 804 536.88** |

| ASSET CATEGORY | MOSSEL BAY | OUDTSHOORN | PLETTENBERG BAY | RIVERSDALE | SEDGEFIELD | SWARTVLEI | UNIONDALE | VICTORIA BAY | WHOLE OF DISTRICT |
|---|---|---|---|---|---|---|---|---|---|
| **COMPUTER EQUIPMENT** | | | | | | | | | |
| COMPUTER EQUIPMENT | 856 229.71 | 268 743.62 | 107 300.68 | 101 127.69 | - | 2 167.07 | 39 940.81 | 92 940.92 | - |
| **FURNITURE AND OFFICE EQUIPMENT** | | | | | | | | | |
| MISCELLANEOUS | 136 283.40 | 141 091.27 | 32 888.39 | 133 154.74 | 1 502.86 | 4 540.54 | 3 668.66 | 15 673.58 | - |
| TABLES/DESKS | 146 079.41 | 105 283.12 | 38 049.77 | 171 516.82 | 1 710.61 | 7 423.68 | 18 706.00 | 2 850.63 | - |
| CHAIRS | 115 667.41 | 89 791.64 | 30 930.21 | 136 576.26 | 867.91 | 6 175.67 | 44 988.59 | 3 230.05 | - |
| CABINETS/CUPBOARDS | 147 488.87 | 111 140.67 | 50 516.26 | 86 639.57 | 2 737.66 | 2 159.41 | 2 575.14 | 17 114.47 | - |
| AIR CONDITIONERS | 99 613.53 | 539 817.09 | - | 23 652.96 | - | - | - | - | - |
| **MACHINERY AND EQUIPMENT** | | | | | | | | | |
| MACHINERY AND EQUIPMENT | 748 025.28 | 39 295.37 | 21 868.18 | 251 359.07 | - | 128 918.23 | - | 97 775.23 | 802 115.47 |
| **TRANSPORT ASSETS** | | | | | | | | | |
| TRAILERS | - | - | - | 29 179.65 | - | - | - | - | - |
| VEHICLE EQUIPMENT | 3 655.41 | 1 654.01 | - | 22 690.03 | - | - | - | - | - |
| LDV | - | - | - | 2 380 939.39 | - | 142 179.06 | - | - | - |
| MOTORCYCLES | - | - | - | - | - | - | - | - | - |
| SPECIALISED VEHICLES | - | - | - | - | - | - | - | - | - |
| MINIBUS | - | - | - | - | - | - | - | - | - |
| TRACTORS | - | - | - | - | - | - | - | - | - |
| CARAVANS | - | - | - | - | - | - | - | - | - |
| SEDAN | - | - | - | - | - | - | - | - | - |
| LEASED FURNITURE AND OFFICE EQUIPMENT | - | - | - | - | - | - | - | - | - |
| COMPUTER SOFTWARE AND APPLICATIONS | 148 761.76 | 69 457.98 | 36 614.88 | 46 784.78 | - | 2 466.20 | - | 6 445.12 | - |
| **TOTAL** | **2 401 804.78** | **1 366 274.75** | **318 168.37** | **3 383 620.96** | **6 819.03** | **296 029.86** | **109 879.20** | **236 030.00** | **802 115.47** |

## 5. REMAINING USEFUL LIVES

Below, as illustrated in table 3, is an indication of the assets remaining useful lives' values. For the purpose of this planning document, RUL 1 is the cost to replace those assets whose remaining useful lives had been reached during the previous year, and are the amounts reflected in the table, which are predicted to be replaced for the 10 consecutive years.

Although assets have reached the end of their useful lives, the conditions of the assets are sometimes as such that they are still in a good operational condition and there is then no reason to de-commission or replace these assets. The opposite is also possible were assets which have not reached the end of their useful lives, have deteriorated to such an extent, that it necessitates early replacement.

The assessment of the asset's conditions is performed annually and if deviations of original useful lives are evident, adjustments to the useful lives are made in the asset register as changes in accounting estimates.

Thus, is it very important to determine the conditions of the assets and not only useful lives to have a more accurate prediction of the future replacement of assets.

*Table 3: Remaining Useful Lives*

| OTHER ASSETS REMAINING USEFUL LIFE | RUL 1 | RUL 2 | RUL 3 | RUL 4 | RUL 5 |
|---|---|---|---|---|---|
| **ASSET CATEGORY** | **2020/2021** | **2021/2022** | **2022/2023** | **2023/2024** | **2024/2025** |
| **COMPUTER EQUIPMENT** | | | | | |
| COMPUTER EQUIPMENT | 1 833 134.05 | 136 682.88 | 12 201 114.69 | 1 982 794.94 | 2 079 682.18 |
| **FURNITURE AND OFFICE EQUIPMENT** | | | | | |
| MISCELLANEOUS | 919 419.83 | 127 720.17 | 1 825 913.30 | 1 101 579.40 | 322 763.63 |
| TABLES/DESKS | 124 510.06 | 65 898.04 | 720 022.10 | 147 600.42 | 52 994.77 |
| CHAIRS | 293 350.11 | 93 268.16 | 658 182.17 | 918 610.06 | 361 558.69 |
| CABINETS/CUPBOARDS | 53 554.86 | 13 172.82 | 902 413.09 | 248 061.82 | 67 693.66 |
| AIR CONDITIONERS | 229 906.33 | 42 366.20 | 592 162.66 | 815 923.30 | 84 607.03 |
| **MACHINERY AND EQUIPMENT** | | | | | |
| MACHINERY AND EQUIPMENT | 406 859.82 | 255 216.24 | 1 936 188.36 | 1 424 047.59 | 571 953.07 |
| **TRANSPORT ASSETS** | | | | | |
| TRAILERS | 75 888.88 | 10 446.44 | 633 582.98 | 272 695.19 | 31 864.90 |
| VEHICLE EQUIPMENT | 36 029.51 | 51 311.46 | 82 552.25 | 110 827.88 | - |
| LDV | 112 753.73 | 210 115.58 | 551 837.45 | 3 936 816.91 | 386 067.16 |
| MOTORCYCLES | - | - | 25 484.52 | - | - |
| SPECIALISED VEHICLES | 2 013 671.91 | - | 3 192 203.75 | 207 686.37 | 1 681 406.80 |
| MINIBUS | - | - | - | 226 459.28 | - |
| TRACTORS | - | - | - | 83 384.71 | - |
| CARAVANS | - | - | 109 231.99 | - | - |
| SEDAN | - | - | 532 698.78 | 101 304.46 | 274 158.78 |
| LEASED FURNITURE AND OFFICE EQUIPMENT | - | 2 245 797.85 | 25 410.56 | - | - |
| COMPUTER SOFTWARE AND APPLICATIONS | 782 780.87 | - | 223 139.30 | 678 177.37 | 35 919.25 |
| **TOTAL** | **6 881 859.96** | **3 251 995.85** | **24 212 137.96** | **12 255 969.71** | **5 950 669.92** |

| OTHER ASSETS REMAINING USEFUL LIFE | RUL 6 | RUL 7 | RUL 8 | RUL 9 | RUL 10+ |
|---|---|---|---|---|---|
| **ASSET CATEGORY** | **2025/2026** | **2026/2027** | **2027/2028** | **2028/2029** | **2029+** |
| **COMPUTER EQUIPMENT** | | | | | |
| COMPUTER EQUIPMENT | 1 703 196.99 | 1 428 991.94 | 712 622.18 | 81 112.52 | 1 356 238.36 |
| **FURNITURE AND OFFICE EQUIPMENT** | | | | | |
| MISCELLANEOUS | 606 292.08 | 67 849.91 | 645 911.05 | 167 111.26 | 2 221 270.66 |
| TABLES/DESKS | 46 484.44 | 249 394.29 | 636 478.83 | 1 570 334.44 | 31 129.66 |
| CHAIRS | 33 303.56 | 158 028.92 | 463 522.31 | 17 151.02 | 31 194.82 |
| CABINETS/CUPBOARDS | 51 297.94 | 106 965.81 | 655 228.39 | 539 055.15 | 39 512.05 |
| AIR CONDITIONERS | 303 134.90 | 366 093.00 | 60 955.51 | - | - |
| **MACHINERY AND EQUIPMENT** | | | | | |
| MACHINERY AND EQUIPMENT | 245 298.49 | 199 790.89 | 995 201.39 | 37 935.48 | 831 356.95 |
| **TRANSPORT ASSETS** | | | | | |
| TRAILERS | - | - | - | - | - |
| VEHICLE EQUIPMENT | 7 124.11 | - | - | 1 519.67 | - |
| LDV | - | - | 2 132 786.58 | - | - |
| MOTORCYCLES | - | - | - | - | - |
| SPECIALISED VEHICLES | - | 2 076 651.51 | - | - | 7 466 966.44 |
| MINIBUS | - | - | - | - | - |
| TRACTORS | - | - | - | - | - |
| CARAVANS | - | - | - | - | - |
| SEDAN | - | - | - | - | 1 082 314.19 |
| LEASED FURNITURE AND OFFICE EQUIPMENT | - | - | - | - | - |
| COMPUTER SOFTWARE AND APPLICATIONS | 7 538 459.98 | - | - | - | 1 675 634.27 |
| **TOTAL** | **10 534 592.50** | **4 653 766.27** | **6 302 706.25** | **2 414 219.54** | **14 735 617.40** |

# 6. CONDITIONS RATING OF THE ASSETS

A standardised condition rating was used to provide an indication of the physical condition of the assessed assets. Table 4 below is accepted as the industry standard generic five-point grading system used to allocate a condition grade to each asset.

*Table 4: Standard Conditions Rating*

| Condition | Description | Degree of replacement | Maintenance required | Indicative RUL |
|---|---|---|---|---|
| 1 | Very Good- New or Excellent Condition | 0% | Normal Preventative Maintenance | 71-100% EU |
| 2 | Good – Minor defects only | 5% | Normal Preventative Maintenance<br>Minor Corrective Maintenance | 46-70% EUL |
| 3 | Fair – Moderate deterioration | 10-20% | Normal Preventative Maintenance<br>Major Corrective Maintenance | 26-45% EUL |
| 4 | Poor – Significant deterioration | 20-50% | Rehabilitation, if possible | 11-25% EUL |
| 5 | Very Poor – virtually unserviceable | 50-100% | Replace | 0-10% EUL |

*Table 5:Conditions Assessment of Assets*

| OTHER ASSETS | | | | | |
|---|---|---|---|---|---|
| **OTHER ASSETS CONDITIONS** | | | | | |
| ASSET CATEGORY | 1 - VERY GOOD | 2 - GOOD | 3 - FAIR | 4 - POOR | 5 - VERY POOR |
| **COMPUTER EQUIPMENT** | | | | | |
| COMPUTER EQUIPMENT | 4 846 680.10 | 1 090 641.74 | 15 924 819.64 | 245 700.76 | 1 407 728.50 |
| **FURNITURE AND OFFICE EQUIPMENT** | | | | | |
| MISCELLANEOUS | 2 866 695.66 | 251 774.37 | 3 953 175.21 | 145 441.72 | 788 744.34 |
| TABLES/DESKS | 2 499 985.62 | 14 860.82 | 951 451.62 | 94 315.55 | 84 233.44 |
| CHAIRS | 693 373.87 | 319 272.30 | 1 662 595.44 | 112 237.44 | 240 690.79 |
| CABINETS/CUPBOARDS | 1 366 745.81 | 2 358.13 | 1 246 251.84 | 46 093.20 | 15 506.60 |
| AIR CONDITIONERS | 553 354.72 | 57 355.53 | 1 616 597.31 | 52 501.66 | 215 339.72 |
| **MACHINERY AND EQUIPMENT** | | | | | |
| MACHINERY AND EQUIPMENT | 2 424 094.76 | 242 848.31 | 3 860 141.00 | 116 180.59 | 260 583.62 |
| **TRANSPORT ASSETS** | | | | | |
| TRAILERS | - | - | 955 803.57 | 68 674.82 | - |
| VEHICLE EQUIPMENT | 8 643.78 | - | 245 554.40 | 9 074.69 | 26 092.01 |
| LDV | 2 132 786.58 | 142 179.06 | 4 889 075.67 | 166 336.10 | - |
| MOTORCYCLES | - | - | 25 484.52 | - | - |
| SPECIALISED VEHICLES | 7 411 193.54 | - | 7 213 721.33 | 252 818.70 | 1 760 853.22 |
| MINIBUS | - | - | 226 459.28 | - | - |
| TRACTORS | - | - | 83 384.71 | - | - |
| CARAVANS | - | - | 109 231.99 | - | - |
| SEDAN | 1 082 314.19 | - | 908 162.01 | - | - |
| **LEASED ASSETS** | | | | | |
| FURNITURE AND OFFICE EQUIPMENT | 230 489.50 | 1 921 109.38 | 119 609.54 | - | - |
| COMPUTER SOFTWARE AND APPLICATIONS | - | 72 458.92 | 10 840 922.57 | - | 20 729.56 |
| **TOTAL** | **26 116 358.11** | **4 114 858.57** | **54 832 441.66** | **1 309 375.21** | **4 820 501.80** |

### *Table 6: Conditions Assessed per Item per Year*

| OTHER ASSETS REMAINING USEFUL LIFE | RUL 1 | RUL 2 | RUL 3 | RUL 4 | RUL 5 |
|---|---|---|---|---|---|
| **ASSET CATEGORY** | **2020/2021** | **2021/2022** | **2022/2023** | **2023/2024** | **2024/2025** |
| **COMPUTER EQUIPMENT** | | | | | |
| COMPUTER EQUIPMENT | | | | | |
| 1 - VERY GOOD | - | - | 18 156.09 | - | 1 579 428.90 |
| 2 - GOOD | - | - | 878 356.78 | 179 662.00 | 15 507.19 |
| 3 - FAIR | 336 537.38 | 99 234.07 | 11 275 518.06 | 1 803 132.94 | 484 746.10 |
| 4 - POOR | 91 035.25 | 37 448.81 | 26 916.69 | - | - |
| 5 - VERY POOR | 1 405 561.42 | - | 2 167.07 | - | - |
| **FURNITURE AND OFFICE EQUIPMENT** | | | | | |
| MISCELLANEOUS | | | | | |
| 1 - VERY GOOD | | 18 470.47 | 87 665.10 | | 41 873.12 |
| 2 - GOOD | | | 11 353.87 | 51 071.74 | 108 111.17 |
| 3 - FAIR | 59 997.77 | 49 381.16 | 1 721 388.42 | 1 050 507.67 | 172 779.33 |
| 4 - POOR | 70 677.72 | 59 868.54 | 5 505.91 | | |
| 5 - VERY POOR | 788 744.34 | | | | |
| TABLES/DESKS | | | | | |
| 1 - VERY GOOD | | | | | 5 659.19 |
| 2 - GOOD | | | | 9 370.22 | 5 490.60 |
| 3 - FAIR | 10 285.12 | 2 143.44 | 719 452.66 | 138 230.21 | 41 844.97 |
| 4 - POOR | 29 991.50 | 63 754.60 | 569.44 | | |
| 5 - VERY POOR | 84 233.44 | | | | |
| CHAIRS | | | | | |
| 1 - VERY GOOD | | | | 473.43 | 14 914.69 |
| 2 - GOOD | | | 17 129.07 | 186 733.21 | 98 097.39 |
| 3 - FAIR | 13 957.21 | 20 765.59 | 640 020.35 | 731 403.42 | 248 546.61 |
| 4 - POOR | 40 120.65 | 71 084.03 | 1 032.76 | | |
| 5 - VERY POOR | 239 272.25 | 1 418.54 | | | |
| CABINETS/CUPBOARDS | | | | | |
| 1 - VERY GOOD | | | | | 1 265.08 |
| 2 - GOOD | | | 2 358.13 | | |
| 3 - FAIR | 10 721.08 | | 900 054.96 | 248 061.82 | 66 428.58 |
| 4 - POOR | 27 327.17 | 13 172.82 | | | |
| 5 - VERY POOR | 15 506.60 | | | | |
| AIR CONDITIONERS | | | | | |
| 1 - VERY GOOD | | | | | |
| 2 - GOOD | | | 22 136.34 | 23 132.48 | 12 086.72 |
| 3 - FAIR | 17 061.78 | | 570 026.32 | 792 790.83 | 72 520.31 |
| 4 - POOR | 10 135.46 | 42 366.20 | | | |
| 5 - VERY POOR | 202 709.10 | | | | |
| **MACHINERY AND EQUIPMENT** | | | | | |
| MACHINERY AND EQUIPMENT | | | | | |
| 1 - VERY GOOD | - | 7 251.97 | - | 15 796.35 | 279 031.84 |
| 2 - GOOD | - | - | 2 515.00 | 19 967.45 | 196 572.18 |
| 3 - FAIR | 87 098.79 | 196 028.53 | 1 928 605.92 | 1 388 283.79 | 96 349.05 |
| 4 - POOR | 59 177.40 | 51 935.74 | 5 067.45 | | |
| 5 - VERY POOR | 260 583.62 | - | - | | |

| OTHER ASSETS REMAINING USEFUL LIFE | RUL 6 | RUL 7 | RUL 8 | RUL 9 | RUL 10+ |
|---|---|---|---|---|---|
| **ASSET CATEGORY** | **2025/2026** | **2026/2027** | **2027/2028** | **2028/2029** | **2029+** |
| **COMPUTER EQUIPMENT** | | | | | |
| COMPUTER EQUIPMENT | | | | | |
| 1 - VERY GOOD | 186 342.65 | 923 961.86 | 708 286.89 | 74 265.36 | 1 356 238.36 |
| 2 - GOOD | 17 115.77 | - | - | - | - |
| 3 - FAIR | 1 409 438.55 | 505 030.08 | 4 335.29 | 6 847.17 | - |
| 4 - POOR | 90 300.02 | - | - | - | - |
| 5 - VERY POOR | - | - | - | - | - |
| **FURNITURE AND OFFICE EQUIPMENT** | | | | | |
| MISCELLANEOUS | | | | | |
| 1 - VERY GOOD | 226 596.09 | 67 849.91 | 623 646.61 | 167 111.26 | 1 633 483.09 |
| 2 - GOOD | 81 237.59 | | | | |
| 3 - FAIR | 289 068.85 | | 22 264.44 | | 587 787.57 |
| 4 - POOR | 9 389.55 | | | | |
| 5 - VERY POOR | | | | | |
| TABLES/DESKS | | | | | |
| 1 - VERY GOOD | 12 991.35 | 249 394.29 | 630 476.70 | 1 570 334.44 | 31 129.66 |
| 2 - GOOD | | | | | |
| 3 - FAIR | 33 493.09 | | 6 002.13 | | |
| 4 - POOR | | | | | |
| 5 - VERY POOR | | | | | |
| CHAIRS | | | | | |
| 1 - VERY GOOD | 8 088.66 | 158 028.92 | 463 522.31 | 17 151.02 | 31 194.82 |
| 2 - GOOD | 17 312.63 | | | | |
| 3 - FAIR | 7 902.27 | | | | |
| 4 - POOR | | | | | |
| 5 - VERY POOR | | | | | |
| CABINETS/CUPBOARDS | | | | | |
| 1 - VERY GOOD | 25 701.56 | 106 965.81 | 654 246.16 | 539 055.15 | 39 512.05 |
| 2 - GOOD | | | | | |
| 3 - FAIR | 20 003.17 | | 982.23 | | |
| 4 - POOR | 5 593.21 | | | | |
| 5 - VERY POOR | | | | | |
| AIR CONDITIONERS | | | | | |
| 1 - VERY GOOD | 126 306.21 | 366 093.00 | 60 955.51 | | |
| 2 - GOOD | | | | | |
| 3 - FAIR | 164 198.07 | | | | |
| 4 - POOR | | | | | |
| 5 - VERY POOR | 12 630.62 | | | | |
| **MACHINERY AND EQUIPMENT** | | | | | |
| MACHINERY AND EQUIPMENT | | | | | |
| 1 - VERY GOOD | 83 846.49 | 175 188.53 | 995 201.39 | 37 935.48 | 829 842.71 |
| 2 - GOOD | 23 793.68 | | | | - |
| 3 - FAIR | 137 658.32 | 24 602.36 | | | 1 514.24 |
| 4 - POOR | | | | | - |
| 5 - VERY POOR | | | | | - |

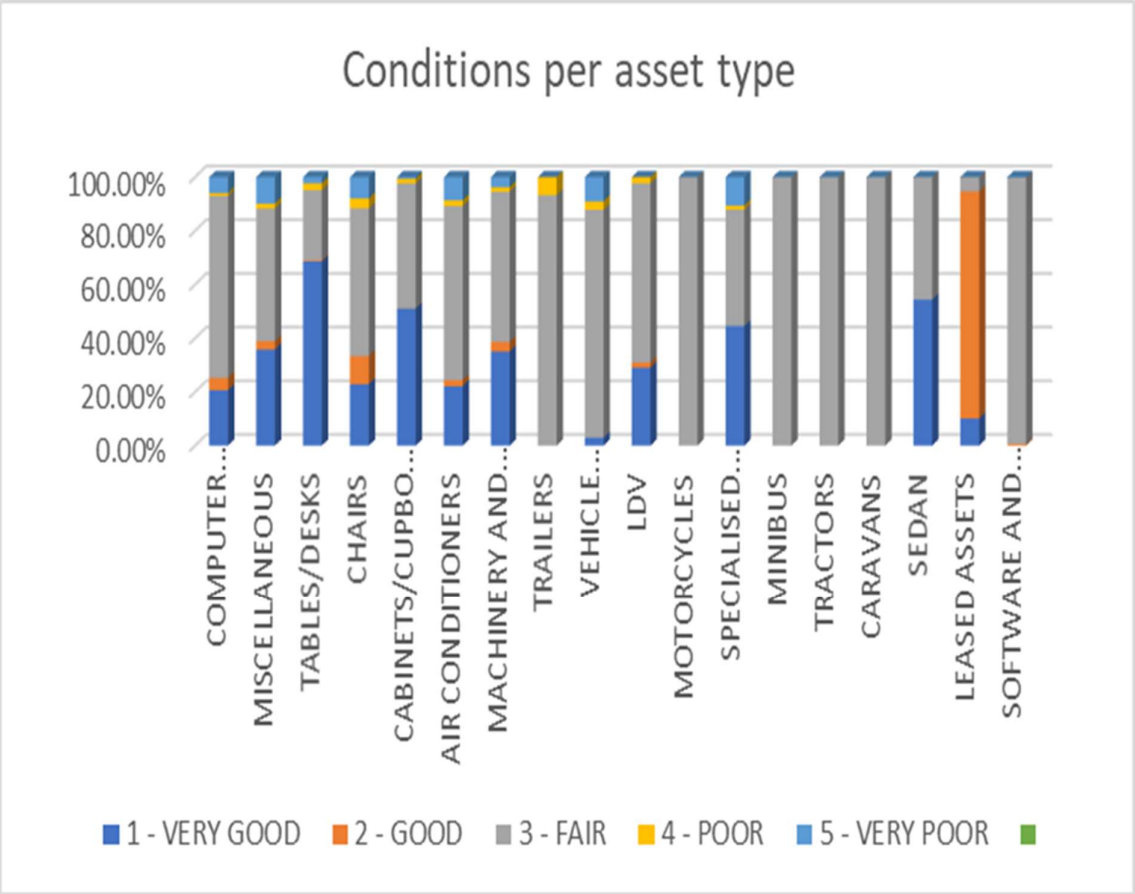
| OTHER ASSETS REMAINING USEFUL LIFE | RUL 1 | RUL 2 | RUL 3 | RUL 4 | RUL 5 |
|---|---|---|---|---|---|
| **TRANSPORT ASSETS** | | | | | |
| TRAILERS | | | | | |
| 1 - VERY GOOD | | | | | |
| 2 - GOOD | | | | | |
| 3 - FAIR | 17 660.50 | | 633 582.98 | 272 695.19 | 31 864.90 |
| 4 - POOR | 58 228.38 | 10 446.44 | | | |
| 5 - VERY POOR | | | | | |
| VEHICLE EQUIPMENT | | | | | |
| 1 - VERY GOOD | | | | | |
| 2 - GOOD | | | | | |
| 3 - FAIR | 4 454.39 | 49 555.19 | 80 716.95 | 110 827.88 | |
| 4 - POOR | 5 483.12 | 1 756.27 | 1 835.30 | | |
| 5 - VERY POOR | 26 092.01 | | | | |
| LDV | | | | | |
| 1 - VERY GOOD | | | | | |
| 2 - GOOD | | | | | |
| 3 - FAIR | 17 399.25 | 139 133.96 | 551 837.45 | 3 794 637.85 | 386 067.16 |
| 4 - POOR | | | | 142 179.06 | |
| 5 - VERY POOR | 95 354.48 | 70 981.63 | | | |
| MOTORCYCLES | | | | | |
| 1 - VERY GOOD | | | | | |
| 2 - GOOD | | | | | |
| 3 - FAIR | | | 25 484.52 | | |
| 4 - POOR | | | | | |
| 5 - VERY POOR | | | | | |
| SPECIALISED VEHICLES | | | | | |
| 1 - VERY GOOD | | | | | |
| 2 - GOOD | | | | | |
| 3 - FAIR | | | 3 192 203.75 | 207 686.37 | 1 681 406.80 |
| 4 - POOR | 252 818.70 | | | | |
| 5 - VERY POOR | 1 760 853.22 | | | | |
| MINIBUS | | | | | |
| 1 - VERY GOOD | | | | | |
| 2 - GOOD | | | | | |
| 3 - FAIR | | | | 226 459.28 | |
| 4 - POOR | | | | | |
| 5 - VERY POOR | | | | | |
| TRACTORS | | | | | |
| 1 - VERY GOOD | | | | | |
| 2 - GOOD | | | | | |
| 3 - FAIR | | | | 83 384.71 | |
| 4 - POOR | | | | | |
| 5 - VERY POOR | | | | | |
| CARAVANS | | | | | |
| 1 - VERY GOOD | | | | | |
| 2 - GOOD | | | | | |
| 3 - FAIR | | | 109 231.99 | | |
| 4 - POOR | | | | | |
| 5 - VERY POOR | | | | | |
| SEDAN | | | | | |
| 1 - VERY GOOD | | | | | |
| 2 - GOOD | | | | | |
| 3 - FAIR | | | 532 698.78 | 101 304.46 | 274 158.78 |
| 4 - POOR | | | | | |
| 5 - VERY POOR | | | | | |
| FURNITURE AND OFFICE EQUIPMENT (LEASED) | | | | | |
| 1 - VERY GOOD | - | 205 078.94 | 25 410.56 | - | - |
| 2 - GOOD | - | 1 921 109.38 | - | - | - |
| 3 - FAIR | - | 119 609.54 | - | - | - |
| 4 - POOR | - | - | - | - | - |
| 5 - VERY POOR | - | - | - | - | - |
| COMPUTER SOFTWARE AND APPLICATIONS | | | | | |
| 1 - VERY GOOD | - | - | - | - | - |
| 2 - GOOD | - | - | 60 003.82 | - | 12 455.10 |
| 3 - FAIR | 762 051.31 | - | 163 135.48 | 678 177.37 | 23 464.15 |
| 4 - POOR | - | - | - | - | - |
| 5 - VERY POOR | 20 729.56 | - | - | - | - |
| **TOTAL** | **6 881 859.96** | **3 251 995.85** | **24 212 137.96** | **12 255 969.71** | **5 950 669.92** |

| OTHER ASSETS REMAINING USEFUL LIFE | RUL 6 | RUL 7 | RUL 8 | RUL 9 | RUL 10+ |
|---|---|---|---|---|---|
| **TRANSPORT ASSETS** | | | | | |
| TRAILERS | | | | | |
| 1 - VERY GOOD | | | | | |
| 2 - GOOD | | | | | |
| 3 - FAIR | | | | | |
| 4 - POOR | | | | | |
| 5 - VERY POOR | | | | | |
| VEHICLE EQUIPMENT | | | | | |
| 1 - VERY GOOD | 7 124.11 | | | 1 519.67 | |
| 2 - GOOD | | | | | |
| 3 - FAIR | | | | | |
| 4 - POOR | | | | | |
| 5 - VERY POOR | | | | | |
| LDV | | | | | |
| 1 - VERY GOOD | | | 2 132 786.58 | | |
| 2 - GOOD | | | | | |
| 3 - FAIR | | | | | |
| 4 - POOR | | | | | |
| 5 - VERY POOR | | | | | |
| MOTORCYCLES | | | | | |
| 1 - VERY GOOD | | | | | |
| 2 - GOOD | | | | | |
| 3 - FAIR | | | | | |
| 4 - POOR | | | | | |
| 5 - VERY POOR | | | | | |
| SPECIALISED VEHICLES | | | | | |
| 1 - VERY GOOD | | 2 076 651.51 | | | 5 334 542.02 |
| 2 - GOOD | | | | | |
| 3 - FAIR | | | | | 2 132 424.42 |
| 4 - POOR | | | | | |
| 5 - VERY POOR | | | | | |
| MINIBUS | | | | | |
| 1 - VERY GOOD | | | | | |
| 2 - GOOD | | | | | |
| 3 - FAIR | | | | | |
| 4 - POOR | | | | | |
| 5 - VERY POOR | | | | | |
| TRACTORS | | | | | |
| 1 - VERY GOOD | | | | | |
| 2 - GOOD | | | | | |
| 3 - FAIR | | | | | |
| 4 - POOR | | | | | |
| 5 - VERY POOR | | | | | |
| CARAVANS | | | | | |
| 1 - VERY GOOD | | | | | |
| 2 - GOOD | | | | | |
| 3 - FAIR | | | | | |
| 4 - POOR | | | | | |
| 5 - VERY POOR | | | | | |
| SEDAN | | | | | |
| 1 - VERY GOOD | | | | | 1 082 314.19 |
| 2 - GOOD | | | | | |
| 3 - FAIR | | | | | |
| 4 - POOR | | | | | |
| 5 - VERY POOR | | | | | |
| FURNITURE AND OFFICE EQUIPMENT (LEASED) | | | | | |
| 1 - VERY GOOD | - | - | - | - | - |
| 2 - GOOD | - | - | - | - | - |
| 3 - FAIR | - | - | - | - | - |
| 4 - POOR | - | - | - | - | - |
| 5 - VERY POOR | - | - | - | - | - |
| COMPUTER SOFTWARE AND APPLICATIONS | | | | | |
| 1 - VERY GOOD | - | - | - | - | - |
| 2 - GOOD | - | - | - | - | - |
| 3 - FAIR | 7 538 459.98 | - | - | - | 1 675 634.27 |
| 4 - POOR | - | - | - | - | - |
| 5 - VERY POOR | - | - | - | - | - |
| **TOTAL** | **10 534 592.50** | **4 653 766.27** | **6 302 706.25** | **2 414 219.54** | **14 735 617.40** |

Table 5 is a reflection of all the assets' conditions as assessed and noted in the Asset Register and Table 6 illustrates the further analysis of the conditions per asset type per year.

Graph 1 is an illustration that graphically indicates the state of the assets per type. The visual impression from the graph is that the majority of the assets are in the range of fair to very good condition and the assets with poor to very poor conditions are a very small minority.

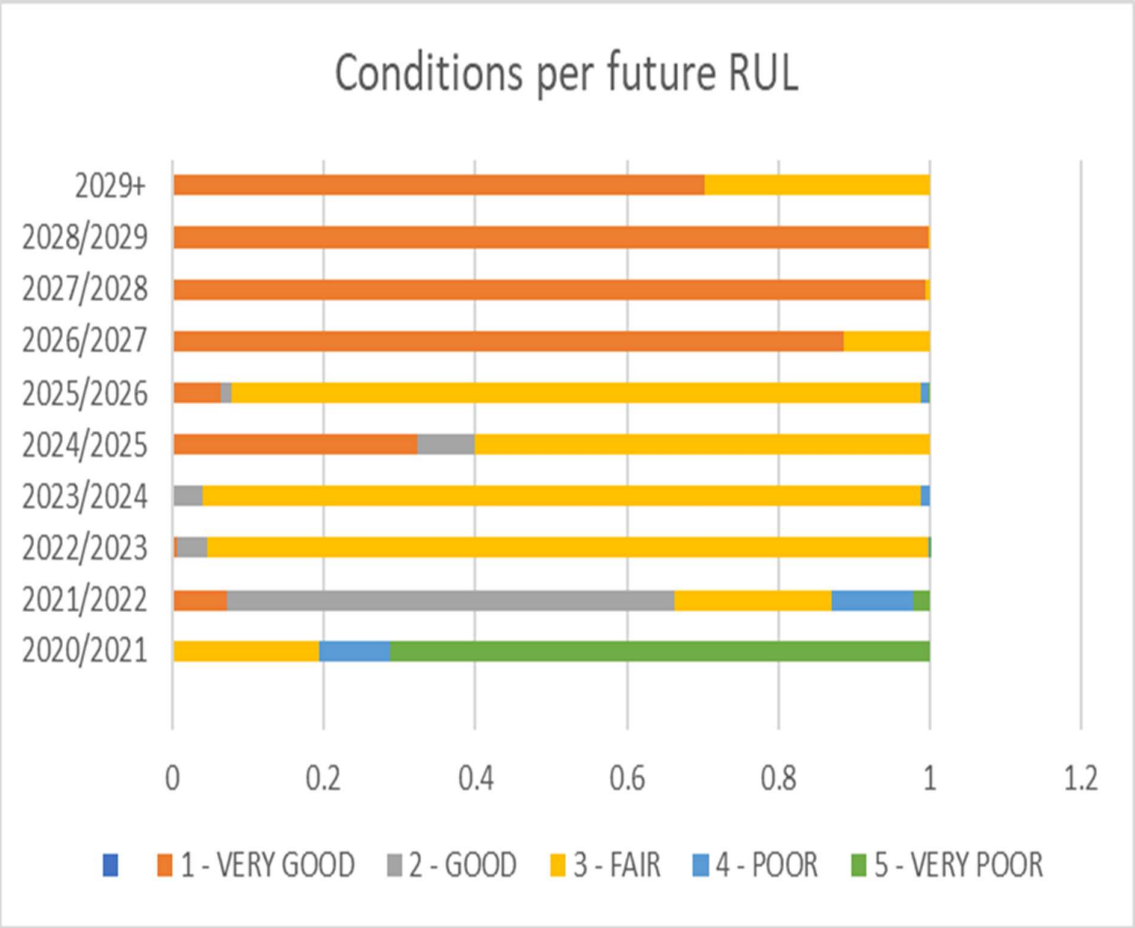
This indicates that the assets are regularly, timeously and properly maintained.




***Graph 1: Graphic Illustration of Asset Conditions per Type***

***Table 7: Summary of Conditions per Year***

| Conditions | | 2020/2021 | 2021/2022 | 2022/2023 | 2023/2024 | 2024/2025 | 2025/2026 | 2026/2027 | 2027/2028 | 2028/2029 | 2029+ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | |
| 1 - VERY GOOD | | 0 | 230 801 | 131 232 | 16 270 | 1 922 173 | 676 997 | 4 124 134 | 6 269 122 | 2 407 372 | 10 338 257 |
| 2 - GOOD | | 0 | 1 921 109 | 993 853 | 469 937 | 448 320 | 139 460 | 0 | 0 | 0 | 0 |
| 3 - FAIR | | 1 337 225 | 675 851 | 23 043 959 | 11 627 584 | 3 580 177 | 9 600 222 | 529 632 | 33 584 | 6 847 | 4 397 361 |
| 4 - POOR | | 644 995 | 351 833 | 40 928 | 142 179 | 0 | 105 283 | 0 | 0 | 0 | 0 |
| 5 - VERY POOR | | 4 899 640 | 72 400 | 2 167 | 0 | 0 | 12 631 | 0 | 0 | 0 | 0 |
| | | | | | | | | | | | |
| **Total** | | **6 881 860** | **3 251 996** | **24 212 138** | **12 255 970** | **5 950 670** | **10 534 592** | **4 653 766** | **6 302 706** | **2 414 220** | **14 735 617** |




*Graph 2: Graphic Illustration of Asset Conditions per Future RUL*

*Table 8: Summary of Conditions per Future RUL*

| Conditions | | 2020/2021 | 2021/2022 | 2022/2023 | 2023/2024 | 2024/2025 | 2025/2026 | 2026/2027 | 2027/2028 | 2028/2029 | 2029+ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | |
| 1 - VERY GOOD | | 0.00% | 7.10% | 0.54% | 0.13% | 32.30% | 6.43% | 88.62% | 99.47% | 99.72% | 70.16% |
| 2 - GOOD | | 0.00% | 59.07% | 4.10% | 3.83% | 7.53% | 1.32% | 0.00% | 0.00% | 0.00% | 0.00% |
| 3 - FAIR | | 19.43% | 20.78% | 95.18% | 94.87% | 60.16% | 91.13% | 11.38% | 0.53% | 0.28% | 29.84% |
| 4 - POOR | | 9.37% | 10.82% | 0.17% | 1.16% | 0.00% | 1.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| 5 - VERY POOR | | 71.20% | 2.23% | 0.01% | 0.00% | 0.00% | 0.12% | 0.00% | 0.00% | 0.00% | 0.00% |

From the content in Graph 1 and 2 and Table 7 and 8, the following conclusions can be drawn:

**Firstly, to understand the above, it must be emphasized that the matrix of the conditions reflects the present conditions of the future remaining useful lives of the assets at future discounted prices in an effort to predict what the future replacement cost would be forecasted as for planning purposes and is not exact amounts.**

- **Assets with poor to very poor condition ratings for the outer years are immaterial with the result that the assets would most probably be operational for its total useful life period and that no early replacements are applicable.**
- **That for the 2020/21 year, no assets with a good to very good rating is indicated with the result that no assets seem to be in such conditions to extend its operational period.**
- **Assets with poor to very poor conditions, tend to be applicable at the year where the useful lives' periods lapsed**

**Conclusion**

**The total amount as indicated per RUL year in the matrix is a fair and realistic forecast as replacement values for the assets and can be used for planning purposes in the Long-Term Financial Plan.**

# APPENDIX 6 – LANDFILL SITE AS A SERVICE CONSESSION AGREEMENT - ACCOUNTING TREATMENT

After studying the content of the Public Private Partnership agreement between the Municipality and EDEN WASTE MANAGEMENT (RF) PROPRIETARY LIMITED, it is clear that the agreement meets all the criteria pertaining to GRAP 32 to recognise the landfill site as a service concession asset and liability.

In this appendix, the following is highlighted:

- quoting the applicable GRAP standards,
- application of the standards for the current financial information, and
- indication of the accounting entries

## 1. GRAP STANDARDS APPLICABLE (IGRAP 17 AND GRAP 32)

The following excerpts in terms of the standard are applicable and applied as guideline for the determination of the Service Concession Asset on the one hand and the Long-term Liability (Unpaid Asset) on the other hand:

- A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.
- The Standard of GRAP on Service Concession Arrangements: Grantor (GRAP 32) requires the grantor to recognise a service concession asset provided by the operator and an upgrade to an existing asset of the grantor if:
  a) the grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and
  b) the grantor controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the term of the arrangement.
- If the grantor controls a significant residual interest in a service concession asset at the end of the service concession arrangement through ownership, beneficial entitlement or otherwise, and the arrangement does not constitute a finance or an operating lease, the grantor needs to recognise its right to receive the residual interest (i.e. a receivable) in the service concession asset at the commencement of the arrangement.
- In terms of the Standard of GRAP on Revenue from Exchange Transactions (GRAP 9), the exchange consideration shall be recognised and measured at fair value. The value of the receivable (the right to the residual interest in the asset), receivable at the end of the service concession arrangement, shall reflect the value of the service concession asset as if it were already in the age and in the condition expected at the end of the service concession arrangement.

- The type of compensation exchanged between the grantor and the operator affects how the fair value of the service concession asset is determined on initial recognition. Where payments are made by the grantor to the operator, the fair value on initial recognition of the asset represents the portion of the payments paid to the operator for the asset.
- GRAP 16, GRAP 17, GRAP 31 and GRAP 103 require initial measurement of an asset acquired in an exchange transaction at cost, which is the cash price equivalent of the asset. For exchange transactions, the transaction price is considered to be fair value, unless indicated otherwise. Where the asset and service components of payments are separable, the cash price equivalent of the service concession asset is the present value of the service concession asset component of the payments.
- When the grantor recognises the right to receive a residual interest in the service concession asset, the grantor shall also recognise its performance obligation for granting the operator access to the service concession asset in accordance with the substance of the arrangement. The value of the performance obligation shall be the same as the receivable interest recognised at the commencement of the service concession arrangement.
- Where the grantor recognises a service concession asset, the grantor shall also recognise a liability. The liability recognised shall be initially measured at the same amount as the service concession asset.
- Where the grantor has an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition or upgrade of a service concession asset, the grantor shall account for the liability recognised.
- The grantor shall allocate the payments to the operator and account for them according to their substance as a reduction in the liability recognised, a finance charge, and charges for services provided by the operator.
- The finance charge and charges for services provided by the operator in a service concession arrangement determined shall be accounted for as expenses.
- If the present value of the asset portion of the payments is greater than fair value, the service concession asset is initially measured at its fair value.
- After initial recognition, a grantor applies GRAP 16, GRAP 17, GRAP 31 and GRAP 103 to the subsequent measurement and derecognition of a service concession asset. For the purposes of applying GRAP 16, GRAP 17, GRAP 31 and GRAP 103, service concession assets should be treated as a separate class of assets. GRAP 21 and GRAP 26 are also applied in considering whether there is any indication that a service concession asset is impaired. These requirements in these Standards are applied to all assets recognised or classified as service concession assets in accordance with this Standard.
- When the liability is recognised, the grantor provides compensation to the operator for the cost of the service concession asset and service provision in the form of a predetermined series of payments, an amount reflecting the portion of the predetermined series of payments that pertains to the asset is recognised as a liability. This liability does not include the finance charge and service components of the payments.

- The PPP Guideline required the grantor to apply the principles in GRAP 104 in calculating the finance charge portion under the financial liability model. GRAP 104 requires an entity to determine a market-related interest rate by considering the type of transaction and the counterparty involved. This means that an entity would use a rate for a similar transaction with similar terms, adjusted for the credit risk of the counterparty involved.

# 2. APPLICATION OF GRAP STANDARDS (CURRENT FINANCIAL INFORMATION)

## 2.1. Service Concession Asset

In terms of the Standard of GRAP on Revenue from Exchange Transactions (GRAP 9), the exchange consideration shall be recognised and **measured at fair value**. The value of the receivable (the right to the residual interest in the asset), receivable at the end of the service concession arrangement, shall reflect the value of the service concession asset as if it were already in the age and in the condition expected at the end of the service concession arrangement.

The type of compensation exchanged between the grantor and the operator affects how **the fair value** of the service concession asset is determined upon initial recognition. Where payments are made by the grantor to the operator, the fair value on initial recognition of the asset represents the portion of the payments paid to the operator for the asset.

GRAP 16, GRAP 17, GRAP 31 and GRAP 103 require initial measurement of an asset acquired in an exchange transaction at cost, which is the cash price equivalent of the asset. For exchange transactions, the transaction price is considered to be fair value, unless indicated otherwise. Where the asset and service components of **payments are separable**, the **cash price equivalent** of the service concession asset is the **present value** of the service concession asset **component of the payments.**

Below is a schedule (Table 1) of payments payable by the grantor to the operator in terms of the payment mechanism conditions of the PPP agreement (this schedule was presented by the municipality).

### *Table 1: Summary of the Cost Structure – Presented by Garden Route Municipality*

| EDM REGIONAL LANDFILL | | | | | | | |
|---|---|---|---|---|---|---|---|
| PRICE SCHEDULE ADJUSTMENTS - as amended 06/2018 | | Option A: 10-Years and 12m height | | | | | |
| ITEM | DESCRIPTION | Monthly quantity (ton) for bidding purposes | Total | Mossel Bay | George | Knysna | Bitou |
| | Monthly tonnages split | | 8 500 | 2 500 | 3 350 | 1 800 | 850 |
| | Monthly tonnages percentage split | | 100% | 29% | 39% | 21% | 10% |
| A.1 | FIXED PORTION OF UNITARY FEE FOR ALL DISPOSAL SITE AND RELATED OPERATIONS | | | | | | |
| | Contractual requirements (includes all costs required to deliver/undertake the Service as per Technical Specifications including the Briefing Note 1 instructions) | | | | | | |
| A.1.1 | Mossel Bay Regional Landfill Site - General waste only | 8 500 | R 35 660 408 | R 10 488 355 | R 14 054 396 | R 7 551 616 | R 3 566 041 |
| A.1.2 | Transport of Waste from George | 3 350 | R 4 557 600 | R 0 | R 4 557 600 | R 0 | R 0 |
| A.1.3 | Transport of Waste from Knysna | 1 800 | R 0 | R 0 | R 0 | R 0 | R 0 |
| A.1.4 | Transport of waste from Hessequa | 672 | R 0 | R 0 | R 0 | R 0 | R 0 |
| A.1.5 | Transport of waste from Uniondale | 175 | R 569 700 | R 0 | R 569 700 | R 0 | R 0 |
| A.1.6 | Chipping | 7 146 | R 3 903 780 | R 1 275 745 | R 1 709 499 | R 918 537 | R 0 |
| A.1.7 | Mossel Bay Regional Landfill Site – Hazardous waste only | 5 | R 4 473 449 | R 1 315 720 | R 1 763 065 | R 947 319 | R 447 345 |
| A.1.8 | Crushing of Builders Rubble | 13 764 | R 2 507 346 | R 1 071 515 | R 1 435 830 | R 0 | R 0 |
| A.1 | SUBTOTAL A.1 (carried forward to summary) | | R 51 672 283 | R 14 151 336 | R 24 090 090 | R 9 417 471 | R 4 013 386 |
| | | | | | | | |
| A.2 | VARIABLE PORTION OF UNITARY FEE FOR ALL DISPOSAL SITE AND RELATED OPERATIONS | | | | | | |
| | Contractual requirements (includes all costs required to deliver/undertake the Service as per Technical Specifications including the Briefing Note 1 instructions) | | | | | | |
| A.2.1 | Mossel Bay Regional Landfill Site - General waste only | 8 500 | R 2 001 267 | R 588 607.8 | R 788 734.5 | R 423 797.6 | R 200 126.7 |
| A.2.2 | Transport of Waste from George | 3 350 | R 2 213 792 | R 0 | R 2 213 792 | R 0 | R 0 |
| A.2.3 | Transport of Waste from Knysna | 1 800 | R 0 | R 0 | R 0 | R 0 | R 0 |
| A.2.4 | Transport of waste from Hessequa | 672 | R 0 | R 0 | R 0 | R 0 | R 0 |
| A.2.5 | Transport of waste from Uniondale | 0 | R 0 | R 0 | R 0 | R 0 | R 0 |
| A.2.6 | Chipping | 7 146 | R 1 882 004 | R 615 034 | R 824 146 | R 442 824 | R 0 |
| A.2.7 | Mossel Bay Regional Landfill Site – Hazardous waste only | 5 | R 0 | R 0.0 | R 0.0 | R 0.0 | R 0.0 |
| A.2.8 | Crushing of Builders Rubble | 13 764 | R 1 509 797 | R 645 212 | R 864 584 | R 0 | R 0 |
| A.2 | SUBTOTAL A.2 (carried forward to summary) | | R 7 606 859 | R 1 848 854 | R 4 691 256 | R 866 622 | R 200 127 |
| A.1 +A.2 | SUBTOTAL A.1 plus A.2 | | R 59 279 142 | R 16 000 190 | R 28 781 347 | R 10 284 093 | R 4 213 512 |
| | Rehabilitation fund | | R 1 266 149 | R 372 397 | R 499 012 | R 268 126 | R 126 615 |
| | SUBTOTAL INCLUDING REHABILITATION FUND | | R 60 545 291 | R 16 372 587 | R 29 280 358 | R 10 552 219 | R 4 340 127 |
| | Eden administration fee | 10% | R 6 054 529 | R 1 637 259 | R 2 928 036 | R 1 055 222 | R 434 013 |
| | SUBTOTAL INCLUDING EDEN ADMINISTRATION FEE | | R 66 599 820 | R 18 009 846 | R 32 208 394 | R 11 607 441 | R 4 774 140 |
| | Plus 15% VAT | 15% | R 8 891 871 | R 2 400 029 | R 4 317 202 | R 1 542 614 | R 632 027 |
| | TOTAL COST OPTION A (YEAR 2) (INCLUDING VAT) | | R 75 491 691 | R 20 409 874 | R 36 525 596 | R 13 150 055 | R 5 406 167 |

The components determining the fixed price in terms of the PPP agreement involves the following:

- Availability of the project site
- Transport cost
- Chipping cost
- Crushing cost

*Table 2: Separable Portion – Projected Fixed Cost*

| Year | 5.1% Escalation | Accumulated Fixed Cost |
|---|---|---|
| **2020/21** | | R51 672 283 |
| **2021/22** | R2 635 286 | R54 307 570 |
| **2022/23** | R2 769 686 | R57 077 256 |
| **2023/24** | R2 910 940 | R59 988 196 |
| **2024/25** | R3 059 398 | R63 047 594 |
| **2025/26** | R3 215 427 | R66 263 021 |
| **2026/27** | R3 379 414 | R69 642 435 |
| **2027/28** | R3 551 764 | R73 194 199 |
| **2028/29** | R3 732 904 | R76 927 104 |
| **2029/30** | R3 923 282 | R80 850 386 |
| **Total** | R29 178 103 | R652 970 043 |

From the information reflected in Table 2 above, the total annual fixed cost payable to the operator amounts to R51 672 283. In terms of the PPP agreement, the payments are subjected to escalation at 5.1% per annum. The total escalated value in year 10 amounting to R80 850 386 and the projected total cost in payments for the 10-year period amounting to R652 4970 043 are set out in table 2.

The service components of payments are separable, therefore the cash price equivalent of the service concession asset is the present value of the service concession asset component of the total payments of R652 970 043, which amounts to R309 542 631. This present value amount represents the cash price and therefore the fair value of the asset for initial recognition purposes.

## 2.2. Financial liability (Unpaid Asset)

Where the grantor recognises a service concession asset, the grantor shall also recognise a liability. The liability recognised shall be initially measured at the same amount as the service concession asset.

The PPP Guideline requires the grantor to apply the principles in GRAP 104 in **calculating the finance charge portion under the financial liability model.** GRAP 104 requires an entity to determine a market-related interest rate by considering the type of transaction and the counterparty involved. This means that an entity would use a rate for a similar transaction with similar terms, adjusted for the credit risk of the counterparty involved.

The interest rate applied to determine the finance charges portion of the liability is based on the guidelines in terms of Appendix 1, paragraphs 81 to 84 of GRAP 104, which reads as follows:

- The fair value of a financial instrument upon initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received). However, if part of the consideration given or received is for something other than the financial instrument, the fair value of the financial instrument is estimated, using a valuation technique. **For example, the fair value of a long-term loan or similar receivable that carries no**

**interest can be estimated as the present value of all future cash receipts discounted at the prevailing market rate(s) of interest for a similar instrument.**

- An entity determines a market-related interest rate by considering the type of transaction and the counterparty involved. This means that an entity would use a rate for a similar transaction with similar terms, adjusted for the credit risk of the counterparty involved.
- As a convenience, an entity may consider using the prime lending rate as a basis for determining a market-related rate for a group of loans or receivables. For example, the prime lending rate could be used as a basis for determining a market-related interest rate for consumer debtors. The prime lending rate would, however, need to be adjusted for any risks specific to those debtors.

At present, the prime borrowing rate is set at 8.75%. Normally the public sector can borrow from the South African Development Bank at a rate of prime less 1%. Thus, for the purpose of the LTFP, a discount rate of 7.75% is used to determine the present value.

By applying these principles, the present value is equivalent to the Asset value as it is a standard condition of GRAP 32. Therefore, the asset amount already determined amounting to R309 542 631 is discounted to determine the interest (finance charge) portion as reflected in Table 3 below.

***Table 3: Interest Portion (Finance Charge) of the Asset Amount***

| | | | |
|---|---|---|---|
| Interest Rate | | | 7.75% |
| Period in years | | | 10 |
| Present Value (PV) | | | **309 542 631** |
| Payment | | | R45 612 142.32 |
| | | | |
| | | | |
| **Year** | **Interest** | **Capital** | **Amount** |
| 2020/21 | 23 989 554 | 21 622 588 | 287 920 042 |
| 2021/22 | 22 313 803 | 23 298 339 | 264 621 703 |
| 2022/23 | 20 508 182 | 25 103 960 | 239 517 743 |
| 2023/24 | 18 562 625 | 27 049 517 | 212 468 225 |
| 2024/25 | 16 466 287 | 29 145 855 | 183 322 371 |
| 2025/26 | 14 207 484 | 31 404 659 | 151 917 712 |
| 2026/27 | 11 773 623 | 33 838 520 | 118 079 192 |
| 2027/28 | 9 151 137 | 36 461 005 | 81 618 187 |
| 2028/29 | 6 325 410 | 39 286 733 | 42 331 455 |
| 2029/30 | 3 280 688 | 42 331 455 | 0 |
| | | | |
| | **146 578 793** | **309 542 631** | |

# 3. ACCOUNTING ENTRIES

## 3.1. Fixed Cost Apportionment of the Projected Annual Payments to the Operator

As the grantor shall allocate the payments to the operator and account for them according to their substance as a **reduction in the liability recognised, a finance charge**, and charges for services provided by the operator, the amounts apportionment is reflected in Table 4 below.

***Table 4: Separable Portion – Projected Fixed Cost Apportionment***

| Year | Charges for Services | Finance Charge | Unpaid Asset Liability | Total Fixed Cost Recoverable |
|---|---|---|---|---|
| **2020/21** | R6 060 141 | R23 989 554 | R21 622 588 | R51 672 283 |
| **2021/22** | R8 695 428 | R22 313 803 | R23 298 339 | R54 307 570 |
| **2022/23** | R11 465 114 | R20 508 182 | R25 103 960 | R57 077 256 |
| **2023/24** | R14 376 054 | R18 562 625 | R27 049 517 | R59 988 196 |
| **2024/25** | R17 435 452 | R16 466 287 | R29 145 855 | R63 047 594 |
| **2025/26** | R20 650 878 | R14 207 484 | R31 404 659 | R66 263 021 |
| **2026/27** | R24 030 292 | R11 773 623 | R33 838 520 | R69 642 435 |
| **2027/28** | R27 582 057 | R9 151 137 | R36 461 005 | R73 194 199 |
| **2028/29** | R31 314 961 | R6 325 410 | R39 286 733 | R76 927 104 |
| **2029/30** | R35 238 243 | R3 280 688 | R42 331 455 | R80 850 386 |
| | | | | |
| **Total** | R196 848 619 | R146 578 793 | R309 542 631 | R652 970 043 |

## 3.2. Projected Variable cost

From the information reflected in table 1 above, the total annual variable cost payable to the operator amounting to R7 606 859.In terms of the PPP agreement, the payments are subjected to annual increases linked to CPI increases which is currently 5.2%.

The projected variable cost is reflected in table 5 below.

***Table 5: Separable Portion – Projected Variable Cost***

| Year | CPI Increases | Accumulated Variable Cost Recoverable |
|---|---|---|
| **2020/21** | | R7 606 859 |
| **2021/22** | R395 557 | R8 002 416 |
| **2022/23** | R416 126 | R8 418 541 |
| **2023/24** | R437 764 | R8 856 305 |
| **2024/25** | R460 528 | R9 316 833 |
| **2025/26** | R484 475 | R9 801 309 |
| **2026/27** | R509 668 | R10 310 977 |
| **2027/28** | R536 171 | R10 847 148 |
| **2028/29** | R564 052 | R11 411 199 |
| **2029/30** | R593 382 | R12 004 582 |
| | | |
| Total | | R96 576 168 |

### 3.3. Depreciation

After initial recognition, a grantor applies GRAP 17 to the subsequent measurement and derecognition of a service concession asset. For this reason, the Service Concession Asset is subjected to depreciation.

Due to the unique nature and essence of the PPP agreement, the operations are fully the responsibility and risk of the operator and all the operational cost, which includes the maintenance, is already discounted for in the operators cost recovery model and covered as part of the operators claimable fixed cost as already set out in paragraph 1.2.1. above.

Instead of the straight-lining method of depreciation, the annual depreciation would be equivalent to the annual Unpaid Asset Liability redemption as reflected in Table 4.

For this reason, the depreciation on the Service Concession Asset constitutes only as a compulsory non-cash GRAP transaction, and for this reason, the depreciation on the Service Concessions Asset would be **excluded** from the Reserve policy prescription to transfer the depreciation value to the Capital Replacement Reserve.

## 4. COMBINED APPORTIONMENT OF FIXED AND VARIABLE COST (EXCLUDING 10% ADMINISTRATIVE FEE)

***Table 6: Combined Fee Claimable from Third Parties (Excluding Admin Fees)***

| Year | Charges for Services | Finance Charge | Unpaid Asset Liability | Total Fixed Cost Recoverable |
|---|---|---|---|---|
| **2020/21** | R13 667 000 | R23 989 554 | R21 622 588 | R59 279 142 |
| **2021/22** | R16 697 844 | R22 313 803 | R23 298 339 | R62 309 986 |
| **2022/23** | R19 883 655 | R20 508 182 | R25 103 960 | R65 495 797 |
| **2023/24** | R23 232 359 | R18 562 625 | R27 049 517 | R68 844 501 |
| **2024/25** | R26 752 285 | R16 466 287 | R29 145 855 | R72 364 427 |
| **2025/26** | R30 452 188 | R14 207 484 | R31 404 659 | R76 064 330 |
| **2026/27** | R34 341 270 | R11 773 623 | R33 838 520 | R79 953 412 |
| **2027/28** | R38 429 205 | R9 151 137 | R36 461 005 | R84 041 347 |
| **2028/29** | R42 726 161 | R6 325 410 | R39 286 733 | R88 338 303 |
| **2029/30** | R47 242 826 | R3 280 688 | R42 331 455 | R92 854 968 |
| | | | | |
| **Total** | R293 424 787 | R146 578 793 | R309 542 631 | R749 546 211 |

## 5. THE 10% ADMINISTRATIVE FEE

The 10% administration fee in terms of the PPP agreement on the **fixed and variable cost portion** of the claimable amount from the third parties amounts to R74 954 621 for the 10-year period.

The administrative fee on the 10-year period claimable **rehabilitation cost fee** as indicated in paragraph 1.3.3. of Appendix 7 amounts to R6 873 973, with the result that a total amount of R81 778 093 would be realized over the scope of the 10-year period as operating revenue (see Table 7 below).

*Table 7: Total Combined Administration Fee*

| Year | Landfill restoration | Fixed and variable service cost | Total Administration Fee |
|---|---|---|---|
| **2020/21** | R720 548 | R5 927 914 | R6 648 462 |
| **2021/22** | R720 548 | R6 230 999 | R6 951 547 |
| **2022/23** | R720 548 | R6 549 580 | R7 270 128 |
| **2023/24** | R720 548 | R6 884 450 | R7 604 998 |
| **2024/25** | R720 548 | R7 236 443 | R7 956 991 |
| **2025/26** | R720 548 | R7 606 433 | R8 326 981 |
| **2026/27** | R720 548 | R7 995 341 | R8 715 889 |
| **2027/28** | R720 548 | R8 404 135 | R9 124 683 |
| **2028/29** | R720 548 | R8 833 830 | R9 554 378 |
| **2029/30** | R720 548 | R9 285 497 | R10 006 045 |
| | | | |
| **Total** | R7 205 475 | R74 954 621 | R82 160 096 |

# 6. ACCOUNTING ENTRIES

Below are the applicable accounting entries for year 1:

### (1) First-time recognition of Service Concession Asset and Liability

| | |
|---|---|
| (Dt) Property Plant and Equipment (Service Concession Asset) – treated as a separate class of assets as PPE | R309 542 631 |
| (Ct) Long-term Liability (Unpaid Asset) | -R309 542 631 |

### (2) Annual Depreciation

| | |
|---|---|
| (Dt) Expenditure – Depreciation | R21 602 588 |
| (Ct) Accumulated Depreciation – PPE (Service Concession Asset) | -R21 602 588 |

### (3) Annual Levy

| | |
|---|---|
| (Dt) Receivables from Exchange Transaction | R74 988 114 |
| (Ct) VAT | -R9 781 058 |
| (Ct) Revenue from Exchange Transactions | |
| (Operational Revenue) – Admin Fee | -R5 927 914 |
| (Service Charges) – Disposable Facilities – Fixed Cost | -R51 672 283 |
| Total amount, including fixed cost, variable cost, admin fee | |

### (4) Annual Payments by participating municipalities

| | |
|---|---|
| (Dt) Bank | R74 988 114 |
| (Ct) Receivables from Exchange Transaction | -R74 988 114 |

### (5) Annual Payments to Operator

| | |
|---|---|
| (Dt) Long-Term Liability (Unpaid Asset) | R21 622 588 |
| (Dt) Expenditure (Finance Charges) | R23 989 554 |
| (Dt) Expenditure (Contracting Service-Charges for Services) | R13 617 000 |
| (Dt) VAT | R 8 884 371 |
| (Ct) Bank | R68 113 513 |
| (Allocation as indicated in Table 4) | |

**Disclaimer**

**The amounts in this appendix are ultimately used for forecast and prediction purposes.**

**Apart from the interpretation of the standards of GRAP and the applicable accounting treatment as a result of these standards, the figures indicated in this appendix are presented by the municipality, which is based on interim calculations and estimates, and for this reason are possibly not accurate. The final figures may likely differ from figures indicated in this document.**

**For planning purposes, and in the context of the Long-term Financial Plan, it is believed however, that the final figures may differ only marginally from the information in this document and would therefore have a minor impact and would not negatively influence the integrity and accuracy of the Long-term Financial Plan.**

# APPENDIX 7 – LANDFILL SITE FUTURE REHABILITATION COST – ACCOUNTING TREATMENT

In this appendix, the following is highlighted:

- engineer's specialist closure report,
- quoting the applicable GRAP standards,
- application of the standards for the current financial information, and
- indication of the accounting entries

## 1. ENGINEER'S REPORT

### 1.1. Background

The purpose of this report is to determine the closure and rehabilitation costs for Garden Route District Municipality Regional Landfill.

The areas under consideration are the portions of the landfill that will be developed under the public-private partnership.

The disposal site is licensed as follows:

Licence for construction and operation issued on 05-02-2014 in terms of the National Environmental Management: Waste Act, Act No. 59 of 2008 (NEMWA), Licence No. 12/9/11/L1395/9. The latest authorisation with reference number 12/9/11/L190222081108/9/LR was issued on 07/06/2019 in order to postpone the required commencement date.

The closure of a landfill site, regardless if it is licensed/permitted or not, requires a closure licence as well as rehabilitation. The Minimum Requirements states that "In order to close a landfill properly, however, closure must be preceded by rehabilitation, to ensure that the site is environmentally acceptable." For the purposes of this report, due to the fact that the same requirements are set for licensed/permitted and unlicensed/unpermitted sites process to be followed, no distinction in the descriptions of the process were made between licensed/permitted and unlicensed/unpermitted sites. Therefore "closure" describes the process and "rehabilitation" is part of this process.

### 1.2. General Approach

The actual costs are determined by calculating the volumes of excavations, materials required and legal requirements according to the footprint of each individual site. For a new estimate the rates used for each item of work is based on current rates for similar activities. If a previous estimate was done for a specific site, then the previous year's figures are escalated using the Consumer Price Index. The individual rates are then cross-checked again to determine if they are still in line with current rates for similar activities and adjusted accordingly.

Due to the nature of the various construction items which are used to determine the cost estimates, the above method is required. For example, to excavate a trench, the required process is described in SANS 1200. We compare recent rates for this item, which would include labour costs as priced by civil contractors and we can use a good average to use in the calculations. An average must be used, because no one contractor will ask the same price to excavate per meter as the next contractor. This is done for all similar items which are priced

in this manner.

Items which include material costs such as geocomposite drains and/or geosynthetic products, are very much dependent on exchange and import rates on top of the material cost as some of these are not necessarily manufactured in South Africa. The combined effect of these various items and escalation in prices will result in the current year's estimate for landfill closure provision not being exactly in line with CPI but should be in a similar range. The percentage increase will also differ for each individual landfill site as some landfills will require more material to be imported as per the specific site requirements as well as varying rehabilitation areas.

Note that cost estimates for geosynthetics are based on current rates and rates for civil works have been escalated using CPI.

## 1.3. Site information

### 1.3.1. Location, size and classification

The areas or footprints on which the costs are based, were measured from layout drawings provided by the municipality in PDF format. These drawings were plotted and measurements were scaled from the drawings. Cell sizes were recreated in Model Maker software for area measurement. Model Maker software is a digital design package used for various civil engineering designs. In this case, Model Maker is used to measure the footprint and perimeter of the areas. A digital model is also built to measure the surface area of the modelled waste body for quantity calculations.

Although the latest legislation classifies landfills as either Class A, B, C or D, we also refer to the previous classification per landfill as indicated on each permit/licence for additional information. This classification system consisted of three indicators in the following format: $X_1$:$X_2$:$X_3$. The variable indicators represented the type of waste received, the daily volumes received and climatic water balance of each site. Each indicator could be one of the following:

$X_1$:

"G" = Only general waste is allowed to be disposed of at the site. General waste is the description given to all domestic waste and all wastes generated from commercial, business and industrial activities that are not hazardous or toxic. Pharmaceutical and medical wastes are not part of general waste.

"H" = Hazardous waste is also allowed to be disposed of at the site. Hazardous waste is waste that can have a significant adverse effect on public health and/or the environment, such as waste that is toxic, ignitable, corrosive, carcinogenic, etc.

<u>If $X_1$ = "G":</u>

$X_2$:

"C" = Communal size facility which receives less than 25 tonnes of waste per day.

"S" = Small size facility which receives between 25 and 150 tonnes of waste per day.

"M" = Medium size facility which receives between 150 and 500 tonnes of waste per day.

"L" = Large size facility which receives more than 500 tonnes of waste per day.

$X_3$:

"B+" = Positive climatic water balance indicating less annual evaporation than rainfall. An indicator that significant volumes of leachate could be generated at a B+ site and that leachate management systems are required.

"B-" = Negative climatic water balance indicating more annual evaporation than rainfall. An indicator that insignificant volumes of leachate could be generated at a B- site and that leachate management systems were historically not necessarily required, therefore likely to be absent at sites so classified.

If $X_1$ = "H":

$X_2$:

"h" = Only hazardous waste types of rating 3 & 4 (moderate- and low hazard) and general wastes can be accepted for disposal.

"H" = Waste types of all hazard ratings can be accepted for disposal.

### 1.3.2. Regional Landfill

| | |
|---|---|
| Classification: | Class B |
| Size: | 7,486m$^2$ (hazardous cell), 150,670m$^2$ (general cells). Note that Figure 1 below only illustrates the shapes and relative sizes of the cells to be constructed as scaled from the construction drawings and not actual positions and orientations. |
| Permit/License Status: | Operational |
| Site Status: | Under construction |

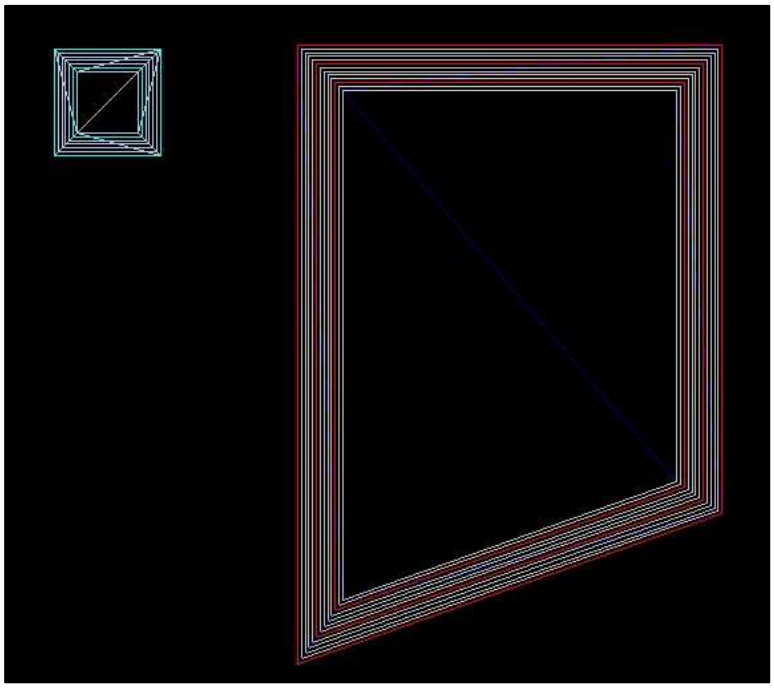


*Figure 1: Hazardous Cell (blue) and General Cells (red) as scaled from drawings*

*Figure 2: Approximate area where the regional landfill will be developed*

## 1.4. Closure and rehabilitation

### 1.4.1. Capping design

In terms of Clause 8.4.7 of the Minimum Requirements, Second Edition (MR2), the capping should work in conjunction with the base liner in limiting long-term leachate generation. This site must still be issued with a closure licence in the future and does not have approved closure designs at this stage.

This landfill will be constructed with the appropriate basal liners, leachate management and storm water infrastructure according to the approved operational designs. This will minimise the need for infrastructure and additional capping layers during future rehabilitation. The assumed capping design approach below takes into account the recommendations contained in the "*Technical advisory practice note: Capping closure of waste management facilities and pollution point sources*" issued by the Department of Environmental Affairs, capping designs recommended in the MR2 as well as approved capping designs for other landfills.

Designs for G:L:B- (general waste portion) and Hazardous landfills as illustrated in MR2 were considered as departure point for these estimates:

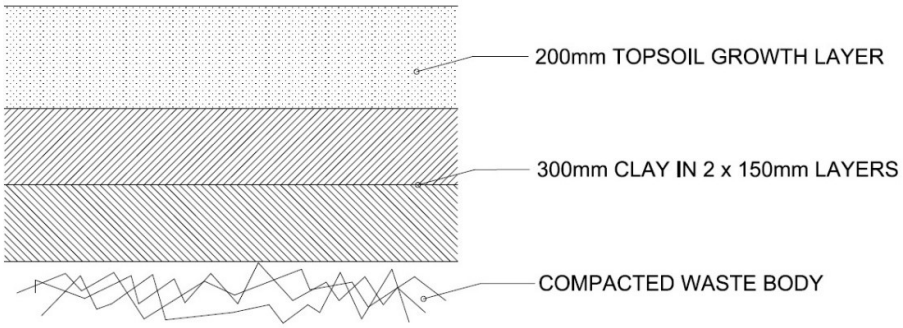



*Figure 3: MR2 G:L:B – Capping Layers*

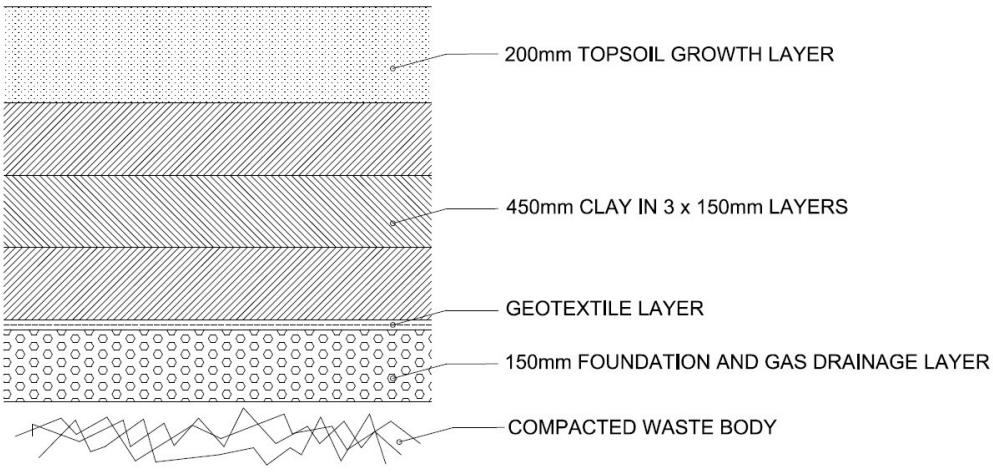



***Figure 4: MR2 G:M:B+ and Hazardous Capping Layers***

Even though the licence application was for a G:L:B- landfill (general waste portion), the basal liner was designed as per the Waste Act Norms & Standards for a Class B landfill. The Class B basal liner works relate more closely to the MR2 G:L:B+ and Hazardous capping layers as per Figures 3 and 4.

The Technical Advisory Note mentioned above states: *"In the event of a basal barrier system being a secure and fully functional containment facility for the particular waste polluting period, then a limited infiltration cap may be appropriate. The rate of infiltration should be limited to 0.5m per annum steady state seepage rate (as per the MR2 of 1998) unless the stoichiometry of the waste body and barrier system performance determines otherwise."*

Since this landfill will be constructed with a fully functional basal liner and leachate collection system, the approach can be to apply a limited infiltration cap. The option to use a geosynthetic clay liner (GCL) with a confining soil layer instead of the compacted clay layers (CCL) was opted for in this estimate. This is due to the high quality of clay required in order to meet the specifications described in the Technical Advisory Note in terms of permeability. It is unlikely for this site to have on-site clay of sufficient quantity and quality to construct the CCL. Using Darcy's equation, the GCL seepage rate over the rehabilitation area equates to 10.9mm (0.0109m) per year, which satisfies the 0.5m restriction.

Additionally, to the above layer works, the use of a GCL requires a levelling layer to ensure the long-term integrity of the GCL by not being in direct contact with waste material. The Technical Advisory note also recommends that "*... to overcome desiccation cracking when a GCL liner is used and should be at least equivalent to 600mm of soil), and or to provide protection to the geosynthetic materials from environmental damage such as from wind uplift, UV exposure, vandalism, animal induced mechanical damage (hooves or burrowing) or similar.*"

Sufficient on-site confining layer material would be available due to excavations for cell construction which are to be stockpiled. Double-sided cuspate sheets are also included to function as the gas drainage layer and provide a run-off medium for any possible seepage through the capping layers.

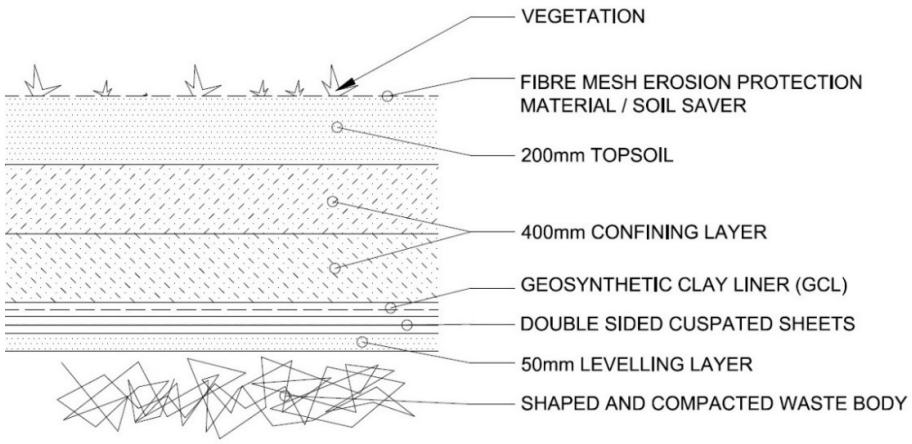



*Figure 5: Capping Design for Estimates*

The cost estimates are based on rates to import the above levelling layer (sand) from commercial sources to ensure good quality material between the capping layers and the compacted waste body. Rates for the topsoil are also based on the assumption that half of required volume would be imported from commercial sources to ensure a good quality growth medium and the remaining half would be available from the on-site stockpiles. It is also assumed the sufficient stockpiles will be on site for construction of the confining layers.

### 1.4.2. Storm water control

The closure cost estimate makes provision for concrete geo-cell lined storm water channels on top of the landfill and downslopes. The use of geo-cells will provide sufficient flexibility in the event of differential settlement and the concrete infill will provide sufficient erosion protection for the higher flow velocities on the slopes.

In accordance with MR2, these storm water channels have to be designed for a 1 in 50-year storm with a 24-hour duration. These channels on the waste body drain into the existing perimeter clean storm water drainage network for discharge to the environment. The estimate is based on the fact that the existing clean storm water infrastructure will be in place and will have the required capacity to accommodate the required flows.

### 1.4.3. Leachate control

No additional leachate control costs were added due to the leachate management system that will be constructed during landfill development.

### 1.4.4. Remaining site lifetimes

The planned lifetime for this landfill development under the PPP is for 10 years from 2020. Construction of the landfill will commence in April/May 2020.

## 1.5. Summary

Due to reasons stated above, the following list of assumptions were made in order to provide estimations for the rehabilitation of the sites addressed in this report;

- The footprints measured for rehabilitation were scaled from the construction drawings and it is assumed the actual construction will be as planned.
- The rates for the levelling layers and half of the topsoil will be imported from commercial sources to ensure good quality material.
- Sufficient on-site material will be available to construct the confining layers.
- Minimal shaping of the existing waste body will be required.
- Good quality clay is not readily available and as a result the clay layers will be replaced by a GCL.
- Clean storm water perimeter drains will be in place and sized to accommodate the required design storm.

## 1.6. Cost estimates

| **Site Name:** | **Garden Route District Regional Landfill: General & Hazardous** |
|---|---|
| **Rehabilitation Area ($m^2$)** | 158,156 |
| **Costs for Rehabilitation and Closure:** | |
| **Preliminary and General** | 6,043,116.65 |
| **Site Clearance and Preparation** | 509,262.32 |
| **Storm Water Control Measures** | 1,446,671.78 |
| **Capping** | 40,163,502.31 |
| **Gas Management** | 1,045,682.49 |
| **Other:** | |
| Environmental Authorisation (Closure License) | 458,870.79 |
| Technical ROD | 96,906.13 |
| Landscape Architects | 128,774.58 |
| Topographical survey | 32,577.30 |
| **Contingencies** | 4,920,823.56 |
| **Engineering: Professional Fees** | 4,059,679.43 |
| **Site Supervision (Engineer's Representative)** | 2,058,619.20 |
| **Site Supervision (Environmental Control Officer & OHS Agent)** | 256,530.00 |
| **Total (Excl. VAT)** | **R61,221,016.54** |
| **Cost per rehab $m^2$** | R387.09 |
| **Estimated construction period (weeks)** | 51 |

## 2. GRAP STANDARDS APPLICABLE (IGRAP 2 AND GRAP 19)

- Provisions are **recognised as liabilities (assuming that a reliable estimate can be made),** because they are present obligations and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligations.
- Financial statements deal with the financial position of an entity at the end of its reporting period and not its possible position in the future. Therefore, no provision is recognised for costs that need to be incurred to continue an entity's ongoing activities in the future. **The only liabilities recognised in an entity's statement of financial position are those that exist at the reporting date**.
- For a **liability to qualify for recognition,** there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits or service potential to settle that obligation. For the purpose of this Standard, an outflow of resources or other event is regarded as probable if the event is more likely than not to occur, that is, the probability that the event will occur is greater than the probability that it will not.
- The **use of estimates is an essential part** of the preparation of financial statements and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other assets or liabilities.
- The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date.
- The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time. It will often be impossible or prohibitively expensive to settle or transfer an obligation at the reporting date. However**, the estimate of the amount that an entity would rationally pay to settle or transfer the obligation gives the best estimate of the expenditure required to settle the present obligation at the reporting date.**
- The **risks and uncertainties** that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.
- Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.
- Because of the time value of money, provisions relating to cash outflows that arise soon after the reporting date are more onerous than those where cash outflows of the same amount arise later. **Provisions are therefore discounted, where the effect is material.**
- Gains from the expected disposal of assets shall not be taken into account in measuring a provision.
- Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

- In the statement of financial performance, the expense relating to a provision **may be presented only if the amount is recognised for a reimbursement.**
- **Provisions shall be reviewed at each reporting date and adjusted to reflect the current best estimate.** If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed.
- Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.
- A provision shall be used only for expenditures for which the provision was originally recognised.
- An event that does not give rise to an obligation immediately may do so at a later date, because of changes in the law or because an act (for example, a sufficiently specific public statement) by the entity gives rise to a constructive obligation. For example, when environmental damage is caused by an entity there may be no obligation to remedy the consequences. However, the causing of the damage will become an obligating event when a new law requires the existing damage to be rectified or when the controlling entity or the entity publicly accepts responsibility for rectification in a way that creates a constructive obligation.
- Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, shall be accounted for in accordance with paragraph below
- If the related asset is measured using the cost model:
    a) (a) subject to (b), changes in the liability shall be added to, or deducted from, the cost of the related asset in the current period.
    b) the amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognised immediately in surplus or deficit.
    c) if the adjustment results in an addition to the cost of an asset, the entity shall consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the entity shall test the asset for impairment by estimating its recoverable amount or recoverable service amount, and shall account for any impairment loss.
- Entity-specific value is the present value or service potential of the benefits an entity expects to arise from the continued use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

# 3. APPLICATION OF GRAP STANDARDS (CURRENT FINANCIAL INFORMATION)

## 3.1. Future obligation-outflow of funds inflated with CPI

GRAP standards applicable to determine the estimated future outflow funds are as follows:

- A provision as a liability must be recognised because there is a present obligation, and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation.
- A reliable estimate of the cost was made as reflected in section 1.
- The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date.
- Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.
- Because of the time value of money, provisions relating to cash outflows that arise soon after the reporting date are more onerous than those where cash outflows of the same amount arise later. Provisions are therefore discounted, where the effect is material.

A comprehensive report for the provision for closure of the landfill site when it reached the end of its useful life in 2029/30 was prepared by a specialist engineer (see 1).

In terms of the calculations as indicated in the report, the current cost for rehabilitation amounts to R61 221 016 (see 1.6). When projecting the cost to the closing date in 2029/30, the current cost escalates to R94 973 890 when discounted at an average CPI rate.

In terms of the engineer's report, adjustments for escalation in cost is calculated based on average CPI. The current CPI rate is 4.6%, but for estimation purposes and considering risks, a more conservative risk-adjusted rate of 5% is applied as a discount rate. This rate then represents an average predicted CPI rate for the remainder of the useful life period of 10 years. The projected estimated future rehabilitation cost is reflected in table1 below.

***Table 1: Projected Rehabilitation Cost***

| | | | | |
|---|---|---|---|---|
| Current CPI rate : | | 4.60% | | |
| Forcasted future average CPI rate: | | | 5% | |
| Calculated rehabilitation cost at current prices (PV): | | | | R61 221 016 |
| Future cost (FV): | | | | R94 973 890 |
| | Escalation | Rehabilitation Cost | | |
| 2020/21 | | R61 221 016 | | |
| 2021/22 | R3 061 051 | R64 282 067 | | |
| 2022/23 | R3 214 103 | R67 496 170 | | |
| 2023/24 | R3 374 809 | R70 870 979 | | |
| 2024/25 | R3 543 549 | R74 414 528 | | |
| 2025/26 | R3 720 726 | R78 135 254 | | |
| 2026/27 | R3 906 763 | R82 042 017 | | |
| 2027/28 | R4 102 101 | R86 144 117 | | |
| 2028/29 | R4 307 206 | R90 451 323 | | |
| 2029/30 | R4 522 566 | R94 973 890 | | |

## 3.2. Present value of future obligation-outflow of funds

The GRAP standards applicable to determine the present value of the projected future outflow funds are as follows:

- Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.
- The discount rate shall be a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate shall not reflect risks for which future cash flow estimates have been adjusted.

The trend is to apply the Government bond rate as a discount rate. The current 10-year bond rate yield is at 11.6%. However, a more risk-related rate of 7% is applied to accommodate for the effect of time value of money, which results in following:

Engineers' estimation of current value: R61 221 016

Projected future value in 10 years @ 5% CPI: R94 973 890

Discounted Future value adjustment to yield 7%: R48 279 910

The difference between the Engineers' current estimation and the discounted future value amounting to R12 941 106, which is substantial and therefore constitutes a material difference. For this reason, **R48 279 910 would be the amount to be recognised as a Long-term Liability-Provision for Rehabilitation and as an Asset-Property Plant and Equipment (first-time recognition).**

The estimated projected future value of R94 973 890 is **inflation- and interest-sensitive** due to the time value of money, and future changes to it would give rise to annual increases in the carrying amount of the provision in each period to reflect the passage of time. **This increase is recognised as an interest expense**.

Other factors which could give rise to changes are changes in design, legislation and errors with the original estimation, but this would be the exception more than the rule, which would give rise to **changes in the liability to be added to or deducted from the cost of the related asset in the current period.**

## 3.3. Amount recovered from the third party (participating municipalities)

The GRAP standards applicable where the cost of the rehabilitation is to be settled by a third party are as follows:

- Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. **The reimbursement shall be treated as a separate asset**. The amount recognised for the reimbursement shall not exceed the amount of the provision.
- In the statement of financial performance, the expense relating to a provision may be presented only if the amount recognised for a reimbursement.

The future rehabilitation cost, although the responsibility of Garden Route Municipality, would be fully recovered from the participating municipalities. As indicated above, the projected cost at the end of the useful life of R94 973 890, amounts to a present value of R48 279 910 when discounted.

To cover the R94 973 890, it takes an annual fixed amount of R7 205 475 (based on an investment of 10 annual deposits of R7 205 475 at an interest rate of 6% to yield R94 973 89 at maturity date which coincides with the end of the useful life of the Landfill site), to be recovered and paid over the 10- year period by the third parties.

***Table 2: Annual Investment Deposits to Yield the Projected Cost of the Landfill Site***

| | | | |
|---|---|---|---|
| Interest Rate | | | 6.00% |
| Period in years | | | 10 |
| Present Value (PV) | | | **R48 279 909.51** |
| Futiure value | | | **R94 973 889.53** |
| Payment | | | R7 205 475.08 |
| | | | |
| | | | |
| **Year** | **Interest** | **Capital** | **Amount** |
| 2020/21 | | 7 205 475 | 7 205 475 |
| 2021/22 | 432 329 | 7 205 475 | 14 843 279 |
| 2022/23 | 890 597 | 7 205 475 | 22 939 350 |
| 2023/24 | 1 376 361 | 7 205 475 | 31 521 187 |
| 2024/25 | 1 891 271 | 7 205 475 | 40 617 933 |
| 2025/26 | 2 437 076 | 7 205 475 | 50 260 484 |
| 2026/27 | 3 015 629 | 7 205 475 | 60 481 588 |
| 2027/28 | 3 628 895 | 7 205 475 | 71 315 958 |
| 2028/29 | 4 278 958 | 7 205 475 | 82 800 391 |
| 2029/30 | 4 968 023 | 7 205 475 | **94 973 890** |
| | | | |
| | **22 919 139** | **72 054 751** | |

**These annual payments must then be separately deposited in an interest-bearing investment account, which would yield at least the equivalent of the future liability - rehabilitation cost of the landfill site. To achieve this, the annual deposits have to be adjusted and recovered when investment rates change.**

**The fixed amount must be split on a pro rata basis between the municipalities according to the monthly volumes dumped as indicated in Appendix 6 (Table 1).**

The average annual amount projected by the PPP pertaining to the recoverable cost from the participating municipalities as indicated in Appendix 6 (Table 1), is substantially below the projected cost. For example, the difference for year 1 amounts to R5 939 326. This is a major concern which has a negative impact on the current budgets of the participating municipalities. For Garden Route Municipality it has a positive effect due to the fact that the 10% annual recoverable administrative fee would proportionally increase.

**The annual recoverable amounts payable need to be annually revised and adjusted accordingly, should the future projected rehabilitation cost change.**

## 4. DEPRECIATION

After initial recognition, GRAP 17 has to be applied as subsequent measurement and derecognition of the asset. For this reason, the Asset is subject to depreciation on the straight-line method which results in an annual amount of R4 827 910.

Depreciation is a provision for wear and tear, which is not applicable to this asset type.

Therefore, the depreciation on the Asset constitutes only as a compulsory non-cash GRAP transaction, and for this reason, this depreciation would be excluded from the Reserve policy prescription to transfer the depreciation value to the Capital Replacement Reserve.

## 5. ACCOUNTING ENTRIES

Below are the applicable accounting entries for year 1:

### (1) First time recognition of Provision and Asset

| | |
|---|---|
| (Dt) Property Plant and Equipment | R48 279 910 |
| (Ct) Long-term Liabilities: Provision for Rehabilitation | R48 279 910 |

### (2) Annual Depreciation

| | |
|---|---|
| (Dt) Expenditure: Depreciation | R4 827 910 |
| (Ct) PPE Accumulated Depreciation | R4 827 910 |

### (3) Annual Levy

| | |
|---|---|
| (Dt) Receivables from Exchange Transactions | R9 114 926 |
| (Ct) Revenue from Exchange Transactions | R 720 548 |
| (Operating Revenue – Admin Fee) | |
| (Ct) Revenue from Exchange Transactions | R7 205 475 |
| (Service Charges – Disposal Facilities – Rehabilitation) | |
| (Ct) VAT | R1 188 903 |

### (4) Annual Payment by participating municipalities

| | |
|---|---|
| (Dt) Property Plant and Equipment | R9 114 926 |
| (Ct) Receivables from Exchange Transaction | R9 114 926 |

### (5) Annual Adjustment of Provision (passage of time)

| | |
|---|---|
| (Dt) Expenditure: Finance Charges | (depends on annual variation) |
| (Ct) Long-term Liabilities: Provision for Rehabilitation | |

### (6) Investment of Provision

| | |
|---|---|
| (Dt) Investment | R7 205 475 |
| (Ct) Bank | R7 205 475 |
| (See Table 2) | |

### (7) Annual Capitalizing of interest on investment

| | |
|---|---|
| (Dt) Investment | (depending on interest accrued) |
| (Ct) Revenue - Interest received | |
| (See Table 2 – Interest) | |

### (8) Transfer of accumulated surplus to reserve

| | |
|---|---|
| (Dt) Accumulated Surplus | (depending on interest accrued and Capital amount invested in transaction entry (6) above) |
| (Ct) Rehabilitation Reserve Fund | |
| (See Table 2 – Interest and Capital) | |

**Disclaimer**

**The amounts in this appendix are ultimately used for forecast and prediction purposes.**

**Apart from the interpretation of the standards of GRAP and the applicable accounting treatment as a result of these standards, the figures indicated in this appendix are presented by the municipality, which is based on interim calculations and estimates, and for this reason are possibly not accurate. The final figures may likely differ from figures indicated in this document.**

**For planning purposes, and in the context of the Long-term Financial Plan, it is believed however, that the final figures would only marginally differ from the information in this document and would therefore have a minor impact and would not negatively influence the integrity and accuracy of the Long-term Financial Plan.**

# APPENDIX 8 – COVID-19 PANDEMIC

## 1. OVERVIEW

Due to the COVID-19 pandemic, a global crisis has developed with far-reaching health and economic consequences.

The immense and progressive widespread impact of the disease which threatens and causes death and disruption to the life of communities which in magnitude exceeds the ability of the local communities to cope with its effects, Government has acted decisively to prioritise the health and lives of all South Africans and the president declared the pandemic as a National Disaster in terms of section 27 of the Disaster Management Act.

The immediate effect of the declared disaster was a total lockdown, putting a curfew on citizen's movement and freedom of economic activities. These measurements, although absolute inevitable, has the immediate consequence that an already weakened economy would be immensely affected.

To alleviate the severe impact of the lockdown measures, Government has adopted a risk-adjusted approach to reopen the economy as soon as possible. In the meantime, Government has instituted drastic economic interventions over the next 18 months – a period during which the most severe effects of the public health crisis are expected to be resolved. These interventions have an inextricable impact on the immediate operations of Garden Route District Municipality.

To establish a balance between the recovery process of the economy and to secure public health, would require a collective effort from all the spheres of Government, business and communities to return to a level of "normalcy" again.

Therefore, due to the declared interventions, the Garden Route District Municipality's Council is forced to act progressively in its approach on how and when assistance would be given and what the financial implication would be.

Mr Ramaphosa recently said the following on a national broadcast:

*"Forging a new economy in a new global reality will require:*

- *A social compact between business, labour, communities and government;*
- *Far-reaching structural reforms enabling millions of South Africans to participate in building a more productive and prosperous society and*
- *Steps to promote industrialisation, and an overhaul of state-owned enterprises."*

With the vision of the president as background, the impact and consequences of Covid-19 on the future operations of Garden Route District Municipality, and possible mitigation measurements to be instituted, need to be analysed and planned for.

# 2. RESPONSIBILITY IN LEGAL CONTEXT

## 2.1 Act No. 57 of 2002, Disaster Management Act

Section 44: Powers and duties of district municipalities

(1) A municipal disaster management centre-

a) must specialise in issues concerning disasters and disaster management in the municipal area;

b) must promote an integrated and co-ordinated approach to disaster management in the municipal area, with special emphasis on prevention and mitigation, by-

i. departments and other internal units within the administration of the municipality, and, in the case of a district municipality, also by departments and other internal units within the administration of the local municipalities in the area of the district municipality:

ii. all municipal entities operating in the municipal area; and

iii. other role-players involved in disaster management in the municipal

**c) must act as a repository of, and conduit for, information concerning disasters and disaster management in the municipal area;**

**d) may act as an advisory and consultative body on issues concerning disasters area: and disaster management in the municipal area for-**

**i. organs of state and statutory functionaries;**

**ii. the private sector and non-governmental organisations; and**

**iii. communities and individuals;**

**e) must make recommendations regarding the funding of disaster management in the municipal area, and initiate and facilitate efforts to make such funding available;**

f) may make recommendations to any relevant organ of state or statutory functionary-

i. on draft legislation affecting this Act, the national disaster management framework or any other disaster management issue;

ii. on the alignment of municipal legislation with this Act, the national disaster management framework and the relevant provincial disaster management framework; or

iii. in the event of a local disaster, on whether a local state of disaster should be declared in terms of section 55;

**g) must promote the recruitment, training and participation of volunteers in disaster management in the municipal area;**

h) must promote disaster management capacity building, training and education, including in schools, in the municipal area;

i) may promote research into all aspects of disaster management in the municipal area;

**j) may give advice and guidance by disseminating information regarding disaster management in the municipal area, especially to communities that are vulnerable to disasters;**

**k) may exercise any powers and must perform any duties delegated and assigned to it in terms of section 14; and**

l) may assist in the implementation of legislation referred to in section 2(l)(b) to the extent required by the administrator of such legislation and approved by the municipal council.

**(2) A municipal disaster management centre may engage in any lawful activity in the municipal area, whether alone or together with any other organisation, aimed at promoting the effective exercise of its powers and performance of its duties.**

(3) A municipal disaster management centre must exercise its powers and perform its duties-

**a) within the national disaster management framework, the disaster management framework of the province concerned and the disaster management framework of its municipality;**

b) subject to the municipality's integrated development plan and other directions of the municipal council acting within the national disaster management framework, the disaster management framework of the province concerned and the disaster management framework of that municipality; and

c) per the administrative instructions of the municipal manager.

**(4) A municipal disaster management centre must liaise and co-ordinate its activities with the National Centre and the relevant provincial disaster management centre.**

## 2.2 Disaster Management Act Regulations Relating to COVID 19

Definitions applicable to the municipality

"enforcement officer" includes a member of the South African Police Service, the South African National Defence Force and a peace officer as defined in section 1 of the Criminal Procedure Act;

"quarantine" means separating asymptomatic individuals potentially exposed to a disease from non-exposed individuals in such a manner as to prevent the possible spread of infection or contamination;

"essential services" means the services as defined in section 213 of the Labour Relations Act, 1995 (Act No. 66 of 1995), and designated in terms of section 71(8) of the Labour Relations Act, 1995 (and which designation remains valid as at the date of publication of this regulation), and as listed in paragraph B of Annexure B, as may be amended from time to time;

Timeframe of the disaster regulation

Regulations will apply as from 26 March 2020 at 23h59 until 30 April 2020 at 23h59: Provided that Chapter 3 will remain in force for the period of the national state of disaster, or such periods as may be extended.

Regulations with direct implications for the municipality

- National organs of state must, within their available resources release their personnel for the rendering of emergency services, as contemplated in section 27(2)(b) of the Act.
- Institutions within national, provincial and local government must make resources, other than funding, available to implement these Regulations or directions issued in terms of section 27(2) of the Act regarding the national state of disaster.

- **Institutions within national, provincial and local government must make funding available; and as far as possible, without affecting service delivery and the realisation of the rights contemplated in sections 26 to 29 of the Constitution of the Republic of South Africa, 1996, shift funding, within its budget to implement these Regulations or directions issued in terms of section 27(2) of the Act, regarding the national state of disaster.**
- **The accounting officers of municipalities must identify and make available sites to be used as isolation and quarantine facilities within their local areas, and provide the list to the Department of Health for resourcing**.
- Emergency procurement for institutions is subject to the Municipal Finance Management Act, 2003 (Act No. 56 of 2003), and the applicable emergency provisions in the Regulations made under that Act.
- During the lockdown, all businesses and other entities shall cease operations, except for any business or entity involved in the manufacturing, supply, or provision of an essential good or service.
- Persons performing essential services as determined in sub-regulation (2), must be duly designated in writing.
- Categories of essential services shall be confined to the following services:
    1. Medical, Health (including Mental Health), Laboratory and Medical services and the National Institute for Communicable Diseases;
    2. Disaster Management, Fire Prevention, Fire Fighting and Emergency services;
- **No person may be evicted from their place of residence, regardless of whether it is a formal or informal residence or a farm dwelling, for the duration of the lockdown.**

## 2.2 The Constitution

In terms of Part A of Schedule 4 of the National Constitution, Disaster Management is a concurrent National and Provincial legislative competence. This implies that Disaster Management is not a Municipal function but is exercised and executed by municipalities as an unfunded mandate within the framework of the Disaster Management Act.

Although Disaster Management is not a municipal competence, the objective and purpose of the municipality is outlined in section 152 (1) of the Constitution which inter alia reads as follows; "

b) to promote social and economic development,
c) to promote a safe and healthy environment.

(2) A municipality must strive to achieve the above within its financial and administrative capacity.

The meaning of the verb strives as indicated in the Oxford dictionary, is to make great efforts to achieve or obtain something.

## 2.2 The Conclusion in Terms of the Legislative Framework

Disaster management *per se* is not a municipal competence and is primarily the function of National and Provincial Government. Although a certain responsibility is laid upon the municipality in terms of the Disaster Management Act, it remains an unfunded mandate and is there no legal responsibility which could force the municipality to execute and practice more functions as indicated in chapter 5 of the Disaster Management Act. In terms of the Act, the municipality has more of a liaison and co-ordinating role to for fill as an extension of the National and Provincial Government and is not a primary source to fund the impact of disasters. The funding of disasters remains a function of the National Government as set out in chapter 6 of the Act.

However, in terms of sections 2 (3) and 2(4) of the Disaster Management regulations as gazetted on 18 March 2020, which reads as follows;

*"Institutions within national, provincial and local government* ***must make resources,*** *other than funding, available to implement these Regulations or directions issued in terms of section 27(2) of the Act regarding the national state of disaster.*

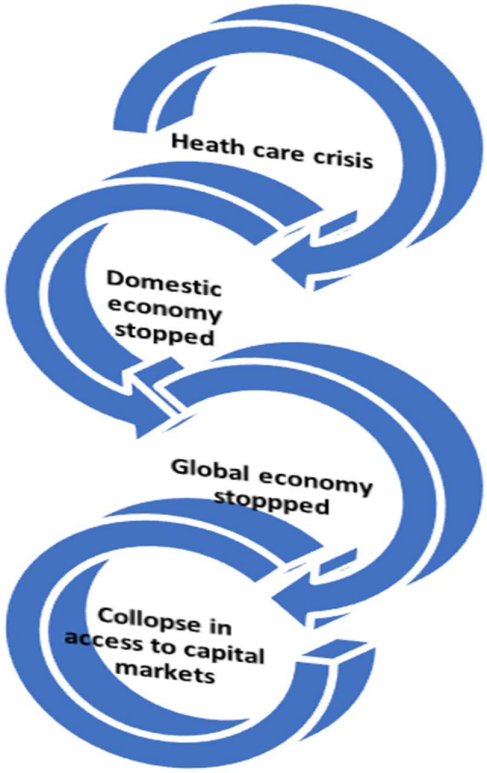
*Institutions within national, provincial and local government* ***must make funding available; and as far as possible, without affecting service delivery and the realisation of the rights contemplated in sections 26 to 29 of the Constitution of the Republic of South Africa, 1996, shift funding, within its budget to implement these Regulations or directions issued in terms of section 27(2) of the Act, regarding the national state of disaster****."*

Furthermore, when looking at the National Constitution, the municipality has also a moral Constitutional obligation to promote a safe and healthy environment to the communities.

Thus, it is sufficient to say that within the ambit of the National Disaster regulations, the municipality would be entitled to make resources and funding available to contribute to the combating of the crisis and to recover from it.

# 3. THE IMPACT OF COVID-19 IN THE NATIONAL CONTEXT (source National Treasury)

## 2.2 The Four Simultaneous Impacts of COVID-19




- Health of South Africans must come first – an out of control pandemic would hit the economy extremely hard **['health shock'].**
- Early lockdown was the right decision but has serious domestic economic implications **['supply shock']** and mitigating measures are urgently required: short-term, medium-term and long-term.
- The collapse in the global economy **['demand shock']** will reduce foreign income – exports and tourism are particularly.

## 2.2 Channels Through Which SA Will Be Affected By COVID-19

- Market sentiment, compounded by slowing economic recovery,
- Substantial disruption to international and domestic travel and tourism,
- Slowing consumer spending due to lockdowns, fear of exposure to virus at large gatherings, social and recreational activities,
- Changes to consumer spending patterns e.g. rising expenditures on medical services and lower spending on durable and semi-durables,

- Disruptions to global supply chains,
- Increased disruption of domestic production due to illness or lockdowns,
- Increased risk of workers being put on short-time or retrenched due to lack of demand, and
- Rising liquidations.

### 2.2 Potential Impact on the South Africa Economy

- Labour – short-time, retrenchment, no work available, especially low and medium skilled workers, and those in informal employment.
- Business – fall in demand for durables and semi-durables, personal services, retail, recreation and restaurants.
- Business – lost production time due to sick leave and quarantines.
- Business – public transport losses as individuals avoid taxis, buses and trains.
- Communities where public health is already at full capacity, likely to find difficult to access medical services, potentially leading to higher mortality rates exacerbated by underlying disease burden.
- The poor may find it more difficult to recover from the outbreak due to lower accumulated savings, the impact of funeral costs and loss of breadwinner income.
- Government – unsustainable public finances, increased need to reprioritise towards health while reducing spending in other priority areas.

## 4. THE IMPACT OF COVID-19 - THE LOCAL CONTEXT

Given the municipality's constitutional obligations and the broad implications of the Disaster Management Act and the promulgated regulations in terms of the Disaster Management Act, the Garden Route District Municipality has the legal and moral power and authority to make funds available and to allocate resources to actively assist the National and Provincial Government in combatting the effects of the pandemic as indicated in section 3 above.

The municipality's involvement to mitigate the macro national challenges could be, as a minimum and not necessarily limited to this, institute the following actions:

- act as an advisory and consultative body on issues concerning the disaster, and disaster management in the municipal area for-
  1. organs of state and statutory functionaries;
  2. the private sector and non-governmental organisations; and
  3. communities and individuals, especially to the vulnerable.
- make funding available and shift funding, within the budget to implement the Regulations or directions issued in terms of section 27(2) of the Act, regarding the national state of disaster.
- The accounting officers must identify and make available sites to be used as isolation and quarantine facilities within the local area, and provide the list to the Department of Health for resourcing.
- No person may be evicted from their place of residence, regardless of whether it is a formal or informal residence or a farm dwelling, for the duration of the lockdown.

# 5. LOCAL SUPPORT MEASURES COHERENT WITH THE NATIONAL CHALLENGES

## 5.1. Immediate to Next Six Months

Due to the unpredictable and unprecedented nature and the lack of scientific knowledge of the virus and all of its effects, it is at this stage not possible to plan too far into the future, and it would be meaningful to plan for the needs which is evident and applicable at present. For this very reason, the next 6 months would be a massive challenge and an additional burden on this municipality's financial sources. This would caution the municipality's management and politicians to act with extra great responsibility, care and diligence in order to find a balance between their social responsibility on the one hand, and on the other hand, without doing damage or impair the long-term financial viability of the municipality.

As indicated in section 3 what the impact of the epidemic would be in the national context, it would be a logical conclusion that those indicators would have a similar scope and impact on the local economy of this municipal jurisdiction area.

The most obvious elements of concern which need urgent attention and assistance are indicated below:

| | |
|---|---|
| Support Healthcare | **Increase in healthcare spending** |
| Relieve hunger and distress | **Assist in particular those who are vulnerable**<br>**Social relief to those without jobs** |
| Support companies and workers | **Temporary employment relief schemes** |
| Reopen the economy in phases | **Support the easing of structural constraints** |

In achieving the above, the rollout of the following are possible measures to be implemented:

- The municipality is in terms of section 84 (1) (i) of the Municipal Structures Act, is directly responsible for municipal health services. Therefore, assistance with screening, monitoring, issuing of face masks, hand sanitisers and making available of quarantine facilities are crucial and essential.

- The fulltime operation of the disaster management centre to co-ordinate, monitor and report to the national disaster centre.
- Liaise with the local municipalities to identify where social needs and needs for food occur and assist the municipalities with logistical and financial support in this regard.
- Assist and support the local municipalities with areas where there is a need for potable water and domestic waste.

### 5.2. Medium to Longer-Term Measurements

After the lockdown phase, it is predicted that unemployment on a large scale due to retrenchments would be in the order of the day, resulting in a massive increase in poverty and households living below the breadline.

The Garden Route District Municipality, in consultation and co-operation with the local municipalities, would have no other choice as to embark on processes to be innovative, pro-active and creative to assist the Government in job creation projects since the short -term projects as indicated in section 5.1 are not sustainable.

## 6. FINANCIAL IMPLICATIONS AND THE IMPACT ON THE LONG-TERM FINANCIAL PLAN

It is not possible to accurately quantify the financial impact of the crisis on the municipality.

To plan for the possible financial impact on the Garden Route District Municipality's operations and how it would influence the long-term financial planning process, predictions are made based on the following assumptions:

Expenditure

The two departments that would be directly impacted are Disaster Management and Municipal Health.

The total expenditure budgeted for the 2019/20 financial year on these two departments amounts to R36.965 million which represent 9.15% of the total expenditure budget of R405 million. In the draft budget for the 2020/21 financial year, the percentage remains the same at 8.97% of the total anticipated expenditure budget of R438 million.

It is doubtful if only a shift in the existing budget would address the need because the existing draft budget is according to the management already cut to the bone and additional expenditure on sight value is unavoidable.

The direct additional cost from the municipality's sources of the above-mentioned two departments could only be determined after the type and extent of assistance required are determined. In the absence of the numbers Council can as an alternative, pre-determine a fixed amount and or a fixed percentage of the total expenditure, which Council feels comfortable with, and amend the budget accordingly.

It is important to pre-determine an affordable amount and manage the budget diligently. Uncontrolled expenditure would give rise to unauthorised expenditure.

For example, the existing draft budget reflects the total expenditure of R438 million. If Council decide strategically to make available an additional 1 % expenditure, it will amount to an

additional R4.38 million. (The funding of the additional expenditure is indicated below)

Revenue

The municipality has made all its resorts available as quarantine facilities as instructed in terms of section 5(3) of the Disaster Management Regulations.

This action has a severe impact on the revenue of the municipality.

As indicated in section 3.3.1 and Appendix 4 of the Long-term Financial Plan, the nett annual deficit of the resorts amounts to R4.62 million and it is predicted to increase to R4.9 million for 2020/21.

The abovementioned losses have already been taken into account in the total budget but so has the anticipated increase in revenue of R8,347 million, leaving no room for savings to cover additional cost. At this point, nobody can predict when this crisis will end nor for how long the resort may be used as quarantine facilities. If it is assumed that it would be the status quo for at least the duration of the 2020/21 financial year, absorbing the full budgeted amount of R8.349 million plus the pro-rata portion of the current financial year, which would be roughly calculated to be in the order of R2.7 million, it can be said with certainty that at least R11 million rand of revenue could be lost.

There is the possibility that the National Fiscus would allocate additional government grants to the municipality to partly cover the cost of the emergency assistance in terms of section 56 of the National Disaster Management Act, but due to the uncertainty of grant funding and the uncertain timeframe, it would be irresponsible to rely on government funding, and therefore it will be more appropriate to ignore grants for planning purposes at this stage.

Funding

If funding in the form of government grants are ignored for now as indicated above, the total financial impact could be as follows:

- Loss in revenue - Resorts R11 million (reasonably reliable information)
- Additional expenditure on Municipal Health and Disaster Management- (depending on Council's strategic decision - if an additional 1 % of expenditure is decided then additional expenditure amounting to R4.38 million would be applicable)

The total additional cost that needs to be funded is then around R15.5 million, which would pro-rata increase if Council decides on a higher percentage instead of 1%.

Since the municipality has limited revenue resources, and no other sources of revenue are available, the additional cost could only be funded as follows:

- Adjusting the existing budget to absorb the additional cost in total or partly. This option seems to be highly unlikely.
- Budget for a deficit which would be funded from the accumulated cash reserves.

The latter seems to be the most viable and appropriate option and is motivated by the fact that the municipality has at present a relatively large amount of cash reserves. (Although the current accumulated cash reserves are underfunded in terms of the Long-term Financial Plan as predicted and indicated in section 6).

The funding from the accumulated cash reserves must be seen as short-term bridging finance where the municipality "borrow" the money from own sources with clear and committed intent to restore the "borrowing".

This is possible if the recommendation regarding the alienation of the resorts, as set out in section 7.2 of the Long-Term Financial Plan, are implemented.

Job creation and poverty alleviation

As already indicated, it is evident that massive unemployment and accompanied increase in poverty may become a reality as a consequence of the drastic disaster management measurements.

As previously indicated in section 5.1 above, the Garden Route District Municipality, in consultation and co-operation with the local municipalities, will have no option but to become more innovative, pro-active and operationally efficient to support the Government in job creation projects as the short-term projects as indicated in section 5.1 are not sustainable.

Again, it must be emphasised that the only leeway the municipality has to assist in job creation, is to alienate the resorts and invest the proceeds from these disposal and use the revenue (interest earned on the investment), to subsidise the creation of viable small businesses. This initiative could even be expanded by selling identified unused and or unnecessary investment properties.

Amendments to the Long-Term Financial Plan findings

The key findings and the recommendations of the long-term plan is not in jeopardy or influenced, and remain as set out in section 7 of the Long-Term Financial Plan. However, if Council materially deviate from what is recommended in this appendix, it could result in a review of the recommendations.