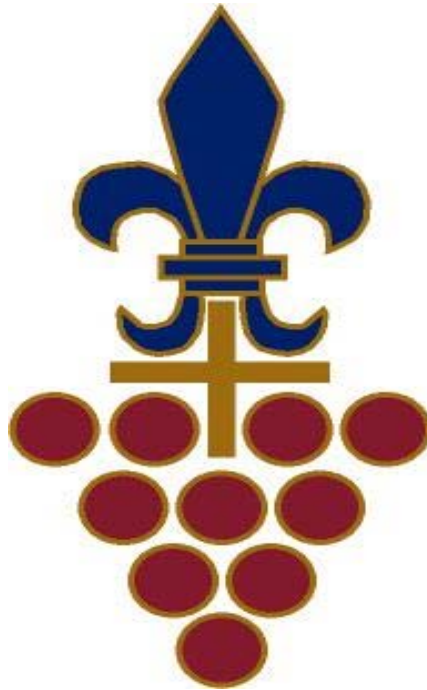


STELLENBOSCH MUNICIPALITY



**LONG -TERM FINANCIAL
PLAN**



STELLENBOSCH
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**INDEPENDENT REPORT OF THE
LONG-TERM FINANCIAL PLAN FOR THE TEN (10) YEAR
PERIOD UP UNTIL 30 JUNE 2035**

FINANCIAL FORECAST AND ANALYSIS

12 MAY 2025

A K H I L E

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1. EXECUTIVE SUMMARY

This is a report on the Long-Term Financial Plan of Stellenbosch Local Municipality and details the methodology undertaken, key assumptions utilised and financial overview from 2026 to 2035. The report outlines in detail the revenue, expenditure, and cash flow forecasts as well as detailed analysis and recommendations

Key projections include:

- **Exchange Revenue Growth:** Exchange revenue is projected to increase from R1,860 million in 2026 to R3,078 million by 2035.
- **Service Charges Trends:** Service charges for electricity, water, waste water management, and waste management show consistent growth, with electricity charges expected to rise from R1,217 million in 2026 to R2,103 million in 2035.
- **Operational Revenue Increase:** Operational revenue is forecasted to grow from R59 million in 2026 to R88 million by 2035.
- **Total Revenue Forecast:** Total revenue (excluding capital transfers) is projected to grow from R2,861 million in 2026 to R4,642 million by 2035.
- **Expenditure Trends:** Total expenditure is expected to rise from R2,713 million in 2026 to R4,490 million in 2035, with employee-related costs being a significant contributor.
- **Surplus/Deficit Estimates:** The surplus/deficit is projected to fluctuate, starting at R148 million in 2026 and reaching R152 million by 2035.
- **Cash Flow Analysis:** Cash receipts are projected to increase from R3,211 million in 2026 to R4,501 million by 2035, while cash payments will also rise, indicating a growing financial footprint.
- **Funding Mix Overview:** The funding mix shows a reliance on internally generated funds, transfers, and borrowing, with capital transfers constituting a significant portion of the funding.

The document outlines several key risks that Stellenbosch Local Municipality needs to manage to ensure long-term sustainability:

1. **Revenue Collection:** The municipality must maintain the collection rates for property rates, service charges, and other revenues. Any decline in collection rates could significantly impact the municipality's financial health.
2. **Expenditure Management:** Controlling contracted services costs and other significant expenditure items is crucial. Rising costs without corresponding revenue increases could lead to budget deficits.
3. **Economic Factors:** External economic factors such as inflation, interest rates, and economic growth can impact the municipality's financial projections. The municipality needs to be prepared for economic fluctuations.
4. **Infrastructure Investment and Maintenance:** Investing in catalytic projects to grow the Municipality's economic base is critical for long term growth and sustainability. Projects should be prioritised based on service requirements and anticipated returns. In addition, proper maintenance and upgrading of infrastructure are necessary to avoid costly repairs and ensure the continued provision of services. Sustained investment in infrastructure is vital to preserving asset value, supporting future development, and promoting inclusive economic growth.

By closely monitoring and managing these risks, Stellenbosch Local Municipality can work towards achieving long-term financial sustainability.

2. INTRODUCTION

Akhile Management and Consulting (Pty) Ltd was appointed to conduct an independent report of the long-term financial plan (LTFP) for Stellenbosch Local Municipality (SLM or Municipality) for the ten (10) year period up until 30 June 2035.

This report is the final report on the LTFP and presents a financial overview, detailing revenue, expenditure, and cash flow forecasts from 2026 to 2035 as well as detailed analysis and recommendations.

The report covers in detail the methodology undertaken, the assumptions made in preparing the financial model, the model outcomes, a detailed ratio analysis and recommendations for consideration by Stellenbosch Local Municipality.

3. METHODOLOGY

The development of the independent ten-year Long-Term Financial Plan (LTFP) for the Stellenbosch Local Municipality (SLM), covering the period ending 30 June 2035, followed a structured methodology based on collaboration, advanced tools, and proven processes.

The process commenced with a detailed analysis of SLM's unique financial context, strategic objectives, and operational requirements. This analysis informed the application of the primary tool: the Municipal Sustainability Tool (MST™) LTFP Module provided by Akhile.

The MST™ LTFP Module was utilised to structure and process historical financial data and generate the long-term forecast. This involved:

- **Integrating Historical Data:** Incorporating audited financial results for the 2021/22 to 2023/24 financial years and actual results for the 2024/25 current financial year (up to Period 9). Budgeted figures were used for the remainder of the 2024/25 financial year (Periods 10 to 12).
- **Constructing the 10-Year Projection:** The projection comprises the Municipality's approved 3-year Medium-Term Revenue and Expenditure Framework (MTREF) budget (covering 2025/26 to 2027/28) followed by a 7-year forecast (2028/29 to 2034/35) generated by the MST™ LTFP module.

The tool's capability to integrate standardized *mSCOA* (Municipal Standard Chart of Accounts) data with SLM-specific, customisable assumptions was leveraged. This framework facilitated robust, long-term financial modelling without requiring constant underlying model rebuilds.

Throughout the project, open communication and collaborative workshops were maintained with SLM stakeholders. This process benefited from our established partnership and prior experience applying the MST™ LTFP Module in developing components of SLM's Capital Expenditure Framework (CEF), specifically Chapters 6 and 7.

This combination of detailed analysis, stakeholder engagement, and the application of the specialised MST™ LTFP Module ensured the delivery of a comprehensive and actionable LTFP aligned with the Municipality's strategic vision.



4. ASSUMPTIONS

Description	2029	2030	2031	2032	2033	2034	2035	Motivation
CPI Headline (%)	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	Midpoint of the South African Reserve Bank's inflation target range (3%-6%).
Household Growth Rate (%)	1.125%	1.125%	1.125%	1.125%	1.125%	1.125%	1.125%	Stellenbosch population annual growth rate between 2011 and 2022 has been reported as 1.09% (STATSSA). Demand is increasing annually.
Interest Rate (%)	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	Prime lending rate is currently 11% (9 May 2025). Interest rates are likely to come down and therefore 10.5% is used.
Employee Cost Escalation (%)	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	Inflation based adjustment as SLM has planned for market alignment in the MTREF period.
Bulk Water Escalation (%)	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	Aligned with the long-term headline CPI forecast assumption (4.5%)
Bulk Electricity Escalation (%)	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	Aligned with the long-term headline CPI forecast assumption (4.5%)
Depreciation Rate (%)	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	Aligned with the historical average rate of depreciation.
Property Rates Escalation (%)	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	Aligned with the long-term headline CPI forecast assumption (4.5%)
Service Charges Escalation (%)	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	Aligned with the long-term headline CPI forecast assumption (4.5%)
Collection Rate (%)	95%	95%	95%	95%	95%	95%	95%	Aligned with the National Treasury benchmark.

Description	2029	2030	2031	2032	2033	2034	2035	Motivation
Creditors Payment Days	30	30	30	30	30	30	30	Aligned with the National Treasury benchmark.
Capital Expenditure (R'Million)	500	500	500	500	500	500	500	Affordable capital expenditure.
Upgrade/Renewal (% of Total Capex)	48%	48%	48%	48%	48%	48%	48%	Aligned with historical average rate.
Funding – Borrowing (% of Total Capex)	20%	20%	20%	20%	20%	20%	20%	Affordable borrowings.
Funding - Transfers and Subsidies (% of Total Capex)	30%	30%	30%	30%	30%	30%	30%	Aligned with historical average rate.



5. FINANCIAL MODELS/ FORECASTS

5.1. Financial Performance

Description / R'Million	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Exchange Revenue	1'860	2'051	2'262	2'363	2'470	2'581	2'697	2'818	2'945	3'078
Service charges - Electricity	1'217	1'371	1'546	1'615	1'688	1'764	1'843	1'926	2'013	2'103
Service charges - Water	202	214	227	237	248	259	271	283	296	309
Service charges - Waste Water Management	134	142	150	157	164	172	179	187	196	205
Service charges - Waste Management	113	121	129	135	141	147	154	161	168	175
Sale of Goods and Rendering of Services	26	27	27	29	30	31	33	34	36	37
Agency services	4	4	4	4	5	5	5	5	6	6
Interest earned from Receivables	19	20	20	21	22	23	24	25	26	28
Interest earned from Current and Non-Current Assets	64	66	68	71	75	78	82	85	89	93
Rent on Land	0	0	0	0	0	0	0	0	0	0
Rental from Fixed Assets	14	15	15	16	17	17	18	19	20	21
Licence and permits	9	9	9	10	10	11	11	12	12	13
Operational Revenue	59	62	65	68	71	74	77	81	84	88
Non-Exchange Revenue	1'001	1'094	1'149	1'201	1'255	1'311	1'370	1'432	1'497	1'564
Property rates	572	606	643	672	702	733	766	801	837	875
Fines, penalties and forfeits	173	181	185	193	202	211	220	230	241	251
Transfer and subsidies - Operational	252	304	318	332	347	363	379	396	414	433
Interest	3	4	4	4	4	4	5	5	5	5
Gains on disposal of Assets	0	0	0	0	0	0	0	0	0	0
Other Gains	0	0	0	0	0	0	0	0	0	0
Total Revenue (excl. capital transfers)	2'861	3'145	3'411	3'564	3'725	3'892	4'067	4'250	4'442	4'642
Employee related costs	709	733	775	810	847	885	925	966	1'010	1'055
Remuneration of councillors	25	26	27	28	30	31	32	34	35	37
Bulk purchases - electricity	805	907	1'023	1'069	1'117	1'167	1'219	1'274	1'332	1'392
Inventory consumed	123	128	134	140	146	153	160	167	175	183
Debt impairment	77	81	83	144	151	157	164	172	180	188
Depreciation and amortisation	226	233	237	314	336	359	381	404	426	449
Interest	78	93	107	117	127	136	145	152	159	164
Contracted services	322	382	376	393	411	429	449	469	490	512
Transfers and subsidies	23	24	25	26	27	28	29	31	32	34
Irrecoverable debts written off	127	132	136	135	141	148	154	161	168	176
Operational costs	199	212	221	231	242	253	264	276	288	301
Losses on disposal of Assets	0	0	0	0	0	0	0	0	0	0
Other Losses	1	1	1	0	0	0	0	0	0	0
Total Expenditure	2'713	2'952	3'145	3'408	3'575	3'746	3'923	4'106	4'295	4'490
(Surplus)/Deficit	148	193	266	156	150	146	144	144	147	152
Transfers and subsidies - capital (monetary allocations)	105	131	122	150	150	150	150	150	150	150



Description / R'Million	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Transfers and subsidies - capital (in-kind)	0	0	0	0	0	0	0	0	0	0
(Surplus)/Deficit after capital transfers and contributions	253	324	388	306	300	296	294	294	297	302



5.2. Financial Position

Description / R'Million	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
ASSETS										
Cash and cash equivalents	676	707	764	899	1'043	1'199	1'368	1'551	1'749	1'964
Trade and other receivables from exchange transactions	224	244	253	274	296	320	344	369	396	423
Receivables from non-exchange transactions	15	15	16	20	24	28	33	38	43	48
Inventory	34	34	34	36	38	39	41	43	45	47
Other current assets	6	6	6	6	7	7	7	7	8	8
Total current assets	955	1'006	1'073	1'235	1'407	1'593	1'793	2'008	2'240	2'490
Investment property	426	426	426	426	426	426	426	426	426	426
Property, plant and equipment	6'617	6'615	6'480	6'666	6'829	6'970	7'088	7'184	7'258	7'309
Biological assets	6	6	6	6	6	6	6	6	6	6
Heritage assets	1	1	1	1	1	1	1	1	1	1
Intangible assets	4	4	4	4	4	3	3	3	3	2
Trade and other receivables from exchange transactions	5	5	5	5	5	5	5	6	6	6
Total non-current assets	7'059	7'056	6'922	7'108	7'271	7'412	7'531	7'626	7'700	7'751
TOTAL ASSETS	8'014	8'063	7'995	8'343	8'679	9'005	9'323	9'634	9'940	10'241
LIABILITIES										
Financial liabilities	62	62	62	103	110	119	128	138	149	125
Consumer deposits	24	24	24	25	26	27	28	30	31	32
Trade and other payables from exchange transactions	337	337	337	352	368	384	402	420	439	458
Trade and other payables from non-exchange transactions	7	-5	-5	-5	-5	-5	-6	-6	-6	-6
Provision	57	57	57	59	62	65	68	71	74	77
VAT	18	20	21	22	23	24	25	26	27	28
Total current liabilities	506	495	496	556	584	613	645	678	713	715
Financial liabilities	775	762	627	591	580	562	534	496	447	422
Provision	161	162	162	170	177	185	194	202	211	221
Other non-current liabilities	232	233	235	245	257	268	280	293	306	320
Total non-current liabilities	1'168	1'157	1'025	1'006	1'014	1'015	1'008	991	964	963
TOTAL LIABILITIES	1'674	1'652	1'521	1'562	1'598	1'628	1'652	1'669	1'678	1'677
NET ASSETS	6'340	6'411	6'475	6'781	7'081	7'377	7'671	7'965	8'262	8'563
COMMUNITY WEALTH/EQUITY										
Accumulated surplus/(deficit)	6'613	6'682	6'736	6'531	6'831	7'127	7'421	7'715	8'012	8'313
Reserves and funds	- 273	- 271	- 262	250	250	250	250	250	250	250
TOTAL COMMUNITY WEALTH/EQUITY	6'340	6'411	6'475	6'781	7'081	7'377	7'671	7'965	8'262	8'563



5.3. Cash Flow

Description / R'Million	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Cash Receipts by Source										
Property rates	549	582	618	638	667	697	728	761	795	831
Service charges - electricity revenue	1'342	1'512	1'704	1'534	1'603	1'676	1'751	1'830	1'912	1'998
Service charges - water revenue	233	247	261	225	236	246	257	269	281	294
Service charges - sanitation revenue	151	144	153	149	156	163	170	178	186	194
Service charges - refuse revenue	134	143	153	128	134	140	146	153	159	167
Rental of facilities and equipment	21	22	23	16	17	17	18	19	20	21
Interest earned - external investments	-	-	-	71	75	78	82	85	89	93
Fines, penalties and forfeits	49	50	51	58	61	63	66	69	72	75
Licences and permits	9	9	9	10	10	11	11	12	12	13
Agency services	4	4	4	4	5	5	5	5	6	6
Transfers and Subsidies - Operational	264	304	318	332	347	363	379	396	414	433
Other revenue	149	155	128	96	101	105	110	115	120	125
Cash Receipts by Source										
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	105	131	122	150	150	150	150	150	150	150
Borrowing long term/refinancing	198	199	78	100	100	100	100	100	100	100
Increase (decrease) in consumer deposits	-	-	-	1	1	1	1	1	1	1
Decrease (increase) in non-current receivables	5	5	5	-0	-0	-0	-0	-0	-0	-0
Total Cash Receipts by Source	3'211	3'508	3'627	3'514	3'661	3'814	3'975	4'142	4'318	4'501
Cash Payments by Type										
Employee related costs	689	713	754	810	847	885	925	966	1'010	1'055
Remuneration of councillors	25	26	27	28	30	31	32	34	35	37
Finance charges	62	77	90	117	127	136	145	152	159	164
Bulk purchases - Electricity	926	1'043	1'176	1'069	1'117	1'167	1'219	1'274	1'332	1'392
Bulk purchases - Water & Sewer	-	-	-	142	148	155	162	169	177	185
Other materials	85	88	94	98	103	107	112	117	122	128
Contracted services	370	439	433	393	411	429	449	469	490	512
Transfers and grants - other	23	24	25	26	27	28	29	31	32	34
Other expenditure	229	244	255	100	104	109	114	119	125	130
Cash Payments by Type										
Capital assets	752	757	608	500	500	500	500	500	500	500
Repayment of borrowing	62	77	90	96	103	110	119	128	138	149
Total Cash Payments by Type	3'223	3'488	3'551	3'380	3'516	3'658	3'806	3'960	4'119	4'285
NET INCREASE/(DECREASE) IN CASH HELD	-12	20	76	134	144	156	169	183	198	215
Cash/cash equivalents at the month/year begin:	679	679	679	764	899	1'043	1'199	1'368	1'551	1'749
Cash/cash equivalents at the month/year end:	667	699	755	899	1'043	1'199	1'368	1'551	1'749	1'964



5.4. Funding Mix

Description / R'Million	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Transfers and subsidies - capital	138	143	144	150	150	150	150	150	150	150
Borrowing	198	199	78	100	100	100	100	100	100	100
Internally generated funds	318	316	306	250	250	250	250	250	250	250
Total Funding	654	658	529	500	500	500	500	500	500	500

Description / Percentage	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Transfers and subsidies - capital	21%	22%	27%	30%	30%	30%	30%	30%	30%	30%
Borrowing	30%	30%	15%	20%	20%	20%	20%	20%	20%	20%
Internally generated funds	49%	48%	58%	50%	50%	50%	50%	50%	50%	50%
Total Funding	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

6. ANALYSIS AND RECOMMENDATIONS

Ratio	Format	Norm	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Capital Expenditure to Total Expenditure	percentage	10-20%	14.9	13.7	15.8	14.3	19.4	18.2	14.4	12.8	12.3	11.8	11.3	10.9	10.4	10
Impairment of Property	percentage	0%	-0.1	0	-0.1	0	0	0	0	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Repairs and Maintenance as a % of Property	percentage	8%	1.1	1.4	2	1.6	2.1	2.1	2.2							
Collection Rate	percentage	>= 95%		94.2	95	106	95	95	95	95	95	95	95	95	95	95
Net Debtors Days	value	<= 30 days	46.5	47	50	27.2	34.6	34.3	32.7	34.2	35.7	37.1	38.4	39.7	41	42.1
Net Operating Surplus Margin	percentage	>= 0%	0.2	4.8	4.7	16.1	5.2	6.1	7.8	4.4	4	3.8	3.5	3.4	3.3	3.3
Net Surplus /Deficit Electricity	percentage	0-15%	19.8	21.6	17.4	32.3	27.2	27.4	27.4	23.9	23.8	23.8	23.7	23.6	23.6	23.6
Net Surplus /Deficit Water	percentage	>= 0%	13.7	19.2	14.3	30.9	22.4	21.5	22.4	30.9	30.5	30.1	29.9	29.6	29.4	29.3
Net Surplus /Deficit Refuse	percentage	>= 0%	-23.9	41.1	-19.6	-19.6	-6.9	-3.4	-1.6	11.2	11	10.8	10.6	10.5	10.4	10.3
Net Surplus /Deficit Sanitation and Waste Water	percentage	>= 0%	-9.6	-15.4	-9.8	-0.7	-24.9	-26.2	-17.3	-11	-11.8	-12.4	-13	-13.4	-13.7	-14
Creditors Payment Period (Trade Creditors)	value	<= 30 days	68	67	57	72	64	59	60	60	60	60	60	60	60	60
Remuneration as % of Total Operating Expenditure	percentage	25-40%	29.6	29.8	29.2	26.6	27	25.7	25.5	24.6	24.5	24.4	24.4	24.4	24.3	24.3
Contracted Services % of Total Operating Expenditure	percentage	2-5%	10.7	11.4	12.4	11.2	11.9	12.9	12	11.5	11.5	11.5	11.4	11.4	11.4	11.4
Own funded Capital Expenditure (Internally generated funds + Borrowings) to Total Capital Expenditure	percentage	None	72.1	63.2	71.3	67.3	78.9	78.2	72.7	70	70	70	70	70	70	70
Own funded Capital Expenditure (Internally Generated Funds) to Total Capital Expenditure	percentage	None	34.2	36.5	38.6	44.4	48.6	48	57.9	50	50	50	50	50	50	50

Ratio	Format	Norm	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Own Source Revenue to Total Operating Revenue (Including Agency Revenue)	percentage	None	85.6	85.9	86.1	85.2	87.9	86.7	87.5	87	87.2	87.3	87.5	87.6	87.7	87.8
Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure	percentage	6-8%	4	5.3	5.3	5.3	5.2	5.7	6.3	6.3	6.4	6.6	6.7	6.8	6.9	7
Debt (Total Borrowings) / Revenue	percentage	<= 45%	25	23.9	24.8	22.4	29.3	26.2	20.2	19.5	18.5	17.5	16.3	14.9	13.4	11.8
Solvency Ratio (Net Income + Depreciation) / All Liabilities	percentage	>= 20%	26.0	27.4	23.7	44.2	22.3	25.8	33.1	30.1	30.4	31	31.8	32.8	34.2	35.8
Cash / Cost Coverage Ratio (Excl. Unspent Conditional Grants)	value	1-3 months	2.6	3.3	3	4.9	3	2.9	2.9	3.2	3.5	3.8	4.2	4.5	4.9	5.2
Current Ratio	value	1.5-2: 1	1.8	1.9	2	2.1	1.9	2	2.2	2.2	2.4	2.6	2.8	3	3.1	3.5
MSI (Municipal Sustainability Index)	percentage	75-100	68	76	73	79.7	70	79	81	83	82	82	82	82	82	83
Revenue Growth	percentage	>= 5%	0	9.4	11.9	22.5	-1.8	10.4	7.9	5.1	4.3	4.3	4.3	4.3	4.3	4.4
Revenue Growth (Excluding capital grants)	percentage	>= 5%	0	9.5	12	23.9	-1.9	9.9	8.4	4.5	4.5	4.5	4.5	4.5	4.5	4.5

6.1. Asset Management/ Utilisation

Ratio	Format	Norm	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Capital Expenditure to Total Expenditure	percentage	10-20%	14.9	13.7	15.8	14.3	19.4	18.2	14.4	12.8	12.3	11.8	11.3	10.9	10.4	10
Impairment of Property	percentage	0%	-0.1	0	-0.1	0	0	0	0	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Repairs and Maintenance as a % of Property	percentage	8%	1.1	1.4	2	1.6	2.1	2.1	2.2							

Capital Expenditure/ Infrastructure Investment

Despite an initial short-term rise, the Capital Expenditure to Total Expenditure ratio for Stellenbosch Municipality reflects a gradual downward trend over the medium to long term. The ratio is projected to peak at 19.4% in 2026, followed by a steady decline to 10% by 2035 - remaining within the acceptable national norm of 10% to 20%.

This trajectory is not currently a cause for concern, as a conservative approach has been applied in projecting capital investment in the outer years. Importantly, SLM has ambitious infrastructure expansion plans underpinned by a realistic and achievable funding strategy over the next few years. These capital investments are critical to ensuring alignment with the Municipality's long-term strategic objectives, particularly in addressing growth, service delivery demands, and asset sustainability.

However, the declining trend should be carefully monitored to avoid underinvestment in critical infrastructure. Insufficient capital expenditure may compromise the quality, reliability, and availability of essential municipal services over time. Sustained investment in infrastructure is vital to preserving asset value, supporting future development, and promoting inclusive economic growth.

Impairment of Property

The impairment of property, plant, and equipment within Stellenbosch Municipality reflects consistently low values - ranging between -0.1% and 0% which indicates that municipal assets are generally well maintained and not subject to significant impairment losses. This is a positive indicator of effective asset management practices, proactive maintenance, and sound financial oversight. It also suggests that the Municipality is successfully preserving the economic value and operational capacity of its infrastructure assets, with minimal risk of unanticipated write-downs.

Maintaining such low levels of impairment supports long-term service delivery goals, reduces future replacement costs, and enhances the credibility of the Municipality's financial reporting.

Repairs and Maintenance as a % of Property

The Key Performance Indicator (KPI) for repairs and maintenance expenditure as a percentage of total asset value remains significantly below the National Treasury benchmark of 8%. In 2022, SLM recorded a low rate of approximately 1.1%, with a modest projected increase to 2.2% by 2028. Despite this upward trend, the allocation remains far below the recommended level, raising concerns about the long-term sustainability of municipal infrastructure.

SLM have established a repairs and maintenance target of 3% and the MTREF period reflects an increasing ratio to achieve this target. This is a positive sign that SLM are moving in the right direction.

It is important to note that insufficient investment in repairs and maintenance poses a substantial risk to the longevity and reliability of municipal assets. Underfunding in this area can accelerate asset deterioration, increase the frequency and cost of emergency repairs, and ultimately lead to premature asset replacement - placing unnecessary strain on future budgets and potentially compromising service delivery to residents.

It has been demonstrated that the National Treasury Norm is not realistic and other factors such as the age, usage and condition of assets should inform the repairs and maintenance plan. It is recommended that:

- SLM Establish a dedicated and adequately funded repairs and maintenance budget, aligned with the Municipality's approved Asset Management Plan and the condition assessments of critical infrastructure.
- Prioritise preventive maintenance strategies to extend the useful life of assets, enhance service reliability, and reduce long-term costs.
- Conduct comprehensive asset condition assessments to inform data-driven maintenance schedules and ensure that resource allocation is responsive to actual infrastructure needs.

Through these proactive actions Stellenbosch Municipality can strengthen its infrastructure resilience, improve service quality, and safeguard long-term financial sustainability.

6.1.1. Recommendations

It is recommended that SLM develop and implement a comprehensive, long-term Asset Management Plan that anticipates infrastructure lifecycles, service delivery targets, and fiscal constraints. The plan should prioritise infrastructure that underpins service delivery, economic development, and environmental sustainability, while ensuring that capital expenditure remains at levels that support long-term municipal resilience and growth.

The repairs and maintenance figure is understated by the remuneration component of internal technical teams undertaking repairs and maintenance of Municipal infrastructure. The Municipality should embark on an exercise to determine and incorporate the repairs and maintenance component of remuneration into the repairs and maintenance figure for reporting purposes which will further contribute to bringing this ratio closer to the SLM target and National Treasury Norm.

A stable, forward-looking approach to asset sustainability is essential to ensure the continued reliability, safety, and cost-effectiveness of municipal services across Stellenbosch.

6.1.2. Conclusion

The declining trend in the Capital Expenditure to Total Expenditure ratio - though within national norms, along with the historically low allocation for repairs and maintenance, signals the need for more proactive and balanced infrastructure investment. Similarly, the significant fluctuations in the asset sustainability ratio highlight gaps in long-term planning and execution, which may expose the Municipality to service delivery risks and future financial strain.

To ensure long-term resilience, service quality, and infrastructure sustainability, Stellenbosch Municipality must adopt a holistic and forward-looking asset management approach. By strengthening its asset management framework and aligning infrastructure investments with long-term

growth and service delivery priorities, Stellenbosch Municipality will be well-positioned to support sustainable development, protect public value, and maintain the confidence of its stakeholders and communities.

6.2. Liability Management

Ratio	Format	Norm	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure	percentage	6-8%	4	5.3	5.3	5.3	5.2	5.7	6.3	6.3	6.4	6.6	6.7	6.8	6.9	7
Debt (Total Borrowings) / Revenue	percentage	<= 45%	25	23.9	24.8	22.4	29.3	26.2	20.2	19.5	18.5	17.5	16.3	14.9	13.4	11.8
Solvency Ratio (Net Income + Depreciation) / All Liabilities	percentage	>= 20%	26	27.4	23.7	44.2	22.3	25.8	33.1	30.1	30.4	31	31.8	32.8	34.2	35.8

Over the next decade, Stellenbosch Municipality is projected to maintain a prudent and strategically sound liability management position. Key indicators point to improving financial sustainability, though certain trends warrant close monitoring to safeguard long-term service delivery capacity and fiscal resilience.

Capital Costs (Interest and Redemption) as a % of Total Operating Expenditure

The capital cost ratio is projected to rise gradually from 4% in 2022 to approximately 7% by 2035. This remains within the National Treasury's acceptable norm of 6-8%, indicating that the municipality is currently managing its debt servicing obligations within safe limits.

While the increase is manageable, the upward trend suggests a growing proportion of operational resources being allocated to debt servicing. Without appropriate controls, this may eventually place pressure on operational budgets, limiting the Municipality's flexibility to fund essential services and developmental priorities.

Debt-to-Revenue Ratio (Total Borrowings / Revenue)

This ratio reflects a strong downward trajectory from 25% in 2022 to a projected 11.8% by 2035. The improvement illustrates enhanced revenue-generating capacity relative to outstanding debt, signalling robust financial discipline and growing fiscal space.

As the Municipality reduces its reliance on borrowing, it simultaneously strengthens its ability to invest in infrastructure and service delivery from own revenue sources. This reduction in debt burden enhances overall creditworthiness and positions SLM favourably for future investment opportunities.

Solvency Ratio ((Net Income + Depreciation) / Total Liabilities)

The solvency ratio shows marked improvement from 26% in 2022 to 36% by 2035 indicating that Stellenbosch Municipality is steadily increasing its capacity to meet long-term obligations using internal resources. A rising solvency ratio reflects stronger financial stability and responsible asset and liability management. This trajectory improves confidence among investors, oversight bodies, and the broader public, and supports a sustainable growth path for municipal operations.

6.2.1. Recommendations for Strengthened Liability Management

SLM may consider refinancing existing loans at lower interest rates to reduce debt service cost and enhancing and broadening the revenue base through alternative revenue streams. It is also imperative that SLM control capital and operating costs through the introduction of cost efficiency measures and closely monitor expenditure against budget for timely corrective action.

6.2.2. Conclusion

The trends paint a largely positive picture of Stellenbosch Municipality's liability management efforts. Reduced debt-to-revenue levels signal greater resilience during economic shocks and a stronger ability to self-fund capital initiatives. While capital costs are rising, the Municipality remains

within normative thresholds. The steady rise in the solvency ratio strengthens long-term financial sustainability and increases the Municipality's capacity to meet strategic objectives.

Stellenbosch Municipality's liability management trends reflect a disciplined and forward-looking approach to financial governance. With decreasing reliance on debt, rising solvency, and manageable capital costs, the Municipality is on a positive trajectory. However, sustained fiscal health will depend on proactive planning, strategic investment in asset maintenance, and community-aligned budgeting. By continuing to refine its financial strategies, Stellenbosch can safeguard long-term sustainability while meeting the evolving needs of its communities.

6.3. Debtors Management

Ratio	Format	Norm	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Collection Rate	percentage	>= 95%		94.2	95	106	95	95	95	95	95	95	95	95	95	95
Net Debtors Days	value	<= 30 days	46.5	47	50	27.2	34.6	34.3	32.7	34.2	35.7	37.1	38.4	39.7	41	42.1

Collection Rate

Stellenbosch Municipality reported strong collections rates meeting the National treasury targets.

The model was based on a conservative view that collections will be at least 95%. It is imperative that SLM undertake collection strategies to ensure that the high levels of collection are maintained to avoid strained cash flow, affecting the Municipality's ability to meet its short-term operational and long-term service delivery commitments.

Net Debtor Days

The Municipality's net debtor days have increased from **46.5 days in 2022 to 50 days in 2024**, well above the National Treasury's benchmark of **≤30 days**. As indicated above the model was based on a conservative view that collections will be at least 95%. The projected trend suggests that the collection cycle has strengthened, highlighting a growing efficiency in converting billed revenue into actual cash which will need to be closely monitored. Extended collection periods lock up working capital, delay cash inflows, and increase the risk of non-payment. Over time, this undermines liquidity, constrains budget execution, and could result in reduced service delivery capacity or increased borrowing needs.

This would put pressure on Service Delivery and Budgets and the Municipality's ability to meet its operational and developmental obligations, with possible negative consequences for service quality and capital investment.

6.3.1. Recommendations for Improvement

As mentioned above, a conservative view was taken in the anticipated collection of debt. It is imperative that SLM sustain debt management practices to achieve high collection rates. This includes:

- Strengthened debt collection mechanisms through automated billing, SMS/email reminders, and digital payment platforms to streamline collections and stricter enforcement of payment terms, including structured follow-ups and consequences for non-compliance.
- Regularly review and audit of the debtors' books to ensure accurate provisioning and timely identification of problematic accounts and improve internal systems for tracking, reporting, and analysing debtor performance.
- Define clear criteria for creditworthiness and repayment plans, including formal agreements for high-risk accounts.
 - Engage debtors proactively and offer tailored repayment plans and payment initiatives such as discounts, rewards or loyalty programmes. Where needed consider early intervention initiatives to prevent accounts from becoming delinquent.

- Review the Municipalities strategy around customer deposits and align the policy with a strategy that ensures that the customer deposits held reflect at least one month of customer billings to serve as a mechanism to recover revenue in the case of non-payment.

6.3.2. Conclusion

While Stellenbosch Municipality has historically performed well in revenue collection, consistency and timely and strategic intervention is required to maintain this position. A declining collection rate, rising net debtor days, and the potential for increasing write-offs pose risks to financial health and operational sustainability.

By implementing a proactive and multi-pronged revenue management strategy - anchored in strong policy, data-driven oversight, community engagement, and modernized systems - the Municipality can maintain an impressive collection rate. Strengthened revenue performance will not only secure cash flow, but also enable Stellenbosch to deliver high-quality services, invest in infrastructure, and achieve its long-term developmental goals.

6.4. Liquidity Management

Ratio	Format	Norm	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Cash / Cost Coverage Ratio (Excl. Unspent Conditional Grants)	value	1-3 months	2.6	3.3	3	4.9	3	2.9	2.9	3.2	3.5	3.8	4.2	4.5	4.9	5.2
Current Ratio	value	1.5-2: 1	1.8	1.9	2	2.1	1.9	2	2.2	2.2	2.4	2.6	2.8	3	3.1	3.5

Cash / Cost Coverage Ratio (Excluding Unspent Conditional Grants)

Stellenbosch Municipality's Cash / Cost Coverage Ratio has shown a strong upward trend, rising from **2.6 months in 2022** to a **projected 5.2 months by 2035**. This means the municipality is increasingly able to cover its operating costs with available cash reserves, excluding conditional grant funding.

A higher coverage ratio is a clear indicator of improved financial resilience. It reflects enhanced liquidity management and the municipality's growing capacity to withstand revenue shortfalls or unexpected cost pressures. This trajectory positions Stellenbosch as a financially prudent institution capable of maintaining operations even under fiscal stress.

Current Ratio

The Current Ratio, a key indicator of short-term financial health, has increased from **1.8 in 2022** to a **projected 3.5 in 2035**. This reflects a steady strengthening in the Municipality's ability to meet its short-term obligations using its current assets.

A Current Ratio above **2.0** is generally considered sound in public sector finance, suggesting strong liquidity and working capital management. Stellenbosch Municipality's upward trend signals prudent fiscal discipline, effective creditor management, and a strategic approach to balancing receivables, payables, and cash reserves. This contributes to operational stability and enhances credibility with creditors, investors, and oversight institutions.

6.4.1. Strategic Recommendations for Sustaining and Enhancing Liquidity Performance

To maintain and strengthen positive cash flows SLM must optimise the revenue collection processes (refer section above on debtors' management). In addition, it is important to adopt zero-based budgeting to ensure alignment between expenditures and strategic priorities along with scenario planning in forecasting to account for potential macroeconomic shocks or funding gaps

Municipalities in South Africa are currently under pressure to be sustainable and viable, and it is therefore recommended that SLM consider diversifying revenue streams through the identification of sustainable alternative revenues.

It goes without saying that close monitoring of cash flow performance is critical and therefore monitoring and early warning systems should be implemented, if not already in place.

6.4.2. Conclusion

Stellenbosch Municipality's improving liquidity indicators signal a positive financial trajectory marked by increased resilience and sound fiscal governance. The upward trends in the **Cash / Cost Coverage Ratio** and **Current Ratio** demonstrate a municipality that is not only meeting its current obligations but is also preparing for long-term sustainability and growth.

By proactively embedding best practices in financial planning, revenue enhancement, risk management, and stakeholder engagement, Stellenbosch can further solidify its reputation as a well-managed, future-ready municipality capable of delivering consistent, high-quality services to its residents.

6.5. Revenue Management

Ratio	Format	Norm	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Revenue Growth	percentage	>= 5%	13.3	9.4	11.9	22.5	-1.8	10.4	7.9	5.1	4.3	4.3	4.3	4.3	4.3	4.4
Revenue Growth (Excluding capital grants)	percentage	>= 5%	12.4	9.5	12	23.9	-1.9	9.9	8.4	4.5	4.5	4.5	4.5	4.5	4.5	4.5

Revenue Growth (% Including Capital Grants)

The spike in 2025 followed by a contraction in 2026 suggests volatility, possibly driven by once-off events, capital injections, or external shocks. While stabilisation in later years reflects improved forecasting and control, the lower growth rate may struggle to keep up with rising service delivery costs.

Revenue Growth (Excluding Capital Grants)

Excluding capital grants gives a clearer picture of organic revenue generation. The same volatility persists, emphasising the need for a stronger, more diversified, and resilient revenue base.

Implications for Financial Sustainability

- Irregular revenue growth, especially the decline in 2026, can strain budget execution, service continuity, and long-term planning. Municipalities require predictable and stable income to deliver basic services reliably.
- The projected revenue growth levelling off at 4.5% from 2030 onwards may not align with the increasing cost of service delivery, inflation, or infrastructure demands, which could cause a funding gap.
- If consumer account growth does not pace with revenue expectations, the municipality may be over-reliant on tariff increases, which could reduce affordability.

6.5.1. Strategic Recommendations to Strengthen Revenue Management

It has already been mentioned that SLM should explore alternative revenue sources for the Municipality and implement customer management practices to strengthen and retain the existing customer base.

Revenue in is closely linked to infrastructure availability and performance and with that, SLM should ensure infrastructure is maintained to perform optimally and align infrastructure expansion and upgrades with areas of population and economic growth to support increased account activation and revenue potential. This ensures capacity keeps up with demand, maintaining service quality and public trust.

Lastly, SLM should drive local economic development by investing in programs that stimulate SMME development, job creation, and sector diversification within the municipal boundaries. A stronger local economy will broaden the municipal tax base and supports sustained revenue growth.

6.5.2. Conclusion

While Stellenbosch Municipality has demonstrated periods of strong revenue performance, emerging volatility and flattening growth rates underscore the need for more strategic revenue management. By focusing on consumer growth, diversification, and proactive financial planning, the municipality can mitigate risks, unlock new revenue opportunities, and build a more resilient foundation for future service delivery.

6.6. Expenditure Management

Ratio	Format	Norm	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Creditors Payment Period (Trade Creditors)	value	<= 30 days	68	67	57	72	64	59	60	60	60	60	60	60	60	60
Remuneration as % of Total Operating Expenditure	percentage	25-40%	29.6	29.8	29.2	26.6	27	25.7	25.5	24.6	24.5	24.4	24.4	24.4	24.3	24.3
Contracted Services % of Total Operating Expenditure	percentage	2-5%	10.7	11.4	12.4	11.2	11.9	12.9	12	11.5	11.5	11.5	11.4	11.4	11.4	11.4
Remuneration and Contracted Services % Total Operating Expenditure	percentage		40.3	41.2	41.6	37.8	38.9	38.6	37.5	36.1	36	35.9	35.8	35.8	35.7	35.7

Creditors Payment Period (Trade Creditors)

The municipality has shown improvement in managing creditor payments, reducing the average period from **72 days in 2025 to 60 days by 2028**. This decline reflects efforts to strengthen liquidity and financial discipline. However, the payment period remains significantly above the accepted benchmark of **30 days**, potentially undermining supplier confidence and limiting the municipality's ability to negotiate favourable credit terms.

Remuneration as % of Total Operating Expenditure

This ratio has consistently remained within the National Treasury's guideline range of **25 - 40%**, with a **gradual decrease from 29.6% in 2022 to 24.3% by 2034**. A declining trend in remuneration expenditure may signal effective cost containment. However, prolonged underinvestment in personnel can lead to reduced staff capacity, low morale, and deteriorating service quality - particularly if critical posts remain vacant or skilled professionals are lost to better-paying employers. To address this, Stellenbosch Municipality has benchmarked salaries and undertaken adjustments to ensure that staff are remunerated in a fair and deserving manner and this practice must be maintained going forward.

Contracted Services as % of Total Operating Expenditure

This ratio was **10.7% in 2022** and is projected to remain above **11% through to 2035**, well above the typical **benchmark of 2 - 5%**.

The following are contributing factors to the higher contracted services amount for the Municipality:

- SLM acts as an implementing agent for housing projects for which it receives grants. These services are included in contracted services which distorts the contracted services amount.
- Security for the protection of critical infrastructure is also included in this amount. SLM are undertaking investment in security services linked to internal tactical response teams which will contribute to reducing this figure, the impact of which will be determined once implemented.

Persistent overreliance on outsourced services raises red flags regarding operational sustainability and cost efficiency. The contracted services expenditure would need to be analysed to assess the nature of the services and whether they should be brought in house. Excessive outsourcing, without rigorous cost-benefit analysis, can diminish the municipality's control over service standards and long-term expenditure. Strengthening internal capabilities could lead to more sustainable and cost-effective operations.

With the above in mind and in the case of SLM, when taking a view of the combined remuneration and contracted services ratio's, the total remains below the overall remuneration ratio (40%) from 2025 onwards, an indicator that the Municipality plans to effectively using external service providers and optimising the balance between internal and external support.

6.6.1. Strategic Recommendations for Expenditure Optimization

As mentioned previously, it is important to adopt zero-based budgeting to ensure alignment between expenditures and strategic priorities along with scenario planning in forecasting to account for potential macroeconomic shocks or funding gaps. It goes without saying that close monitoring of cash flow performance is critical and therefore monitoring and early warning systems should be implemented, if not already in place.

With regards to contracted services, SLM should undertake a comprehensive review of outsourced functions, identifying areas where internal capacity can be rebuilt or developed.

6.6.2. Conclusion

Stellenbosch Municipality's expenditure management trends reflect progress in some areas, such as improved payment periods and controlled remuneration costs. However, ongoing challenges, particularly related to high contracted service expenditure and underinvestment in human resources, could undermine service delivery and financial sustainability if left unaddressed.

By implementing the above recommendations, the municipality can strike a more effective balance between internal capacity, cost control, and strategic outsourcing - ensuring that it remains financially sound while delivering quality services to its residents.

6.7. Efficiency

Ratio	Format	Norm	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Net Operating Surplus Margin	percentage	>= 0%	0.2	4.8	4.7	16.1	5.2	6.1	7.8	4.4	4	3.8	3.5	3.4	3.3	3.3
Net Surplus /Deficit Electricity	percentage	0-15%	19.8	21.6	17.4	32.3	27.2	27.4	27.4	23.9	23.8	23.8	23.7	23.6	23.6	23.6
Net Surplus /Deficit Water	percentage	>= 0%	13.7	19.2	14.3	30.9	22.4	21.5	22.4	30.9	30.5	30.1	29.9	29.6	29.4	29.3
Net Surplus /Deficit Refuse	percentage	>= 0%	-23.9	41.1	-19.6	-19.6	-6.9	-3.4	-1.6	11.2	11	10.8	10.6	10.5	10.4	10.3
Net Surplus /Deficit Sanitation and Waste Water	percentage	>= 0%	-9.6	-15.4	-9.8	-0.7	-24.9	-26.2	-17.3	-11	-11.8	-12.4	-13	-13.4	-13.7	-14

A detailed examination of key efficiency metrics across municipal service sectors reveals both areas of progress and persistent challenges. The trends offer valuable insight into the municipality's capacity to operate sustainably and manage public funds effectively.

Net Operating Surplus Margin

The municipality's operating surplus margin of **0.2% in 2022**, signifying operational inefficiency. However, it improved markedly to **4.8% in 2023**, peaked at **16.1% in 2025**, and is projected to stabilize around **3 – 4% through to 2035**. This trajectory reflects a successful financial recovery and adherence to acceptable benchmarks (0 - 30%). A stabilised surplus margin enhances credibility with investors, lenders, and the public.

Net Surplus/Deficit – Electricity

Electricity services consistently recorded surpluses, with figures significantly **above the 15% normative range**, peaking at **32.3% in 2025**, then moderating to **23 - 24%**. Stellenbosch Municipality continues to have large surpluses from the energy sources trading services to cross subsidise other services operating at a deficit and also to contribute to the capital expenditure requirements of the Municipality.

Net Surplus/Deficit – Water

The water function shows a healthy and **consistently positive performance**, peaking at **30.9% in 2025**, then gradually tapering off. This reflects strong cost recovery and efficient water management, which enhances the municipality's financial resilience and justifies further reinvestment in water infrastructure.

Net Surplus/Deficit – Refuse Removal

The performance of refuse removal indicates a steep deficit in **2022 (-23.9%)** followed by stabilisation at a more sustainable level of **10–11% in 2029**. This is mainly attributable to Stellenbosch Municipality establishing a land fill and no longer utilising that of City of Cape Town at a much higher cost, further affirming the Municipality endeavours to focus on strategic asset management planning to achieve long term sustainability. The Municipality's commitment to achieving sustainable service delivery is further affirmed by the cost of supply study for Refuse that was undertaken in 2025. The revised tariff is phased in over the MTREF period and is reflected by the improvement to breakeven point in 2027/28.

Net Surplus/Deficit - Sanitation and Wastewater

A worrying and persistent decline from **-9.6% in 2022 to -26.2% in 2027**, with no sign of recovery by 2035. This is a critical area of concern, pointing to serious structural inefficiencies, underfunding, or capacity constraints in wastewater operations. It poses environmental, regulatory, and public

health risks alongside financial strain. The Municipality should do a cost of supply study for Sanitation and Wastewater in 2025 to also look at the tariff structure and recoverability of funds.

Implications for Financial Sustainability

Strengths

Strong surpluses in water and electricity improve the municipality's revenue base and open opportunities for reinvestment into capital projects or social programs. The improving operating surplus margin overall indicates progress toward financial efficiency and long-term sustainability.

Concerns

- **Sanitation and Wastewater:** Continued deficits threaten the municipality's overall fiscal balance. If unaddressed, they could require cross-subsidisation or emergency funding, weakening service delivery in other sectors.

6.7.1. Strategic Recommendations

SLM should introduce more sophisticated financial modelling to better anticipate surplus and deficit trends across sectors. This will improve resource allocation and support strategic planning.

With this in mind, the Municipality has taken steps in the right direction. SLM is undertaking a cost of supply study for Sanitation and Wastewater in 2025 to also look at the tariff structure and recoverability of funds. This will reduce structural inefficiencies, improve service quality, and restore financial health in this vital area.

The performance of refuse management has shown impressive improvement following the investment made in a local landfill site and cost of supply study undertaken. This sector should be closely monitored to ensure turnaround in performance is achieved as anticipated

6.7.2. Conclusion

Stellenbosch Municipality has made meaningful progress in improving its operational efficiency, especially in water, electricity, and overall surplus margins. However, persistent deficits in sanitation highlight the need for proactive and targeted interventions.

A strategic, data-informed approach that prioritises reinvestment, operational audits, and community engagement will be essential to ensure long-term financial sustainability and resilient service delivery across all sectors.

6.8. Grant Dependency

Ratio	Format	Norm	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Own funded Capital Expenditure (Internally generated funds + Borrowings) to Total Capital Expenditure	percentage	None	72.1	63.2	71.3	67.3	78.9	78.2	72.7	70	70	70	70	70	70	70
Own funded Capital Expenditure (Internally Generated Funds) to Total Capital Expenditure	percentage	None	34.2	36.5	38.6	44.4	48.6	48	57.9	50	50	50	50	50	50	50
Own Source Revenue to Total Operating Revenue (Including Agency Revenue)	percentage	None	85.6	85.9	86.1	85.2	87.9	86.7	87.5	87	87.2	87.3	87.5	87.6	87.7	87.8

Own-Funded Capital Expenditure (Internally Generated Funds + Borrowings) as % of Total Capital Expenditure

The ratio reached its **highest point in 2026 at 78.9%**, demonstrating the municipality's capacity to finance capital projects predominantly from its own resources. This follows a **dip from 72.1% in 2022 to 63.2% in 2023, after which the trend reverses with a gradual upward trajectory.**

The increasing trend post 2023 suggests a deliberate effort to strengthen internal financing mechanisms, which bodes well for fiscal autonomy. However, volatility in earlier years reveals the need for consistency in internal revenue and borrowing strategies.

Internally Generated Funds Only (Excluding Borrowings) as % of Total Capital Expenditure

Starting at **34.2% in 2022**, the percentage climbs steadily to **57.9% in 2028**, after which it **levels off at around 50% through 2035**.

The growing contribution of internally generated funds to capital expenditure is encouraging. To avoid a plateau after 2028 it is important for SLM to safeguard revenue growth and limit borrowing to fiscally sustainable levels.

Own Source Revenue to Total Operating Revenue (Incl. Agency Revenue)

This ratio remains strong and relatively stable at **approximately 85%**, with minor **incremental gains projected toward the latter years**.

A high own-source revenue ratio signals robust financial independence. It reflects the municipality's ability to fund its operational activities without undue reliance on intergovernmental grants, reinforcing budgetary flexibility and responsiveness to local priorities.

Impact on Financial Sustainability

Strengths

High levels of own-source revenue and self-funded capital expenditure position Stellenbosch Municipality among the more fiscally autonomous local governments. The trajectory of reduced dependency on conditional capital transfers allows for greater discretion in project selection and long-term infrastructure planning.

Concerns

Cyclical grant funding risks or higher debt reliance could pose a risk to SLM. The balance between internally generated funds and borrowings requires close management to prevent rising debt levels that could constrain future budgets.

6.8.1. Recommendations for Strengthening Fiscal Independence

Diversify and Strengthen Revenue Sources

- Broaden the Revenue Base: Introduce new income streams such as municipal service levies, tourism surcharges, or special economic zone contributions.
- Leverage Public-Private Partnerships (PPPs): Encourage co-investment in infrastructure projects to reduce sole reliance on municipal funds while stimulating local economic development.
- Improve Revenue Collection: Invest in advanced revenue collection systems (e.g., digitised billing, data analytics, and customer portals) to minimize leakages and maximize compliance.

Optimise Capital Expenditure Efficiency

- Conduct Cost-Benefit Analyses: Evaluate capital projects based on long-term value creation and financial return, prioritizing those that support economic growth and service delivery.
- Set Target Ratios for Self-Funding: Establish progressive benchmarks for internally generated capital funding, with annual targets and performance incentives.
- Integrate Capital Planning with Budgeting: Align long-term infrastructure needs with realistic revenue projections to avoid overextension or project delays.

6.8.2. Conclusion

Stellenbosch Municipality demonstrates commendable progress in reducing grant dependency and building a more self-reliant financial foundation. The municipality's strong own-source revenue position and increasing capacity to fund capital projects from internal sources mark critical steps toward sustainable governance.

However, to preserve this trajectory beyond 2028, deliberate interventions are needed to diversify revenue, control borrowing, and institutionalise long-term financial planning. By embracing innovation, fostering partnerships, and engaging stakeholders, the municipality can solidify its fiscal independence while continuing to deliver high-quality services and infrastructure to its community.

6.9. Municipal Sustainability Index (MSI)

Ratio	Format	Norm	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
MSI (Municipal Sustainability Index)	percentage	75-100	68	76	73	80	70	79	81	83	82	82	82	82	82	83

The MSI started at 68 in 2022. By 2023, it increased to 76, surpassing the minimum norm of 75. However, it fell slightly to 73 in 2024. This fluctuation indicates an early period of instability or adjustment as new sustainability measures might be implemented. From 2025 onwards, the MSI shows a steady upward trend, reaching 80 in 2025 and peaking at 83 in both 2029 and 2035. This indicates that the municipality successfully improved its sustainability metrics. The index stabilizes in later Years around the high 80s, demonstrating consistent performance and suggesting the municipality has implemented successful long-term sustainability practices.

Impact on Financial Sustainability

The improvement in MSI can substantially impact the municipality's financial sustainability through:

- **Increased Investment Attraction:** A higher MSI can attract investors and grants focusing on sustainable projects. The municipality may benefit from funding aimed at further improving its sustainability index.
- **Operational Efficiency:** Sustainable practices often lead to operational efficiencies, such as reduced water, energy consumption, and waste management costs, leading to savings and better allocation of resources.
- **Community Engagement:** Enhanced sustainability initiatives can improve community engagement, leading to better local business conditions and an increase in property values.

- **Compliance and Risk Management:** A strong focus on sustainability can prepare the municipality for future regulations and environmental challenges, reducing legal and financial risks.

6.9.1. Recommendations for Improvement

To further improve the MSI and ensure sustained financial sustainability, the municipality can consider the following strategies:

- **Invest in Renewable Energy:** Transitioning municipal operations to renewable energy sources (solar, wind, etc.) can reduce energy costs and emissions, contributing to a higher MSI.
- **Enhance Public Transport:** Developing efficient public transport solutions can decrease traffic congestion and air pollution, enhancing the sustainability metrics while improving public health and community appeal.
- **Focus on Community Education:** Launch awareness campaigns to engage citizens in sustainability practices. Providing workshops and resources for reducing waste and saving energy can create a community-oriented approach to sustainability.
- **Utilise Technology:** Implement smart technologies for resource management (water, energy, waste) to monitor and optimize usage, which can lead to increased efficiency and savings.
- **Evaluate and Adjust Policies Regularly:** Regularly assess the effectiveness of sustainability policies and adapt them based on outcomes and emerging best practices. Ensure that there's flexibility to make necessary changes to remain aligned with long-term sustainability goals.
- **Collaborate with Stakeholders:** Build partnerships with local businesses, non-profits, and educational institutions to foster innovations in sustainability practices. This could lead to shared resources and knowledge that enhance outcomes.

By implementing these recommendations, the municipality can continue to improve its Municipal Sustainability Index and enhance financial sustainability in the long run.



7. CONCLUSION

The Long-Term Financial Plan (LTFP) for Stellenbosch Local Municipality (SLM) provides a comprehensive financial overview and projections for the ten-year period up until 30 June 2035. The key findings from the report indicate a growth trajectory in various revenue streams, including exchange revenue, service charges, and operational revenue. Exchange revenue is projected to increase from R1,860 million in 2026 to R3,078 million by 2035, while service charges for electricity, water, waste water management, and waste management show consistent growth. Total revenue, excluding capital transfers, is expected to grow from R2,861 million in 2026 to R4,642 million by 2035.

On the expenditure side, total expenditure is anticipated to rise from R2,713 million in 2026 to R4,490 million by 2035, with employee-related costs being a significant contributor. The surplus/deficit is projected to remain positive throughout the forecasted years. Cash flow analysis indicates an increase in cash receipts from R3,211 million in 2026 to R4,501 million by 2035, while cash payments will also rise, indicating a growing financial footprint. The funding mix shows a reliance on internally generated funds, transfers, and borrowing, with capital transfers constituting a significant portion of the funding.

The gearing trends paint a positive picture of Stellenbosch Municipality's liability management efforts. SLM's liability management trends reflect a disciplined and forward-looking approach to financial governance. With decreasing reliance on debt, rising solvency, and manageable capital costs, the Municipality is on a positive trajectory. If the Municipality can outperform the forecast, there will be room to take on additional borrowing, however any additional borrowing should be applied to revenue and growth generating assets. By continuing to refine its financial strategies, Stellenbosch can safeguard long-term sustainability while meeting the evolving needs of its communities.

Based on these findings, the following recommendations are made:

1. **Enhance Revenue Streams:** Focus on strategies to further enhance exchange revenue and service charges to ensure sustained financial growth.

2. **Manage Expenditure:** Implement measures to control contracted services and other significant expenditure items to maintain a reasonable surplus to fund investment in catalytic infrastructure projects and infrastructure renewal.
3. **Optimise Cash Flow:** Develop strategies to optimise cash flow management, ensuring that cash receipts and payments are balanced to support the municipality's financial stability.
4. **Diversify Funding Sources:** Explore opportunities to diversify funding sources, reducing reliance on borrowing and increasing internally generated funds and capital transfers.

By implementing these recommendations, Stellenbosch Local Municipality can achieve its financial goals and ensure long-term sustainability.



ANNEXURE A – AFFORDABILITY ENVELOPE

Capital Expenditure Affordability and Funding

- **Total 10-year CAPEX Affordability (2026-2035):** The projected capital expenditure over the 10-year period (FY2026-FY2035) totals approximately R5.34 billion. This includes budgeted figures for 2026-2028 and an assumed affordable level of R500 million per year from 2029 onwards.
- **MTREF Capital Funding Mix (2026-2028):** The funding mix for the first three years (MTREF period) is projected as follows:
 - **Capital Expenditure:** R654m (2026), R658m (2027), R529m (2028). Total = R1.84billion.
 - **Funding Sources (R'Million):**
 - Capital Transfers/Grants: R138 (2026), R143 (2027), R144 (2028). Total = R426m (~23%).
 - Borrowing: R198 (2026), R199 (2027), R78 (2028). Total = R475m (~26%).
- **10-Year Capital Funding Mix (2026-2035):** The overall funding mix for the 10-year planning period is forecasted as follows:
 - **Capital Grants:** R1.476 billion (~27.6%)
 - **Borrowing:** R1.175 billion (~22.0%)
 - **Internally Generated Funds:** R2.690 billion (~50.4%)
 - **Total Capital Expenditure:** R5.341 billion (100%)

Liquidity

- **Cash Balance Forecast:** Cash and cash equivalents are projected to show strong growth, increasing from R667 million in 2026 to R1.964 billion by 2035.
- The **Current Ratio** (Current Assets / Current Liabilities) improves significantly from 1.9 in 2026 to 3.5 in 2035, remaining well above the typical benchmark of 1.5-2:1, indicating strong short-term financial health.



- The **Cash/Cost Coverage Ratio** (excluding unspent conditional grants) also shows a positive trend, rising from 3.0 months in 2026 to 5.2 months by 2035, signifying an increasing ability to cover operating costs with available cash.

Gearing

- **Gearing Ratio Forecast:** The ratio of Debt (Total Borrowings) to Revenue shows a positive downward trend, projected to decrease from 29.3% in 2026 to 11.8% by 2035, indicating reduced reliance on debt relative to income. This remains comfortably below the benchmark of $\leq 45\%$.
- **Debt Service Ratio Forecast:** The Capital Cost (Interest Paid and Redemption) as a percentage of Total Operating Expenditure is projected to increase gradually from 5.2% in 2026 to 7.0% by 2035. This stays within or very close to the acceptable norm of 6-8%, indicating manageable debt servicing obligations.

Conclusion

The affordability analysis based on the 2025 LTFP suggests that the projected capital expenditure program of R5.52 billion over ten years is affordable within the forecasted financial framework. This is supported by strong projected growth in own revenue sources, a significant contribution from internally generated funds towards Capex, improving liquidity ratios, and manageable debt levels. Key assumptions include maintaining collection rates, controlling expenditure growth, and achieving the projected revenue targets.