

## **COW Management Committee – Overview & Analysis of financial status of COW presented by Cllr. Jurgen Hecht**

### **1. History of Losses**

COW has incurred cumulative losses of **2, 8 billion Namibian Dollars** over the past nine years. That is over 2 800 million Dollars – from 2012 to 2020. We obtained the 2021 draft financials last week – another loss of N\$ 480m for the 2021 financial year was recorded; this brings the cumulative loss to N\$ 3,2 billion over a ten-year period.

What development could have been done with this N\$ 3,2 billion loss?

**Solvency:** No commercial enterprise would have survived such an amount of losses and would have been declared bankrupt within two to three years. Solvency means in principle the ability of an organization to settle its long-term obligations as they become due; this means COW cannot settle its current expenses and liabilities by means of its cash resources and outstanding debtors.

The 2020 audit report by the Auditor General states “that there is a material uncertainty on the commercial insolvency of COW in the foreseeable future, as at 30 June 2020, COW’s current liabilities of N\$ 2.3 billion exceed its current assets of N\$ 1,64 billion by N\$ 1,259 billion. Thus there is commercial solvency risk on the ability of COW to settle its creditors in the normal course of business. “

At 30 June 2020, there was thus a shortage of N\$ 1,259 billion to cover the city’s immediate expenditure; in view of the 2021 draft financials, this shortage will be N\$1,1 bn for the financial year 2021.

One of the solutions considered, was to sell undeveloped (virgin) land back to Government for an amount still to be negotiated. If this materializes, then COW would be selling its “golden eggs”/sacrificing future profitable land sale proceeds & development and future availability of land to its residents to remedy a current cash flow & solvency issue due to inherent mismanagement over many years.

We have instructed the Property Department to present to us a comprehensive overview of all “virgin” land belonging to COW to assess exactly how much unsold land and land to be developed, COW has at its disposal for future development.

### **2. Current Cash Flow Scenario**

COW presently uses a N\$ 200m overdraft facility to survive its day-to-day operations. Last week we were again very close to the N\$ 200m limit. **This N\$ 200m overdraft facility is presently COW’s absolute lifeline!**

COW’s monthly cash inflows vary from N\$ 350 to N\$ 450m and NamWater, NamPower & Salaries of N\$ 50m, N\$ 130m & N\$ 135m respectively are the biggest monthly costs of approx. N\$ 300m before any other running expenses are considered. It is thus very evident that, apart from any exceptional land sale revenue, COW is stuck in a cash flow dilemma for which no financial strategy and remedy has been found over the past few years.

### **3. Outstanding Debtors**

COW's total outstanding debtors as at 31 March 2022 amounted to N\$ 1,2 bn, of which N\$ 929m was in arrears. N\$ 450m of the debts were handed over for collection, pensioners owing N\$ 95m, normal clients & businesses N\$ 120m, Soe's & Govt owe N\$ 78m etc. were some of the biggest individual debtors as at March 2022.

The historical poor management of cash collections is an integral part of COW's cash flow dilemma. Total Impairments (provision for bad debts) of N\$ 701m were provided on 30 June 2020 – with an efficient collection system this could have been largely avoided. Bad debts are inevitable in any business, but in the case of COW these are completely out of proportion.

This implies that COW's management is not able to collect its own revenue.

### **4. Excessive Remuneration Policy**

It is no secret that COW pays some of the highest salaries in Windhoek, if not in the entire country. COW employees in general earn between 30 to 40% above market rate salaries and this fact poses in itself a major problem to its cost structure. The 30% to 40% above market-related remuneration was confirmed by the SE of Human Capital in his 2022/23 budget presentation – please see the attached sheet for confirmation.

This was apparently caused by Trade Unions bargaining for minimum wages of N\$ 15 000 per month (some years ago) for the lowest job grades A to C, which then had an upwards ripple effect on the entire salary remuneration structure of COW.

Be that as it may, budgeted employment costs of N\$ 1,63 billion (N\$ 136m monthly) for 2022/23 with a 25% reduction would result in an immediate N\$ 410m saving. (a reduction by 30% would imply savings of N\$ 500m).

A zero budget was the aim of CoW management for 2022/23, this saving of N\$ 410m could have been the envisaged profit for 2022/23. Needless to say, any reductions on salaries (if CoW would have paid market-related salaries) would have reduced the N\$ 3,2 billion loss over the last ten-year period.

### **5. Staff Vehicle Finance Loans and Staff Loans**

COW has a vehicle financing facility with Wesbank for N\$ 100m. Of this N\$ 100m facility, N\$ 36m is used by COW staff, as COW grants very favourable vehicle financing terms to its City Executives and other management staff (Grade D and higher). The initial loan value was N\$ 52m, of which N\$ 36m is outstanding at June 22. This was done in accordance with COW staff & remuneration policies, which permits senior staff to be entitled to vehicle loans at an interest rate of 5% per annum, repayable over a maximum of five years. The actual interest rate which COW pays on this facility is higher and fixed to the prime rate of currently 8,5% and COW finances the interest rate differential of 3,5%. With further rising interest rates to be expected and the prime rate expected to also rise by most probably 0.75%, as announced last week in South Africa, these vehicle loans would then cost COW 9,25%, of which only 5%

is being borne by COW employees - again the then new interest differential of 4,25% would be financed by the COW residents.

COW also advanced staff loans for study purposes to the amount of N\$ 16m by 30 June 2022, repayable over 36 months. No interest rate is charged on these study loans. A detailed analysis of these has been requested.

## **6. Post-Retirement Health Care Benefits**

COW is further severely burdened financially by having offered a significant number of its personnel post-retirement health benefits. This is financially fatal as it means that upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependents may continue membership of the medical scheme.

Currently 593 retirees enjoy this health care benefit – this presently costs COW N\$ 2,3m per month - approximately N\$ 4 258 per month per member.

Of the current active staff a further future 1875 employees are entitled to this benefit once they retire. It is assumed that 90% of in-service members will remain on the municipality's health care arrangement, should they stay until retirement. This is an open-ended liability and the thought that COW eventually has to finance over 2000 or more medical aid contributions on behalf of its retired staff in future at ever-increasing medical fund contributions, is devastating. This financial obligation is detrimental and will haunt COW's already strained capability for many years to come.

At 30 June 2021 a provision of N\$ 731m (2020 – N\$ 663m) had been created to provide for this future benefit, a further provision of N\$ 112m made for 2022/23 – thus a provision of N\$ 850m n for post-retirement health care benefits!

## **7. City Police**

City Police employees earn approximately twice as much as any Nampol staff member of any equal rank.

COW presently has 414 active staff members and the head of COW Police claims a further 193 vacancies presently for City Police for further efficiency. Salaries budgeted for the new financial year (2022/3) are N\$ 230m, being 90% of its entire cost structure. Only N\$ 19m of income is budgeted, mainly comprising traffic fines and a N\$ 8,5m contribution from RFA.

It remains a fact that, however valuable this sector is, the City Police's cost structure, with an existing Nampol presence in Windhoek and therefore to an extent a duplication of services at the cost of the Windhoek resident, is, under the present financial circumstances, simply unaffordable.

## **8. COW Bus Services**

Bus services are making a N\$ 70m loss – the existing pool of 50 bus drivers each earning N\$ 600 k p.a. Only 25 to 30 bus drivers are required daily, the remaining 20 bus drivers are on stand-by. This is simply not feasible, considering the present financial dilemma.

## **9. Budget 2022/23**

We had lengthy meeting and individual department presentations, and the directive was to save costs and expenses for this new financial year 2022/23. Expenses have been cut to the bone; according to our opinion to such an extent that certain service deliveries are under real threat. The latest 22/23 budget figures we as councilors received was a surplus of N\$ 297m – however, non-cash expenditure of N\$ 663m resulted in a shortfall of N\$ 369m, as the non-cash expenditure (depreciation charges of N\$ 552m and defined benefits expenses of N\$ 112m) had not been communicated to the Council.

The initial Capex budget of N\$ 1,1 bn was reduced to N\$ 630m – even this envisaged reduction in expenses is unlikely to be achieved.

## **10. Future Major Capital Projects**

- We are extremely concerned about the future water supply for COW, as COW has an unaccounted water loss of approximately 25% to 30% due to our currently existing water pipe infrastructure. If this is correct, then for every 100 cubic metres water bought from Namwater, COW only manages to bill 75 cubic metres. This is due to ageing and brittle water pipes, so-called reticulation losses, as well as staff and metering problems. No maintenance has been done whatsoever over the past few years, and it would be necessary to invest N\$ 100m in our water pipe infrastructure over the next 5 years.

- COW requires bigger output capacity on its current water treatment plant 'New Goreangab WTP', (NGWTP). Similarly, the Gammams WTP, which pretreats and filters the direct domestic sewerage water and feeds this to NGWTP, must be upgraded. Thus a new and higher capacity WTP needs to be built within the next four years at estimated costs of N\$ 1,2 billion. Water produced by NGWTP costs approximately N\$ 8 per cubic metre - this makes up 24% of the total water bought and is 36% cheaper than water bought from Namwater and.

- The Kupferberg Landfill site will reach the end of its lifespan in two years' time; costs for a new and proper substitute landfill are currently estimated at N\$ 230m. This was recently presented to us as MC as part of an Integrated Waste Management Plan for the following 5 years until 2027, however no details were provided as to how the total envisaged cost of N\$ 303m will be financed.

No strategic financing is available for these two major capital projects amounting to approximately N\$ 1,5 billion.

## **Summary**

These are some of our findings which we discovered on scrutinizing the proposed 2022/23 budget. We regard it as vital to share and draw your attention to these findings as this dire situation cripples and will continue to cripple the performance and service-delivery of COW both presently and for the near future; irrespective of which political party/ies dominate/s in Council.

It should therefore also be very clear to the public why the Management Committee and ultimately the Council will not be able to deliver and perform in the near future at COW.

COW is a Titanic which has hit the bottom of the ocean; its present only lifeline being its N\$ 200m overdraft facility with FNB Namibia. It will take very ingenious and committed financial engineering along with some ruthless decisions to get this ship raised from the sea bottom to independently start sailing the wide-open ocean again.

<b>Grade</b>	<b>% Above Market Average per Grade</b>
A3	620 %
B1	268 %
B2	198 %
B3	159 %
B4	178 %
B5	181 %
C1	134 %
C2	158 %
C3	142 %
C4	115 %
C5	150 %
D1	140 %
D2	135 %
D3	144 %
D4	144 %
D5	154 %
E2	174 %

