INCA
Portfolio Managers

GEORGE MUNICIPALITY

Long-Term Financial Plan – ***Update 2024***

GEORGE
THE CITY FOR ALL REASONS

Prepared by
INCA Portfolio Managers
May 2024

REPORT OVERVIEW – INTRODUCTION AND BACKGROUND

The George Municipality appointed INCA Portfolio Managers in 2014 to prepare a Long-Term Financial Plan. The deliverable of that assignment was a report entitled *George; Long Term Financial Plan: 2014/15 – 2023/24*; March 2015. A more recent Long-Term Financial Plan was developed in April 2023 based on the FY2021/22 financial information. This 2024 update aims to update the LTFP based on the latest available information and report on the findings.

The objective of a Long-Term Financial Plan is to recommend strategies and policies that will maximise the probability of the municipality's financial sustainability into the future. This is achieved by forecasting future cash flows and affordable capital expenditure based on the municipality's historic performance and the environment in which it operates.

A summary of the demographic, economic and household infrastructure perspective was updated with the latest available information as published by S&P Global Market Intelligence. The historic financial analysis was updated with the information captured in the municipality's audited financial statements of 30 June 2023 along with the Tabled Budget for FY2024/25. IPM adapted its Long-Term Financial Model (LTFM) to include and project key effects of the energy crisis through the inclusion of a load shedding scenario. An additional scenario was run to indicate the impact of the abnormal depreciation charges driven by the elevated levels of capital investment made possible by the BFI grant funding. This adapted model was populated and run with this latest information, and the outcome thereof is reported herein.

Our Update Reports normally do not include a renewed analysis of the Asset Register in estimating the capital demand (as was the case in the Long-Term Financial Plan), municipal documents (viz. IDP, Master Plans, etc.) and conversations with management. The conclusions reached in this report are complimentary to the recommendations made previously.

ABBREVIATIONS USED

AFS	Annual Financial Statements
CAPEX	Capital Expenditure
CRR	Capital Replacement Reserve
CPI	Consumer Price Index
FY	Financial Year
FYE	Financial Year Ended
GVA	Gross Value Added
IP	Investment Property
IPM	INCA Portfolio Managers
LM	Local Municipality
LTFM	Long-Term Financial Model
LTFP	Long-Term Financial Plan
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts
MRRI	Municipal Revenue Risk Indicator
MTREF	Medium Term Revenue and Expenditure Framework
NERSA	National Energy Regulator of South Africa
NT	National Treasury
OPEX	Operational Expenditure
PPE	Property, Plant and Equipment
R ‘000	Rand x 1 000
SA	South Africa
S&P	S&P Global Market Intelligence ReX v2434

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EXECUTIVE SUMMARY

KEY FINDINGS AND CONCLUSIONS DRAWN FROM THE 2024 LTFP UPDATE

HIGHLIGHTS FROM THE FY2022/23 FINANCIAL RESULTS

- George's liquidity position is healthy with a ratio of 1.50:1 as at FYE2022/23; although a decline from 2.05:1 as at FYE2021/22.
- An operating surplus (excluding capital grants) of R1.7 million was posted in FY2022/23; following a surplus of R16.8 million in the prior year. The energy crisis had a significant impact on financial performance.
- Cash generated from operations (excluding capital grants) increased to R493.5 million during FY2022/23, notwithstanding a decline in the collection rate to 92%. The collection rate averaged 95% over last 5 years.
- The electricity surplus margin declined to 23.9% in FY2022/23. A downward trend has been observed since FY2017/18. NERSA tariff increases have resulted in a diminishing of surplus margins as municipalities are unable to fully pass on the added cost to the consumer. Electricity distribution losses remained acceptable at 8.52%.
- Water distribution losses of 27.22% exceeded the NT benchmark.
- Total grants received (R1.04 billion) constituted 34% of total revenue (R3.05 billion) in FY2022/23.
- The municipality's unencumbered cash and cash equivalents of R843.9 million exceeded the NT and statutory minimum liquidity requirements of R741.8 million - resulting in a cash surplus of R102.1 million. George has posted cash surpluses throughout the review period.
- Gearing and debt-service to total operating expenditure ratios were 11.7% and 1.3%, respectively, providing scope for additional borrowing to fund capital expenditure.
- Repairs and maintenance expenditure as a percentage of PPE & IP came in at 5.9% in FY2022/23. This is reasonably low relative to the NT norm of 8%, however, the acceleration of capital expenditure in recent years has contributed to an increase in the value of PPE & IP. As such, the increase in repairs and maintenance expenditure is positive to note.

LONG-TERM FINANCIAL PLAN UPDATE

George LM has budgeted for operating surpluses throughout the planning period. With operating surpluses posted in 3 of the last 4 financial years, this seems a plausible outcome. This will, however, take a concerted effort to be achieved as the extent of the budgeted surpluses represent an improvement on the historic performance. The LTFM outcomes suggest that while the forecast for financial performance and cash generation is strong, the current MTREF will result in an unsustainable liquidity position. This is driven by the extent of the budgeted acceleration of the capital investment and borrowing programmes. Necessary adjustments have thus been made to formulate a sustainable Base Case. These adjustments address the underlying drivers of the unsustainable outcome.

The key assumptions made in arriving at the Base Case are listed below:

1. A collection rate of 96% is assumed throughout the planning period.
2. The model incorporated the increases in revenue and expenditure items as announced in the Tabled Budget.
3. Tariff increases were included as put forward in the Budget Document FY2024/25.
4. Creditors days were adjusted downwards to mitigate the forecast rise in creditors.
5. The Tabled Budget capital investment programme was reduced over the MTREF period, as follows:
    - FY2025/26: R800 million (from R1 092 million)
    - FY2026/27: R650 million (from R772 million)

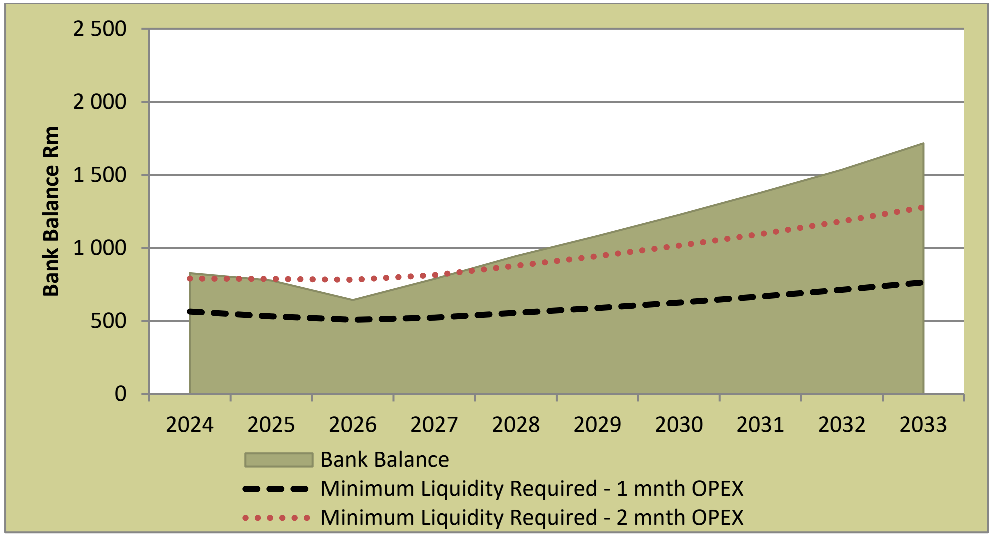
   Assumed growth in capital investment beyond the MTREF period is 5% p.a.
6. The Tabled Budget borrowing programme was reduced over the MTREF period, as follows:
    - FY2024/25: R400 million (from R466 million)
    - FY2025/26: R500 million (from R634 million)
    - FY2026/27: R235 million (from R504 million)
7. The annual borrowing under this scenario was adjusted to an average of **15-year** amortising loans at a fixed interest rate equal to 4% over forecast CPI in any given year. Assumed annual growth in borrowing beyond the MTREF period is 4%.
8. Repairs and maintenance expenditure was reduced to 5% of PPE & IP.
9. Electricity losses were maintained at FYE2022/23 levels, while water distribution losses were reduced to 20.0% over a 5-year period.

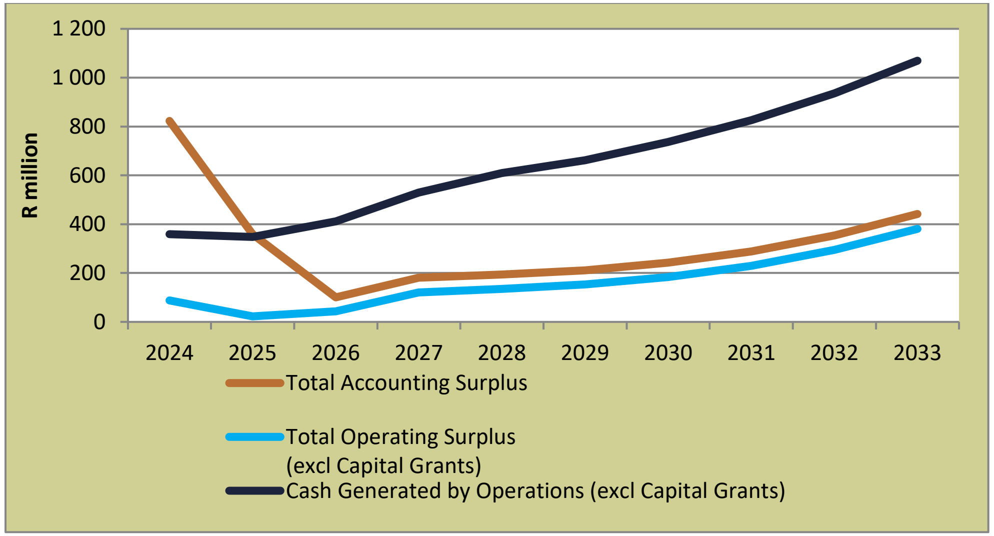
LONG-TERM FINANCIAL MODEL OUTCOMES

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

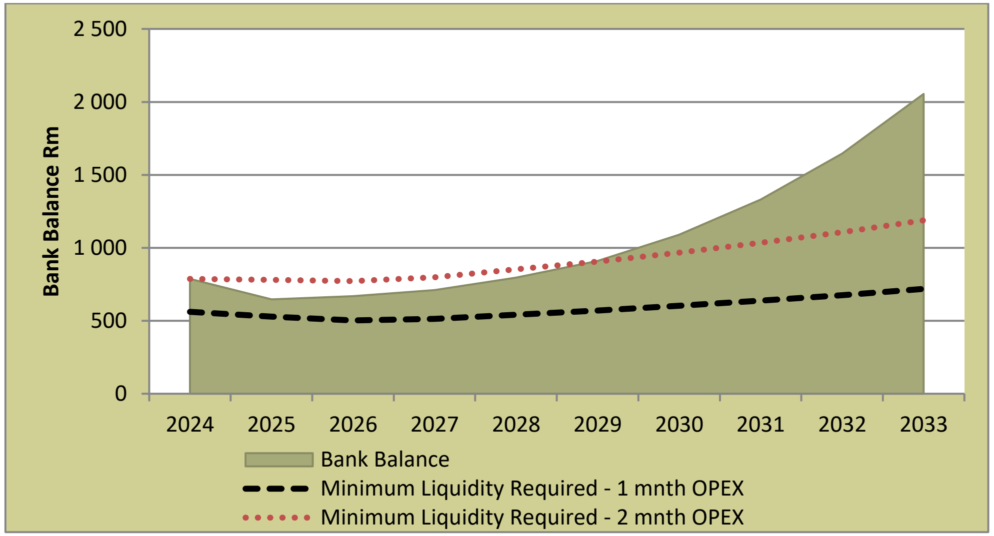
Outcome	MTREF Case	Base Case
Average annual % increase in Revenue	9,5%	8,9%
Average annual % increase in Expenditure	10,4%	9,4%
Accounting Surplus accumulated during Planning. Period (Rm)	R 3 195	R 3 965
Operating Surplus accumulated during Planning. Period (Rm)	R 1 651	R 2 421
Cash generated by Operations during Planning. Period (Rm)	R 6 486	R 6 228
Average annual increase in Gross Consumer Debtors	10,6%	10,2%
Capital investment programme during Planning. Period (Rm)	R 9 869	R 8 481
External Loan Financing during Planning Period (Rm)	R 5 384	R 3 051
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 1 715	R 2 055
No of Months Cash Cover at the end of the Planning Period (Rm)	3,3	4,4
Liquidity Ratio at the end of the Planning Period	0.9 : 1	1.9 : 1
Gearing at the end of the Planning Period	40,5%	31,6%
Debt Service to Total Expense Ratio at the end of the Planning Period	12,2%	6,1%

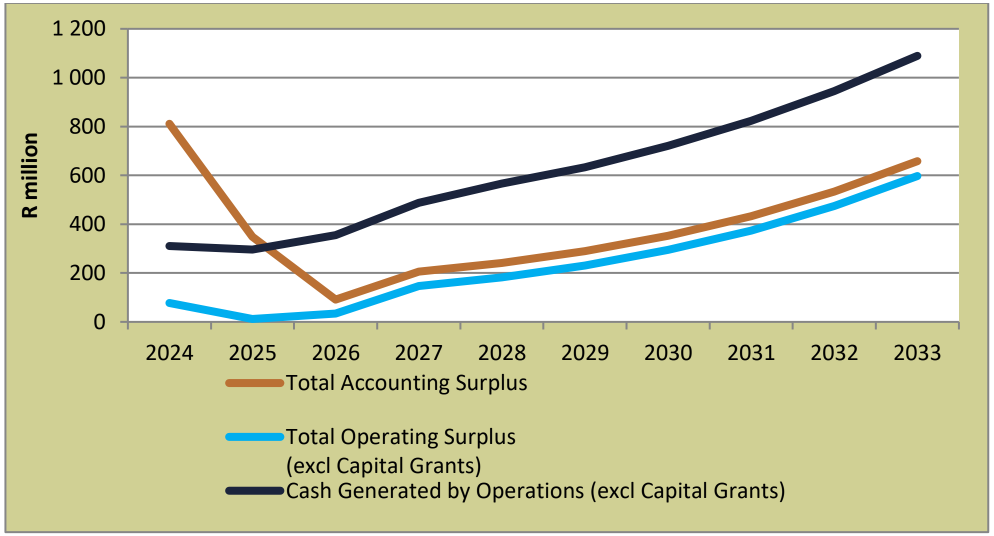
MTREF Case Scenario





Base Case Scenario





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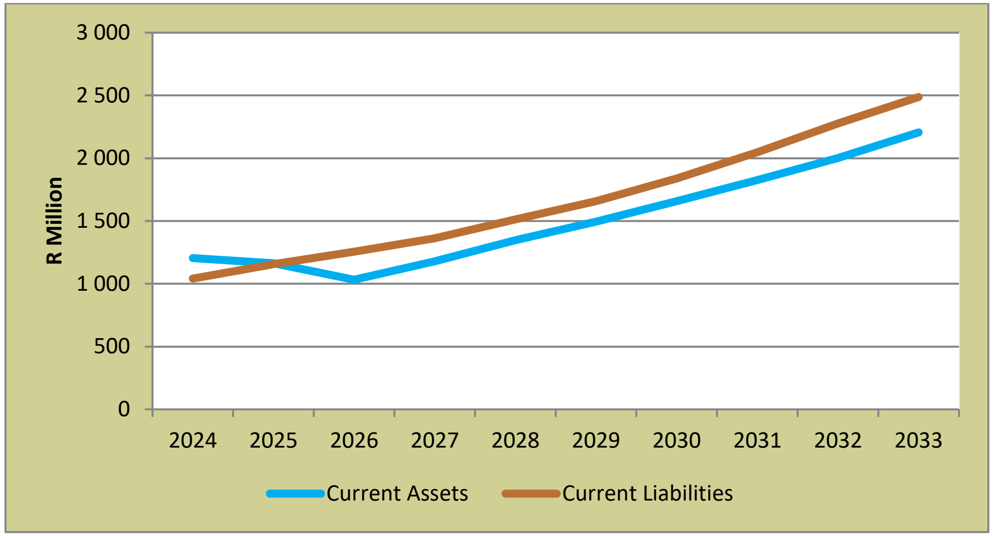

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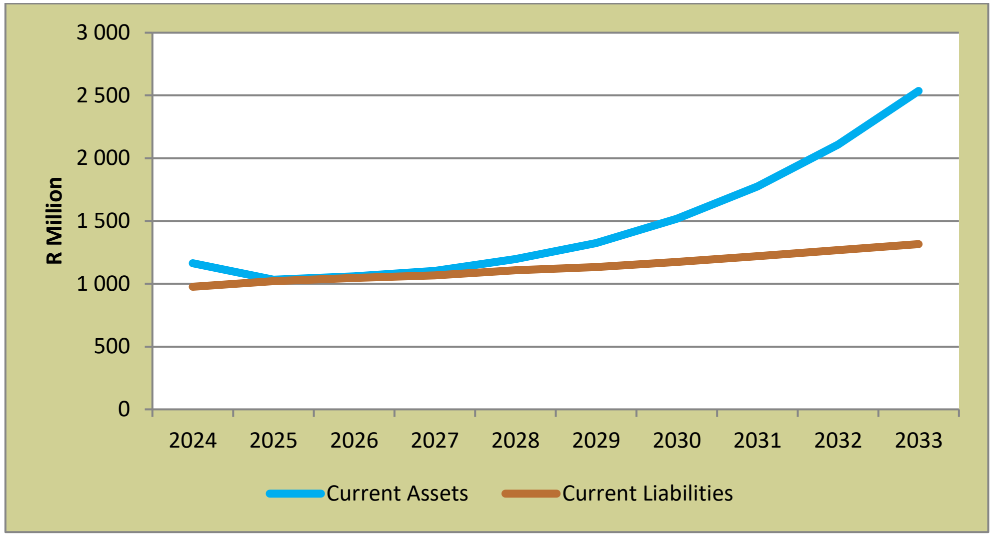
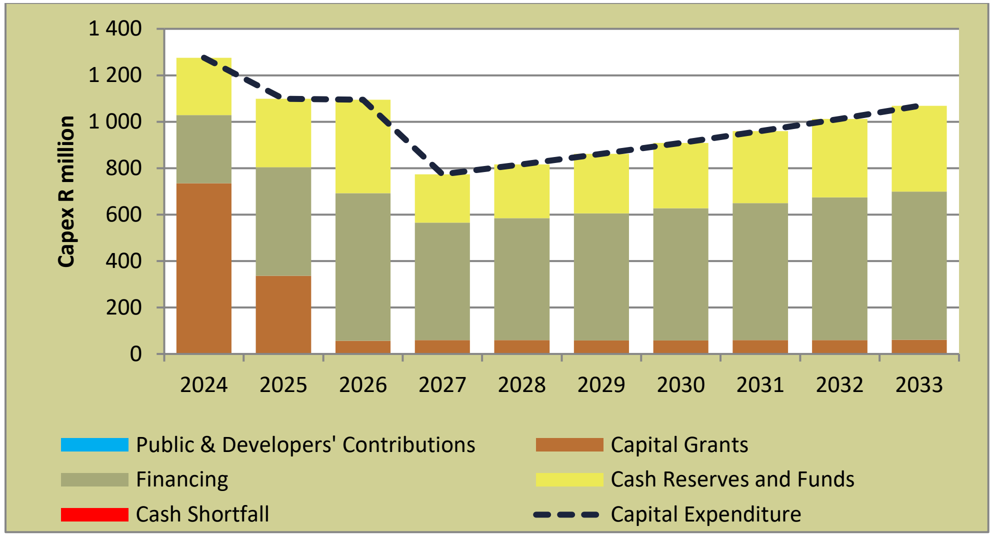
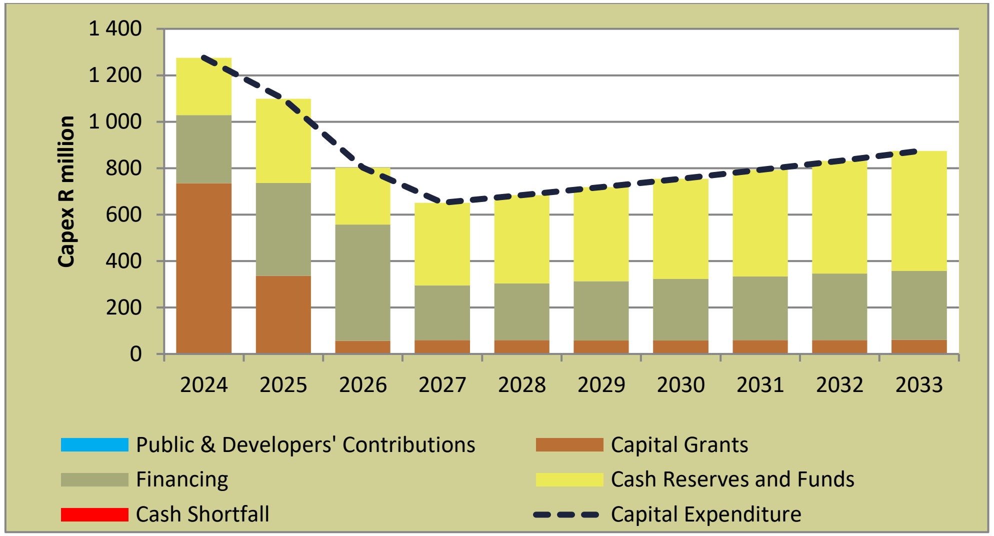
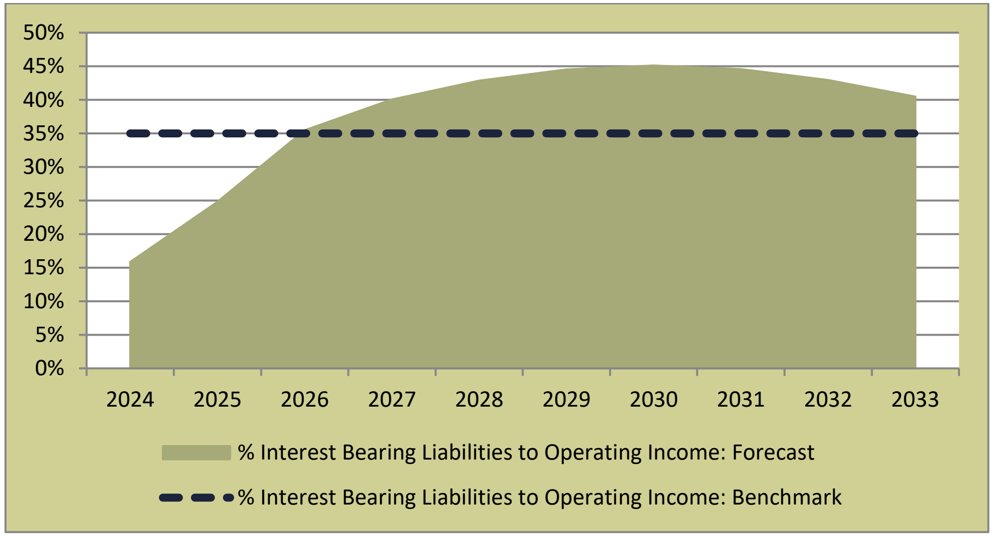
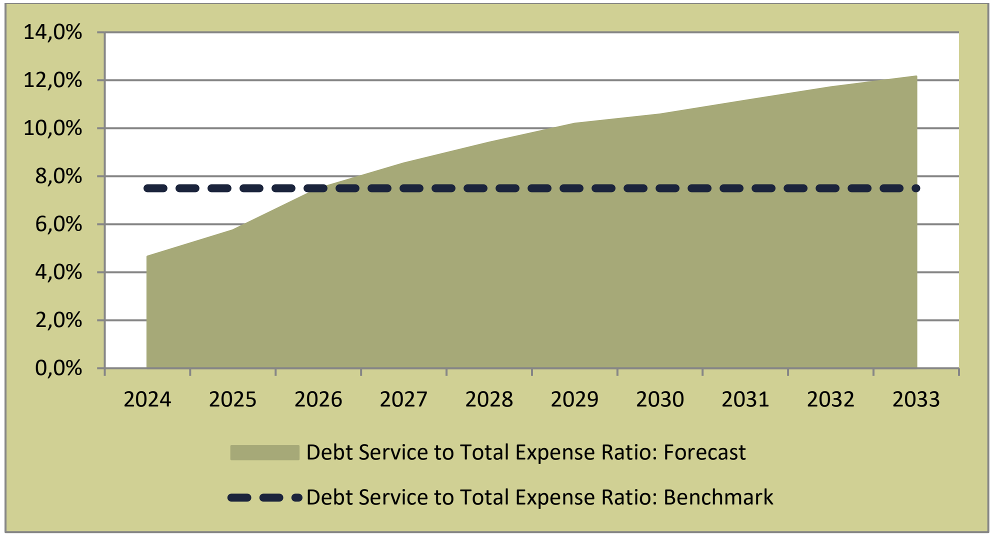




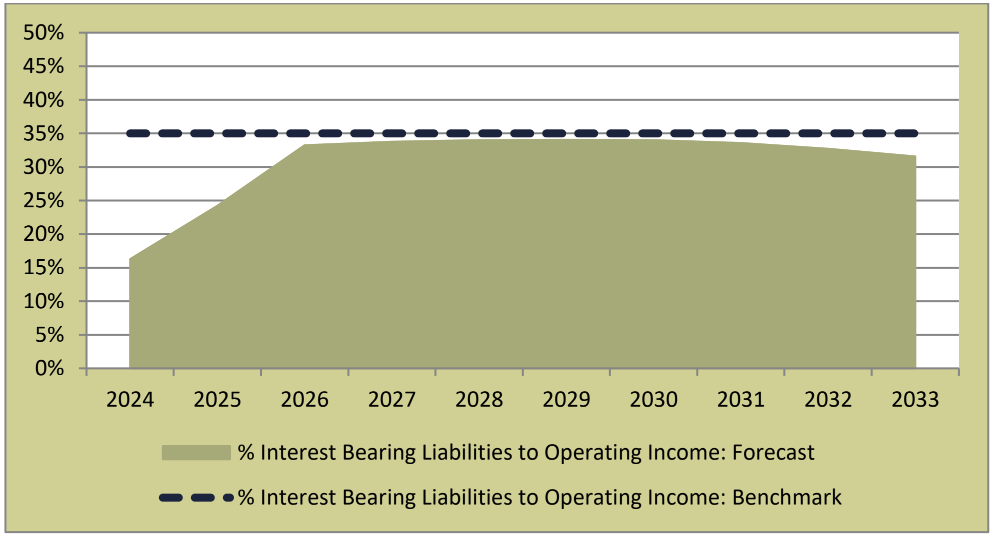


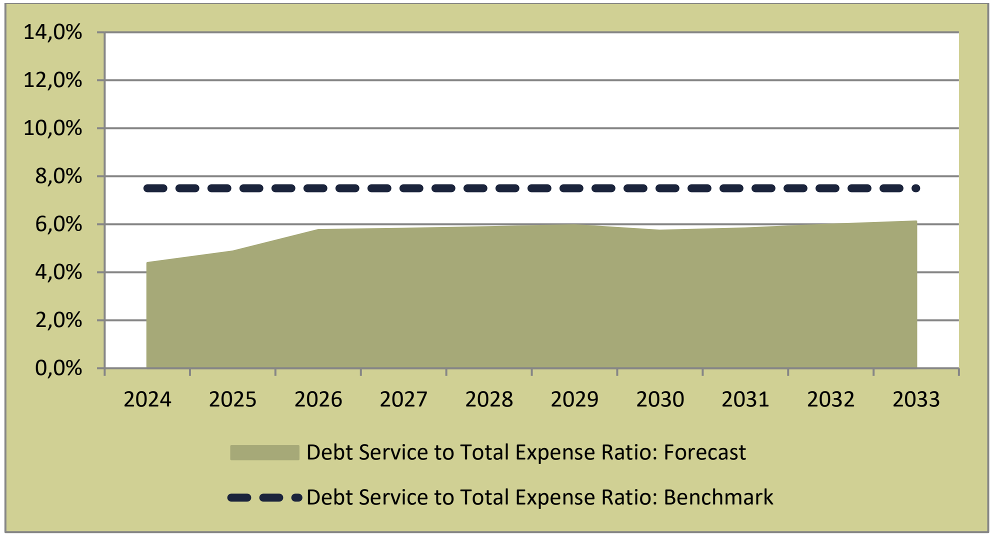
MTREF CASE SCENARIO





BASE CASE SCENARIO





RECOMMENDATIONS

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

1. Maintain an optimised funding mix that strikes a balance between the utilisation of external borrowings and own cash as a supplement to capital grant funding. The municipality must be wary of not overleveraging the debt profile. It is further recommended that the loan tenor on new debt is extended to 15 years.

2. Maintain a balanced approach for the long-term capital investment programme which prioritises investments that contribute to economic growth and revenue generation and prioritise timeous investment in bulk infrastructure. The BFI and renewable energy projects are key examples of this.

3. Review the extent of the acceleration of capital expenditure included in the Tabled Capital Budget. Accelerated capital investment cannot come at the cost of long-term sustainability.

4. Formalise a capital investment prioritisation and tracking system to optimise management's capital investment decisions and mitigate the risk of underspending on capital projects.

5. The municipality must maintain its ability to post surpluses and to generate cash from operations through ensuring that actual expenditure remains within the budgeted limits. Further to this, the municipality must ensure that the revenue targets set in the Tabled Budget are met.

6. Prevent a deterioration of the collection rate through the implementation of measures such as strict credit control, debt collection procedures etc. A collection rate in excess of 95% must be maintained at a minimum, with further improvements targeted.

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

8. Update the long-term financial plan annually with the most recent information to remain a relevant and valuable strategic tool that serves as input to the annual budgeting process. Continue the ongoing utilisation of the long-term financial model to support strategic financial decision-making in the municipality.

9. Finally, George's current position of financial strength is a product of a sustained period of employing sound financial and operational management principles. The municipality must be commended for maintaining the health of the municipality's financial situation whilst navigating a challenging external environment. This has enabled the municipality to invest in critical bulk infrastructure as needed.

LTFP UPDATE REPORT 2024

INTRODUCTION

This report reflects the detailed observations having assessed the Demographic, Economic & Household Infrastructure changes, together with the municipality's financial performance as reflected in the 2022/23 audited financial statements and the updated LTFM utilising information contained in the Tabled Budget for the period 2024/25-2026/27.

DEMOGRAPHIC, ECONOMIC AND HOUSEHOLD INFRASTRUCTURE

- The economic recovery post-pandemic continued in 2022, with GVA growth of 3.0%. This followed growth of 4.1% in 2021 after the contraction of 5.5% in 2020. The 5-year average GVA growth rate was sluggish at 0.6% p.a.

- The population growth rate came in at 1.49%; an increase from 1.36% in 2021. The 5-year average population growth rate was 1.60% p.a. The economically active population as a percentage of total population increased to 39.5% in 2022 from 37.0% in the prior year.

- Concerning to note, is the trend of population growth exceeding economic growth. This results in an impoverishment of the population.

- The official unemployment rate dropped marginally to 24.0%; lower than that of the district (25.2%), province (24.5%) nation (33.8%). It must be noted that the current narrow definition of the unemployment rate excludes discouraged workers - thus it is reasonable to assume that the true figure, upon inclusion of discouraged workers, is far higher.

- Finance (16 643 jobs) remained the predominant provider of employment in George in 2022, followed by trade (12 096 jobs).

- The Tress Index of 44.69 indicates a reasonably concentrated economy underpinned by primarily four sectors: Finance (24.8%), Community Services (21.1%), Trade (16.4%) and Manufacturing (14.5%). Together these four subsectors constituted approximately 76.8% of economic output in 2022.

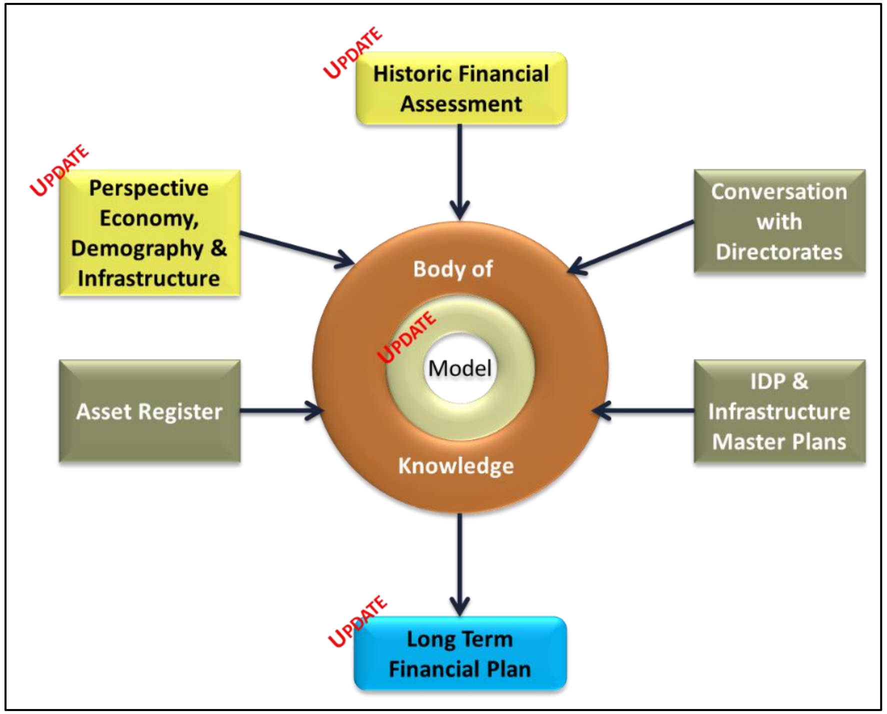
- Household formation saw moderate growth of 19.4% over the assessment period. George has been able to maintain its infrastructure index of 0.92; indicative of its ability to keep up with the rate of household formation. This score is high relative to the national index of 0.77.

- Approximately 16.1% of households fall below the Equitable Share Bracket, while 91.8% of households receive a level of service above the RDP level of service.

Planning Process

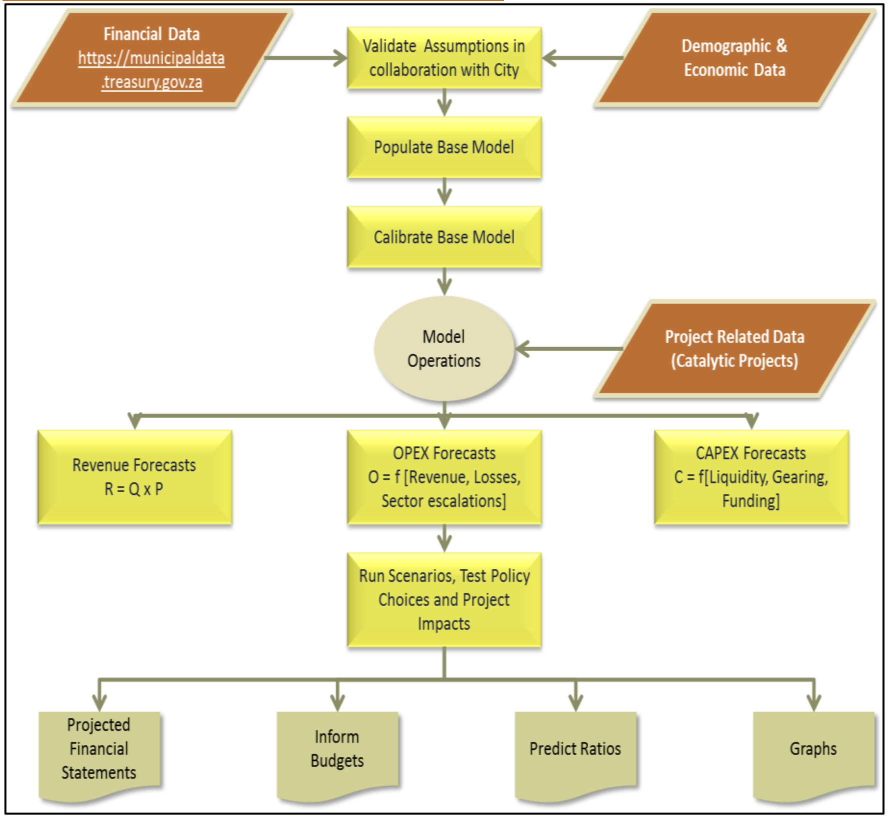
The diagram below illustrates the steps in the process that were followed in drafting the LTFP and the steps taken during this 2024 "LTFP Update":

Figure 1: Planning Process



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

Figure 2: Financial Model Framework



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

1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long-Term Financial Model Outcomes

5 Future Revenues

6 Affordable Future Capital Investment

7 Scenario Analysis

8 Ratio Analysis

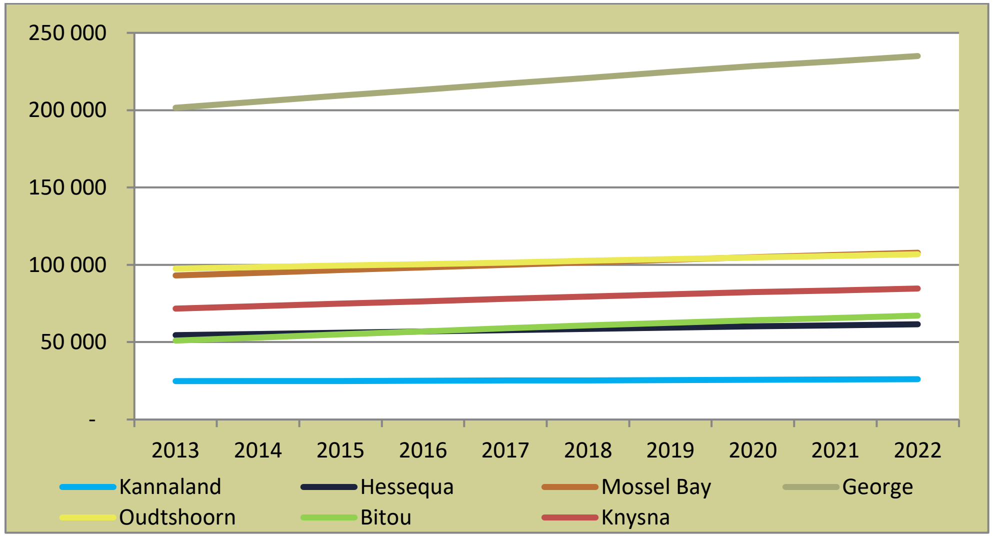
9 Conclusions

Updated Perspectives (Demographic, Economic, Household Infrastructure)

Demography

George LM is the economic hub of the Garden Route District. As such, it is no surprise that George is the most populous municipality in in the district, with its total population of 235 017 people in 2022, representing approximately 34.10% of the Garden Route District population. Population growth in 2022 came in at 1.49%, an increase from 1.36% in the prior year. This increase signifies a reversal of the trend of declining growth observed during the review period. The 5-year average population growth rate came in at a reasonably high 1.60% p.a. A high rate of population growth will place additional pressure on the municipality to keep up with the additional demand for infrastructure services.

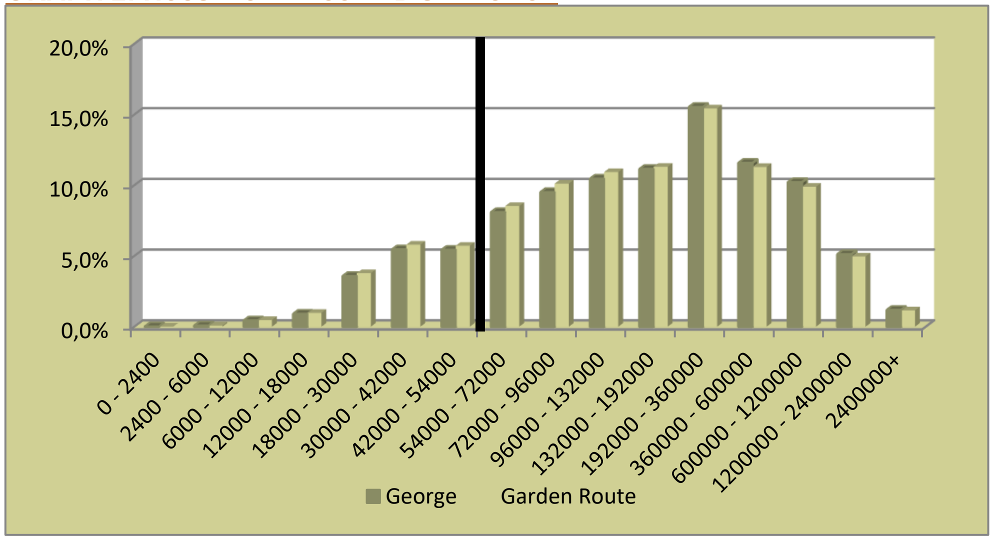
Graph 1: Total Population



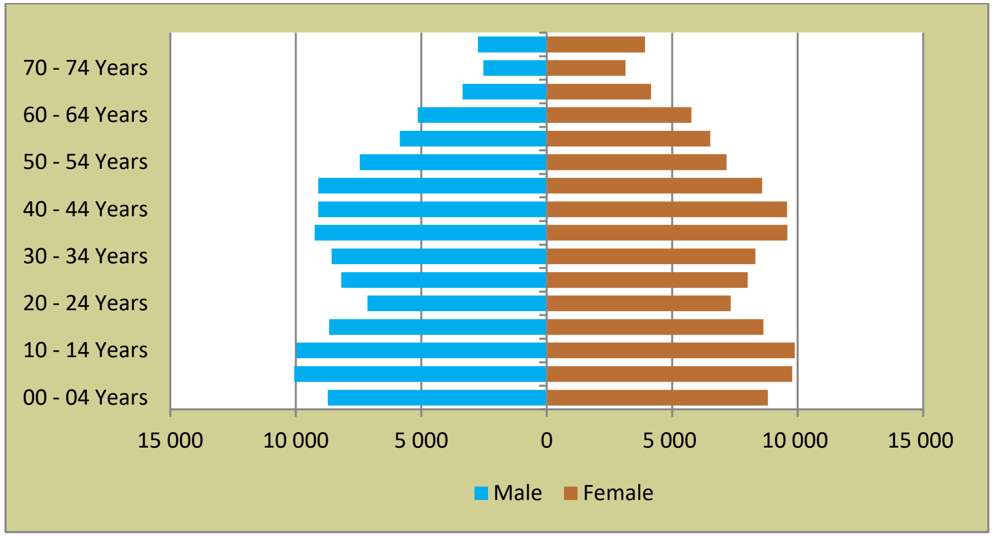
Average household income increased by 4.2% during 2022 to a total of R367 664 p.a., the third highest in the district. Graph 2 illustrates a comparison of the household income distribution of George and of the Garden Route District. This comparison reveals that approximately 16.1% of households in George earn less than R54 000 p.a., placing them below the equitable share bracket. This is compared to 16.8% in the Garden Route District. Households earning less than R54 000 p.a. are indicative of the number of indigent households in the municipal area and reflect those who qualify for and/or are largely reliant on government grants as a source of income. The provision of RDP level of basic services to these households is theoretically covered by the equitable share and should compensate the municipality for providing free basic services. 91.8% of households in the municipality receive a level of service above the RDP level, an improvement on the Garden Route District figure of 90.7%.

Notwithstanding positive economic growth shown post-Covid, an environment of sluggish growth remains. Many factors are at play, ranging from geo-political instability to a high inflationary environment. Thus, the extent to which households can be levied in future must be closely monitored. A significant decline in household income, in conjunction with rapid increases in the municipal services costs, will pose a serious challenge to the municipality's future revenue prospects.

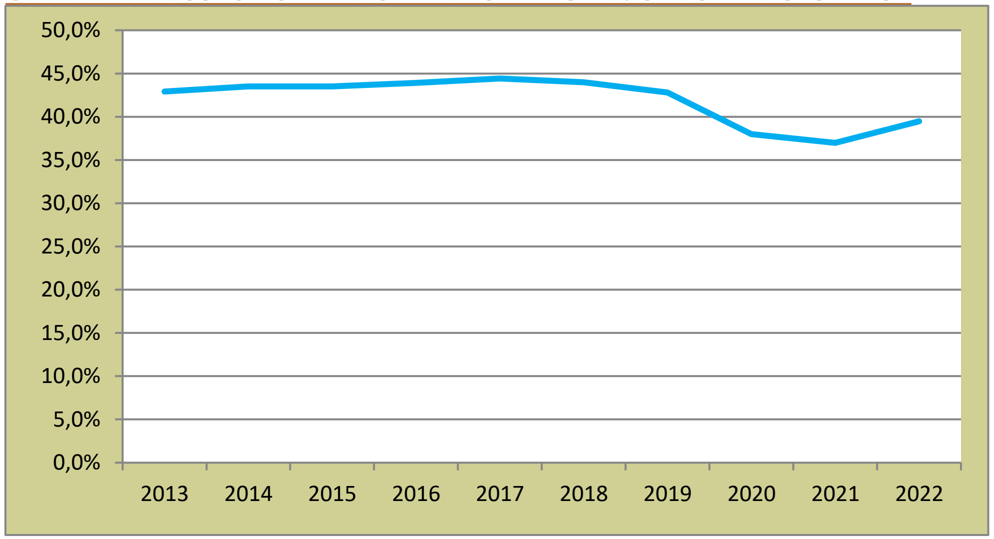
Graph 2: Household Income Distribution



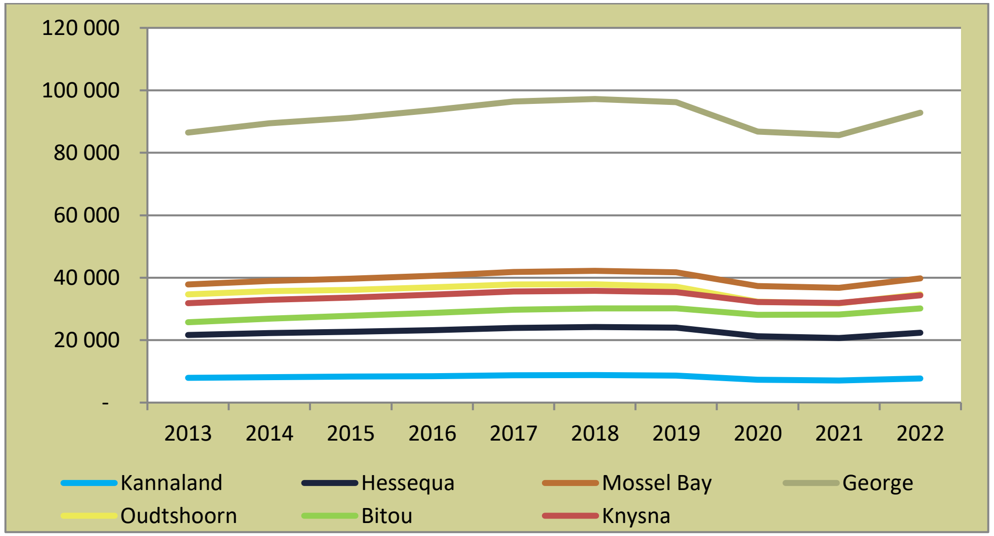
GRAPH 3: AGE PROFILE



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



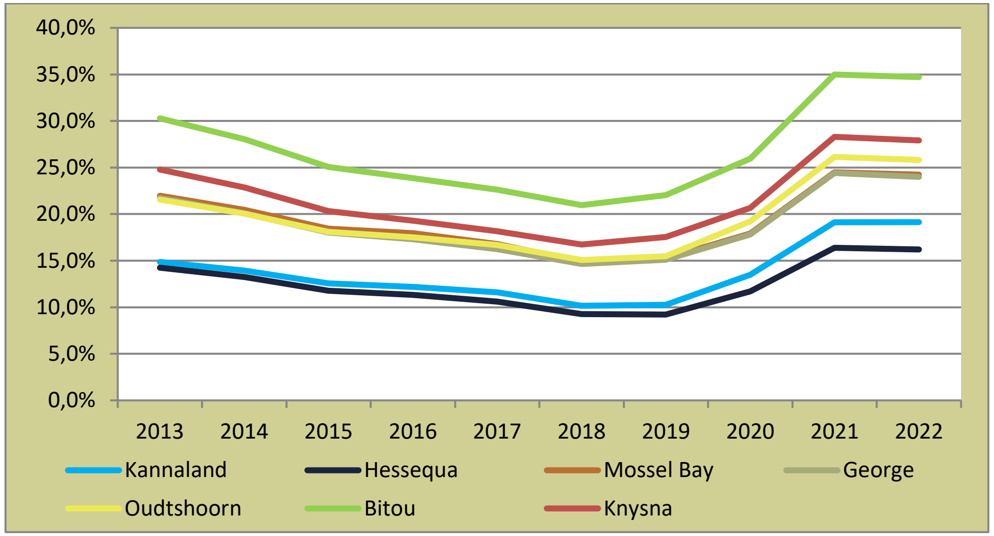
GRAPH 4B: ECONOMICALLY ACTIVE POPULATION



GRAPH 3 illustrates the age profile of George LM's population. Approximately 53.7% of George's population falls between the ages of 25 and 64 years, with the largest age cohort being between the ages of 10 and 14 years. This would suggest that in addition to George being considered an attractive destination for those seeking employment, many families are attracted to George due to the perception of high-quality schooling facilities compared to surrounding areas. This is consistent with George's status of being the economic hub of the district. A reasonably low 8.4% of the population are above the age of 65 years old, the second lowest proportion in the district behind only Bitou.

The economically active population as a percentage of the total population increased to 39.5% in 2022 from 37.0% in the prior year. This signifies a reversal of the declining trend observed since 2017 in which this ratio stood at a significantly higher 44.4%. This increase is positive to note as it is a strong indicator of the municipality's future economic growth prospects. The total number of economically active people in George LM increased by 7.3% to 92 788 people in 2022.

GRAPH 5: OFFICIAL UNEMPLOYMENT RATE



Unemployment in George has increased rapidly since the pandemic, with an increase of 9.3% observed between 2019 and 2021. It is positive to note that the impact of the pandemic appears to be waning, as evidenced by the decline in the unemployment rate from 24.4% in 2021 to 24.0% in 2022. Consistent with the trends mentioned above, this bodes well for the municipality's future economic growth prospects. The municipality must continue to foster an environment of economic growth through investment in productive assets. This will assist in stimulating the economy which in turn will contribute to further reductions in unemployment within the region.

It must be stated that the official unemployment rate employs a narrow definition whereby discouraged workers and those not actively seeking employment are excluded. As such, it is reasonable to assume that should a broader, more realistic definition be utilised, the actual rate would in fact be considerably higher.

Economy

George's total economic output, as measured by GVA, amounted to R23.28 billion (current prices) in 2022. This represents just over a third of the Garden Route District's GVA, 34.7% to be exact. This further emphasises the municipality's status as the economic hub of the Garden Route District. George's economy took a significant knock in 2020 as a result of the pandemic and associated lockdowns. The contraction of 5.5% noted during that year was reflected in other areas such as the rising unemployment rate. It is positive to note that the local economy has since recovered, with economic growth of 4.1% and 2.9% exhibited in 2021 and 2022 respectively. Notwithstanding the solid economic recovery, an environment of sluggish growth remains. This is evidenced by the 5-year annual average GVA growth rate of just 0.6%. This is particularly concerning given the rapidly expanding population which has grown at an annual rate of 1.6% over the same period. This effectively results in an impoverishment of the population.

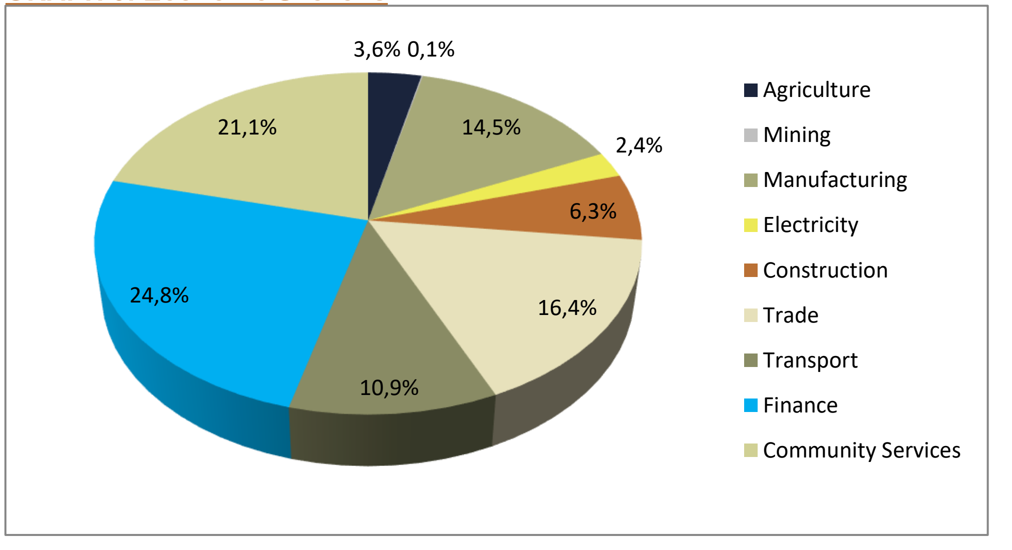
George's local economy is reasonably concentrated, as evidenced by a Tress Index of 44.69. The Tress Index is a measure of economic diversification and thus, economic risk. The higher the degree of diversification, the lower the degree of economic risk in the event of adverse economic conditions due to the impact being spread of a greater number of economic sectors. George's economy is heavily tertiary sector driven, with 73.2% of its economic output in 2022 emanating from tertiary sector activities. The local economy is mainly driven by 4 sectors which accounted for approximately 76.8% of economic output in 2022. These sectors are: Finance (24.8%), Community Services (21.1%), Trade (16.4%) and Manufacturing (14.5%).

The Finance and Community Services sectors exhibited the most significant proportional growth over the review period, with proportional growth of 2.1% & 1.3% respectively. All sub-sectors that fall under the umbrella of the secondary sector experienced contractions over the review period, with the Construction sector (2.8%) the most heavily affected. This is likely a product of secondary sector activities being the most severely impacted by reduced economic activity caused by the pandemic as well as sustained load shedding.

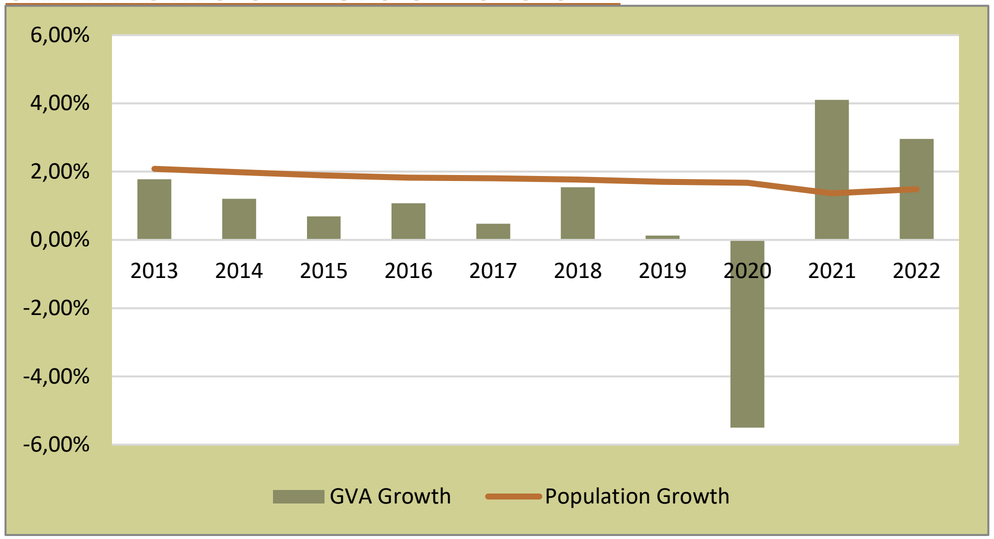
Table 1: Proportional Growth of Economic Sectors

Subsector	2013	2022
Agriculture	2,7%	3,6%
Mining	0,1%	0,1%
Manufacturing	15,0%	14,5%
Electricity	3,0%	2,4%
Construction	9,1%	6,3%
Trade	17,1%	16,4%
Transport	10,5%	10,9%
Finance	22,7%	24,8%
Community Services	19,8%	21,1%

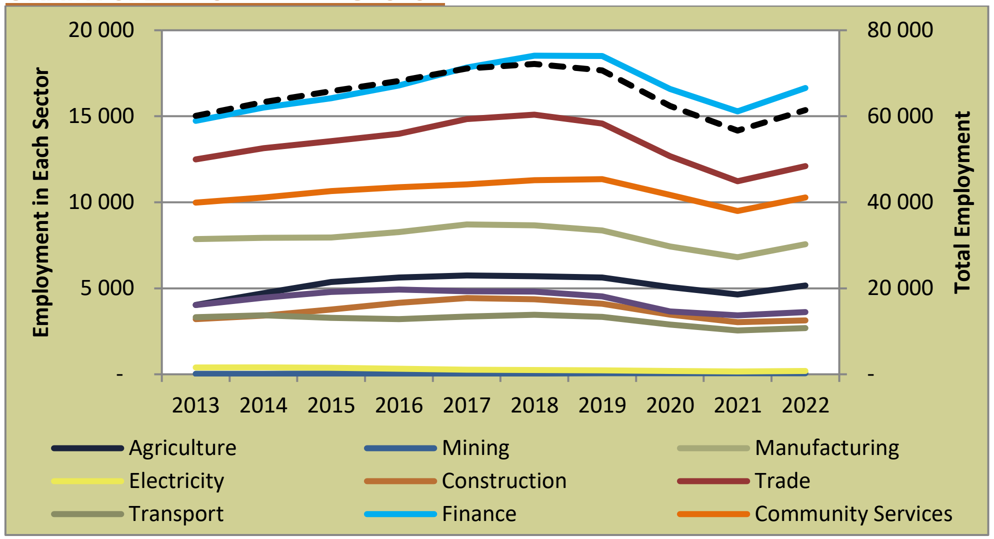
Graph 6: Economic Sectors



GRAPH 7: GVA GROWTH VS POPULATION GROWTH



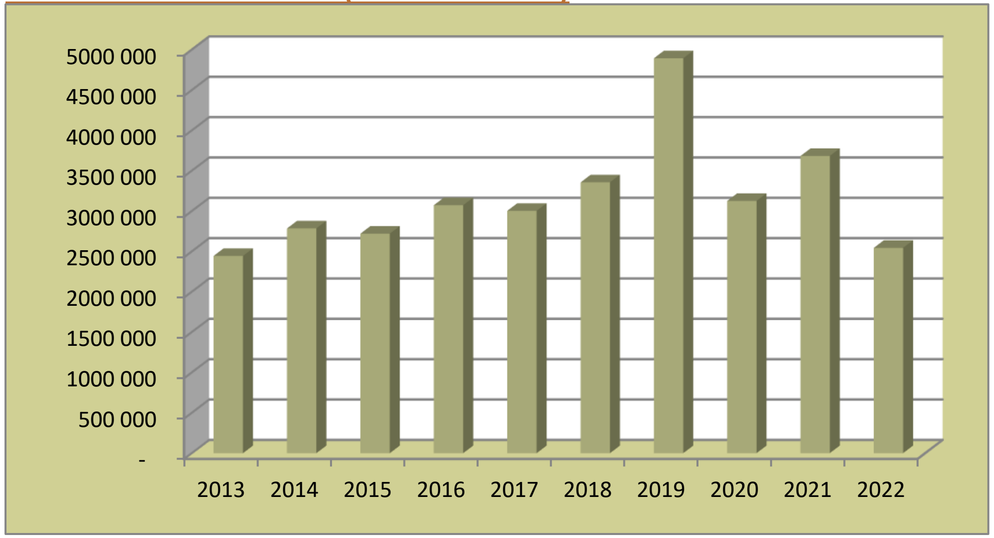
GRAPH 8: EMPLOYMENT BY SECTOR



As mentioned above, the sluggish economic growth exhibited over the review period remains a cause for concern. This is particularly prevalent as economic growth has been dwarfed by population growth throughout the review period, as highlighted in GRAPH 7. It is evident that although the pandemic admittedly had a profound negative impact on the economy, the blame for the lack of economic growth cannot solely be placed at the feet of the pandemic. The municipality must invest in productive assets that aim to create an enabling environment for economic growth.

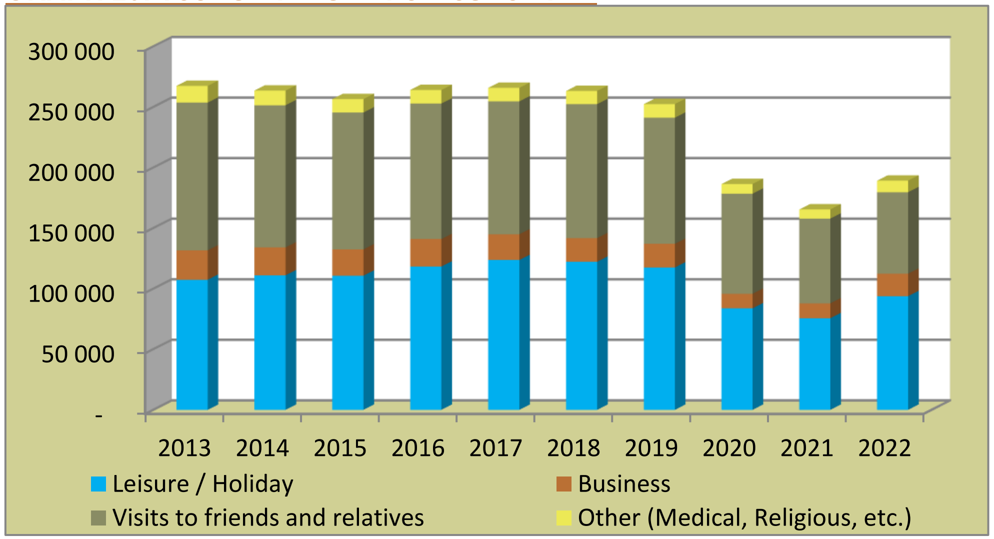
Scrutiny of the employment figures reveals that an additional 4 753 jobs were created during 2022, bringing the total number of employment opportunities to 61 426. Finance continues to be the predominant provider of employment in George, accounting for 27.1% of total jobs in 2022. This is followed by Trade (19.7%) and Community Services (16.7%).

GRAPH 9: TOURISM SPEND (CURRENT PRICES)



According to the figures provided by S&P Global Market Intelligence, tourism spend in George declined by a considerable 30.9% during 2022 to a total spend of R2.54 billion. This equates to approximately 9.8% of GVA in 2022, down from 15.5% in the prior year. This is contrary to the trend observed in other municipalities in the district.

GRAPH 10: TOURISM TRIPS BY PURPOSE OF TRIP

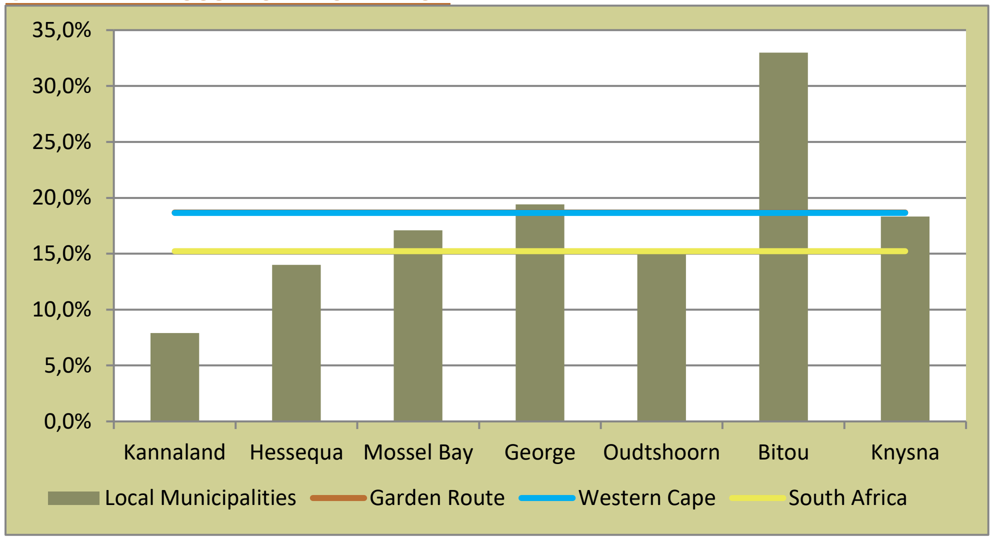


An analysis of the tourism sector would be incomplete without an analysis of the number of tourism trips and purpose thereof. As such, the total number of trips increased by 14.4% in 2022 to a total of 189 215 trips. While the increase remains positive to note, the absolute level of tourism trips remains well below pre pandemic levels. This may be attributable to a challenging economic environment which has led to people cutting down on luxury items, such as going away on vacation. Trips for leisure/holiday purposes remains the predominant purpose for trips into George, accounting for 49.6% of trips in 2022. This is followed by visits to friends and relatives with 35.6% of total trips. This confirms the perception of George as a popular tourist destination.

Household Infrastructure

Household formation in George since 2013 came in at 19.4%. This translates to an additional 10 892 households in absolute terms. George's rate of household formation exceeds the district (18.7%), province (18.6%) and country (15.2%). Any increase in the number of households in the municipality will increase pressure on the municipality to keep up with the added demand for infrastructure services. George is well-positioned to keep pace with the reasonably high rate of household formation.

GRAPH 11: HOUSEHOLD FORMATION



George has managed to improve its infrastructure index over the review period, with the index improving from 0.86 in 2013 to 0.92 in 2022. The infrastructure index provides an indication as to the extent of access to municipal services. It does not, however, measure the quality and security with which these services are provided. The improvement of the index over time is an indication of the municipality's ability to keep up with the rate of household formation.

GRAPH 12: INFRASTRUCTURE INDEX

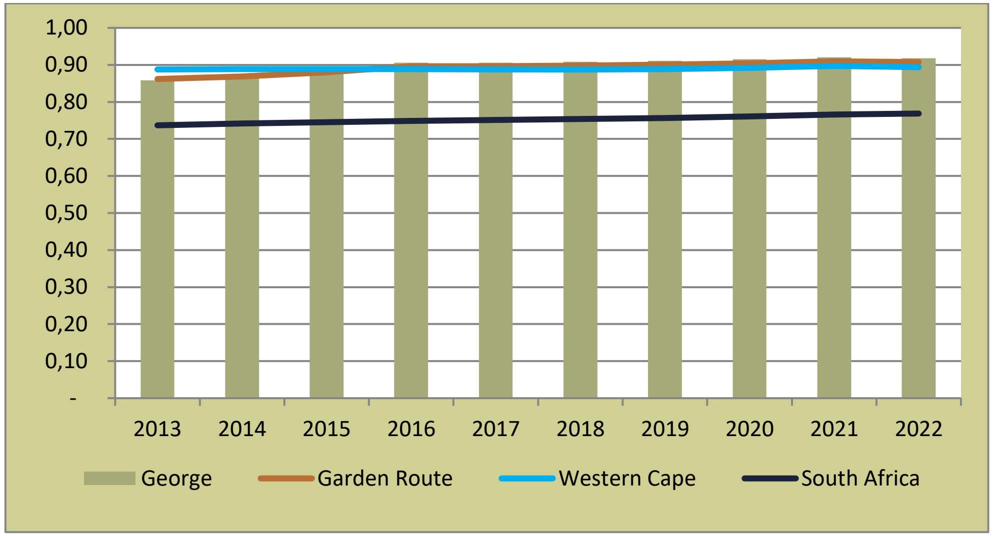


TABLE 2 below provides a comparison between the level of backlogs of George and the Garden Route District. George has managed to improve access to services in all service categories over the review period. Moreover, George has outperformed the district in the provision of all infrastructure services. The improvements notwithstanding, the municipality must continue to invest in critical infrastructure to ensure that backlogs continue to reduce and that the municipality's inhabitants get access to the services they require.

TABLE 2: HOUSEHOLD INFRASTRUCTURE PROVISION

Infrastructure	Garden Route		George	
Above RDP Level				
Sanitation	196 148	97,3%	65 352	97,5%
Water	198 859	98,7%	66 426	99,1%
Electricity	196 014	97,3%	65 367	97,5%
Refuse Removal	185 637	92,1%	64 668	96,5%
Below RDP or None				
Sanitation	5 382	2,7%	1 660	2,5%
Water	2 671	1,3%	585	0,9%
Electricity	5 516	2,7%	1 644	2,5%
Refuse Removal	15 893	7,9%	2 344	3,5%
Total Number of Households	**201 530**	**100,0%**	**67 011**	**100,0%**

1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long-Term Financial Model Outcomes

5 Future Revenues

6 Affordable Future Capital Investment

7 Scenario Analysis

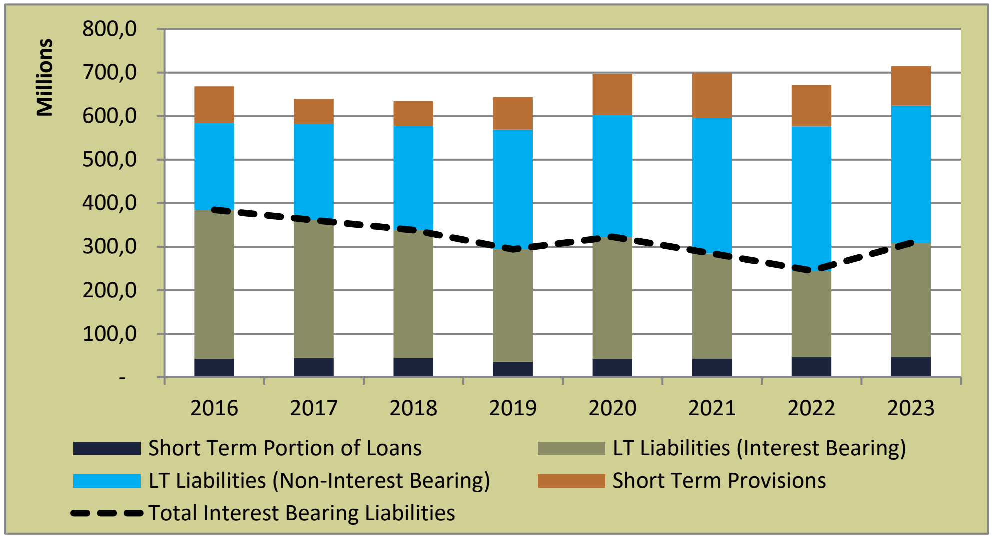
8 Ratio Analysis

9 Conclusions

UPDATED HISTORIC FINANCIAL ASSESSMENT

FINANCIAL POSITION

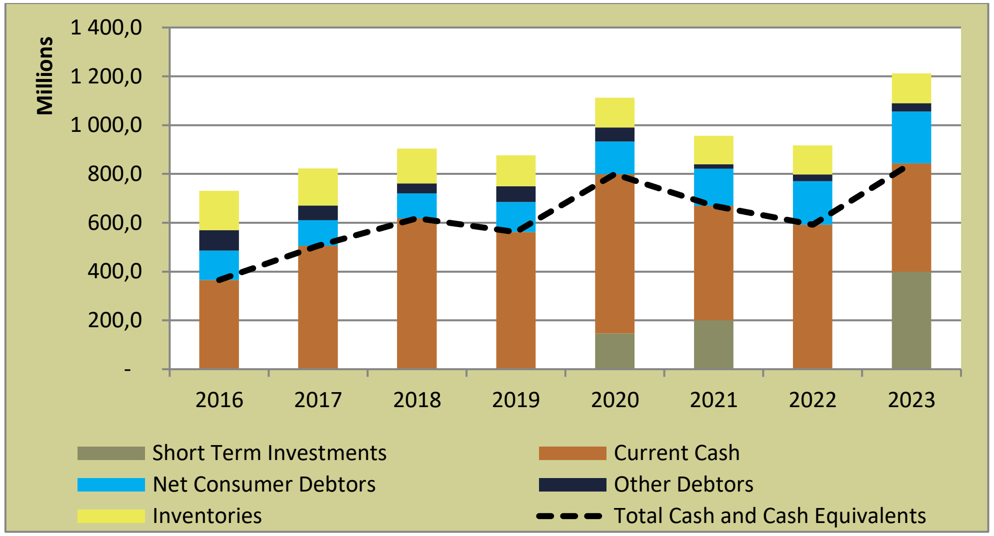
GRAPH 13: LONG-TERM LIABILITIES: INTEREST BEARING VS NON-INTEREST BEARING



George LM's net fixed assets position improved during the year, increasing by 15.3% to R3.96 billion as at FYE2022/23. Strong financial performance was the driving factor behind the increase in the accumulated surplus from R3.37 billion at the prior year end to R3.78 billion at the current year end. Interest-bearing liabilities increased significantly during the year due to the undertaking of additional loans, bringing the total value of interest-bearing liabilities to R262.0 million at the current year end. Non-interest-bearing liabilities declined during the year to R315.2 million from R331.5 million at the prior year end. This was predominantly due to a decrease in the compensation liability relating to the GIPTN.

The additional loans undertaken during the year resulted in a further leveraging of the municipality's debt profile. This is evidenced by an increase in the gearing ratio to 11.7%, while the debt service to total expense ratio declined during the year to just 1.3% from 2.9% at the prior year end. The discrepancy between movements in the debt indicators can be attributed to a proportionally higher increase in operating expenditure as compared to operating income (exclusive of capital grants). George has been reasonably reluctant to undertake borrowings during the review period, with loans undertaken in just 2 of the 8 years under review. The debt profile is underleveraged. It is recommended that the municipality considers an acceleration of the borrowings programme to make use of the significant scope to increase borrowings to fund capital expenditure. It is positive to note that George has budgeted for a significant acceleration of the borrowing programme. This, along with the substantial capital grants received, will unlock an acceleration of the capital investment programme.

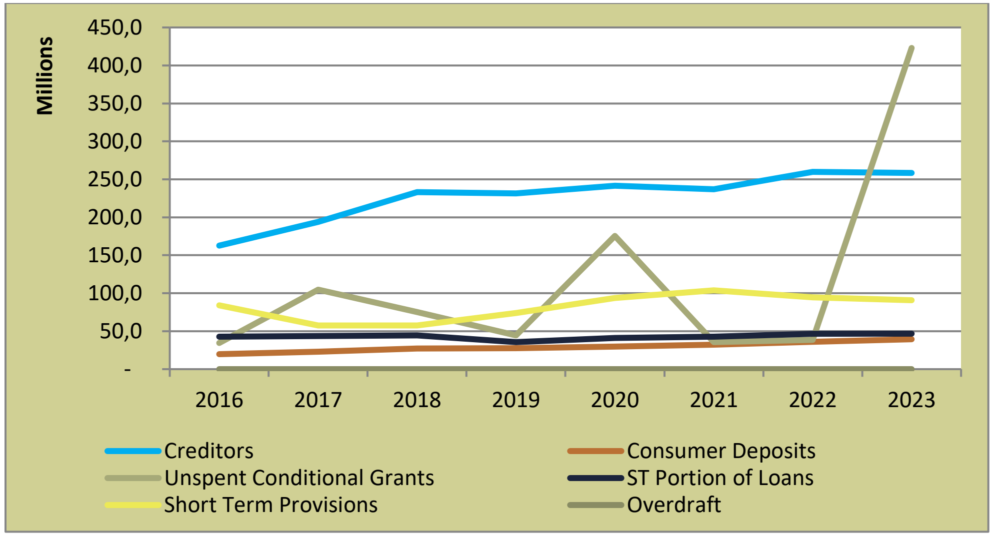
GRAPH 14: CURRENT ASSETS



Current assets increased by a significant R314.6 million (32.4%) by the current year end to total R1.28 billion. This was predominantly driven by increases in cash and cash equivalents (R251.3 million) and consumer debtors (R33.4 million). The municipality increased its short-term investments to R400 million during the year. This will likely bring in additional interest income. The municipality has maintained healthy levels of cash and cash equivalents throughout the review period.

Current liabilities increased considerably during the year, from R475.4 million to R858.4 million at the current year end, for an increase of 80.6%. This was predominantly driven by substantial unspent conditional grants to the value of R423.0 million at the current year end. This significant amount can be attributed to the late receipt of the BFI Grant and Disaster Relief Grants, rendering the municipality unable to fully utilise these funds before year end. The municipality has applied for the roll-over of these amounts. The creditors balance reduced marginally by R1.4 million during the year, indicative of strong working capital management.

GRAPH 15: CURRENT LIABILITIES

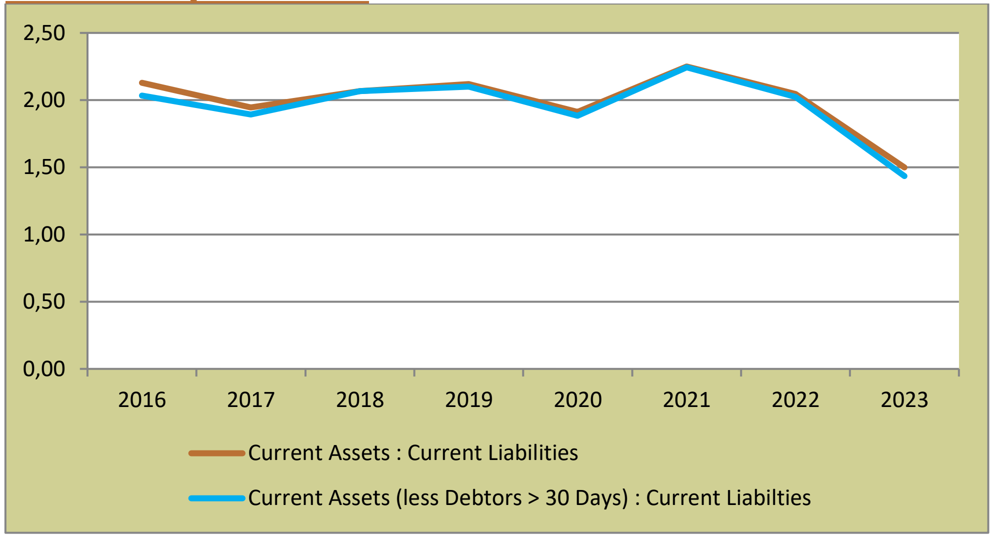


The combined impact of the movements in current assets and liabilities resulted in a decline in the liquidity ratio from 2.05:1 to 1.50:1 at the current year end. It must be stated that this ratio is heavily impacted by the substantial amount of unspent conditional grants which will likely be rolled over to the next financial year. As such, the municipality's liquidity position is likely healthier than the ratio of 1.5:1 would suggest. A more accurate reflection may be achieved through the removal of the impact of unspent conditional grants. This results in a liquidity ratio of 1.98:1, indicative of a healthy liquidity position. The municipality's healthy cash and cash equivalents position leaves George in a strong position to cover its short-term obligations and provides a healthy buffer in the event of financial shocks that may provide a threat to the municipality.

TABLE 3: LIQUIDITY RATIOS

	2016	2017	2018	2019	2020	2021	2022	2023
Current Assets: Current Liabilities	2,13	1,95	2,07	2,12	1,91	2,25	2,05	1,50
Current Assets (less Debtors > 30 Days): Current Liabilities	2,03	1,89	2,07	2,10	1,88	2,24	2,02	1,43

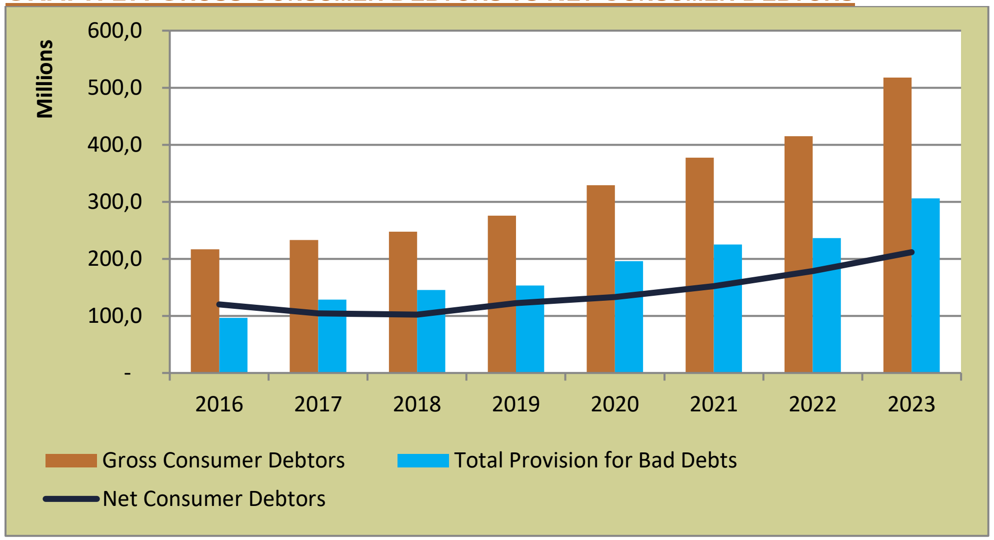
GRAPH 16: LIQUIDITY RATIOS



Gross consumer debtors increased by 24.9% during the year to R518.0 million at the current year end, an increase of R103.2 million from the prior year end. The provision for bad debts increased to R306.3 million as at FYE2022/23, this resulted in an increase of R33.4 million (18.8%) in net consumer debtors to a total of R211.7 million. These movements are consistent with the collection rate, which declined from 95% to 92% by the current year end, a low for the review period. The municipality must remain cognisant of the challenging economic climate which is increasing pressure on households to service their municipal bills. Should these conditions continue, the possibility of further decreases in the collection rate will increase.

Electricity debtors renamed the largest pool of debtors, accounting for 43.7% as at FYE2022/23. This is followed by water debtors (21.2%) and rates debtors (18.4%). The total provision for bad debts of R306.3 million translates to 96.5% of debtors older than 90 days, leaving the municipality at risk of non-payment. Debtors older than 90 days pose the most significant risk of non-payment, as such, it is important for the municipality to mitigate this risk through ensuring that adequate provisions are made.

GRAPH 17: GROSS CONSUMER DEBTORS VS NET CONSUMER DEBTORS



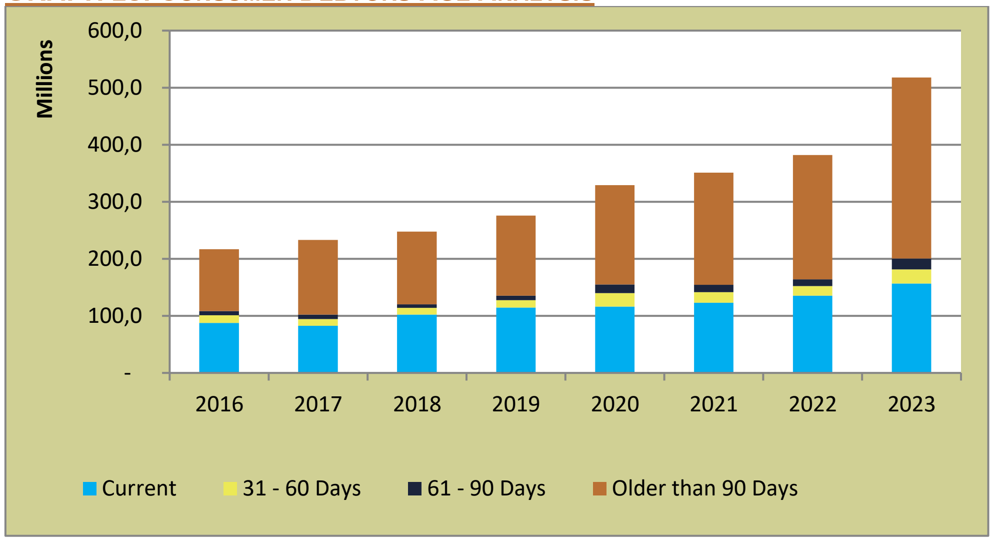
Scrutiny of the debtors age analysis reveals that debtors older than 90 days form the largest pool of debtors, accounting for 61.2% of gross consumer debtors at the current year end. This is followed by current debtors which accounted for 30.2% of gross consumer debtors. The substantial increase of R98.9 million in debtors older than 90 days is consistent with the decline in the collection rate. This is of concern.

Prior to FY2022/23, the municipality exhibited a consistent ability to maintain a high collection rate, in excess of 95%, throughout the review period. The maintenance of a collection rate in excess of 95% is critical for long-term sustainability. The municipality must analyse the cause for the decline in the collection rate and thereafter implement measures to ensure a collection rate in excess of 95% is achieved.

TABLE 4: DEBTORS RATIOS

	2017	2018	2019	2020	2021	2022	2023
Increase in Billed Income p.a. (R'm)	74,1	110,6	84,4	115,4	40,6	176,4	112,0
% Increase in Billed Income p.a.	8%	11%	7%	9%	3%	13%	7%
Gross Consumer Debtors Growth	7%	6%	12%	19%	15%	10%	25%
Net Debtors' Days	36	32	36	36	40	41	46
Payment Ratio/Collection Rate (%)	97%	96%	96%	95%	95%	95%	92%

GRAPH 18: CONSUMER DEBTORS AGE ANALYSIS



Financial Performance

GRAPH 19: Analysis of Surplus

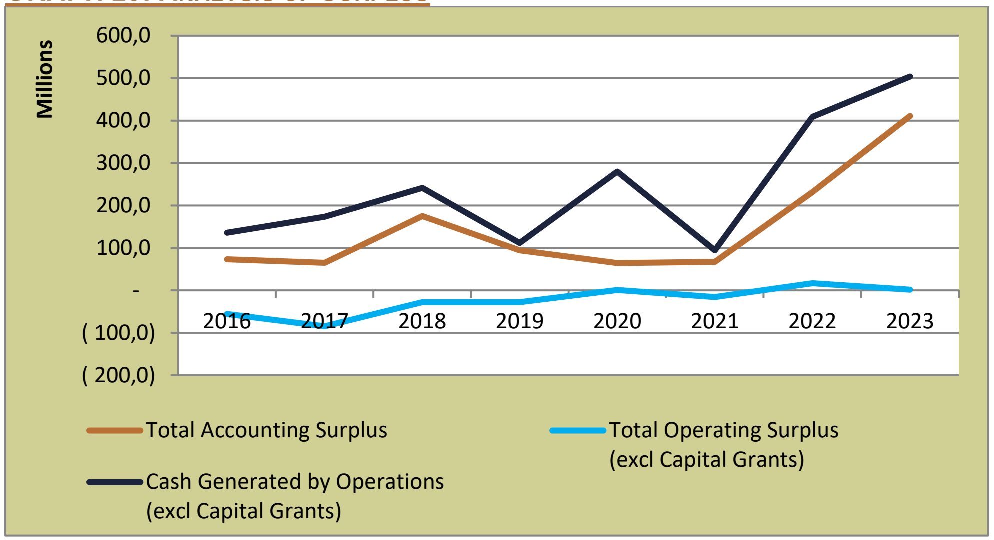


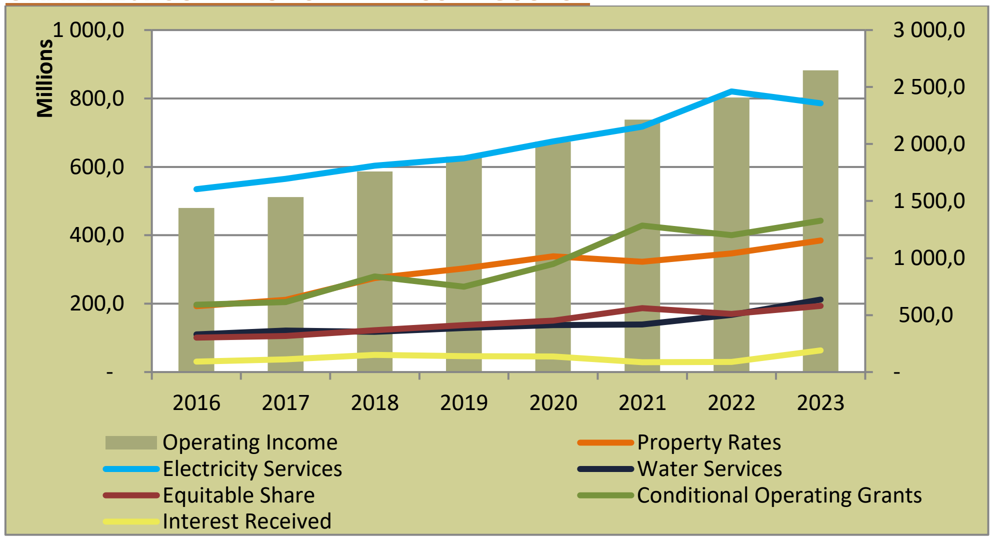
TABLE 5: Total Income vs Total Expenditure

	2016	2017	2018	2019	2020	2021	2022	2023
Total Income	1 570,3	1 683,3	1 962,7	2 010,1	2 084,7	2 297,0	2 622,1	3 057,2
Total Operating Expenditure	1 479,3	1 618,4	1 787,9	1 915,7	2 020,4	2 230,0	2 390,7	2 646,4
Operating Income (excl Cond Grants)	1 244,0	1 328,8	1 479,9	1 638,1	1 705,2	1 785,7	2 007,5	2 205,5

George's total income (inclusive of capital grants) increased by a considerable 16.6% during FY2022/23, whilst operating expenditure increased by a comparatively lower 10.7% during the same period. This resulted in a significantly improved accounting surplus of R410.8 million in FY2022/23, up from R231.4 million in the prior year. This increase was heavily impacted by a substantial increase in capital grants received during the year. Upon the exclusion of capital grants, George posted an operating surplus of R1.7 million during the year, down from R16.8 million in the prior year. George has posted operating surpluses in 3 of the last 4 years.

George has shown the ability to consistently generate cash from its operations over the review period, with a significant R503.8 million in cash generated by operations during the current year. This is a product of the maintenance of a high collection rate over the review period and has contributed to the maintenance of a healthy liquidity position throughout the review period. Additionally, this has enabled the municipality to consistently service a capital replacement reserve, from which the municipality has been able to employ a significant amount of cash reserves to fund capital expenditure.

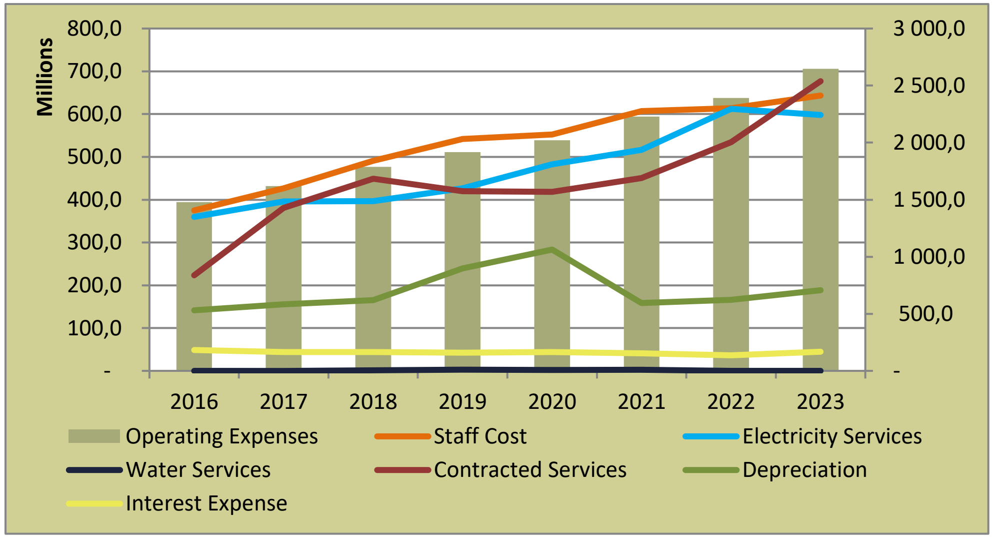
GRAPH 20: Contribution per Income Source



Growth in operating income (excluding conditional grants) of 9.9% was predominantly driven by above CPI growth in property rates (11%), water services (27%) and interest received (114%). The impact of load shedding is evident in the decline in electricity services revenue of 4% observed during the year. Electricity revenue remained the predominant source of revenue for George LM, accounting for 30% of operating revenue in FY2022/23. This is followed by conditional operating grants (17%) and property rates revenue (15%). Total grants received during the year totalled R1 045.2 million, which translates into 34% of total revenue received during the year. This is indicative of a reasonably high reliance on grant funding which provides a risk to the municipality's future revenue prospects, particularly in the context of severe strain on fiscus which is likely to result in a decline in grant funding in future. It is noted that the municipality has received significantly increased grant funding in recent years relating to the BFI water infrastructure projects. As such, it is reasonable to assume that once the BFI projects are completed and grant funding returns to lower levels that this ratio will decline.

In light of a reasonably high reliance on electricity revenue, the energy crisis poses a risk to the municipality's ability to be financially sustainable. With no signs of the energy crisis dissipating in the short to medium term, this is a risk that will likely remain prevalent in the coming years. In order to mitigate this risk, it is recommended that the municipality maximises alternative revenue sources and employs stringent management over its operational expenditure. Moreover, it is critical that the municipality undergoes a detailed tariff assessment, underpinned by a sophisticated tariff model that is able to determine the true cost of delivering services and that tariff increases reflect these outcomes. Furthermore, the creation of an enabling environment for economic growth will go a long way in expanding the municipality's revenue base which in turn will assist in mitigating the significant financial risk provided by the energy crisis.

GRAPH 21: CONTRIBUTION PER EXPENDITURE ITEM



Total operating expenditure increased by 10.7% to R2.64 billion during FY2022/23, up from R2.39 billion recorded in the prior year. The driving forces behind this increase were increases in contracted services expenditure (27%), depreciation (13%) and staff costs (5%). Reduced electricity consumption as a result of persistent load shedding resulted in a decline in electricity bulk purchases of 2%, despite the substantial NERSA bulk purchases tariff increases during the year. Employee related expenditure accounted for 19% of operating expenditure during FY2022/23, down from 22% in the prior year. This remains well within the NT recommended maximum norm of 40%.

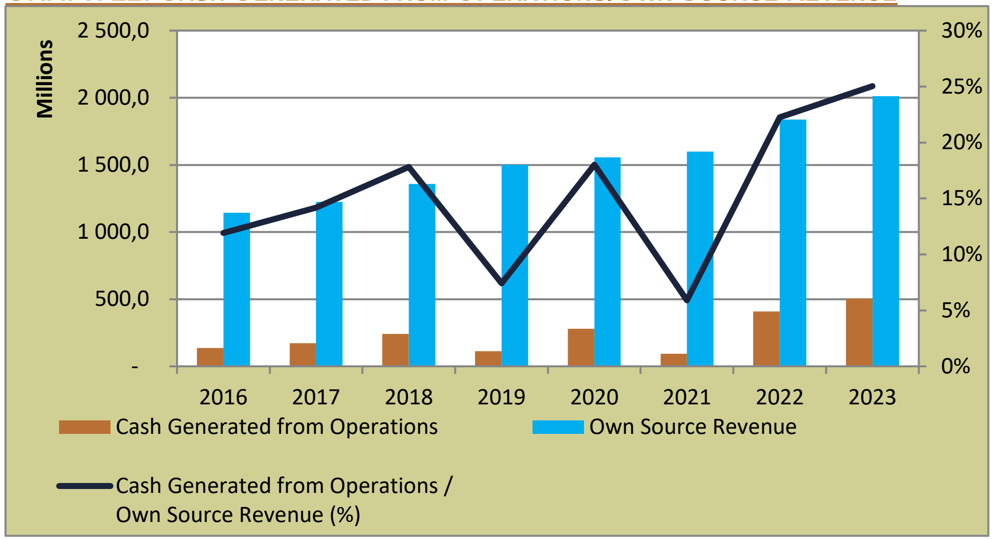
Expenditure on contracted services increased significantly by 27% to R676.9 million in FY2022/23. This resulted in contracted services overtaking staff costs as the predominant expenditure item, accounting for 20% of total revenue in FY2022/23. This increase was predominantly driven by increases of R54.3 million in "unspecified assets" and R41.5 million in Transport Services related to the GIPTN Bus Service. Contracted services are often viewed as an alternative to employee related expenditure, as such, it is worth analysing the combined contribution of staff costs and contracted services to assess affordability. Considering the considerable portion of the contracted services bill relating to Transport Services which are not necessarily linked to employee related expenditure, this line item will be excluded from this calculation. As such, the contribution to total expenditure will reduce to 15%, thus bringing the combined contribution of staff costs and contracted services to 34% in the current year. While this remains affordable, this expenditure must be closely monitored.

Expenditure to repair and maintain the municipality's asset base increased to R234.3 million during the year, up from R172.8 million in the prior year for an increase of 36%. This translates to approximately 5.9% of the carrying value of PPE & IP in FY2022/23, an increase from 5.0% in the prior year. Ensuring a well-maintained asset base must be an absolute priority for any municipality as in the absence of this it becomes incredibly challenging for a municipality to execute on its primary mandate of delivering services to its communities. The increase in repairs and maintenance expenditure during the year is positive to note. Although the repairs and maintenance expenditure to PPE & IP ratio remains below the NT norm of 8%, this is deemed acceptable in the context of a rapid acceleration of capital investment in recent years which has contributed significantly to an increase of 26% in the carrying value of PPE & IP since FY2020/21. The municipality must continue to bolster its liquidity reserves to ensure that there is sufficient available cash to maintain sufficient levels of repairs and maintenance expenditure in future.

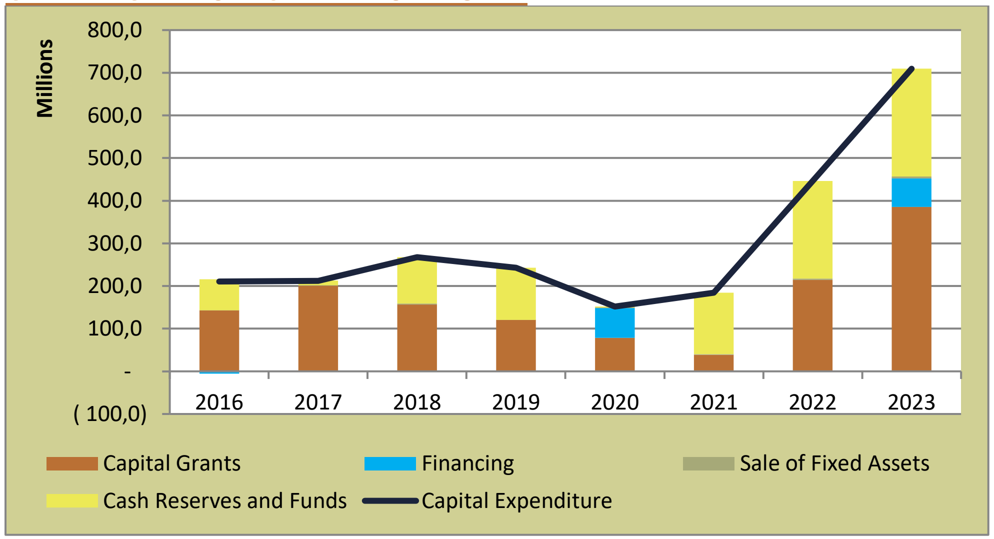
Electricity distribution losses declined marginally during the year to 8.52%, down from 8.98% recorded in the prior year. This remains within the NT norm range. Water distribution losses increased to 27.22% during the year, up from 25.05% in the prior year. This exceeds the NT maximum norm of 20% and is concerning to note. The driving forces behind this increase must be investigated and identified and measures implemented to reduce these losses in future.

Cash Flow

GRAPH 22: Cash Generated from Operations/Own Source Revenue



GRAPH 23: Annual Capital Funding Mix

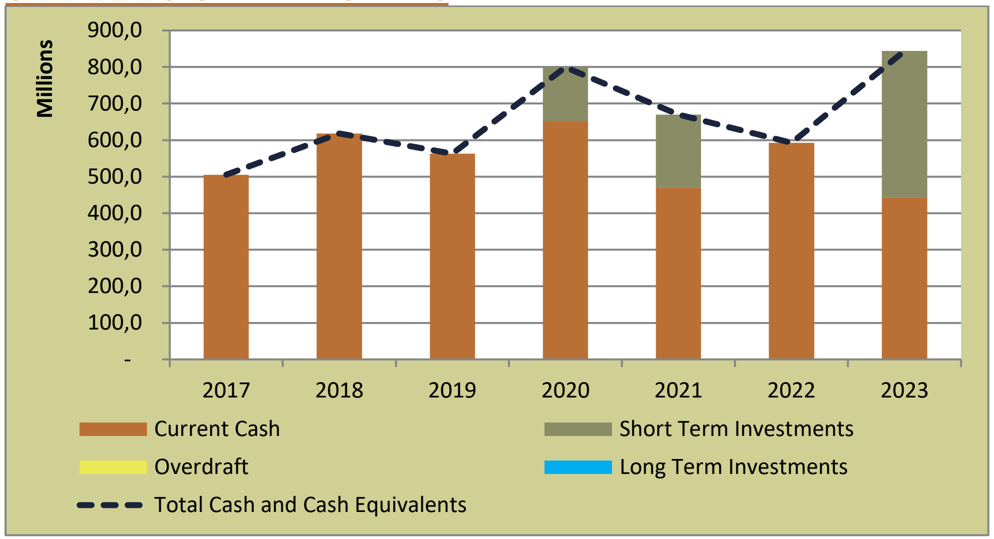


The receipt of the BFI grant in FY2021/22 has coincided with a rapid acceleration of the capital investment programme in the last 2 years. As the BFI project is expected to be completed by FYE2024/25, the accelerated capital investment programme is forecast to continue during the MTREF period. This is reflected in the Tabled Budget. Capital expenditure in the current year totalled a substantial R722.9 million. This was primarily funded by capital grants included as part of the BFI grant (57%), own cash reserves and funds (35%) and borrowings (9%). The municipality has historically been reliant on capital grants to fund capital expenditure, with reasonably limited borrowing taking place over the review period. The municipality's ability to maintain a healthy liquidity position during the review period has enabled the municipality to employ a significant amount of own cash to fund capital expenditure, without placing the liquidity position at risk. It is our view that the historic funding mix, while sustainable, is not optimal. Considering the position of financial strength and history of clean audits, we recommend that the municipality considers an acceleration of the external financing programme. This can be achieved in an affordable, sustainable manner. This will allow the municipality to maintain a higher level of capital expenditure once the BFI project is complete.

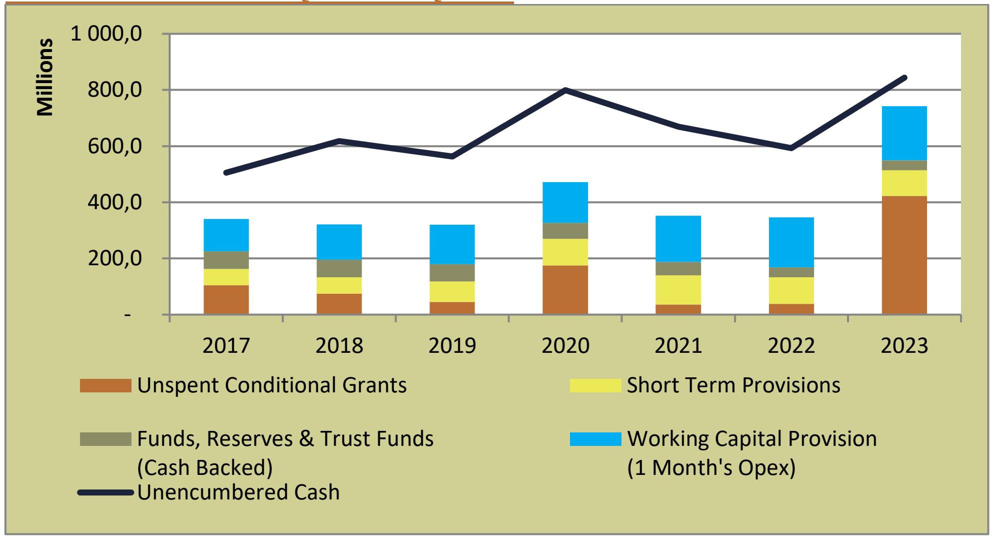
The debt indicators being a gearing ratio of 11.7% and debt service to total expense ratio of 1.3% indicate plentiful scope to accelerate the external financing programme in an affordable manner. It is noted that the municipality has budgeted for this in the Tabled Budget. This is positive to note. This will unlock a further acceleration of the capital investment programme, which, if invested wisely in productive assets, may assist in stimulating the local economy and enabling economic growth.

The municipality has struggled to implement its capital budget over the review period, as evidenced by the 5-year annual average capital budget implementation indicator of 70%. This ratio came in at just 63% in FY2022/23, however, this can be attributed to grant funding being gazetted during March and April 2023 which left insufficient time to complete the projects before year end. The municipality has applied for roll-overs of these funds.

GRAPH 24: CASH AND INVESTMENTS



GRAPH 25: MINIMUM LIQUIDITY REQUIRED



George LM has maintained a healthy liquidity position throughout the review period, underpinned by a year-end bank balance in excess of R500 million since FY2016/17. This is a positive indicator for long-term sustainability. This is particularly prevalent as the municipality has utilised a significant amount of own cash to fund capital expenditure over the review period. This highlights the strength of the municipality's financial position which provides a healthy buffer to protect the municipality against any unforeseen financial shocks that may arise. The prudent, disciplined approach to management of the liquidity position must continue.

As per TABLE 6 below, the municipality is required to maintain sufficient cash reserves to cover the minimum liquidity requirements that include, unspent conditional grants, short-term provisions, funds, reserves and trust funds, as well as the working capital provision of one month's operating expenditure. The substantial minimum liquidity requirement of R741.8 million was exceeded by George's cash and cash equivalents balance of R843.9 million, resulting in a cash surplus of R102.1 million. George has posted cash surpluses above the minimum liquidity requirements throughout the review period. The ability to maintain sufficient liquidity to cover the minimum liquidity requirement is a strong indicator of long-term sustainability. The cash coverage ratio (including working capital) declined during the year but remains healthy at 1.1.1.

TABLE 6: MINIMUM LIQUIDITY REQUIREMENTS

	2016	2017	2018	2019	2020	2021	2022	2023
Unspent Conditional Grants	34,5	104,8	75,1	44,6	175,6	35,6	38,4	423,0
Short Term Provisions	83,9	57,7	57,6	74,0	93,9	103,8	94,6	90,8
Funds, Reserves & Trust Funds (Cash Backed)	64,9	63,2	62,9	61,6	57,8	48,3	35,9	35,7
Total	**183,4**	**225,7**	**195,6**	**180,2**	**327,3**	**187,8**	**168,9**	**549,5**
Unencumbered Cash	365,3	505,4	617,8	562,6	799,5	669,6	592,5	843,9
Cash Coverage Ratio (excl Working Capital)	2,0	2,2	3,2	3,1	2,4	3,6	3,5	1,5
Working Capital Provision (1 Month's Opex)	104,1	114,5	125,9	139,7	144,7	164,4	177,3	192,3
Cash Coverage Ratio (incl Working Capital)	1,3	1,5	1,9	1,8	1,7	1,9	1,7	1,1
Minimum Liquidity Required	287,5	340,2	321,6	319,9	472,0	352,1	346,2	741,8
Cash Surplus/(Shortfall)	**77,9**	**165,2**	**296,2**	**242,7**	**327,5**	**317,5**	**246,4**	**102,1**

IPM Shadow Credit Score

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

Based on the FY2022/23 performance of George, the IPM credit model reflects a score of **6.9** which is comparable to an A on a national ratings scale. This credit score is relatively high compared to other municipalities, and it is at **Investment Grade** level - which means that George should be successful in accessing external borrowing at competitive rates.

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

TABLE 7: IPM Credit Model Outcomes

Modules	2023 (5)
Financial	3,5
Institutional	3,7
Socio-Economic	2,8
Infrastructure	3,4
Environmental	4,3

The assessment indicates that the socio-economic module is the municipality's main impediment to achieving higher credit scores. This is linked to a lack of economic growth within the municipal area. Investment in productive assets that aim to create an enabling environment for economic growth may assist in improving this score over time.

The municipality performed well in the infrastructure module. This is linked to the maintenance of a high infrastructure index of 0.92, indicative of the ability to keep up with the rate of household formation. George has been able to consistently provide access to quality services throughout the review period.

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

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

Analysis of the Tabled Budget reveals that the municipality aims to take advantage of this high credit rating and is intending to continue to approach the market for financing. The municipality must continue to take advantage of the sustained high level of financial and operational management shown in recent years through obtaining competitive lending rates.

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Long-Term Financial Model Outcomes

MTREF Case Scenario

An MTREF Case was developed utilising the unadjusted figures from the Tabled Budget 2024/25-2026/27. The purpose of this scenario is to reflect the LTFM outcomes prior to making any adjustments to the current MTREF.

In doing so, the collection rate was assumed to be 96% throughout the forecast period, as per the Tabled Budget. While no adjustments were made to the capital investment programme or funding mix. Assumed growth beyond the MTREF period for capital expenditure and borrowing is 5% and 4% p.a. respectively. Finally, distribution losses were maintained at their respective FY2022/23 levels.

The outcomes of this scenario as presented in Table 8 reflect a strong forecast for financial performance over the planning period. A decline is forecast in FY2024/25, whereafter year-on-year improvements are expected with operating surpluses forecast throughout the planning period. The ability to generate cash from operations is expected to remain strong.

The Tabled Budget indicates that the accelerated capital investment programme observed in recent years is expected to continue. This is to be expected with the water infrastructure and renewable energy projects that are on the go. In order to cover the shortfall of the expected reduction of grant funding over the MTREF period, George LM has budgeted to rapidly accelerate the borrowing programme over the MTREF period. While Graph 27 would suggest that the Tabled Capital Budget will remain affordable over the long-term, the extent of borrowing is forecast to prove unaffordable. The forecast gearing and debt service levels are high and, along with the extent of the acceleration of capital investment, are drivers of the poor liquidity position. This will be discussed in more detail in Section 6 of this report.

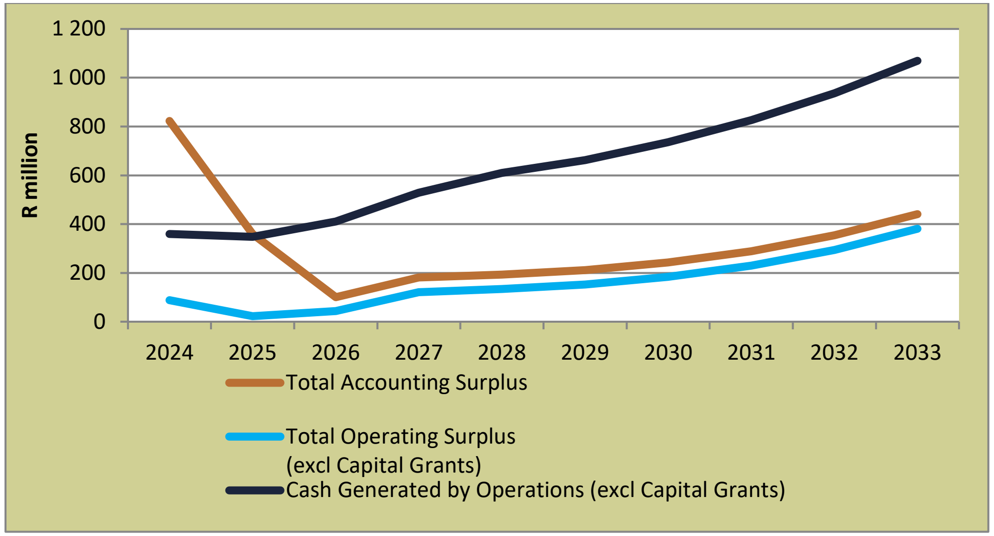
While the cash position is forecast to remain healthy and improve over the planning period, the liquidity ratio is expected to remain below 1:1 for the majority of the planning period. This is driven by the impact of the accelerated capital and borrowing programmes as well as a forecast rise in creditors. The planning period end liquidity ratio of 0.9:1 is unsustainable.

Overall, the MTREF Case scenario reflects strong financial performance but a strained liquidity position. The factors driving the strained liquidity position have been addressed in arriving at the Base Case.

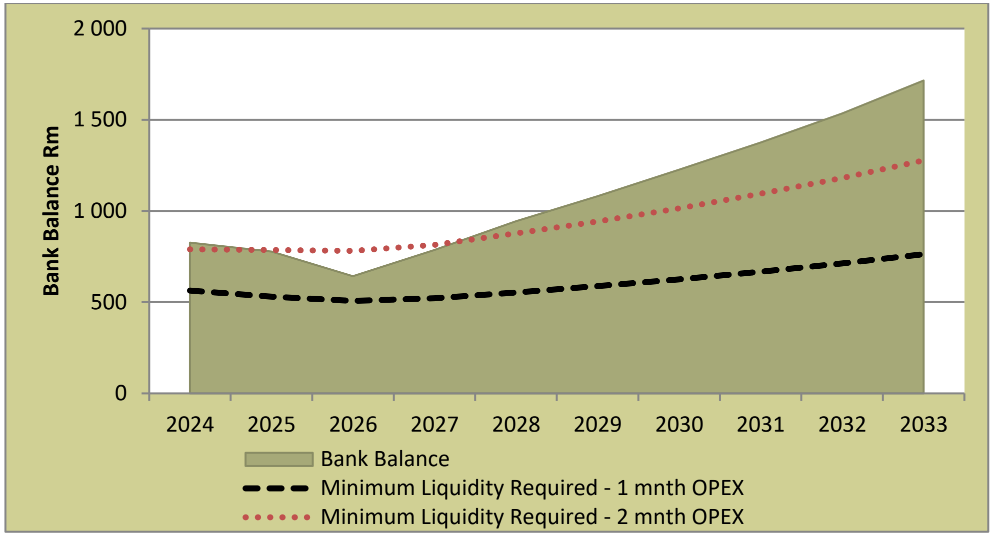
Table 8: MTREF Case Outcomes

Outcome	MTREF Case
Average annual % increase in Revenue	9,5%
Average annual % increase in Expenditure	10,4%
Accounting Surplus accumulated during Planning. Period (Rm)	R 3 195
Operating Surplus accumulated during Planning. Period (Rm)	R 1 651
Cash generated by Operations during Planning. Period (Rm)	R 6 486
Average annual increase in Gross Consumer Debtors	10,6%
Capital investment programme during Planning. Period (Rm)	R 9 869
External Loan Financing during Planning Period (Rm)	R 5 384
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 1 715
No of Months Cash Cover at the end of the Planning Period (Rm)	3,3
Liquidity Ratio at the end of the Planning Period	0.9 : 1
Gearing at the end of the Planning Period	40,5%
Debt Service to Total Expense Ratio at the end of the Planning Period	12,2%

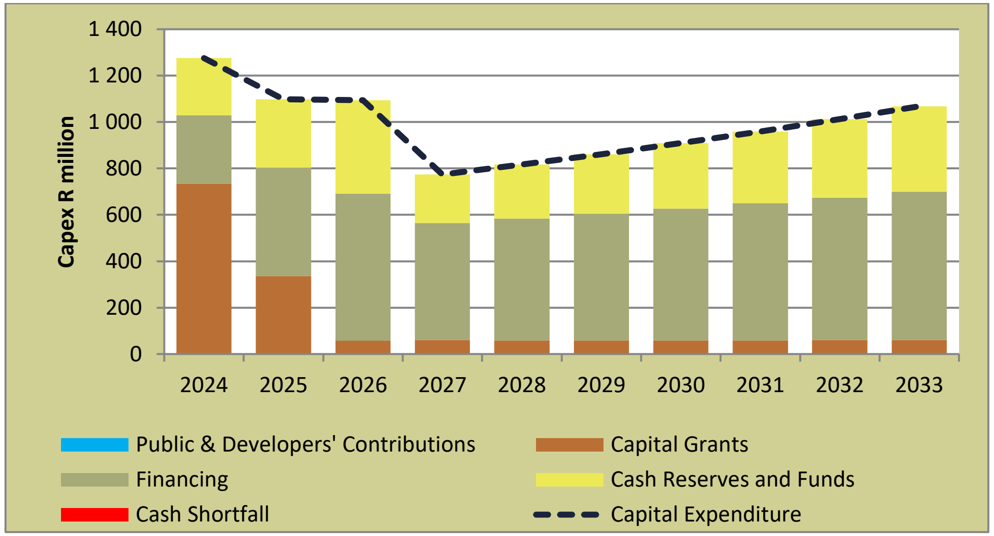
GRAPH 26: MTREF Case Scenario: Analysis of Surplus



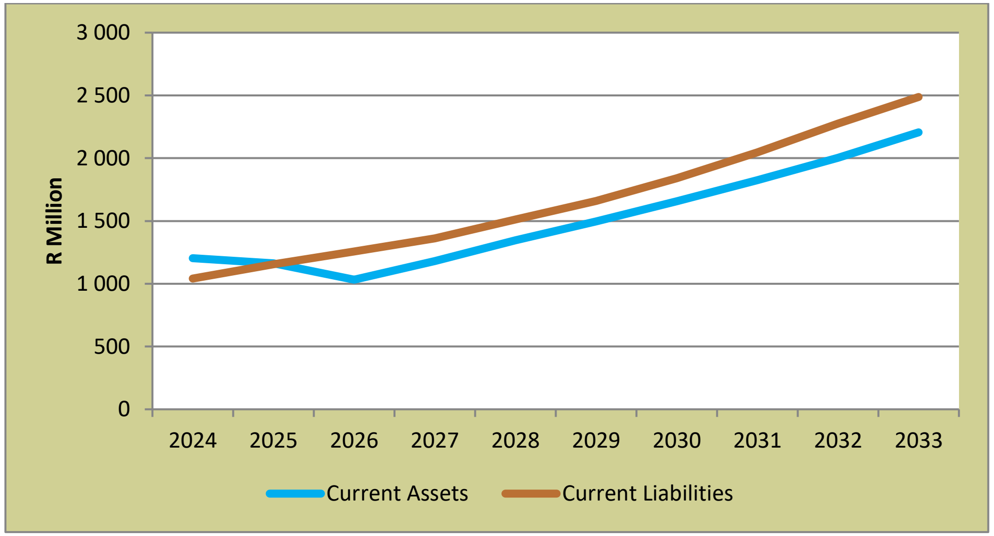
GRAPH 28: MTREF Case Scenario: Bank Balance vs Minimum Liquidity



GRAPH 27: MTREF Case Scenario: Capital Funding Mix



GRAPH 29: MTREF Case Scenario: Current Assets vs Current Liabilities



Base Case Scenario

To develop a realistic Base Case model, the figures from the Tabled Budget 2024/25 – 2026/27 were used. The historic analysis reveals that the municipality has maintained a healthy liquidity position underpinned by sound financial and operational management, while capital investment has received a notable acceleration in recent years. Financial performance has historically been reasonably volatile with operating surpluses posted in 3 of the 8 years under review. The objective of the model is to utilise realistic assumptions to support future financial sustainability. The following are the key assumptions:

1. A collection rate of 96% is assumed throughout the planning period.
2. The model incorporated the increases in revenue and expenditure items as announced in the Tabled Budget.
3. Tariff increases were included as put forward in the Budget Document FY2024/25.
4. Creditors days were adjusted downwards to mitigate the forecast rise in creditors.
5. The Tabled Budget capital investment programme was reduced over the MTREF period, as follows:
   - FY2025/26: R800 million (from R1 092 million)
   - FY2026/27: R650 million (from R772 million)

   Assumed growth in capital investment beyond the MTREF period is 5% p.a.
6. The Tabled Budget borrowing programme was reduced over the MTREF period, as follows:
   - FY2024/25: R400 million (from R466 million)
   - FY2025/26: R500 million (from R634 million)
   - FY2026/27: R235 million (from R504 million)
7. The annual borrowing under this scenario was adjusted to an average of **15-year** amortising loans at a fixed interest rate equal to 4% over forecast CPI in any given year. Assumed annual growth in borrowing beyond the MTREF period is 4%.
8. Repairs and maintenance expenditure was reduced to 5% of PPE & IP.
9. Electricity losses were maintained at FYE2022/23 levels, while water distribution losses were reduced to 20.0% over a 5-year period.

The outcomes of the Base Case are tabled below.

Table 9: Base Case Outcomes

Outcome	Base Case
Average annual % increase in Revenue	8,9%
Average annual % increase in Expenditure	9,4%
Accounting Surplus accumulated during Planning. Period (Rm)	R 3 965
Operating Surplus accumulated during Planning. Period (Rm)	R 2 421
Cash generated by Operations during Planning. Period (Rm)	R 6 228
Average annual increase in Gross Consumer Debtors	10,2%
Capital investment programme during Planning. Period (Rm)	R 8 481
External Loan Financing during Planning Period (Rm)	R 3 051
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 2 055
No of Months Cash Cover at the end of the Planning Period (Rm)	4,4
Liquidity Ratio at the end of the Planning Period	1.9 : 1
Gearing at the end of the Planning Period	31,6%
Debt Service to Total Expense Ratio at the end of the Planning Period	6,1%

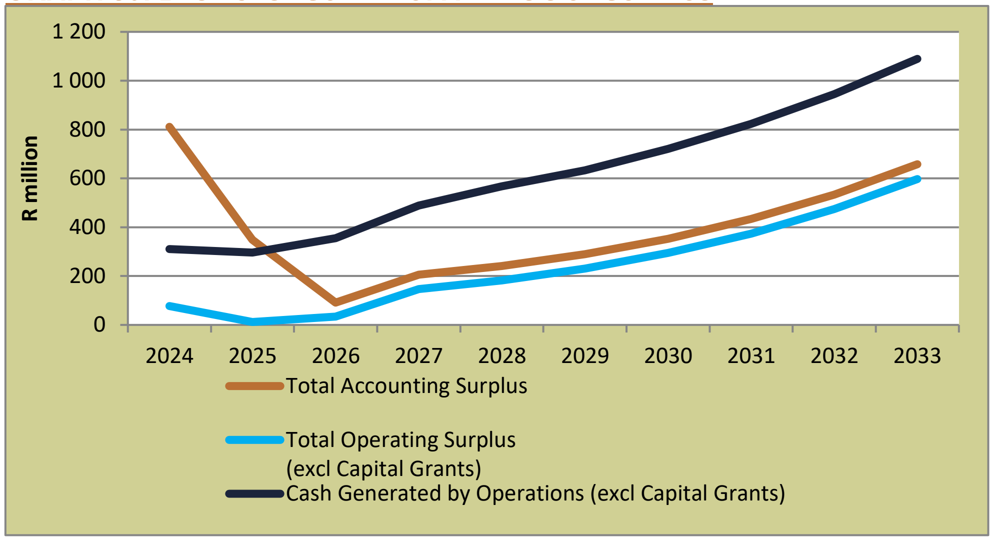
The significant deterioration of the accounting surplus is driven by the budgeted decline in capital grant funding. This is expected as the BFI projects begin to approach completion. The dip in the operating surplus in FY2024/25 is driven by a considerable increase in finance charges related to the acceleration of external financing. This decline notwithstanding, operating surpluses are forecast throughout the planning period. It must be noted that the modelled reduction in repairs and maintenance expenditure is not necessarily a reduction in the absolute value of the expenditure but rather reflects the increased carrying value of PPE & IP due to the acceleration of capital investment. Further to this, the extent of new assets added to the municipality's asset base will reduce the need to repairs and maintenance expenditure in the short-term. Electricity services are forecast to remain the predominant revenue item over the planning period. A load shedding scenario has been run to reflect the impact of the energy crisis. This will be discussed in Section 7 of this report.

The municipality is forecast to generate cash in excess of R290 million from operations (excluding capital grants) throughout the planning period, for a total of R6.22 billion over the planning period. The healthy liquidity position is underpinned by this. Additionally, the extent of cash generation enables the accelerated capital investment programme to be maintained over the long-term, without the municipality overleveraging its debt profile. GRAPH 34 illustrates that the liquidity position is forecast to deteriorate over the short-term. Beyond the MTREF period, year-on-year improvements are forecast which will culminate in a healthy liquidity ratio of 1.9:1 at the end of the planning period. The short-term decline in liquidity is driven by the accelerated capital investment programme as well as a rising creditors balance. The liquidity ratio is forecast to remain positive throughout the planning period.

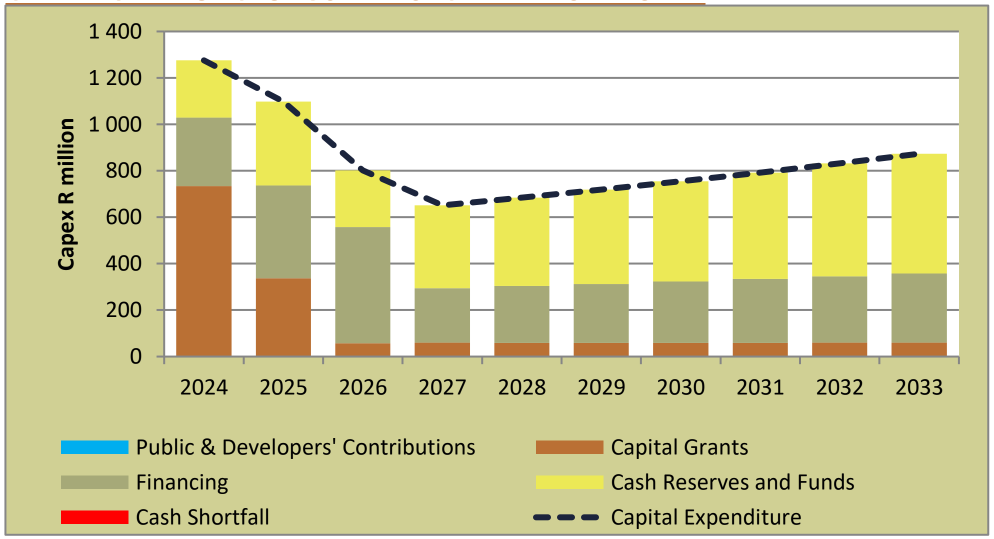
As indicated in the MTREF Case Scenario, the Tabled Budget borrowing programme is forecast to prove unaffordable. As such, reductions were made in arriving at the Base Case. These reductions keep the debt indicators within their respective limits throughout the forecast period, highlighting the affordability of the Base Case debt profile. Furthermore, the Base Case capital investment programme reflects a considerable acceleration on the historic levels. The sustainability of the Base Case is further reflected in GRAPH 32, which illustrates that George is forecast to hold sufficient cash reserves to meet the minimum liquidity requirements of 1-month's operating expenditure throughout the planning period. This is a key indicator of financial sustainability.

The Base Case assumptions are seen as realistic and achievable outcomes and can be seen as recommendations for the municipality to follow to ensure long-term financial sustainability.

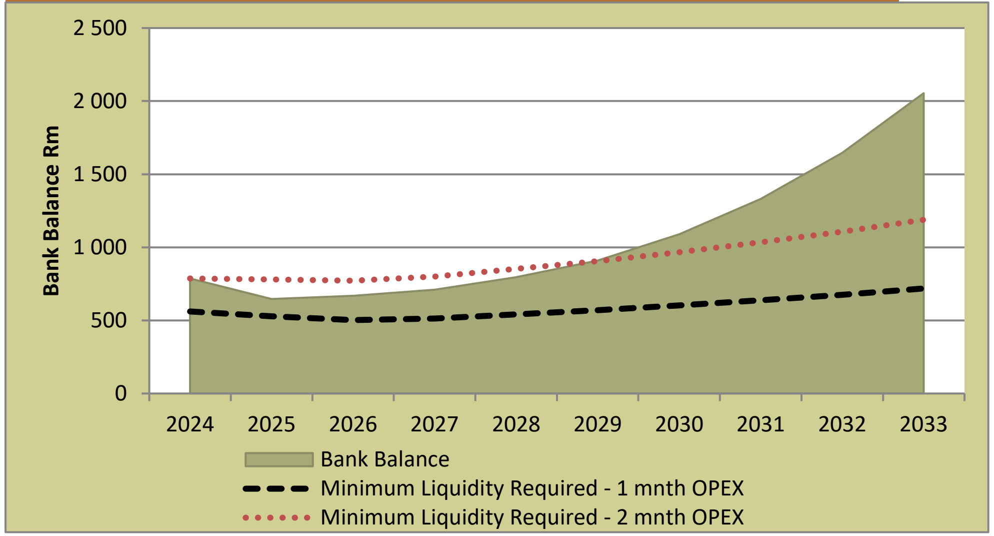
GRAPH 30: BASE CASE SCENARIO: ANALYSIS OF SURPLUS



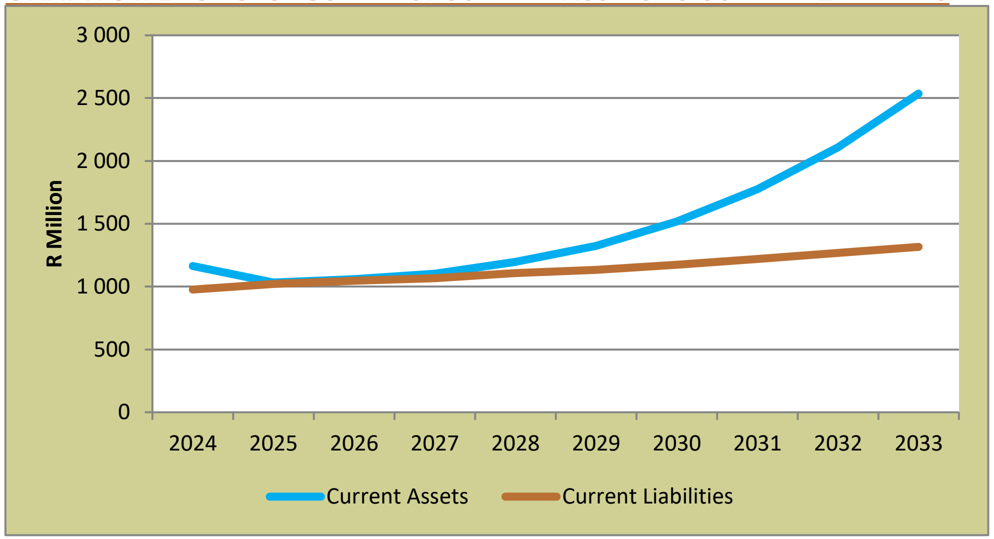
GRAPH 31: BASE CASE SCENARIO: CAPITAL FUNDING MIX



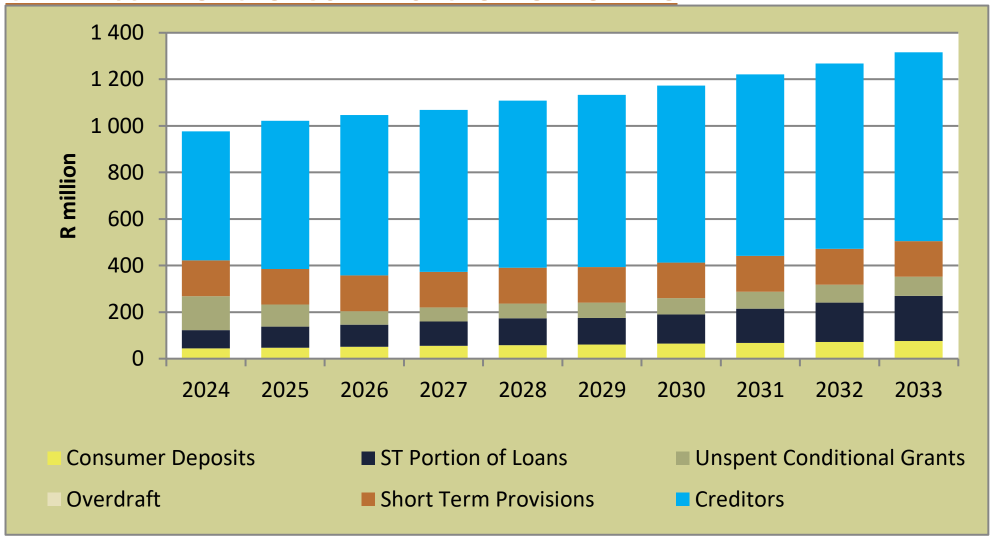
GRAPH 32: BASE CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY



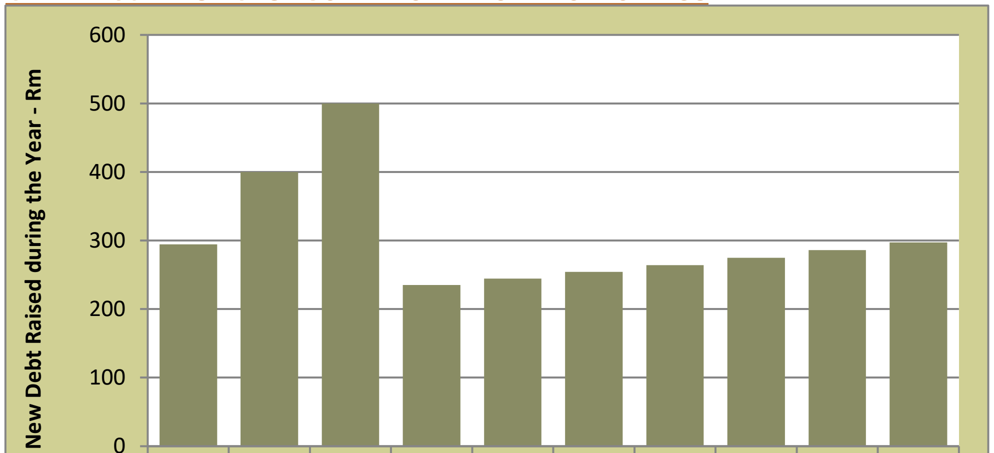
GRAPH 34: BASE CASE SCENARIO: CURRENT ASSETS VS CURRENT LIABILITIES



GRAPH 33: BASE CASE SCENARIO: CASH VS RESERVES



GRAPH 35: BASE CASE SCENARIO: ANNUAL BORROWINGS

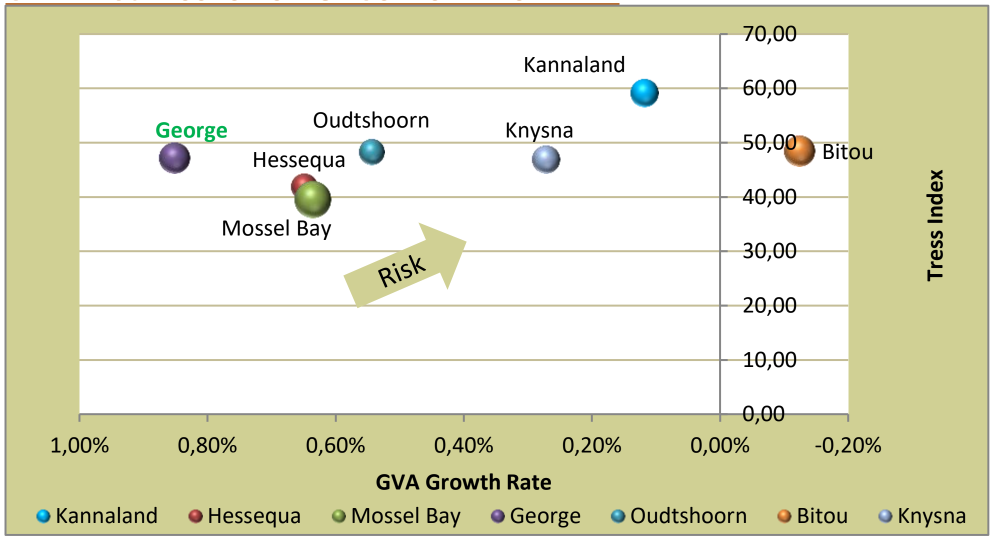


	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
R million	295	400	500	235	244	254	264	275	286	297

Future Revenues

Municipal Revenue Risk Indicator (MRRI) = "High"

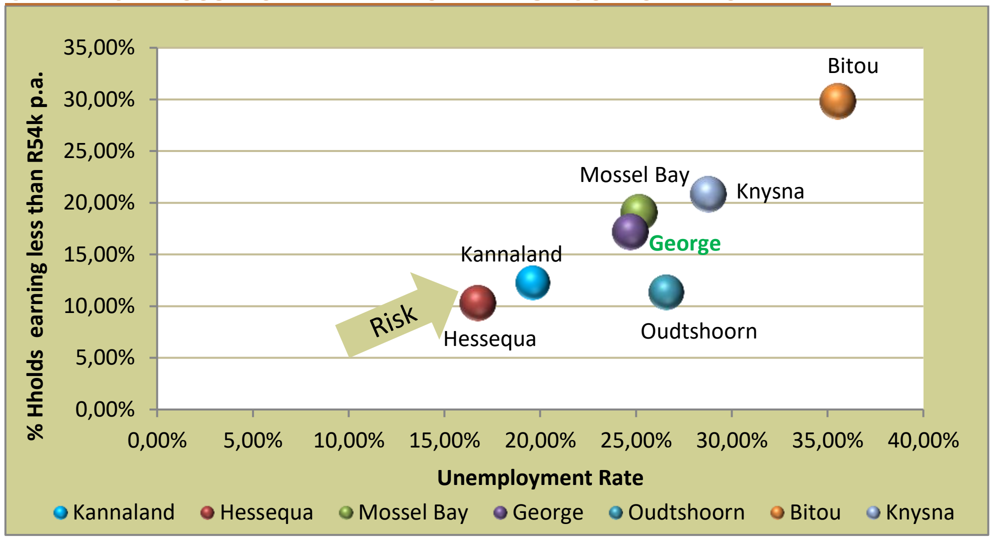
GRAPH 36: Economic Risk Component of MRRI



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

George has exhibited sluggish economic growth in recent years, as evidenced by the 5-year annual average GVA growth rate of 0.64%. This is well exceeded by the annual average population growth rate of 1.60% over the same period. GVA per capita of R71 680 in 2022, as well as the reasonably low degree of diversification of George's economy, all contribute to the "**High**" rating on the economic risk component of the MRRI. This is predominantly driven by sluggish economic growth.

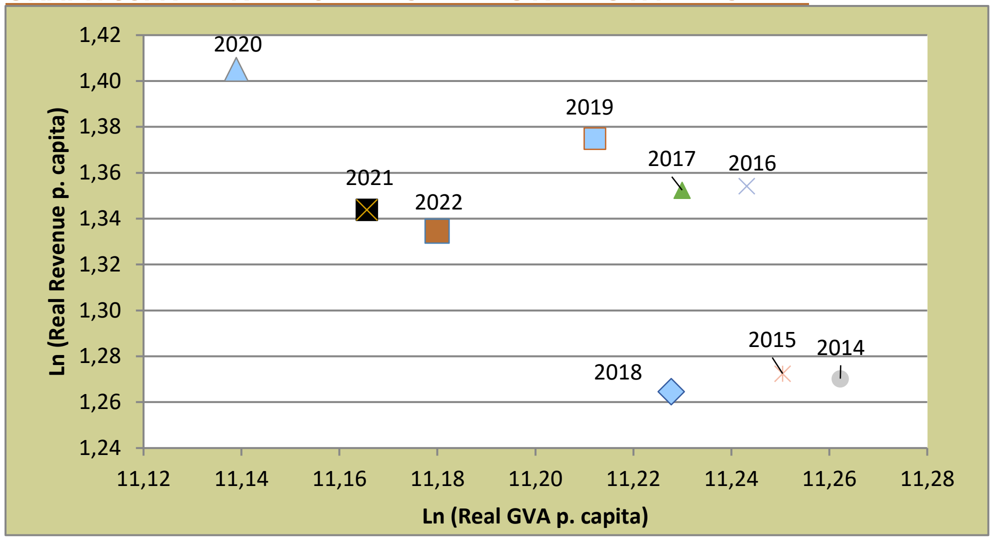
GRAPH 37: Household Ability to Pay Risk Component of MRRI



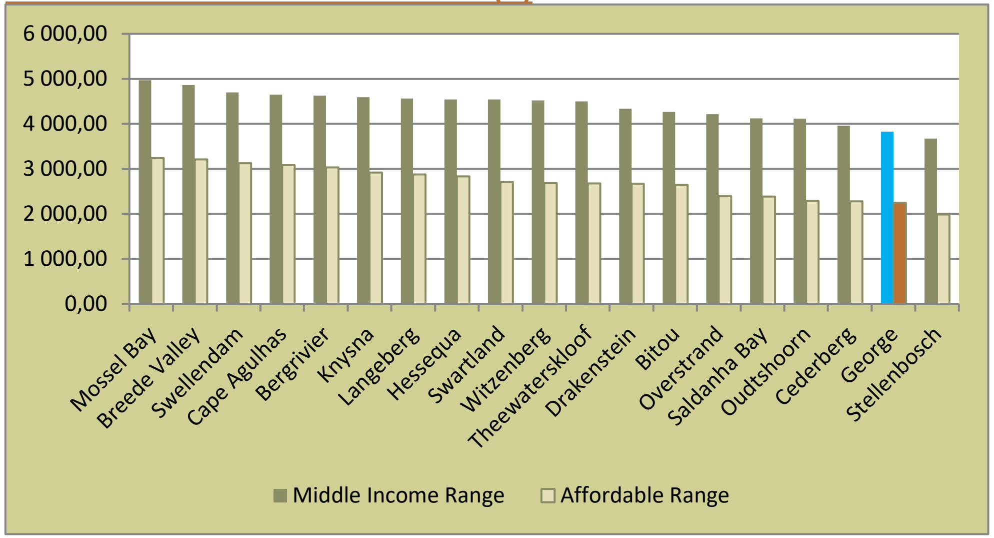
The percentage of indigent households reliant on support of 16.10%, the official unemployment rate of 24.00% and the human development index of 0.71 resulted in a **"Medium to High"** rating on the household ability to pay risk component of MRRI. The driving force behind this rating is the reasonably high rate of unemployment. George is in the middle area of risk in relation to some of the other municipalities in the district.

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

GRAPH 38: REAL REVENUE PER CAPITA VS REAL GVA PER CAPITA



GRAPH 39: AVERAGE HOUSEHOLD BILL (R)



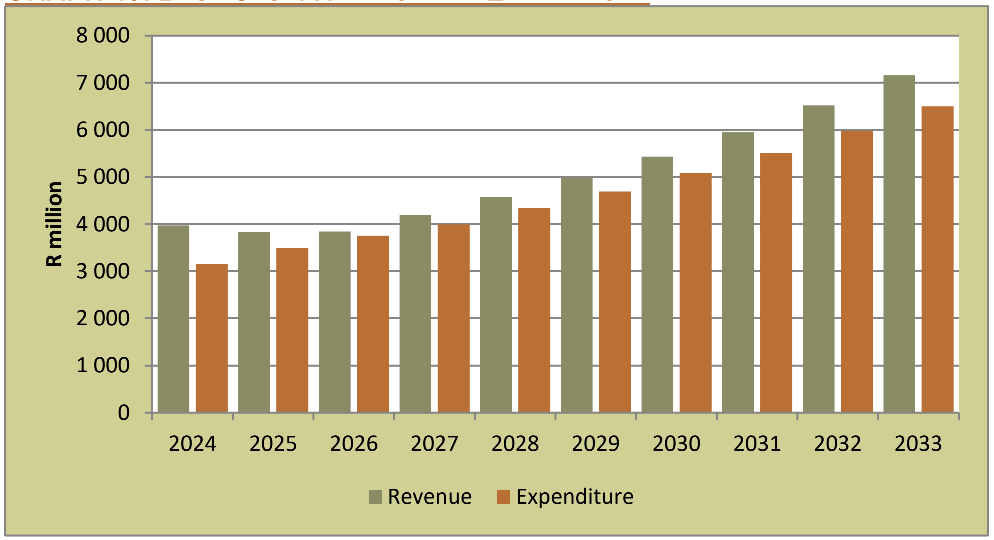
Real municipal revenue (excluding capital transfers) per capita indicates an increasing trend between 2014 and 2017, before a significant decline was observed in 2018. Thereafter, substantial increases were observed between 2018 and 2020, before the impact of the pandemic and challenging economic conditions begun to be felt in 2021 which resulted in a moderate decline which was sustained in 2022. GVA per capita has steadily declined over the review period, with the most notable contraction occurring between 2019 and 2020 as the impact of lockdowns and subsequent reduction of economic activity transpired. The economic recovery post covid is reflected in improvements in GVA per capita in 2021 and 2022.

It is crucial for the municipality to foster an enabling environment for economic growth within the region. It is positive to note that the municipality is doing just that through significantly accelerated investment in productive assets taking place through the BFI grant funding as well as the planned renewable energy projects. This should assist in stimulating the local economy whilst simultaneously boosting the perception of the municipality as an attractive destination for capital to be invested.

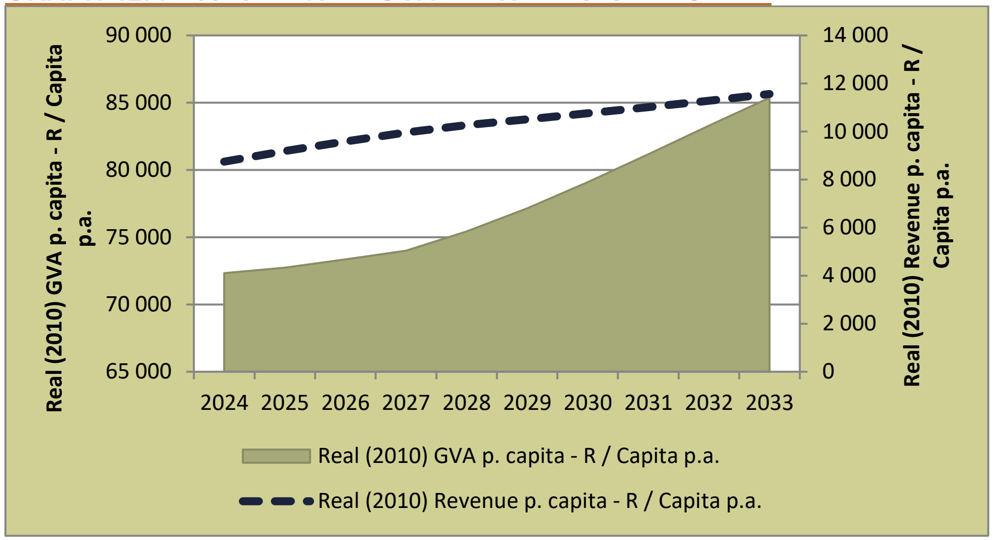
A comparison of the average household bill for the middle income and affordable income range of a selected number of municipalities in the Western Cape province (extracted from Budget Table: SA14) based on the 2023/24 tariffs, reveals that George LM features towards the very bottom of the range. Considering the level of service provided by George LM and the size of the municipality, the current household bill is low compared to other municipalities. This would suggest that there is scope for the municipality to increase tariffs considerably. The scope of the tariff increases is, however, limited by household's ability to pay for services.

MUNICIPAL REVENUES

GRAPH 40: BASE CASE: REVENUE AND EXPENDITURE



GRAPH 41: PROJECTED REAL GVA AND REVENUES PER CAPITA

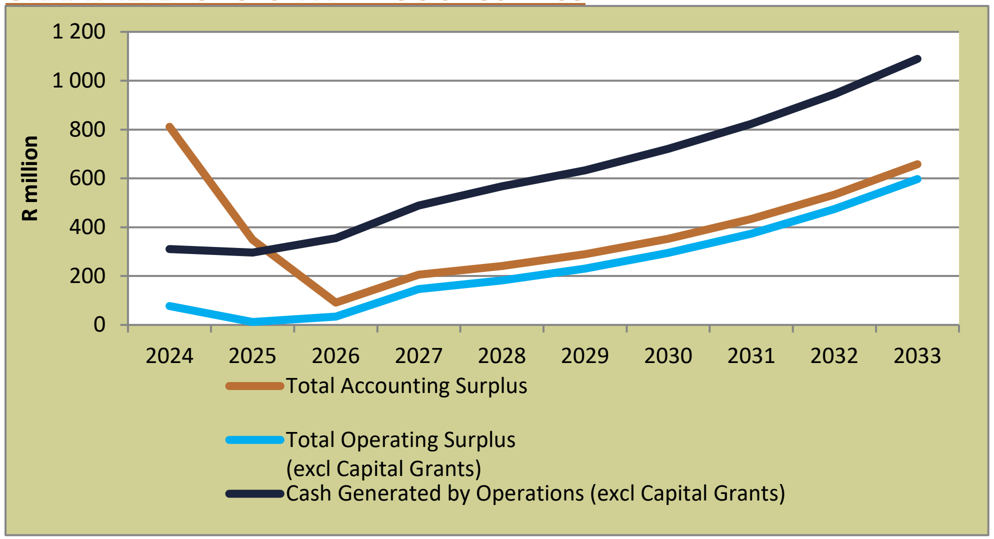


The Base Case estimates that, over the planning period, future nominal revenue (including capital grants) will grow at an average rate of 8.9% p.a. This growth in revenue includes: (i) tariff increases, (ii) increased sales and (iii) additional revenue sources. Future nominal expenditure is estimated to grow at a comparatively higher rate of 9.4% over the same period.

GRAPH 42 below illustrates that operating surpluses are forecast throughout the planning period. Financial performance is forecast to decline in FY2024/25 before year-on-year improvements are forecast for the remainder of the planning period. Electricity services are forecast to remain the predominant revenue generator for the municipality with an annual average contribution of 34.2%. This is followed by property rates with an annual average contribution of 13.0%. On the expenditure side, electricity bulk purchases are forecast to remain the predominant expenditure item with an annual average contribution of 22.7%. Employee related expenditure, inclusive of staff costs and contracted services, are forecast to contribute a combined 35.7% p.a. on average over the planning period. This suggests that the municipality's employee related expenditure profile is affordable. The impact of the energy crisis has been modelled in a separate scenario which will be discussed in detail in Section 7 of this report.

Real GVA per capita is forecast to increase over the planning period, from R72 696 in 2023 to R85 368 in 2033 for a total increase of 17.4%. Real revenue per capita is forecast to increase year-on-year over the planning period from R7 485 in 2023 to R11 562 in 2033 for an increase of 54.4%. Growth of the local economy is critical for the municipality to generate revenue as it has a direct impact on households' ability to pay for municipal services (MRRI). Economic growth translates into an expansion of the municipality's revenue base, which, in turn, will facilitate an acceleration of the capital investment programme. This is crucial for the municipality to keep up with the increasing population and associated demand for services.

GRAPH 42: BASE CASE: ANALYSIS OF SURPLUS



The municipality demonstrated a strong ability to generate cash from operations over the review period. The LTFM outcomes suggest that this will continue over the planning period. Year-on-year improvements are forecast from FY2024/25 onwards. George is forecast to generate R6.22 billion in cash from operations over the planning period. This is underpinned by the assumed maintenance of a high collection rate as well as strong financial performance forecast over the planning period. This is a key indicator of long-term financial sustainability and enables a healthy liquidity position to be reached whilst unlocking accelerated capital investment. The importance of maintaining a high collection rate cannot be understated. As such, the sensitivity of the municipality’s financial position to changes in the collection rate has been tested in a Scenario in Section 7 of this report.

Affordable Future Capital Investment

Capex Affordability and Funding

The total CAPEX Demand was determined during the preparation of the LTFP in 2022 but has changed since then. For purposes of this report, the adjusted estimated CAPEX Demand in the previous update was adjusted for inflation. It is essential to establish a more accurate and reasonable CAPEX demand estimate.

TABLE 10: CAPEX DEMAND VS AFFORDABILITY

Total 10-year CAPEX **Demand:**	=	R 11 660 million
Total 10-year CAPEX **Affordability:**	=	R 8 481 million

MTREF Capital Funding Mix

George's Tabled Budget expects a capital budget amounting to R2 965 million, funded as follows:

TABLE 11: MTREF CASE 3-YEAR MTREF FUNDING MIX R'M

R'm	Total	2024/25	2025/26	2026/27
Public & Developers Contributions	**0**	0	0	0
Capital Grants	**454**	336	57	59
Financing	**536**	467	634	505
Cash Reserves and Funds	**907**	295	403	209
Total	**2 965**	**1 098**	**1 094**	**773**

10-Year Capital Funding Mix

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

TABLE 12: BASE CASE 10-YEAR CAPITAL FUNDING MIX

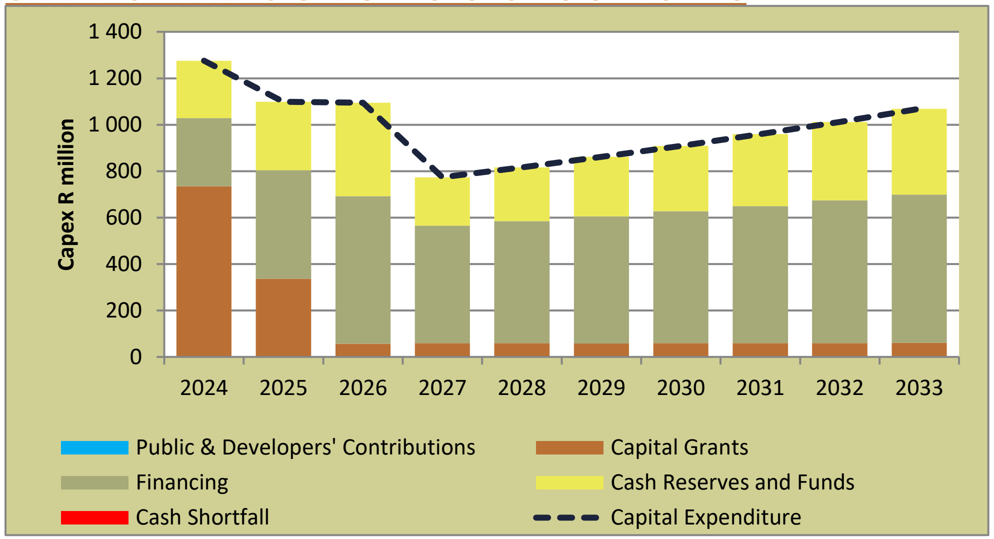
Source	Rm	%
Public & Developers' Contributions	0	0%
Capital Grants	1 544	18%
Financing	3 051	36%
Cash Reserves and Funds	3 887	46%
Cash Shortfall	0	0%
Capital Expenditure	**8 481**	**100%**

George has historically placed heavy reliance on capital grants and own cash resources to fund the capital expenditure programme, with 56% and 38% of funding respectively emanating from these 2 sources. The utilisation of own cash resources to fund capital expenditure has accelerated significantly in the most recent 2 years. The municipality undertook external financing on just 2 occasions during the review period being FY2019/20 and FY2022/23. The municipality has budgeted for a considerable acceleration of borrowing over the MTREF period. The affordability of the extent of the acceleration is questionable. As such, downward adjustments have been made in arriving at a sustainable Base Case.

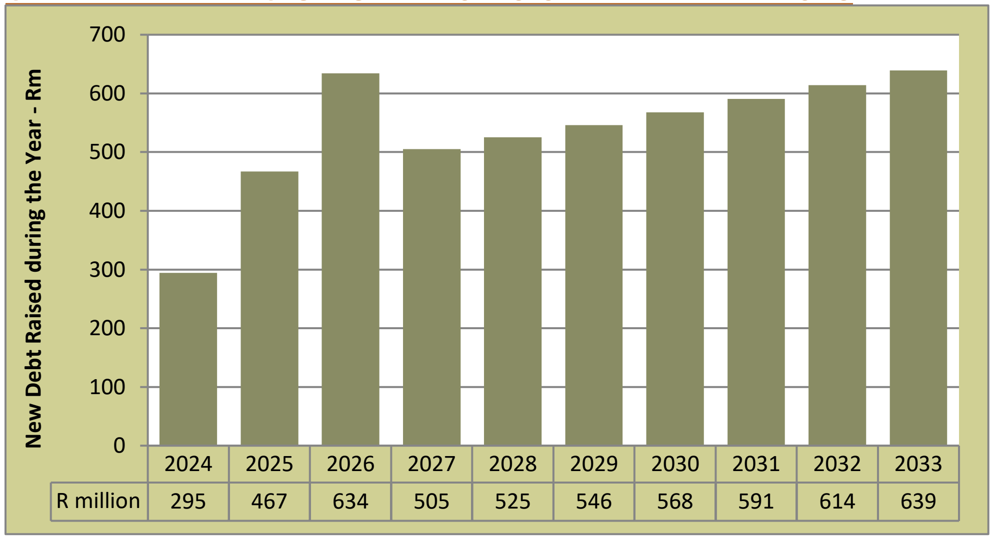
The receipt of the BFI grant has resulted in a notable acceleration of the capital investment programme since FY2021/22. This acceleration is set to continue according to the municipality's Tabled Budget. The MTREF Case capital investment programme is forecast to remain affordable. However, this is facilitated through a considerably accelerated borrowing programme. The borrowing programme and associated debt service charges are forecast to have a negative long-term impact. This will be discussed in more detail below. Due to this impact, the Base Case capital investment and borrowing programmes were downwardly adjusted. The Base Case capital investment programme represents a considerable acceleration on the historic performance.

The MTREF Case capital investment programme and funding mix are presented by the graphs below:

GRAPH 43: MTREF CASE DISTRIBUTION OF FUTURE FUNDING

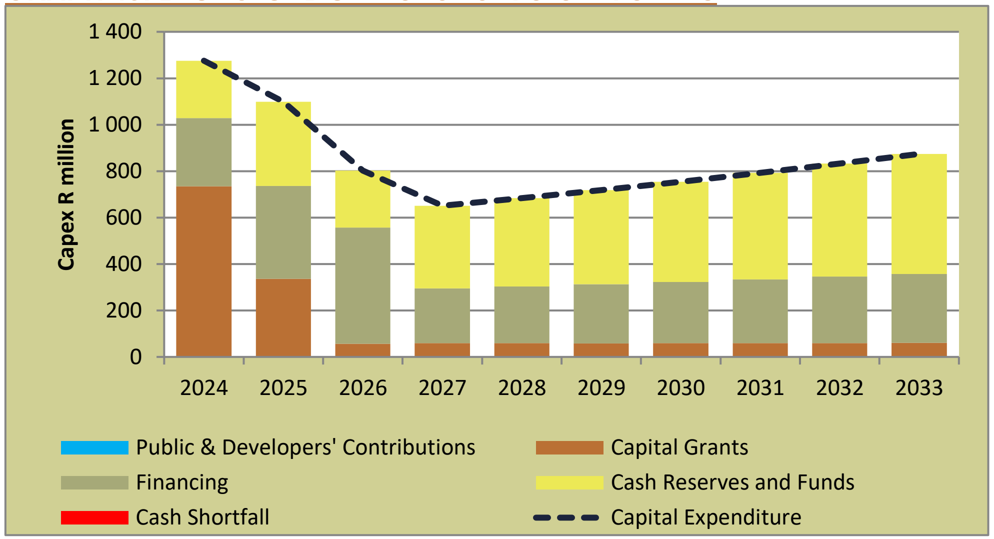


GRAPH 44: MTREF CASE ESTIMATE OF FUTURE EXTERNAL FINANCING



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

GRAPH 45: BASE CASE DISTRIBUTION OF FUTURE FUNDING



GRAPH 46: BASE CASE ESTIMATE OF FUTURE EXTERNAL FINANCING

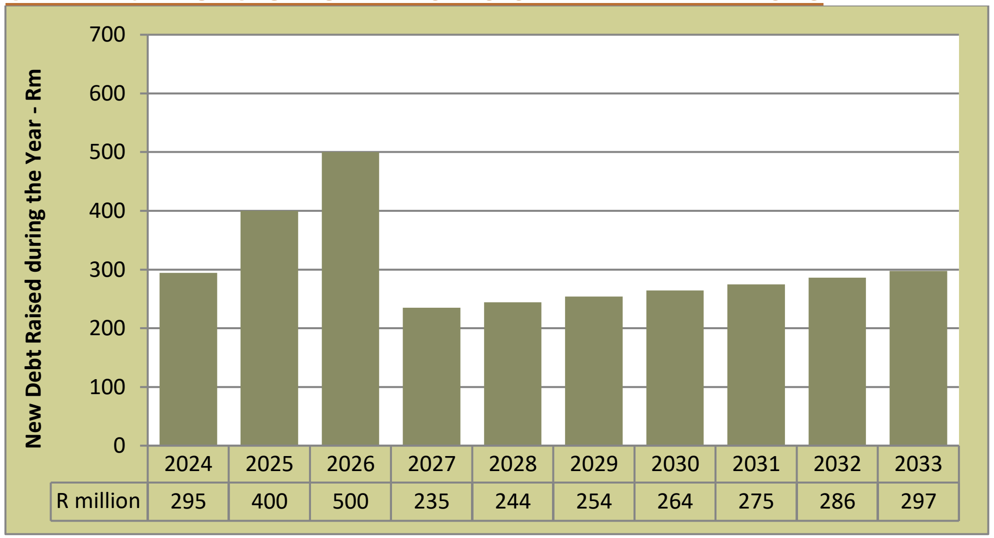


Table 13 & Table 14 below compare the distribution of capital funding over the planning period for both the MTREF Case and Base Case.

TABLE 13: MTREF CASE DISTRIBUTION OF FUTURE CAPITAL FUNDING (R'M)

R'm	Total	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public & Developers' Contributions	0	0	0	0	0	0	0	0	0	0	0
Capital Grants	1 544	734	337	57	60	59	59	59	59	60	60
Financing	5 384	295	467	634	505	525	546	568	591	614	639
Cash Reserves and Funds	2 941	247	295	403	209	232	257	282	309	338	369
Cash Shortfall	0	0	0	0	0	0	0	0	0	0	0
Capital Expenditure	**9 869**	1 276	1 098	1 094	774	816	862	909	959	1 012	1 068

TABLE 14: BASE CASE DISTRIBUTION OF FUTURE CAPITAL FUNDING (R'M)

R'm	Total	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public & Developers' Contributions	0	0	0	0	0	0	0	0	0	0	0
Capital Grants	1 544	734	337	57	60	59	59	59	59	60	60
Financing	**3 051**	295	**400**	**500**	**235**	**244**	**254**	**264**	**275**	**286**	**297**
Cash Reserves and Funds	**3 887**	247	**362**	**245**	**356**	**381**	**405**	**431**	**458**	**486**	**516**
Cash Shortfall	0	0	0	0	0	0	0	0	0	0	0
Capital Expenditure	**8 481**	1 276	1 098	802	651	684	718	754	792	832	874

Liquidity and Capital Replacement Reserve

The minimum liquidity levels cater for unspent conditional grants, cash-backed reserves, short-term provisions and 1-month's working capital (operating expenditure). Liquidity is forecast to be sufficient to cover 1-month's operating expenditure throughout the planning period, highlighting the sustainability of the Base Case. This is despite the significant capital outlay funded through own cash reserves over the planning period. It would be prudent to continue to build liquidity levels to allow for the Capital Replacement Reserve to be built up to fund future capital expenditure.

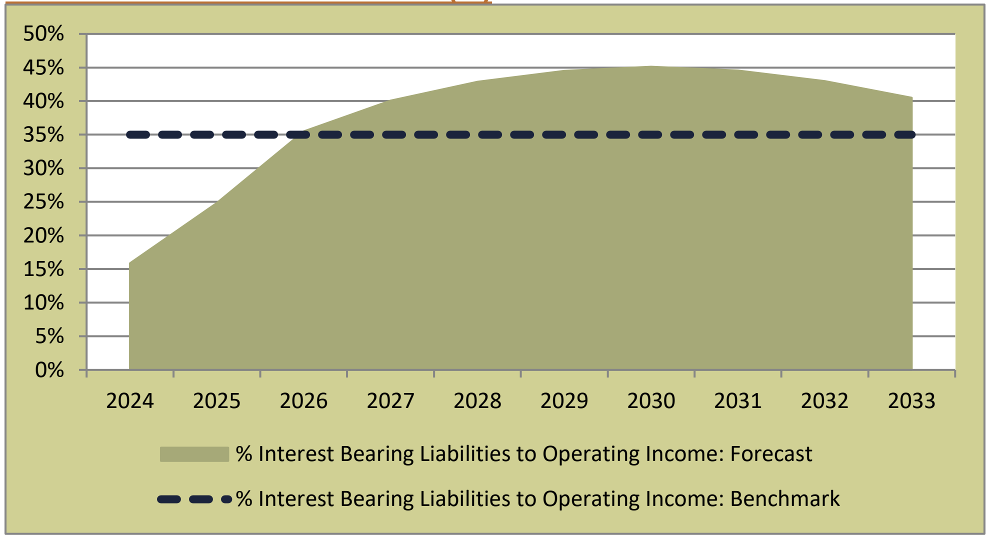
Gearing

The MTREF Case includes the borrowing programme as presented in the Tabled Budget with assumed annual growth thereafter being 4%. The assumed average loan tenor is 10 years. The accelerated borrowing programme is forecast to result in the debt indicators breaching their respective maximum limits being 35% and 7% for gearing and debt service to total expense ratios respectively, for the majority of the planning period (Graphs 47 & 48). The gearing ratio is forecast to peak at 45.12% in FY2029/30 before reducing to 40.48% by the end of the planning period. The debt service to total expense ratio is forecast to peak at 12.16% in FY2032/33. This may begin to threaten the long-term sustainability of the municipality.

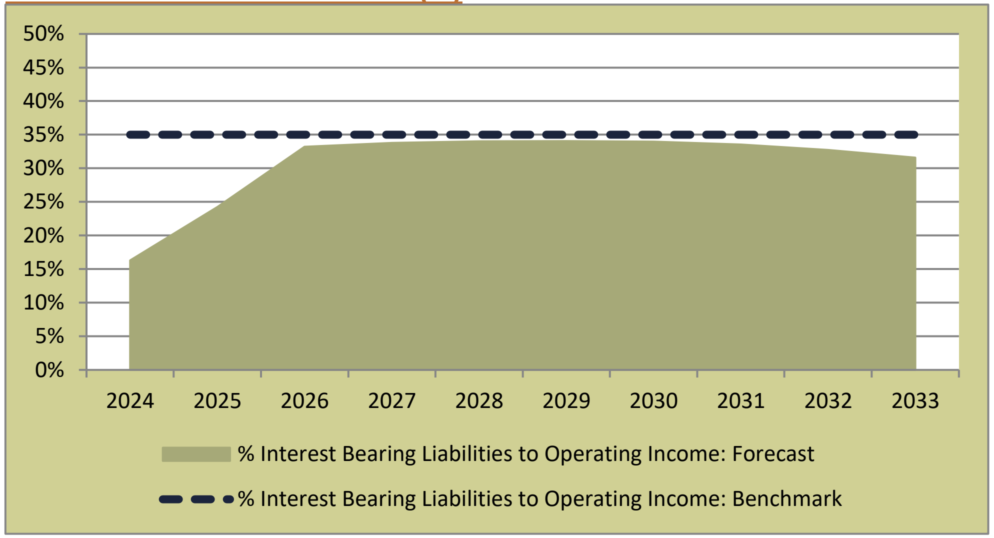
The Base Case attempts to rectify these issues through employing a reduced borrowing programme. While the trade-off of this is a reduced capital investment programme, the Base Case outcome reflects long-term sustainability. Additionally, the loan tenor on new debt was extended to 15 years. This brings significant liquidity benefits through reducing the annual debt service charges by extending the period of time over which the debt must be repaid. The adjustments made in arriving at the Base Case achieve the desired outcome. The gearing ratio is forecast to peak at 34.05% in FY2028/29 before reducing to 31.59% by the end of the planning period. The debt service to total expense ratio is forecast to peak at 6.12% by the end of the planning period. Both the debt indicators are thus forecast to remain within their respective maximum limits throughout the planning period, highlighting the affordability of the Base Case debt profile.

While it is noted that the Base Case presents a reduced capital investment programme in comparison to the MTREF Case, the Base Case nonetheless presents a considerable acceleration of the historic capital programme. This is achieved whilst promoting long-term sustainability. Further to this, it would be reasonable to assume that capital investment will begin to return closer to historic levels as the BFI and renewable energy projects are completed in the coming years. The Base Case suggests that it would be affordable to maintain the accelerated level of capital investment over the longer-term, should short-term adjustments be made as recommended.

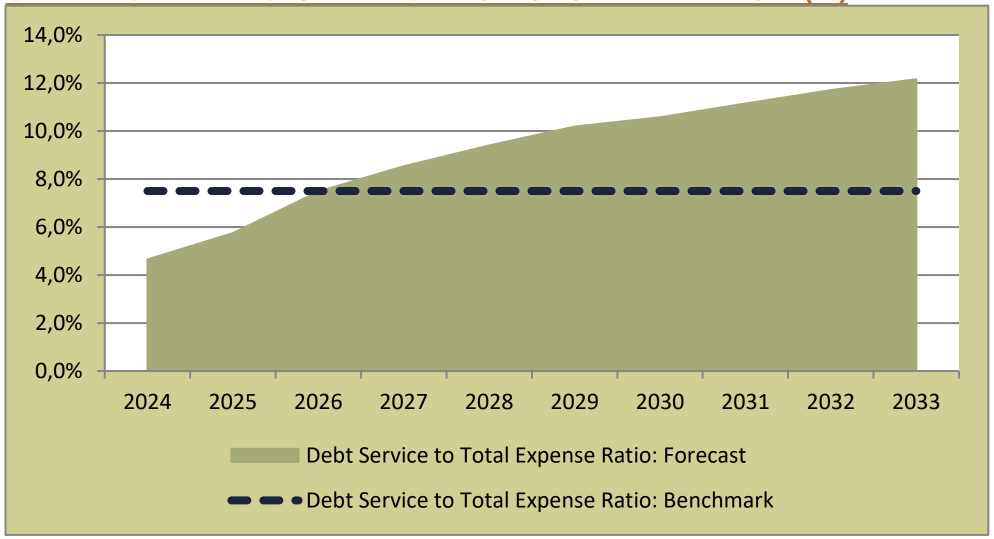
GRAPH 47: MTREF CASE GEARING (%)



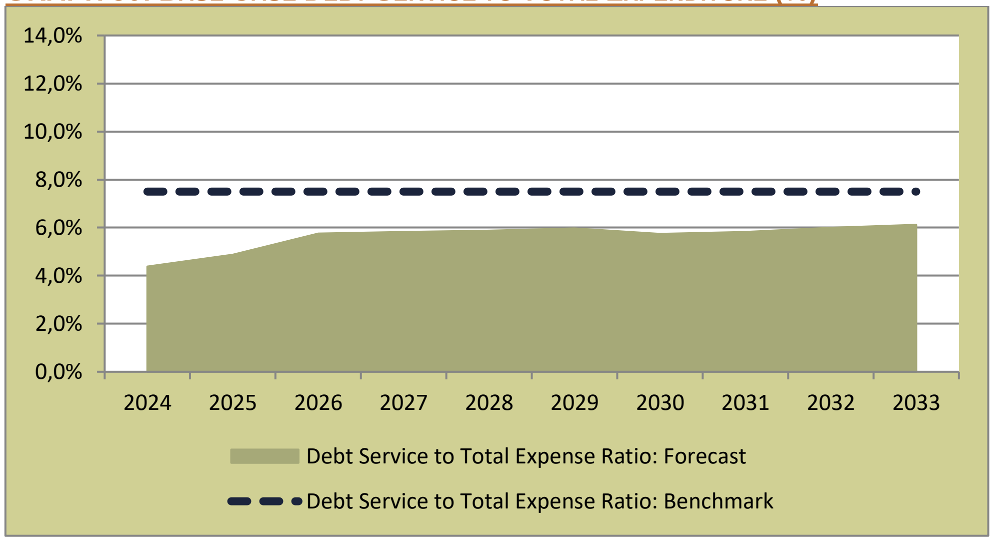
GRAPH 49: BASE CASE GEARING (%)



GRAPH 48: MTREF CASE DEBT SERVICE TO TOTAL EXPENDITURE (%)



GRAPH 50: BASE CASE DEBT SERVICE TO TOTAL EXPENDITURE (%)



Scenarios Analysis

Considering our analysis of the Tabled Budget and the risks identified as part of this update, the following scenarios were run to indicate the potential outcomes. The main purpose of these scenarios is to assist the municipality in its strategic decision making and to serve as an input to the budget for FY2024/25.

1. **To indicate the sensitivity of the collection rate on long-term financial sustainability:**

   1.1. A positive & negative scenario indicating the impact of positive and negative movements of 2% from the Base Case. All other input variables are assumed to be consistent with the Base Case.

2. **To indicate the impact of the energy crisis on municipal revenues and long-term financial sustainability:**

   2.1. A load shedding scenario was run to assess the impact of the energy crisis on municipal revenues. The scenario assumes an average of stage 2 load shedding for 2 years from FY2023/24. This is assumed to result in a reduction of electricity consumption of 11.9% p.a. Additionally, further reductions of 5% in electricity and water sales were modelled to indicate the impact of consumers moving off-grid and to reflect the impact on water usage pursuant to load shedding. All other input variables are assumed to be consistent with the Base Case.

3. **Depreciation Scenario:**

   3.1. This scenario assesses the impact of removing the depreciation charged on grant funds utilised for capital investment. All other input variables are assumed to be consistent with the Base Case.

Scenario 1: Sensitivity Analysis on the Collection Rate

The environment in which the municipality must operate is filled with challenges such as the energy crisis, geopolitical instability and persistent elevated levels of inflation. These issues have an impact not only on the municipality itself, but also on the households from which the municipality derives its revenue. As such, it is feasible that a reduction in the collection rate may transpire as households who are contending with the increased cost of living struggle to service their municipal bills. This may very well be a driver of the reduced collection rate noted in FY2022/23. On the other hand, should tough economic conditions ease and the municipality maintain sound collection practices, it is possible that the current collection rate can be improved upon. In light of this, this scenario assesses the impact of both positive and negative movements of 2% from the Base Case collection rate of 96%.

The outcomes of this scenario are reflected in Table 15 and the graphs below. Starting with the negative scenario, the impact on financial performance and the ability to generate cash from operations is marked. The accumulated operating surplus is forecast to decline by R783 million over the planning period, with an operating deficit forecast in FY2024/25. This, coupled with the reduced ability to generate cash from operations is forecast to result in a considerably reduced planning period end bank balance. Further to this, the minimum liquidity requirement of 1-month's opex will not be met in FY2026/27. The outcome remains sustainable, but future growth prospects will be limited.

The positive scenario reflects a significant improvement on the Base Case. This is driven by improved financial performance and thus, ability to generate cash from operations which underpins the healthier liquidity position. There is considerable scope to accelerate capital investment, whilst maintaining a healthy buffer to guard against potentially harmful financial shocks. Putting the additional liquidity to productive use can result in considerable benefits for the municipality.

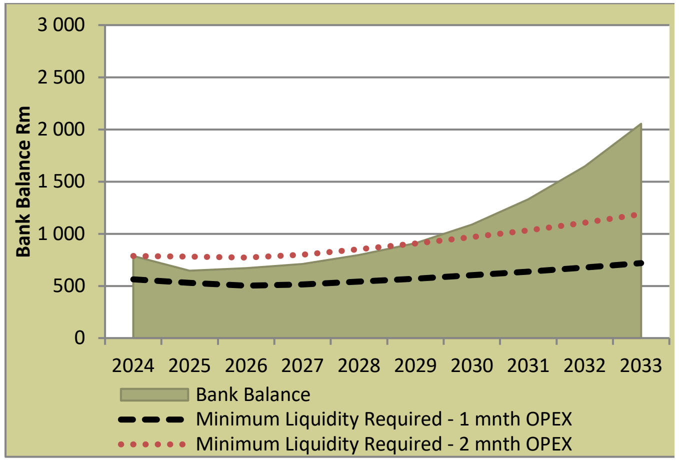
The outcomes of this scenario are evidence of the critical nature of maintaining a high collection rate, in excess of 95% at a minimum. The municipality has managed to meet this mark on average over the 8-year review period with an average collection rate of 95%. The Tabled Budget target collection rate of 96% must be met at a minimum, with further improvements targeted.

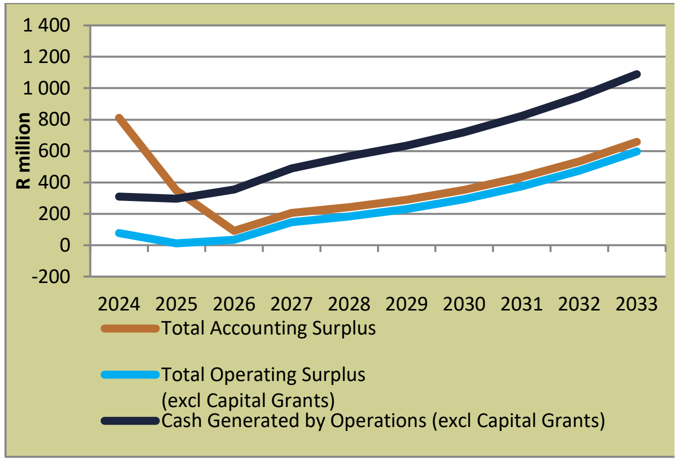
Table 15: Scenario 1: Sensitivity Analysis on the Collection Rate

Outcome	Base Case	Collection Rate -2%	Collection Rate +2%
Average annual % increase in Revenue	8,9%	8,8%	8,9%
Average annual % increase in Expenditure	9,4%	9,6%	9,2%
Accounting Surplus accumulated during Planning. Period (Rm)	R 3 965	R 3 182	R 4 748
Operating Surplus accumulated during Planning. Period (Rm)	**R 2 421**	**R 1 638**	**R 3 204**
Cash generated by Operations during Planning. Period (Rm)	**R 6 228**	**R 5 445**	**R 7 011**
Average annual increase in Gross Consumer Debtors	10,2%	13,9%	4,9%
Capital investment programme during Planning. Period (Rm)	R 8 481	R 8 481	R 8 481
External Loan Financing during Planning Period (Rm)	R 3 051	R 3 051	R 3 051
Cash and Cash Equivalents at the end of the Planning Period (Rm)	**R 2 055**	**R 1 272**	**R 2 837**
No of Months Cash Cover at the end of the Planning Period (Rm)	**4,4**	**2,7**	**6,0**
Liquidity Ratio at the end of the Planning Period	**1.9 : 1**	**1.3 : 1**	**2.5 : 1**
Gearing at the end of the Planning Period	31,6%	31,8%	31,4%
Debt Service to Total Expense Ratio at the end of the Planning Period	6,1%	6,0%	6,2%

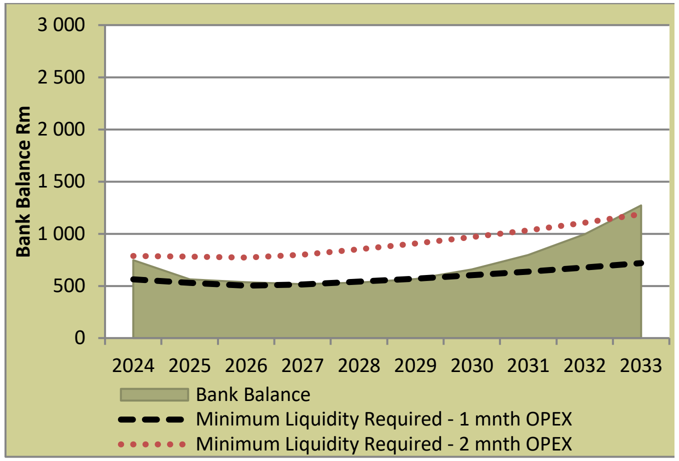
Scenario 1: Sensitivity Analysis on the Collection Rate

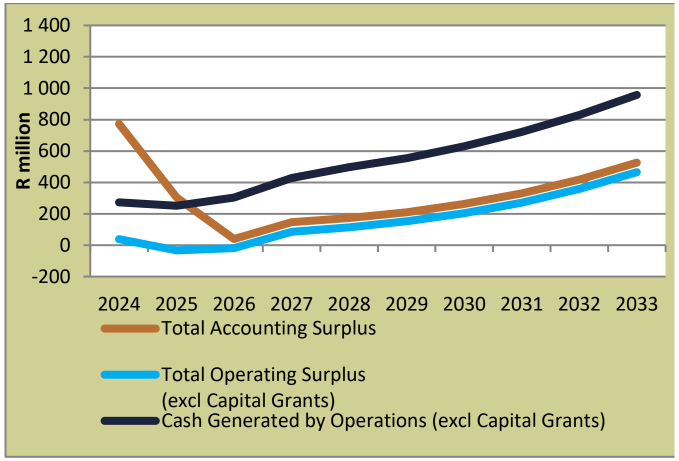
Base Case Scenario



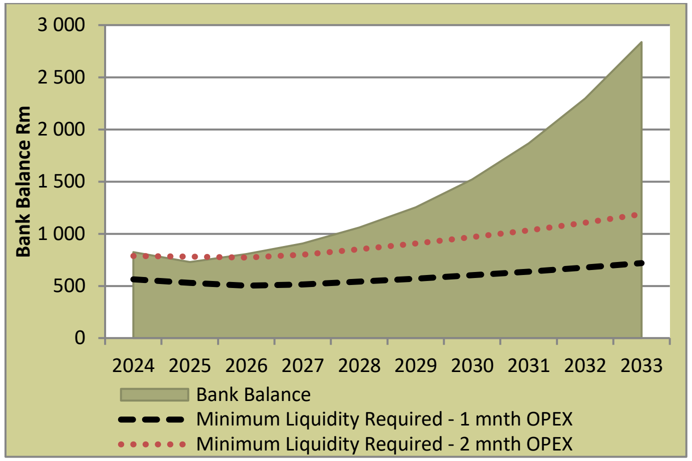


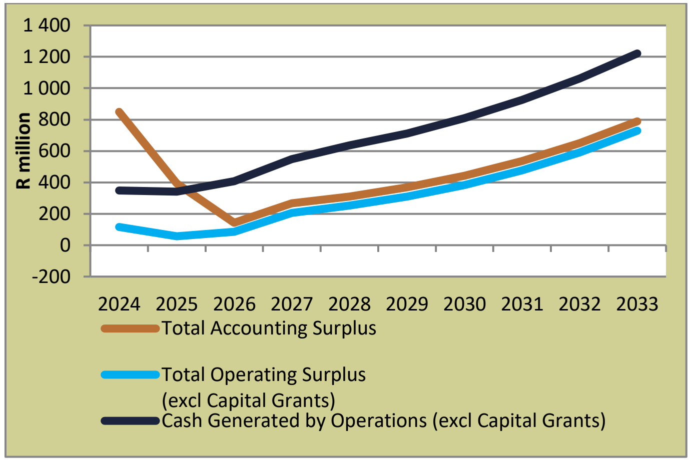
Reduce Collection Rate by 2%





Increase Collection Rate by 2%





Scenario 2: Load Shedding Scenario

As alluded to above, the energy crisis is one of the myriad of challenges that municipalities across the country have to deal with. With electricity services generally being the predominant revenue item for municipalities, this challenge is one of the more prevalent issues facing municipalities at this stage. As such, IPM has incorporated a load shedding scenario into the LTFM to quantify the financial implications of the energy crisis.

Considering the reduced load shedding in recent months at the time of writing of this report, this scenario assesses the impact of an average of stage 2 load shedding for a period of 2 years beginning in FY2023/24. This is calculated to result in a reduction of electricity consumption of 11.9% p.a. Considering this is a reduction of total electricity consumption, this has an impact on both the revenue and expenditure sides. Furthermore, an additional reduction of 5% of electricity sales was modelled to include the impact of consumers moving off the grid. Finally, a reduction of 5% of water sales was modelled to include the impact of reduced water sales pursuant to load shedding.

The outcomes of this scenario as presented in Table 16, reflect a considerable reduction in financial performance. Consequently, the ability to generate cash from operations will suffer. This is forecast to translate into a reduction of R285 million in the planning period end bank balance. The reduced liquidity ratio of 1.7:1 at the end of the planning period remains sustainable. Further to this, the minimum liquidity requirement of 1-month's opex is forecast to be met throughout the planning period.

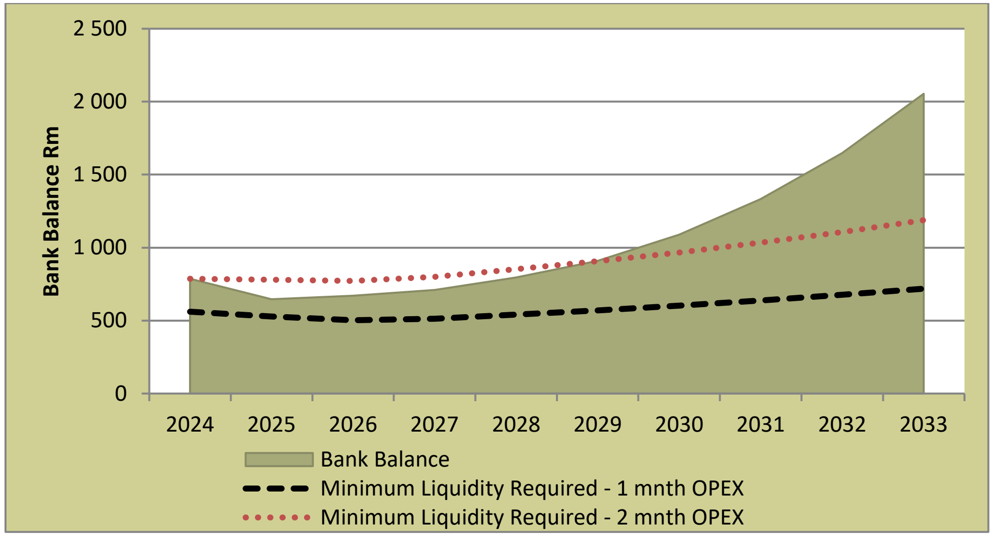
While the outcomes of this scenario remain sustainable, the municipality must remain wary of the impact of the energy crisis. Should the average stage be increased, the impact will worsen. Additionally, additional costs in the form of hiring of generators, fuel etc. increase pressure on the municipality's operational budget. It is positive to note that the municipality has undertaken the renewable energy projects which will reduce its reliance on Eskom and provide more independence and control over the municipality's energy supply. This will be of immense benefit to the municipality's residents and also to the municipality itself.

Table 16: Scenario 2: Load Shedding Scenario

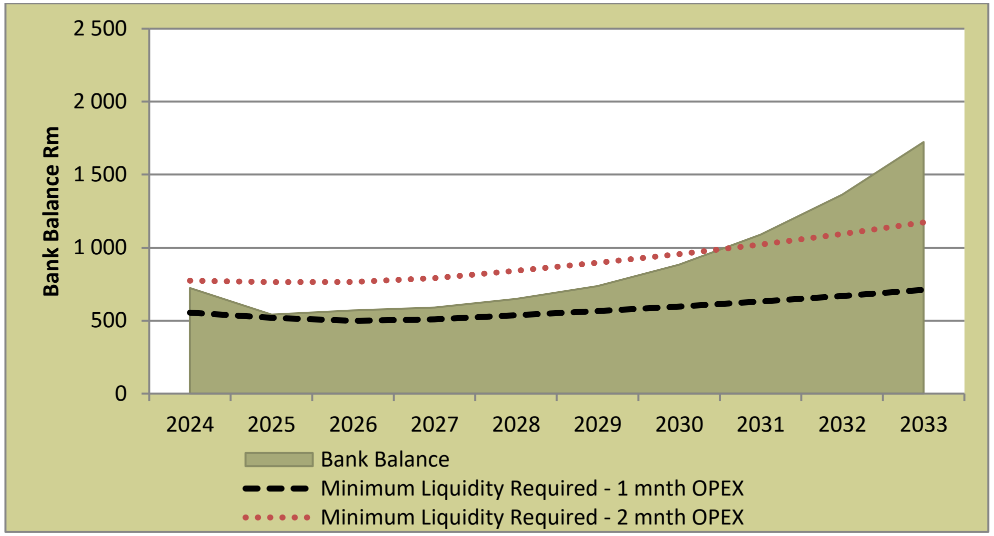
Outcome	Base Case	Load Shedding Scenario
Average annual % increase in Revenue	8,9%	8,7%
Average annual % increase in Expenditure	9,4%	9,2%
Accounting Surplus accumulated during Planning. Period (Rm)	R 3 965	R 3 664
Operating Surplus accumulated during Planning. Period (Rm)	R 2 421	R 2 120
Cash generated by Operations during Planning. Period (Rm)	R 6 228	R 5 904
Average annual increase in Gross Consumer Debtors	10,2%	9,9%
Capital investment programme during Planning. Period (Rm)	R 8 481	R 8 481
External Loan Financing during Planning Period (Rm)	R 3 051	R 3 069
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 2 055	R 1 770
No of Months Cash Cover at the end of the Planning Period (Rm)	4,4	3,8
Liquidity Ratio at the end of the Planning Period	1.9 : 1	1.7 : 1
Gearing at the end of the Planning Period	31,6%	32,8%
Debt Service to Total Expense Ratio at the end of the Planning Period	6,1%	6,3%

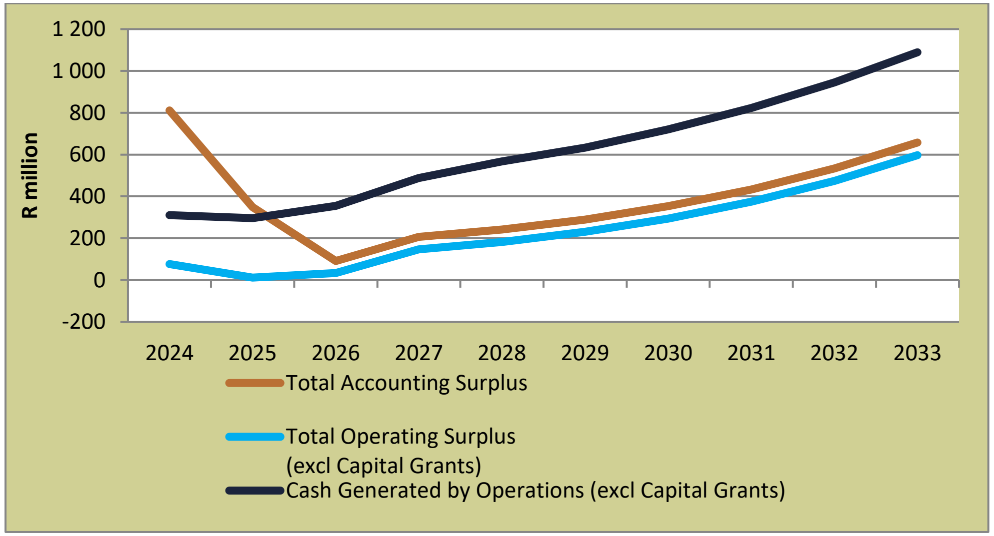
Scenario 2: Load Shedding Scenario

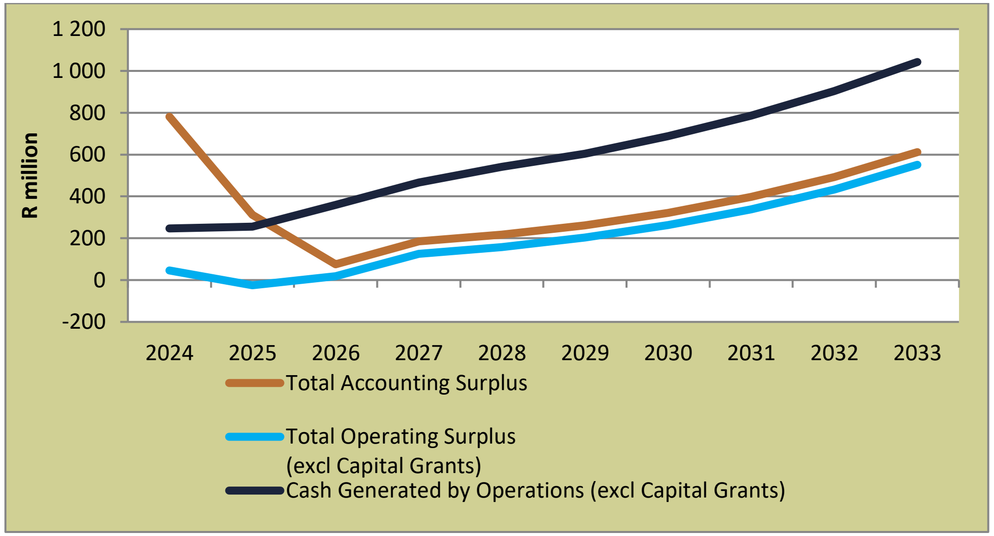
Base Case Scenario



Load Shedding Scenario







Scenario 3: Depreciation Scenario

The municipality has received substantial levels of grant funding in recent years, owing to the fact that the BFI grants were approved for George LM. This has enabled the municipality to engage in massive water infrastructure related projects in recent years. The significant acceleration of capital investment in recent years has resulted in growth of the municipality's asset base. This will only continue into the future as the BFI & renewable energy projects that are on the go approach completion. This has resulted in increased depreciation charges on these new assets. Municipalities operate on the principle that depreciation charges must be utilised to fund future replacement of assets. The municipality argues that the depreciation charges on the grant funding portion of the capital investment should not be carried by the ratepayers.

As such, this scenario attempts to remove the depreciation charged on capital grants to highlight the impact on financial performance. There is an approximate difference of R481 million between the Base Case depreciation charges and the depreciation charges in this scenario. The outcomes of this scenario are reflected in Table 17 below.

Financial performance is significantly improved, with the accumulated operating surplus improving by a considerable R443 million over the planning period. This is evident in the graphs below.

Due to depreciation being a non-cash item, the impact on cash generated by operations and the cash balance is immaterial. The differences in cash between the Base Case and Scenario 3 outcomes are due to the improvement in financial performance impacting other calculations in the LTFM relating to working capital adjustments.

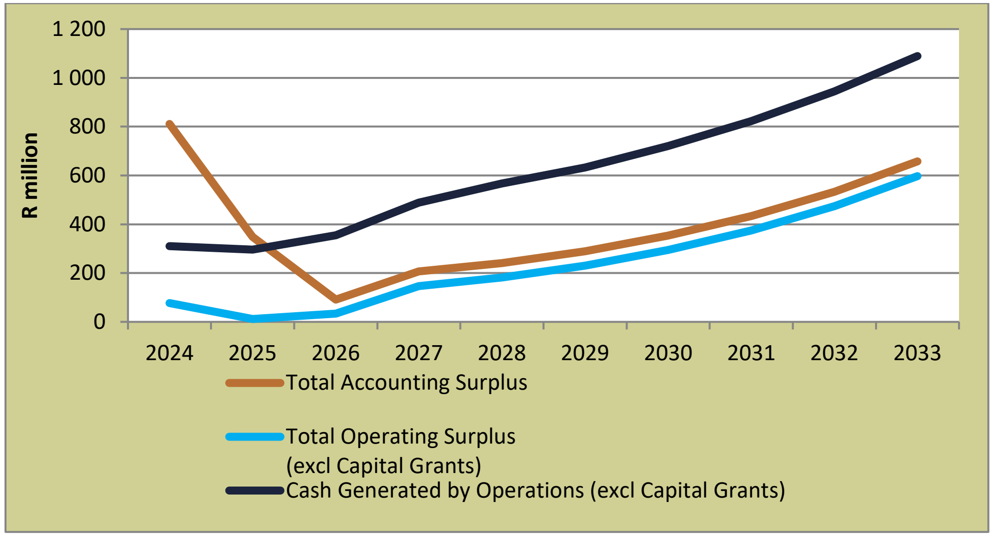
The reduction in the depreciation expense and consequent improvement in financial performance leaves the municipality in a better position to absorb potential bulk purchases tariff increases as an example, without needing to fully pass on the additional cost to the consumer. This may translate into an improvement in the collection rate due to some pressure on households to service their municipal bill being alleviated.

Table 17: Scenario 3: Load Shedding Scenario

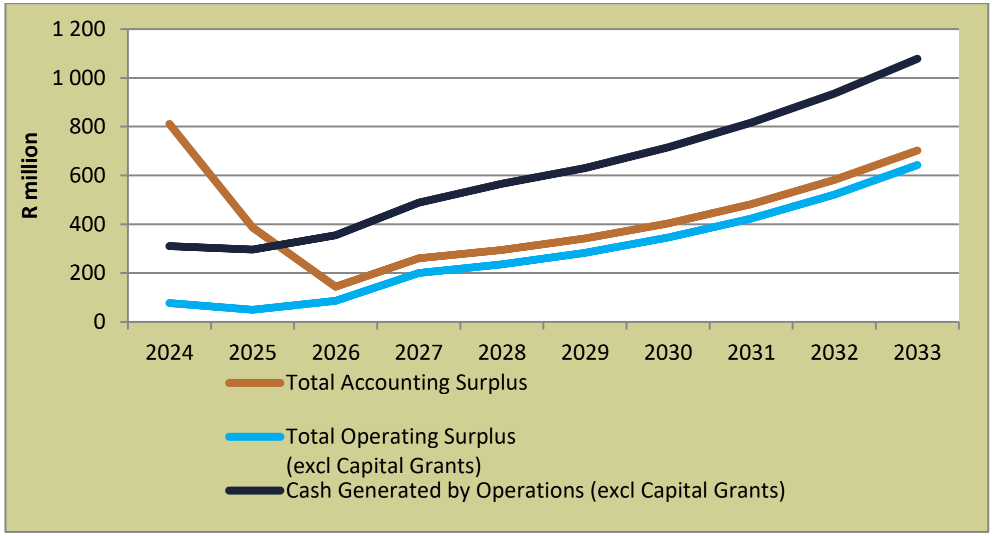
Outcome	Base Case	Depreciation Scenario
Average annual % increase in Revenue	8,9%	8,9%
Average annual % increase in Expenditure	9,4%	9,4%
Accounting Surplus accumulated during Planning. Period (Rm)	R 3 965	R 4 407
Operating Surplus accumulated during Planning. Period (Rm)	R 2 421	R 2 864
Cash generated by Operations during Planning. Period (Rm)	R 6 228	R 6 193
Average annual increase in Gross Consumer Debtors	10,2%	10,2%
Capital investment programme during Planning. Period (Rm)	R 8 481	R 8 481
External Loan Financing during Planning Period (Rm)	R 3 051	R 3 051
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 2 055	R 2 020
No of Months Cash Cover at the end of the Planning Period (Rm)	4,4	4,3
Liquidity Ratio at the end of the Planning Period	1.9 : 1	1,9 : 1
Gearing at the end of the Planning Period	31,6%	31,5%
Debt Service to Total Expense Ratio at the end of the Planning Period	6,1%	6,1%

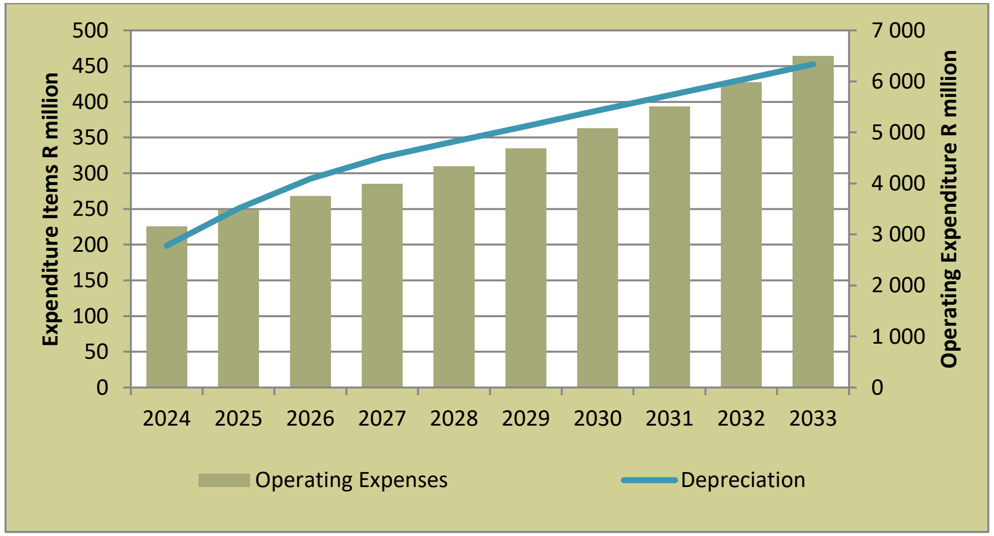
Scenario 3: Depreciation Scenario

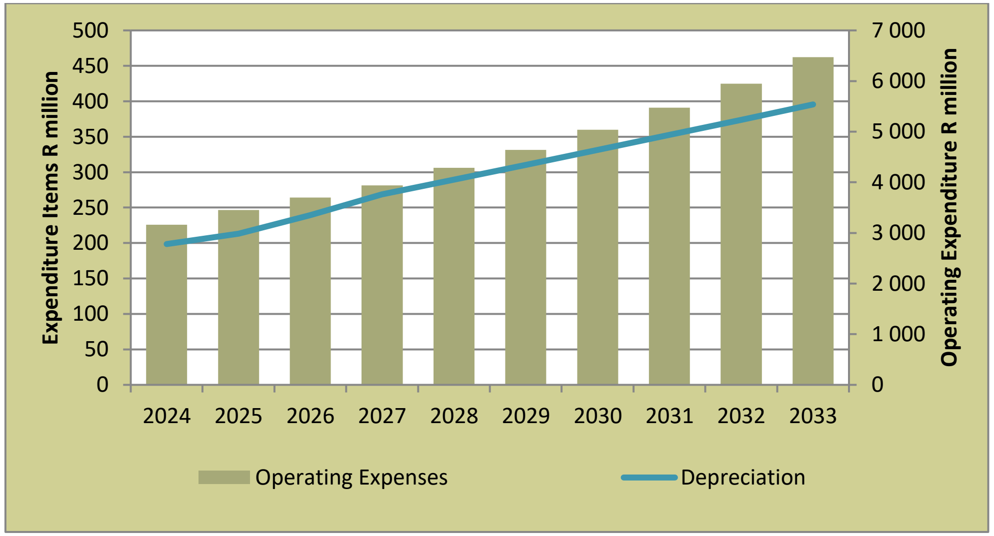
Base Case Scenario



Depreciation Scenario







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FORECAST RATIOS

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

		N.T. NORM	2024	2026	2028	2030	2032	2033	COMMENTS
FINANCIAL POSITION									
ASSET MANAGEMENT									
R29	Capital Expenditure / Total Expenditure	10% - 20%	28,8%	17,6%	13,6%	12,9%	12,2%	11,8%	CAPEX as a % of Total Expenditure will remain below the NT norm beyond the MTREF period.
R27	Repairs and Maintenance as % of PPE and Investment Property	8%	4,7%	3,7%	3,9%	4,3%	4,7%	4,9%	Repairs and maintenance as a percentage of PPE and IP will remain below the NT benchmark throughout the planning period.
DEBTORS MANAGEMENT									
R4	Gross Consumer Debtors Growth		9,8%	10,4%	10,5%	10,2%	10,0%	10,0%	The Collection Rate is assumed to remain at 96% throughout the planning period.
5	Payment Ratio / Collection Rate	95%	96,0%	96,0%	96,0%	96,0%	96,0%	96,0%	
LIQUIDITY MANAGEMENT									
R49	Cash Coverage Ratio (excl Working Capital)		2,3 : 1	2,9 : 1	3,4 : 1	4,6 : 1	6,7 : 1	8,3 : 1	The bank balance will meet the minimum liquidity requirement throughout the planning period. The liquidity will reach a healthy 1.9:1 by the end of the planning period.
R50	Cash Coverage Ratio (incl Working Capital)		1,4 : 1	1,3 : 1	1,5 : 1	1,8 : 1	2,4 : 1	2,8 : 1	
R51	Cash Surplus / Shortfall on Minimum Liquidity Requirements		R 215,9 m	R 163,2 m	R 249,5 m	R 482,3 m	R 964,8 m	R 1 329,5 m	
R1	Liquidity Ratio (Current Assets: Current Liabilities)	1:1.5 - 1:2.1	1,2 : 1	1 : 1	1,1 : 1	1,3 : 1	1,7 : 1	1,9 : 1	
LIABILITY MANAGEMENT									
R45	Debt Service as % of Total Operating Expenditure	6% - 8%	4,4%	5,8%	5,9%	5,7%	6,0%	6,1%	The external financing programme is forecast to remain within the recommended benchmarks, whilst taking advantage of scope to sufficiently leverage the debt profile.
R6	Total Debt (Borrowings) / Operating Revenue	45%	16,3%	33,2%	34,0%	34,0%	32,7%	31,6%	
R7	Repayment Capacity Ratio		0,54	4,37	3,23	3,04	2,67	2,43	
R46	Debt Service Cover Ratio (Cash Generated by Operations / Debt Service)		7,5 : 1	1,9 : 1	2,5 : 1	2,7 : 1	2,8 : 1	2,9 : 1	

		N.T. NORM	2024	2026	2028	2030	2032	2033	COMMENTS
SUSTAINABILITY									
	Net Financial Liabilities Ratio	< 60%	14,3%	36,5%	35,4%	31,2%	23,2%	17,7%	Net Financial Liabilities are below the benchmark, but the Operating Surplus Ratio remains below the recommended lower benchmark for the majority of the planning period. Asset Sustainability is not calculated but entered as an assumption in the model. The municipality must ensure that a greater proportion of CAPEX is spent on asset replacement should it be required.
	Operating Surplus Ratio	0% - 10%	2,4%	0,9%	4,0%	5,5%	7,3%	8,4%	
	Asset Sustainability Ratio	> 90%	63,2%	21,1%	19,6%	19,2%	19,0%	19,0%	
FINANCIAL PERFORMANCE									
EFFICIENCY									
R42	Net Operating Surplus / Total Operating Revenue	>= 0%	2,4%	0,9%	4,0%	5,5%	7,3%	8,4%	The net operating surplus is above 0% for the MTREF period and improves to 8.4% by 2033, an indication that the municipality should endeavour to maintain profitability by managing expenditure and maintaining the high-water surplus margins.
R43	Electricity Surplus / Total Electricity Revenue		21,3%	22,2%	25,9%	25,9%	25,9%	25,9%	
R44	Water Surplus / Total Water Revenue		98,2%	98,2%	98,2%	98,2%	98,2%	98,2%	
REVENUE MANAGEMENT									
R8	Increase in Billed Income p.a. (R'm)		R 229,8 m	R 254,9 m	R 271,6 m	R 302,9 m	R 376,8 m	R 419,0 m	Billed Revenue and Operating Revenue Growth is, for the most part, marginally above forecast CPI over the planning period. Cash generated from operations is expected improve throughout the planning period.
R9	% Increase in Billed Income p.a.	CPI	13,6%	11,8%	10,1%	9,4%	9,7%	9,8%	
R12	Operating Revenue Growth %	CPI	22,2%	8,2%	9,2%	9,2%	9,7%	9,9%	
R47	Cash Generated by Operations / Own Revenue		41,7%	13,3%	16,7%	17,3%	18,4%	19,1%	
R48	Cash Generated by Operations / Total Operating Revenue		32,3%	10,9%	13,8%	14,5%	15,6%	16,2%	

		N.T. NORM	2024	2026	2028	2030	2032	2033	COMMENTS
EXPENDITURE MANAGEMENT									
	Creditors Payment Period	30	66	91	91	84	76	72	Creditors' payment period is higher than the NT benchmark but forecast to reduce over the planning period. Staff costs as a percentage of total expenditure is forecast to remain within the recommended benchmark throughout the planning period. Contracted services to total expenditure, however, is forecast to exceed the recommended benchmark. The combined impact remains affordable.
R30	Contribution per Expenditure Item: Staff Cost (Salaries, Wages and Allowances)	25% - 40%	16,5%	19,4%	20,1%	19,7%	19,5%	19,3%	
	Contribution per expenditure item: Contracted Services	2% - 5%	17,9%	18,3%	18,3%	18,4%	18,4%	18,4%	
GRANT DEPENDENCY									
R10	Total Grants / Total Revenue		36,9%	19,4%	18,1%	17,2%	16,2%	15,8%	The municipality can generate funds from its own sources and is not overly reliant on grants. This is positive to note, as the tightening of the national fiscus will result in a declining reliance on transfers from other spheres of government. The initially high levels are due to the BFI grants.
R11	Own Source Revenue to Total Operating Revenue		77,4%	81,8%	83,0%	83,8%	84,6%	84,9%	
	Capital Grants to Total Capital Expenditure		57,6%	7,1%	8,6%	7,8%	7,2%	6,9%	

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Outcome of the Independent Financial Assessment

George LM's financial performance deteriorated during FY2022/23. An operating surplus of R1.7 million was posted, a reduction from the surplus of R16.8 million posted in the prior year. Interestingly, cash generated by operations (excluding capital grants) increased during the year despite a decline in the collection rate to 92% from 95% in the prior year. This is partly attributable to a significant increase in operating grants received. The municipality generated cash from operations through the review period. The municipality maintained a healthy collection rate throughout the review period, with the FY2022/23 collection rate of 92% a low for the review period. The energy crisis had a significant impact on George's financial performance with electricity services revenue, George's largest revenue source, declining by 4% during the year. This decline notwithstanding, electricity services revenue remains George's predominant source of revenue.

Contracted services remained George's predominant expenditure item, accounting for 20% of operating expenditure in the current year. This is closely followed by staff costs and electricity bulk purchases. Repairs and maintenance expenditure increased during the year, which resulted in the repairs and maintenance expenditure to PPE & IP ratio increasing to 5.9%.

A notable acceleration of the capital investment programme has been observed since FY2021/22 with the commencement of the BFI project taking place during that financial year. This acceleration continued into the current year with the total capital outlay increasing to R722.9 million in FY2022/23. The funding mix has relied on capital grants while a significant amount of own cash has been utilised to supplement grant funding. The municipality has appeared to be reasonably averse to borrowing, with borrowing undertaken in just 2 of the 8 years under review. The municipality has struggled to implement its capital budget over the review period as evidenced by the low 5-eyar average capital budget implementation indicator of just 70%.

The aversion to borrowing has resulted in a reasonably low gearing ratio of 11.7% and debt service to total expense ratio of just 1.3%. Accelerating the borrowings programme will alleviate pressure on own cash reserves and unlock a further acceleration of capital investment. It is positive to note that George has budgeted to borrow during the MTREF period.

George has managed to maintain healthy liquidity levels throughout the review period, with the liquidity ratio exceeding 1.9:1 in each year under review except for FY2022/23. The current year liquidity ratio of 1.5:1 is a low for the review period. George has managed to post cash surpluses above the minimum liquidity requirements throughout the review period.

Strengths

- Stable working capital management.
- Healthy liquidity ratio of 1.50:1 (FYE2022/23).
- Affordable debt profile.
- Ability to generate substantial cash from operations.
- Consistent cash surpluses above minimum liquidity requirements.

Weaknesses

- Volatile financial performance.
- Reasonably low 5-year average capital budget implementation indicator of 70% (NT benchmark of 95%).
- Reduced collection rate of 92% (FYE2022/23).

OUTCOME OF THE FUTURE FORECASTS

An MTREF Case was developed utilising the unadjusted figures from the Tabled Budget 2024/25-2026/27. The idea behind this is to reflect the model outcomes should the status quo be maintained. While strong financial performance and cash generation is forecast, the extent of the acceleration of capital investment will severely strain the liquidity position. In order to address these concerns, a Base Case was developed with realistic, achievable assumptions that aim to guide the municipality towards long-term financial sustainability. The key assumptions are listed below.

1. A collection rate of 96% is assumed throughout the planning period.
2. The model incorporated the increases in revenue and expenditure items as announced in the Tabled Budget.
3. Tariff increases were included as put forward in the Budget Document FY2024/25.
4. Creditors days were adjusted downwards to mitigate the forecast rise in creditors.
5. The Tabled Budget capital investment programme was reduced over the MTREF period, as follows:
    - FY2025/26: R800 million (from R1 092 million)
    - FY2026/27: R650 million (from R772 million)

    Assumed growth in capital investment beyond the MTREF period is 5% p.a.
6. The Tabled Budget borrowing programme was reduced over the MTREF period, as follows:
    - FY2024/25: R400 million (from R466 million)
    - FY2025/26: R500 million (from R634 million)
    - FY2026/27: R235 million (from R504 million)
7. The annual borrowing under this scenario was adjusted to an average of **15-year** amortising loans at a fixed interest rate equal to 4% over forecast CPI in any given year. Assumed annual growth in borrowing beyond the MTREF period is 4%.
8. Repairs and maintenance expenditure was reduced to 5% of PPE & IP.
9. Electricity losses were maintained at FYE2022/23 levels, while water distribution losses were reduced to 20.0% over a 5-year period.

The Base Case reflects a sustainable outcome, characterised by strong financial performance and a sustainable and improving liquidity position. The historic capital investment programme has been accelerated considerably in the Base Case. These assumptions can be viewed as recommendations for the municipality to implement to ensure that long-term financial sustainability is prioritised. Additionally, 3 scenarios were run to highlight the impact of changes to certain assumptions, whilst holding all other variables constant. The outcomes of these scenarios are summarised below.

SENSITIVITY ANALYSIS ON THE COLLECTION RATE

The negative scenario is forecast to result in a severe deterioration of liquidity compared to the Base Case. The minimum liquidity requirements will not be met between FY2027/28 & FY2030/31. On the other hand, the positive scenario is forecast to result in a much-improved outcome, characterised by improved financial performance and a healthy liquidity position. The additional liquidity can be put to productive use to enable further growth and development within the municipality.

The outcomes of this scenario highlight the critical nature of maintaining a high collection rate. It is crucial for the municipality to ensure that a collection rate in excess of 95% at a minimum is maintained over the long-term.

LOAD SHEDDING IMPACT SCENARIO

This scenario assesses the impact of load shedding on the municipality’s financial situation. This scenario assumes an average of stage 2 load shedding for a period of 2 years from FY2023/24. This is calculated to result in a reduction of electricity consumption of 11.9% p.a. A deterioration in financial performance is forecast in comparison to the Base Case. This extends to the ability to generate cash from operations. Further to this, a deterioration of liquidity is forecast with the minimum liquidity requirement of 1-month’s opex forecast to not be met in FY2025/26. The planning period end liquidity ratio, however, remains sustainable at 1.7:1.

In order to mitigate the impact of load shedding, it is crucial to stringently manage the level of operating expenditure, ensuring unnecessary increases are avoided and that the municipality’s operations are running as efficiently as possible.

Depreciation Scenario

This scenario was run to assess the impact of the abnormal depreciation charges arising from the accelerated capital investment programme made possible by the BFI grant funding. In doing so, we removed capital grant funding from capital expenditure and assessed the difference in depreciation from the Base Case.

The scenario outcomes reflect a considerable improvement in financial performance due to the reduced depreciation charges. There was a considerable reduction in depreciation charges in this scenario compared to the Base Case, resulting in improved financial performance. The accumulated operating surplus improved by R443 million over the planning period. This creates room for the municipality to better absorb potential increases in expenditure such as electricity bulk purchase tariff increases for example, without fully passing this cost onto the consumer.

Conclusion

In conclusion, this report provides a roadmap for the municipality to foster and preserve an environment of financial sustainability and resilience. It is the municipality's responsibility to consider the guidelines and recommendations in this report with the aim of improving its financial position, unlocking accelerated capital investment whilst remaining financially sustainable and resilient in a harsh economic environment littered with challenges and the potential for financial shocks that could impact the municipality. The above will allow for further investment in projects that create an enabling environment for economic growth and development, which in turn will aim to reduce unemployment and cater for investment in infrastructure that will improve the lives of the municipality's inhabitants.

ANNEXURE 1: PROJECTED FINANCIAL STATEMENTS

Municipal Financial Model - George Local Municipality
Statement of Financial Position

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
R thousands											
Non-current assets:	3 967 129	5 093 894	5 940 993	6 450 367	6 778 783	7 118 368	7 470 672	7 837 439	8 220 467	8 621 590	9 042 678
Property, plant and equipment	3 817 952	4 888 775	5 729 787	6 237 553	6 564 961	6 903 148	7 253 801	7 618 659	7 999 514	8 398 199	8 816 590
Intangible assets	910	7 061	13 309	15 078	16 248	17 646	19 297	21 206	23 379	25 817	28 514
Investment properties	143 912	143 347	143 186	143 024	142 863	142 863	142 863	142 863	142 863	142 863	142 863
Investments	–	–	–	–	–	–	–	–	–	–	–
Long-term receivables	119	50 476	50 476	50 476	50 476	50 476	50 476	50 476	50 476	50 476	50 476
Other non-current assets	4 236	4 235	4 236	4 236	4 236	4 236	4 236	4 236	4 236	4 236	4 236
Current assets:	1 286 840	1 163 741	1 032 658	1 058 969	1 103 652	1 196 263	1 323 870	1 517 141	1 775 244	2 108 696	2 536 182
Inventories	121 965	123 838	132 941	135 646	139 339	147 330	159 813	174 059	190 097	207 942	227 675
Trade and other receivables	320 996	253 944	253 944	253 944	253 944	253 944	253 944	253 944	253 944	253 944	253 944
Cash & Short term investments	843 879	785 959	645 773	669 379	710 369	794 989	910 113	1 089 138	1 331 203	1 646 810	2 054 563
TOTAL ASSETS	**5 253 969**	**6 257 635**	**6 973 651**	**7 509 336**	**7 882 435**	**8 314 631**	**8 794 542**	**9 354 580**	**9 995 711**	**10 730 286**	**11 578 860**
Municipal Funds:	3 818 487	4 629 643	4 977 990	5 069 130	5 275 311	5 516 788	5 806 162	6 159 153	6 592 246	7 125 905	7 783 276
Housing development fund & Other Cash Backed Reserves	35 729	35 873	28 592	21 314	14 039	14 039	14 039	14 039	14 039	14 039	14 039
Reserves (Not Cash Backed)	(0)	85 684	128 733	173 688	220 646	220 646	220 646	220 646	220 646	220 646	220 646
Accumulated surplus	3 782 758	4 508 086	4 820 666	4 874 128	5 040 626	5 282 102	5 571 476	5 924 467	6 357 560	6 891 219	7 548 590
Non-current liabilities:	577 116	651 521	974 156	1 393 568	1 539 142	1 688 996	1 854 732	2 021 719	2 182 835	2 336 092	2 479 538
Long-term liabilities (Interest Bearing)	261 957	448 876	757 870	1 162 823	1 293 070	1 421 745	1 562 484	1 700 553	1 828 756	1 945 096	2 047 695
Non-current provisions	315 159	202 645	216 285	230 744	246 071	267 251	292 248	321 166	354 078	390 996	431 843
Current liabilities:	858 366	976 472	1 021 506	1 046 639	1 067 982	1 108 848	1 133 648	1 173 708	1 220 632	1 268 290	1 316 047
Consumer deposits	39 416	43 707	47 158	50 828	54 698	57 721	60 846	64 181	67 732	71 511	75 659
Provisions	90 790	153 342	153 342	153 342	153 342	153 342	153 342	153 342	153 342	153 342	153 342
Trade and other payables	681 402	701 142	730 000	747 422	755 190	782 059	806 023	829 912	852 844	873 863	892 295
Bank overdraft	–	–	–	–	–	–	–	–	–	–	–
Current portion of interest bearing liabilities	46 758	78 280	91 006	95 047	104 753	115 726	113 437	126 274	146 714	169 574	194 751
TOTAL MUNICIPAL FUNDS AND LIABILTIES	**5 253 969**	**6 257 635**	**6 973 652**	**7 509 336**	**7 882 435**	**8 314 632**	**8 794 542**	**9 354 581**	**9 995 712**	**10 730 286**	**11 578 861**

Municipal Financial Model - George Local Municipality
Statement of Financial Performance

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
R thousands											
Revenue											
Property rates	384 703	414 724	450 446	489 582	531 907	580 168	635 592	698 747	770 183	850 440	940 019
Service Charges	1 296 511	1 495 445	1 698 838	1 914 291	2 157 985	2 380 850	2 594 307	2 833 427	3 099 971	3 395 807	3 724 428
Service charges - electricity	785 776	929 257	1 083 219	1 247 891	1 436 909	1 603 275	1 753 877	1 922 935	2 111 807	2 321 938	2 556 075
Service charges - water	211 953	233 521	253 739	272 806	293 194	315 384	340 175	367 935	398 865	433 181	471 090
Service charges - sanitation	157 408	176 031	191 489	208 270	226 413	244 569	264 710	287 094	311 828	339 020	368 957
Service charges - refuse	141 374	156 636	170 392	185 324	201 468	217 623	235 545	255 463	277 472	301 668	328 306
Service charges - other	–	(0)	0	(0)	0	0	0	0	0	0	0
Rental of facilities and equipment	4 215	5 071	5 325	5 591	5 871	6 342	6 864	7 444	8 085	8 791	9 567
Interest earned - external investments	63 346	42 194	39 298	27 834	31 526	35 879	42 413	50 643	62 524	78 083	97 836
Interest earned - outstanding debtors	14 406	20 998	22 255	23 587	24 998	22 579	25 787	29 222	32 877	36 741	40 802
Dividends received	–	–	–	–	–	–	–	–	–	–	–
Fines, penalties and forfeits	73 097	90 083	92 961	95 933	99 003	106 942	115 749	125 537	136 352	148 242	161 333
Licences and permits	–	4 904	5 149	5 407	5 677	6 224	6 871	7 623	8 483	9 456	10 543
Agency services	16 142	19 734	20 721	21 757	22 845	24 676	26 709	28 967	31 463	34 206	37 227
Transfers and subsidies (operating)	636 048	731 260	697 179	688 722	725 528	769 923	819 153	873 507	933 079	997 940	1 068 343
Other revenue	159 624	174 186	221 995	261 092	278 990	301 361	326 179	353 762	384 239	417 745	454 634
Gain on disposal of PPE	–	237 810	244 945	252 293	254 816	285 128	322 283	366 981	419 941	481 836	553 208
Revaluation of assets gain / (loss)	–	–	–	–	–	–	–	–	–	–	–
Total revenue before Capital Grants	2 648 092	3 236 411	3 499 111	3 786 088	4 139 145	4 520 073	4 921 907	5 375 859	5 887 198	6 459 288	7 097 938
Capital Grants	409 114	734 465	336 525	57 261	59 947	58 990	58 634	58 728	59 115	59 657	60 257
Public & developers contributions	–	–	–	–	–	–	–	–	–	–	–
Total Revenue after Capital Grants	3 057 206	3 970 876	3 835 636	3 843 349	4 199 092	4 579 063	4 980 540	5 434 587	5 946 313	6 518 944	7 158 196
Operating expenditure											
Employee related costs	617 889	700 212	815 246	850 453	897 615	972 063	1 039 082	1 113 032	1 194 137	1 282 581	1 378 488
Remuneration of councillors	25 557	29 923	31 120	32 365	33 660	35 360	37 246	39 319	41 576	44 014	46 629
Debt impairment	150 597	154 164	168 351	182 797	197 517	215 577	234 339	255 329	278 684	304 541	333 176
Depreciation and asset impairment	188 171	198 618	250 924	292 234	322 592	344 313	365 972	387 598	409 224	430 898	452 671
Finance charges	45 065	62 462	91 487	125 033	137 078	150 213	164 017	178 112	194 925	211 788	228 083
Bulk purchases	598 226	731 504	858 335	971 162	1 065 442	1 188 798	1 300 466	1 425 818	1 565 862	1 721 669	1 895 275
Inventory Consumed	129 415	152 757	166 662	170 504	174 454	150 519	164 739	181 673	201 339	223 717	248 829
Repairs and maintenance	–	–	–	–	–	–	–	–	–	–	–
Contracted services	676 926	795 526	807 831	832 327	858 342	918 566	992 285	1 072 957	1 160 852	1 256 252	1 359 928
Transfers and subsidies	43 556	82 866	90 392	81 644	86 943	93 029	99 743	107 162	115 304	124 186	133 888
Other expenditure	169 961	148 584	156 827	159 567	164 603	207 983	224 139	241 870	261 230	282 275	305 181
Loss on disposal of PPE	995	103 103	50 114	54 123	54 664	61 167	69 137	78 726	90 087	103 365	118 676
Total Expenditure	2 646 357	3 159 720	3 487 289	3 752 209	3 992 910	4 337 587	4 691 166	5 081 596	5 513 221	5 985 285	6 500 825
Suplus/ (Shortfall) for the year	**410 848**	**811 156**	**348 347**	**91 140**	**206 182**	**241 476**	**289 374**	**352 991**	**433 093**	**533 659**	**657 371**

Municipal Financial Model - George Local Municipality
Cash Flow Statement

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
R thousands											
Cash flows from Operating Activities											
Suplus/Deficit for the year *including* Capital Grants	410 848	811 156	348 347	91 140	206 182	241 476	289 374	352 991	433 093	533 659	657 371
Suplus/Deficit for the year *excluding* Capital Grants & Contributions		76 691	11 822	33 879	146 235	182 486	230 741	294 263	373 978	474 002	597 114
Capital Grants & Contributions		734 465	336 525	57 261	59 947	58 990	58 634	58 728	59 115	59 657	60 257
Adjustments for non-cash items:											
Depreciation, amortisation and impairment loss	188 171	198 618	250 924	292 234	322 592	344 313	365 972	387 598	409 224	430 898	452 671
Revaluation on investment property (gain) / loss	–	–	–	–	–	–	–	–	–	–	–
Increase / (Release from) current provisions & non-interest bearing liabilities	–	62 552	0	–	–	–	–	–	–	–	–
Increase / (Release from) other non-current provisions & non-interest bearing liabilities	–	(112 514)	13 641	14 459	15 327	21 180	24 997	28 918	32 912	36 917	40 847
(Increase) / Release from non-current interest bearing assets	–	–	–	–	–	–	–	–	–	–	–
Capitalised interest	–	–	–	–	–	–	–	–	–	–	–
Operating surplus before working capital changes:	599 019	959 812	612 911	397 833	544 101	606 969	680 343	769 507	875 229	1 001 474	1 150 890
Change in W/C Investment	–	84 919	19 756	14 716	4 075	18 878	11 481	9 643	6 895	3 174	(1 301)
(Increase)/decrease in inventories	–	(1 873)	(9 102)	(2 705)	(3 693)	(7 991)	(12 483)	(14 246)	(16 038)	(17 845)	(19 734)
(Increase)/decrease accounts receivable	–	67 052	–	0	(0)	–	–	–	(0)	(0)	0
Increase/(decrease) in trade payables	–	19 740	28 858	17 421	7 768	26 869	23 965	23 888	22 933	21 018	18 432
Net cash flow from Operating activities	599 019	1 044 730	632 667	412 549	548 176	625 847	691 825	779 149	882 124	1 004 648	1 149 588
Cash flows from Investing Activities											
Capital expenditure	–	(1 275 592)	(1 098 184)	(801 770)	(651 170)	(683 899)	(718 275)	(754 366)	(792 252)	(832 021)	(873 759)
Decrease/(Increase) in non-current receivables	–	(50 356)	(1)	(0)	0	–	–	–	–	–	–
(Additions) / Disposals of investment property	–	564	162	162	162	–	–	–	–	–	–
Net cash flow from Investing activities	–	(1 325 383)	(1 098 023)	(801 608)	(651 008)	(683 899)	(718 275)	(754 366)	(792 252)	(832 021)	(873 759)
Cash flows from Financing Activities											
New loans raised	–	294 504	400 000	500 000	235 000	244 400	254 176	264 343	274 917	285 913	297 350
Loans repaid	–	(76 062)	(78 280)	(91 006)	(95 047)	(104 753)	(115 726)	(113 437)	(126 274)	(146 714)	(169 574)
(Decrease) / Increase in consumer deposits	–	4 291	3 451	3 670	3 869	3 024	3 125	3 335	3 550	3 780	4 148
Net cash flow from Financing activities	–	222 733	325 171	412 664	143 822	142 671	141 575	154 241	152 194	142 980	131 924
Change in Cash	599 019	(57 920)	(140 185)	23 605	40 991	84 620	115 124	179 025	242 065	315 607	407 753
Cash/(Overdraft), Beginning		843 879	785 959	645 773	669 379	710 369	794 989	910 113	1 089 138	1 331 203	1 646 810
Cash/(Overdraft), Ending	**843 879**	**785 959**	**645 773**	**669 379**	**710 369**	**794 989**	**910 113**	**1 089 138**	**1 331 203**	**1 646 810**	**2 054 563**

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