GEORGE MUNICIPALITY

Long-Term Financial Plan – ***Update 2025***

GEORGE
THE CITY FOR ALL REASONS

Prepared by
INCA Portfolio Managers
November 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 was subsequently updated in May 2024. This 2025 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 pre-audited financial statements of 30 June 2024 along with the Adjustment Budget for FY2024/25. The LTFM, as institutionalised in George Municipality, was populated and run with this latest information, and the outcome thereof is reported herein.

ABBREVIATIONS USED

AFS	Annual Financial Statements
CAPEX	Capital Expenditure
CRR	Capital Replacement Reserve
CPI	Consumer Price Index
FY	Financial Year
FYE	Financial Year Ended
GVA	Gross Value Added
IP	Investment Property
IPM	INCA Portfolio Managers
LM	Local Municipality
LTFM	Long-Term Financial Model
LTFP	Long-Term Financial Plan
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts
MRRI	Municipal Revenue Risk Indicator
MTREF	Medium Term Revenue and Expenditure Framework
NERSA	National Energy Regulator of South Africa
NT	National Treasury
OPEX	Operational Expenditure
PPE	Property, Plant and Equipment
R '000	Rand x 1 000
SA	South Africa
S&P	S&P Global Market Intelligence ReX v2450

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Executive Summary

Key Findings and Conclusions drawn from the 2025 LTFP Update

Highlights from the FY2023/24 Financial Results

- George's liquidity position is reasonably healthy with a ratio of 1.34:1 as at FYE2023/24; although a decline from 1.46:1 as at FYE2022/23. This is somewhat misleading as it is heavily impacted by the unspent conditional grants balance of R757.3 million. Upon the removal of unspent conditional grants from current assets and current liabilities, the ratio improves to 1.78:1. This adjusted ratio more accurately reflects the true nature of the municipality's liquidity position.

- An operating surplus (excluding capital grants) of R32.1 million was posted in FY2023/24; following a surplus of R0.6 million in the prior year. Improved revenue from electricity services owing to reduced load shedding assisted in this regard.

- Cash generated from operations (excluding capital grants) increased to R792.7 million during FY2023/24. This was underpinned by the improved collection rate of 93.6%, up from 92.0% in the prior year.

- Electricity distribution losses remained stable at 8.60%, up from 8.52% in the prior year. Water distribution losses reduced markedly to 20.78% from 27.22% in the prior year, likely due to water infrastructure upgrades.

- The municipality's unencumbered cash and cash equivalents of R1.35 billion exceeded the NT and statutory minimum liquidity requirements of R1.10 billion - resulting in a cash surplus of R251.5 million. George has posted cash surpluses throughout the review period.

- Gearing and debt-service to total operating expenditure ratios were 16.8% and 4.7%, respectively, providing scope for additional borrowing to fund capital expenditure. This must be closely monitored though.

- Repairs and maintenance expenditure as a percentage of PPE & IP reduced to 4.7% during FY2023/24, down from 5.8% in the prior year.

- Creditors increased to R363.0 million, up from R258.1 million in the prior year. R217.6 million of this includes trade payables, which increased by R71.0 million during FY2023/24 and contributed to the reduced liquidity ratio.

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 likely outcome. The Base Case forecasts an operating deficit in FY2024/25 period due to higher than budgeted expenditure on debt impairment, electricity bulk purchases and depreciation. The LTFM outcomes suggest that while the forecast for financial performance and cash generation is strong, the current MTREF will result in a deterioration of the liquidity position. This is driven by the extent of the budgeted acceleration of the capital investment and borrowing programmes, as well as lower collection rate (93.8%) being maintained throughout the planning period. Necessary adjustments have thus been made to formulate a sustainable Base Case. These adjustments address the underlying drivers of the undesirable outcome.

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

1. A collection rate of 96% is assumed to be met within 3 years and maintained for the remainder of the planning period.
2. The model incorporated the increases in revenue and expenditure items as announced in the Adjustment 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 Adjustment Budget capital investment programme was reduced over the MTREF period and FY2027/28, as follows:
    - FY2024/25: R1 000 million (from R1 333 million)
    - FY2025/26: R780 million (from R1 114 million)
    - FY2026/27: R774 million (unchanged)
    - FY2027/28: R650 million (from R821 million)

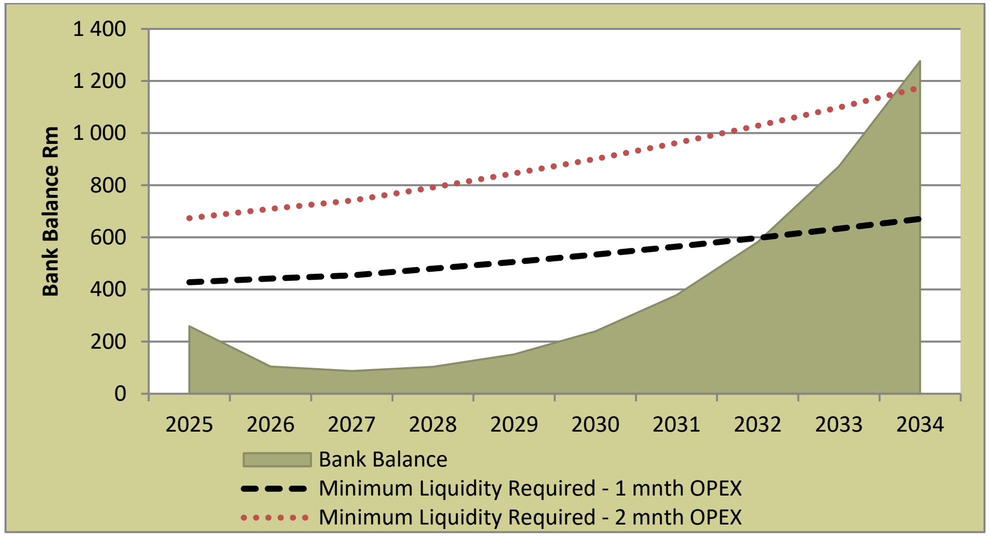
   Assumed growth in capital investment beyond the MTREF period is 6% p.a.
6. The Adjustment Budget borrowing programme was reduced over the MTREF period and FY2027/28, as follows:
    - FY2024/25: R350 million (from R494 million)
    - FY2025/26: R350 million (from R647 million)
    - FY2026/27: R350 million (from R505 million)
    - FY2027/28: R270 million (from R526 million)
7. The annual borrowing under this scenario was adjusted to an average of **13-year** amortising loans at a fixed interest rate equal to 4.5% over forecast CPI in any given year. Assumed annual growth in borrowing beyond the MTREF period is 4%.
8. Repairs and maintenance expenditure was increased to 5% of PPE & IP.
9. Electricity and water distribution losses were maintained at their respective FY2023/24 levels.

LONG-TERM FINANCIAL MODEL OUTCOMES

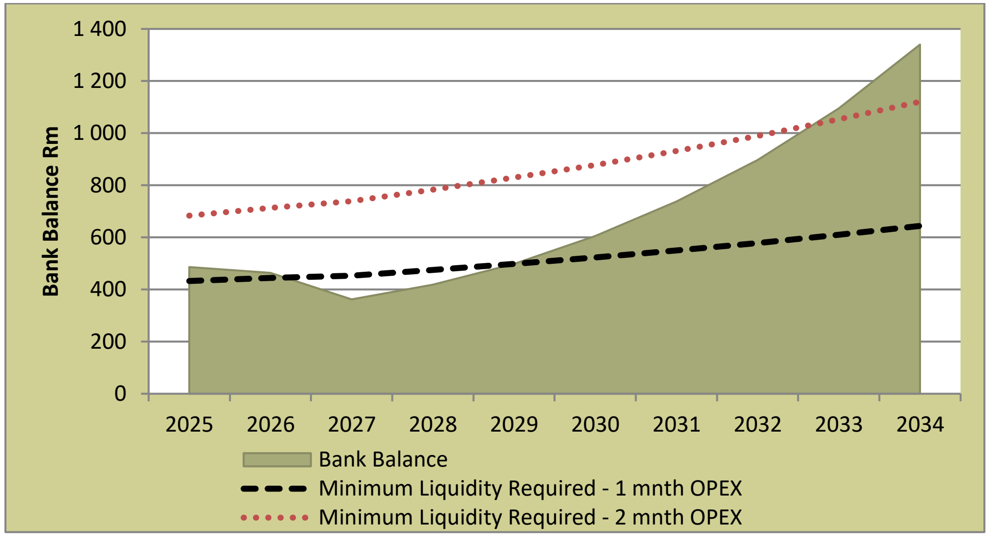
Based on these assumptions, key outcomes for the 10-year planning period are as follows:

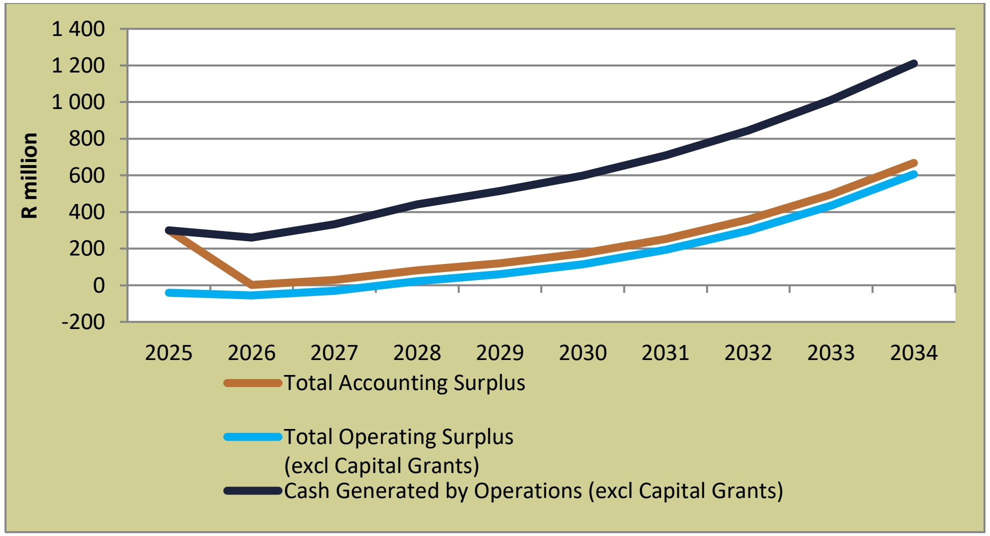
Outcome	MTREF Case	Base Case
Average annual % increase in Revenue	8,1%	7,2%
Average annual % increase in Expenditure	9,1%	8,3%
Accounting Surplus accumulated during Planning Period (Rm)	R 2 481	R 3 207
Operating Surplus accumulated during Planning Period (Rm)	R 1 602	R 2 327
Cash generated by Operations during Planning Period (Rm)	R 6 227	R 6 108
Average annual increase in Gross Consumer Debtors	14,8%	11,4%
Capital investment programme during Planning Period (Rm)	R 9 107	R 8 040
External Loan Financing during Planning Period (Rm)	R 5 482	R 2 945
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 1 277	R 1 340
No of Months Cash Cover at the end of the Planning Period (Rm)	2,5	2,8
Liquidity Ratio at the end of the Planning Period	1.1 : 1	2.3 : 1
Gearing at the end of the Planning Period	39,4%	30,2%
Debt Service to Total Expense Ratio at the end of the Planning Period	13,3%	7,1%

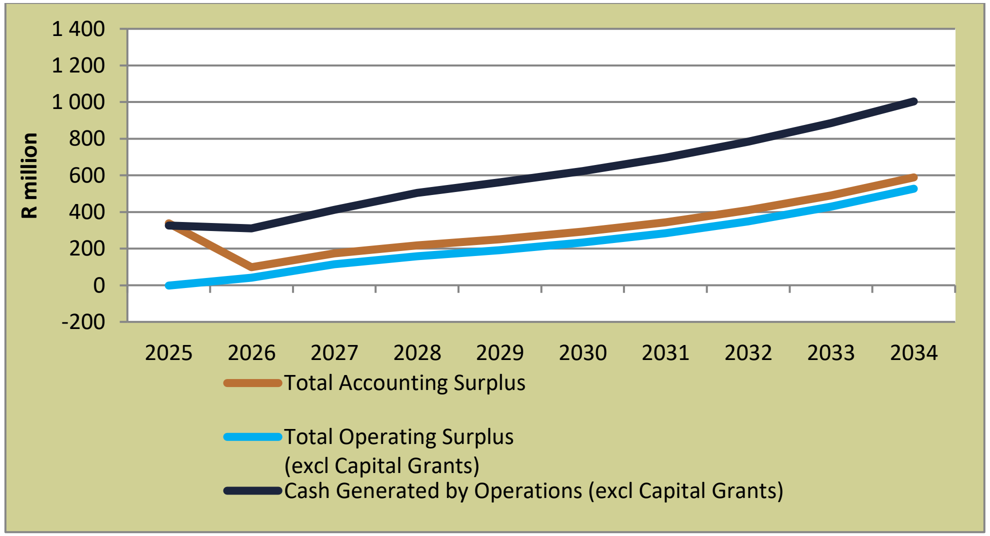
MTREF CASE SCENARIO



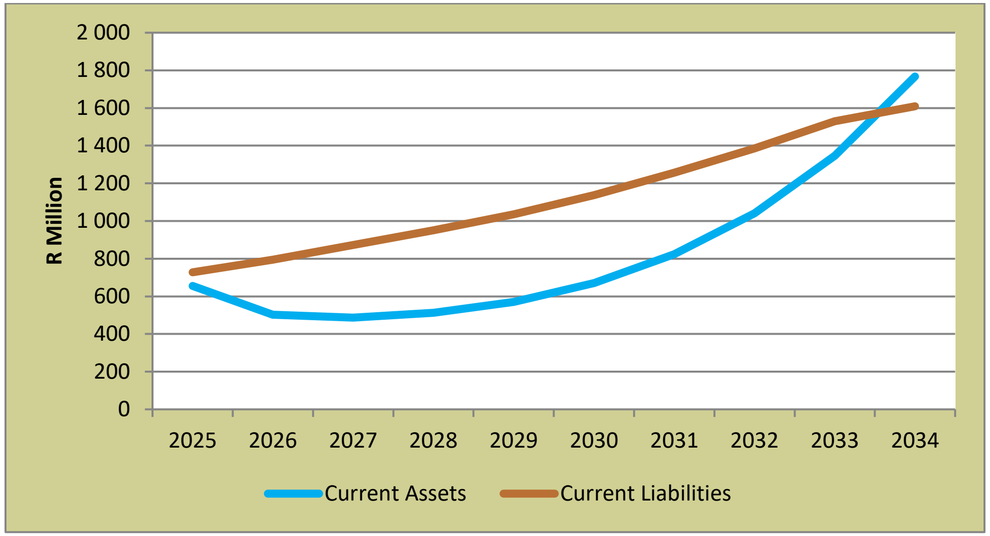
BASE CASE SCENARIO



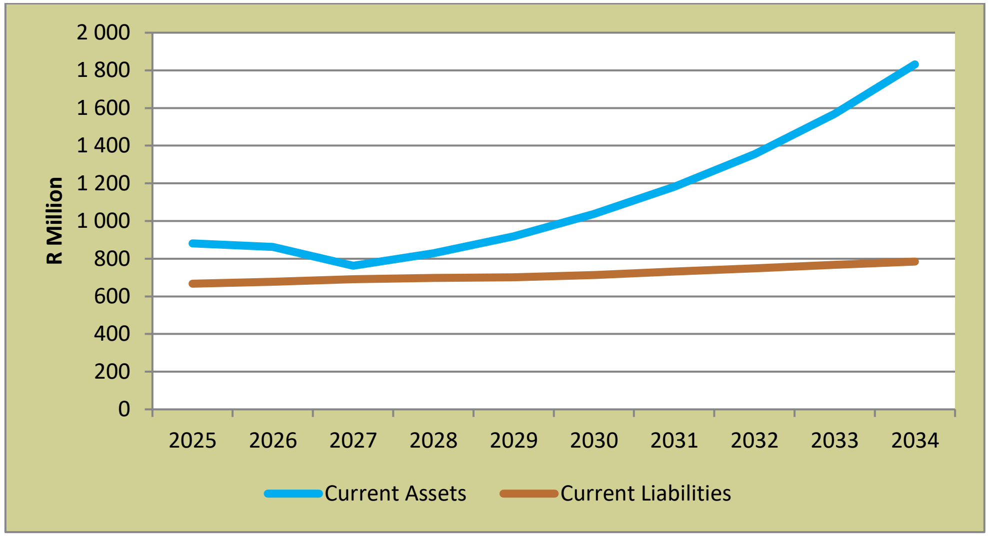


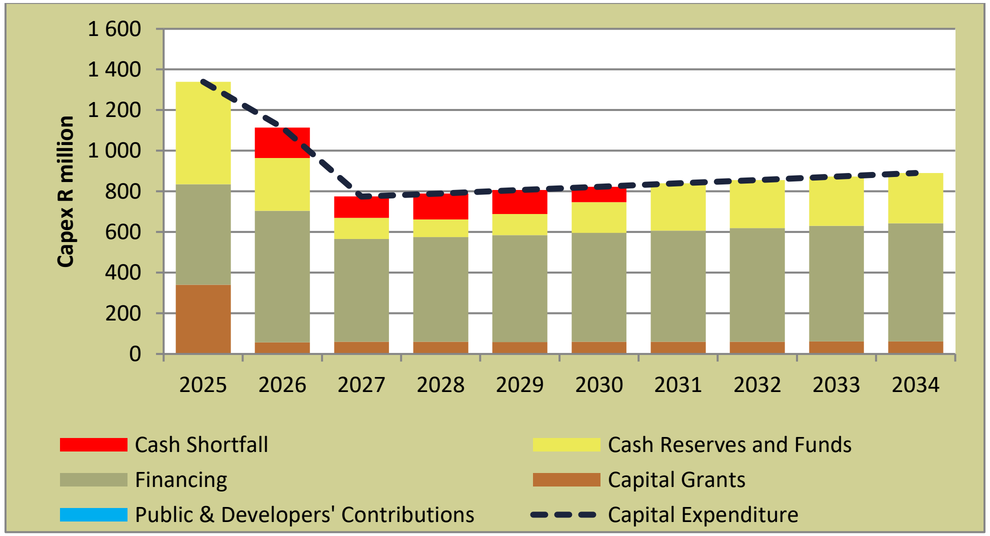


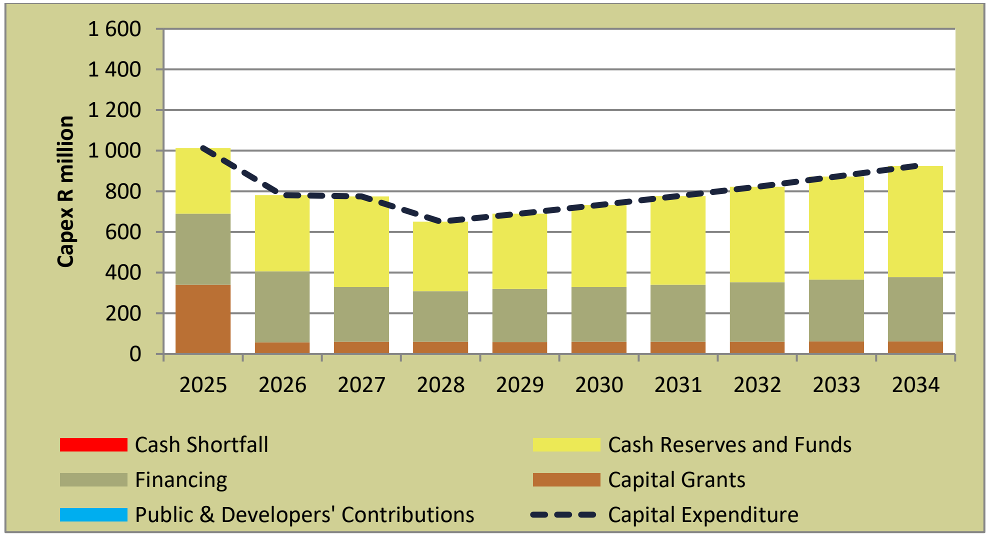
MTREF Case Scenario



Base Case Scenario







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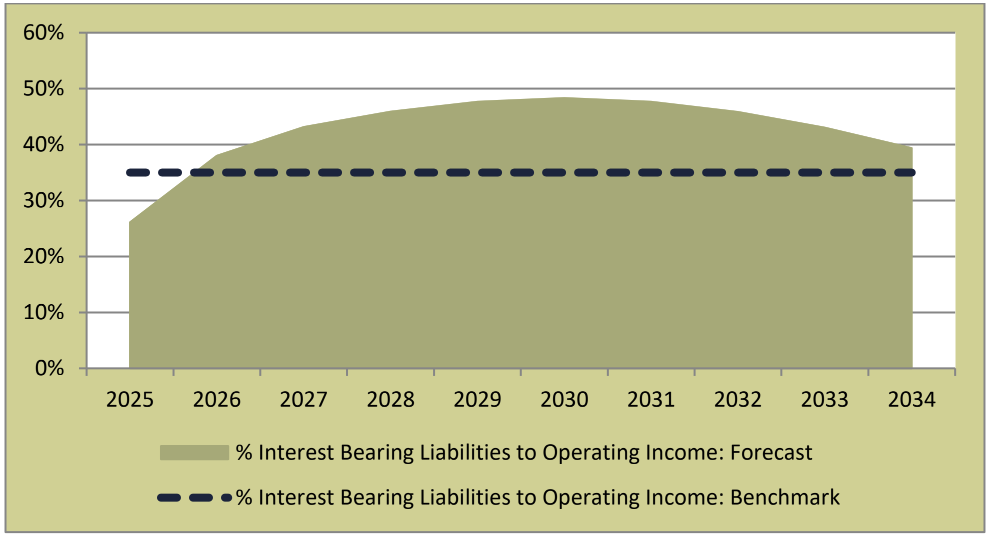

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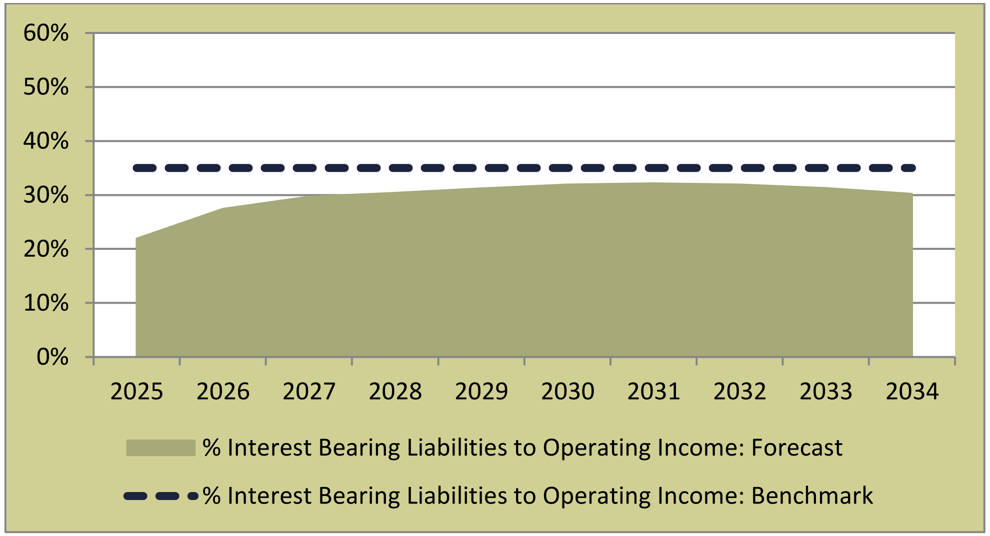
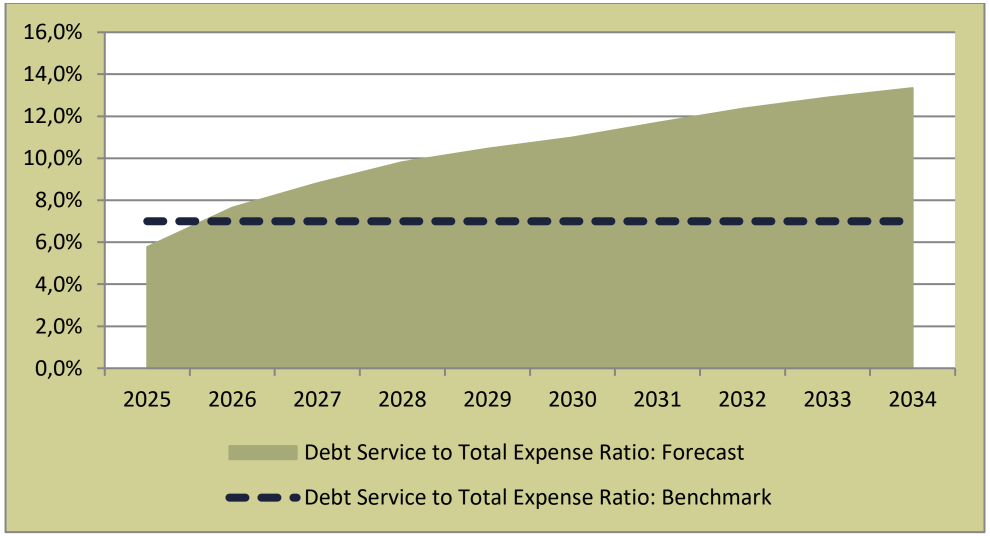
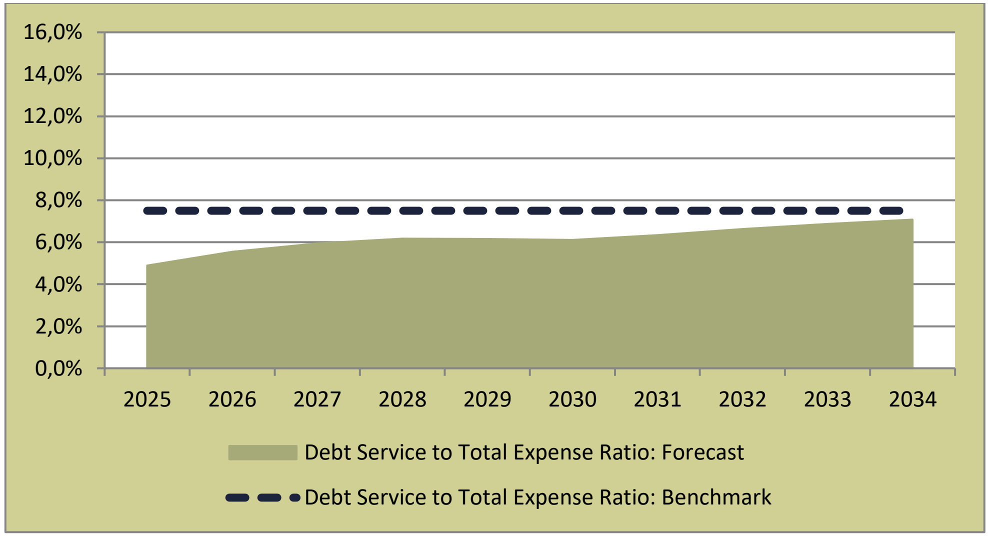






RECOMMENDATIONS

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. It is recommended that the Adjustment Capital Budget borrowing programme is revised downwards as the model outcomes suggest the level of debt will be unsustainable. It is recommended that the borrowing programme is reduced and that a more staggered approach to borrowing is undertaken in order to maintain the debt indicators at affordable levels as well as to take advantage of the interest rate cutting cycle.

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. Returns are already being realised on the water infrastructure projects in the form of reduced distribution losses. It is recommended that the capital prioritisation programme is informed by the affordable envelope presented in this report. The outcome of this programme should then be run through the LTFM as a scenario.

3. Review the extent of the acceleration of capital expenditure included in the Adjustment Capital Budget, particularly in FY2024/25. Long-term sustainability must be prioritised. The model outcomes suggest the Adjustment Capital Budget will result in a notable deterioration of liquidity. It is thus recommended that in the absence of increased grant funding, the capital investment programme is revised downwards, in accordance with the Base Case assumptions.

4. Working capital management, particularly payment of creditors, must be strengthened. The increase in creditors observed during FY2023/24 cannot become a trend. The municipality must maintain timeous payment of creditors. Additionally, the improving trend in financial performance must be continued. Revenue must be maximised and cost-containment strategies implemented with cost-savings realised wherever possible. Maintaining low distribution losses is critical for ensuring service charges revenue is maximised.

5. 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 96% must be maintained at a minimum, with further improvements targeted.

6. 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).

7. 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.

LTFP UPDATE REPORT 2025

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 2023/24 unaudited financial statements and the updated LTFM utilising information contained in the First Adjustment Budget for the period 2024/25-2026/27.

DEMOGRAPHIC, ECONOMIC AND HOUSEHOLD INFRASTRUCTURE

- The economic recovery observed in 2021 & 2022 ceased during 2023, with a GVA contraction of 0.3%. The 5-year average GVA growth rate of 0.3% is indicative of sluggish economic growth.

- The population growth rate came in at 1.50% in 2023. The 5-year average population growth rate was 1.54% p.a. The economically active population as a percentage of total population increased to 42.7% in 2023 from 39.8% 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 to 18.3%; lower than that of the district (19.4%), province (22.2%) nation (32.7%). 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 (18 921 jobs) remained the predominant provider of employment in George in 2023, followed by trade (14 067 jobs).

- The Tress Index of 44.08 indicates a reasonably diversified economy underpinned by primarily four sectors: Finance (24.5%), Community Services (21.3%), Trade (16.2%) and Manufacturing (14.7%). Together these four subsectors constituted approximately 76.7% of economic output in 2023.

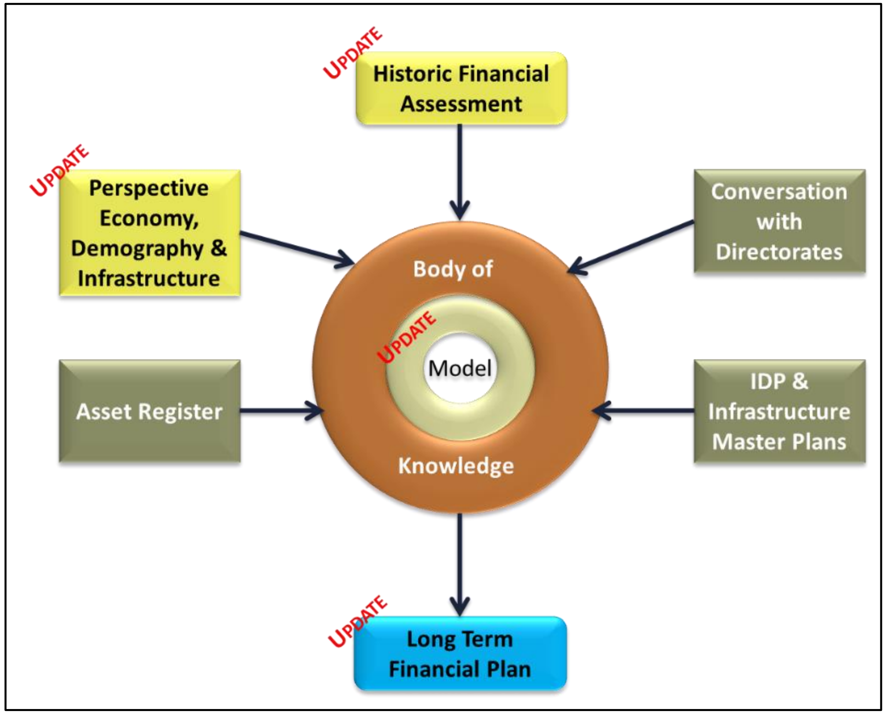
- Household formation saw moderate growth of 19.1% over the assessment period. The Infrastructure Index declined marginally to 0.91. Despite the marginal decline, the municipality has shown an ability to keep up with the rate of household formation. This score is high relative to the national index of 0.77.

- Approximately 15.7% of households fall below the Equitable Share Bracket, while 91.3% of households receive a level of service above the RDP level of service.

Planning Process

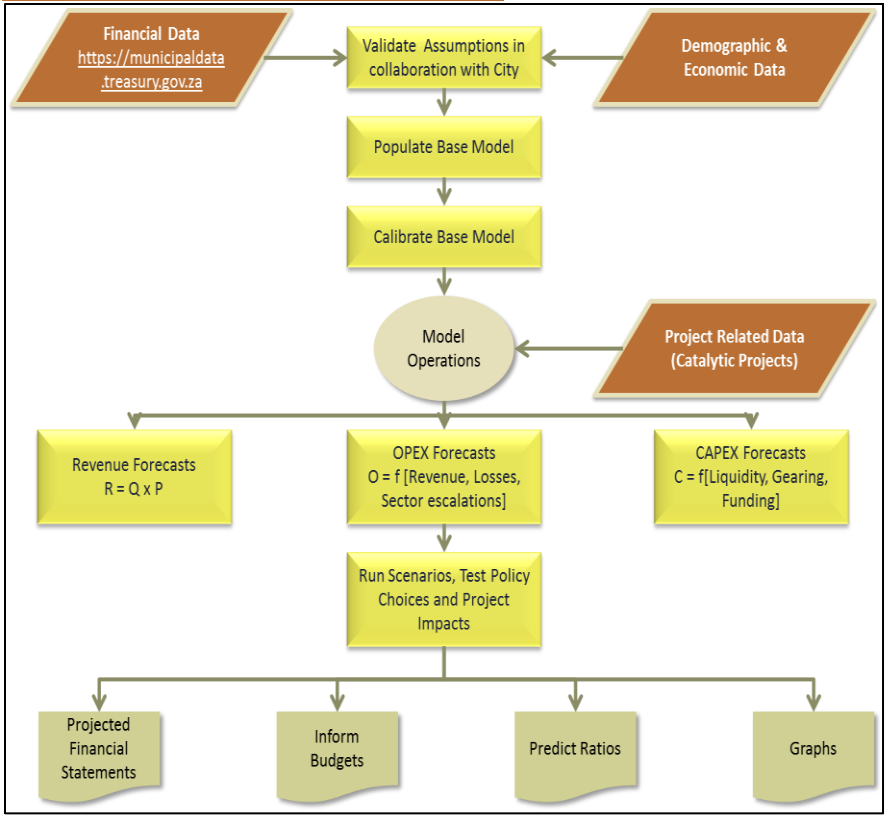
The diagram below illustrates the steps in the process that were followed in drafting the LTFP and the steps taken during this 2025 "LTFP Update":

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

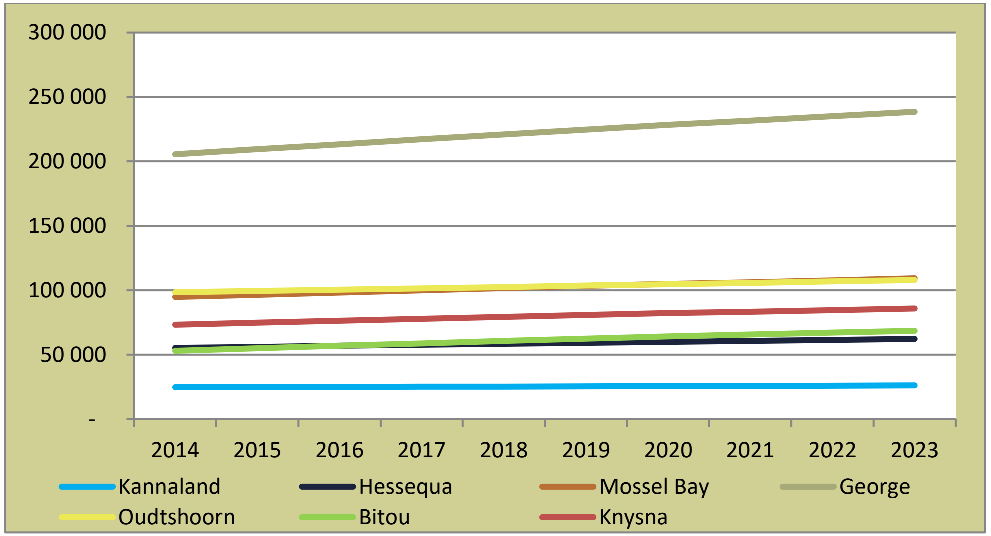
9 Conclusions

UPDATED PERSPECTIVES (DEMOGRAPHIC, ECONOMIC, HOUSEHOLD INFRASTRUCTURE)

DEMOGRAPHY

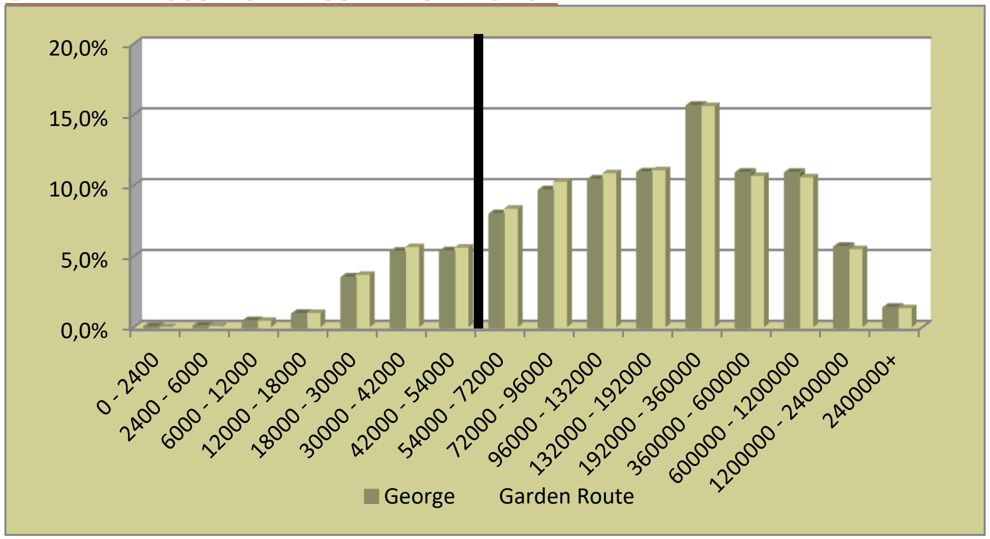
George remains the most populous municipality in the Garden Route district, with its population of 238 533 people accounting for 34.1% of the district population. This comes as no surprise with George being the economic hub of the Garden Route. The population grew at a rate of 1.50% during 2023, in line with the 5-year annual average of 1.54%. Bitou is the lone municipality in the district with a faster growing population than George. Any increase in the population places added pressure on the municipality and its infrastructure to deliver services to its communities.

GRAPH 1: TOTAL POPULATION



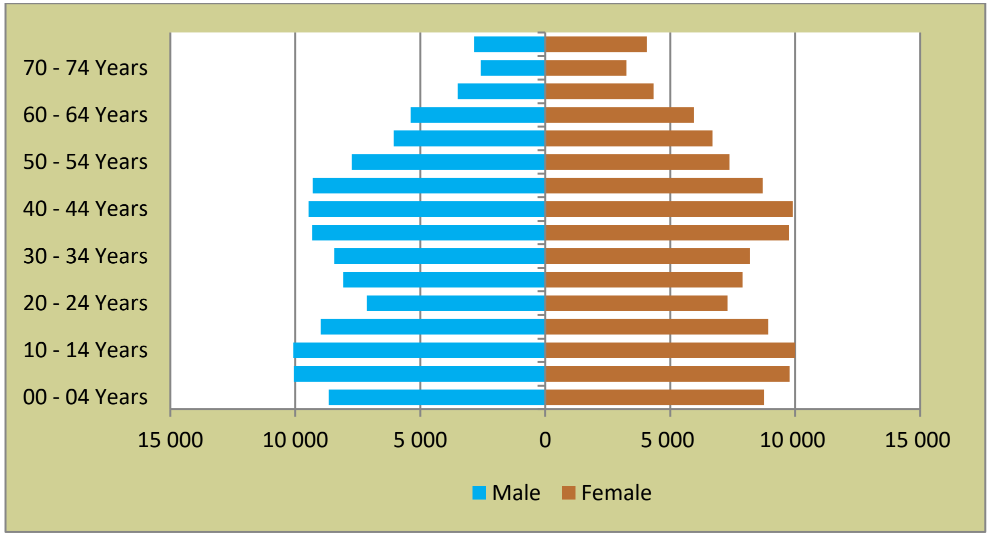
Averaged household income increased by 3.8% during 2023, to a total of R382 734 p.a. This is broadly in line with the Western Cape Province figure of R383 172 p.a. and above the Garden Route District figure of R376 935 p.a. According to the latest S&P Global Market Intelligence update, 15.7% of households in George earn less than R54 000 p.a., placing them below the equitable share bracket. This is marginally below the district average of 16.4%. The number of households that fall below the equitable share bracket is 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. 91.3% of households in the municipality receive a level of service above the RDP level, an improvement on the Garden Route District figure of 90.2%.

GRAPH 2: HOUSEHOLD INCOME DISTRIBUTION



While positive signs of a recovering economy were observed post-Covid, 2023 saw a return to a contracting local economy in George. This is likely a product of a high inflationary environment and consequently sustained high interest rates which have created a challenging economic environment for all. Households are under severe pressure to make ends meet as well as to service their municipal bill as wage increases battle to keep pace with the rising cost of living. Thus, the extent to which households can be levied in future must be closely monitored. A decline in household income coupled with rising costs of municipal services may erode the municipality's revenue base and create a significant revenue risk in the future.

GRAPH 3: AGE PROFILE

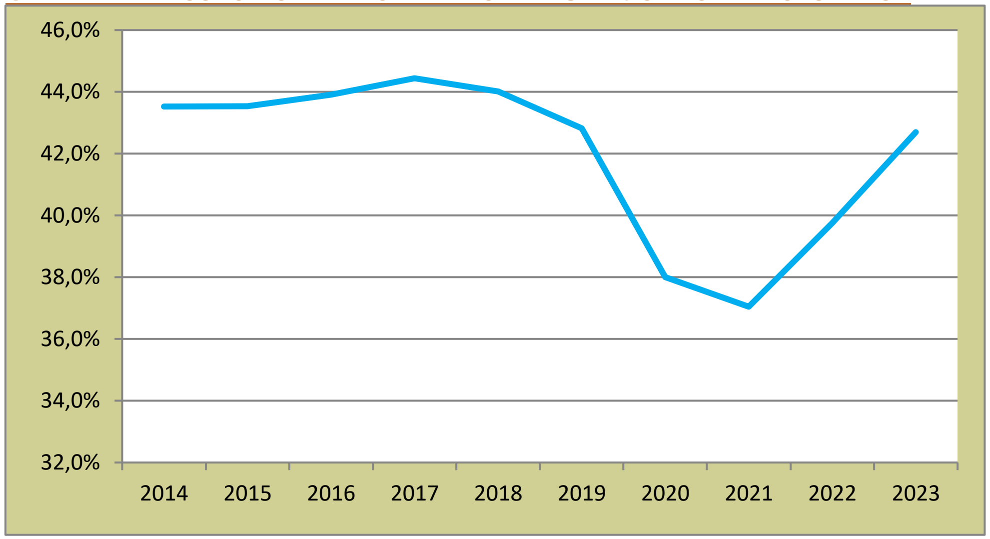


GRAPH 3 illustrates the age profile of George LM's population. Approximately 53.8% of George's population falls between the ages of 25 and 64 years, with the largest age cohort being between the ages of 10 and 14 years. This would suggest that in addition to George being considered an attractive destination 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 8.6% of the population are above the age of 65 years old, the second lowest proportion in the district behind only Bitou. This suggests that retirees prefer alternative areas in the Garden Route for their retirement.

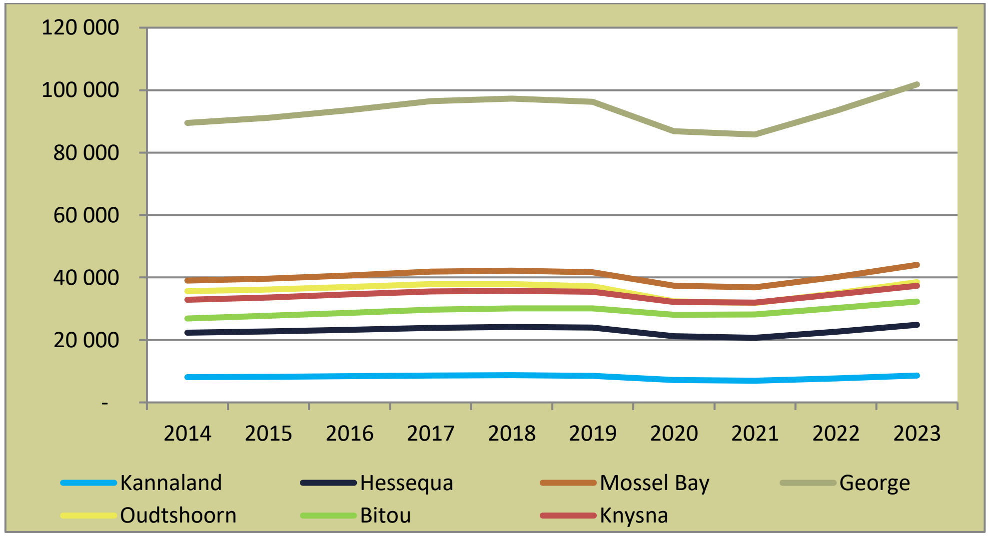
The economically active population (EAP) as a percentage of the total population increased to 42.7% in 2023 from 39.8% in the prior year. This is a continuation of the increasing trend observed since 2021. This trend being sustained is positive to note as it is a strong indicator of the municipality's future economic growth prospects.

The total number of economically active people in George LM stood at 101 842 people in 2023, accounting for a considerable 35.4% of the district EAP.

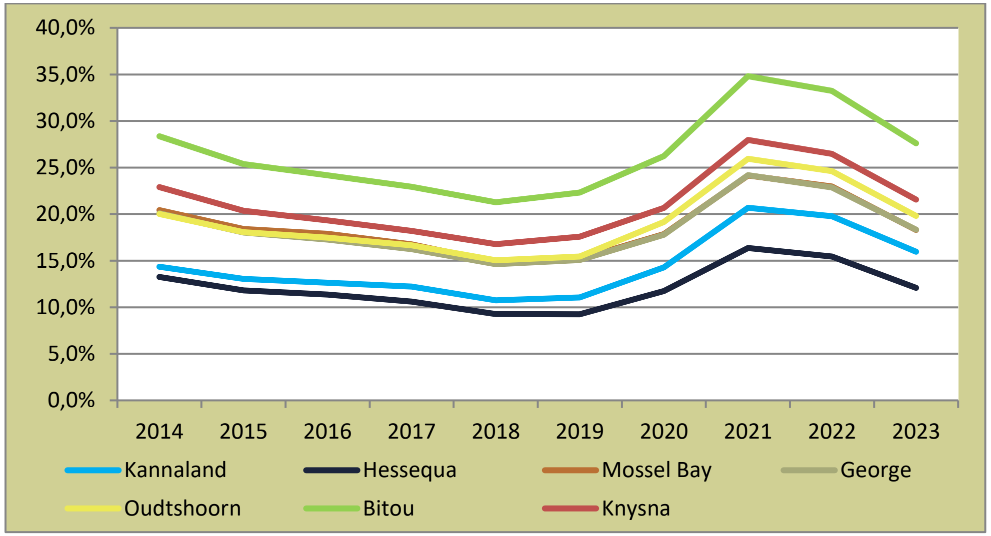
GRAPH 4A: ECONOMICALLY ACTIVE PEOPLE AS A % OF TOTAL POPULATION



GRAPH 4B: ECONOMICALLY ACTIVE POPULATION



GRAPH 5: OFFICIAL UNEMPLOYMENT RATE



George was unable to escape the rapid rise in unemployment in 2021 ascribed to Covid-19. The unemployment rate increased by 6.4% in 2021 alone. As illustrated in Graph 5 above, the downward trend in the unemployment rate since 2021 is a welcome sight. The unemployment rate in George dropped to 18.3% in 2023, down from 22.8% in the prior year. This, along with the trends observed in the EAP mentioned above, bodes well for the municipality's future economic growth prospects. A further boost to this is the waning of the high inflationary environment. This should facilitate a stimulation of the economy. George must ensure that it plays its role in creating an environment of economic growth through maintaining a high level of service delivery, rendering the municipality an attractive destination for investment.

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 (GVA) amounted to R25.32 billion in 2023. This accounts for 34.07% of the district GVA, further emphasising the municipality's status as the economic hub of the Garden Route. The positive signs of an economic recovery observed in 2021 and 2022 were tempered somewhat during 2023, with the economy contracting by 0.3%. Sluggish growth has been the trend in recent years with the 5-year average economic growth rate coming at in just 0.3%. Further concern is expressed when comparing economic and population growth trends. The 5-year average population growth rate of 1.5% greatly exceeds that of the economy over the same period. This effectively results in an impoverishment of the local population. This is reflected in the decline in GVA per capita of 4.9% over the last 5 years.

The impact of the high-interest rate cycle was certainly felt by households and businesses alike in 2023. Stubborn inflation and rising input costs created a challenging economic landscape. It is a welcome sign that the cycle of increasing interest rates has come to an end, with further rate cuts expected to follow the 25 basis points cut in September 2024. This should facilitate economic growth and consequently, an expansion of the municipality's revenue base. The municipality is doing its part in creating an enabling environment for economic growth through investing in productive assets, particularly water infrastructure in recent years. This fosters the perception of George as an attractive investment destination.

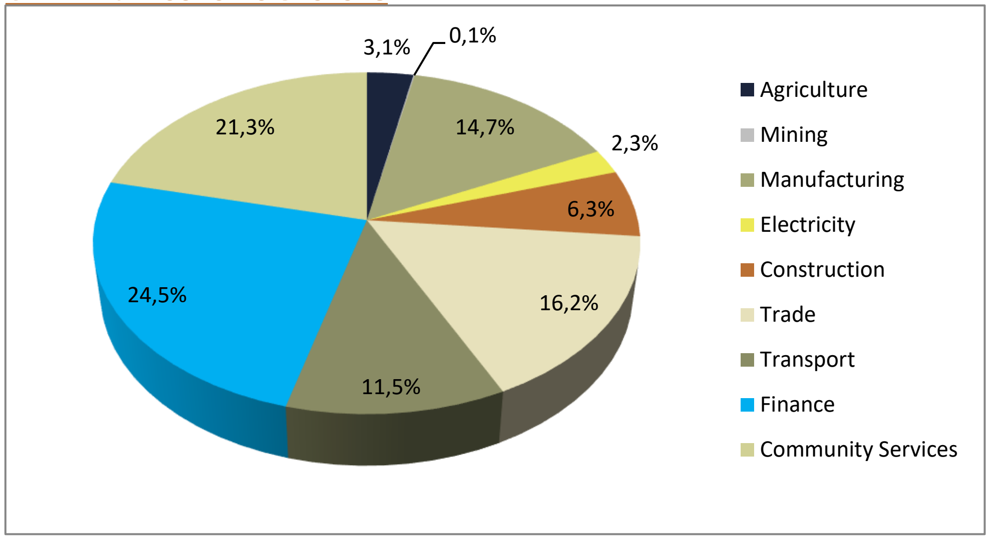
George's local economy is reasonably diversified, as evidenced by a Tress Index of 44.08. The Tress Index is a measure of economic diversification and thus, economic risk. The higher the degree of diversification, the lower the degree of economic risk in the event of adverse economic conditions due to the impact being spread of a greater number of economic sectors. George's economy is heavily tertiary sector driven, with 73.5% of its economic output in 2023 emanating from tertiary sector activities. The local economy is mainly driven by 4 sectors which accounted for approximately 76.7% of economic output in 2023. These sectors are Finance (24.5%), Community Services (21.3%), Trade (16.2%) and Manufacturing (14.7%).

The Finance and Community Services sectors exhibited the most significant proportional growth over the review period, with proportional growth of 1.8% & 1.4% respectively. All sub-sectors that fall under the umbrella of the secondary sector experienced contractions over the review period, with the Construction sector (2.7%) 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 during 2023, as well as a higher interest rate cycle.

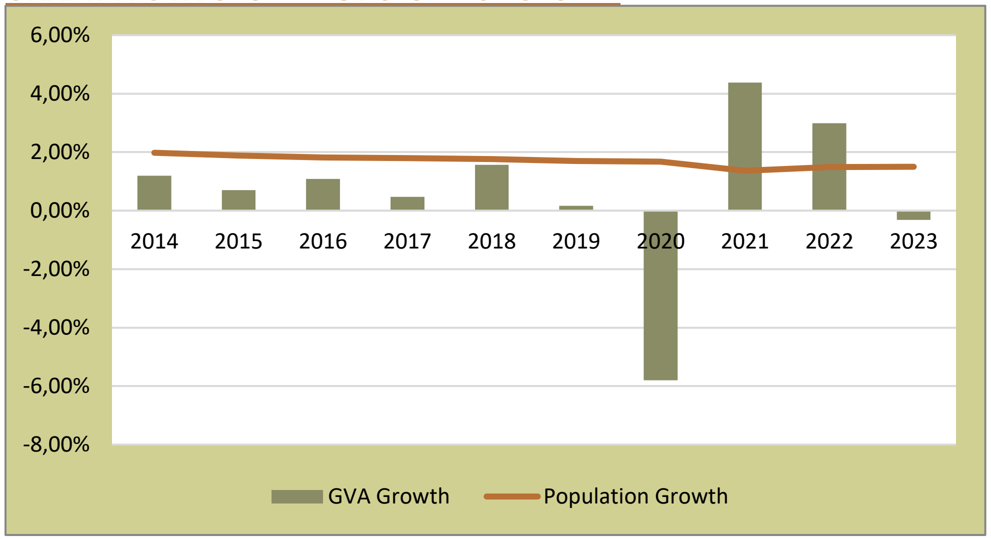
Table 1: Proportional Growth of Economic Sectors

Subsector	2014	2023
Agriculture	2,9%	3,1%
Mining	0,1%	0,1%
Manufacturing	14,6%	14,7%
Electricity	3,0%	2,3%
Construction	9,1%	6,3%
Trade	17,0%	16,2%
Transport	10,6%	11,5%
Finance	22,8%	24,5%
Community Services	19,8%	21,3%

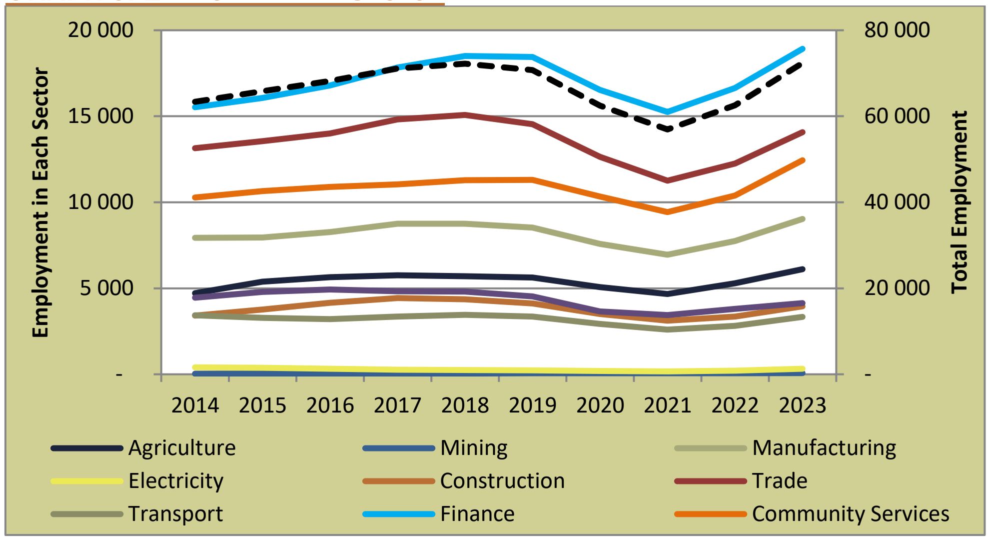
Graph 6: Economic Sectors



GRAPH 7: GVA GROWTH VS POPULATION GROWTH



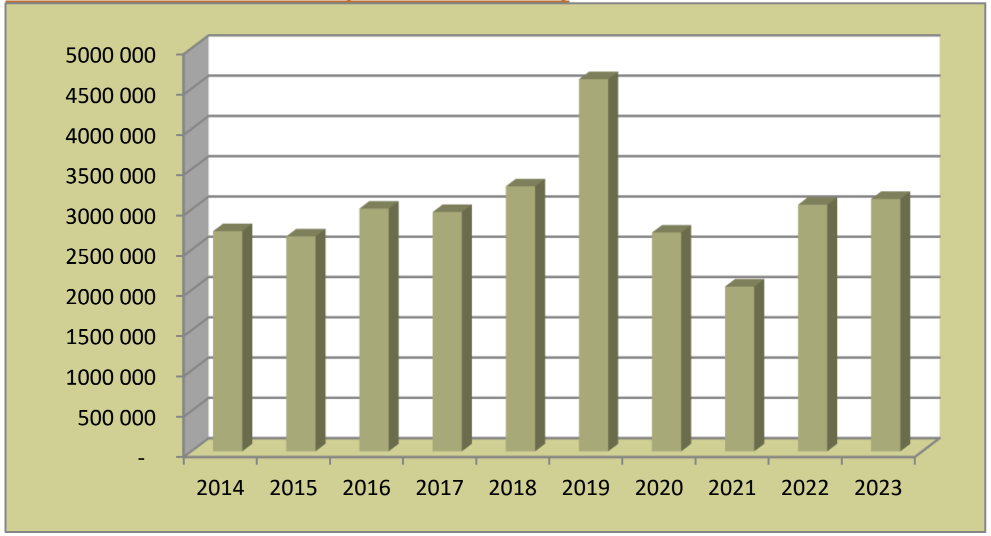
GRAPH 8: EMPLOYMENT BY SECTOR



GRAPH 7 above makes it evident that while the impact of the economic contraction in 2020 was severe, an environment of sluggish economic growth has been prevalent for the majority of the review period. The economy has only outpaced the population in terms of growth in 2 of the 10 years under review, with one of these years (2021) artificially high due to the extent of the economic contraction in 2020. This is of concern. The recent investment in water and other infrastructure is positive to note as this is evidence of the municipality doing its level best to create an enabling environment for economic growth through investment in productive assets.

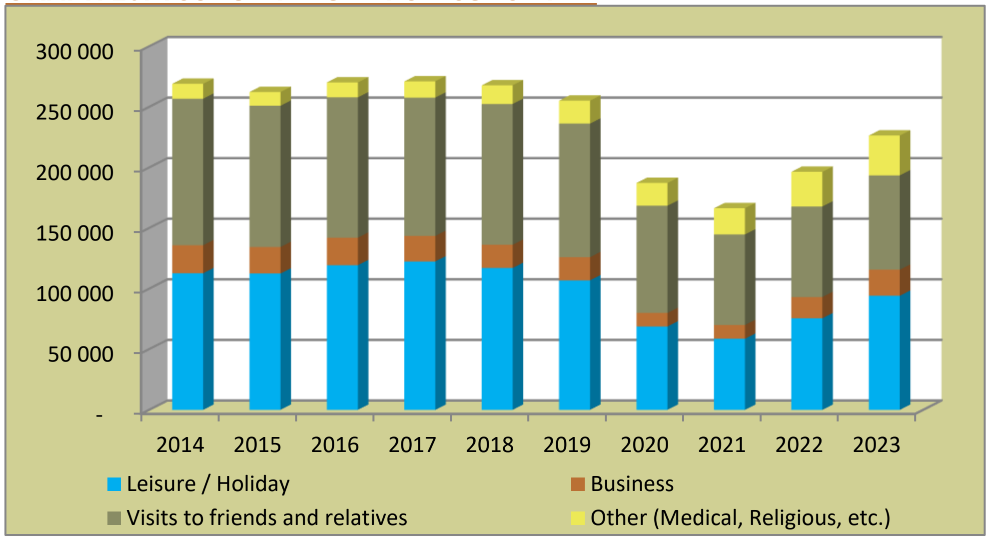
The employment figures reveals that an additional 9 829 jobs were created during 2023. This is consistent with the decline in the unemployment rate. The finance sector, the biggest contributor to GVA in 2023, is unsurprisingly the main provider of employment in George with 26.1% of jobs falling within this sector. This is followed by trade (19.4%) and community services (17.2%).

GRAPH 9: TOURISM SPEND (CURRENT PRICES)



Tourism spend increased at a marginal rate of 2.3% during 2023, to a total of R3.13 billion. This equates to approximately 11.1% of GVA in 2023, marginally down from 11.6% in the prior year. This highlights the importance of tourism to George's economy. For this reason, the municipality must ensure that it does its part in assisting those in the tourism industry through maintaining a high level of service delivery and maintaining the strong perception of George as an attractive destination for tourists.

GRAPH 10: TOURISM TRIPS BY PURPOSE OF TRIP

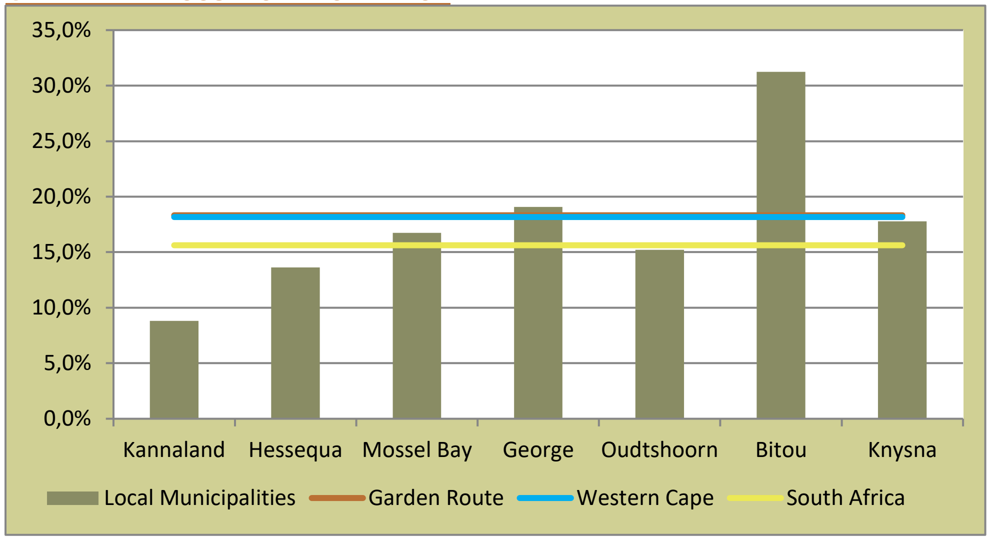


The number of tourism trips into George increased by 15.2% during 2023, up to 226 448 trips from 196 499 in the prior year. It must be noted that while this remains below pre-pandemic levels, the increasing trend observed since 2021 is a positive development. A return to an economic growth environment as well lower inflation may result in an acceleration of this growth in the coming years. Trips for leisure/holiday purposes remained the predominant reason for trips into George, accounting for 41.6% of trips in 2023. This is followed by trips to visit friends and relatives (34.3%). This further highlights the perception of George as an attractive tourist destination.

Household Infrastructure

Household formation in George since 2014 came in at 19.1%. This translates to an additional 10 959 households in absolute terms. George's rate of household formation exceeds the district (18.3%), province (18.2%) and country (15.6%). 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 0.87 in 2014 to 0.91 in 2023. Although this index did decline from 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 maintenance 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

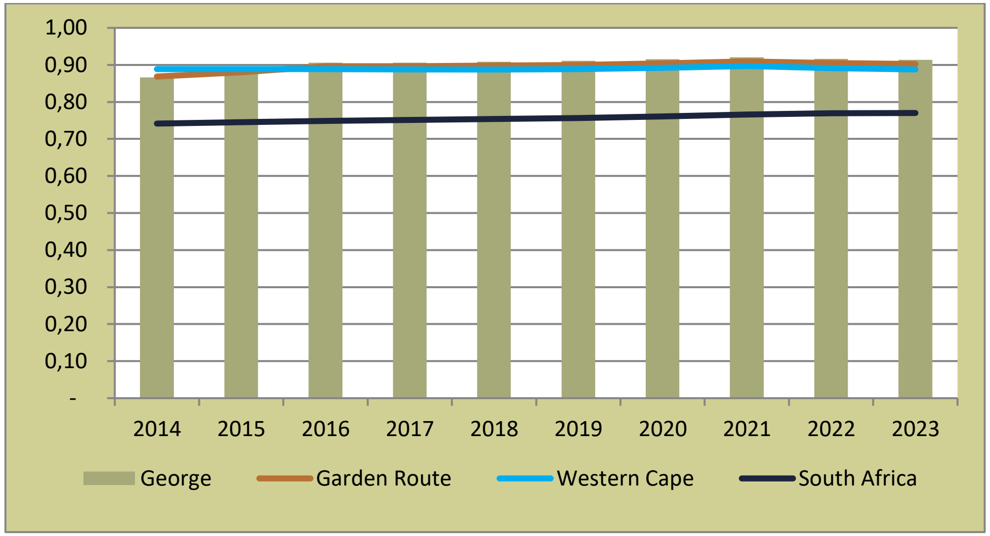


TABLE 2 below provides a comparison between the level of backlogs of George and the Garden Route District. George has managed to improve access to services in all service categories over the review period. Moreover, George has outperformed the district in the provision of all infrastructure services. 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	200 818	97,7%	66 869	97,7%
Water	203 524	99,0%	67 980	99,3%
Electricity	200 012	97,3%	66 783	97,6%
Refuse Removal	188 616	91,7%	65 909	96,3%
Below RDP or None				
Sanitation	4 770	2,3%	1 564	2,3%
Water	2 063	1,0%	454	0,7%
Electricity	5 576	2,7%	1 650	2,4%
Refuse Removal	16 972	8,3%	2 525	3,7%
Total Number of Households	**205 588**	**100,0%**	**68 433**	**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

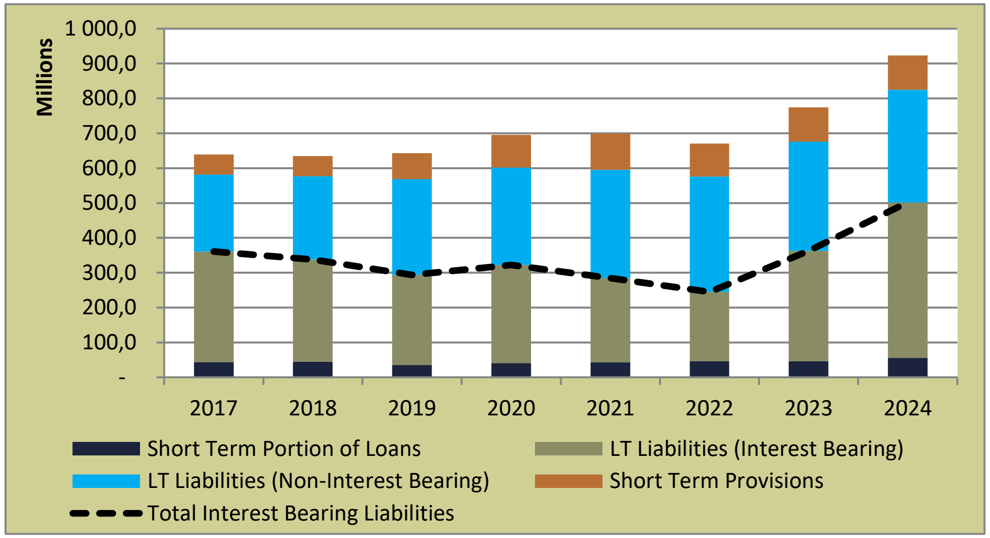
8 Ratio Analysis

9 Conclusions

Updated Historic Financial Assessment

Financial Position

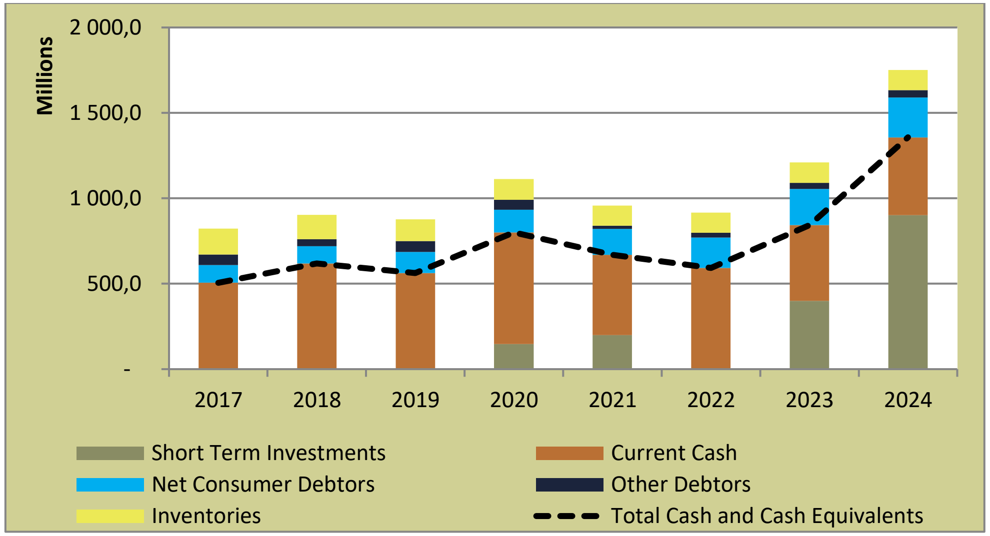
Graph 13: Long-Term Liabilities: Interest Bearing vs Non-Interest Bearing



George LM's net fixed assets position improved considerably during the year, increasing by 17.4% to total R4.72 billion as at FYE2023/24. A marginally lower increase was observed in the accumulated surplus, up from R3.76 billion to R4.38 billion for a total increase of 16.3% during the year. This was underpinned by sound financial performance. Interest-bearing liabilities increased to R445.8 million, up from R315.4 million in the prior year, courtesy of an additional loan undertaken during the year. Non-interest-bearing liabilities increased by R10.0 million to total R323.5 million as at FYE2023/24. This was predominantly driven by increases in employee benefit obligations.

Additional loans to the value of R215.9 million were undertaken during the year. The addition of these loans increased the degree of leverage to the debt profile. This is evidenced by the gearing ratio which increased to 16.8%, up from 13.6% in the prior year. Additionally, the debt service to total expense ratio increased to 4.7%, up from 1.3% in the prior year. Analysis of the Adjustment Capital Budget reveals that the municipality has planned to rapidly accelerate the borrowings programme over the MTREF period, to the tune of R1.64 billion. The current debt profile remains affordable, particularly given the strength of the liquidity position. However, the municipality must remain wary of not overleveraging the debt profile and potentially weakening the financial position. The affordability of the Capital Budget will be explored later in this report, and it is recommended that the outcomes of this affordability analysis are considered in preparation of the 2025/26 budget.

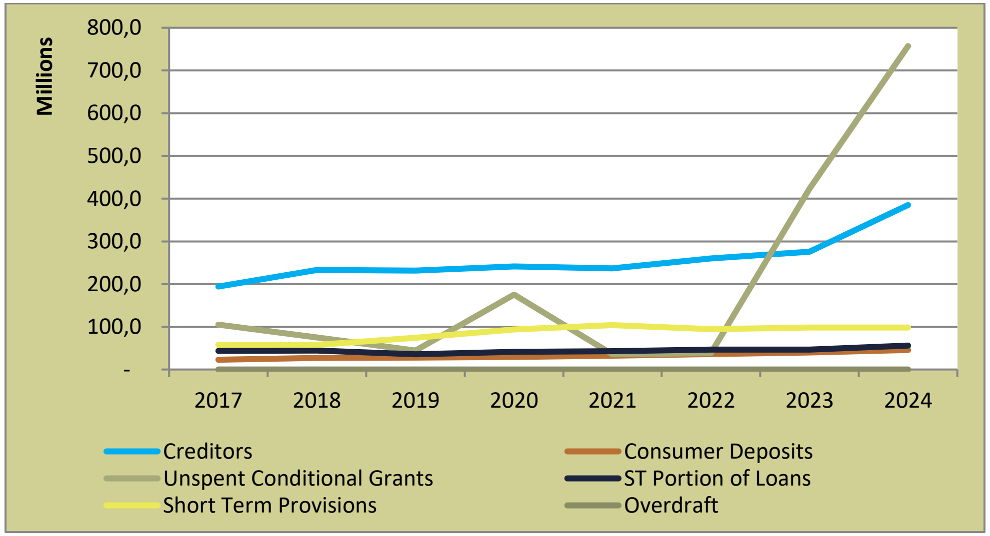
Graph 14: Current Assets



Current assets saw a notable increase during FY2023/24, increasing by 39.9% to R1.79 billion. This was predominantly driven by increases in cash and cash equivalents, the majority of which are short-term investments. This should result in additional interest income. George's current assets are highly liquid, as 75.4% of the current assets balance consists of cash and cash equivalents. It must be noted that R757.3 million of cash and cash equivalents emanates from unspent conditional grants from the prior year.

Current liabilities increased by a considerable 51.9% during the year, up to R1.34 billion from R883.5 million in the prior year. The extent of this increase was largely driven by unspent conditional grants of R757.3 million. This balance is largely comprised of the Regional Bulk Infrastructure Grant (RBIG), Public Transport Grant and the Municipal Disaster Recovery Grant. It is likely that roll-overs will be applied for and granted due to late receipt of these funds, particularly with respect to the Public Transport Grant, rendered the municipality unable to fully utilise these funds by year end. Payables from exchange transactions increased to R363.0 million, up from R258.1 million in the prior year. Included in this balance is trade payables of R217.6 million, which increased by R71.0 million during the year. This is of concern and represents the most significant increase over the review period.

GRAPH 15: Current Liabilities

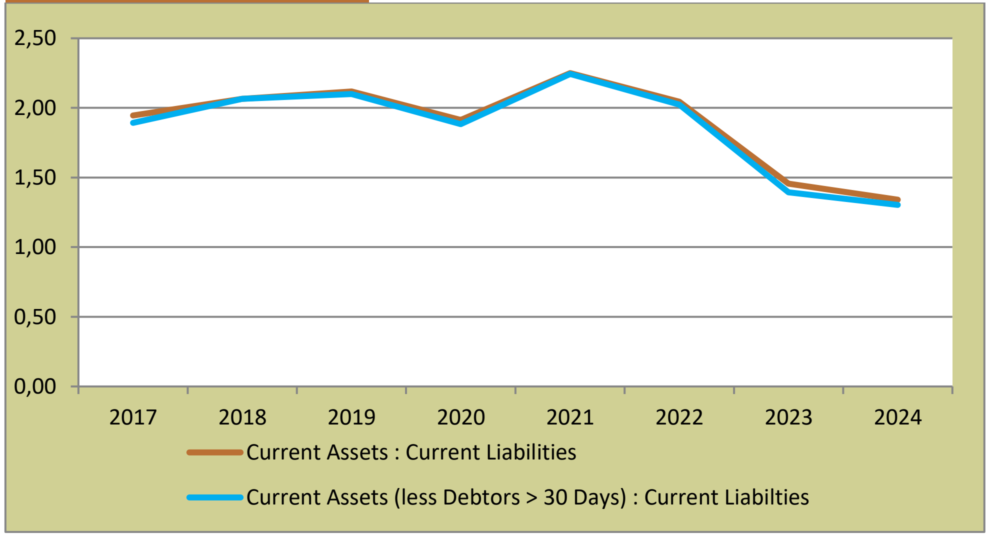


The combined impact of the movements in current assets and liabilities resulted in a deterioration of the liquidity position. The liquidity ratio reduced to 1.34:1 from 1.46:1 at the prior year end. This represents a low for the review period. However, the extent of the unspent conditional grants balance has a significant impact on the liquidity ratio. As a roll-over of these funds is likely, it would be prudent to remove the impact of this from our assessment of the liquidity ratio. In doing so, the balance of unspent conditional grants of R757.3 million will be removed from both current assets and liabilities in order to gain a truer reflection of the municipality's liquidity position. Upon doing so, the liquidity ratio comes in at 1.78:1. This remains healthy, albeit lower than historic levels. The liquid nature of George's current assets, particularly the cash balance (excluding unspent conditional grants) of R599.8 million, provides a healthy liquidity buffer. This leaves George well positioned to absorb potentially harmful financial shocks.

TABLE 3: Liquidity Ratios

	2017	2018	2019	2020	2021	2022	2023	2024
Current Assets: Current Liabilities	1,95	2,07	2,12	1,91	2,25	2,05	1,46	1,34
Current Assets (less Debtors > 30 Days): Current Liabilities	1,89	2,07	2,10	1,88	2,24	2,02	1,39	1,30

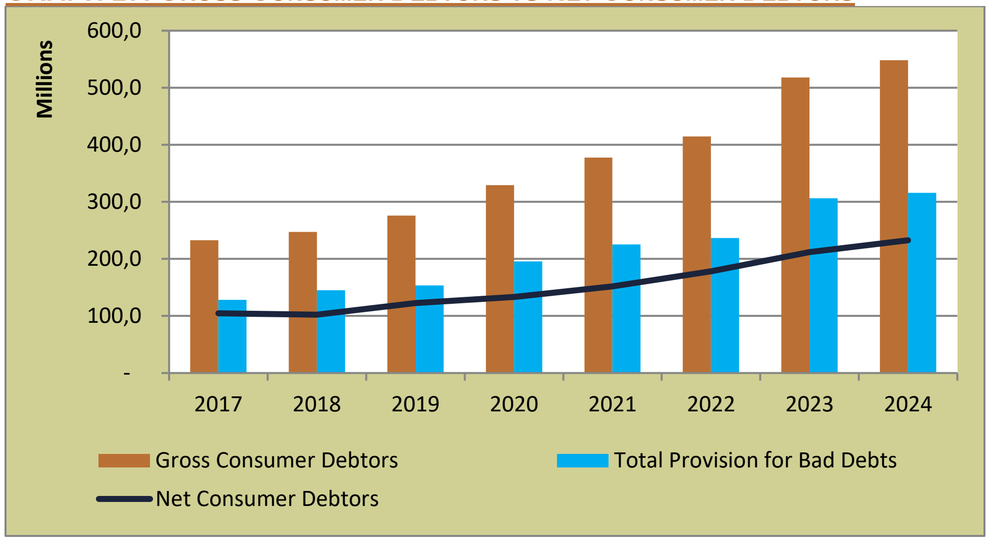
GRAPH 16: Liquidity Ratios



Gross consumer debtors increased by 5.9% during the year to total R548.4 million as at FYE2023/24. A comparatively lower increase of 3.1% in the provision for bad debts resulted in an increase of 9.9% to R232.7 million in net consumer debtors. The collection rate increased to 93.6%, up from 92.0% in the prior year. This is positive to note. The municipality must aim for further increases in the coming years with the NT norm and historic average of 95% the target. Reduced inflation and the genesis of an interest rate cutting cycle will ease pressure on households to service their municipal bills. The municipality must take advantage of this and ensure it is well placed to maintain a high collection rate.

Electricity remained the largest pool of debtors, accounting for 46.4% of net consumer debtors. This is followed by water debtors (19.0%) and rates debtors (15.8%). The provision for bad debts of R315.7 million was adequate to cover the debtors older than 90 days balance of R315.3 million. This is positive to note as it indicates that the risk of non-payment, which is highest with aged debtors, has been provided for.

GRAPH 17: GROSS CONSUMER DEBTORS VS NET CONSUMER DEBTORS



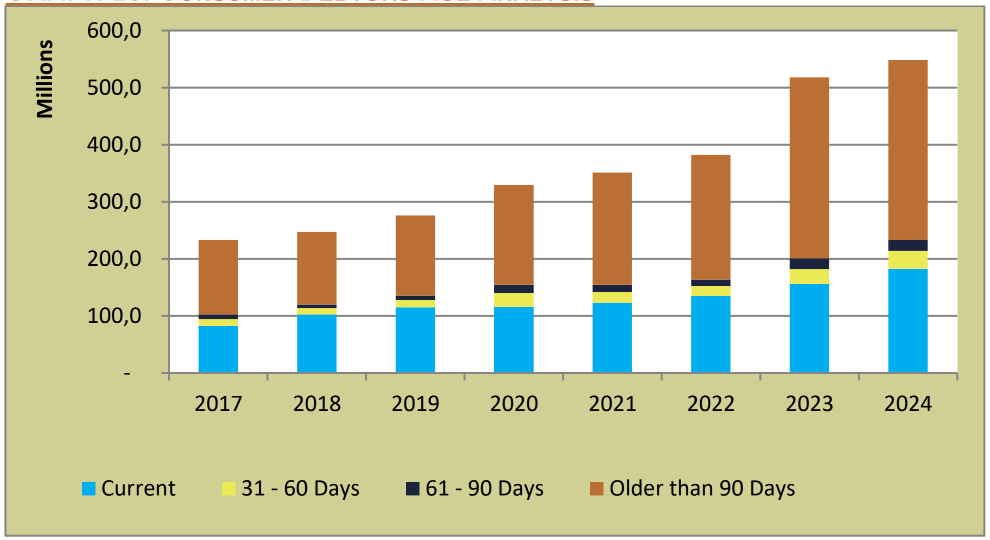
Further scrutiny of the debtors age analysis reveals that debtors older than 90 days form the largest pool of debtors, accounting for 57.5% of consumer debtors. It is positive to note that the balance of these debtors reduced from the prior year. Current debtors accounted for 33.3% of consumer debtors at the current year end.

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. It is positive to note that the municipality moved closer to this target during the year, but further improvements are required.

TABLE 4: DEBTORS RATIOS

	2018	2019	2020	2021	2022	2023	2024
Increase in Billed Income p.a. (R'm)	110,6	84,4	115,4	40,6	176,4	112,0	249,4
% Increase in Billed Income p.a.	11%	7%	9%	3%	13%	7%	15%
Gross Consumer Debtors Growth	6%	12%	19%	15%	10%	25%	6%
Net Debtors' Days	32	36	36	40	41	46	44
Payment Ratio/Collection Rate (%)	96%	96%	95%	95%	95%	92%	93%

GRAPH 18: CONSUMER DEBTORS AGE ANALYSIS



Financial Performance

GRAPH 19: Analysis of Surplus

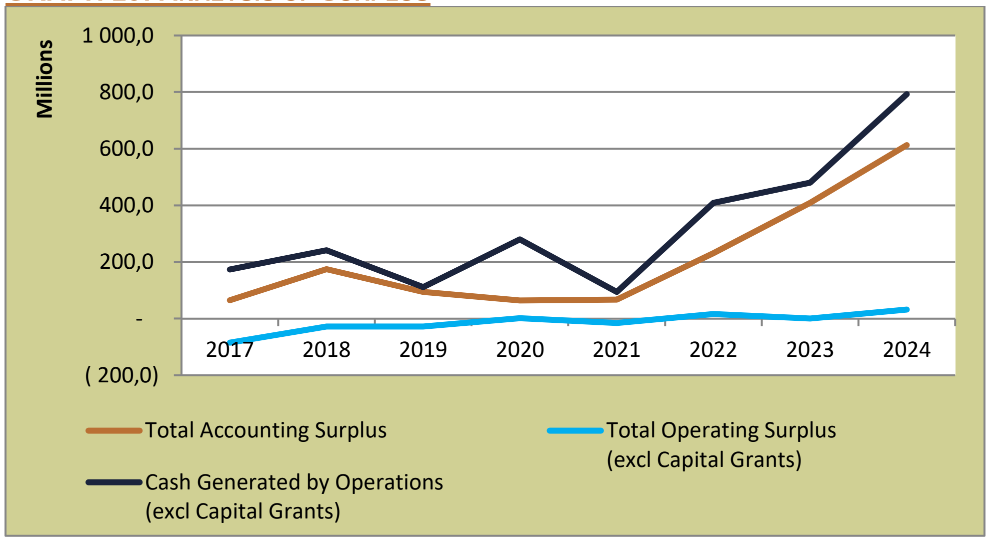


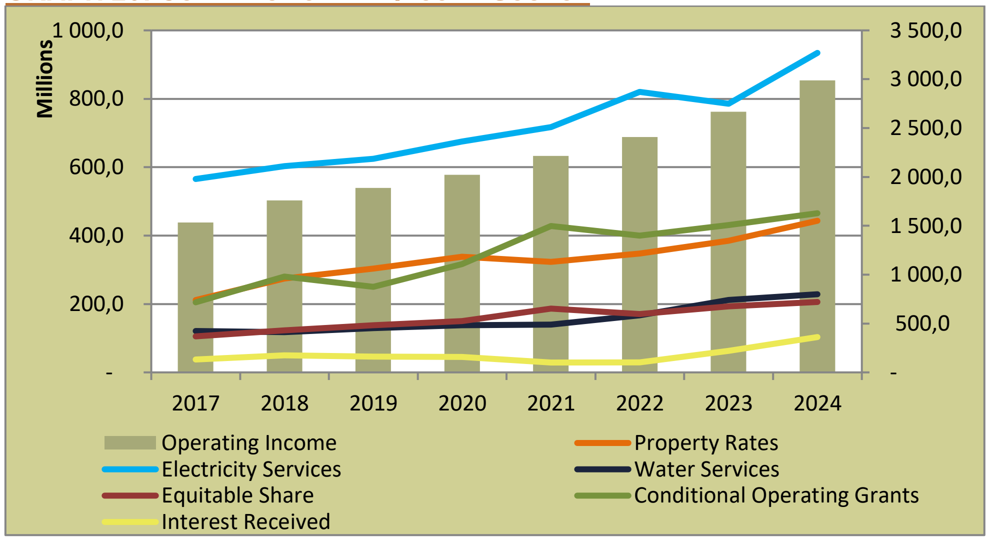
TABLE 5: Analysis of Surplus

	2017	2018	2019	2020	2021	2022	2023	2024
Total Accounting Surplus	64,9	174,7	94,4	64,3	67,1	231,4	408,9	612,8
Total Operating Surplus (excl Capital Grants)	(84,7)	(28,1)	(27,8)	1,1	(15,9)	16,8	0,6	32,1
Cash Generated by Operations (excl Capital Grants)	173,4	241,6	111,6	280,1	94,3	408,6	480,2	792,7

Total income (including capital grants) increased by 16.1% during FY2023/24, increasing to R3.57 billion. Operating expenditure increased by a comparatively lower 10.9% to R2.95 billion. This resulted in a substantial improvement in the accounting surplus to R612.8 million during FY2023/24. Upon the exclusion of capital grants, the municipality posted an operating surplus of R32.1 million, up from R0.6 million in the prior year. This marks the third consecutive operating surplus and fourth in the last 5 years. This continues the trend of improved financial performance observed in the latter half of the review period.

George's ability to generate cash from its operations (excluding capital grants) improved once again during FY2023/24, with a considerable R792.7 million in cash generated by operations. This is an improvement on the prior year value of R480.2 million and marks a peak for the review period. This was underpinned by the improved collection rate as well as the improvement in financial performance. George has consistently generated cash from operations over the review period and this has underpinned the maintenance of a healthy liquidity position. Maintaining adequate levels of liquidity is a key indicator of long-term financial sustainability.

GRAPH 20: Contribution per Income Source

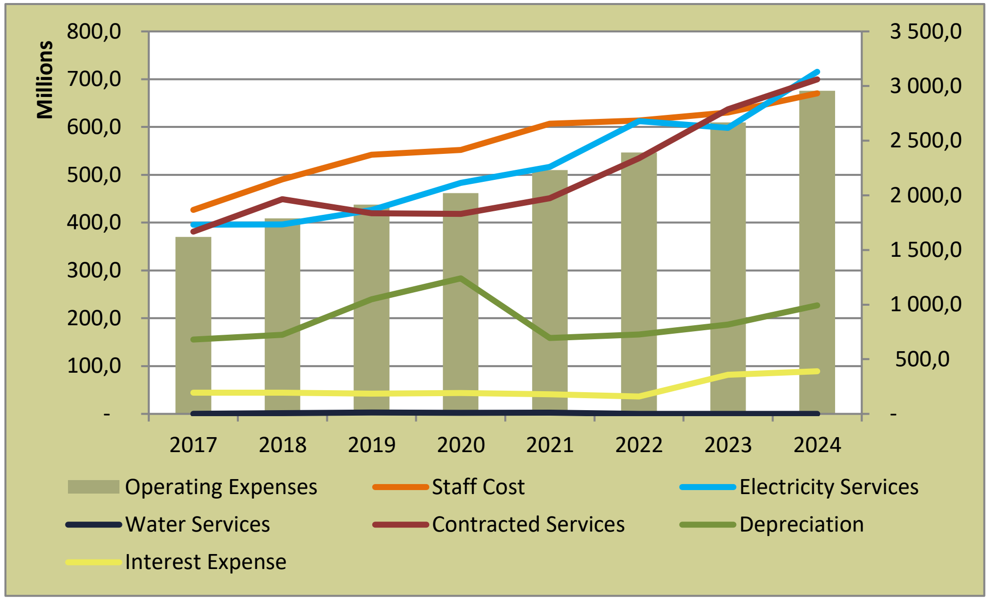


The improvement in financial performance was underpinned by strong revenue growth and successful cost containment. This is evidenced by growth in operating income (excluding conditional grants) of 12.9% exceeding growth in operating income of 10.9%. The growth in operating income was underpinned by above CPI growth in electricity services (19%), property rates (15%) and interest received (63%). The growth in electricity services revenue is positive to note as this follows a decline in the previous year due to the energy crisis. Electricity revenue remained the predominant contributor to revenue, accounting for 31% of revenue in FY2023/24. Other notable contributions include property rates (15%) and conditional operating grants (16%).

Total grants (operating and capital) comprised 35% of total revenue during FY2023/24. This is indicative of a reasonably high reliance on grant funding, relative to other comparable municipalities. This is, however, largely driven by an increase in capital grant funding earmarked for certain projects such as water and transport infrastructure, in recent years. Analysis of the Capital Budget indicates that a return closer to historic levels of grant funding is expected in FY2025/26. This should bring the total grants to total revenue ratio down closer to historic levels.

While the end of the extended and sustained period of load shedding has certainly been a welcome development, there remains the possibility of the energy crisis rearing its head once again. With this in mind, there remains a risk to the municipality's revenue prospects should this occur, due to the municipality's reasonably high reliance on electricity services revenue. In order to mitigate this risk, the municipality must work towards maximising revenue from alternative sources and more importantly, maintain stringent management of operating expenditure, over which the municipality has an element of control. Cost-savings must be realised wherever possible. Furthermore, the need for tariff increases to reflect the true cost of supply remains critical. It is recommended that the municipality undergoes a detailed tariff assessment, underpinned by a sophisticated tariff model to assist in determining the true cost of supply of municipal services and that tariff increases are informed accordingly.

GRAPH 21: CONTRIBUTION PER EXPENDITURE ITEM



The 10.9% increase in total operating expenditure was underpinned by increases in electricity bulk purchases (20%), depreciation (21%), contracted services (10%) and staff costs (6%). The improved collection rate resulted in debt impairment costs declining during the year. Electricity bulk purchases and contracted services, both with contributions of 18% to operating expenditure, overtook staff costs (17%) as the predominant expenditure items.

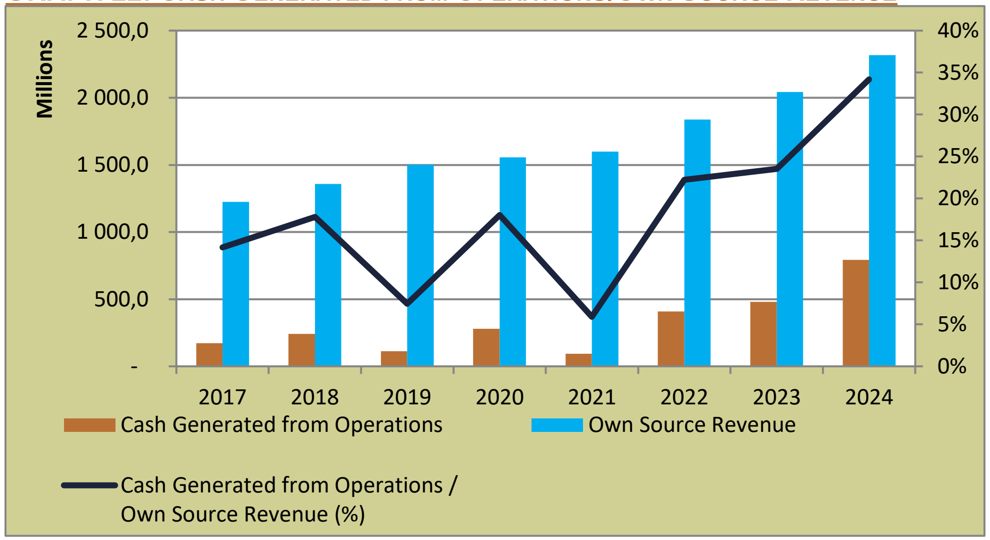
While the contribution of staff costs remains well below the maximum norm of 40% as prescribed by NT, this is influenced by the extent of outsourcing of services by the municipality. The outsourcing of transport services related to the GIPTN Bus Service accounted for R289.1 million of the total outlay on contracted services of R731.4 million in FY2023/24. Contracted services are often seen as an alternative to staff costs. With this in mind, it is worth analysing the combined contribution of staff costs and contracted services to assess the affordability of the municipality's employee related expenditure profile. The combined contribution of contracted services and staff costs totals 35% of total operating expenditure. This remains affordable. It may be worth exploring whether certain outsourced services could perhaps be brought back within the municipality, should this result in cost-savings.

Expenditure to repair and maintain the municipality's asset base declined during the year to R223.7 million, down from R234.2 million in the prior year. This resulted in repairs and maintenance expenditure as a percentage of PPE & IP declining to 4.7% from 5.8% in the prior year. Ideally we would like to see this ratio increase closer to the NT norm of 8%, the accelerated capital investment programme in recent years has resulted in an increase of 37.3% in the carrying value of PPE & IP since FYE2021/22. For additional context the prior 3 years saw growth of 9.8%. Furthermore, it is worth noting that a considerable portion of the Capital Budget is allocated towards the upgrading of existing assets. With this in mind, the municipality's infrastructure and asset base is likely to remain in a healthy state for the foreseeable future.

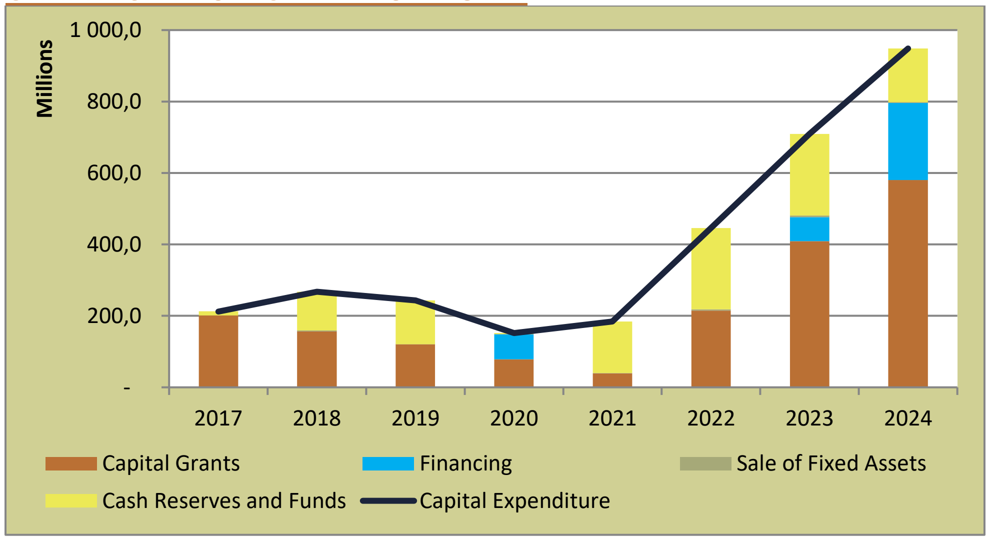
Electricity distribution losses remained stable at 8.60%, a negligible increase from 8.52% in the prior year. This remains within the NT norm range of 7%-10%. Water distribution losses declined to 20.78%, down from 27.22% in the prior year. This was undoubtedly influenced by the recent upgrades to the municipality's water infrastructure. It is positive to note that tangible returns on the municipality's investments are already being realised.

Cash Flow

GRAPH 22: Cash Generated from Operations/Own Source Revenue



GRAPH 23: Annual Capital Funding Mix

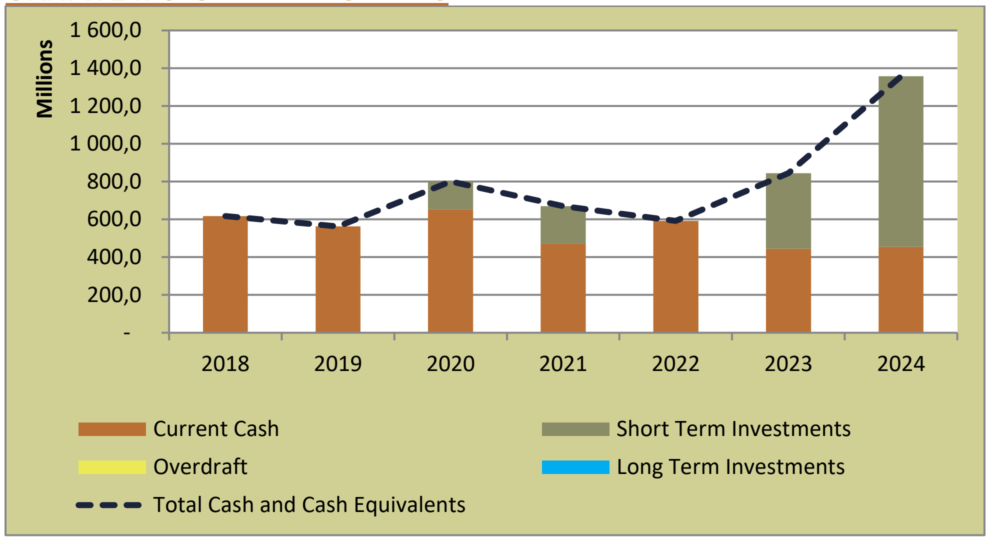


Graph 23 illustrates the rapid acceleration of capital investment since FY2021/22. This is expected to continue in FY2024/25 before capital grant funding returns closer to historic levels. Capital grants were the predominant funding source over the review period, accounting for 57% of capital funding over the review period. This is followed by own cash reserves and funds (32%) and external financing (11%). The municipality has largely preferred to leverage its healthy liquidity position to accelerate capital funding, over accessing available debt mechanisms. This has changed in recent years, with borrowings undertaken in each of the last 2 years. The municipality has budgeted for the borrowing programme to be accelerated considerably, with R1.6 billion in borrowings included in the capital budget over the MTREF period. While we support the fostering of an optimal funding mix that balances the utilisation of the municipality's healthy liquidity reserves and affordable borrowing to supplement capital grant funding, the municipality must remain cautious of overleveraging the debt profile. This may begin to result in diminishing returns, particularly should challenging economic conditions be experienced.

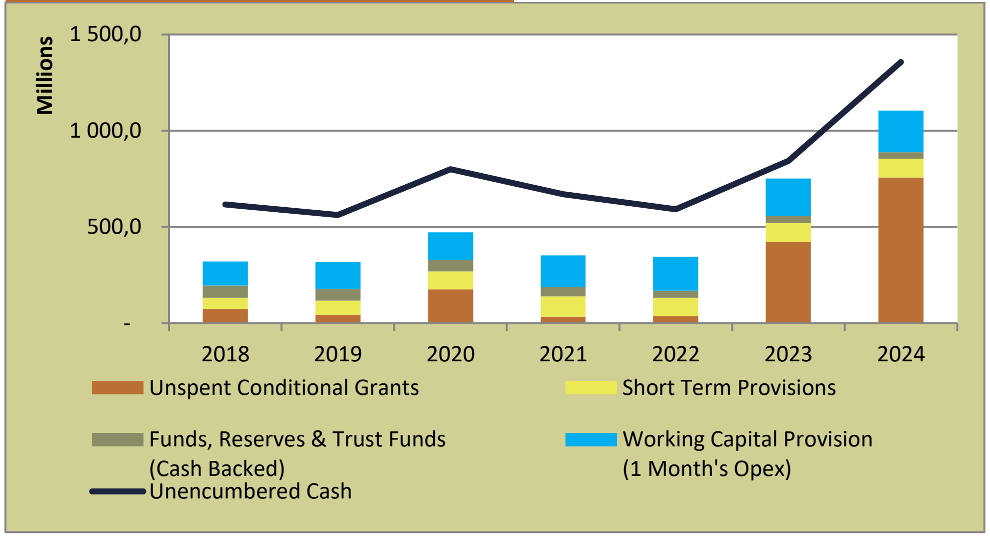
As mentioned earlier in this report, the current debt profile remains affordable. It remains to be seen whether this will remain the case should the Capital Budget borrowing programme be implemented as proposed. This will be explored and tested in detail later in this report.

It is positive to note that the municipality has undertaken investments in productive assets that aim to enable the municipality to provide a higher level of services to its communities. This will ultimately result in an increased ability to generate revenue. The returns of these investments have already been observed in the reduction of water distribution losses in FY2023/24.

GRAPH 24: CASH AND INVESTMENTS



GRAPH 25: MINIMUM LIQUIDITY REQUIRED



Through the maintenance of high collection rates as well as prudent and disciplined financial management, George has maintained healthy levels of cash and cash equivalents throughout the review period. The leveraging of this cash through the utilisation of short-term investments has enabled the municipality to increase interest income three-fold since FY2021/22. It is positive to note that the municipality has maintained healthy cash and cash equivalents throughout the review period whilst utilising significant amounts of own cash to fund capital investment. This further emphasises the sound financial management employed by the municipality over the review period. This bodes well for the municipality's future financial sustainability.

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 minimum liquidity requirement of R1.10 billion was exceeded by George's cash and cash equivalents balance of R1.35 billion, resulting in a cash surplus of R251.5 million in FY2023/24. An increase from a cash surplus of R91.8 million in the prior year. 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) improved during the year to a healthy 1.2.1.

TABLE 6: MINIMUM LIQUIDITY REQUIREMENTS

	2017	2018	2019	2020	2021	2022	2023	2024
Unspent Conditional Grants	104,8	75,1	44,6	175,6	35,6	38,4	422,8	757,3
Short Term Provisions	57,7	57,6	74,0	93,9	103,8	94,6	98,5	98,1
Funds, Reserves & Trust Funds (Cash Backed)	63,2	62,9	61,6	57,8	48,3	35,9	35,7	33,9
Total	**225,7**	**195,6**	**180,2**	**327,3**	**187,8**	**168,9**	**557,0**	**889,2**
Unencumbered Cash	505,4	617,8	562,6	799,5	669,6	592,5	843,9	1 357,0
Cash Coverage Ratio (excl Working Capital)	2,2	3,2	3,1	2,4	3,6	3,5	1,5	1,5
Working Capital Provision (1 Month's Opex)	114,5	125,9	139,7	144,7	164,4	177,3	195,1	216,3
Cash Coverage Ratio (incl Working Capital)	1,5	1,9	1,8	1,7	1,9	1,7	1,1	1,2
Minimum Liquidity Required	340,2	321,6	319,9	472,0	352,1	346,2	752,1	1 105,5
Cash Surplus/(Shortfall)	**165,2**	**296,2**	**242,7**	**327,5**	**317,5**	**246,4**	**91,8**	**251,5**

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 **6.6** 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	2024 (5)
Financial	3,3
Institutional	3,6
Socio-Economic	2,4
Infrastructure	3,4
Environmental	4,8

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 0.91, 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 Adopted 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 should be able to access affordable lending rates. The interest rate cutting cycle we appear to have entered underpins this further.

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Long-Term Financial Model Outcomes

MTREF Case Scenario

An MTREF Case was developed utilising the unadjusted figures from the Adjustment 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 93.8% throughout the forecast period, as per the FY2023/24 pre-audit financial statements. While no adjustments were made to the capital investment programme or funding mix. Assumed growth beyond the MTREF period for both capital expenditure and borrowing is 2% p.a. Finally, distribution losses were maintained at their respective FY2023/24 levels.

The outcomes of this scenario as presented in Table 8 reflect a poor forecast for financial performance over the MTREF period. Year-on-year improvements are expected thereafter, with operating surpluses forecast throughout the remainder of the planning period. The ability to generate cash from operations is expected to remain strong, courtesy of the reasonably high collection rate being maintained.

As illustrated in Graph 29 below, the liquidity position is forecast to come under severe pressure in the short to medium term. While this is initially impacted by the poor forecast for financial performance, the predominant driver of the unsustainable liquidity position is the aggressive capital investment and borrowing programmes. Cash shortfalls on budgeted capital investment are forecast between FY2025/26 and FY2029/30. The extent of own cash utilised to fund capital investment is forecast to prove unaffordable and erode the municipality's liquidity. Further to this, the budgeted borrowing programme appears overly aggressive. This is evidenced by the maximum recommended limits for gearing and debt service charges forecast to be exceeded as early as FY2025/26. This will only worsen over the planning period, with the planning period end debt indicators forecast at 39.4% and 13.3% for the gearing and debt service to total expense ratios respectively.

The deterioration of liquidity is further reflected in the forecast bank balance, illustrated in Graph 28. The municipality will fall short of meeting the minimum liquidity requirement of 1-month's opex until FY2032/33. This provides a notable liquidity risk for the municipality. Further to this, the planning period end liquidity ratio of 1.1:1, while positive, reflects a notable deterioration from the historic performance.

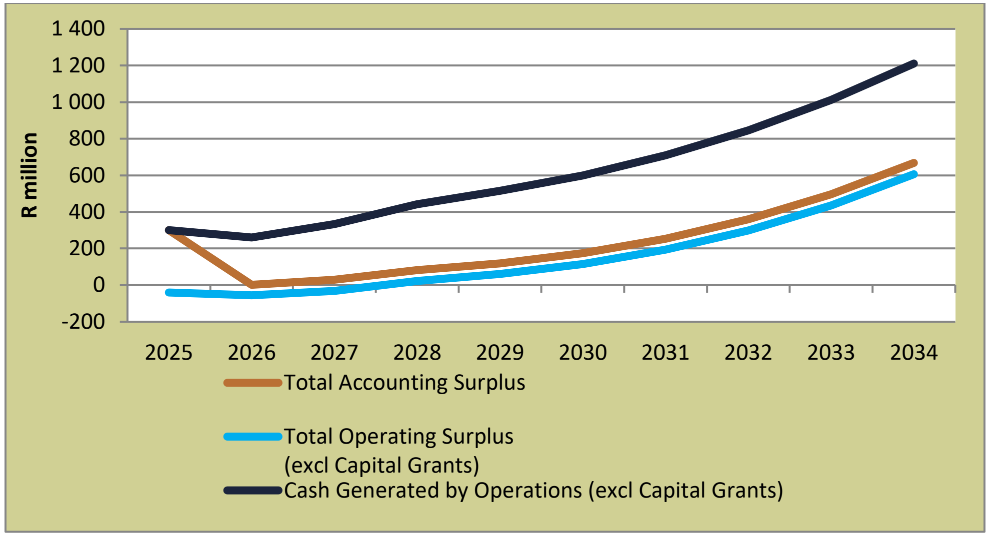
It must be noted that the municipality will only move into a positive liquidity position in FY2033/34.

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

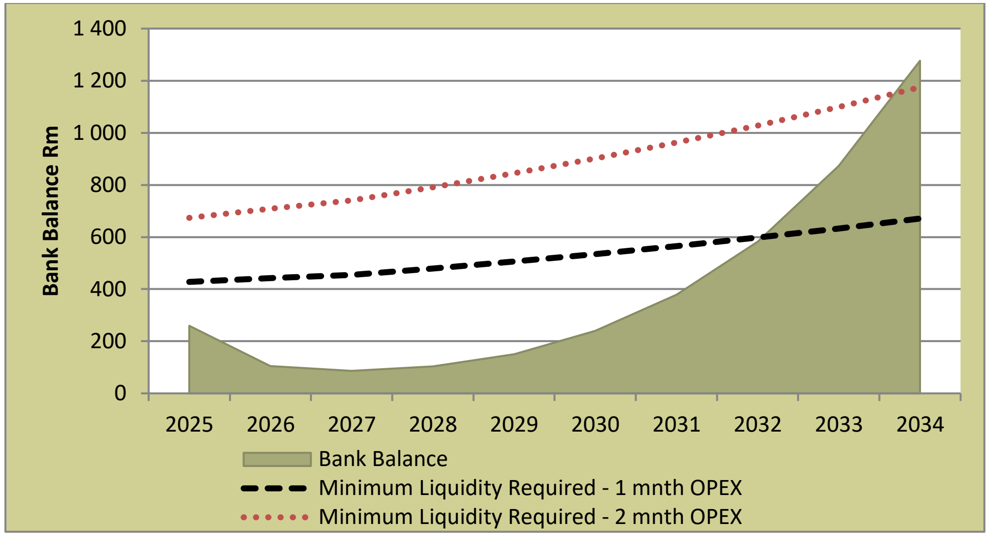
Table 8: MTREF Case Outcomes

Outcome	MTREF Case
Average annual % increase in Revenue	8,1%
Average annual % increase in Expenditure	9,1%
Accounting Surplus accumulated during Planning Period (Rm)	R 2 481
Operating Surplus accumulated during Planning Period (Rm)	R 1 602
Cash generated by Operations during Planning Period (Rm)	R 6 227
Average annual increase in Gross Consumer Debtors	14,8%
Capital investment programme during Planning Period (Rm)	R 9 107
External Loan Financing during Planning Period (Rm)	R 5 482
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 1 277
No of Months Cash Cover at the end of the Planning Period (Rm)	2,5
Liquidity Ratio at the end of the Planning Period	1.1 : 1
Gearing at the end of the Planning Period	39,4%
Debt Service to Total Expense Ratio at the end of the Planning Period	13,3%

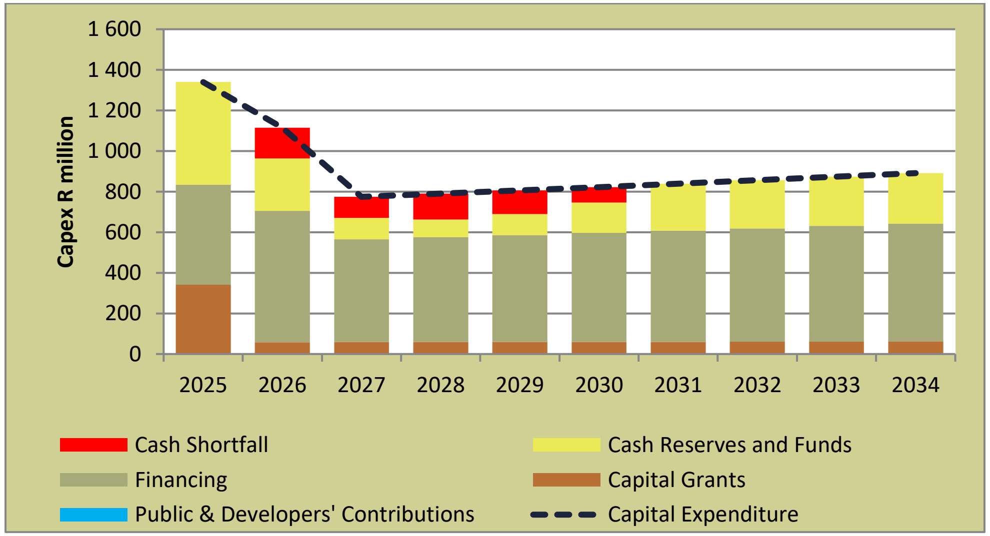
GRAPH 26: MTREF Case Scenario: Analysis of Surplus



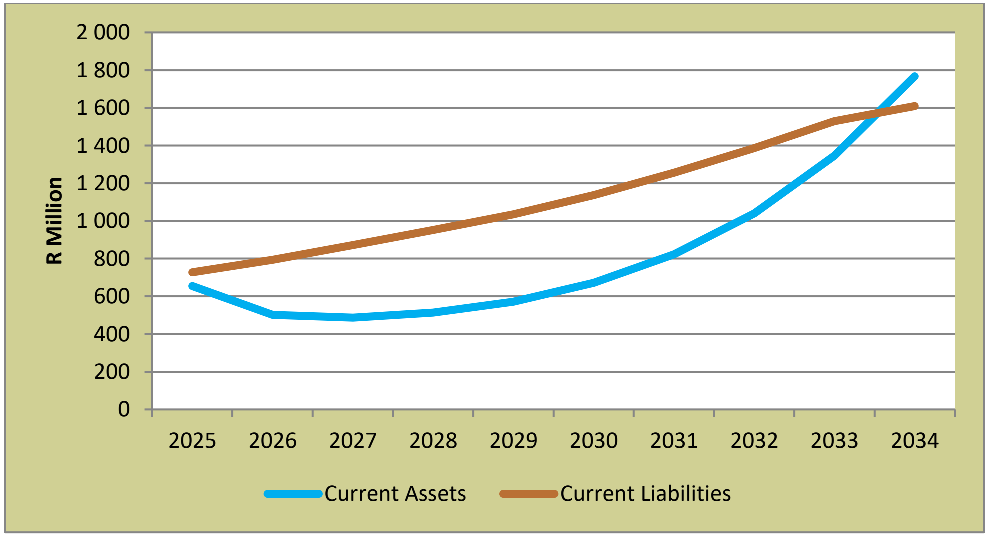
GRAPH 28: MTREF Case Scenario: Bank Balance vs Minimum Liquidity



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 Adjustment 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 4 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 to be met within 3 years and maintained for the remainder of the planning period.
2. The model incorporated the increases in revenue and expenditure items as announced in the Adjustment 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 Adjustment Budget capital investment programme was reduced over the MTREF period and FY2027/28, as follows:
    - FY2024/25: R1 000 million (from R1 333 million)
    - FY2025/26: R780 million (from R1 114 million)
    - FY2026/27: R774 million (unchanged)
    - FY2027/28: R650 million (from R821 million)

   Assumed growth in capital investment beyond the MTREF period is 6% p.a.
6. The Adjustment Budget borrowing programme was reduced over the MTREF period and FY2027/28, as follows:
    - FY2024/25: R350 million (from R494 million)
    - FY2025/26: R350 million (from R647 million)
    - FY2026/27: R350 million (from R505 million)
    - FY2027/28: R270 million (from R526 million)
7. The annual borrowing under this scenario was adjusted to an average of **13-year** amortising loans at a fixed interest rate equal to 4.5% over forecast CPI in any given year. Assumed annual growth in borrowing beyond the MTREF period is 4%.
8. Repairs and maintenance expenditure was increased to 5% of PPE & IP.
9. Electricity and water distribution losses were maintained at their respective FY2023/24 levels.

The outcomes of the Base Case are tabled below.

Table 9: Base Case Outcomes

Outcome	Base Case
Average annual % increase in Revenue	7,2%
Average annual % increase in Expenditure	8,3%
Accounting Surplus accumulated during Planning Period (Rm)	R 3 207
Operating Surplus accumulated during Planning Period (Rm)	R 2 327
Cash generated by Operations during Planning Period (Rm)	R 6 108
Average annual increase in Gross Consumer Debtors	11,4%
Capital investment programme during Planning Period (Rm)	R 8 040
External Loan Financing during Planning Period (Rm)	R 2 945
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 1 340
No of Months Cash Cover at the end of the Planning Period (Rm)	2,8
Liquidity Ratio at the end of the Planning Period	2.3 : 1
Gearing at the end of the Planning Period	30,2%
Debt Service to Total Expense Ratio at the end of the Planning Period	7,1%

Financial performance is forecast to follow a largely similar trend to the MTREF Case with an operating deficit forecast in FY2024/25. Thereafter, operating surpluses are forecast for the remainder of the planning period, with year-on-year growth forecast.

The forecast financial performance is poor compared to the budgeted financial performance due to higher forecasts in the model for debt impairment, electricity bulk purchases and depreciation. Repairs and maintenance expenditure was increased marginally to 5%, up from 4.9%. This is deemed sufficient due to the accelerated capital investment that has resulted in a reduction in the average age of the municipality's assets, thus reducing the need for repairs and maintenance expenditure. Another factor in this is the reasonably high degree of budgeted capital expenditure earmarked for the upgrading of existing assets.

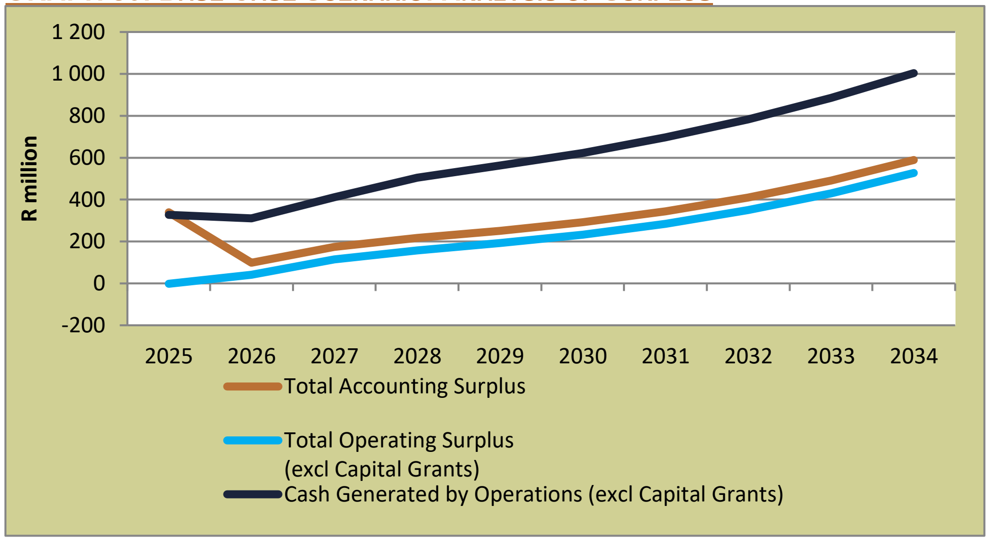
The municipality is forecast to generate a substantial R6.11 billion in cash from operations (excluding capital grants) over the review period. This is driven by the assumption of a collection rate of 96% (in line with the budgeted collection rate) being achieved within 3 years. Should a higher collection rate be achieved or the 96% collection rate be achieved earlier, the ability to generate cash from operations will be further strengthened. The knock-on effect of the strong forecast financial performance and cash generation is observed in the liquidity position. While the liquidity position is forecast to come under strain over the MTREF period, it will remain positive. This decline is impacted by the reduced financial performance as well as the extent of own cash utilised to fund capital investment over the MTREF period. Improvements will begin to be observed beyond the MTREF period with year-on-year growth expected. This is forecast to culminate in a healthy liquidity ratio of 2.3:1 at the end of the planning period. The modelled reduction of creditors days plays a role in this as well. This is illustrated in GRAPH 32 below.

The MTREF Case borrowing programme is forecast to prove unaffordable. Necessary adjustments have thus been made in order to promote sufficient capital investment that is underpinned by a sustainable borrowing programme. The downward revisions of the Adjustment Budget borrowing programme have resulted in an affordable debt profile. Leverage is added in a more consistent, gradual manner which will benefit the municipality as we enter the interest rate cutting cycle. This will be discussed further in Section 7 of the report.

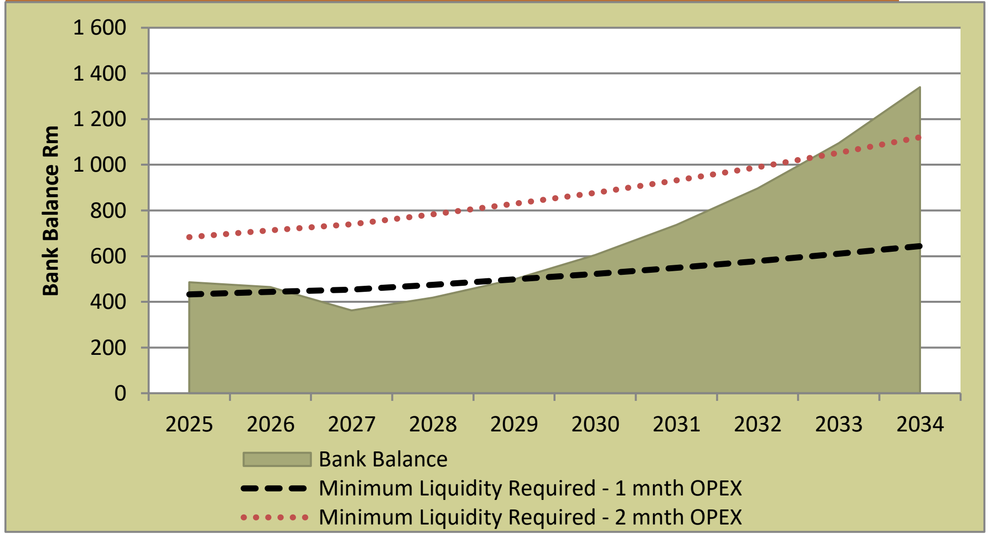
The extent of own cash utilised to fund capital investment over the MTREF period is reflected in the declining bank balance. The minimum liquidity requirements will not be met in FY2026/27 & FY2027/28. Thereafter, year-on-year improvements are forecast. The improvements are driven by the strong forecast financial performance as well as the improved collection rate. Additionally, the Base Case borrowing programme underpins this improvement further whilst enabling accelerated capex.

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.

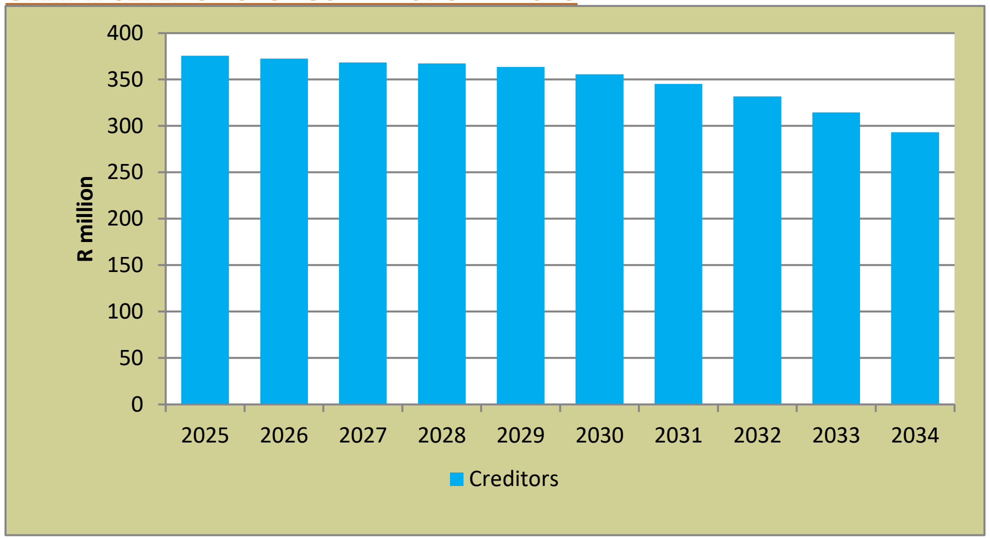
GRAPH 30: BASE CASE SCENARIO: ANALYSIS OF SURPLUS



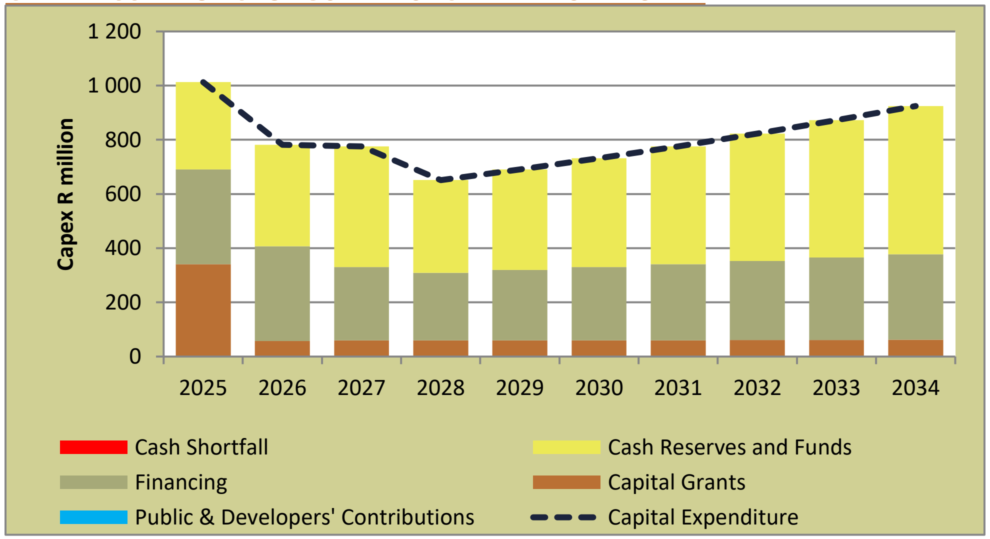
GRAPH 31: BASE CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY



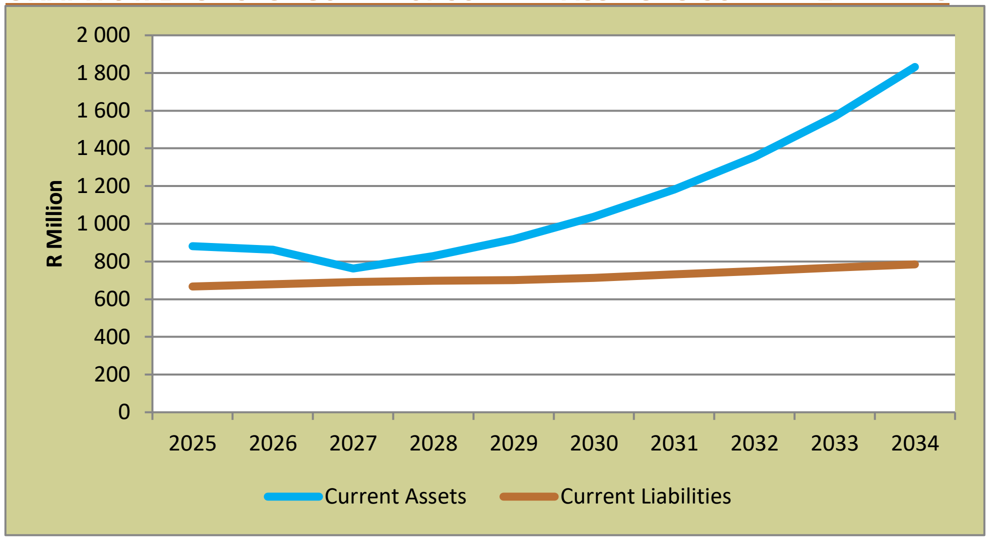
GRAPH 32: BASE CASE SCENARIO: CREDITORS



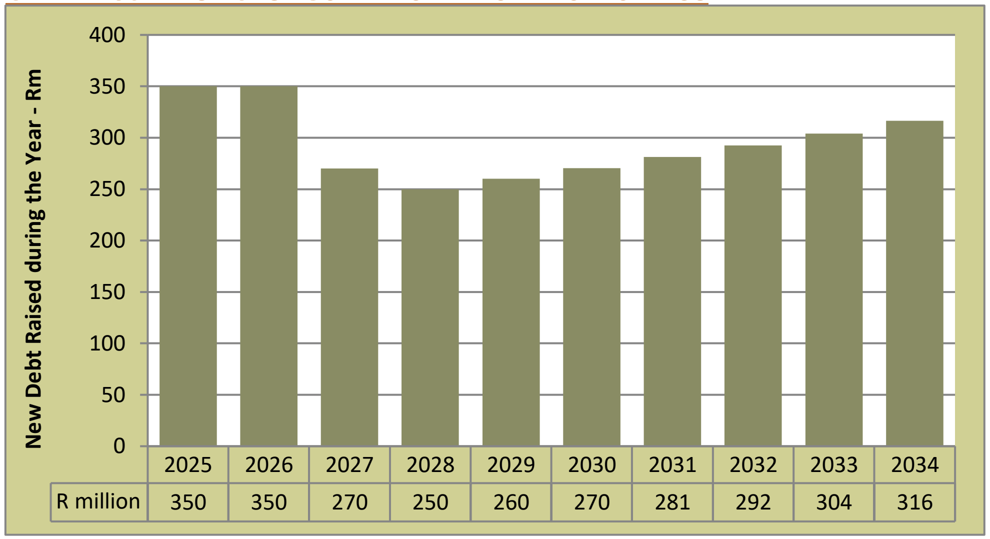
GRAPH 33: BASE CASE SCENARIO: CAPITAL FUNDING MIX



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



GRAPH 35: BASE CASE SCENARIO: ANNUAL BORROWINGS



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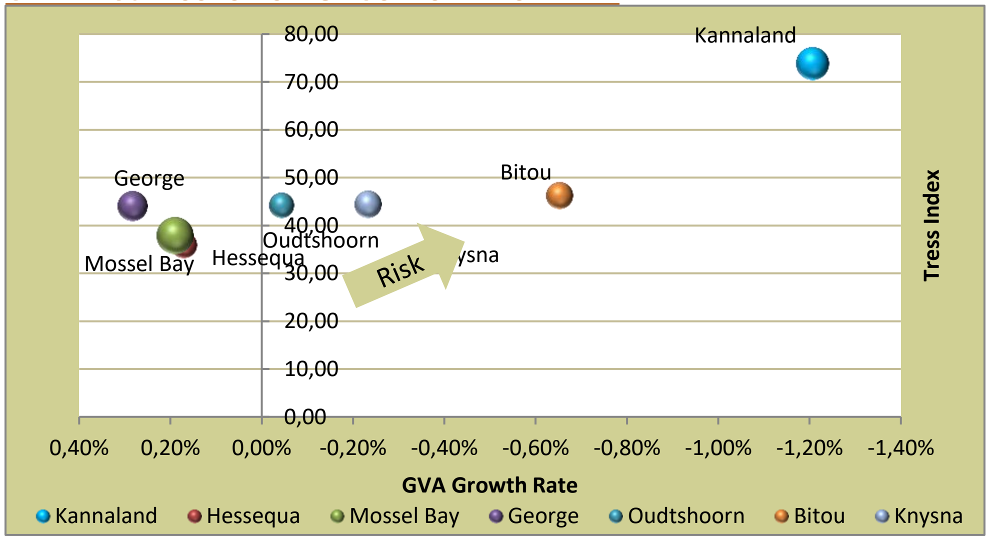
Future Revenues

Municipal Revenue Risk Indicator (MRRI) = "High"

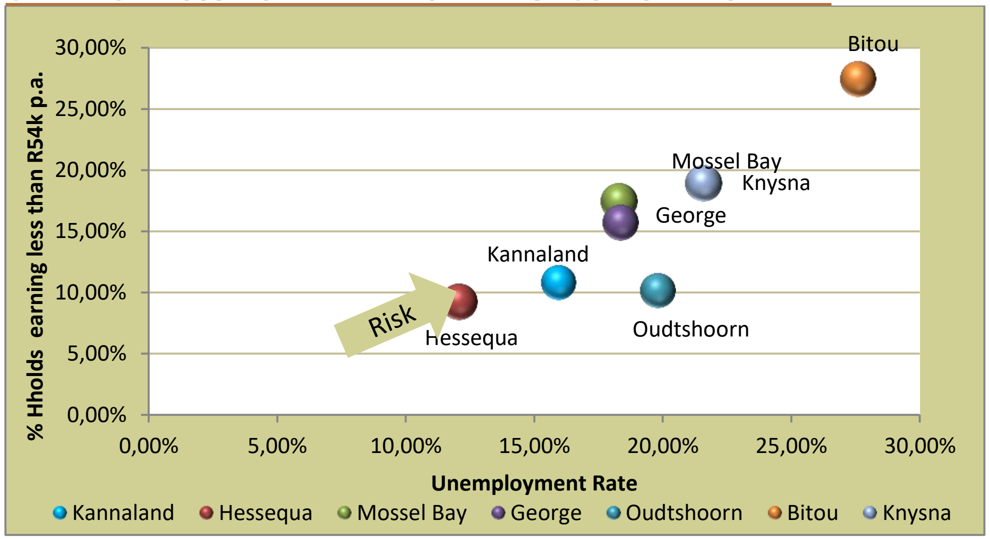
GRAPH 36: ECONOMIC RISK COMPONENT OF MRRI



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 0.28%. This is well exceeded by the annual average population growth rate of 1.54% over the same period. GVA per capita of R71 588 in 2023, 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.

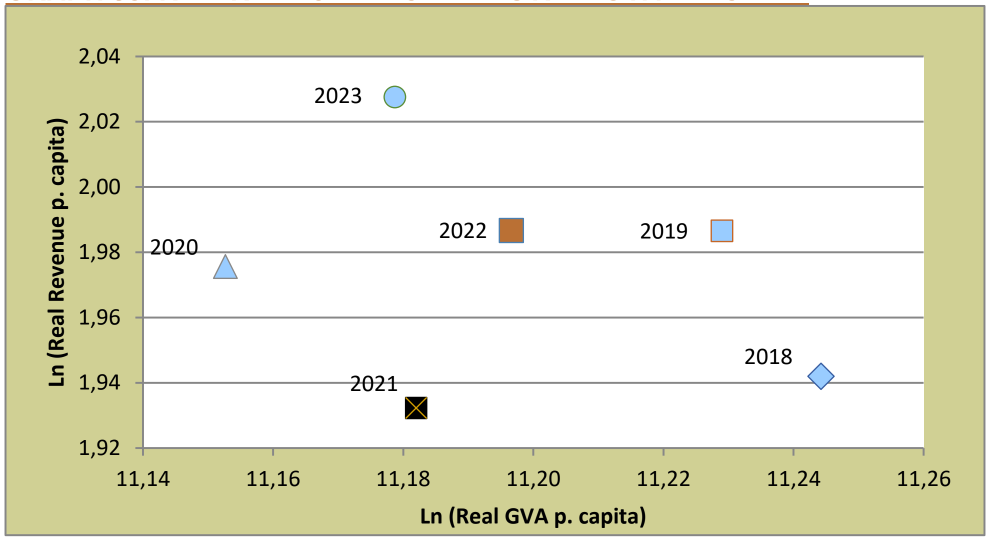
GRAPH 37: HOUSEHOLD ABILITY TO PAY RISK COMPONENT OF MRRI



The percentage of indigent households reliant on support of 15.74%, the official unemployment rate of 18.35% and the human development index of 0.72 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.

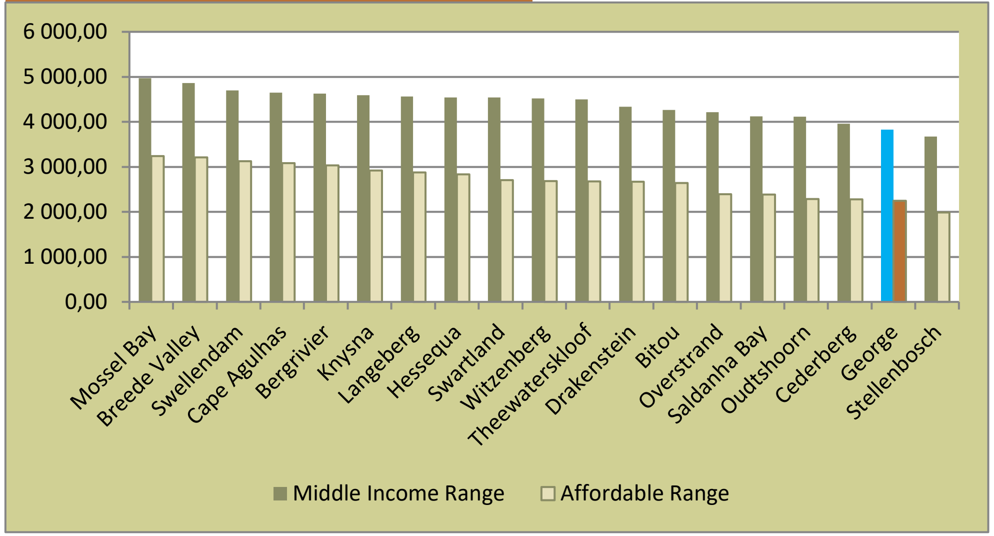
GRAPH 38: REAL REVENUE PER CAPITA VS REAL GVA PER CAPITA



Real municipal revenue (excluding capital transfers) per capita indicates an increasing trend between 2018 and 2020, before a significant decline was observed in 2021. Thereafter, consistent growth has been observed with the 2023 figure a peak for the review period. GVA per capita has reflected a net decline over the review period, with just 2 periods of growth observed (2021 & 2022). These 2 periods of growth came immediately after the profound economic contraction ascribed to the pandemic in 2020. A decline was then observed in 2023.

It is crucial for the municipality to foster an enabling environment for economic growth within the region. Returns on the recent water and transport infrastructure projects should begin to be realised over the MTREF period. This will support the municipality's economic development and thus should contribute to the return of an economic growth environment. Reduced inflationary pressures and a resultant reduction in interest rates should further support this.

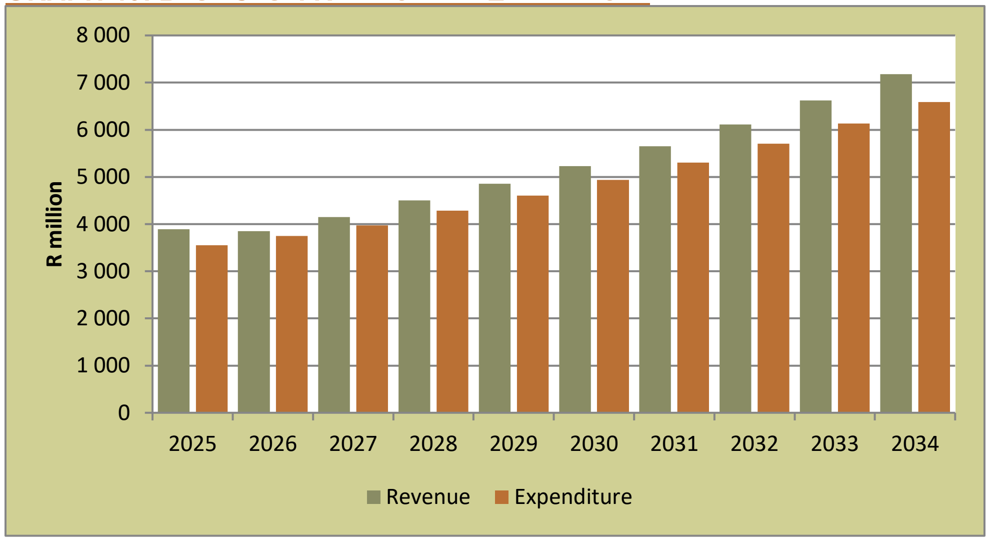
GRAPH 39: AVERAGE HOUSEHOLD BILL (R)



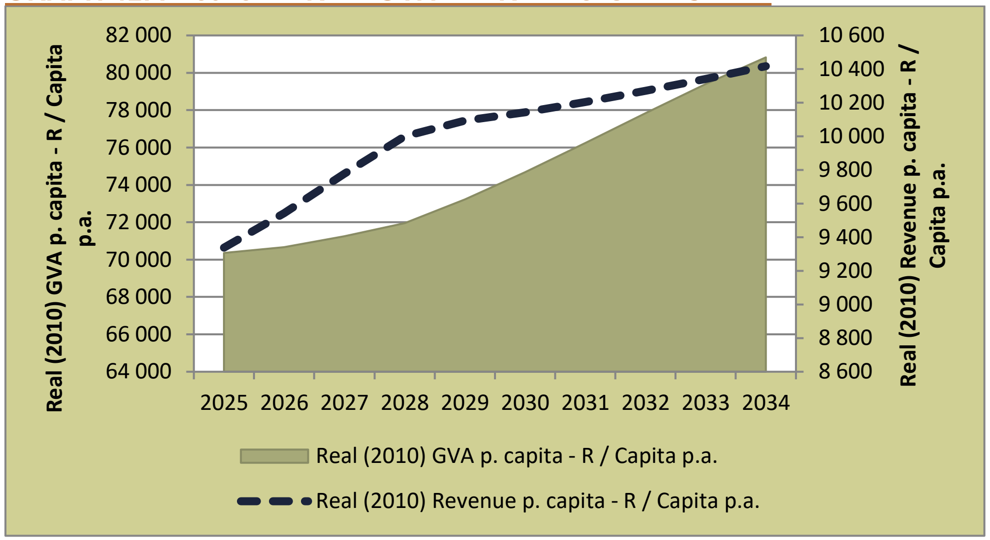
A comparison of the average household bill for the middle income and affordable income range of a selected number of municipalities in the Western Cape province (extracted from Budget Table: SA14) based on the 2024/25 tariffs, reveals that George LM features towards the very bottom of the range. Considering 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

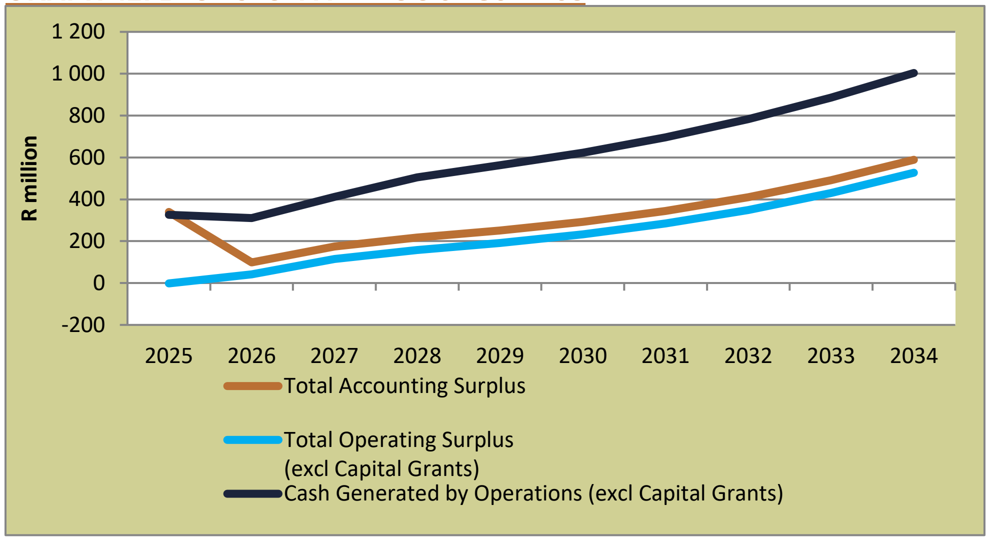


The Base Case estimates that, over the planning period, future nominal revenue (including capital grants) will grow at an average rate of 7.2% p.a. This growth in revenue includes: (i) tariff increases, (ii) increased sales and (iii) additional revenue sources. Future nominal expenditure is estimated to grow at a comparatively higher rate of 8.3% over the same period. It must be stated that this is heavily impacted by the reduction in capital grant funding in FY2025/26. For the period FY2025/26-FY2033/34, the average growth rates for revenue and expenditure are 8.1% and 7.3% respectively.

GRAPH 42 below illustrates that operating surpluses are forecast to be posted from FY2025/26 onwards. The operating deficits are impacted by higher than budgeted forecasts for debt impairment, bulk purchases and depreciation. Looking at revenue, electricity revenue will remain the predominant revenue item, with a contribution of 34.4% p.a. forecast. This is followed by property rates with a forecast contribution of 12.8% p.a. On the expenditure side, electricity bulk purchases will remain the predominant expenditure item, with a contribution of 22.5% p.a. Staff costs (19.9%) & contracted services (18.7%) reflect an employee related expenditure profile that pushes the upper limits of affordability in terms of the NT maximum norm of 40%. This must be closely monitored and savings realised where possible.

Real GVA per capita is forecast to increase over the planning period, from R70 311 in 2024 to R80 826 in 2034 for a total increase of 14.9%. Real revenue per capita is forecast to increase year-on-year over the planning period from R8 093 in 2024 to R10 417 in 2034 for an increase of 28.7%. 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



George has consistently been able to generate cash from operations. This has underpinned a sustained healthy liquidity position. As illustrated in GRAPH 42 above, cash is forecast to be generated by operations throughout the planning period. George is forecast to generate R6.11 billion in cash from operations over the planning period, exclusive of capital grants. This is underpinned by a healthy collection rate assumption of 96%. The Base Case presents a sustainable liquidity position that is achieved whilst the capital investment programme remains accelerated. Further improvements in the collection rate beyond the Base Case recommendation would only bolster the municipality's liquidity and cash positions thus unlocking further borrowing capacity and thus, further capital investment.

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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 12 126 million
Total 10-year CAPEX **Affordability:**	=	R 8 040 million

MTREF Capital Funding Mix

George's Adjustment Budget expects a capital budget amounting to R3 222 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	**458**	341	57	60
Financing	**1 647**	494	647	506
Cash Reserves and Funds	**1 117**	498	410	209
Total	**3 222**	**1 333**	**1 114**	**775**

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

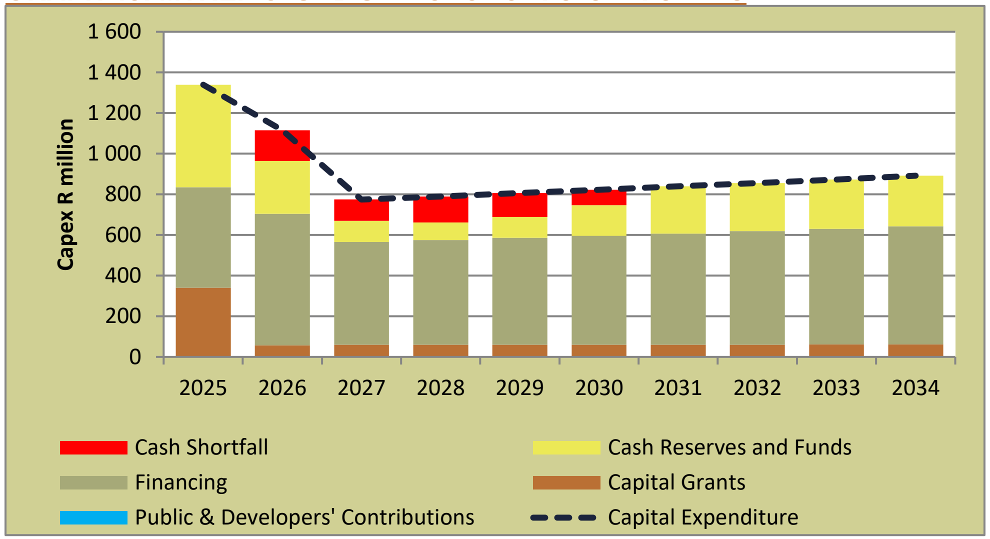
Source	Rm	%
Public & Developers' Contributions	0	0%
Capital Grants	880	11%
Financing	2 945	37%
Cash Reserves and Funds	4 216	52%
Cash Shortfall	0	0%
Capital Expenditure	**8 040**	**100%**

George has historically placed heavy reliance on capital grants and own cash resources to fund the capital expenditure programme, with 57% and 32% of funding respectively emanating from these 2 sources. The utilisation of own cash resources to fund capital expenditure has accelerated since FY2021/22. The municipality accelerated the borrowing programme in recent years, particularly in FY2023/24 during which a loan to the value of R215.9 million was undertaken. 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.

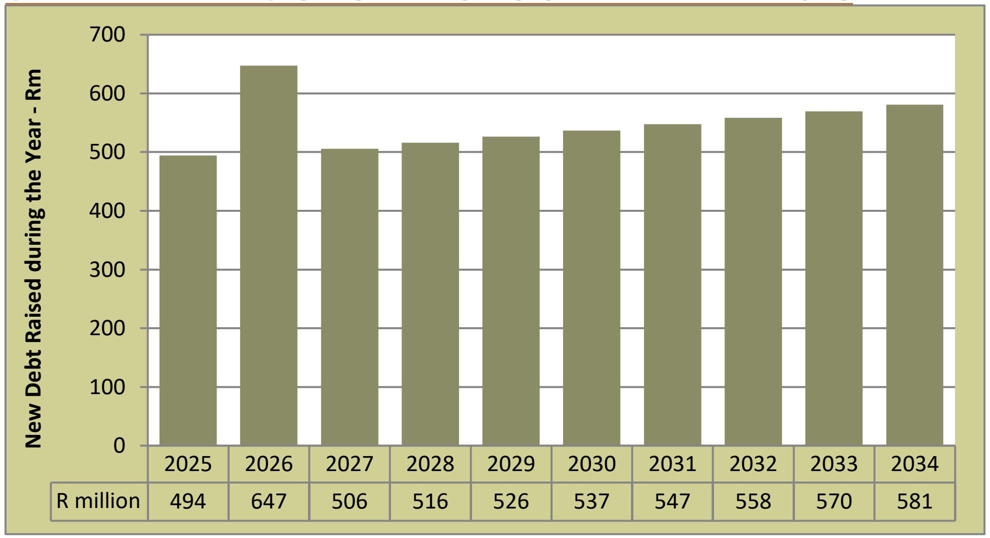
The accelerated grant funding received in recent years for the water and transport infrastructure projects is set to end in FY2025/26. This means that should the municipality wish to maintain similar levels of capital investment as recent years, the undertaking of borrowings and utilisation of own cash reserves must increase. The sustainability of this was tested and deemed unaffordable over the long-term, as evidenced in GRAPHS 43, 47 & 48. As such, the Base Case presents a reduced borrowing programme that promotes a sustainable debt profile. The Base Case capital investment programme reflects a notable acceleration on the historic capital investment programme, particularly prior to the increase in grant funding in FY2021/22.

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

GRAPH 43: MTREF CASE DISTRIBUTION OF FUTURE FUNDING



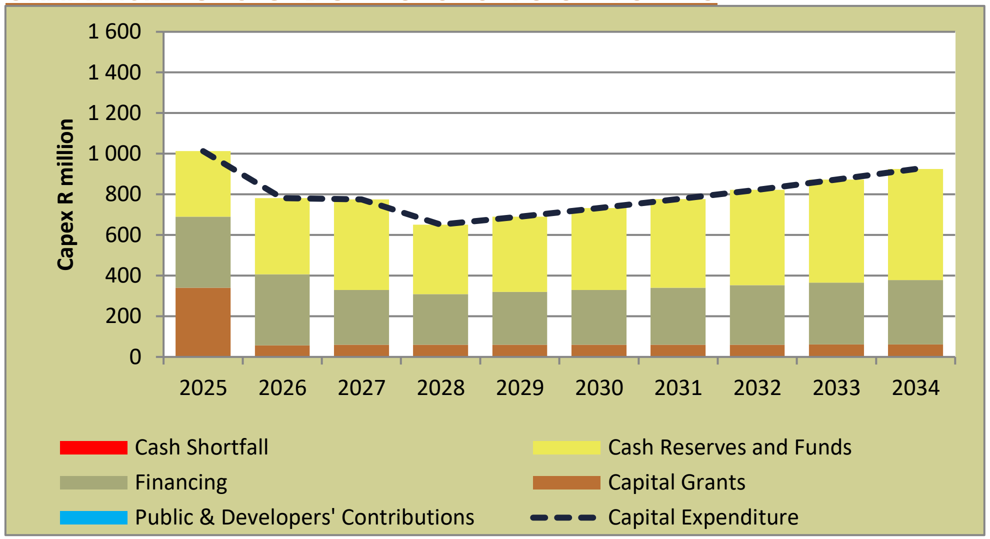
GRAPH 44: MTREF CASE ESTIMATE OF FUTURE EXTERNAL FINANCING



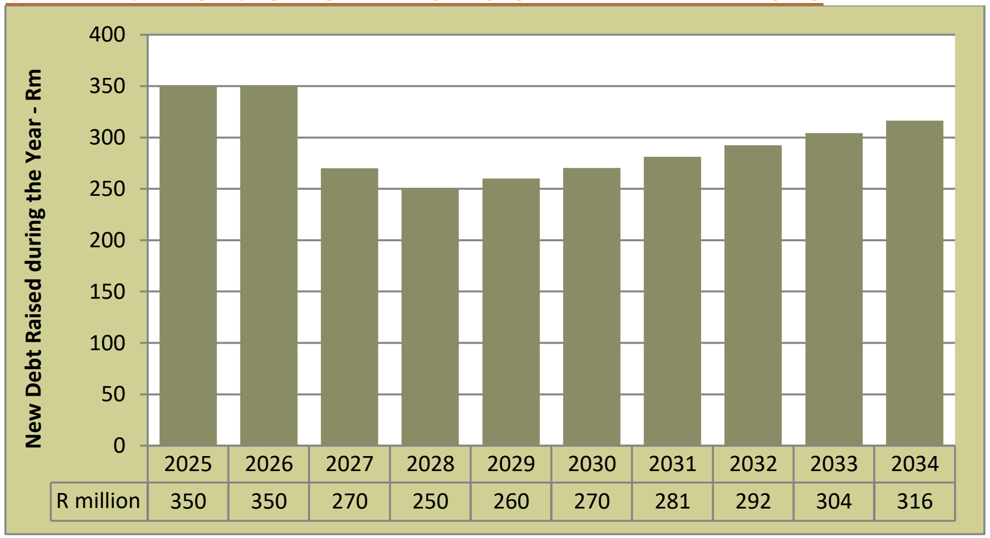
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
R million	494	647	506	516	526	537	547	558	570	581

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



	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
R million	350	350	270	250	260	270	281	292	304	316

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	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public & Developers' Contributions	0	0	0	0	0	0	0	0	0	0	0
Capital Grants	880	341	57	60	59	59	59	60	61	61	62
Financing	5 482	494	647	506	516	526	537	547	558	570	581
Cash Reserves and Funds	2 169	505	259	104	87	104	151	232	237	243	248
Cash Shortfall	577	0	151	105	128	117	76	0	0	0	0
Capital Expenditure	**9 107**	1 340	1 115	775	790	806	823	839	856	873	891

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

R'm	Total	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public & Developers' Contributions	0	0	0	0	0	0	0	0	0	0	0
Capital Grants	880	341	57	60	59	59	59	60	61	61	62
Financing	2 945	350	350	270	250	260	270	281	292	304	316
Cash Reserves and Funds	4 216	322	375	446	342	371	402	435	470	507	547
Cash Shortfall	0	0	0	0	0	0	0	0	0	0	0
Capital Expenditure	8 040	1 013	782	776	651	691	732	776	823	872	925

LIQUIDITY AND CAPITAL REPLACEMENT RESERVE

The minimum liquidity levels cater for unspent conditional grants, cash-backed reserves, short-term provisions and 1-month's working capital (operating expenditure). The bank balance is forecast to decline over the MTREF period, owing to reduced financial performance and a high degree of own cash utilisation to fund capital investment. The minimum liquidity requirement of 1-month's opex will not be met in FY2026/27 & FY2027/28. Thereafter, year-on-year improvements are forecast for the remainder of the planning period. While the extent of own cash utilised to fund capex increases over the planning period, this does not hinder the improvement of the bank balance as this is underpinned by the improved collection rate and strengthened financial performance.

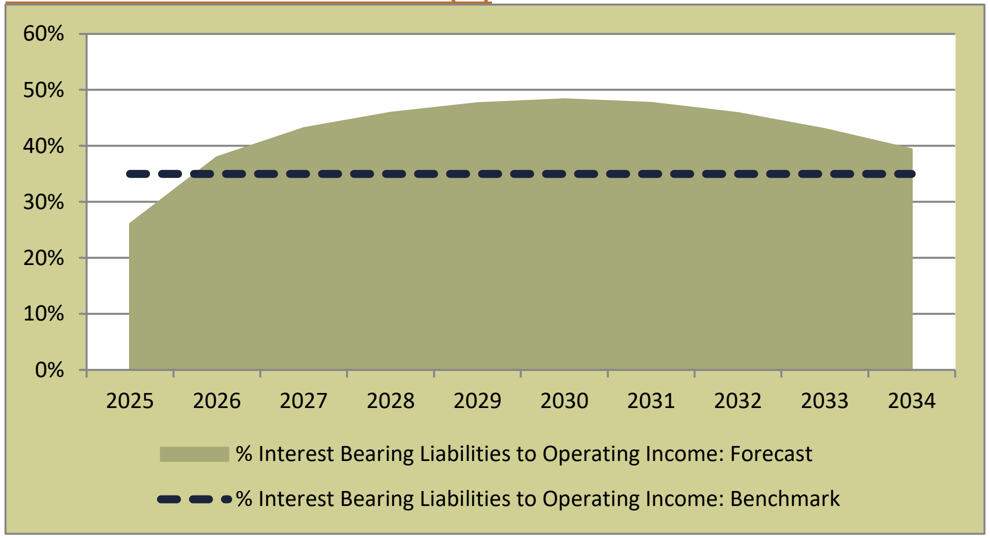
GEARING

The MTREF Case includes the borrowing programme as presented in the Adjustment Budget with assumed annual growth thereafter being 2%. 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, by considerable margins (GRAPHS 47 & 48). The gearing ratio is forecast to peak at 48.3% in FY2029/30 before reducing to 39.4% by the end of the planning period. The debt service to total expense ratio is forecast to peak at 13.3% in FY2033/34. This impact of this is reflected in the forecast lack of liquidity.

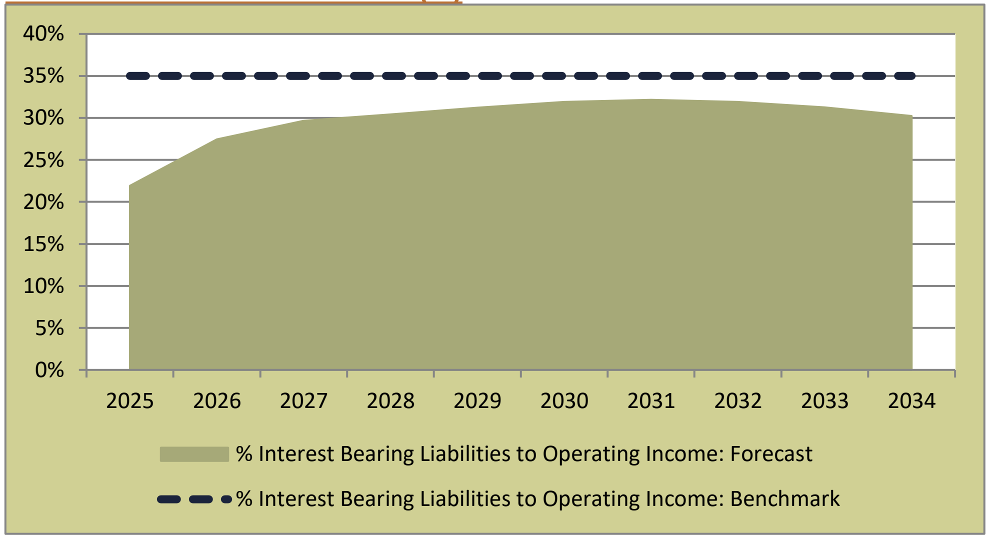
The Base Case thus presents a significantly reduced borrowing programme. This, of course, necessitates a reduced capital investment programme as well. It is our view that the Adopted Capital Budget is overly aggressive, particularly in the absence of increased grant funding. The Base Case borrowing programme was compiled with the aim of sufficiently leveraging the debt profile in a sustainable manner. Further to this, the Base Case borrowing programme aims to exploit the interest rate cutting cycle through employing a more staggered approach i.e. borrowing smaller amounts more consistently. This will enable the debt indicators to remain at sustainable levels, whilst taking advantage of scope to maintain a high level of capital investment after capital grant funding has returned to normal levels. The affordability of the debt profile is reflected in GRAPHS 49 & 50 below, which illustrate that the gearing and debt service to total expense ratios will remain below their respective maximum limits throughout the planning period.

As mentioned, the reduced borrowing programme necessitates a reduction in capital investment over the planning period. However, the Base Case capital investment programme reflects an annual average capital outlay of R804.0 million. This is a notable acceleration on the historic annual average of R395.4 million, which in itself is inflated due to the increased grant funding in recent years. Given the overall Base Case outcome, the capital investment programme is deemed affordable. It must be stated that the affordability of the Base Case capital investment programme is dependent on the achievement of the Base Case assumptions, the collection rate in particular. It would be beneficial for the municipality to consider breaking down the undertaking of borrowings into different periods of the year to fully take advantage of the interest rate cutting cycle.

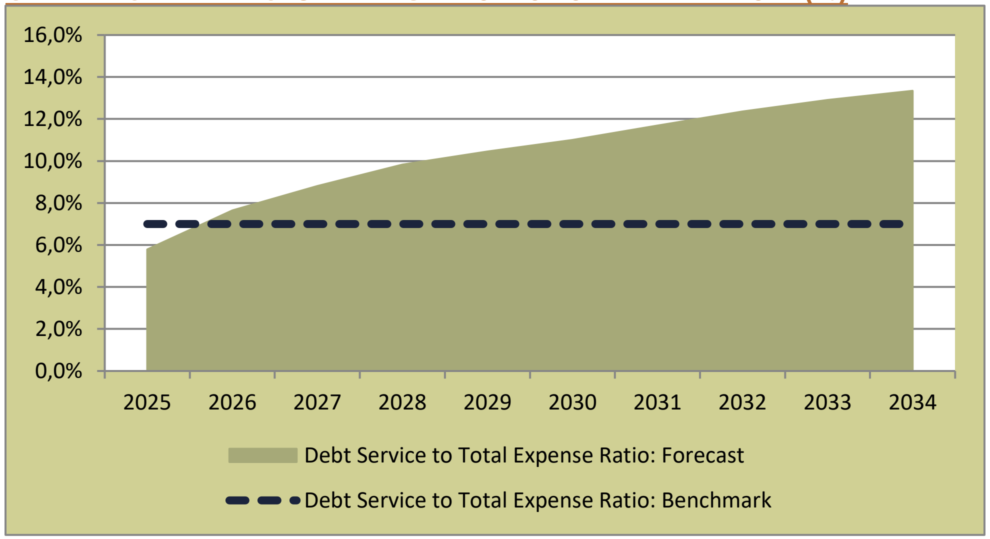
GRAPH 47: MTREF CASE GEARING (%)



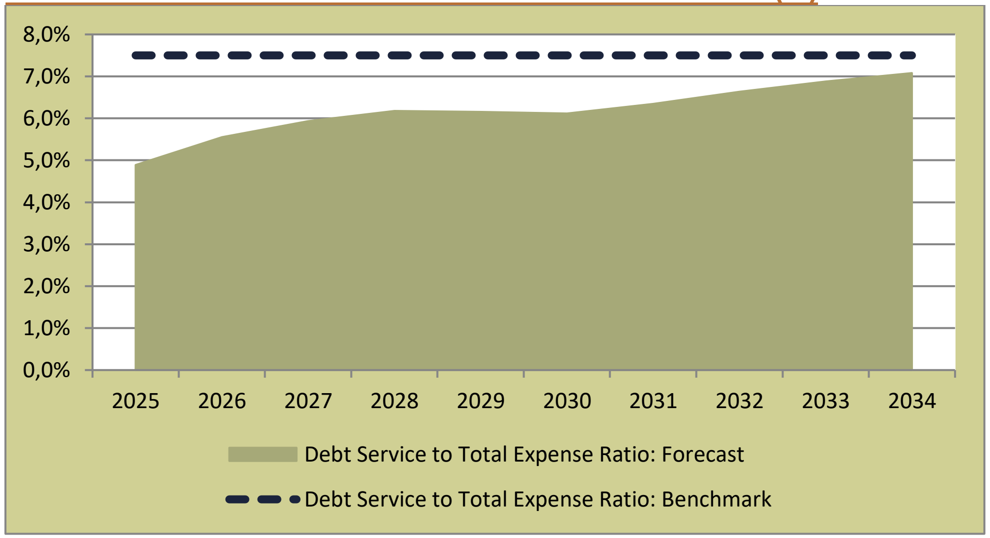
GRAPH 49: BASE CASE GEARING (%)



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



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



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SCENARIOS ANALYSIS

Considering our analysis of the Adjustment 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 FY2025/26.

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

   1.1. A negative scenario reflecting the impact of the municipality failing to improve upon the current collection rate of 93.6%. All other input variables are assumed to be consistent with the Base Case.

SCENARIO 1: COLLECTION RATE SENSITIVITY ANALYSIS

The environment in which the municipality must operate is challenging. Factors such as the high inflationary environment, resultant high interest rates a burdensome cost of living crisis has put additional pressure on households to service their municipal bills. This has a direct impact on the municipality's ability to generate revenue and cash (MRRI). This was possibly a cause for the reduced collection rate observed during FY2022/23. The municipality has done well to increase the collection rate during FY2023/24. While it appears that we are beginning to move out of the high inflationary environment and are possibly moving into an expansionary monetary policy cycle, households remain under pressure due to the high cost of living. As such, it is a high possibility that the Base Case collection rate of 96% may not be achieved. Should this be the case, the Base Case outcomes will be impacted. As such, this scenario assesses the impact of the municipality failing to achieve the Base Case collection rate of 96%, with the FY2023/24 collection rate of 93.6% maintained throughout the planning period.

The reduced collection rate will result in a marked reduction of R886 million in cash generated by operations over the planning period. This will translate into a notable reduction in the municipality's bank balance, as evidenced in the minimum liquidity requirements not being met throughout the planning period. Additionally, the liquidity ratio is forecast to take a knock, with the planning period end liquidity ratio of 1.2:1 well below the Base Case forecast. A further complication of this is reflected in the capital funding mix graphs below. This illustrates that the Base Case capital investment programme will prove unaffordable, with cash shortfalls forecast from FY2026/27 onwards for a total shortfall of R1.44 billion This will mean the capital investment programme will need to be reduced considerably.

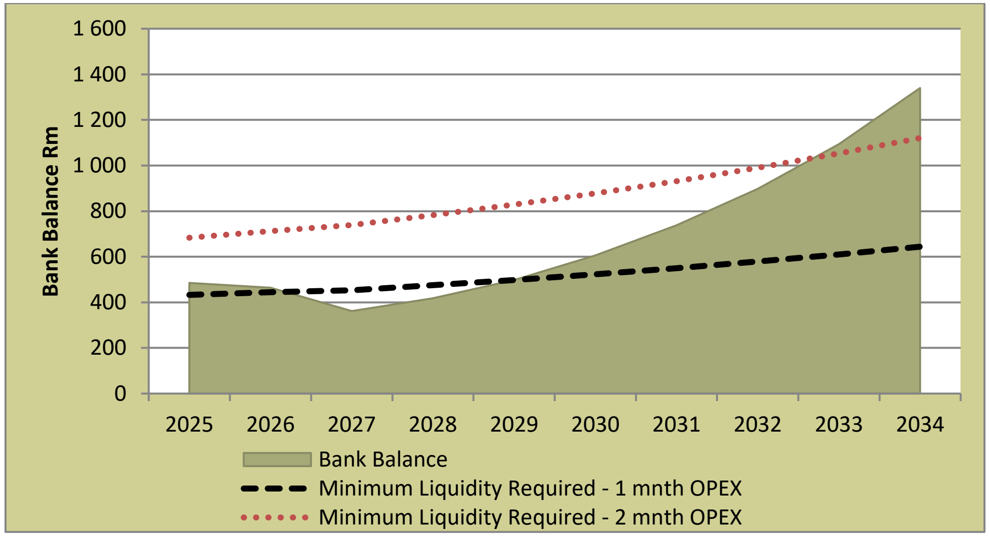
The scenario outcomes highlight the critical nature of improving the collection rate up to 95%. The Base Case outcomes are dependent on the achievement of this and failure to do so will significantly impact the municipality's financial position.

TABLE 15: SCENARIO 1: COLLECTION RATE SCENARIO

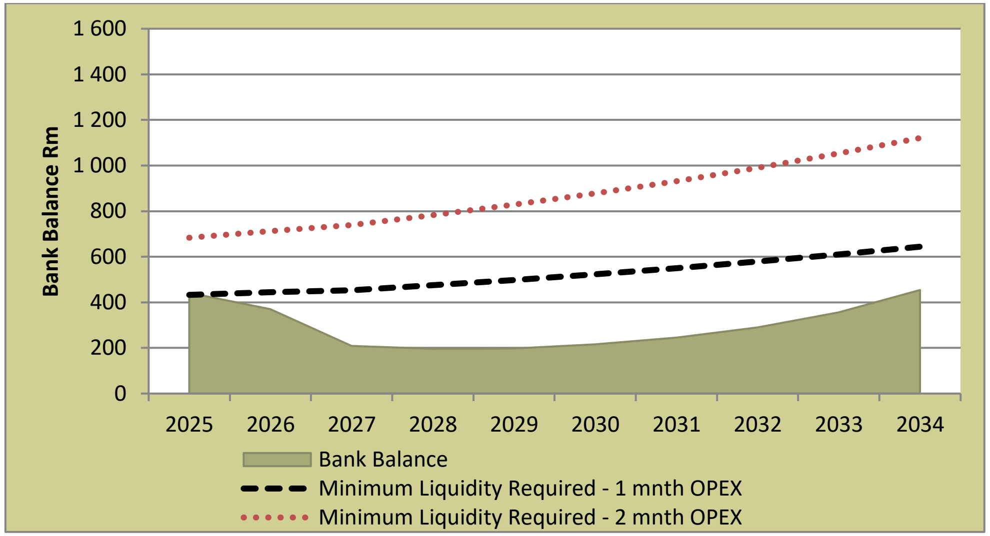
Outcome	Base Case	Reduced Collection Rate
Average annual % increase in Revenue	7,2%	7,1%
Average annual % increase in Expenditure	8,3%	8,5%
Accounting Surplus accumulated during Planning Period (Rm)	R 3 207	R 2 321
Operating Surplus accumulated during Planning Period (Rm)	R 2 327	R 1 441
Cash generated by Operations during Planning Period (Rm)	R 6 108	R 5 222
Average annual increase in Gross Consumer Debtors	11,4%	14,9%
Capital investment programme during Planning Period (Rm)	R 8 040	R 8 040
External Loan Financing during Planning Period (Rm)	R 2 945	R 2 945
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 1 340	R 454
No of Months Cash Cover at the end of the Planning Period (Rm)	2,8	1,0
Liquidity Ratio at the end of the Planning Period	2.3 : 1	1.2 : 1
Gearing at the end of the Planning Period	30,2%	30,5%
Debt Service to Total Expense Ratio at the end of the Planning Period	7,1%	7,0%

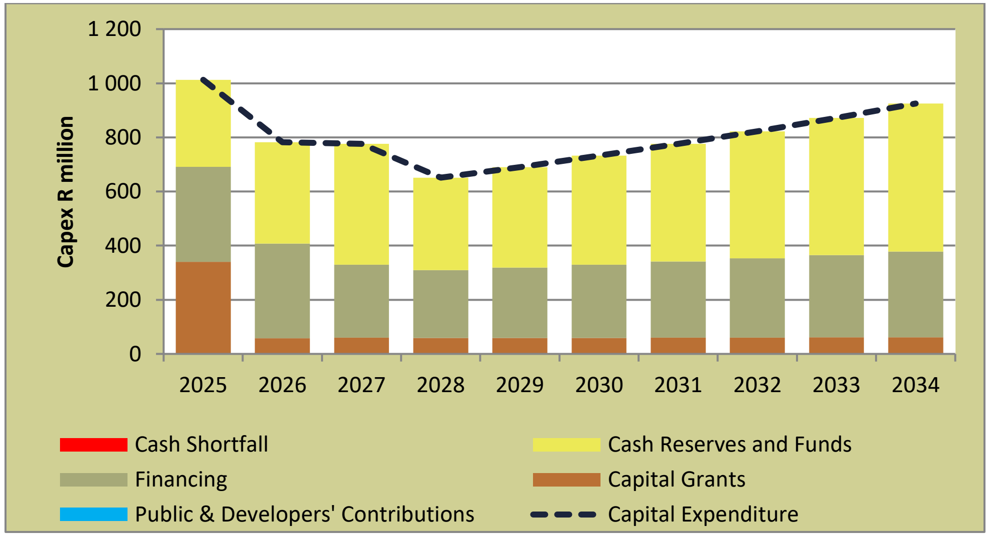
Scenario 1: Collection Rate Sensitivity Analysis

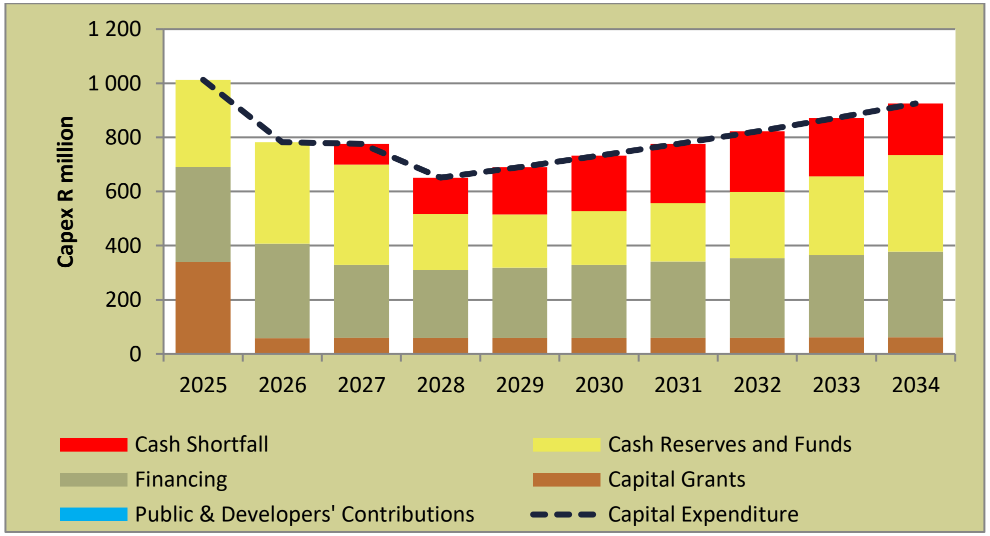
Base Case Scenario



Reduced Collection Rate Scenario







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	2025	2027	2029	2031	2033	2034	COMMENTS
FINANCIAL POSITION									
ASSET MANAGEMENT									
R29	Capital Expenditure / Total Expenditure	10% - 20%	22,2%	16,3%	13,0%	12,8%	12,5%	12,3%	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%	4,8%	4,8%	4,8%	4,9%	4,9%	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		20,6%	10,9%	10,3%	9,6%	9,2%	9,0%	The Collection Rate is assumed to improve to 96% within 3 years.
5	Payment Ratio / Collection Rate	95%	94,1%	96,0%	96,0%	96,0%	96,0%	96,0%	
LIQUIDITY MANAGEMENT									
R49	Cash Coverage Ratio (excl Working Capital)		2.7 : 1	2.2 : 1	3 : 1	4.4 : 1	6.5 : 1	8 : 1	The bank balance will meet the minimum liquidity requirement from FY2028/29. The liquidity will reach a healthy 2.3:1 by the end of the planning period.
R50	Cash Coverage Ratio (incl Working Capital)		1.1 : 1	0.8 : 1	1 : 1	1.3 : 1	1.8 : 1	2.1 : 1	
R51	Cash Surplus / Shortfall on Minimum Liquidity Requirements		R 44,8 m	-R 95,1 m	-R 4,5 m	R 182,7 m	R 478,3 m	R 689,5 m	
R1	Liquidity Ratio (Current Assets: Current Liabilities)	1:1.5 - 1:2.1	1.3 : 1	1.1 : 1	1.3 : 1	1.6 : 1	2 : 1	2.3 : 1	
LIABILITY MANAGEMENT									
R45	Debt Service as % of Total Operating Expenditure	6% - 8%	4,9%	5,9%	6,2%	6,3%	6,9%	7,1%	The external financing programme is forecast to remain within the recommended benchmarks, beyond the MTREF period.
R6	Total Debt (Borrowings) / Operating Revenue	45%	21,9%	29,7%	31,2%	32,2%	31,3%	30,2%	
R7	Repayment Capacity Ratio		1,37	3,63	3,31	3,25	2,89	2,64	
R46	Debt Service Cover Ratio (Cash Generated by Operations / Debt Service)		3.8 : 1	2 : 1	2.2 : 1	2.2 : 1	2.2 : 1	2.3 : 1	

		N.T. NORM	2025	2027	2029	2031	2033	2034	COMMENTS
SUSTAINABILITY									
	Net Financial Liabilities Ratio	< 60%	22,5%	33,1%	32,1%	29,4%	24,1%	20,4%	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%	-0,1%	2,8%	4,0%	5,1%	6,6%	7,4%	
	Asset Sustainability Ratio	> 90%	46,9%	21,1%	20,4%	20,5%	20,7%	20,9%	
FINANCIAL PERFORMANCE									
EFFICIENCY									
R42	Net Operating Surplus / Total Operating Revenue	>= 0%	-0,1%	2,8%	4,0%	5,1%	6,6%	7,4%	The net operating surplus is above 0% from FY2026/27 and improves to 7.4% by 2034, 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		22,9%	25,6%	27,6%	27,6%	27,6%	27,6%	
R44	Water Surplus / Total Water Revenue		99,8%	99,8%	99,8%	99,8%	99,8%	99,8%	
REVENUE MANAGEMENT									
R8	Increase in Billed Income p.a. (R'm)		R 265,3 m	R 233,4 m	R 221,8 m	R 246,3 m	R 292,9 m	R 317,8 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	13,7%	9,7%	7,7%	7,4%	7,6%	7,7%	
R12	Operating Revenue Growth %	CPI	18,7%	7,8%	8,0%	8,1%	8,4%	8,5%	
R47	Cash Generated by Operations / Own Revenue		23,4%	14,0%	15,6%	16,3%	17,3%	17,9%	
R48	Cash Generated by Operations / Total Operating Revenue		18,8%	11,5%	13,0%	13,5%	14,4%	15,0%	

		N.T. NORM	2025	2027	2029	2031	2033	2034	COMMENTS
EXPENDITURE MANAGEMENT									
	Creditors Payment Period	30	47	49	46	39	31	27	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 but must be monitored.
R30	**Contribution per Expenditure Item: Staff Cost (Salaries, Wages and Allowances)**	25% - 40%	18,8%	19,8%	20,2%	20,1%	20,1%	20,1%	
	Contribution per expenditure item: Contracted Services	2% - 5%	18,0%	18,5%	18,9%	18,9%	18,8%	18,8%	
GRANT DEPENDENCY									
R10	**Total Grants / Total Revenue**		26,7%	18,9%	18,2%	17,7%	17,2%	16,9%	The municipality can generate funds from its own sources and is not overly reliant on grants. This is positive to note, as the tightening of the national fiscus will result in a declining reliance on transfers from other spheres of government.
R11	**Own Source Revenue to Total Operating Revenue**		80,3%	82,3%	82,9%	83,2%	83,6%	83,8%	
	Capital Grants to Total Capital Expenditure		33,7%	7,7%	8,6%	7,7%	7,0%	6,7%	

CONCLUSION

OUTCOME OF THE INDEPENDENT FINANCIAL ASSESSMENT

George's financial performance improved during FY2023/24, with an operating surplus (excluding capita grants) of R32.1 million posted (FY2022/23: R0.6 million). The strong ability to generate cash from operations continued in FY2023/24, with R792.7 million in cash generated by operations (excluding capital grants). This was underpinned by an improved collection rate (93.6% vs 92.0% in the prior year) as well as the improved financial performance.

Electricity services revenue remained the predominant income contributor in FY2023/24, accounting for 31% of revenue in the current year. Electricity services revenue rebounded from the load shedding induced decline observed in FY2022/23. Other notable revenue streams include property rates and conditional operating grants.

Looking at expenditure, electricity bulk purchases (18%), contracted services (18%) and staff costs (17%) were the main expenditure items during FY2023/24. The combined contribution of staff costs and contracted services totalled 35%, remaining below the maximum NT norm of 40%. This is indicative of an affordable employee related expenditure profile. Repairs and maintenance expenditure was reduced from the prior year, down to 4.7% of PPE & IP from 5.9% in the prior year.

Capital expenditure has increased rapidly since FY2021/22, owing to the water and transport projects that are underway or nearing completion. This continued in FY2023/24 with the capital outlay of R948.5 million a high for the review period. This was partly funded by an additional loan to the value of R215.9 million. This added notable leverage to the debt profile, with the gearing and debt service to total expense ratios of 16.8% and 4.7% respectively marked increases from the prior year. The debt profile remains affordable at current levels. However, the extent of borrowing included in the capital budget is forecast to prove unaffordable.

George has maintained healthy liquidity levels throughout the review period, although a declining trend has been observed in recent years. This has coincided with large balances of unspent grants at year end. These funds have by and large been rolled over, but this has resulted in the liquidity ratios appearing worse than they actually are. For instance, upon the removal of the unspent grants balance from current assets and current liabilities, the FYE2023/24 liquidity ratio of 1.34:1 improves to 1.78:1, a far truer reflection. The strength of the liquidity position is further emphasised by the posting of cash surpluses above the minimum liquidity requirements throughout the review period.

STRENGTHS

- Strong financial performance.
- Affordable debt profile.
- Ability to generate substantial cash from operations.
- Consistent cash surpluses above minimum liquidity requirements.

WEAKNESSES

- Sizable increase in creditors during FY2023/24.

Outcome of the Future Forecasts

An MTREF Case was developed utilising the unadjusted figures from the Adjustment 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 and borrowing 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 to be met within 3 years and maintained for the remainder of the planning period.
2. The model incorporated the increases in revenue and expenditure items as announced in the Adjustment 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 Adjustment Budget capital investment programme was reduced over the MTREF period and FY2027/28, as follows:
    - FY2024/25: R1 000 million (from R1 333 million)
    - FY2025/26: R780 million (from R1 114 million)
    - FY2026/27: R774 million (unchanged)
    - FY2027/28: R650 million (from R821 million)

   Assumed growth in capital investment beyond the MTREF period is 6% p.a.
6. The Adjustment Budget borrowing programme was reduced over the MTREF period and FY2027/28, as follows:
    - FY2024/25: R350 million (from R494 million)
    - FY2025/26: R350 million (from R647 million)
    - FY2026/27: R350 million (from R505 million)
    - FY2027/28: R270 million (from R526 million)
7. The annual borrowing under this scenario was adjusted to an average of **13-year** amortising loans at a fixed interest rate equal to 4.5% over forecast CPI in any given year. Assumed annual growth in borrowing beyond the MTREF period is 4%.
8. Repairs and maintenance expenditure was increased to 5% of PPE & IP.
9. Electricity and water distribution losses were maintained at their respective FY2023/24 levels.

The Base Case reflects a sustainable outcome. Financial performance is forecast to be initially poor in FY2024/25, while significant improvements are forecast thereafter. Cash is forecast to be generated by operations throughout the planning period. Liquidity will come under strain over the MTREF period but will recover and improve to a healthy liquidity ratio of 2.3:1 by the end of the planning period. The assumptions can be viewed as recommendations for the municipality to implement to promote long-term financial sustainability.

Sensitivity Analysis on the Collection Rate

The reduced collection rate scenario is forecast to result in a severe deterioration of liquidity compared to the Base Case. The minimum liquidity requirements will not be met throughout the planning period. Further to this, the Base Case capital investment programme will prove unaffordable. This will render further reductions in capital investment necessary.

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.

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
Statement of Financial Position

Model year											
Financial year (30 June)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
R thousands											
Non-current assets:	4 723 761	5 550 158	5 931 390	6 377 717	6 695 848	7 032 769	7 390 453	7 771 010	8 176 625	8 609 562	9 072 165
Property, plant and equipment	4 575 100	5 338 952	5 845 117	6 315 685	6 632 579	6 967 969	7 323 885	7 702 437	8 105 812	8 536 284	8 996 214
Intangible assets	585	13 309	15 078	16 248	17 485	19 016	20 784	22 789	25 029	27 493	30 167
Investment properties	143 745	143 186	143 024	142 863	142 863	142 863	142 863	142 863	142 863	142 863	142 863
Investments	–	–	–	–	–	–	–	–	–	–	–
Long-term receivables	95	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	4 236	(122 305)	(147 555)	(147 555)	(147 555)	(147 555)	(147 555)	(147 555)	(147 555)	(147 555)
Current assets:	1 042 325	881 736	862 223	762 618	828 227	918 207	1 036 928	1 181 534	1 355 726	1 568 931	1 831 929
Inventories	116 749	110 894	112 442	115 127	124 437	134 504	145 957	158 894	173 316	189 195	206 553
Trade and other receivables	325 822	285 303	285 303	285 303	285 303	285 303	285 303	285 303	285 303	285 303	285 303
Cash & Short term investments	599 754	485 538	464 479	362 188	418 487	498 400	605 668	737 337	897 107	1 094 433	1 340 073
TOTAL ASSETS	**5 766 086**	**6 431 894**	**6 793 613**	**7 140 335**	**7 524 075**	**7 950 975**	**8 427 381**	**8 952 544**	**9 532 351**	**10 178 492**	**10 904 094**
Municipal Funds:	4 412 098	4 751 110	4 849 659	5 024 213	5 241 113	5 492 354	5 784 503	6 128 747	6 538 884	7 030 008	7 618 819
Housing development fund & Other Cash Backed Reserves	33 870	28 592	21 314	14 039	14 039	14 039	14 039	14 039	14 039	14 039	14 039
Reserves (Not Cash Backed)	0	128 733	173 688	220 646	220 646	220 646	220 646	220 646	220 646	220 646	220 646
Accumulated surplus	4 378 228	4 593 786	4 654 657	4 789 527	5 006 427	5 257 668	5 549 818	5 894 062	6 304 198	6 795 322	7 384 133
Non-current liabilities:	769 244	1 013 517	1 265 749	1 424 348	1 584 416	1 757 808	1 929 596	2 092 580	2 244 120	2 381 192	2 500 672
Long-term liabilities (Interest Bearing)	445 788	690 061	942 293	1 100 892	1 236 326	1 379 238	1 515 831	1 638 893	1 745 850	1 833 860	1 900 109
Non-current provisions	323 456	323 456	323 456	323 456	348 090	378 570	413 766	453 688	498 269	547 333	600 563
Current liabilities:	584 744	667 268	678 205	691 775	698 547	700 814	713 281	731 216	749 348	767 293	784 604
Consumer deposits	45 628	50 656	54 597	58 748	63 263	66 858	70 563	74 506	78 696	83 144	88 004
Provisions	98 063	153 342	153 342	153 342	153 342	153 342	153 342	153 342	153 342	153 342	153 342
Trade and other payables	385 063	375 670	372 500	368 283	367 376	363 525	355 570	345 214	331 804	314 652	293 177
Bank overdraft	–	–	–	–	–	–	–	–	–	–	–
Current portion of interest bearing liabilities	55 990	87 600	97 767	111 402	114 566	117 088	133 807	158 154	185 507	216 154	250 080
TOTAL MUNICIPAL FUNDS AND LIABILTIES	**5 766 086**	**6 431 895**	**6 793 614**	**7 140 335**	**7 524 076**	**7 950 976**	**8 427 381**	**8 952 544**	**9 532 351**	**10 178 493**	**10 904 095**

Municipal Financial Model
Statement of Financial Performance

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**
R thousands											
Revenue											
Property rates	443 330	480 766	509 058	539 614	572 595	611 287	654 878	703 387	756 762	814 881	877 540
Service Charges	1 487 071	1 714 084	1 897 099	2 099 633	2 310 190	2 492 753	2 672 040	2 869 192	3 084 616	3 318 649	3 572 974
Service charges - electricity	934 156	1 122 159	1 260 803	1 415 885	1 575 146	1 703 149	1 822 070	1 952 526	2 094 673	2 248 606	2 415 491
Service charges - water	228 474	242 786	261 022	280 517	301 601	325 218	351 672	381 116	413 735	449 718	489 237
Service charges - waste water management	170 125	186 785	203 131	220 800	240 062	260 105	282 207	306 634	333 481	362 840	394 974
Service charges - waste management	154 316	162 355	172 143	182 432	193 381	204 281	216 091	228 917	242 728	257 485	273 272
Service charges - other	–	0	(0)	0	0	0	0	0	0	0	0
Rental from fixed assets	4 425	5 325	5 591	5 871	6 383	6 916	7 503	8 153	8 867	9 647	10 502
Interest	103 306	41 983	30 638	31 165	25 537	30 696	37 701	46 883	57 996	71 239	87 209
Interest earned from receivables	21 635	22 255	23 587	24 998	27 977	31 188	34 348	37 643	41 054	44 552	48 116
Dividends	–	–	–	–	–	–	–	–	–	–	–
Fines, penalties and forfeits	35 344	92 961	95 933	99 003	107 640	116 627	126 537	137 490	149 528	162 692	177 101
Licences and permits	1 779	5 149	5 407	5 677	6 165	6 768	7 467	8 265	9 163	10 160	11 254
Agency services	14 083	20 721	21 757	22 845	24 838	26 911	29 198	31 725	34 503	37 541	40 865
Transfer and subsidies - Operational	671 232	697 179	688 722	725 528	772 299	822 419	877 567	938 038	1 003 904	1 075 192	1 152 107
Other revenue	207 523	221 995	261 092	278 990	303 329	328 653	356 581	387 445	421 368	458 464	499 067
Gains on disposal of Assets	–	244 945	252 293	254 816	284 765	321 802	366 706	420 305	483 416	556 760	640 869
Revaluation of assets gain / (loss)	–	–	–	–	–	–	–	–	–	–	–
Total revenue before Capital Grants	2 989 728	3 547 362	3 791 177	4 088 140	4 441 718	4 796 021	5 170 527	5 588 527	6 051 177	6 559 776	7 117 604
Transfers and subsidies - capital (monetary allocations)	580 649	340 814	57 261	59 947	59 474	59 244	59 430	59 910	60 545	61 205	61 801
Public & developers contributions	–	–	–	–	–	–	–	–	–	–	–
Total Revenue after Capital Grants	3 570 377	3 888 176	3 848 438	4 148 087	4 501 191	4 855 266	5 229 957	5 648 437	6 111 722	6 620 982	7 179 405
Operating expenditure											
Employee related costs	644 896	827 645	858 507	905 481	964 318	1 029 631	1 101 665	1 180 643	1 266 746	1 360 096	1 460 742
Remuneration of councillors	25 564	31 120	32 365	33 660	35 360	37 246	39 319	41 576	44 014	46 629	49 412
Debt impairment	135 066	207 427	201 059	190 541	207 695	224 263	241 690	260 925	282 020	305 016	330 075
Depreciation and amortisation	226 759	236 148	273 836	304 001	333 106	353 610	374 424	395 609	417 235	439 374	462 108
Interest	89 127	99 461	120 636	138 097	153 233	168 735	184 833	202 730	220 031	236 055	250 382
Bulk purchases - electricity	715 566	864 951	954 465	1 052 728	1 139 742	1 232 365	1 318 416	1 412 815	1 515 673	1 627 060	1 747 819
Inventory Consumed	193 339	162 067	166 124	169 797	184 070	200 279	219 264	241 153	265 926	293 484	323 752
Repairs and maintenance	–	–	–	–	–	–	–	–	–	–	–
Contracted services	699 686	823 194	850 097	876 543	938 433	1 002 027	1 071 242	1 146 745	1 228 728	1 317 358	1 413 270
Transfers and subsidies	85 765	90 392	81 644	86 943	93 681	100 548	108 068	116 322	125 323	135 081	145 669
Other expenditure	140 963	156 645	157 035	161 080	173 564	186 286	200 219	215 511	232 187	250 266	269 884
Losses on disposal of Assets	1 290	50 114	54 123	54 664	61 089	69 034	78 667	90 165	103 704	119 438	137 481
Total Expenditure	2 958 021	3 549 164	3 749 889	3 973 533	4 284 291	4 604 025	4 937 807	5 304 193	5 701 586	6 129 858	6 590 595
Suplus/ (Shortfall) for the year	**612 355**	**339 012**	**98 549**	**174 554**	**216 900**	**251 241**	**292 149**	**344 244**	**410 136**	**491 124**	**588 811**

Municipal Financial Model
Cash Flow Statement

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
R thousands											
Cash flows from Operating Activities											
Suplus/Deficit for the year including Capital Grants	612 355	339 012	98 549	174 554	216 900	251 241	292 149	344 244	410 136	491 124	588 811
Suplus/Deficit for the year excluding Capital Grants & Contributions		(1 802)	41 288	114 607	157 427	191 997	232 720	284 334	349 591	429 919	527 010
Capital Grants & Contributions		340 814	57 261	59 947	59 474	59 244	59 430	59 910	60 545	61 205	61 801
Adjustments for non-cash items:											
Depreciation, amortisation and impairment loss	226 759	236 148	273 836	304 001	333 106	353 610	374 424	395 609	417 235	439 374	462 108
Revaluation on investment property (gain) / loss	–	–	–	–	–	–	–	–	–	–	–
Increase / (Release from) current provisions & non-interest bearing liabilities	–	55 279	–	–	–	–	–	–	–	–	–
Increase / (Release from) other non-current provisions & non-interest bearing liabilities	–	–	–	–	24 634	30 480	35 195	39 922	44 582	49 063	53 230
(Increase) / Release from non-current interest bearing assets	–	–	–	–	–	–	–	–	–	–	–
Capitalised interest	–	–	(0)	(0)	(0)	–	–	(0)	(0)	(0)	0
Operating surplus before working capital changes:	839 114	630 439	372 384	478 555	574 640	635 332	701 768	779 775	871 952	979 562	1 104 149
Change in W/C Investment	–	36 981	(4 718)	(6 902)	(10 217)	(13 917)	(19 409)	(23 292)	(27 833)	(33 030)	(38 833)
(Increase)/decrease in inventories	–	5 855	(1 547)	(2 685)	(9 310)	(10 066)	(11 454)	(12 937)	(14 422)	(15 879)	(17 357)
(Increase)/decrease accounts receivable	–	40 519	0	(0)	(0)	(0)	(0)	(0)	0	0	0
Increase/(decrease) in trade payables	–	(9 393)	(3 171)	(4 217)	(907)	(3 850)	(7 956)	(10 355)	(13 411)	(17 151)	(21 475)
Net cash flow from Operating activities	839 114	667 419	367 667	471 652	564 423	621 415	682 359	756 483	844 119	946 532	1 065 316
Cash flows from Investing Activities											
Capital expenditure	–	(1 012 724)	(781 770)	(775 739)	(651 237)	(690 531)	(732 108)	(776 166)	(822 849)	(872 311)	(924 711)
Decrease/(Increase) in non-current receivables	–	(50 381)	126 541	25 250	–	–	–	–	–	–	–
(Additions) / Disposals of investment property	–	559	162	162	–	–	–	–	–	–	–
Net cash flow from Investing activities	–	(1 062 545)	(655 067)	(750 327)	(651 237)	(690 531)	(732 108)	(776 166)	(822 849)	(872 311)	(924 711)
Cash flows from Financing Activities											
New loans raised	–	350 000	350 000	270 000	250 000	260 000	270 400	281 216	292 465	304 163	316 330
Loans repaid	–	(74 118)	(87 600)	(97 767)	(111 402)	(114 566)	(117 088)	(133 807)	(158 154)	(185 507)	(216 154)
(Decrease) / Increase in consumer deposits	–	5 028	3 941	4 152	4 515	3 595	3 704	3 943	4 190	4 449	4 860
Net cash flow from Financing activities	–	280 910	266 341	176 385	143 113	149 029	157 016	151 352	138 500	123 105	105 036
Change in Cash	839 114	(114 216)	(21 060)	(102 291)	56 299	79 913	107 268	131 669	159 770	197 326	245 641
Cash/(Overdraft), Beginning		599 754	485 538	464 479	362 188	418 487	498 400	605 668	737 337	897 107	1 094 433
Cash/(Overdraft), Ending	**599 754**	**485 538**	**464 479**	**362 188**	**418 487**	**498 400**	**605 668**	**737 337**	**897 107**	**1 094 433**	**1 340 073**

Prepared by INCA Portfolio Managers

Tel: +27 [0]11 202 2210
Fax: +27 [0]11 202 2231

Unit F14, Pinewood Square
Pinewood Office Park
33 Riley Road
Woodmead