INCA
Portfolio Managers

Bitou Municipality

Long-Term Financial Plan – ***Update 2023***

Prepared by
INCA Portfolio Managers
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REPORT OVERVIEW – INTRODUCTION AND BACKGROUND

The Bitou Municipality appointed INCA Portfolio Managers in 2014 to develop a Long-Term Financial Plan. The deliverable of that assignment was a report entitled *Bitou; Long-Term Financial Plan: 2014/15 – 2023/24*; July 2014. The initial report was updated in 2015 and 2016. A new Long-Term Financial Plan was developed in 2022. This 2023 update aims to update the LTFP based on the latest available information and report on the findings.

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

A summary of the demographic-, economic- and household infrastructure perspective was updated with the latest available information as published by S&P Global Market Intelligence. The historic financial analysis was updated with the information captured in the municipality's audited financial statements of 30 June 2023. IPM's Long-Term Financial Model (latest and updated web-version) was populated and run with this latest information, and the outcome thereof is reflected in this report. In particular, the model was calibrated against the municipality's audited financial statements as well as the MTREF for the 3 years from 2023/2024 to 2025/2026.

For this update, a review of the Asset Register, or all the documents normally considered when the full LTFP is compiled, (viz. IDP, Master Plans, etc.) was not undertaken. The conclusions reached in this report are complimentary to the recommendations made in the LTFP and previous update reports.

ABBREVIATIONS USED

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

CONTENTS

KEY FINDINGS AND CONCLUSIONS DRAWN FROM THE 2023 LTFP UPDATE

DEMOGRAPHIC, ECONOMIC AND HOUSEHOLD INFRASTRUCTURE

- Bitou’s economy has exhibited sluggish growth in recent years. The economy has yet to fully recover from the severe economic contraction of 6.45% in 2020. GVA growth of 2.81% and 1.90% in 2021 and 2022 respectively highlights this fact. Population growth of 2.27% in 2022 (2021: 2.16%) signifies a reversal of the declining trend in population growth observed over the review period.

- Comparison of the 5-year average economic and population growth rates reveals that the population has grown at a considerably faster pace than the economy over the last 5 years. The population has grown at a rate of 2.66% p.a. over the last 5 years, while the economy has contracted at an average rate of 0.43% p.a. over the same period. This effectively results in an impoverishment of the local populace.

- Unemployment in Bitou remains high despite the decline observed during 2022. The unemployment rate dropped to 34.1% in 2022 from 34.9% in the prior year. This exceeds the district, provincial and national averages. 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. Scrutiny of the employment figures reveals that trade (22.5%) remains the predominant provider of employment opportunities in Bitou, followed by finance (18.2%) and community services (16.8%).

- The Tress Index of 45.99 indicates a reasonably diversified economy underpinned by primarily three sectors: Trade (22.0%), finance (21.7%) and community services (19.4%). These dominant sectors contributed approximately 63.1% to economic output in 2022.

- Tourism remains a vital component of Bitou’s economy, as evidenced by the contribution to GVA of 29.96% in 2022. Tourism spend increased by 13.1% to a total spend of R2.19 billion in 2022, while the number of trips increased by 24.0% to a total of 98 653 trips in 2022.

- Household formation in Bitou remains incredibly high at 33.0% since 2013. Many of the additional households are of indigent status, further straining the municipality’s finances and service delivery. Despite the rapid rate of household formation, Bitou has however managed to improve access to municipal services over the review period, as evidenced by the improvement of the infrastructure index to 0.86 in 2022 from 0.82 in 2013.

- Approximately 28.1% of households fall below the Equitable Share Bracket, while 86.1% of households receive a level of service above the RDP level of service. Households that fall below the Equitable Share Bracket provide an indication as to the number of indigent households within the municipality.

HISTORIC FINANCIAL ASSESSMENT

The historical analysis shows:

- Bitou's liquidity position improved during the year, with the liquidity ratio improving to 1.33:1 at the current year end from 1.09:1 in the prior year. The municipality's unencumbered cash and cash equivalents of R95.1 million as at FYE2022/23, was insufficient to cover the minimum liquidity requirement of R134.1 million, resulting in a cash shortfall of R39.0 million.

- Financial performance saw a marked improvement during FY2022/23, with the operating surplus (excluding capital grants) increasing from R3.5 million in FY2021/22 to R43.2 million in the current year. Electricity services remained the predominant revenue item, accounting for 25% of revenue in FY2022/23. Staff costs remained the predominant expenditure item, accounting for a third of operating expenditure in the current year.

- Contracted services declined significantly during FY2022/23, to R72.8 million. This translates to a contribution to expenditure of 9%. When considered together with staff costs (33%), the combined contribution of 42% casts doubt about the affordability of Bitou's employee related expenditure. While the decline is positive to note, further reductions may be necessary.

- The municipality maintained its collection rate at 83.2% in the current year. This remains relatively low. The municipality must endeavour to improve the payment ratio closer to 90% as a starting point. Strong financial performance and diligent working capital management however resulted in an increase in cash generated by operations from R24.9 million as at FYE2021/22 to R65.8 million at the current year end.

- The electricity surplus margin improved to 22.6% in FY2022/23, up from 20.5% in the prior year. Electricity distribution losses declined from 18.88% in FY2021/22 to 15.25% in FY2022/23, remaining above the recommended norm range as per NT. Water distribution losses declined marginally to 35.85% in FY2022/23 from 37.71% in the prior year. This remains very high and must be curtailed as a priority.

- Total grants received (R192.5 million) constituted 22% of total revenue (R876.6 million) in FY2022/23.

- Gearing and debt-service to total operating expenditure ratios were 12.0% and 3.2% respectively, indicative of an affordable debt profile.

- Repairs and maintenance expenditure as a percentage of PPE & IP came in at 4.1% in FY2022/23, well below the NT norm of 8%.

- The total capital outlay over the review period amounted to R699.5 million. Actual capital expenditure of R84.8 million in FY2022/23 translated to 83% of the budgeted amount of R101.9 million. The 5-year average capital budget implementation indicator came in at a reasonably low 78%.

LONG-TERM FINANCIAL PLAN UPDATE

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

1. Maintain the funding mix that aims to utilise the scope available for further borrowing whilst maintaining a positive debt profile, whilst limiting the utilisation of own cash to fund capital expenditure. Extended loan tenors must be considered.

2. Maintain a balanced approach for the long-term capital investment programme which prioritises investment in productive assets that aim to create an enabling environment for economic growth, whilst simultaneously prioritising timeous investment in bulk infrastructure.

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

4. Maintain the ability to post surpluses and generate cash from operations by ensuring that actual expenditure does not exceed budgeted expenditure. Curtailing excessive distribution losses must be a priority.

5. Prevent deterioration of the collection rate by prioritising decisions and actions that will support and maintain the high collection rate without compromising profitability / surpluses.

6. Institutionalise the utilisation of a robust tariff model to ensure that tariffs reflect the true cost of delivering the service.

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 planning and budgeting processes.

8. Finally, Bitou has taken positive steps towards returning to an environment of financial stability. This is evident in the significant improvements realised in recent years. The municipality must continue to employ a disciplined approach to its financial and operational management. This will enable the municipality to invest in needed bulk infrastructure that aims to not only promote future growth and development, but ultimately improve the lives of its inhabitants.

9. By implementing the key Base Case assumptions / recommendations (see Section 4), the following improvements should be achievable over the 10-year planning period compared to the current MTREF case:
    - Capital investment
    - Cash generated from operations

- Cash balance
- Cash cover
- Liquidity

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

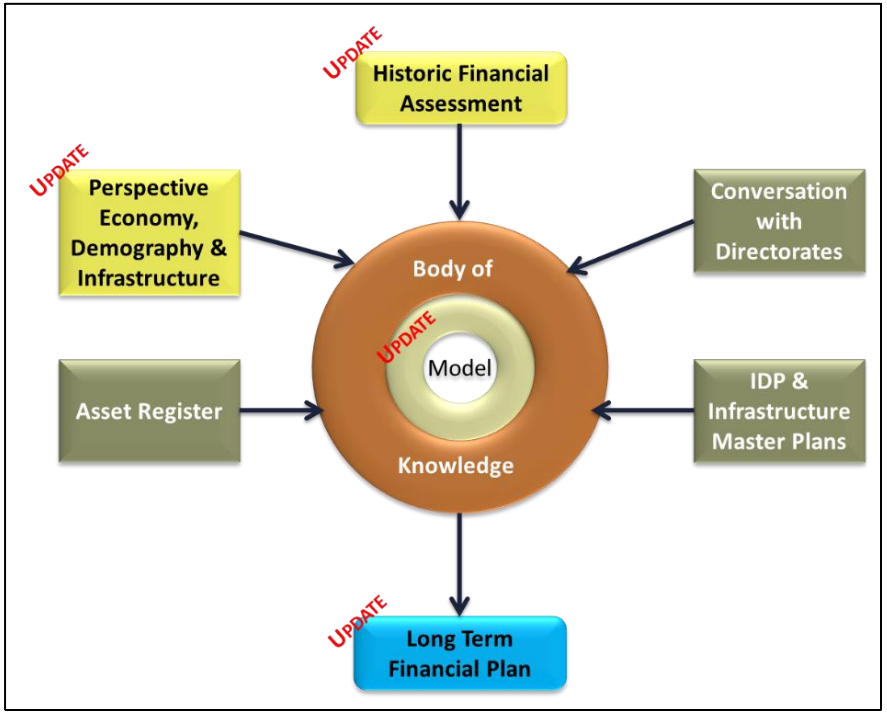
8 Ratio Analysis

9 Conclusions

PLANNING PROCESS

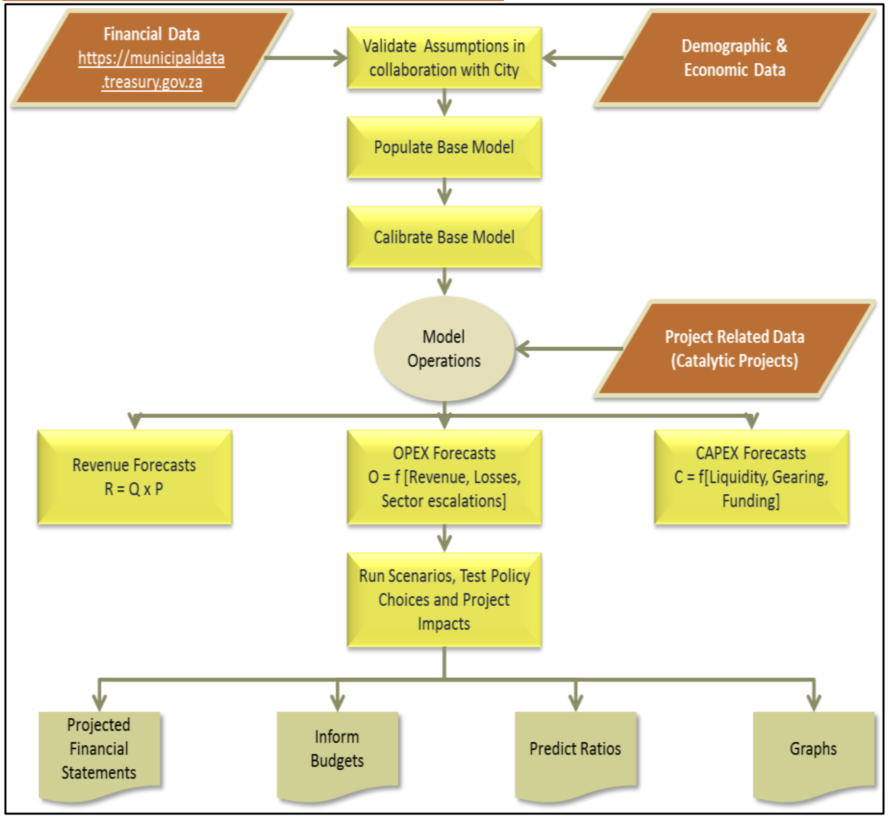
The diagram below illustrates the steps in the process that were followed in drafting the LTFP and the steps taken during this 2023 "LTFP Update":

FIGURE 1: PLANNING PROCESS



The long-term financial model was populated with the latest information of Bitou 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.

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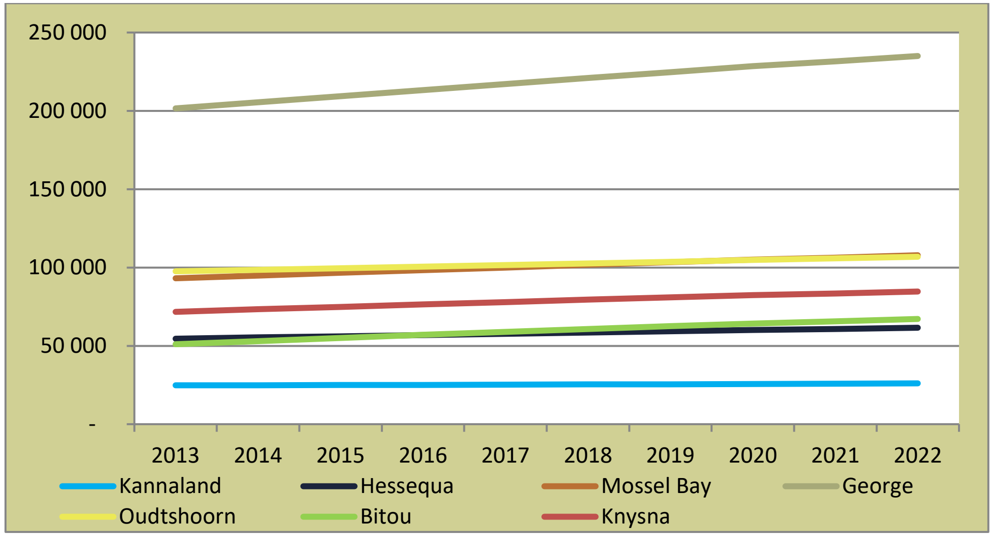
Updated Perspectives (Demographic, Economic, Household Infrastructure)

Demography

Bitou LM's total population grew at a rate of 2.27% in 2022 (2.16% in 2021) to a total of 67 151 people. The 5-year average population growth rate came in at a very high 2.66% p.a. While the population has largely grown at decreasing rates over the review period, population growth in Bitou remains elevated relative to the district (1.54%), province (1.54%) and country (1.39%) over the last 5 years. The elevated population growth rate will likely result in significantly increased pressure on the municipality to meet the additional demand for municipal services associated with growth in the population and households.

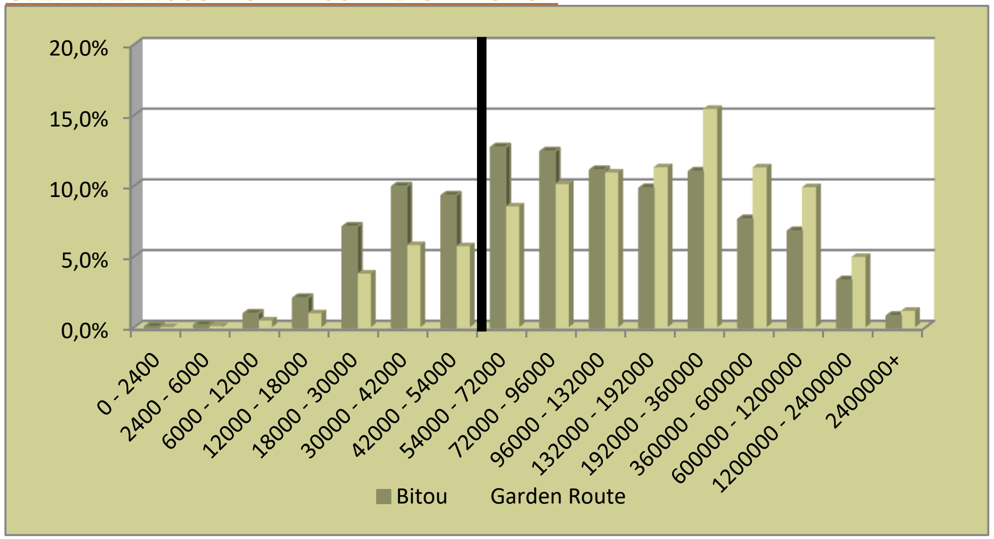
Graph 1: Total Population



A trend of "semigration" to the Western Cape has been observed in recent years, largely due to a perception of employment opportunities and improved service delivery relative to other provinces in the country. This is particularly prevalent in the case of Bitou. Bitou's geographical location being on the border of the Eastern Cape and Western Cape contributes heavily to this as Bitou is the first stop in the Western Cape from those leaving the Eastern Cape in search of a better standard of living. This is reflected in the elevated population growth rate as well as the high rate of household formation observed over the review period. This contributes to a significant increase in demand for municipal services and with many of the migrants from the Eastern Cape being considered indigent, additional financial pressure is exerted on the municipality to supply these services at the cost of the municipality.

Notwithstanding positive economic growth shown post-Covid, an environment of sluggish growth remains. Many factors are at play, ranging from geo-political instability as well as a high inflationary environment. Thus, the extent to which households can be levied in future must be closely monitored. The municipality must be cognisant of the fact that a decline in household income coupled with increases in municipal service costs, will hinder the municipality's future revenue prospects.

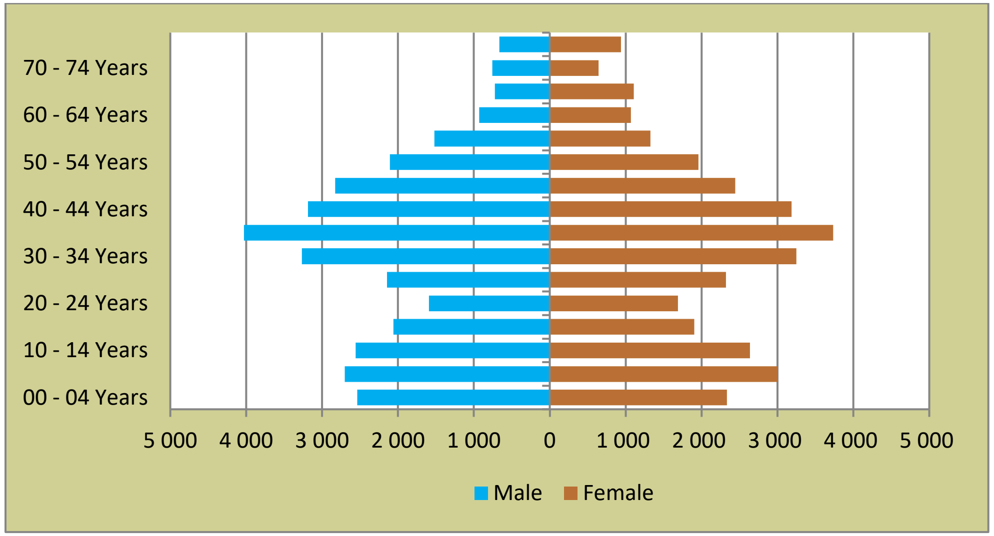
Graph 2: Household Income Distribution



Average household income increased by 5.8%, in line with CPI, to R268 700 p.a. in 2022. This is the lowest household income in the Garden Route District by a considerable margin. Graph 2 illustrates a comparison of the household income distribution of Bitou with that of the Garden Route District. Approximately 28.1% of households in Bitou earn less than R54 000 p.a., placing them below the equitable share bracket. This is high relative to the Garden Route figure of 16.8%. Households earning less than R54 000 p.a. are indicative of the number of indigent households in the municipal area and reflect those who qualify for and/or are largely reliant on government grants as a source of income. This further reflects the challenges facing the municipality regarding the population influx which largely consists of indigent households.

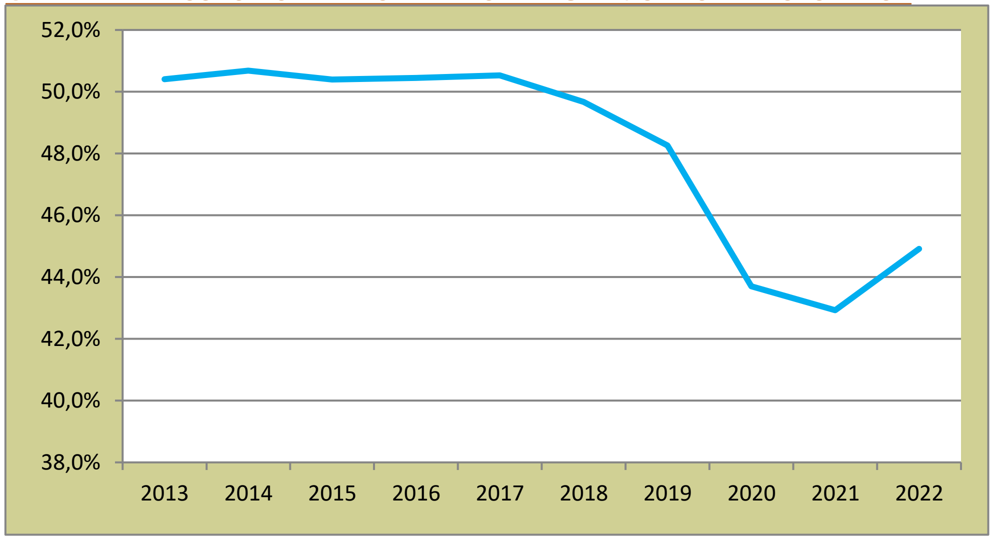
The provision of RDP level of basic services to these households is theoretically covered by the equitable share and should compensate the municipality for providing free basic services. Approximately 86.1% of households in Bitou receive a level of service above the RDP level, while this figure sits at a comparatively higher 90.7% for the Garden Route District.

GRAPH 3: AGE PROFILE



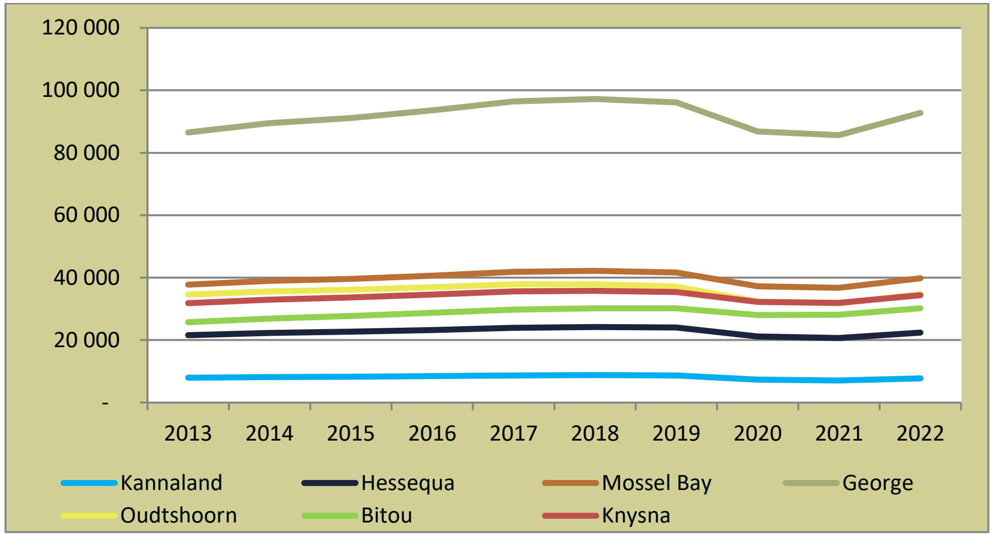
Graph 3 illustrates the age profile of Bitou LM's population. Approximately 58.5% of the population fall between the ages of 25 and 64 years, the highest proportion in the district. 34.3% of the population are below the age of 24 years, while just 7.2% are above the age of 65. The largest age cohort is between the ages of 35-40 years. These figures suggest that there is a perception of job opportunities within the municipality, particularly from those who are leaving the Eastern Cape and surrounding areas in search of opportunities.

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

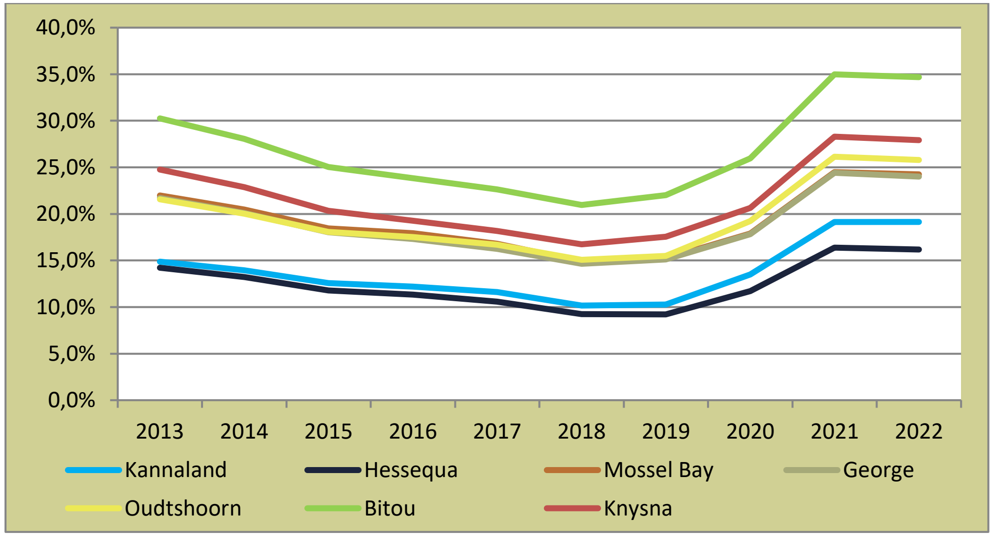


The economically active population in Bitou increased by 7.1% (1 999 people) in 2022 to a total of 30 180 people. This translates to 44.9% of the total population, an increase from 42.9% recorded in the prior year. This increase signifies a reversal of the declining trend observed since 2017 in which this ratio stood at 50.5%.

GRAPH 4B: ECONOMICALLY ACTIVE POPULATION



GRAPH 5: OFFICIAL UNEMPLOYMENT RATE



The official unemployment rate declined to 34.1% in 2022, from 34.9% recorded in the prior year. While the decline is a positive development, the absolute level of unemployment in Bitou remains high in the district (24.7%), provincial (24.3%) and national (33.7%) contexts. It is appreciated that the pandemic had a profound impact on the unemployment rate and is primarily responsible for the severe increases in unemployment observed in 2020 (3.9%) and 2021 (8.9%). However, it is noted that unemployment in Bitou has been elevated relative to other municipalities in the district throughout the review period. The municipality is encouraged to foster an environment in which businesses and the economy can grow. This will lead to growth in employment opportunities and thus, a decline in the rate of unemployment.

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

Bitou's total economic output as measured by GVA amounted to R6.70 billion in 2022 (current prices). This translates to 10.1% of the Garden Route District GVA of R66.70 billion. Bitou's economy was severely impacted by the pandemic, with the contraction of 6.5% in 2020 evidence of this. Of all the municipalities in the district, Bitou's economy was the most heavily impacted by the pandemic. While Bitou has exhibited positive economic growth in the years following the pandemic, the level of growth has been insufficient to fully recover from the devastating contraction observed in 2020. Bitou's economic struggles are further reflected in the 5-year average GVA contraction of 0.4% p.a. This of grave concern when compared to the extremely high population growth rate of 2.7% p.a. over the same period. This effectively results in an impoverishment of the local population. This is reflected in the considerable decline in GVA per capita over the last 5 years, from R82 927 p.a. in 2018 to R72 812 p.a. in 2022.

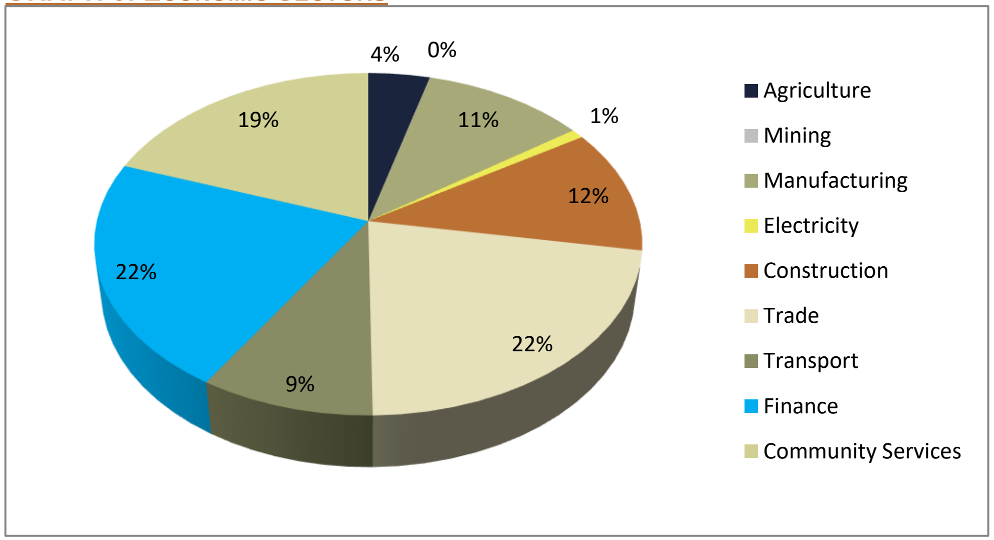
Bitou's economy is reasonably diversified as indicated by a Tress Index of 45.99. The Tress Index is a measure of economic diversification, the higher the degree of economic diversification, the lower the degree of economic risk in the event of adverse economic conditions due to the impact being spread over a greater number of sectors. Bitou's economy is predominantly tertiary sector driven with 72.2% of economic output in 2022 emanating from tertiary sector activities. The local economy is driven by 3 main economic sub sectors namely: Trade (22.0%), finance (21.7%) and community services (19.4%), which together contributed a significant 63.1% of economic output in 2022.

Secondary sector activities exhibited the most severe proportional contractions over the review period, with the construction sector the most severely impacted. Growth was observed in all tertiary sectors with the exception of trade, with the finance (2.8%) and community services (2.1%) sub sectors exhibiting the highest proportional growth over the review period.

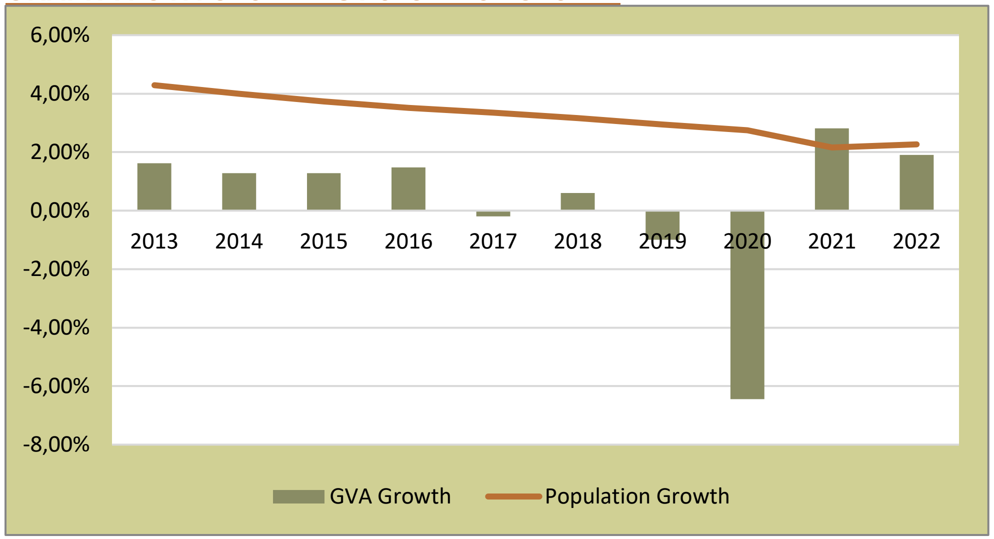
Table 1: Proportional Growth of Economic Sectors

Subsector	2013	2022
Agriculture	3,3%	4,1%
Mining	0,1%	0,0%
Manufacturing	11,5%	11,0%
Electricity	1,1%	0,9%
Construction	16,5%	11,7%
Trade	22,9%	22,0%
Transport	8,4%	9,1%
Finance	18,9%	21,7%
Community Services	17,4%	19,4%

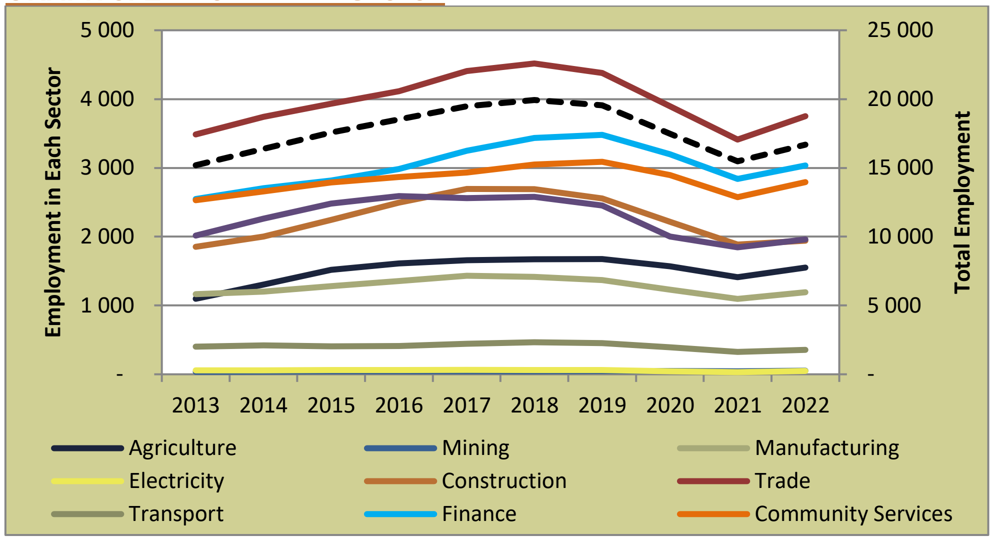
Graph 6: Economic Sectors



GRAPH 7: GVA GROWTH VS POPULATION GROWTH



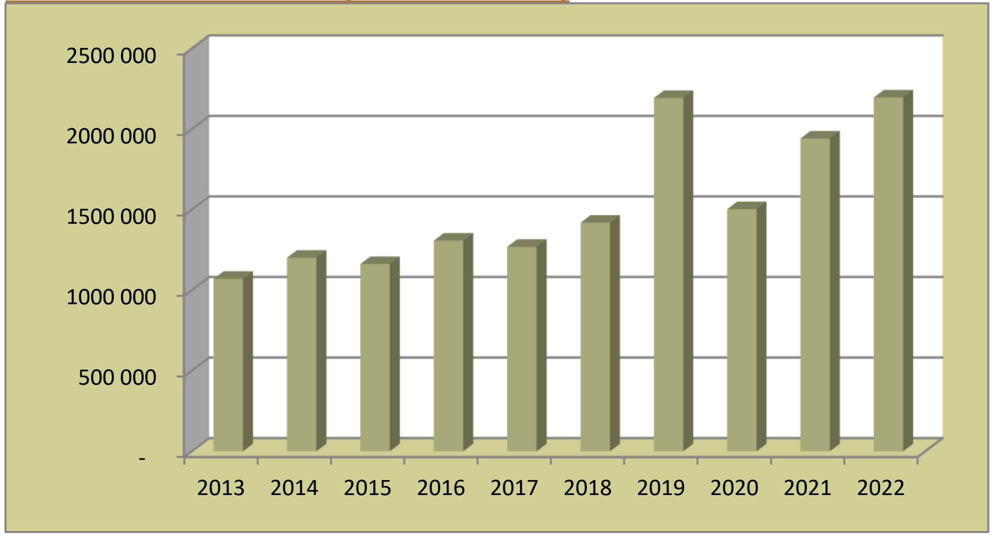
GRAPH 8: EMPLOYMENT BY SECTOR



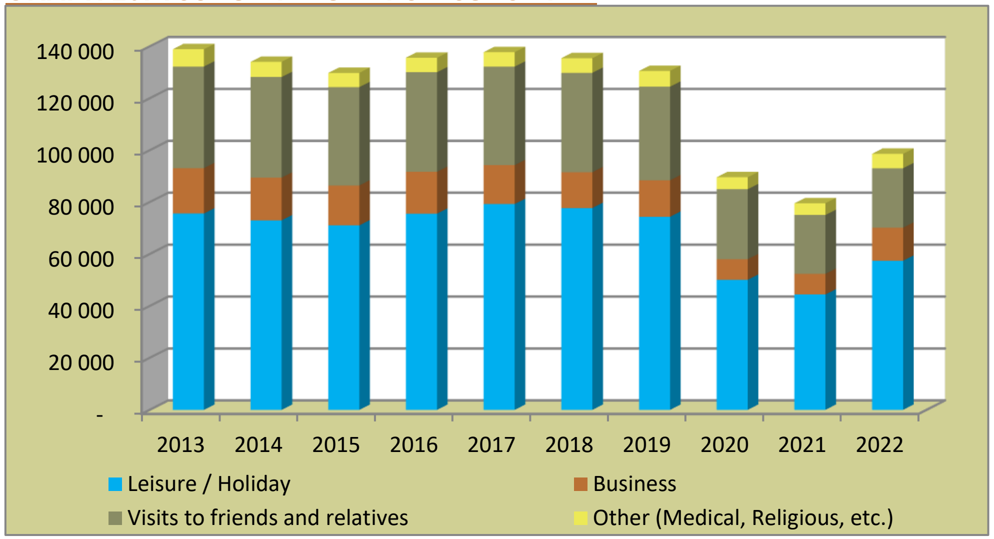
GRAPH 7 illustrates a comparison between economic and population growth over the review period. It is evident that while population growth has declined over the review period, population growth has exceeded economic growth in each year of the review period except for 2021. It is appreciated that the pandemic had a significant negative impact on the economy, however, as illustrated in GRAPH 7, the trend of population growth exceeding economic growth has been prevalent prior to the pandemic. This is of particular concern in the case of Bitou which has experienced a significant population influx over the review period. The municipality is encouraged to continue to invest in productive assets that aim to create an environment conducive to economic growth. Ensuring adequate levels of service delivery can assist in attracting investment into the municipality which in turn will promote growth of the local economy.

Scrutiny of the employment figures reveals that an additional 1 211 jobs were created in 2022. The total number of employment opportunities in Bitou in 2022 amounted to 16 678 jobs, an increase of 7.8% from the prior year. This is consistent with the decline in the unemployment rate. Trade remained the predominant provider of employment opportunities in Bitou, accounting for 22.5% of jobs in 2022. This is followed by finance (18.2%) and community services (16.8%).

GRAPH 9: TOURISM SPEND (CURRENT PRICES)



GRAPH 10: TOURISM TRIPS BY PURPOSE OF TRIP



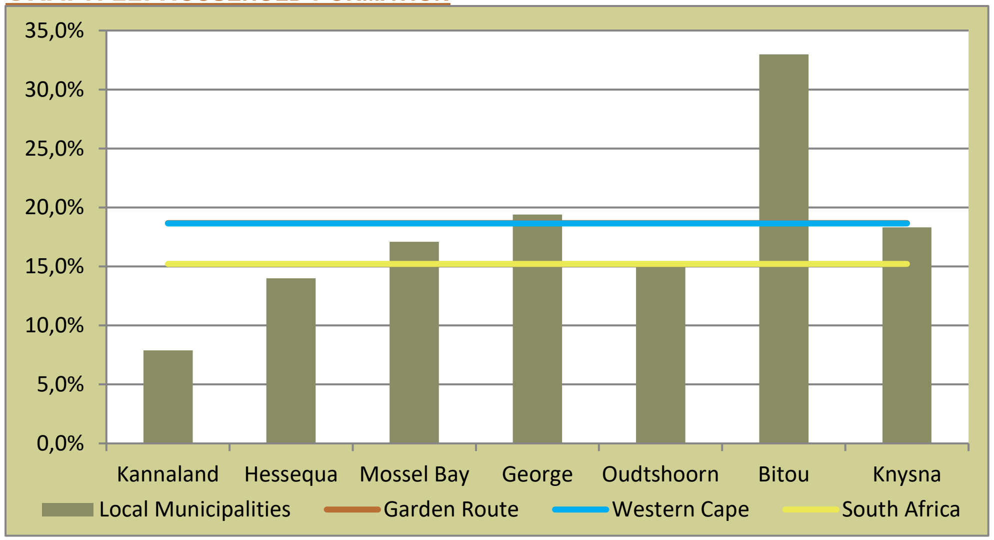
Bitou LM has traditionally been considered an attractive tourist destination; as such the tourism sector remains the lifeblood of the municipality's economy. Tourism spend increased by a considerable 13.1% in 2022 to a total of R2.19 billion. (2021: R1.94 billion). This exceeds pre-pandemic levels of tourism spend, indicative of a strong recovery post-pandemic. The importance of tourism to Bitou LM is reflected in the contribution to GVA of 29.9% in 2022. Although tourism is not regarded as an economic subsector per se, its importance to the local economy cannot be understated. With this in mind, it is the municipality's responsibility to ensure that an enabling environment for growth in the tourism sector is fostered through ensuring adequate, consistent service delivery is the norm. Additionally, assistance must be given to those working within the tourism sector where possible to ensure that Bitou remains a space where tourism continues to thrive.

An analysis of the tourism sector in a municipality would be incomplete without analysing the number of trips and purpose thereof. The number of tourism trips into Bitou increased considerably to a total of 98 653 trips in 2022, up from 79 568 trips in 2021 (24.0% increase). While this remains below pre-pandemic levels, it is positive to note that the declining trend observed since 2017 has been reversed. Trips for leisure/holiday purposes remained the predominant purpose of trips into Bitou, accounting for 58.2% of trips in 2022. This is followed by visits to friends and relatives (23.2%). These figures confirm the assertion that Bitou is perceived to be a popular tourism destination.

HOUSEHOLD INFRASTRUCTURE

Household formation in Bitou since 2013 came in at an extremely high 33.0%. This translates to a total of 5 566 additional households in absolute terms. This rate of household formation is the highest in the Garden Route District by a considerable margin. Such an extensive increase in the number of households within the municipality contributes to additional pressure on the municipality to meet the additional demand for municipal services. An added complication in the case of Bitou is that a high proportion of the influx of households are believed to consist of indigent households migrating from the Eastern Cape in search of an improved standard of living. This means that the municipality must provide services to these households without growing its revenue base in exchange. Furthermore, there is a possibility that national constraints on fiscus may result in a decline of future grant funding, further exacerbating this issue.

GRAPH 11: HOUSEHOLD FORMATION



Bitou has performed well in the provision of infrastructure services, particularly since it has come against the backdrop of such a high rate of household formation. Bitou managed to improve its infrastructure index over the review period from 0.82 in 2013 to 0.86 in 2022. It must be stated that the infrastructure index provides an indication as to the level of access to municipal services in a municipality without necessarily providing an indication as to the quality of and security with which these services are provided.

GRAPH 12: INFRASTRUCTURE INDEX

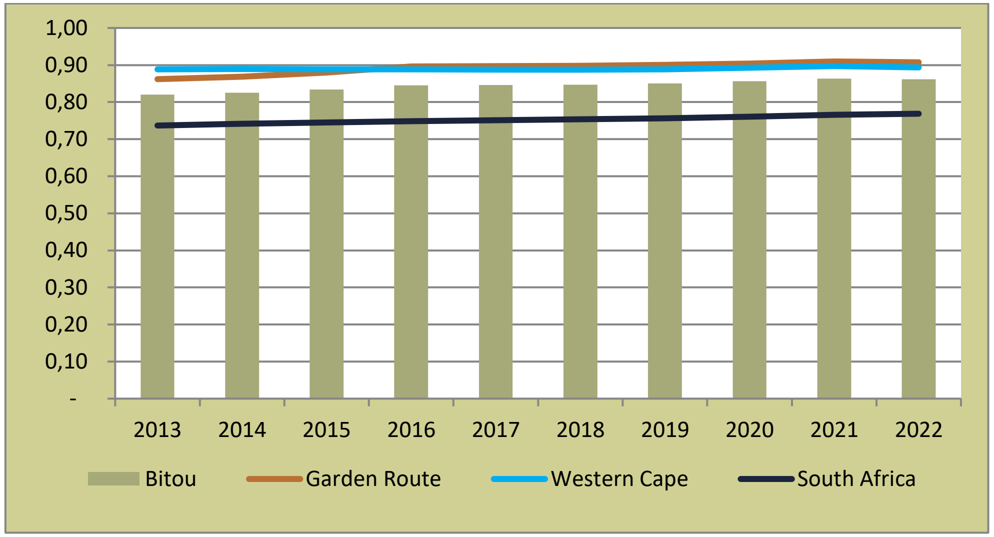


TABLE 2 below compares the level of backlogs of sanitation, water, electricity and refuse removal services of Bitou with that of the district. Bitou managed to reduce the level of backlogs in the provision of all infrastructure services over the review period, with the exception of refuse removal services. The refuse removal backlog is reasonably high at 9.0% in 2022. This may be a symptom of the high number of rural areas within the municipality which do not receive refuse removal services. The municipality outperformed the district in the provision of sanitation and electricity services, whilst lagging behind the district in the provision of refuse removal and water services. It is crucial that the municipality continues to employ a proactive approach to repairs and maintenance as well as to ensure that sufficient capital is invested in improving and maintaining critical infrastructure to assist the municipality's backlog eradication efforts.

TABLE 2: HOUSEHOLD INFRASTRUCTURE PROVISION

Infrastructure	Garden Route		Bitou	
Above RDP Level				
Sanitation	196 138	97,3%	22 068	98,4%
Water	198 849	98,7%	21 885	97,5%
Electricity	196 004	97,3%	22 247	99,1%
Refuse Removal	185 626	92,1%	20 426	91,0%
Below RDP or None				
Sanitation	5 382	2,7%	370	1,6%
Water	2 671	1,3%	553	2,5%
Electricity	5 516	2,7%	191	0,9%
Refuse Removal	15 893	7,9%	2 012	9,0%
Total Number of Households	**201 520**	**100,0%**	**22 438**	**100,0%**

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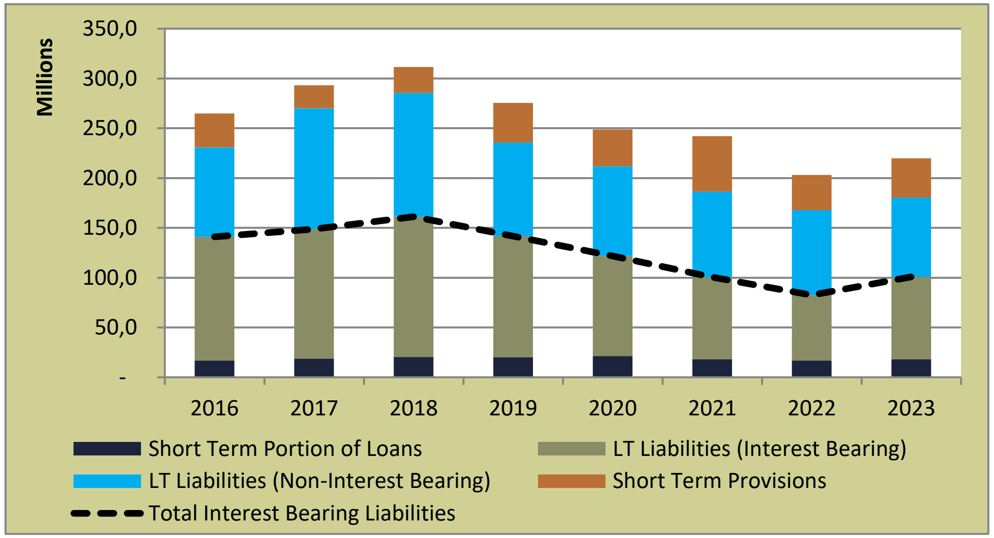
Updated Historic Financial Assessment

Financial Position

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

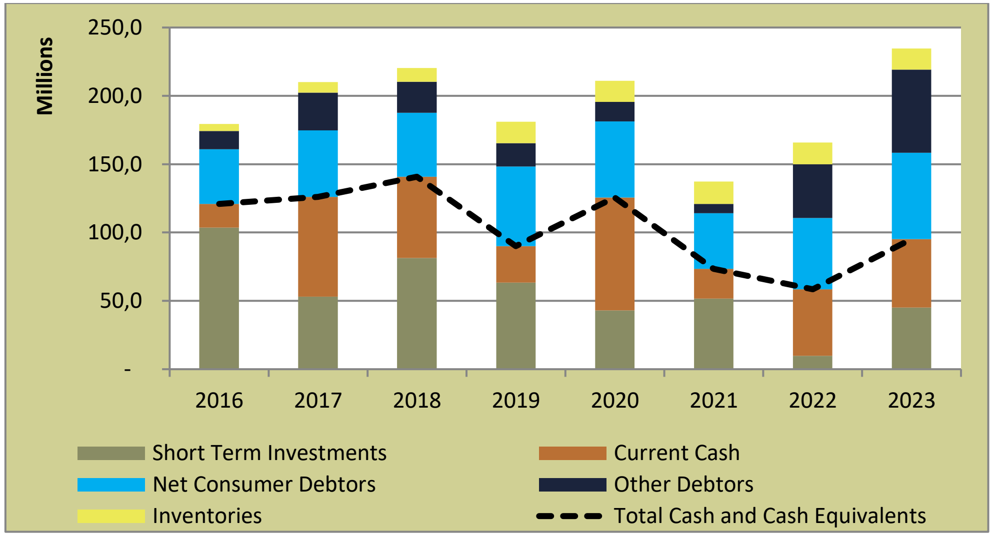


Bitou's net fixed assets position continued to improve during FY2022/23, increasing to R1.25 billion at the current year end, up from R1.20 billion at the prior year end. Significantly improved financial performance during the year resulted in an increase of 6.5% in the accumulated surplus to a total of R1.12 billion.

Bitou accessed external financing during the year in the form of a loan to the value of R35.2 million. This contributed to an increase in interest-bearing liabilities to R100.8 million as at FYE2022/23. Non-interest-bearing long-term liabilities declined during the year to R79.5 million, down from R85.1 million in the prior year. This decline was driven by a decrease in the long-term employee benefit obligation during the year. The municipality currently does not have any landfill sites which require provisions to be made for the future rehabilitation thereof. The municipality is currently utilising the Petro SA Landfill Site in Mossel Bay for its waste disposal. Considering the distance between Bitou and Mossel Bay, the municipality must ensure that sufficient provisions are made for repairs and maintenance relating to the vehicles that are utilised to transport this waste. This can be made in lieu of providing for the rehabilitation of landfill sites.

The undertaking of the loan during the year resulted in an increase in the gearing ratio to 12.0% at the current year end, up from 10.2% in the prior year. Interestingly, despite further leveraging during the year, the debt service to total operating expense declined to 3.2% from 4.2% at the prior year end. This discrepancy can be explained by the movements in operating revenue (4.3% increase) and operating expenditure (1.1% decrease) during the year. The debt indicators indicate that there is plentiful scope to further leverage the debt profile. It is recommended that the municipality takes advantage of this scope to accelerate the borrowings programme over the MTREF period as this will facilitate an acceleration of the capital investment programme.

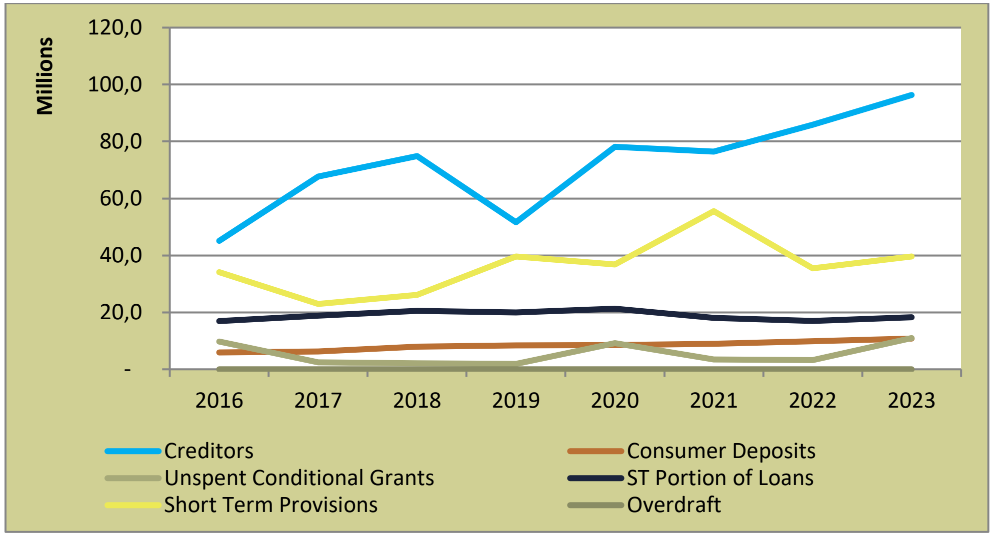
Graph 14: Current Assets



Current assets increased by a considerable 41.5% during the year to a total of R234.6 million. This was predominantly driven by an increase in cash and cash equivalents of 62.6% to a total of R95.1 million. The municipality increased its stake in short-term investments considerably during the year, bringing the total amount of short-term investments up to R45.1 million at the current year end.

Current liabilities increased by R24.5 million (16.2%) to a total of R176.0 million as at FYE2022/23. This increase was primarily driven by increases in creditors (R10.4 million) and unspent conditional grants (R7.7 million). Unspent conditional grants totalled R10.9 million at the current year end and can primarily be attributed to failure to fully utilise the Municipal Infrastructure Grant. Bitou has effectively utilised its conditional grants over the review period, with FY2022/23 being the sole financial period in which the total of unspent conditional grants exceeded R10.0 million during the 8-year review period.

GRAPH 15: Current Liabilities

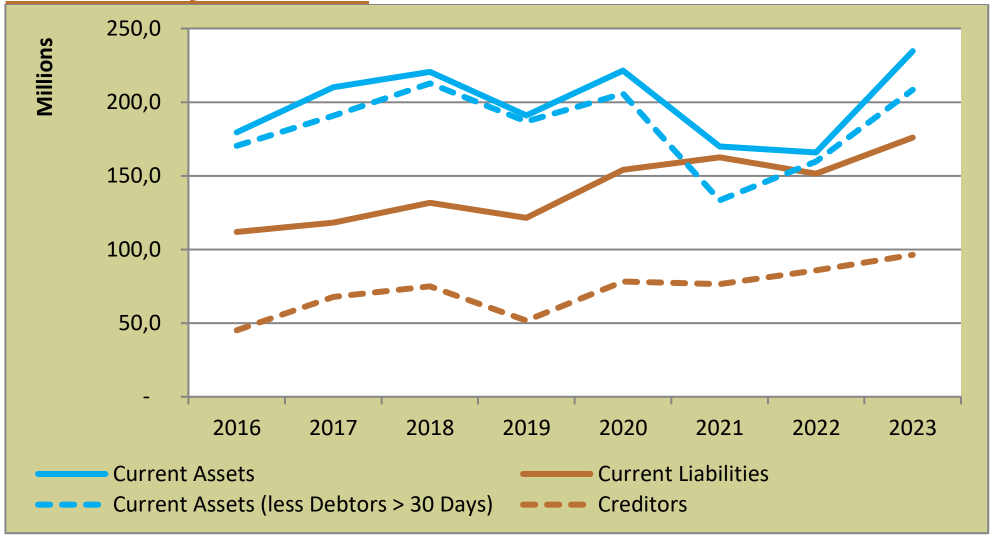


The significant increase in current assets and comparatively lower increase in current liabilities resulted in a considerable strengthening of the liquidity position. This is reflected in the improvement in the liquidity ratio to 1.33:1 as at FYE2022/23, up from 1.09:1 recorded in the prior year. While this remains below the review period average liquidity ratio of 1.44:1, the substantial improvement is positive to note as it comes against the backdrop of an extremely challenging external environment. The influx of indigent households has contributed to a reduction of the revenue base, which adds to the profound challenges the municipality is already contending with. Bitou must be commended for institutionalising a disciplined approach to the financial management of the municipality, inclusive of sound working capital management.

TABLE 3: Liquidity Ratios

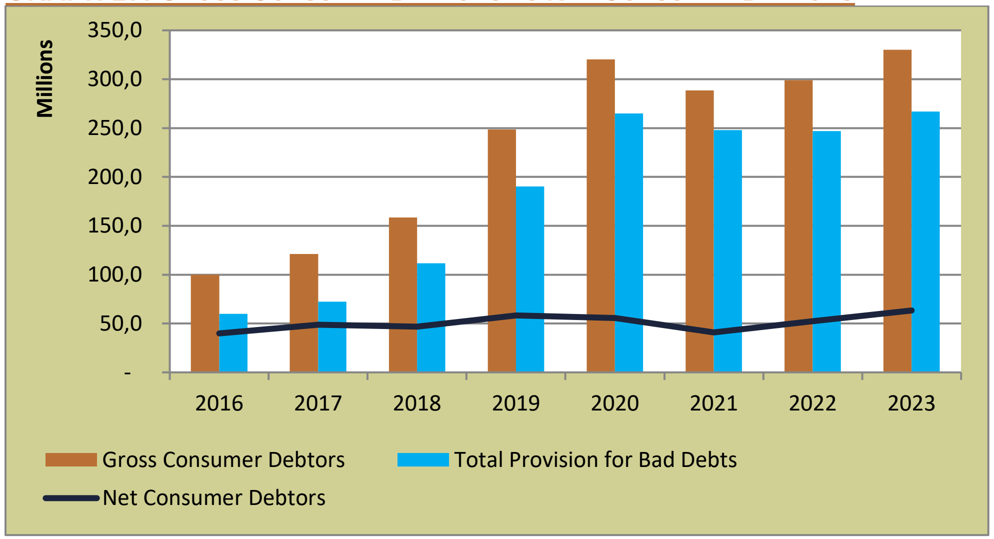
	2016	2017	2018	2019	2020	2021	2022	2023
Current Assets: Current Liabilities	1,60	1,78	1,67	1,57	1,44	1,05	1,09	1,33
Current Assets (less Debtors > 30 Days): Current Liabilities	1,52	1,61	1,61	1,54	1,34	0,82	1,05	1,18

GRAPH 16: Liquidity Ratios



Gross consumer debtors increased by 10.4% to a total of R330.2 million at the current year end. A comparatively lower increase in the total provision for bad debts (8.1%) resulted in an increase in net consumer debtors to R63.3 million at the current year end, up from R52.2 million at the prior year end. The municipality managed to maintain its collection rate at 83% in FY2022/23. While the collection rate remains reasonably low and further improvements are required, it is appreciated that the environment in which the municipality must operate proves a hindrance to this endeavour. The challenging economic environment as well as the increasing number of indigent households in Bitou contribute to these challenges. The municipality must prioritise the improvement of the collection rate to at least 90% as a starting point, thereafter the aim must be to meet the NT recommended norm of 95% on a consistent basis.

GRAPH 17: GROSS CONSUMER DEBTORS VS NET CONSUMER DEBTORS



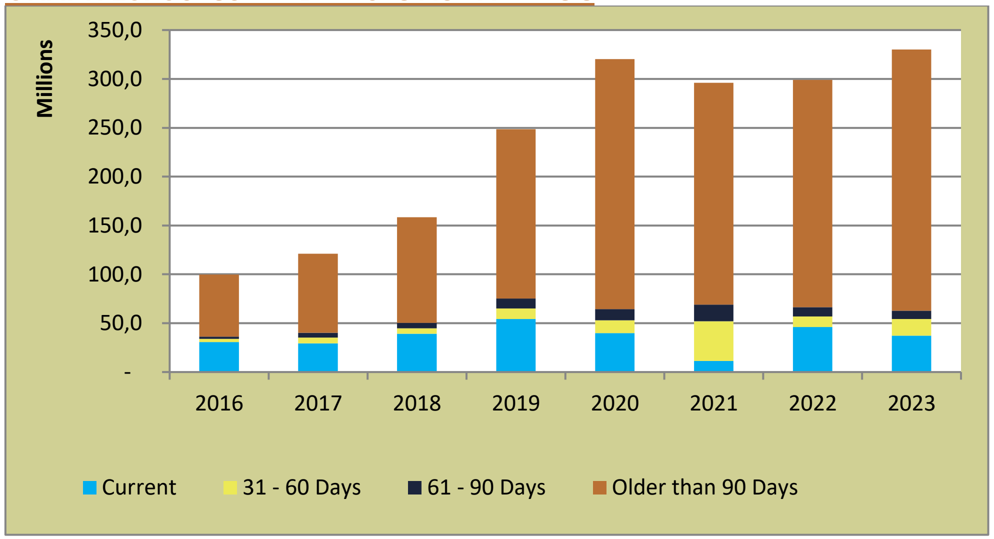
Rates debtors and electricity debtors formed the 2 largest pools of debtors, accounting for 34.5% and 34.2% of debtors in FY2022/23 respectively. The municipality essentially fully provided for debtors older than 90 days through the provision of bad debts, with the balance of debtors older than 90 days exceeding the provision for bad debts by just R0.4 million at the current year end. It is positive to note that the municipality has successfully mitigated the risk of unforeseen losses through sufficiently providing for debtors older than 90 days which pose the most significant risk of non-payment.

The debtors age analysis revealed that debtors older than 90 days accounted for 81% of consumer debtors at the current year end, whilst current debtors made up just 11%. The risk of non-payment increases significantly with ageing, however, as mentioned, this risk has been provided for to a large extent. Consumer debtors written off declined considerably to R62.6 million as at FYE2022/23, down from R82.8 million in the prior year.

TABLE 4: DEBTORS RATIOS

	2017	2018	2019	2020	2021	2022	2023
Increase in Billed Income p.a. (R'm)	35,2	35,4	85,0	14,3	24,5	30,7	2,4
% Increase in Billed Income p.a.	11%	10%	21%	3%	5%	6%	0%
Gross Consumer Debtors Growth	21%	31%	57%	29%	-10%	4%	10%
Net Debtors' Days	49	43	44	40	28	34	41
Payment Ratio/Collection Rate (%)	93%	87%	70%	72%	86%	83%	83%

GRAPH 18: CONSUMER DEBTORS AGE ANALYSIS



Financial Performance

GRAPH 19: ANALYSIS OF SURPLUS

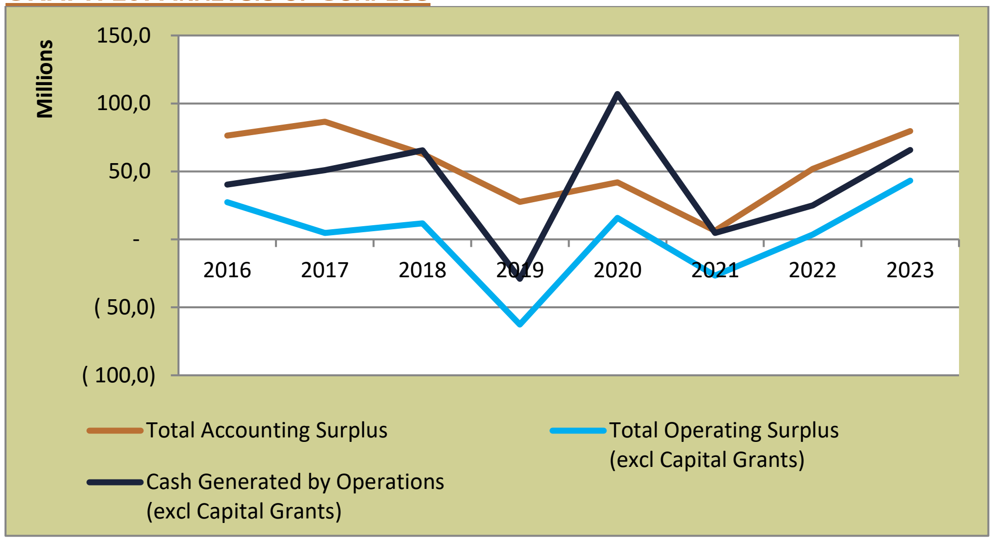


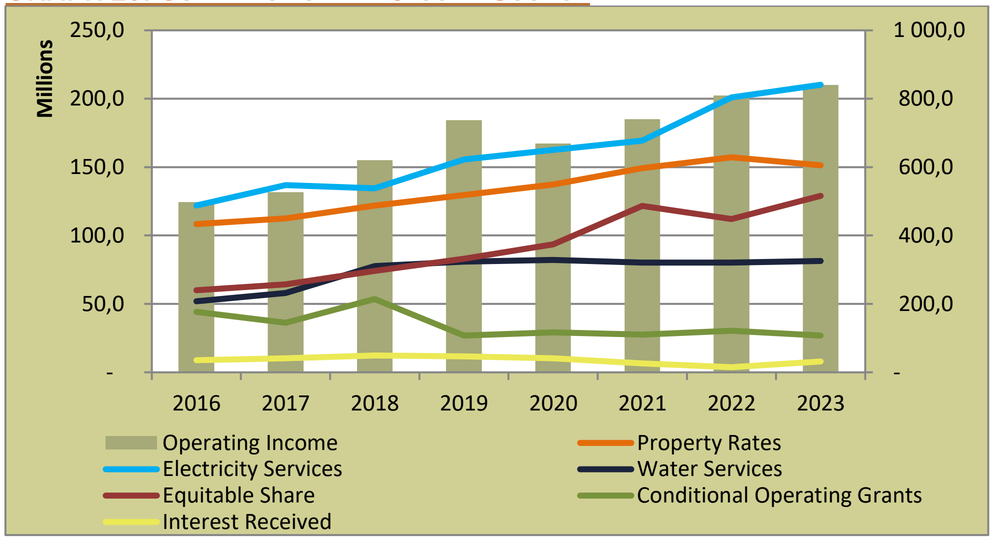
TABLE 5: TOTAL INCOME VS TOTAL EXPENDITURE

	2016	2017	2018	2019	2020	2021	2022	2023
Total Income	546,8	608,6	671,6	827,8	694,9	773,5	857,7	876,6
Total Operating Expenditure	470,5	521,9	608,7	800,3	653,0	767,1	805,9	796,8
Operating Income (excl Cond Grants)	453,6	490,6	567,0	710,8	639,6	713,0	779,0	813,0

Total income increased by a reasonably low 2.2% during FY2022/23 to a total of R876.6 million. Upon the exclusion of conditional grants, operating income to the value of R813.0 million was generated, up from, R779.0 million in the prior year (4.4% increase). Total operating expenditure declined by 1.1% during the year to R796.8 million, down from R805.9 million in the prior year. This resulted in the posting of an accounting surplus of R79.8 million, up from R51.8 million in FY2021/22. Upon the exclusion of capital grants, an operating surplus of R43.2 million was posted, up from R3.5 million in the prior year. The municipality posted operating surpluses in 6 of the 8 years under review. Additionally, the decline in operating expenditure comes against the backdrop of a severely high inflationary environment and is testament to the disciplined nature of the municipality's financial and operational management.

The municipality generated cash from operations (exclusive of capital grants) to the value of R65.8 million, up from R24.9 million in the prior year. This increase is attributable to the maintenance of the collection rate as well as improved financial performance. These achievements resulted in a strengthening of the liquidity position of Bitou and provides a solid base from which the municipality can continue to promote long-term sustainability and growth.

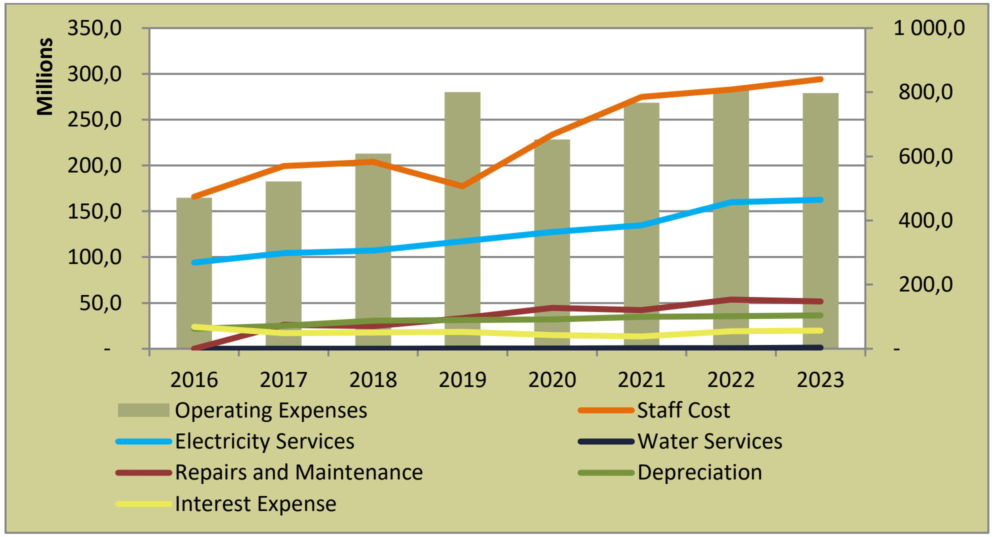
GRAPH 20: CONTRIBUTION PER INCOME SOURCE



Electricity services remained the predominant revenue source for Bitou, accounting for a quarter of revenue in FY2022/23. This is followed by property rates (18%) and equitable share (15%). Notwithstanding reduced electricity consumption pursuant to the energy crisis, electricity revenue grew by 5% during the year. Property rates revenue declined by 4%, primarily due to a decline in rates received from the residential category. Total grants received of R192.5 million (FY2021/22: R190.6 million) accounted for 22% of revenue in the current year. This is indicative of a reasonably high reliance on grant funding. This poses a financial risk going forward due to the constraints on fiscus which may result in a decline in grant funding in future years.

Although Bitou has a relatively lower reliance on electricity revenue compared to many other municipalities, the energy crisis nonetheless poses a significant threat to the financial sustainability of the municipality. In order to mitigate this risk, it is recommended that the municipality maximises alternative revenue sources and employs stringent management over its operational expenditure. Furthermore, it is imperative that the municipality's tariffs reflect the true cost of supply. This will go a long way in mitigating the financial risks posed by the energy crisis. It is positive to note that Bitou managed to increase electricity revenue despite the challenges posed by the energy crisis. The municipality must be commended for this.

GRAPH 21: CONTRIBUTION PER EXPENDITURE ITEM



Total operating expenditure declined by 1.1% during the year to a total of R796.8 million (FY2021/22: R805.9 million). This decline was driven by decreases in contracted services expenditure, debt impairment and bad debts written off. As alluded to above, it is positive to note that in spite of a high inflationary environment and associated price increases, the municipality has managed to reduce its operating expenditure compared to the prior year. The municipality must be commended for this.

Staff costs remained the predominant expenditure item accounting for a third of operating expenditure in FY2022/23. This is followed by electricity bulk purchases with a contribution of 18%. Staff costs remained below the NT benchmark of 40% of operating expenditure.

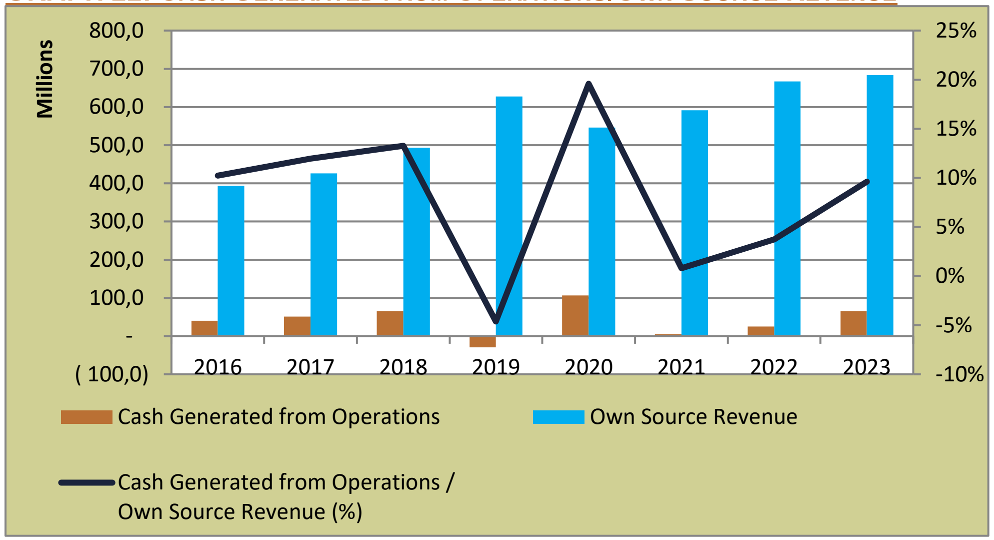
Expenditure on contracted services declined by a considerable 29.1% during the year, from R102.7 million in the prior year to R72.8 million in the current year. This decline can be ascribed to reductions in expenditure on security services, legal costs, building contractors as well as maintenance of various assets. Notwithstanding the reduction in contracted services in the current year, the contribution to operating expenditure came in at 9%. This exceeds the NT norm range of 2%-5%. This in itself is not necessarily an issue, as contracted services are, in many respects, seen as an alternative to staff costs. As such, it is worth analysing the combined contribution to assess the affordability of employee related expenditure. The combined contribution of staff costs and contracted services totalled 42% in the current year, thus breaching the recommended maximum norm of 40%. It is thus recommended that the municipality conducts a review of its employee related expenditure, including contracted services, to assess where further reductions may be realised. Additionally, there are critical vacancies within the municipality's employment structure which results in reduced operational efficiency. Further reductions to expenditure on contracted services may enable the municipality to fill these posts without threatening long-term sustainability.

Bitou reduced its expenditure to repair and maintain its asset base by R1.96 million to a total of R51.72 million in the current year. This translates to 4.1% of PPE & IP (FY2021/22: 4.4%). While this has contributed to an improvement in financial performance, the municipality must be wary of underspending on repairs and maintenance as a well-maintained asset base is crucial to any municipality that aims to successfully execute on its primary mandate of delivering services to its communities.

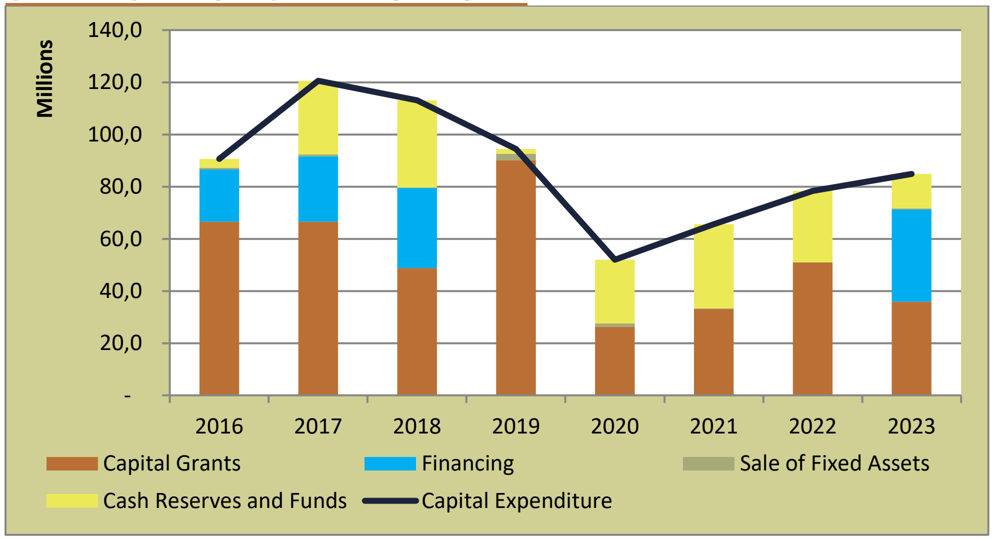
Electricity distribution losses declined from 18.88% in FY2021/22 to 15.25% in FY2022/23. Water distribution losses declined from 37.71% in the prior year to 35.85% in the current year. While the declines are a step in the right direction, these losses remain high, water in particular. The municipality must continue to invest in critical infrastructure in order for these losses to be curtailed.

Cash Flow

GRAPH 22: Cash Generated from Operations/Own Source Revenue



GRAPH 23: Annual Capital Funding Mix



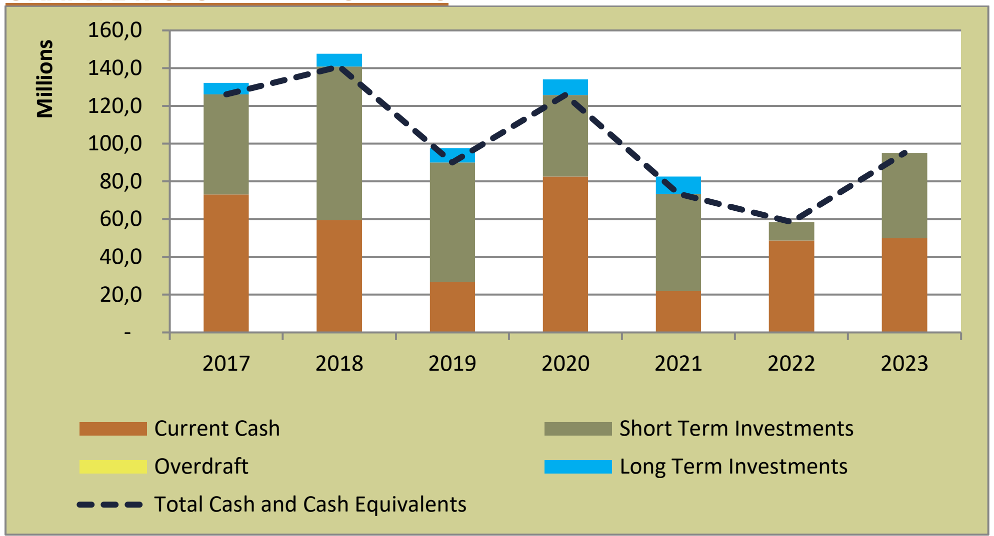
A notable acceleration of the capital investment programme has been observed since FY2019/20, with R84.8 million spent on capital projects in the current year. This brings the total capital outlay over the 8-year review period up to R699.5 million for an annual average of R87.4 million. The FY2022/23 funding mix consisted of 42% in both capital grants and external financing, with the remaining 17% being funded through the municipality's own cash. Over the review period as a whole, the municipality has relied heavily on capital grants to fund capital investment with 60% of the total capital outlay emanating from this source. This is followed by own cash (24%) and external financing (16%). It is recommended that the municipality allows its liquidity position to be bolstered through utlising the available scope to accelerate the borrowings programme. This will reduce reliance on own cash and allow for liquidity to be built up. The municipality's capital budget implementation indicator of 83% in FY2022/23 is reasonably low. This has been a trend in recent years, as evidenced by the 5-year average indicator of 78%.

Bitou has borrowed sporadically over the review period, with borrowings undertaken in 4 of the 8 years under review. This includes a loan to the value of R35.3 million undertaken in FY2022/23. As mentioned earlier in this report, the debt gearing ratio of 12.0% and debt service to total expense ratio of 3.2%, provide ample scope to materially accelerate the borrowings programme in an affordable manner. This will unlock an acceleration of the capital investment programme whilst enabling the municipality to continue to bolster its liquidity position through minimising the utilisation of own cash to fund capital projects.

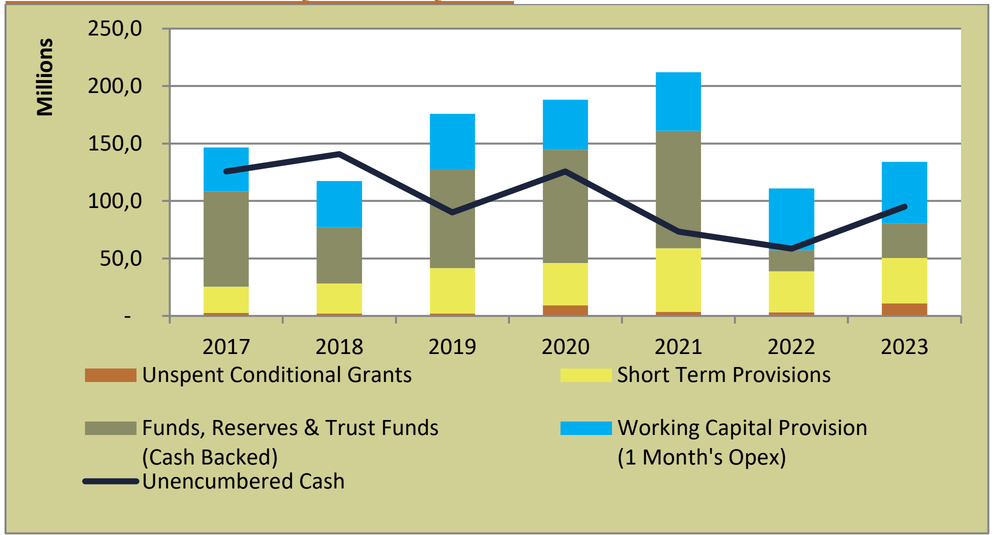
It is worth mentioning that an important facet of accessing affordable financing lies in perceived risk profile of the municipality. Should the potential lender perceive the municipality as unstable or volatile operationally or politically, this will result in a higher perceived risk from the lender's point of view. This, along with the ability to obtain an unqualified audit opinion will have a significant impact on the municipality's ability to access competitive lending rates or to access borrowings at all. This extends further to management. Continuity of management reflects stability, a positive outcome in the eyes of a lender. This is important for the municipality and council to note.

Bitou's liquidity position was on the decline between FY2016/17 and FY2020/21, falling from a liquidity ratio of 1.78:1 to just 1.05:1 in FY2020/21. It is positive to note that the declining trend has since been reversed with the liquidity ratio improving from 1.05:1 to 1.33:1 at the current year end. This trend must continue.

GRAPH 24: Cash and Investments



GRAPH 25: Minimum Liquidity Required



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.

Bitou's unencumbered cash and cash equivalents of R95.1 million at the current year end was exceeded by the minimum liquidity requirement of R134.1 million, resulting in a cash shortfall of R39.0 million. The municipality has posted cash shortfalls in 7 of the 8 years under review. The ability to hold sufficient cash to cover the minimum liquidity requirements is a strong indicator of long-term financial sustainability and resilience. As such, doubt is cast over Bitou's ability to remain financially sustainable over the long-term should improvements not be realised. The cash coverage ratio (including working capital) increased to 0.7:1 at the current year end from 0.5:1 at the prior year end.

TABLE 6: Minimum Liquidity Requirements

	2016	2017	2018	2019	2020	2021	2022	2023
Unspent Conditional Grants	9,7	2,5	2,1	1,9	9,2	3,4	3,3	11,0
Short Term Provisions	34,1	23,0	26,2	39,7	36,8	55,5	35,5	39,6
Funds, Reserves & Trust Funds (Cash Backed)	65,0	83,0	48,9	85,9	98,7	102,0	18,6	30,0
Total	**108,9**	**108,4**	**77,1**	**127,5**	**144,7**	**161,0**	**57,3**	**80,5**
Unencumbered Cash	120,8	125,9	140,8	90,1	125,7	73,5	58,5	95,1
Cash Coverage Ratio (excl Working Capital)	1,1	1,2	1,8	0,7	0,9	0,5	1,0	1,2
Working Capital Provision (1 Month's Opex)	34,9	38,3	40,3	48,3	43,5	51,2	53,6	53,6
Cash Coverage Ratio (incl Working Capital)	0,8	0,9	1,2	0,5	0,7	0,3	0,5	0,7
Minimum Liquidity Required	143,8	146,7	117,4	175,8	188,2	212,2	110,9	134,1
Cash Surplus/(Shortfall)	**(23,0)**	**(20,8)**	**23,4**	**(85,7)**	**(62,5)**	**(138,7)**	**(52,4)**	**(39,0)**

IPM Shadow Credit Score

Bitou 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 Bitou, the IPM credit model reflects a score of **4.9** which is comparable to an **BBB+** on a national ratings scale. This credit score is reasonable compared to other municipalities and is considered to be of **Investment Grade** - which means that Bitou should be successful in accessing external borrowing at competitive rates.

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

TABLE 7: IPM CREDIT MODEL OUTCOMES

Modules	2023 (5)
Financial	2,5
Institutional	2,5
Socio-Economic	2,0
Infrastructure	2,1
Environmental	3,9

The municipality performed reasonably well in the infrastructure module of the credit model. Supply of household infrastructure services remains a strong point of the municipality, this is also linked to the municipality's ability to be cognisant of its environmental impact. The reasonably high degree of distribution losses, water in particular, restricts the achievement of a higher score in this module.

The assessment indicates that the socio-economic module remains the main impediment to Bitou achieving an even higher credit score. This is mainly linked to sluggish economic growth within the municipal area. The municipality must continue to invest in productive assets with the aim of stimulating the economy in order to improve this score over time.

The reasonable score achieved in the financial module is driven by the improved liquidity position, an ability to generate cash from operations as well as sound financial performance. Improvements to the collection rate will assist in improving this score further over time.

The score achieved under the institutional capacity module was driven by strong governance and prudent financial management. The municipality must maintain the clean audit report received from the Auditor General.

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

Long-Term Financial Model Outcomes

MTREF Case Scenario

An MTREF Case was developed utilising the unadjusted figures from the Adjusted Budget 2023/24-2025/26. The purpose of this 10-year scenario is to reflect the LTFM outcomes prior to making any adjustments to the current MTREF.

As such, the collection rate was maintained at 83.2% throughout the planning period. Additionally, the capital investment programme and funding mix were left unadjusted from the Adjustment Budget. Assumed annual growth beyond the MTREF period for capital expenditure and borrowing is 5%. Distribution losses were maintained at the FYE2022/23 levels and finally, repairs and maintenance expenditure was maintained at 4.1% of PPE and IP.

The outcomes of this scenario are presented in Table 8. Financial performance is forecast to improve over the forecast period, however, operating deficits are forecast until FY2031/32. The municipality is forecast to generate cash from operations throughout the planning period, except for FY2023/24.

The municipality has budgeted for an accelerated capital investment programme in the Adjustment Budget. Additionally, the municipality has budgeted to accelerate its borrowing programme over the MTREF period. While this is positive to note, the capital expenditure programme forecast is unaffordable. Cash shortfalls on capital expenditure are forecast for FY2024/25 and are set to continue for the remainder of the planning period.

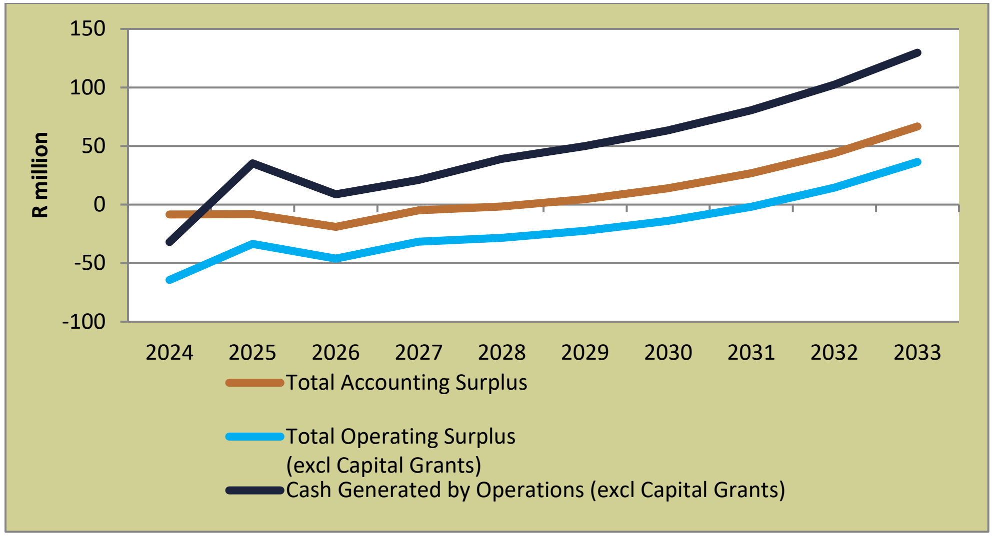
The reasonably poor forecast financial performance as well as the unaffordable levels of capital expenditure, are will have a detrimental impact on the municipality's liquidity position. This is reflected in the planning period end liquidity ratio of 0.4:1 as well as the movement into an overdraft position from FY2024/25 onwards.

Overall, the MTREF scenario reflects an unsustainable outcome. The issues identified as the cause of the unsustainable outcome have been addressed and the necessary adjustments made in arriving at the Base Case.

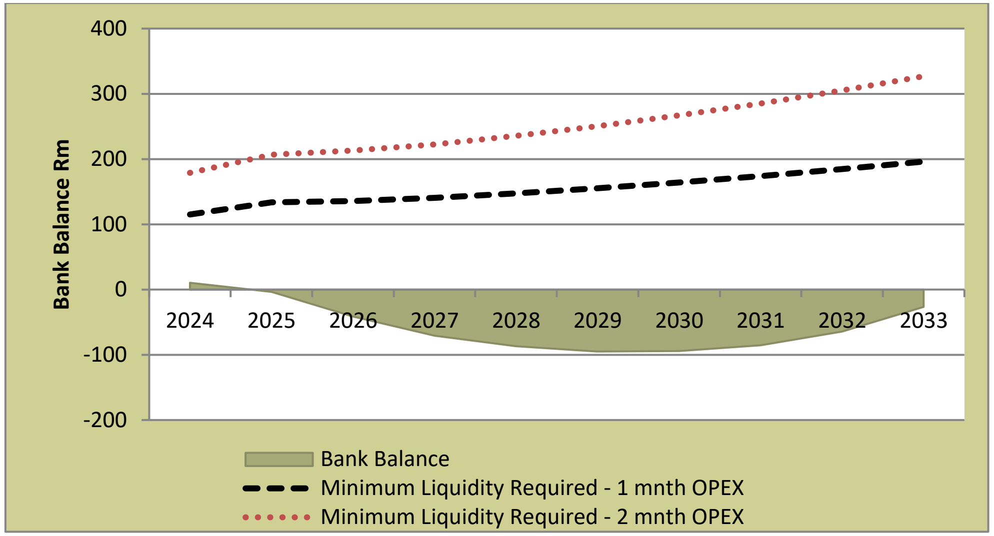
Table 8: MTREF Case Outcomes

Outcome	MTREF Case
Average annual % increase in Revenue	8,5%
Average annual % increase in Expenditure	9,2%
Accounting Surplus accumulated during Planning. Period (Rm)	R 114
Operating Surplus accumulated during Planning. Period (Rm)	-R 191
Cash generated by Operations during Planning. Period (Rm)	R 498
Average annual increase in Gross Consumer Debtors	13,9%
Capital investment programme during Planning. Period (Rm)	R 1 117
External Loan Financing during Planning Period (Rm)	R 488
Cash and Cash Equivalents at the end of the Planning Period (Rm)	-R 27
No of Months Cash Cover at the end of the Planning Period (Rm)	-0,2
Liquidity Ratio at the end of the Planning Period	0.4 : 1
Gearing at the end of the Planning Period	14,2%
Debt Service to Total Expense Ratio at the end of the Planning Period	4,9%

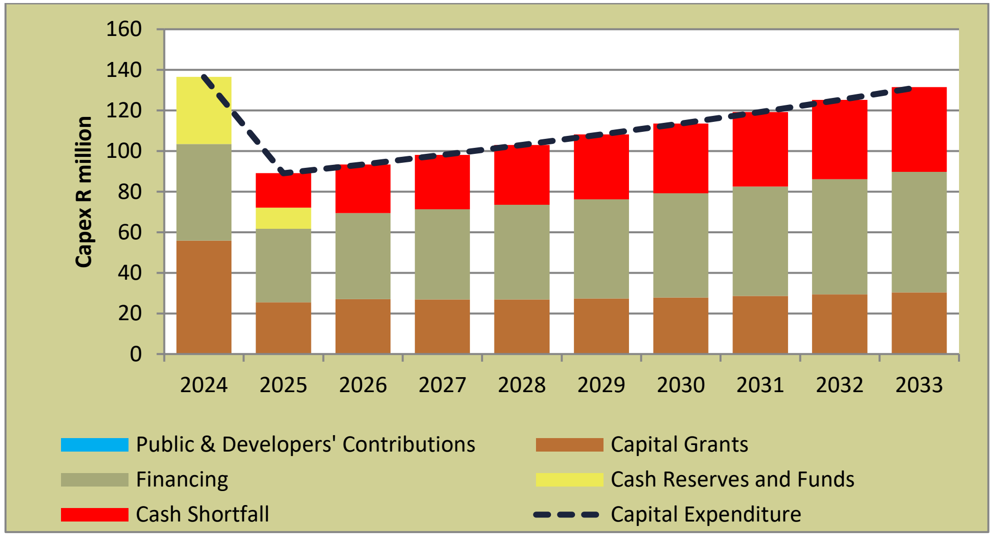
GRAPH 26: MTREF CASE SCENARIO: ANALYSIS OF SURPLUS



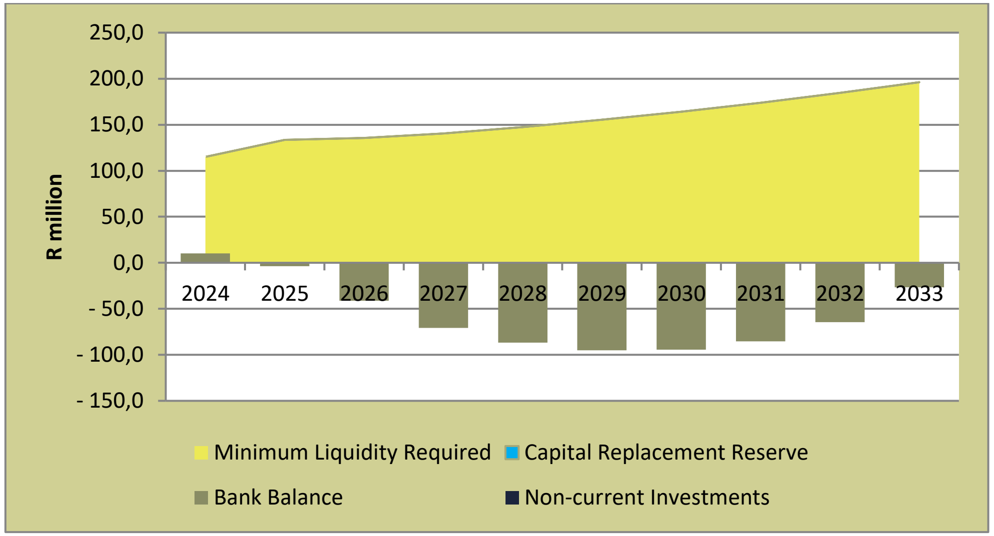
GRAPH 28: MTREF CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY



GRAPH 27: MTREF CASE SCENARIO: CAPITAL FUNDING MIX



GRAPH 29: MTREF CASE SCENARIO: CASH VS RESERVES



Base Case Scenario

To develop a realistic Base Case model, the figures from the Adjustment Budget 2023/24 – 2025/26 were used. The historic analysis reveals that the municipality has stabilised its previously strained financial position in recent years, through bolstering liquidity as well as improving financial performance. This has facilitated a gradual acceleration of the capital investment programme. The objective of the model is to utilise realistic assumptions to support future financial sustainability. The following are the key assumptions:

1. The collection rate was increased to 90% over a period of 3 years, where it is assumed to be 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, while a 2% reduction of operating expenditure was modelled.
3. The MTREF capital investment programme was maintained in FY2023/24, thereafter the following amendments were made:
    - FY2024/25: R120.0 million
    - FY2025/26: R135.0 million
    - FY2026/27: R100.0 million

    Assumed growth beyond the MTREF period is 8% p.a.
4. The borrowing programme was accelerated considerably over the MTREF period. FY2023/24 was left unaltered, thereafter the borrowing programme was adjusted as follows:
    - FY2024/25: R70.0 million
    - FY2025/26: R60.0 million
    - FY2026/27: R50.0 million

    The annual borrowing under this scenario was adjusted to an average of 10-year amortising loans at a fixed interest rate equal to 6% over forecast CPI in any given year. Assumed annual growth in borrowing beyond the MTREF period is 8%.
5. A loadshedding scenario was incorporated into the Base Case. This scenario assumes an average of stage 2 loadshedding for FY2023/24. This is assumed to result in an annual reduction of electricity consumption of 11.9%. Additionally, a 5% reduction of electricity sales is included to model the impact of the loss of customers who have moved to alternative power sources. Finally, a 2% reduction of water sales pursuant to loadshedding, due to pumps not being able to fill reservoirs for example, is also included.
6. Repairs and maintenance expenditure was increased to 6% of PPE & IP over 3 years.
7. Electricity distribution losses were reduced to 10% (from 15%) over 3 years, while water losses were reduced to 25% (from 36%) over 3 years.

Table 9: Base Case Outcomes

Outcome	Base Case
Average annual % increase in Revenue	8,0%
Average annual % increase in Expenditure	8,4%
Accounting Surplus accumulated during Planning. Period (Rm)	R 681
Operating Surplus accumulated during Planning. Period (Rm)	R 382
Cash generated by Operations during Planning. Period (Rm)	R 1 008
Average annual increase in Gross Consumer Debtors	8,6%
Capital investment programme during Planning. Period (Rm)	R 1 284
External Loan Financing during Planning Period (Rm)	R 585
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 354
No of Months Cash Cover at the end of the Planning Period (Rm)	2,8
Liquidity Ratio at the end of the Planning Period	1.6 : 1
Gearing at the end of the Planning Period	17,2%
Debt Service to Total Expense Ratio at the end of the Planning Period	6,0%

Financial performance is forecast to improve over the MTREF period, with operating surpluses forecast from FY2024/25 onwards. Poor financial performance in FY2023/24 is predominantly driven by the load shedding scenario. Additionally, a conservative budget for FY2023/24 plays a role in this forecast. Year-on-year improvements are forecast throughout the planning period. Electricity services is forecast to remain the predominant revenue item throughout the planning period, followed by property rates.

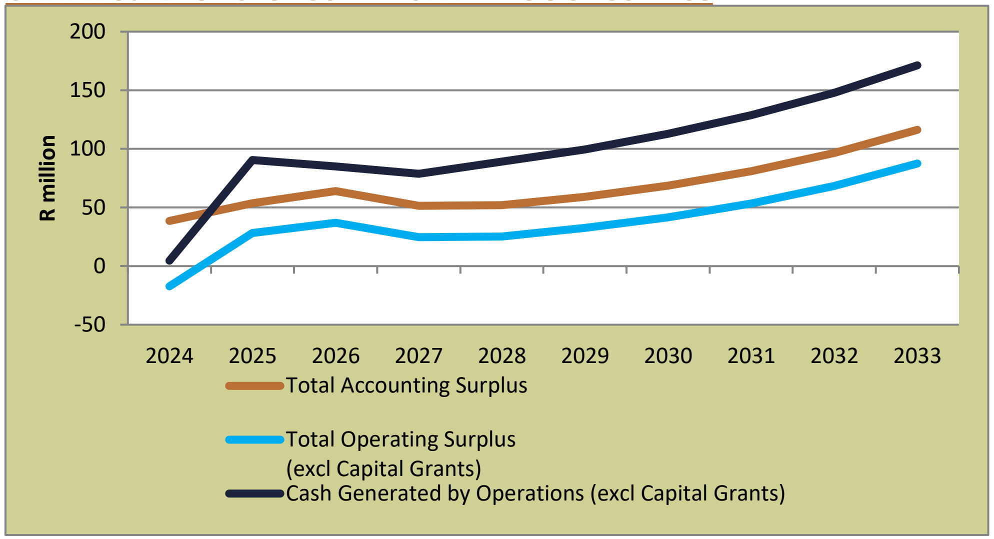
Cash is forecast to be generated by operations throughout the planning period. A marginal decline is forecast between FY2024/25 and FY2026/27, thereafter, significant year-on-year improvements are forecast. The municipality is forecast to generate a substantial R1 008.0 million in cash from operations over the planning period. This is underpinned by the assumed improvement in the collection rate, as well as the forecast improvements to financial performance.

The amendments made to the Adjustment Budget capital investment programme and funding mix thereof aim to take advantage of the available scope to accelerate the borrowing programme. This unlocks an affordable acceleration of capital investment that does not weaken the liquidity position. This is achieved through ensuring a higher degree of borrowing compared to the utilisation of own cash to fund capital expenditure over the MTREF period. Beyond the MTREF period, the utilisation of own cash increases but remains affordable. As indicated by the Base Case outcomes, the proposed capital investment programme and funding mix thereof are forecast to result in an affordable, sustainable outcome.

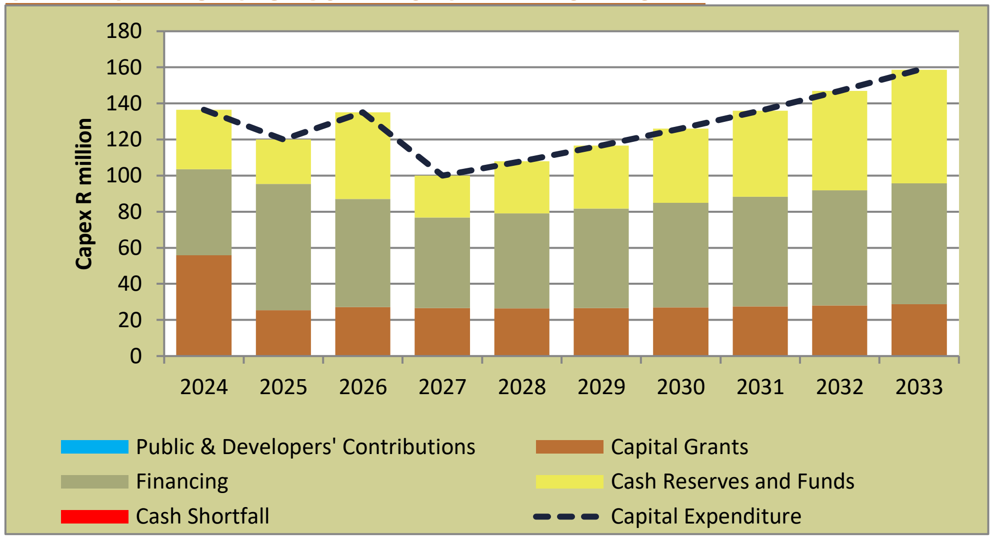
At the assumed level of borrowings, the debt indicators are forecast to remain within their respective limits throughout the planning period. IPM recommends a maximum gearing ratio of 30% and debt service to total expense ratio of 7% for Bitou LM. The acceleration of the borrowing programme results in reduced reliance on own cash to fund capital expenditure. This is a significant contributor to the healthy liquidity position. This is further underpinned by the planning period end bank balance of R354 million. The municipality is forecast to meet the minimum liquidity requirement of 1-month's operating expenditure from FY2026/27 onwards. This is a key indicator of long-term sustainability.

The Base Case assumptions are seen as realistic and achievable outcomes and can be seen as recommendations for the municipality to follow to ensure long-term financial sustainability. The Base Case enables an affordable acceleration of capital investment without threatening the stability of the liquidity position.

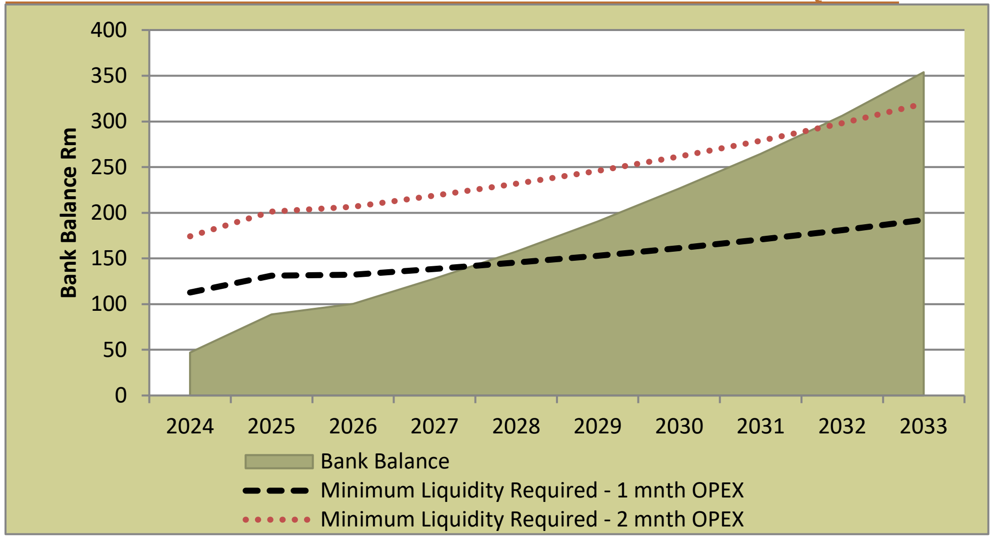
GRAPH 30: Base Case Scenario: Analysis of Surplus



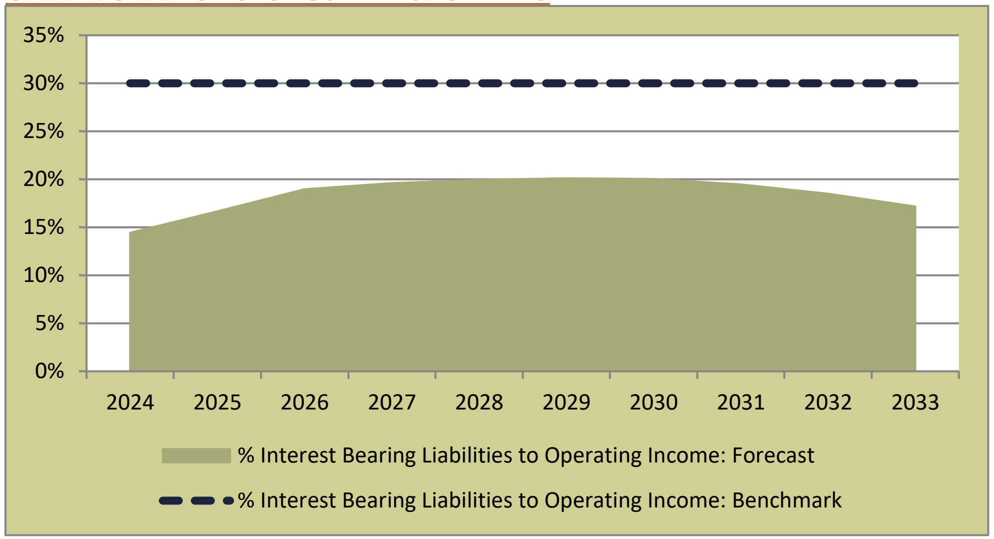
GRAPH 31: Base Case Scenario: Capital Funding Mix



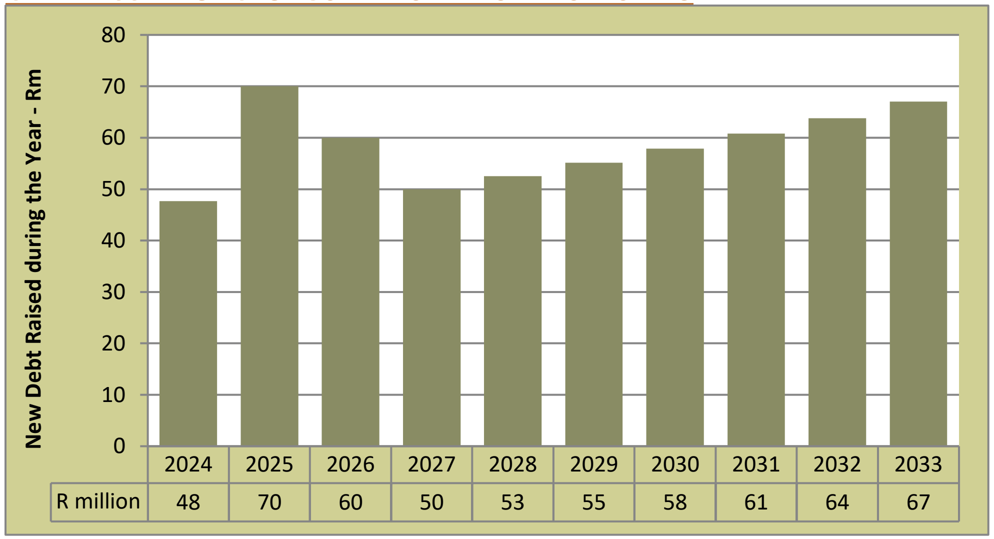
GRAPH 32: BASE CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY



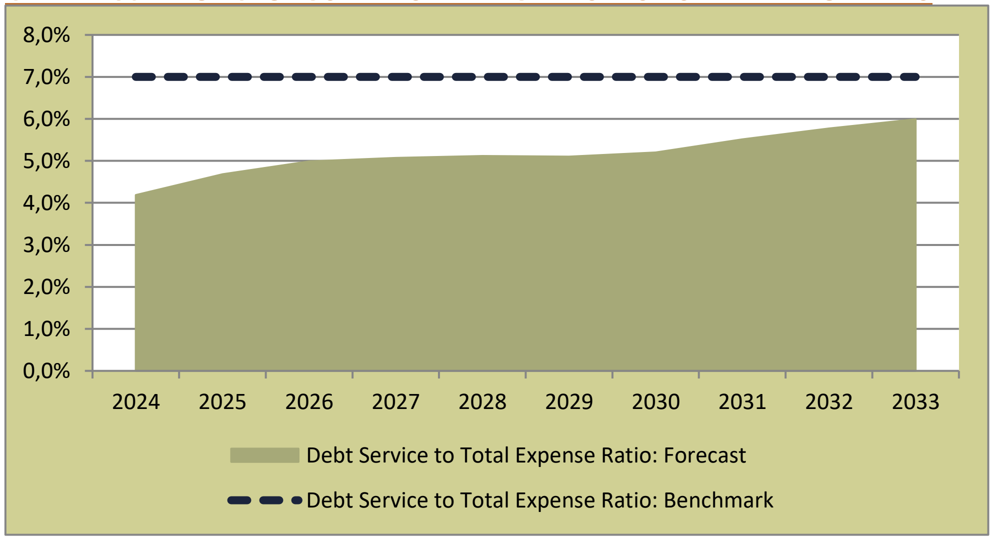
GRAPH 34: BASE CASE SCENARIO: GEARING



GRAPH 33: BASE CASE SCENARIO: ANNUAL BORROWING



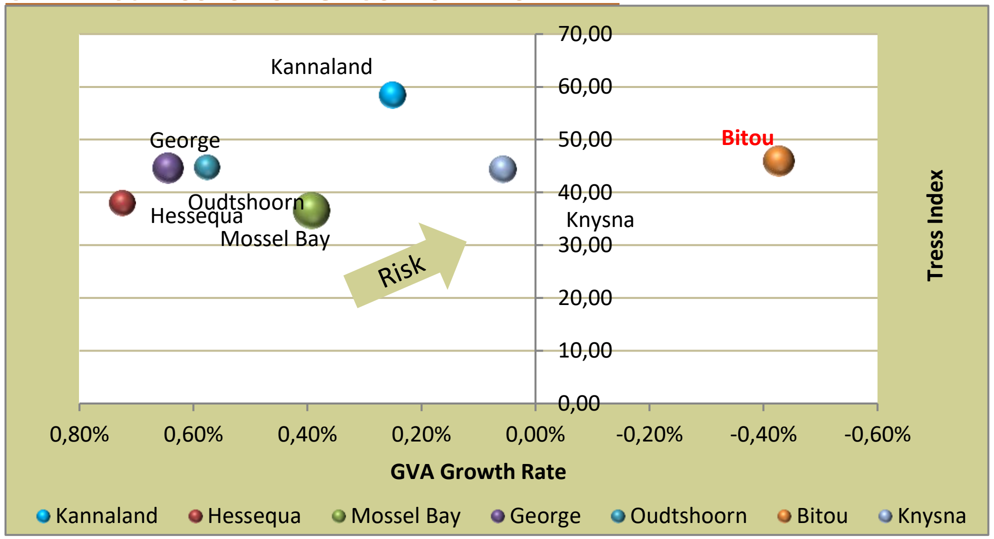
GRAPH 35: BASE CASE SCENARIO: DEBT SERVICE TO TOTAL EXPENSE RATIO



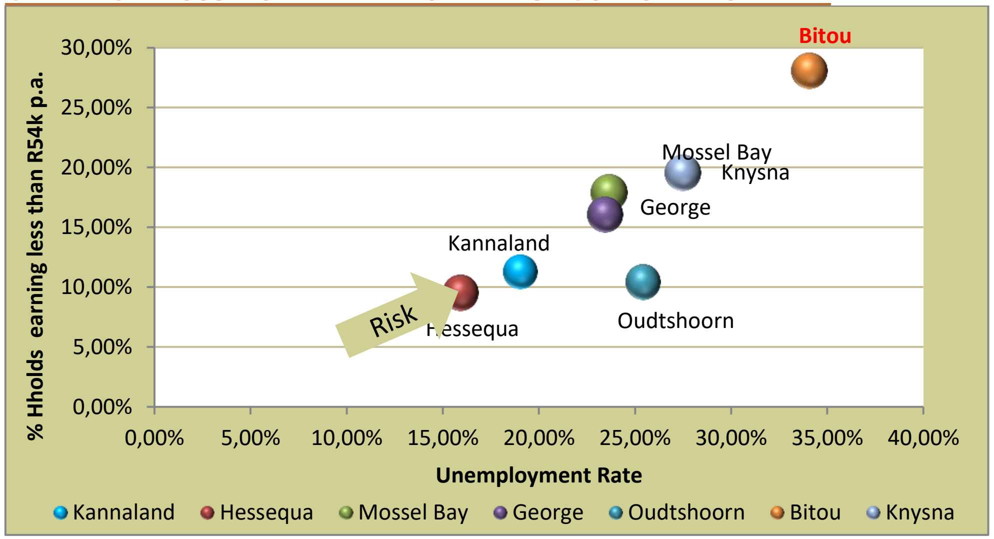
Future Revenues

Municipal Revenue Risk Indicator (MRRI) = "High"

Graph 36: Economic Risk Component of MRRI



Graph 37: Household Ability to Pay Risk Component of MRRI



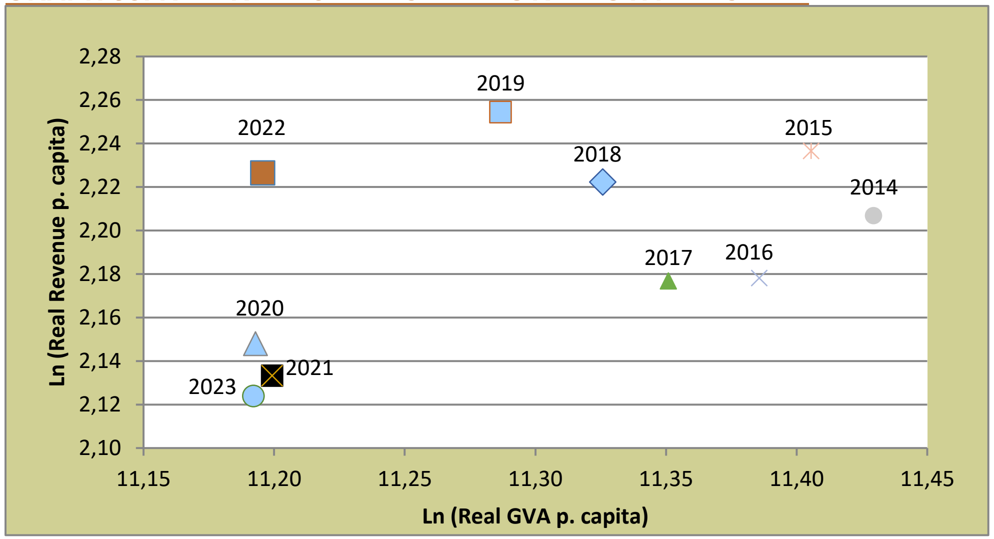
The Municipal Revenue Risk Indicator (MRRI) measures the risk of the municipality's ability to generate its own revenues. This is a function of the economy (size of the economy as measured by GVA per capita, GVA growth rate and Tress Index); and the household ability to pay (measured by percentage of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

Bitou has exhibited sluggish economic growth in recent years, as evidenced by the 5-year annual average GVA contraction of 0.43%. This is well exceeded by the annual average population growth rate of 2.66% over the same period. GVA per capita of R72 812 p.a. in 2022, as well as the reasonably high degree of diversification of Bitou's economy, all contribute to the "**High**" rating on the economic risk component of the MRRI. This is predominantly driven by a lack of economic growth.

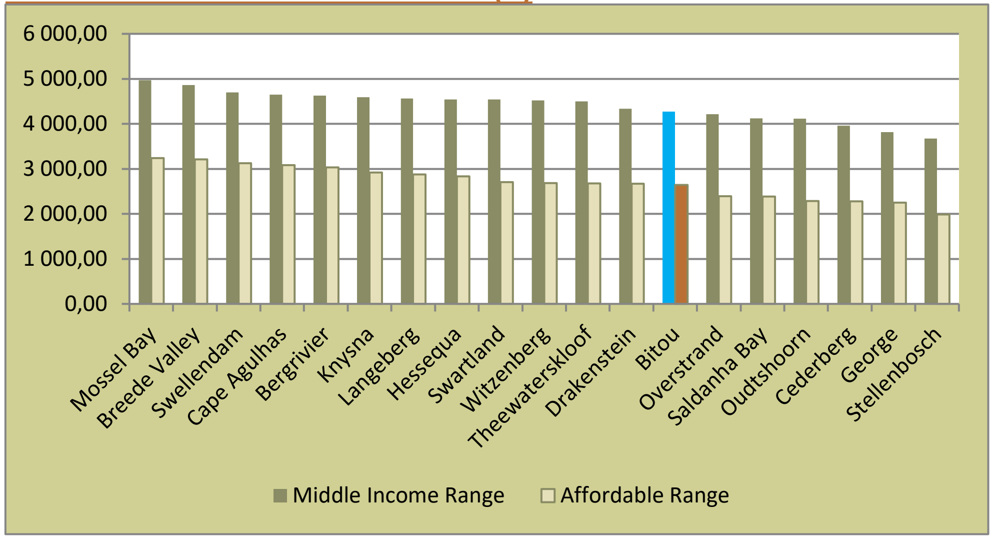
The percentage of indigent households reliant on support of 28.09%, the official unemployment rate of 34.06% and the human development index of 0.73 resulted in a **"High"** rating on the household ability to pay risk component of MRRI. The driving force behind this rating is the high rate of unemployment. It is noted that the various subsidies and rebates provided by the municipality in respect of services and rates will reduce the household ability to pay risk somewhat. This is further corroborated by the affordability of Bitou's average household bill as illustrated in Graph 39 below.

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

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



GRAPH 39: AVERAGE HOUSEHOLD BILL (R)



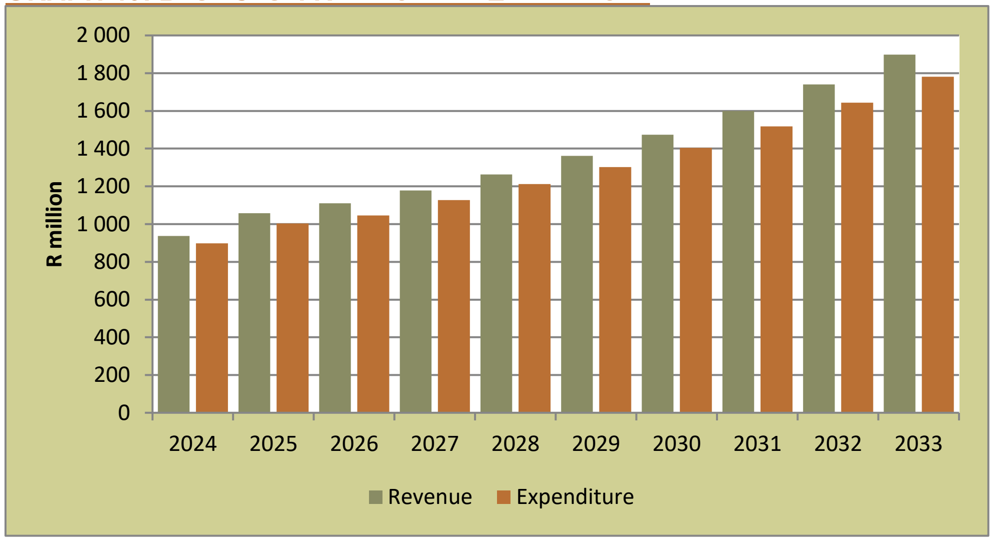
Real GVA per capita fluctuated throughout the review period. Economic growth has been on the decline since 2014 as evidenced by the constant leftward movement on GRAPH 38. While it is appreciated that the most significant decline was exhibited in 2020 as a result of the pandemic, it is evident that a lack of economic growth has been an issue for Bitou throughout the review period. Real municipal revenue (excluding capital transfers) per capita fluctuated during the review period, with a significant decline noted in 2020. A brief recovery was observed in 2022, however, a further decline was exhibited in 2023.

Concerning to note is the lack of economic recovery post-pandemic. The rapid rate of household formation creates complications for the municipality as many of the new inhabitants are of indigent status, placing further strain on municipal finances. The municipality is thus encouraged to create an enabling environment for economic growth. This municipality must enhance the perception of Bitou as an attractive environment for capital to be invested through ensuring a high level of service delivery is the norm.

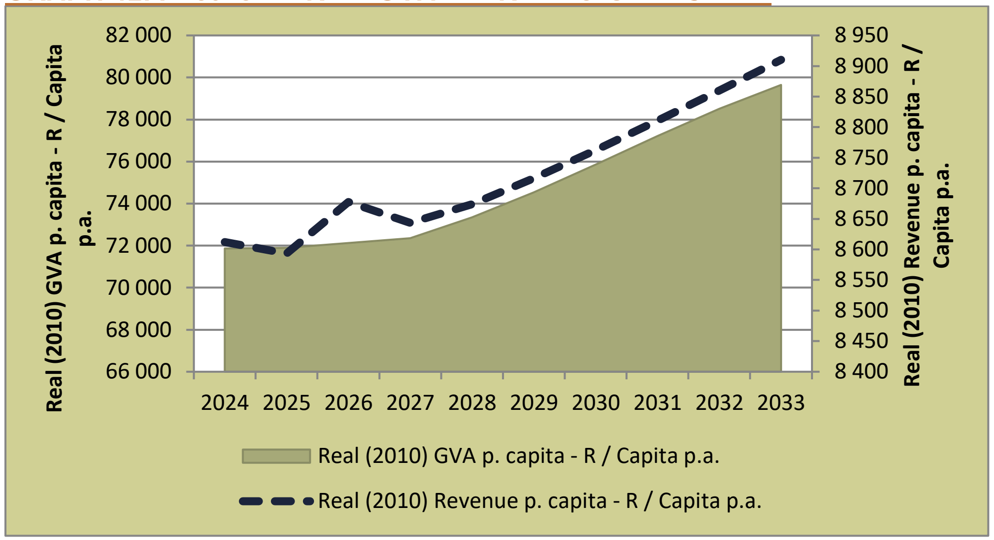
A comparison of the average household bill for the middle income and affordable income range of a selected number of municipalities in the Western Cape province (extracted from Budget Table: SA14) based on the 2023/24 tariffs, reveals that Bitou LM features marginally below the middle of the range. Considering the level of service provided by Bitou LM and the size of the municipality, the current household bill is reasonably low compared to other municipalities. This is further evidenced through comparison with the other municipalities in the district, which reveals that Bitou's average household bill is well below the district norm. The scope of the tariff increases is, however, limited by household's ability to pay for services.

Municipal Revenues

Graph 40: Base Case: Revenue and Expenditure



Graph 41: Projected Real GVA and Revenues per Capita

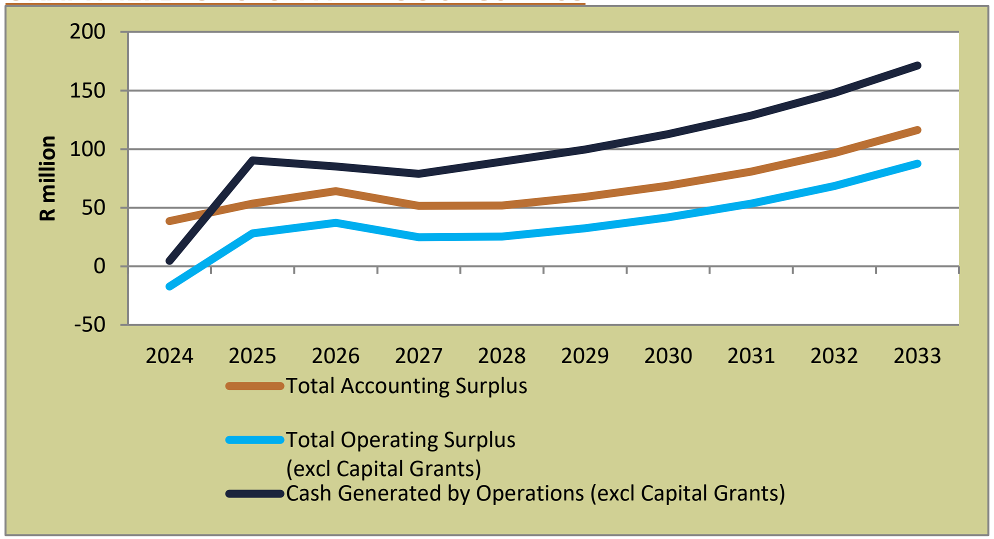


The Base Case estimates that, over the planning period, future nominal revenue (including capital grants) will grow at an average rate of 8.0% p.a. This growth in revenue includes: (i) tariff increases, (ii) increased sales and (iii) additional revenue sources. Future nominal expenditure is estimated to grow at a comparatively higher rate of 8.4% over the same period.

Graph 42 below indicates that Bitou is forecast to improve its financial performance in each year of the planning period, with operating surpluses forecast from FY2024/25 onwards. Electricity services are forecast to remain the predominant revenue item, followed by property rates. While Bitou seemingly managed to mitigate the impact of the energy crisis during FY2022/23, the risk of revenue loss remains high as the energy crisis has shown no signs of dissipating in the short-term. It is thus recommended that the municipality diversifies its revenue sources, as well as maximises revenue extracted from other sources as a measure of risk mitigation.

Real GVA per capita is forecast to increase by approximately 9.8% between 2023 and 2033, increasing from R72 551 p.a. to R79 647 p.a. over this period. Real revenue per capita is forecast to increase marginally over the review period from R8 838 in 2023 to R8 910 in 2033. Growth of the local economy is crucial to the municipality as it has a direct impact on the municipality's ability to generate revenue (MRRI). Growth of the local economy will result in an expansion of the municipality's revenue base, which will enable growth and an acceleration of the capital investment programme. This is particularly necessary to keep up with the growing population and associated increased demand for municipal services.

GRAPH 42: BASE CASE: ANALYSIS OF SURPLUS



The municipality is forecast to generate cash from its operations throughout the forecast period. The municipality is forecast to generate a significant R1 008 million in cash from operations over the planning period. This is underpinned by the assumed improvement of the collection rate to 90%. Should the municipality be able to achieve further improvements to, say, 93%, the ability to generate cash from operations will be enhanced further. It is essential that the Base Case collection rate is seen as a starting point and that further improvements are targeted thereafter.

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

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 significantly 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. However, for purposes of this report, affordability is the focus of concern.

TABLE 10: CAPEX DEMAND VS AFFORDABILITY

Total 10-year CAPEX **Demand:**	=	R 13 734 million
Total 10-year CAPEX **Affordability:**	=	R 1 284 million

MTREF Capital Funding Mix

Bitou's Adjustment Budget FY2023/24 to FY2025/26 expects a capital budget amounting to R318 million, funded as follows:

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

R'm	Total	2023/24	2024/25	2025/26
Public & Developers Contributions	**0**	0	0	0
Capital Grants	**108**	56	25	27
Financing	**126**	48	36	42
Cash Reserves and Funds	**84**	33	27	24
Total	**318**	**137**	**88**	**93**

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

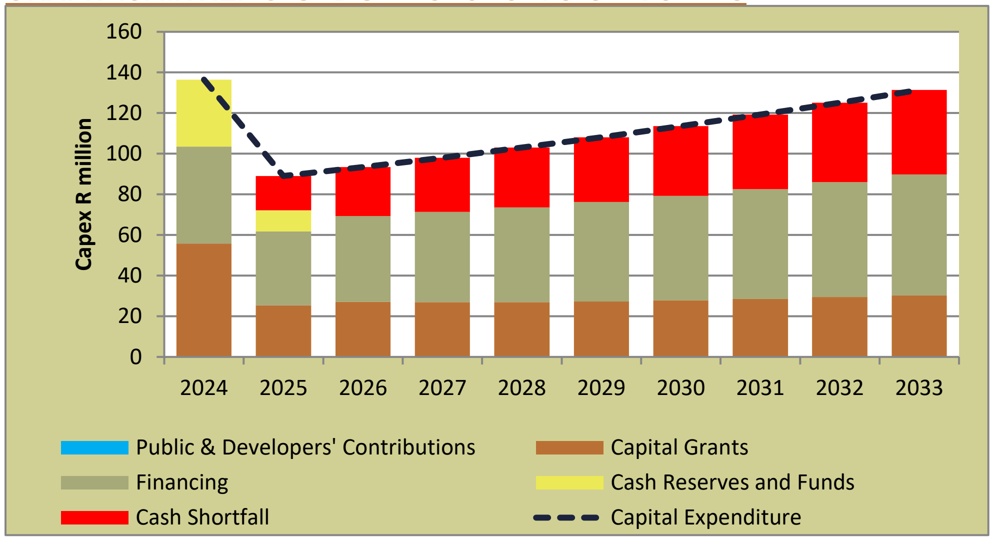
Source	Rm	%
Public & Developers' Contributions	0	0%
Capital Grants	299	23%
Financing	585	46%
Cash Reserves and Funds	400	31%
Cash Shortfall	0	0%
Capital Expenditure	**1 284**	**100%**

Bitou's historic capital investment programme was predominantly funded through capital grants, while borrowing was undertaken in 4 of the 8 years under review. Approximately 23% of the historic funding mix was funded through the municipality's own cash reserves, 16% through borrowing and the remaining 61% through capital grants. It is good practice to limit the utilisation of own cash to fund capital expenditure. The municipality undertook borrowings during FY2022/23 and has budgeted to continue this trend according to the Adjustment Budget.

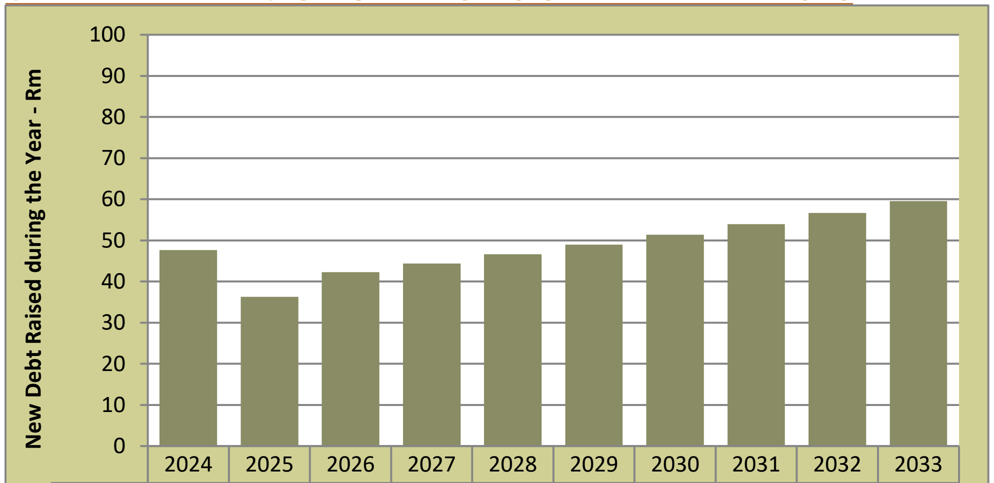
The MTREF Case capital investment programme is forecast to be unaffordable, as depicted in GRAPH 39 below. Cash shortfalls on forecast capital expenditure are expected from FY2024/25 onwards. This is addressed in the Base Case. The Base Case assumes a significantly accelerated borrowing programme which reduces the reliance on own cash reserves. This will alleviate pressure on the municipality's liquidity, whilst unlocking an affordable acceleration of the capital investment programme.

The MTREF Case's funding mix and annual borrowings are presented in the graphs below:

GRAPH 43: MTREF CASE DISTRIBUTION OF FUTURE FUNDING



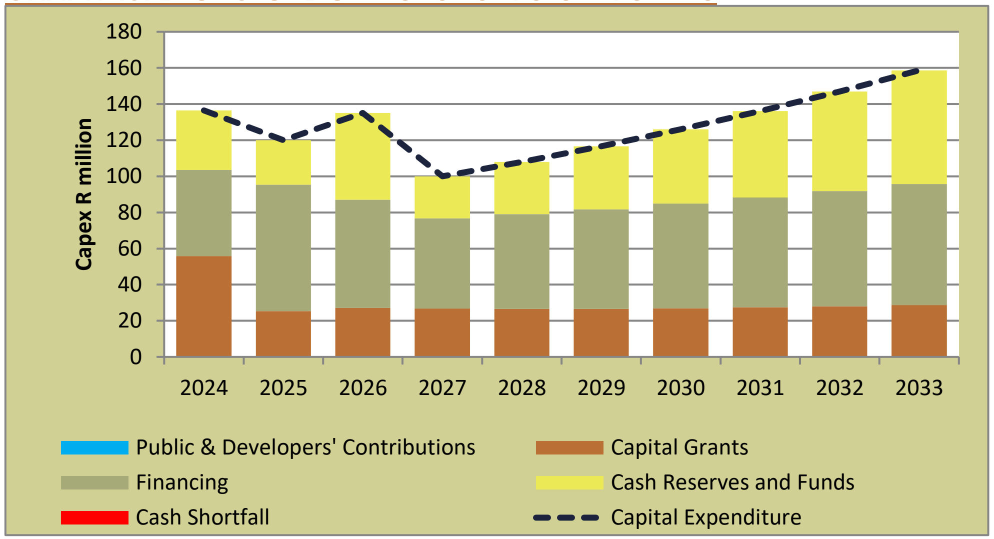
GRAPH 44: MTREF CASE ESTIMATE OF FUTURE EXTERNAL FINANCING



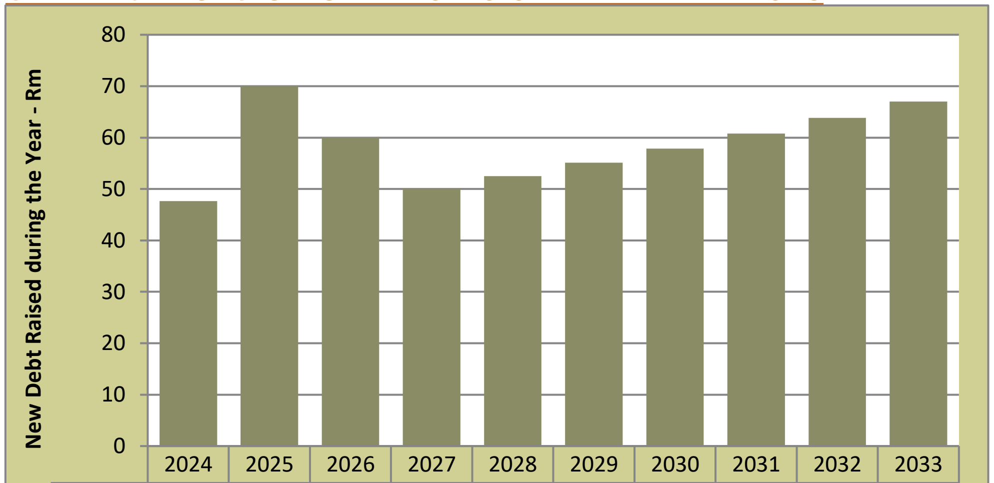
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
R million	48	36	42	44	47	49	51	54	57	60

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

GRAPH 45: BASE CASE DISTRIBUTION OF FUTURE FUNDING



GRAPH 46: BASE CASE ESTIMATE OF FUTURE EXTERNAL FINANCING



	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
R million	48	70	60	50	53	55	58	61	64	67

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

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

R'm	Total	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public & Developers' Contributions	0	0	0	0	0	0	0	0	0	0	0
Capital Grants	306	56	25	27	27	27	27	28	29	29	30
Financing	488	48	36	42	44	47	49	51	54	57	60
Cash Reserves and Funds	43	33	10	0	0	0	0	0	0	0	0
Cash Shortfall	281	0	17	24	27	29	32	34	37	39	42
Capital Expenditure	**1 117**	136	89	93	98	103	108	114	119	125	131

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

R'm	Total	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public & Developers' Contributions	0	0	0	0	0	0	0	0	0	0	0
Capital Grants	299	56	25	27	27	27	27	27	27	28	29
Financing	**585**	48	**70**	**60**	**50**	**53**	**55**	**58**	**61**	**64**	**67**
Cash Reserves and Funds	**400**	33	**25**	**48**	**23**	**29**	**35**	**41**	**48**	**55**	**63**
Cash Shortfall	0	0	0	0	0	0	0	0	0	0	0
Capital Expenditure	**1 284**	136	**120**	**135**	**100**	**108**	**117**	**126**	**136**	**147**	**159**

LIQUIDITY AND CAPITAL REPLACEMENT RESERVE

The minimum liquidity level caters for unspent conditional grants, cash-backed reserves, short-term provisions and 1-month's working capital (operating expenditure). The bank balance is forecast to improve over the planning period. This is supported by the adjusted funding mix as well as the assumed improvement to the collection rate. The municipality is forecast to meet the minimum liquidity requirement of 1-month's operating expenditure initially in FY2027/28, despite the accelerated capital expenditure programme. It would be prudent to continue to build liquidity levels to allow for the Capital Replacement Reserve to be built up to fund future capital expenditure.

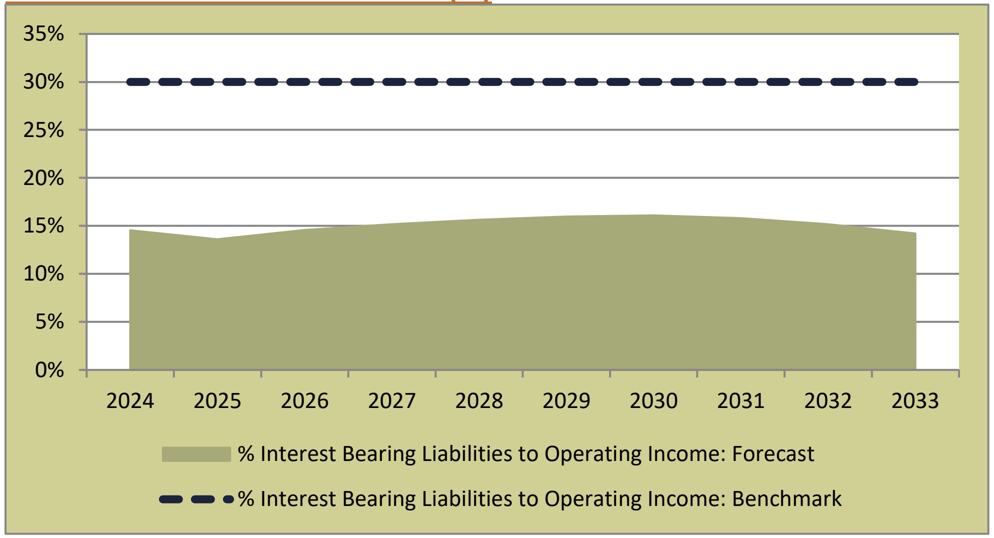
GEARING

The MTREF Case borrowing programme is unadjusted from the Adjustment Budget, with assumed annual growth beyond the MTREF period at 5.00%. The level of gearing is forecast to remain below the maximum recommended limit of 30.00% throughout the planning period with the gearing ratio forecast to peak at 16.09% in FY2029/30 before reducing to 14.20% by the end of the planning period. From a debt service point of view, the debt service to total expense ratio is forecast to peak at 4.99% in FY2032/33, thus remaining within the recommended limit of 7.00% throughout the planning period. This would suggest that the MTREF Case borrowing programme is affordable, with scope available to further accelerate borrowings over the planning period.

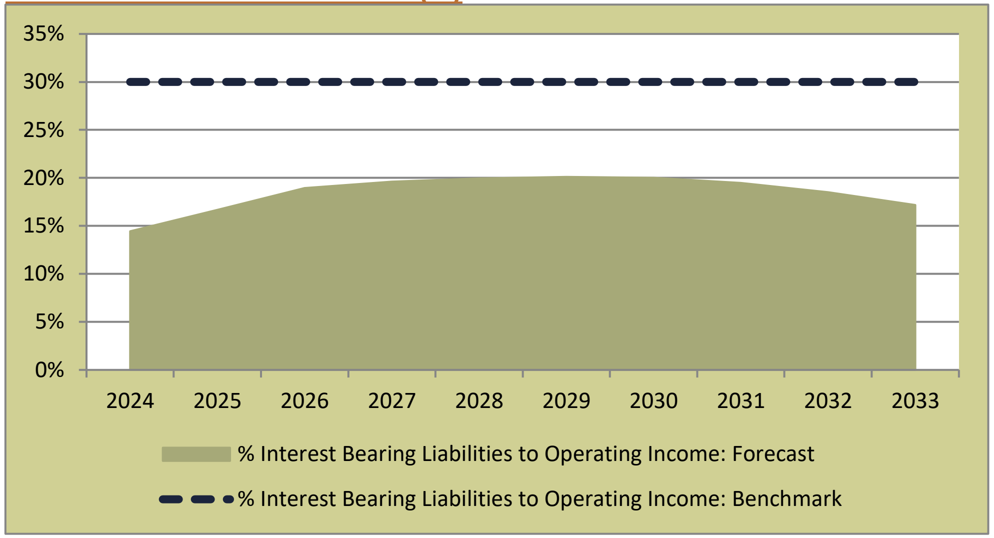
Adjustments were made to the capital investment programme and funding mix thereof, to arrive at the Base Case and its improved financial sustainability profile. The adjustments made in arriving at the Base Case are presented in TABLE 14 (highlighted in red text). The aim behind these adjustments was to utilise the scope to accelerate the borrowings programme to unlock an affordable acceleration of the capital investment programme. In so doing, borrowing was rapidly accelerated over the MTREF period. This allows the municipality to maintain an accelerated capital investment programme whilst allowing the liquidity position to be bolstered through limiting the utilisation of own cash during this period. Despite the extent of the acceleration of borrowings, the debt indicators are forecast to remain within their respective limits throughout the planning period. The gearing ratio is forecast to peak at 20.1% in FY2028/29 before reducing to 17.2% at the end of the planning period. The debt service to total expense ratio is forecast to peak at 6.0% at the end of the planning period. This underpins the affordability of the Base Case debt profile.

The Base Case reflects a notable acceleration of capital investment. This acceleration is achieved predominantly through the accelerated borrowing programme. The aim of this is to take advantage of the scope for additional borrowing provided for by the current debt profile. This unlocks an affordable acceleration of the capital investment programme that does not hinder the liquidity position. This is underpinned by the sustainable planning period end liquidity ratio of 1.6:1.

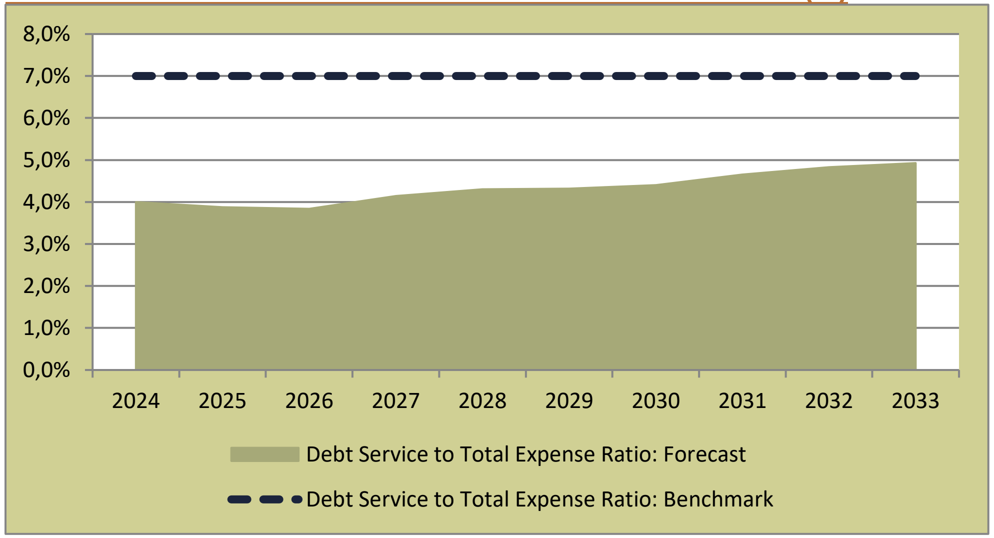
GRAPH 47: MTREF CASE GEARING (%)



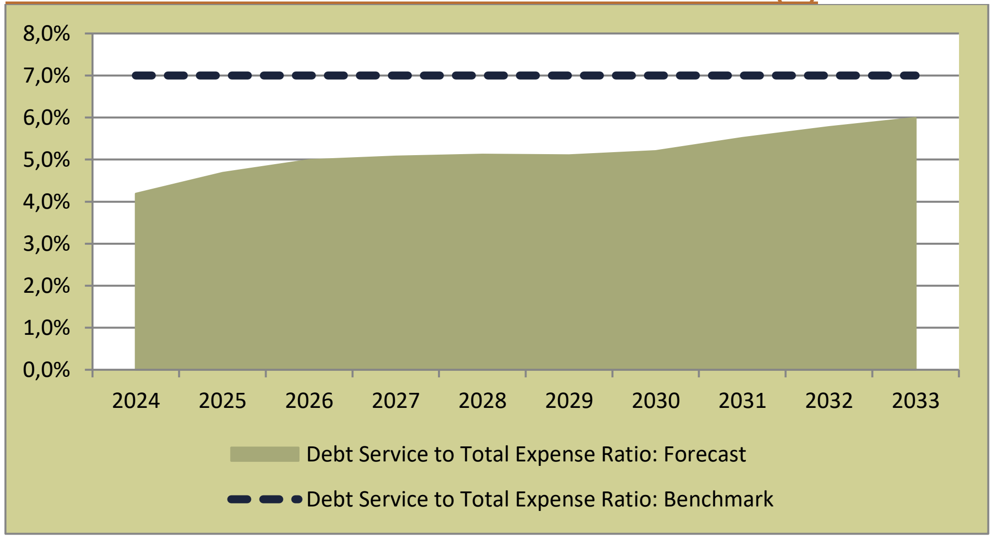
GRAPH 49: BASE CASE GEARING (%)



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



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



SCENARIOS ANALYSIS

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

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

    1.1. A positive and negative scenario indicating the impact of movements in the collection rate of 2 percentage points from the Base Case. All other input variables are assumed to be consistent with the Base Case.

2. **To indicate the sensitivity of operating expenditure on long-term financial sustainability:**

    2.1. A positive and negative scenario indicating the impact of movements in operating expenditure of 2 percentage points from the Base Case. All other input variables are assumed to be consistent with the Base Case.

3. **To indicate the sensitivity of the loan tenor on new debt on long-term financial sustainability:**

    3.1. A scenario indicating the impact of increasing the average loan tenor to 12 years. All other input variables are assumed to be consistent with the Base Case.

4. **To indicate the impact of an acceleration of capital investment on long-term financial sustainability:**

    4.1. A scenario indicating the impact of accelerating the capital investment programme. This scenario follows on from Scenario 3, with the average loan tenor on new debt in this scenario maintained at 12 years. Additionally, borrowing was accelerated from the Base Case. All other input variables are assumed to be consistent with the Base Case.

Scenario 1: Sensitivity Analysis on the Collection Rate

The current economic climate in which Bitou must operate is littered with challenges such as geopolitical instability, the energy crisis, logistical inefficiencies as well as a high inflationary environment. All of these challenges have a profound impact on municipalities and households alike. The municipality's ability to extract revenue from households is severely tested in these times, as households come under increasing pressure to service their municipal bills. A lack of economic growth within the municipality exacerbates these challenges. In light of the above, it is feasible that should these economic conditions persist, a decline in the collection rate may occur. On the other hand, should the impact of the energy crisis or logistical inefficiencies begin to wane, then an increase in the collection rate is not out of the realms of possibilities. As such, in order to gain a holistic sense of the sensitivity of Bitou's financial situation to movements in the collection rate, this scenario assesses the impact of both positive and negative movements of 2% in the collection rate from the Base Case level.

On the negative side whereby the collection rate is reduced by 2%, the impact thereof is significant. Financial performance and cash generation are forecast to suffer considerably, with the municipality forecast to generate R223 million (22.2%) less in cash from operations over the forecast period as compared to the Base Case. This is forecast to translate into a significantly reduced bank balance at the end of the planning period (R130 million vs R354 million in the Base Case). As indicated in the graphs below, the municipality is forecast to fall short of the minimum liquidity requirements throughout the planning period. Furthermore, the planning period end liquidity ratio of 0.9:1 is barely unsustainable.

On the positive side where the collection rate is improved by a further 2%, the ability to generate cash from operations is forecast to improve markedly with an additional 22.2% in cash forecast to be generated over the planning period. This is forecast to translate into an additional R223 million in cash on hand at the end of the planning period. This can be of immense benefit to Bitou, if put to productive use. The planning period end liquidity ratio of 2.3:1 is healthy and a strong indicator of long-term financial sustainability.

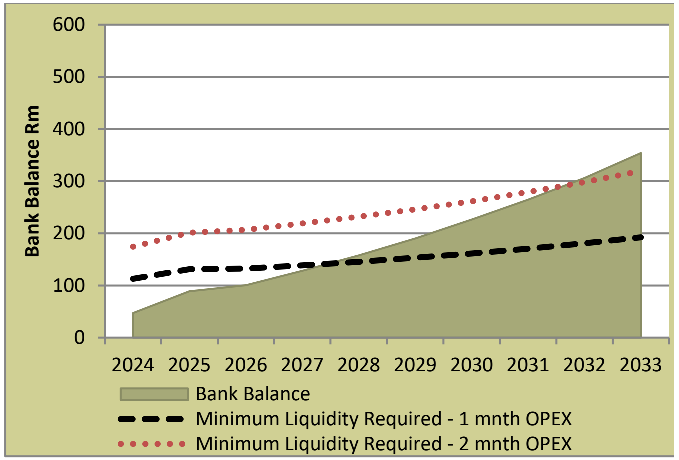
The outcomes of this scenario are evidence of the critical nature of maintaining a high collection rate. Bitou must endeavour to utilise the Base Case collection rate as a starting point, however, the benefits of improving the collection rate beyond that point or evident in the outcomes of this scenario.

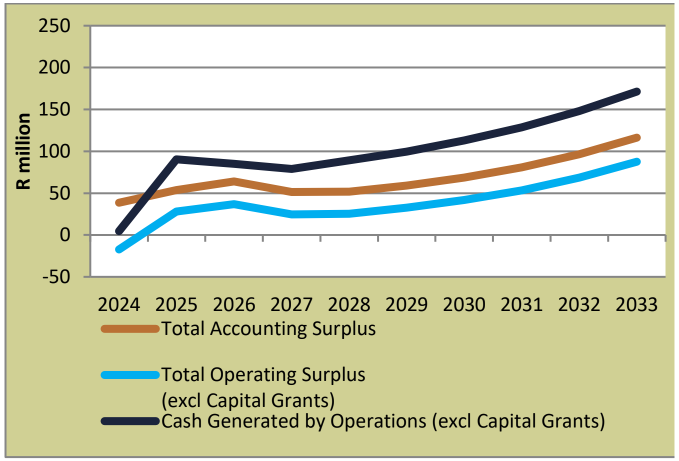
Table 15: Scenario 1: Sensitivity Analysis on the Collection Rate

Outcome	Base Case	Collection Rate -2%	Collection Rate +2%
Average annual % increase in Revenue	8,0%	8,0%	8,1%
Average annual % increase in Expenditure	8,4%	8,5%	8,2%
Accounting Surplus accumulated during Planning. Period (Rm)	R 681	R 457	R 905
Operating Surplus accumulated during Planning. Period (Rm)	**R 382**	**R 158**	**R 605**
Cash generated by Operations during Planning. Period (Rm)	**R 1 008**	**R 785**	**R 1 232**
Average annual increase in Gross Consumer Debtors	8,6%	10,3%	6,7%
Capital investment programme during Planning. Period (Rm)	R 1 284	R 1 284	R 1 284
External Loan Financing during Planning Period (Rm)	R 585	R 585	R 585
Cash and Cash Equivalents at the end of the Planning Period (Rm)	**R 354**	**R 130**	**R 577**
No of Months Cash Cover at the end of the Planning Period (Rm)	**2,8**	**1,0**	**4,5**
Liquidity Ratio at the end of the Planning Period	**1.6 : 1**	**0.9 : 1**	**2.3 : 1**
Gearing at the end of the Planning Period	17,2%	17,3%	17,1%
Debt Service to Total Expense Ratio at the end of the Planning Period	6,0%	5,9%	6,1%

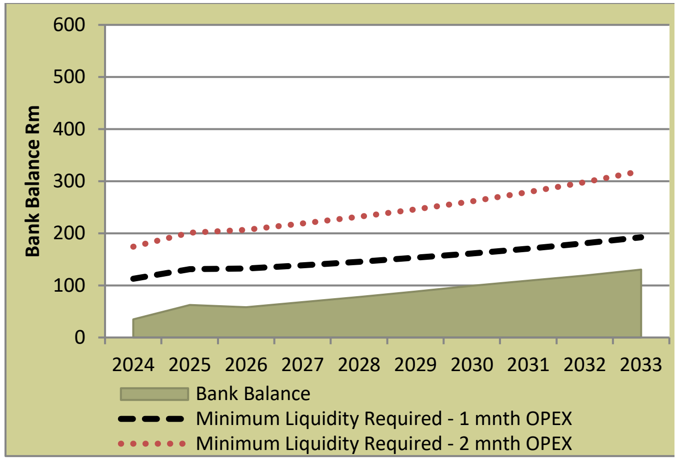
Scenario 1: Sensitivity Analysis on the Collection Rate

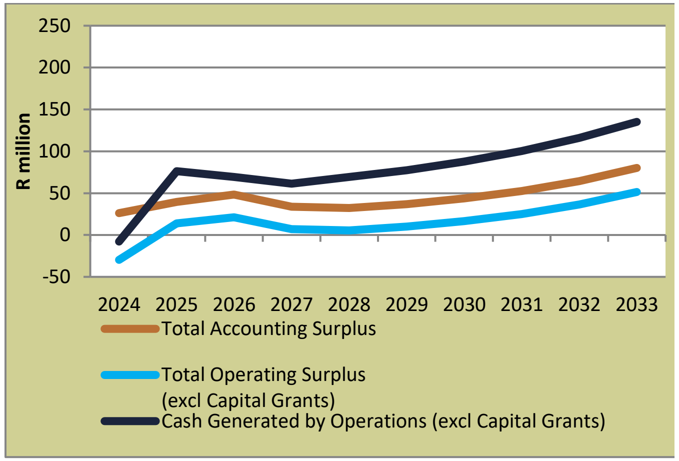
Base Case Scenario



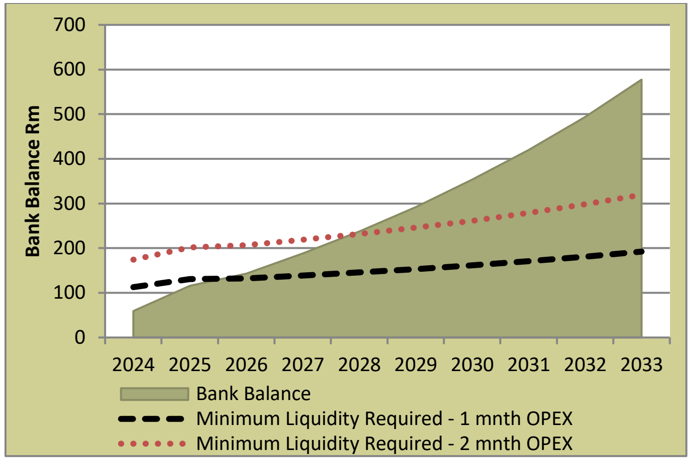


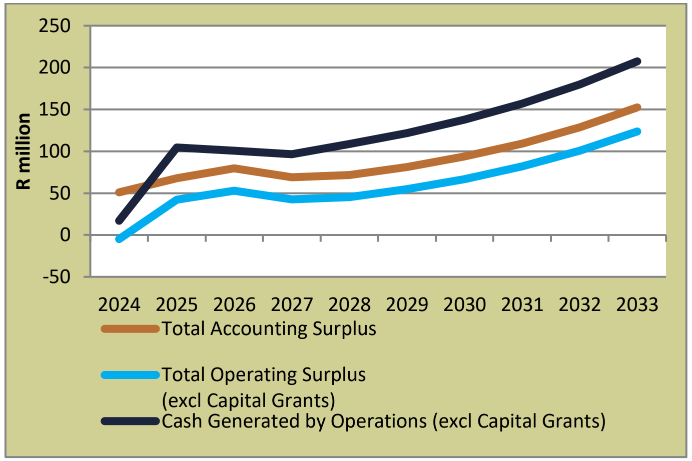
Reduce Collection Rate by 2%





Increase Collection Rate by 2%





SCENARIO 2: SENSITIVITY ANALYSIS ON OPEX

The challenging economic environment that is characterised by the myriad of issues mentioned above not only threaten the municipality's revenue generation efforts, but also place significant pressure on the municipality's operating expenditure budget. Additional expenditure in the form of generators, diesel etc to combat the impact of load shedding place the municipality's operational management under increased pressure. These challenges can feasibly lead to an increase in operating expenditure, as has been the case in many municipalities. However, Bitou performed admirably in FY2022/23, managing to reduce its operational expenditure by 1.1%. As such, this scenario assesses the impact of both positive and negative movements of 2% on operating expenditure from the Base Case level.

The impact of a reduction of 2% of operating expenditure is considerable. Financial performance is forecast to improve significantly, with the accumulated operating surplus forecast to improve by R180 million over the planning period. Moreover, an additional R179 million in cash is forecast to be generated by operations over the planning period. The liquidity ratio is forecast to improve to a healthy 2.2:1 by the end of the planning period. Finally, the municipality is forecast to hold sufficient cash to meet the minimum liquidity requirement of 1-month's operating expenditure from FY2025/26 onwards. This is a key indicator of long-term sustainability.

On the negative side, the impact of an increase of 2% in operating expenditure is significant. The deterioration of financial performance is forecast to be considerable and is forecast to translate into a decline of 50.5% million in the planning period end bank balance to R175 million. This is forecast to result in a decline in the liquidity ratio to 1.1:1. Additionally, the municipality's cash position is forecast to fall short of minimum liquidity requirements throughout the planning period.

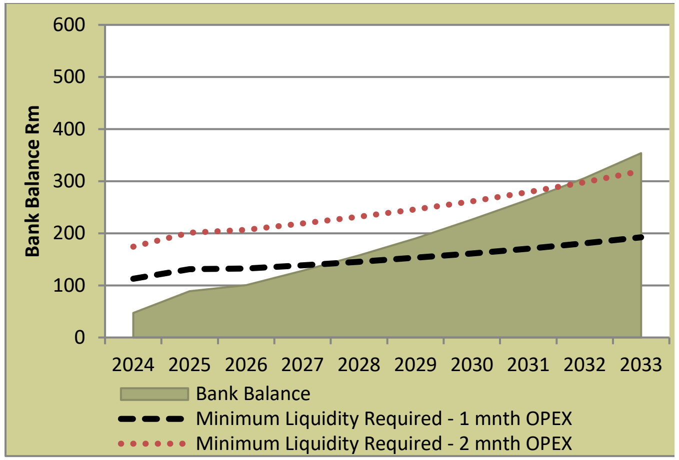
The outcomes of this scenario reflect the highly sensitive nature of the municipality's financial situation to movement in operating expenditure. Should the municipality manage to maintain prudent financial and operational management, the positive benefits of containing operating expenditure are significant. These benefits will compound should this be achieved in conjunction with an improvement in the collection rate.

TABLE 16: SCENARIO 2: SENSITIVITY ANALYSIS ON OPEX

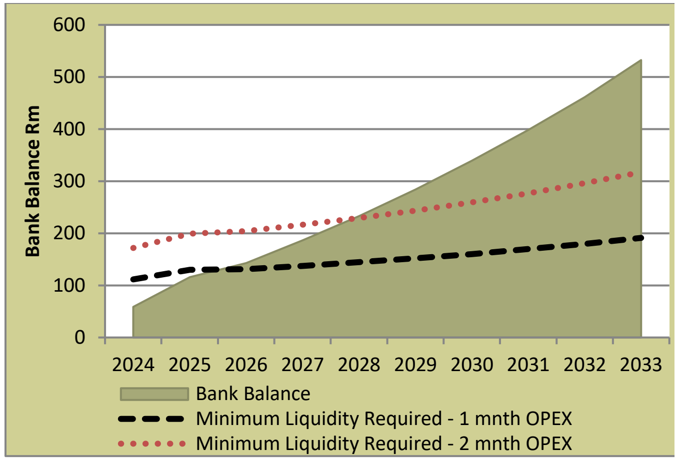
Outcome	Base Case	Opex -2%	Opex +2%
Average annual % increase in Revenue	8,0%	8,1%	8,0%
Average annual % increase in Expenditure	8,4%	8,3%	8,5%
Accounting Surplus accumulated during Planning. Period (Rm)	R 681	R 861	R 501
Operating Surplus accumulated during Planning. Period (Rm)	**R 382**	**R 562**	**R 201**
Cash generated by Operations during Planning. Period (Rm)	**R 1 008**	**R 1 187**	**R 830**
Average annual increase in Gross Consumer Debtors	8,6%	8,6%	8,6%
Capital investment programme during Planning. Period (Rm)	R 1 284	R 1 284	R 1 284
External Loan Financing during Planning Period (Rm)	R 585	R 585	R 585
Cash and Cash Equivalents at the end of the Planning Period (Rm)	**R 354**	**R 532**	**R 175**
No of Months Cash Cover at the end of the Planning Period (Rm)	**2,8**	**4,2**	**1,4**
Liquidity Ratio at the end of the Planning Period	**1.6 : 1**	**2.2 : 1**	**1.1 : 1**
Gearing at the end of the Planning Period	17,2%	17,1%	17,3%
Debt Service to Total Expense Ratio at the end of the Planning Period	6,0%	6,0%	5,9%

SCENARIO 2: SENSITIVITY ANALYSIS ON OPERATING EXPENDITURE

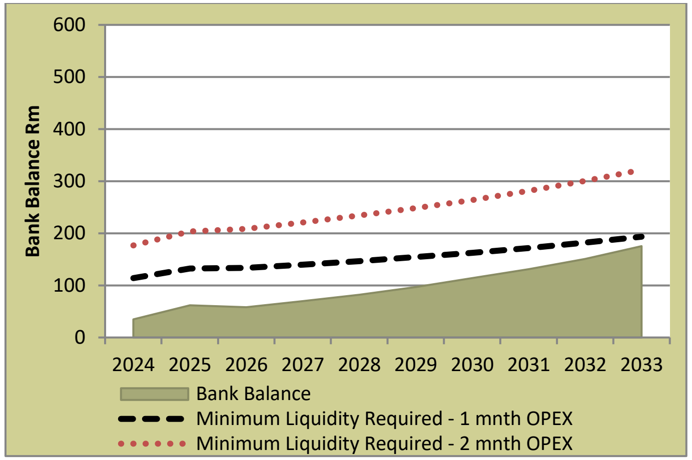
BASE CASE SCENARIO

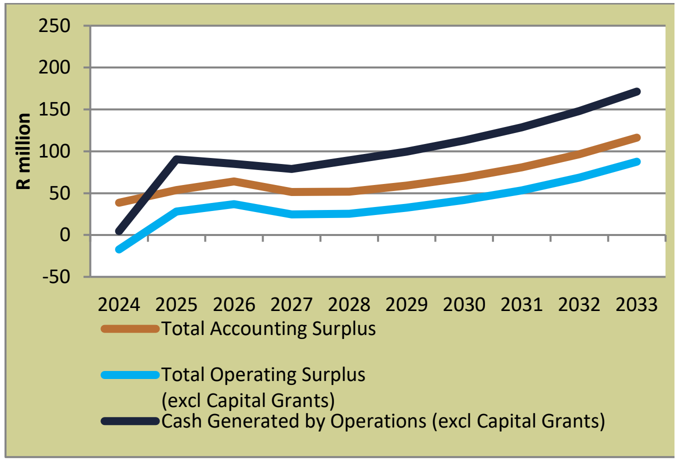


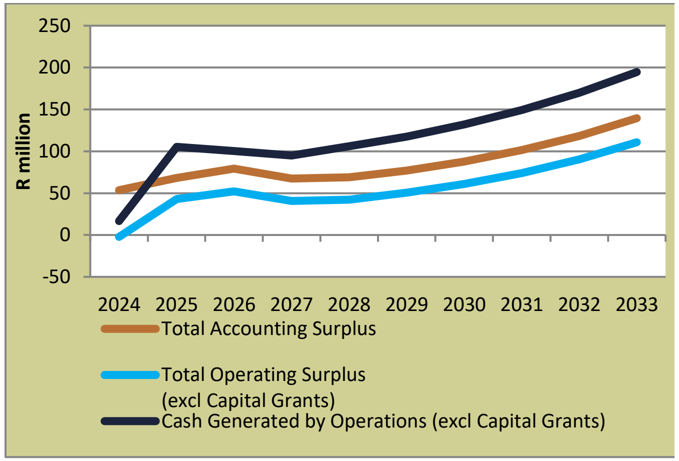
REDUCE OPEX BY 2%

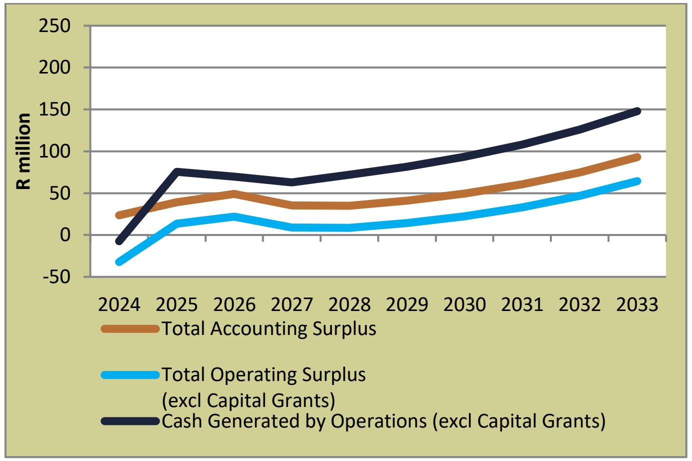


INCREASE OPEX BY 2%









SCENARIO 3: EXTENDED LOAN TENOR

Bitou undertook borrowings in FY2022/23 to supplement capital grants and own cash in funding the capital investment programme. Additionally, the municipality has budgeted to undertake borrowings throughout the MTREF period according to the Adjustment Budget. The Base Case reflects an accelerated capital investment programme that is facilitated through an accelerated borrowings programme. The Base Case assumes an average loan tenor of 10 years. This scenario analyses the impact of extending the average loan tenor on new debt to 12 years. This has the impact of reducing annual debt service charges through extending the period of time over which the debt must be repaid. The impact of this adjustment is reflected in TABLE 17.

The main focus of this scenario is on the impact on the liquidity position. Marginal movements are forecast in financial performance and cash generation. The reduction of annual debt service charges is forecast to result in an additional R59 million in available cash at the end of the planning period. Moreover, the liquidity position is forecast to improve as evidenced by the widening gap between current assets and liabilities in the graph below. This is forecast to translate into an improvement in the liquidity ratio to 1.9:1 as at FYE2032/33. Sufficient cash will be held to meet the minimum liquidity requirement of 1-month's operating expenditure from FY2026/27 onwards. This is a key indicator of long-term sustainability.

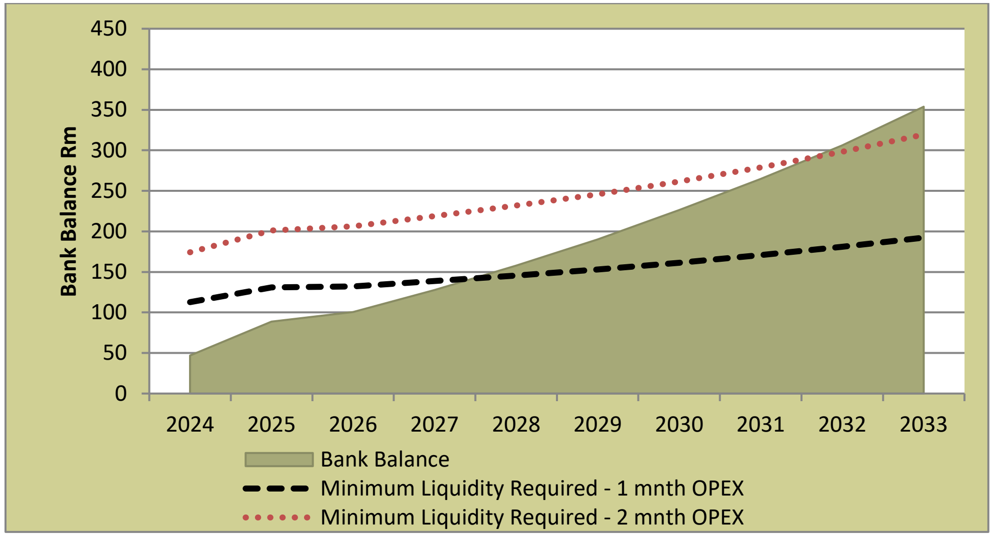
The impact of extending the average loan tenor on the debt indicators is explained below. Through extending the period of time over which the debt must be repaid, a higher degree of debt will remain on the municipality's books for a longer period. This is reflected in the increase in the gearing ratio to 20.9% at the end of the planning period. The increase notwithstanding, this remains affordable. The reduction of annual debt service charges is reflected in the reduced planning period end debt service to total expense ratio of 5.5%. Based on the scenario outcomes, it is our view that an extension of the average loan tenor would be beneficial to the municipality and as such, is something for Bitou to consider.

TABLE 17: SCENARIO 3: EXTENDED LOAN TENOR

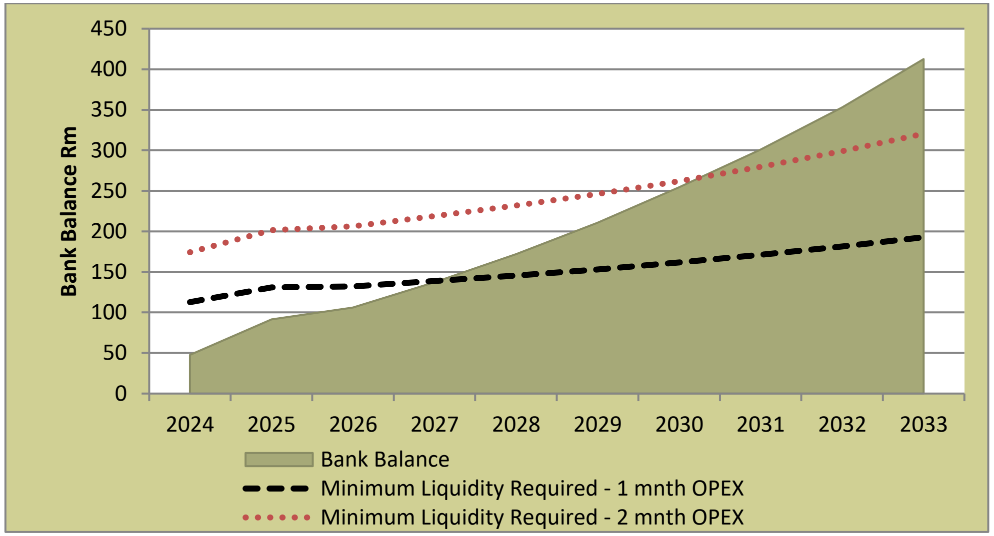
Outcome	Base Case	Extended Loan Tenor
Average annual % increase in Revenue	8,0%	8,0%
Average annual % increase in Expenditure	8,4%	8,4%
Accounting Surplus accumulated during Planning. Period (Rm)	R 681	R 670
Operating Surplus accumulated during Planning. Period (Rm)	**R 382**	**R 371**
Cash generated by Operations during Planning. Period (Rm)	**R 1 008**	**R 997**
Average annual increase in Gross Consumer Debtors	8,6%	8,6%
Capital investment programme during Planning. Period (Rm)	R 1 284	R 1 284
External Loan Financing during Planning Period (Rm)	R 585	R 585
Cash and Cash Equivalents at the end of the Planning Period (Rm)	**R 354**	**R 413**
No of Months Cash Cover at the end of the Planning Period (Rm)	**2,8**	**3,2**
Liquidity Ratio at the end of the Planning Period	**1.6 : 1**	**1.9 : 1**
Gearing at the end of the Planning Period	**17,2%**	**20,9%**
Debt Service to Total Expense Ratio at the end of the Planning Period	**6,0%**	**5,5%**

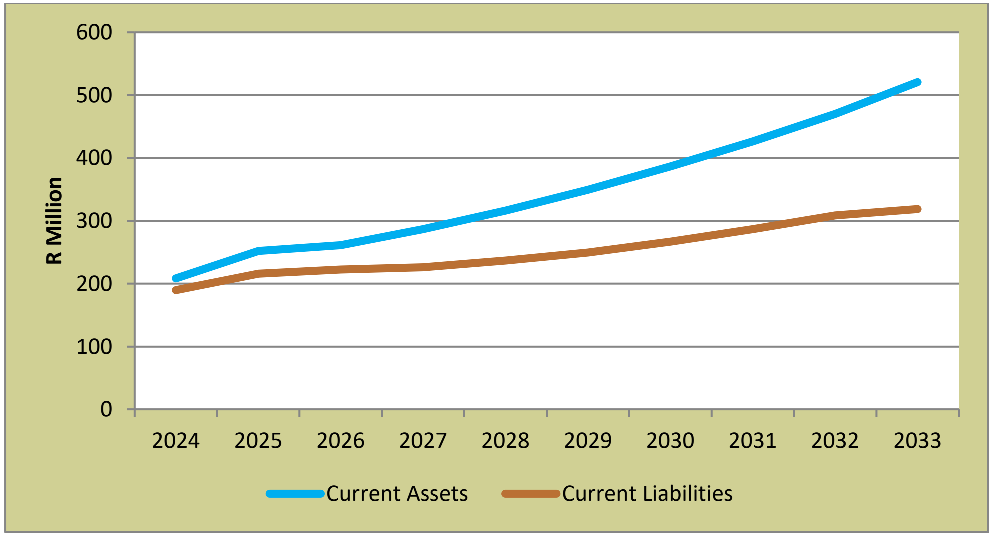
Scenario 3: Extended Loan Tenor

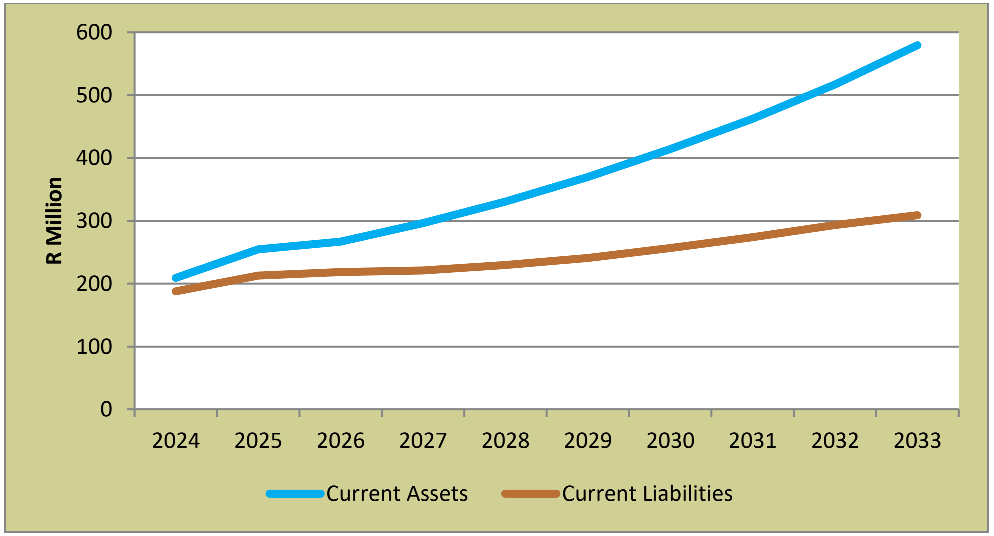
Base Case Scenario



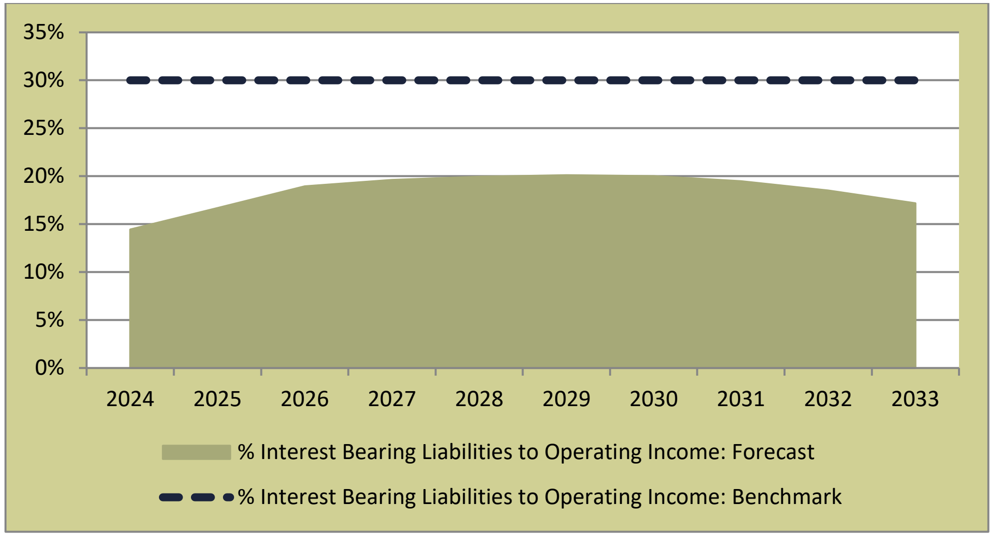
Extended Loan Tenor

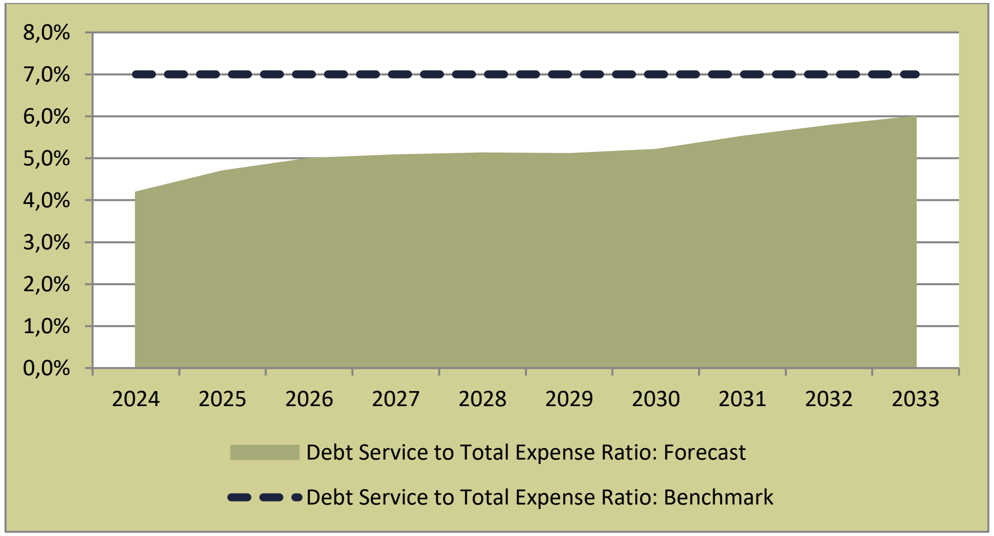




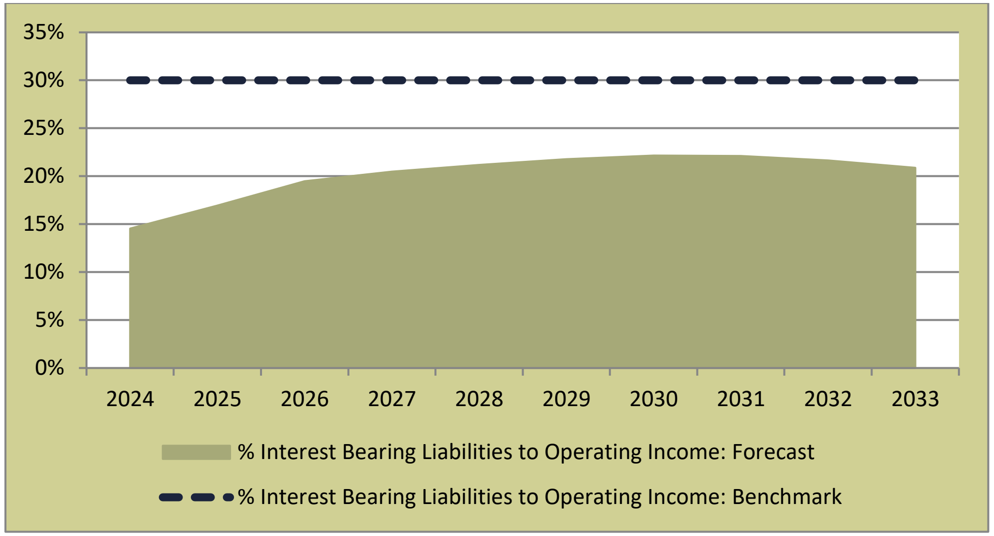


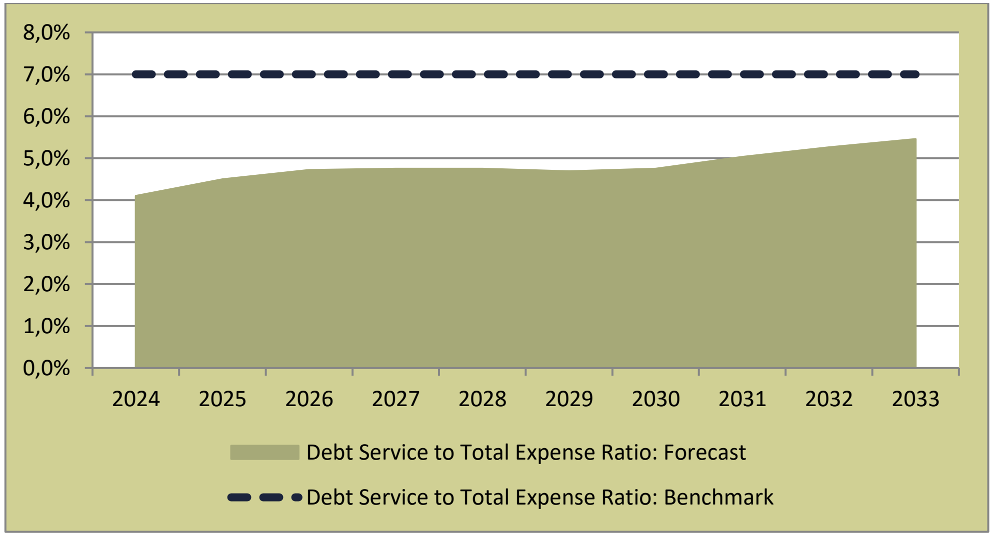
Base Case Scenario





Extended Loan Tenor





Scenario 4: Accelerated Capex

The Base Case includes an accelerated capital investment programme as compared to the Adjustment Budget. This is facilitated through an accelerated borrowing programme. This scenario follows on from Scenario 3 in that it maintains the extended loan tenor of 12 years. To further build on Scenario 3, this scenario assesses the extent to which the capital investment programme can be affordably accelerated. This is done by accelerating borrowing and capital expenditure as much as possible whilst maintaining the Base Case levels of liquidity in the final outcomes.

As such, an additional R147 million (25.2%) in borrowings are assumed to be undertaken over the planning period. This, along with the extended loan tenor of 12 years, facilitates a further acceleration of R114 million (8.9%) in capital expenditure over the planning period. This is achieved whilst maintaining the healthy levels of liquidity as presented in the Base Case. Financial performance is forecast to decline due to the additional charges to service the debt. However, this does not come at the expense of the liquidity position. The debt indicators are forecast to increase but will remain below their respective limits throughout the planning period.

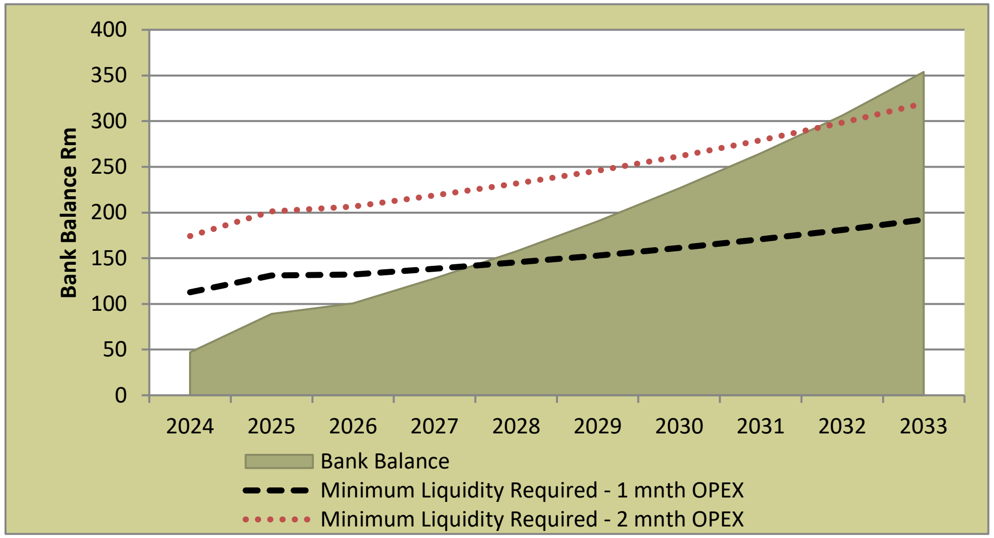
Notwithstanding the additional debt service charges and additional capital outlay, the outcomes of this scenario reflect a sustainable outcome characterised by a healthy, sustainable liquidity position. This highlights the sustainability of the accelerated capital investment programme included in this scenario as well as the significant benefits that can be derived by extending the average loan tenor by just 2 years. The additional capital investment underpinned by an affordable borrowing programme will be of immense benefit to the municipality in executing on its primary mandate of delivering high quality services to its communities.

TABLE 18: SCENARIO 4: ACCELERATED CAPEX

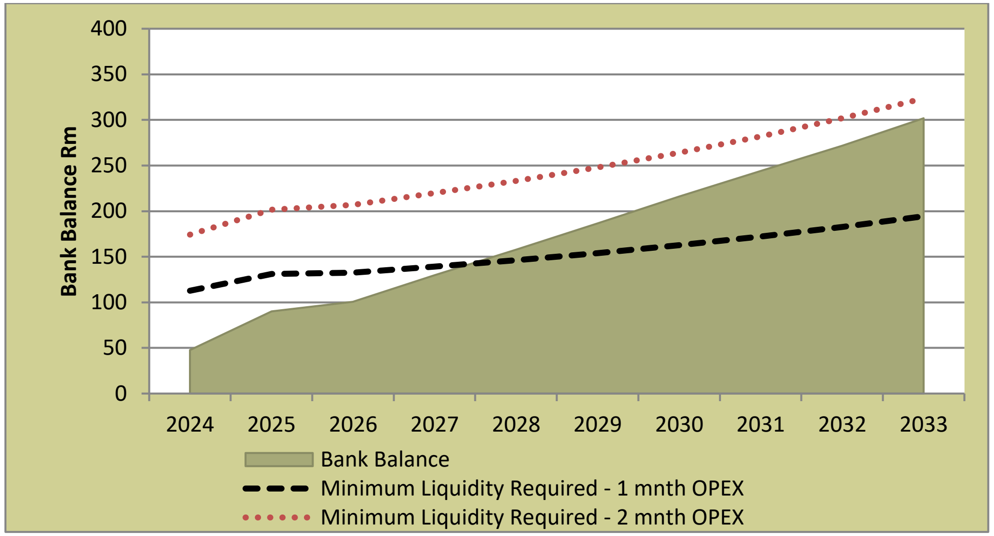
Outcome	Base Case	Accelerated Capex
Average annual % increase in Revenue	8,0%	8,0%
Average annual % increase in Expenditure	8,4%	8,5%
Accounting Surplus accumulated during Planning. Period (Rm)	R 681	R 552
Operating Surplus accumulated during Planning. Period (Rm)	**R 382**	**R 253**
Cash generated by Operations during Planning. Period (Rm)	**R 1 008**	**R 893**
Average annual increase in Gross Consumer Debtors	8,6%	8,6%
Capital investment programme during Planning. Period (Rm)	**R 1 284**	**R 1 398**
External Loan Financing during Planning Period (Rm)	**R 585**	**R 732**
Cash and Cash Equivalents at the end of the Planning Period (Rm)	**R 354**	**R 302**
No of Months Cash Cover at the end of the Planning Period (Rm)	**2,8**	**2,3**
Liquidity Ratio at the end of the Planning Period	**1.6 : 1**	**1.5 : 1**
Gearing at the end of the Planning Period	**17,2%**	**26,7%**
Debt Service to Total Expense Ratio at the end of the Planning Period	**6,0%**	**6,7%**

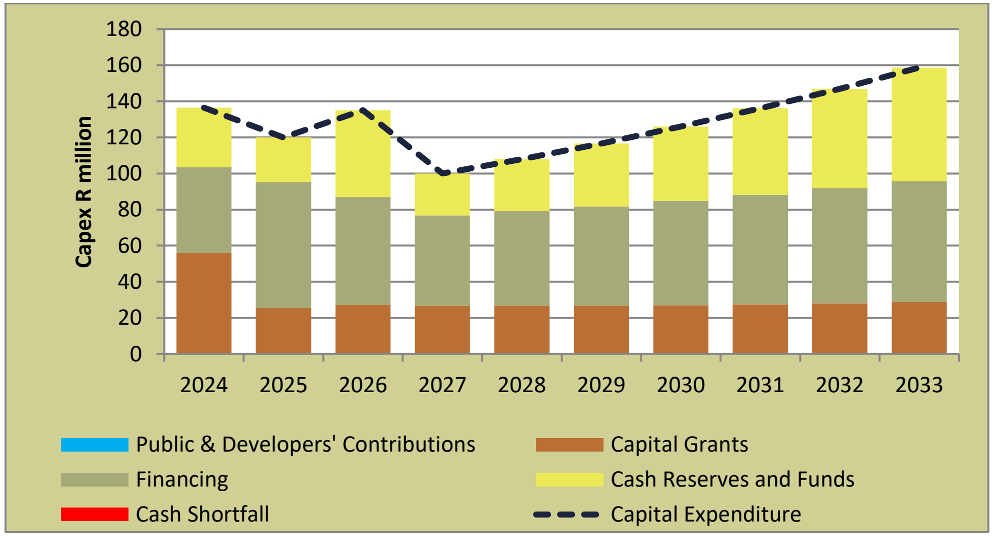
Scenario 4: Accelerated Capex

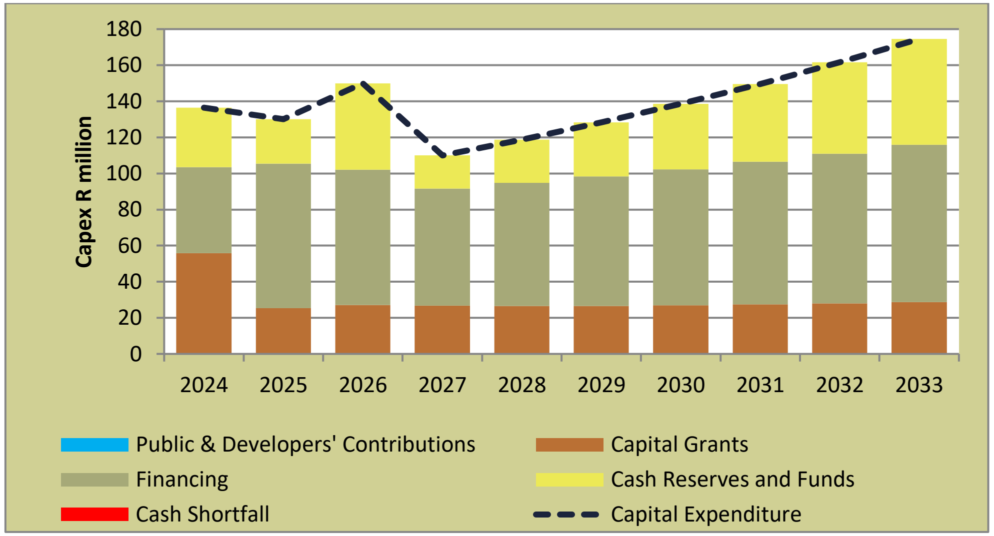
Base Case Scenario



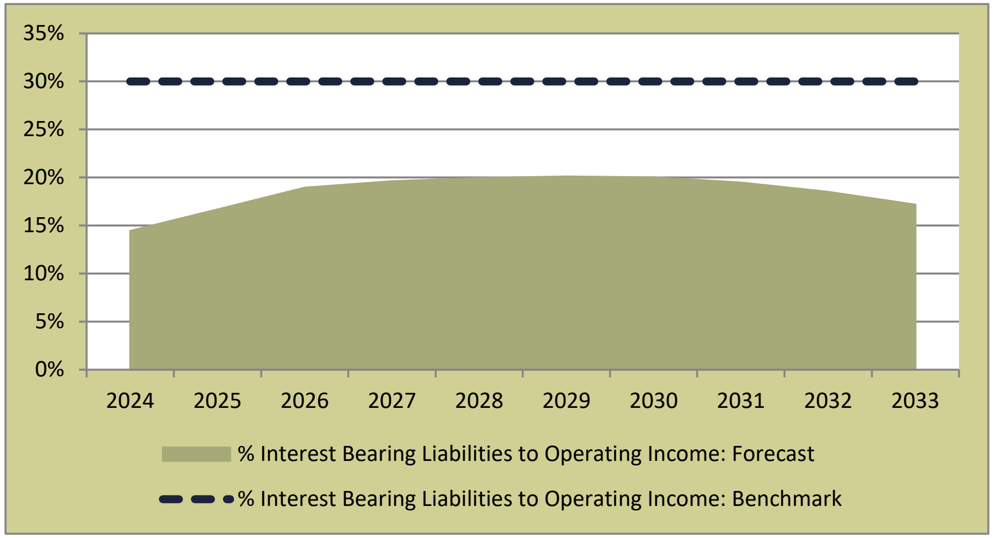
Accelerated Capex Scenario

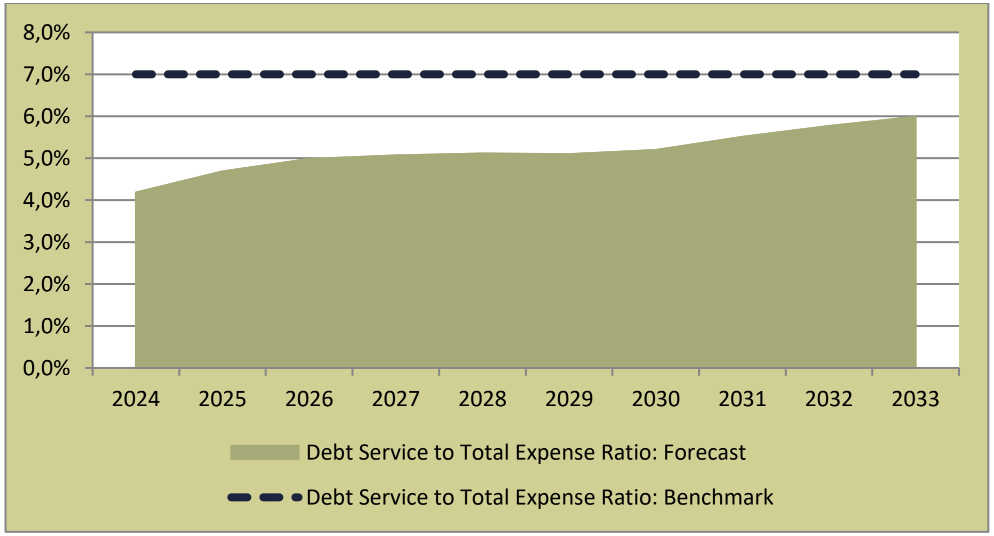




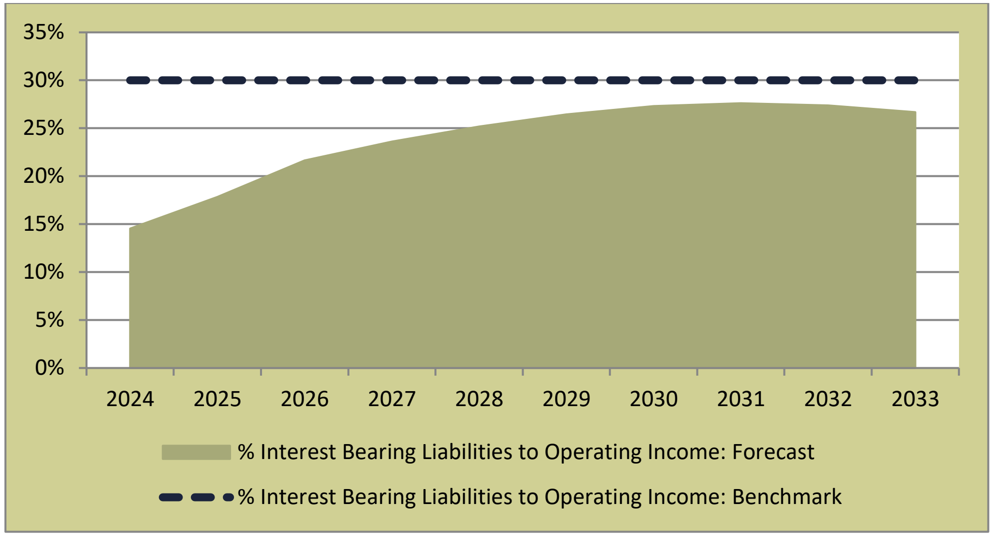


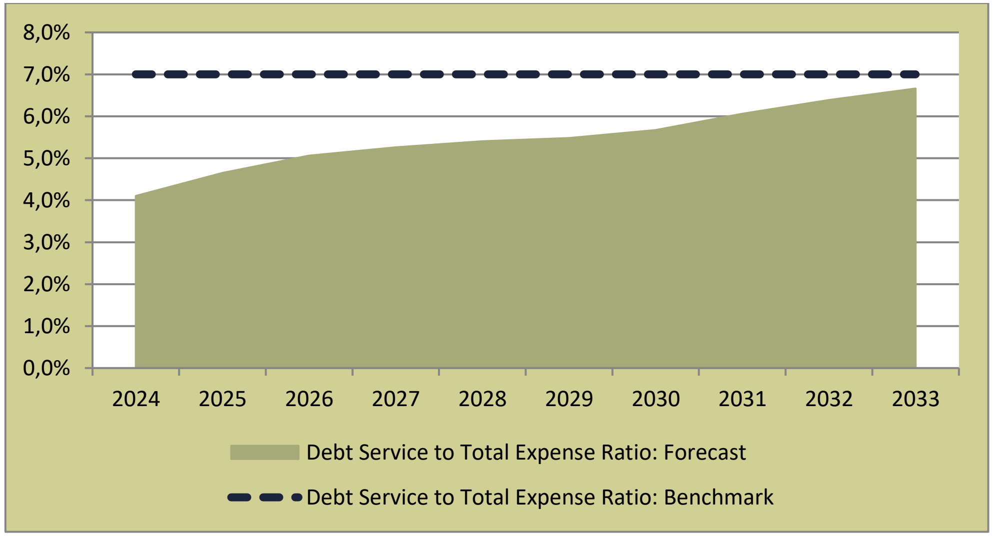
Base Case Scenario





Accelerated Capex 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	2024	2026	2028	2030	2032	2033	COMMENTS
FINANCIAL POSITION									
ASSET MANAGEMENT									
R29	Capital Expenditure / Total Expenditure	10% - 20%	13,2%	11,4%	8,2%	8,2%	8,2%	8,2%	CAPEX as a % of Total Expenditure will fluctuate around the low end of the recommended range during the planning period.
R27	Repairs and Maintenance as % of PPE and Investment Property	8%	3,5%	5,4%	6,0%	6,0%	6,0%	6,0%	Repairs and maintenance as a percentage of PPE and IP will improve to 6% by FY2026/27.
DEBTORS MANAGEMENT									
R4	Gross Consumer Debtors Growth		17,3%	6,9%	6,9%	7,2%	7,6%	7,9%	The Collection Rate is assumed to reach 90% within three years.
R5	Payment Ratio / Collection Rate	95%	85,5%	90,0%	90,0%	90,0%	90,0%	90,0%	
LIQUIDITY MANAGEMENT									
R49	Cash Coverage Ratio (excl Working Capital)		0.9 : 1	1.7 : 1	2.7 : 1	3.7 : 1	4.8 : 1	5.4 : 1	The bank balance will meet the minimum liquidity requirement initially in FY2027/28. The liquidity position will reach 1,6: by the end of the planning period.
R50	Cash Coverage Ratio (incl Working Capital)		0.4 : 1	0.8 : 1	1.1 : 1	1.4 : 1	1.7 : 1	1.8 : 1	
R51	Cash Surplus / Shortfall on Minimum Liquidity Requirements		-R 66,5 m	-R 32,7 m	R 10,8 m	R 63,8 m	R 123,6 m	R 159,8 m	
R1	Liquidity Ratio (Current Assets: Current Liabilities)	1:1.5 - 1:2.1	1.1 : 1	1.2 : 1	1.3 : 1	1.4 : 1	1.5 : 1	1.6 : 1	
LIABILITY MANAGEMENT									
R45	Debt Service as % of Total Operating Expenditure	6% - 8%	4,2%	5,0%	5,1%	5,2%	5,8%	6,0%	The external financing programme is forecast to remain within the recommended benchmarks, whilst taking advantage of scope to sufficiently leverage the debt profile.
R6	Total Debt (Borrowings) / Operating Revenue	45%	14,4%	19,0%	19,9%	20,0%	18,5%	17,2%	
R7	Repayment Capacity Ratio		2,90	2,36	2,89	2,80	2,36	2,06	
R46	Debt Service Cover Ratio (Cash Generated by Operations / Debt Service)		1.6 : 1	2.1 : 1	1.9 : 1	1.9 : 1	1.9 : 1	1.9 : 1	

		N.T. NORM	2024	2026	2028	2030	2032	2033	COMMENTS
SUSTAINABILITY									
	Net Financial Liabilities Ratio	< 60%	18,5%	20,0%	18,2%	16,3%	13,2%	11,1%	Net Financial Liabilities are below the benchmark, but the Operating Surplus Ratio remains below the recommended lower benchmark for the majority of the planning period. Asset Sustainability is not calculated but entered as an assumption in the model. The municipality must ensure that a greater proportion of CAPEX is spent on asset replacement should it be required.
	Operating Surplus Ratio	0% - 10%	-2,0%	3,4%	2,1%	2,9%	4,0%	4,7%	
	Asset Sustainability Ratio	> 90%	10,1%	10,2%	10,5%	11,2%	11,8%	12,2%	
FINANCIAL PERFORMANCE									
EFFICIENCY									
R42	Net Operating Surplus / Total Operating Revenue	>= 0%	-2,0%	3,4%	2,1%	2,9%	4,0%	4,7%	The net operating surplus is below 0% for FY2023/24 and improves to 4.7% by FY2032/33, an indication that the municipality should endeavour to improve profitability by managing expenditure and improving surplus margins on electricity services and maintaining the high-water surplus margin.
R43	Electricity Surplus / Total Electricity Revenue		21,5%	21,9%	21,4%	21,4%	21,4%	21,4%	
R44	Water Surplus / Total Water Revenue		98,5%	98,6%	98,6%	98,6%	98,6%	98,6%	
REVENUE MANAGEMENT									
R8	Increase in Billed Income p.a. (R'm)		R 63,2 m	R 53,5 m	R 54,6 m	R 72,5 m	R 92,8 m	R 104,4 m	Billed Revenue and Operating Revenue Growth is, for the most part, marginally above forecast CPI for the majority of the planning period. Cash generated from operations is expected improve throughout the planning period.
R9	% Increase in Billed Income p.a.	CPI	11,3%	7,9%	7,0%	8,1%	8,8%	9,1%	
R12	Operating Revenue Growth %	CPI	5,0%	4,9%	7,4%	8,3%	8,9%	9,2%	
R47	Cash Generated by Operations / Own Revenue		8,5%	13,7%	12,4%	12,9%	13,7%	14,2%	
R48	Cash Generated by Operations / Total Operating Revenue		6,9%	10,4%	9,3%	9,7%	10,3%	10,7%	

		N.T. NORM	2024	2026	2028	2030	2032	2033	COMMENTS
EXPENDITURE MANAGEMENT									
	Creditors Payment Period	30	117	133	150	141	131	126	Creditors' payment period is well above the NT benchmark but forecast to reduce after the MTREF period.
R30	**Contribution per Expenditure Item: Staff Cost (Salaries, Wages and Allowances)**	25% - 40%	32,9%	32,6%	35,4%	34,8%	34,1%	33,7%	
	Contribution per expenditure item: Contracted Services	2% - 5%	9,0%	11,5%	10,2%	10,0%	9,9%	9,8%	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.
GRANT DEPENDENCY									
R10	**Total Grants / Total Revenue**		23,8%	26,4%	26,5%	26,3%	26,1%	25,9%	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**		81,0%	75,5%	75,1%	75,1%	75,2%	75,2%	
	Capital Grants to Total Capital Expenditure		40,9%	20,1%	24,6%	21,4%	19,1%	18,1%	

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

Conclusion

Outcome of the Independent Financial Assessment

Bitou's financial performance continued to improve during FY2022/23, as evidenced by the improvement in the operating surplus (excluding capital grants) from R3.5 million in the prior year to R43.2 million in the current year. This translated into an improvement in cash generated by operations from R24.9 million to R65.8 million in FY2022/23. The collection rate was maintained at 83.2% as at FYE2022/23. The municipality managed to mitigate the impact of the energy crisis as electricity services revenue increased by 5% despite reduced electricity consumption due to load shedding. Electricity revenue remained the predominant source of revenue, followed by property rates.

Bitou must be commended for managing to reduce its operating expenditure by 1.1% during FY2022/23. This decline was driven by a significant decline of 29.1% in contracted services expenditure. This decline notwithstanding, contracted services expenditure contributed 9% to total expenditure in FY2022/23. When considered together with staff costs, the predominant expenditure item, the combined contribution came in at 42%. This renders the affordability of the municipality's employee related expenditure questionable. Expenditure to repair and maintain the municipality's asset base translates to 4.1% of PPE & IP. This can be improved.

The total capital outlay of R699.5 million over the planning period was predominantly funded through capital grants (60%), own cash (23%) and financing (17%). The municipality has struggled to fully implement its capital budget, as evidenced by the 5-year average capital budget implementation indicator of 78%.

The municipality undertook borrowings in FY2022/23 for the first time since FY2017/18. The additional loans resulted in the gearing ratio increasing to 12.0% while the reduction in operating expenditure resulted in the debt service to total expense ratio decreasing to 3.2% at the current year end, despite the additional debt undertaken. This provides significant scope to unlock accelerated capital investment through affordably accelerating the borrowing programme. It is positive to note that the municipality has budgeted to do so over the MTREF period.

The municipality continued to strengthen its liquidity position in FY2022/23, with the liquidity ratio improving to 1.33:1 from 1.09:1 in the prior year. The municipality must continue to display the disciplined, prudent financial and operational management that has contributed to the stabilisation of Bitou's financial position. The improvements notwithstanding, further improvements are required to ensure long-term financial sustainability is realised. The municipality's cash and cash equivalents of R95.1 million fell short of the minimum liquidity requirement of R134.1 million, resulting in a cash shortfall of R39.0 million. The municipality has posted cash shortfalls in 7 of the 8 years under review.

Strengths

- Improved liquidity ratio of 1.33:1 (FYE2022/23).
- Affordable debt profile.
- Ability to generate cash from operations.
- Strong working capital management.

Weaknesses

- Excessive expenditure on contracted services.
- Reasonably low collection rate of 83.2% (FYE2022/23).
- Reasonably low 5-year average capital budget implementation indicator of 78% (NT benchmark of 95%).

OUTCOME OF THE FUTURE FORECASTS

The municipality appeared to be reasonably conservative in compiling the budget, with a decline in financial performance expected in FY2023/24. This is reflected in the Base Case outcomes whereby operating deficits are forecast over the MTREF period. Year-on-year improvements are, however, forecast throughout the planning period. The municipality has budgeted for an accelerated capital investment programme that is facilitated through accessing external borrowings as well as utilising the municipality's own cash to supplement capital grant funding. The Base Case further accelerates the capital investment programme but aims to protect the liquidity position through rapidly accelerating the extent of borrowings undertaken over the MTREF period. This allows for an affordable acceleration of capital investment, whilst enabling the municipality to bolster its liquidity position.

The premise behind the Base Case is to utilise realistic, achievable assumptions that aim to guide the municipality towards long-term financial sustainability. The key assumptions are listed below:

1. The collection rate was increased to 90% over a period of 3 years, where it is assumed to be 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. The MTREF capital investment programme was maintained in FY2023/24, thereafter the following amendments were made:
    - FY2024/25: R120.0 million
    - FY2025/26: R135.0 million
    - FY2026/27: R100.0 million

    Assumed growth beyond the MTREF period is 8% p.a.
4. The borrowing programme was accelerated considerably over the MTREF period. FY2023/24 was left unaltered, thereafter the borrowing programme was adjusted as follows:
    - FY2024/25: R70.0 million
    - FY2025/26: R60.0 million
    - FY2026/27: R50.0 million

    The annual borrowing under this scenario was adjusted to an average of 10-year amortising loans at a fixed interest rate equal to 6% over forecast CPI in any given year. Assumed annual growth in borrowing beyond the MTREF period is 8%.
5. A loadshedding scenario was incorporated into the Base Case. This scenario assumes an average of stage 2 loadshedding for FY2023/24. This is assumed to result in an annual reduction of electricity consumption of 11.9%. Additionally, a 5% reduction of electricity sales is included to model the impact of the loss of customers who have moved to alternative power sources. Finally, a 2% reduction of water sales pursuant to loadshedding, due to pumps not being able to fill reservoirs for example, is also included.
6. Repairs and maintenance expenditure was increased to 6% of PPE & IP over 3 years.
7. Electricity distribution losses were reduced to 10% (from 15%) over 3 years, while water losses were reduced to 25% (from 36%) over 3 years.

The Base Case presents a sustainable outcome that is characterised by an accelerated capital investment programme that does not place the long-term sustainability of the municipality at risk. The assumptions made in arriving at the Base Case can be viewed as recommendations for the municipality to follow to promote long-term financial sustainability. An additional 4 scenarios were run to assess the potential impact of changes to certain assumptions, whilst holding all other variables constant, unless otherwise stated. The outcomes of these scenarios are summarised below.

SENSITIVITY ANALYSIS ON THE COLLECTION RATE

This scenario assesses the impact of positive and negative movements in the Base Case collection rate of 2%. This negative scenario is forecast to result in significantly reduced financial performance and cash generation. This is forecast to translate into a considerably reduced liquidity position which will provide a liquidity risk as the bank balance is forecast to fall short of the minimum liquidity requirement of 1-month's operating expenditure throughout the planning period. The positive scenario is forecast to result in a significant improvement to the municipality's financial position as evidenced by the planning period end liquidity ratio of 2.3:1.

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 the collection rate is improved at least 90% over the long-term.

SENSITIVITY ANALYSIS ON OPEX

This scenario assesses the impact of positive and negative movements of 2% in operating expenditure form the Base Case level. The positive scenario whereby a reduction of 2% in operating expenditure is realised is forecast to result in a substantial improvement of financial performance. This is forecast to significantly strengthen the liquidity position of the municipality. The negative scenario, however, reflects a strained financial position characterised by reduced financial performance and an inability to meet minimum liquidity requirements. The scenario outcomes reflect the sensitive nature of the municipality's financial position to movements in operating expenditure. This highlights the importance of maintaining a prudent, disciplined approach to the operational management of the municipality.

EXTENDED LOAN TENOR

The Base Case assumes an average loan tenor of 10 years on new debt. This scenario aims to highlight the impact of employing an extended loan tenor of 12 years on new debt. The extended loan tenor has the impact of reducing annual debt service charges due to extending the period of time over which the debt must be repaid. This is reflected in the planning period end debt service to total expense ratio of 5.5%, reduced compared to the Base Case (6.0%). The liquidity position is forecast to receive a significant boost as evidenced by the planning period end liquidity ratio of 1.9:1, compared to 1.6:1 in the Base Case. This highlights the significant benefits that can be derived through extending the loan tenor.

ACCELERATED CAPITAL INVESTMENT PROGRAMME

This scenario follows on from Scenario 3 in that the extended loan tenor of 12 years is maintained. Additionally, the capital investment programme is accelerated through accelerating the external financing programme. The intention behind this scenario is to see the extent to which the capital investment programme can be accelerated whilst maintaining the liquidity levels as presented in the Base Case. An additional R147 million in borrowings are assumed to be undertaken over the planning period. This facilitates an additional R114 million in capital investment over the planning period. The forecast planning period end liquidity ratio of 1.5:1 is essentially on par with the Base Case.

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	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
R thousands											
Non-current assets:	1 255 346	1 353 396	1 432 506	1 524 475	1 578 015	1 637 231	1 702 693	1 775 004	1 854 803	1 942 773	2 039 641
Property, plant and equipment	1 242 619	1 340 669	1 419 778	1 511 748	1 565 288	1 624 504	1 689 966	1 762 276	1 842 076	1 930 046	2 026 913
Intangible assets	–	–	–	–	–	–	–	–	–	–	–
Investment properties	12 692	12 692	12 692	12 692	12 692	12 692	12 692	12 692	12 692	12 692	12 692
Investments	0	–	–	–	–	–	–	–	–	–	–
Long-term receivables	–	–	–	–	–	–	–	–	–	–	–
Other non-current assets	35	35	35	35	35	35	35	35	35	35	35
Current assets:	234 613	208 400	252 108	261 424	286 947	316 332	349 309	386 501	426 126	470 088	520 759
Inventories	15 357	19 417	22 275	23 178	23 943	25 890	28 012	30 416	33 118	36 139	39 518
Trade and other receivables	124 178	142 027	140 958	137 808	135 127	132 873	131 024	129 561	128 472	127 745	127 375
Cash & Short term investments	95 078	46 956	88 875	100 437	127 876	157 569	190 274	226 524	264 537	306 205	353 866
TOTAL ASSETS	**1 489 959**	**1 561 797**	**1 684 614**	**1 785 899**	**1 864 962**	**1 953 563**	**2 052 002**	**2 161 505**	**2 280 929**	**2 412 861**	**2 560 400**
Municipal Funds:	1 151 923	1 190 467	1 244 066	1 308 150	1 359 628	1 411 510	1 470 607	1 539 248	1 620 148	1 716 718	1 832 979
Housing development fund & Other Cash Backed Reserves	–	–	–	–	–	–	–	–	–	–	–
Reserves (Not Cash Backed)	29 950	48 500	75 800	99 800	99 800	99 800	99 800	99 800	99 800	99 800	99 800
Accumulated surplus	1 121 973	1 141 967	1 168 266	1 208 350	1 259 828	1 311 710	1 370 807	1 439 448	1 520 348	1 616 918	1 733 179
Non-current liabilities:	162 075	181 643	224 754	255 298	279 017	305 365	332 057	355 239	374 049	387 476	408 683
Long-term liabilities (Interest Bearing)	82 546	102 114	145 225	175 769	194 109	213 343	231 639	245 116	252 895	253 970	261 538
Non-current provisions	79 529	79 529	79 529	79 529	84 908	92 022	100 417	110 123	121 154	133 506	147 145
Current liabilities:	175 960	189 686	215 794	222 452	226 317	236 688	249 338	267 018	286 732	308 667	318 738
Consumer deposits	10 793	12 232	13 507	14 845	16 219	17 401	18 694	20 137	21 740	23 537	25 598
Provisions	39 585	37 640	37 640	37 640	37 640	37 640	37 640	37 640	37 640	37 640	37 640
Trade and other payables	107 302	114 598	137 758	140 511	140 798	148 382	156 176	164 837	174 356	184 751	196 063
Bank overdraft	–	–	–	–	–	–	–	–	–	–	–
Current portion of interest bearing liabilities	18 280	25 216	26 889	29 456	31 660	33 266	36 829	44 405	52 996	62 739	59 437
TOTAL MUNICIPAL FUNDS AND LIABILTIES	**1 489 959**	**1 561 797**	**1 684 614**	**1 785 899**	**1 864 962**	**1 953 563**	**2 052 002**	**2 161 505**	**2 280 929**	**2 412 861**	**2 560 400**

Municipal Financial Model
Statement of Financial Performance

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
R thousands											
Revenue											
Property rates	151 445	179 690	191 797	204 551	217 881	232 802	249 853	269 162	290 862	315 144	342 174
Service Charges	405 638	440 679	485 310	525 998	563 365	602 901	649 408	702 492	762 766	831 082	908 283
Service charges - electricity	210 201	222 468	255 872	283 292	309 022	335 267	366 369	401 865	442 238	488 118	540 154
Service charges - water	81 439	85 764	93 190	102 704	110 654	119 874	130 462	142 506	156 152	171 598	189 042
Service charges - sanitation	72 645	76 350	79 056	81 760	84 453	87 399	90 817	94 705	99 061	103 906	109 249
Service charges - refuse	41 353	56 096	57 192	58 241	59 236	60 362	61 760	63 416	65 315	67 458	69 839
Service charges - other	–	0	0	0	0	0	0	0	0	0	0
Rental of facilities and equipment	1 124	1 030	1 118	1 214	1 323	1 434	1 560	1 701	1 860	2 037	2 235
Interest earned - external investments	8 035	4 754	2 348	3 831	4 730	6 459	8 406	10 588	13 004	15 517	18 191
Interest earned - outstanding debtors	21 362	17 042	15 347	13 653	5 011	5 680	6 399	7 165	7 978	8 840	9 749
Dividends received	–	–	–	–	–	–	–	–	–	–	–
Fines, penalties and forfeits	46 722	31 699	33 065	34 491	37 588	40 754	44 321	48 340	52 844	57 879	63 527
Licences and permits	1 196	1 285	1 344	1 405	1 519	1 662	1 831	2 027	2 251	2 504	2 786
Agency services	2 501	3 014	3 153	3 298	3 594	3 897	4 238	4 622	5 053	5 534	6 074
Transfers and subsidies (operating)	155 970	167 719	270 154	265 575	286 020	307 950	332 591	360 225	391 041	425 296	463 422
Other revenue	45 546	30 796	28 634	28 511	31 071	33 688	36 637	39 959	43 681	47 844	52 513
Gain on disposal of PPE	454	3 950	–	–	–	–	–	–	–	–	–
Revaluation of assets gain / (loss)	–	–	–	–	–	–	–	–	–	–	–
Total revenue before Capital Grants	839 993	881 656	1 032 270	1 082 527	1 152 102	1 237 228	1 335 244	1 446 280	1 571 339	1 711 675	1 868 955
Capital Grants	36 567	55 814	25 421	27 097	26 696	26 518	26 630	26 969	27 466	28 069	28 738
Public & developers contributions	–	–	–	–	–	–	–	–	–	–	–
Total Revenue after Capital Grants	876 559	937 470	1 057 691	1 109 624	1 178 798	1 263 745	1 361 874	1 473 248	1 598 805	1 739 744	1 897 693
Operating expenditure											
Employee related costs	287 508	333 013	353 642	375 850	429 010	457 822	488 203	521 750	558 573	598 761	642 380
Remuneration of councillors	6 721	7 674	8 050	8 428	8 825	9 271	9 765	10 309	10 900	11 540	12 225
Debt impairment	117 568	114 190	107 935	98 920	106 312	114 132	123 164	133 419	144 996	158 034	172 695
Depreciation and asset impairment	36 393	38 414	40 891	43 030	46 460	48 784	51 178	53 661	56 250	58 963	61 820
Finance charges	19 740	16 455	21 832	25 259	27 726	30 352	33 147	36 178	39 244	41 885	43 971
Bulk purchases	162 599	174 703	201 120	221 198	242 903	263 533	287 981	315 882	347 616	383 680	424 582
Inventory Consumed	15 350	20 113	23 615	23 141	27 520	29 946	32 319	35 126	38 387	42 123	46 363
Repairs and maintenance	–	–	–	–	–	–	–	–	–	–	–
Contracted services	72 886	93 619	139 240	136 099	124 527	134 955	143 824	153 730	164 738	176 942	190 500
Transfers and subsidies	5 626	11 825	6 300	6 600	7 105	7 631	8 221	8 882	9 619	10 436	11 348
Other expenditure	70 887	88 922	101 467	107 014	106 932	115 438	124 977	135 671	147 582	160 810	175 547
Loss on disposal of PPE	1 528	–	–	–	–	–	–	–	–	–	–
Total Expenditure	796 807	898 926	1 004 092	1 045 539	1 127 319	1 211 863	1 302 778	1 404 607	1 517 905	1 643 174	1 781 431
Suplus/ (Shortfall) for the year	**79 752**	**38 544**	**53 598**	**64 084**	**51 479**	**51 882**	**59 096**	**68 641**	**80 900**	**96 570**	**116 261**

Municipal Financial Model
Cash Flow Statement

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
R thousands											
Cash flows from Operating Activities											
Suplus/Deficit for the year including Capital Grants	79 752	38 544	53 598	64 084	51 479	51 882	59 096	68 641	80 900	96 570	116 261
Suplus/Deficit for the year excluding Capital Grants & Contributions		(17 270)	28 177	36 987	24 783	25 364	32 466	41 673	53 434	68 501	87 523
Capital Grants & Contributions		55 814	25 421	27 097	26 696	26 518	26 630	26 969	27 466	28 069	28 738
Adjustments for non-cash items:											
Depreciation, amortisation and impairment loss	36 393	38 414	40 891	43 030	46 460	48 784	51 178	53 661	56 250	58 963	61 820
Revaluation on investment property (gain) / loss	–	–	–	–	–	–	–	–	–	–	–
Increase / (Release from) current provisions & non-interest bearing liabilities	–	(1 945)	–	–	–	–	–	–	–	–	–
Increase / (Release from) other non-current provisions & non-interest bearing liabilities	–	–	–	–	5 379	7 114	8 396	9 705	11 031	12 352	13 639
(Increase) / Release from non-current interest bearing assets	–	0	–	–	–	–	–	–	–	–	–
Capitalised interest	–	–	0	–	(0)	–	–	0	0	0	0
Operating surplus before working capital changes:	116 146	75 013	94 489	107 114	103 318	107 780	118 670	132 007	148 181	167 885	191 720
Change in W/C Investment	–	(14 614)	21 371	5 000	2 203	7 891	7 522	7 719	7 906	8 101	8 301
(Increase)/decrease in inventories	–	(4 060)	(2 858)	(903)	(765)	(1 947)	(2 121)	(2 404)	(2 702)	(3 021)	(3 380)
(Increase)/decrease accounts receivable	–	(17 849)	1 069	3 150	2 681	2 254	1 850	1 462	1 089	727	370
Increase/(decrease) in trade payables	–	7 296	23 160	2 753	287	7 584	7 794	8 661	9 519	10 395	11 311
Net cash flow from Operating activities	116 146	60 399	115 860	112 114	105 521	115 671	126 192	139 726	156 087	175 987	200 021
Cash flows from Investing Activities											
Capital expenditure	–	(136 464)	(120 000)	(135 000)	(100 000)	(108 000)	(116 640)	(125 971)	(136 049)	(146 933)	(158 687)
Decrease/(Increase) in non-current receivables	–	(0)	(0)	0	–	–	–	–	–	–	–
(Additions) / Disposals of investment property	–	(1)	–	–	–	–	–	–	–	–	–
Net cash flow from Investing activities	–	(136 465)	(120 000)	(135 000)	(100 000)	(108 000)	(116 640)	(125 971)	(136 049)	(146 933)	(158 687)
Cash flows from Financing Activities											
New loans raised	–	47 673	70 000	60 000	50 000	52 500	55 125	57 881	60 775	63 814	67 005
Loans repaid	–	(21 169)	(25 216)	(26 889)	(29 456)	(31 660)	(33 266)	(36 829)	(44 405)	(52 996)	(62 739)
(Decrease) / Increase in consumer deposits	–	1 439	1 275	1 338	1 374	1 182	1 293	1 443	1 604	1 796	2 062
Net cash flow from Financing activities	–	27 943	46 059	34 449	21 918	22 022	23 153	22 495	17 975	12 614	6 327
Change in Cash	116 146	(48 122)	41 919	11 563	27 439	29 693	32 705	36 250	38 013	41 668	47 661
Cash/(Overdraft), Beginning		95 078	46 956	88 875	100 437	127 876	157 569	190 274	226 524	264 537	306 205
Cash/(Overdraft), Ending	**95 078**	**46 956**	**88 875**	**100 437**	**127 876**	**157 569**	**190 274**	**226 524**	**264 537**	**306 205**	**353 866**

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