INCA
Portfolio Managers

BITOU MUNICIPALITY

Long-Term Financial Plan – *Update 2025*

Prepared by
INCA Portfolio Managers
December 2024

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 report was updated in January 2024. This 2025 update aims to update the LTFP based on the latest available information and report on the findings.

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

A summary of the demographic-, economic- and household infrastructure perspective was updated with the latest available information as published by S&P Global Market Intelligence. The historic financial analysis was updated with the information captured in the municipality's audited financial statements of 30 June 2024. 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 2024/2025 to 2026/2027.

ABBREVIATIONS USED

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

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EXECUTIVE SUMMARY

KEY FINDINGS AND CONCLUSIONS DRAWN FROM THE 2025 LTFP UPDATE

HIGHLIGHTS FROM THE FY2023/24 FINANCIAL RESULTS

- Bitou's liquidity position is reasonably healthy with a ratio of 1.56:1 as at FYE2023/24; this represents a continuation of the improving trend observed in recent years.

- An operating surplus (excluding capital grants) of R35.6 million was posted in FY2023/24; following a surplus of R42.2 million in the prior year.

- Cash generated from operations (excluding capital grants) increased to R110.9 million during FY2023/24. This was underpinned by the improved collection rate of 88.2%, up from 86.6% in the prior year.

- Electricity distribution losses improved to 6.24%, down from 9.29% in the prior year. Water distribution losses increased to 37.89% from 35.85% in the prior year.

- The municipality's unencumbered cash and cash equivalents of R165.4 million was exceeded by the NT and statutory minimum liquidity requirements of R185.7 million - resulting in a cash shortfall of R20.3 million. Bitou has posted cash shortfalls throughout the review period.

- Gearing and debt-service to total operating expenditure ratios were 14.1% and 3.5%, respectively, providing scope for additional borrowing to fund capital expenditure. This must be closely monitored though.

- Repairs and maintenance expenditure as a percentage of PPE & IP reduced to 3.7% during FY2023/24, down from 4.0% in the prior year.

- Creditors increased to R130.5 million, up from R94.8 million in the prior year. R92.2 million of this includes trade payables, which increased by R29.3 million during FY2023/24.

LONG-TERM FINANCIAL PLAN UPDATE

Bitou LM has budgeted for operating surpluses throughout the planning period. With operating surpluses posted in 3 of the last 4 financial years, this seems a likely outcome. The Base Case forecasts operating deficits over the MTREF period due to higher than budgeted expenditure on debt impairment. The LTFM outcomes suggest that while the forecast for financial performance and cash generation over the long-term is strong, the current MTREF will result in a deterioration of the liquidity position. This is predominantly driven by the lower collection rate (88.2%) being maintained throughout the planning period. Necessary adjustments have thus been made to formulate a sustainable Base Case. These adjustments address the underlying drivers of the undesirable outcome.

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

1. A collection rate of 90% (from 88.2%) is assumed to be met immediately and maintained for the remainder of the planning period.
2. An operating expenditure cut of 2% was assumed.
3. Tariff increases were included as provided by the municipality.
4. Creditors days were adjusted downwards to 45 days from 127 days mitigate the forecast rise in creditors.
5. The capital investment programme was modelled as discussed with the municipality:
    - FY2024/25: R151 million
    - FY2025/26: R190 million
    - FY2026/27: R149 million
    - FY2027/28: R131 million

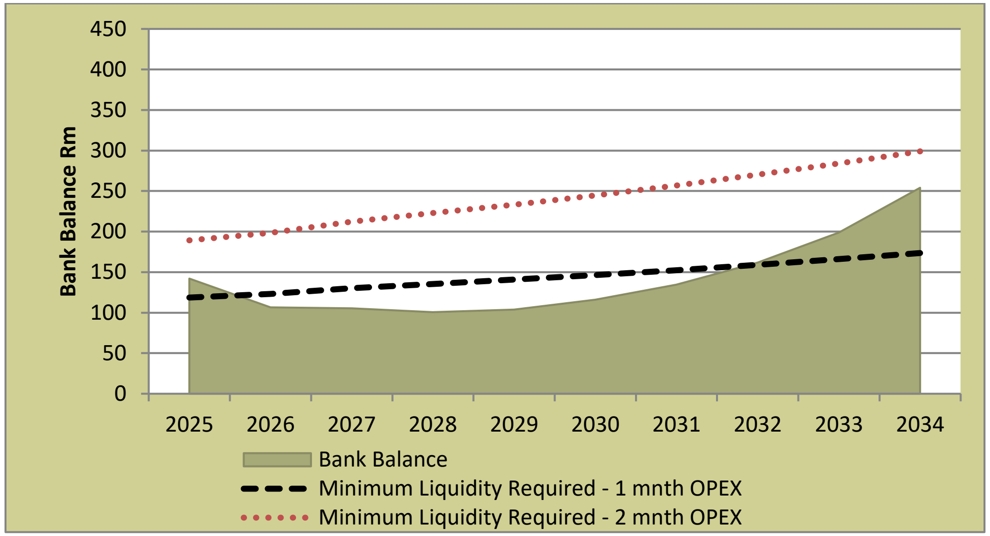
    Assumed growth in capital investment beyond FY2027/28 is 6% p.a.
6. The borrowing programme was modelled as discussed with the municipality:
    - FY2024/25: R35 million
    - FY2025/26: R87 million
    - FY2026/27: R75 million
    - FY2027/28: R43 million
7. The annual borrowing under this scenario was adjusted to an average of **13-year** amortising loans at a fixed interest rate equal to 7% over forecast CPI in any given year. Assumed annual growth beyond FY2028/29 is 4%.
8. Repairs and maintenance expenditure was increased to 5% (from 3.7%) of PPE & IP over 10 years.
9. Electricity distribution losses were maintained at 6.24%, while water distribution losses were reduced to 30.00% (from 37.88%) over 10 years.

LONG-TERM FINANCIAL MODEL OUTCOMES

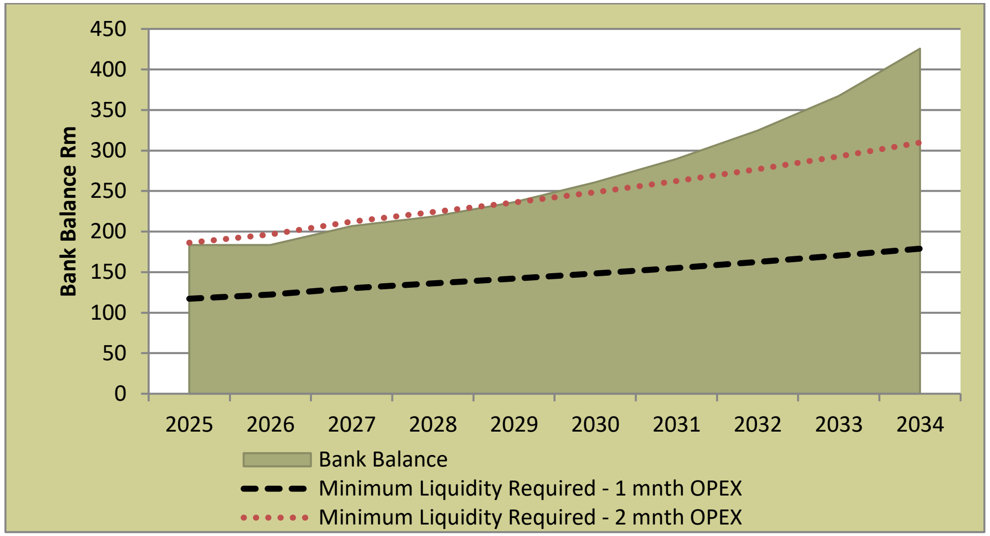
Based on these assumptions, key outcomes for the 10-year planning period are as follows:

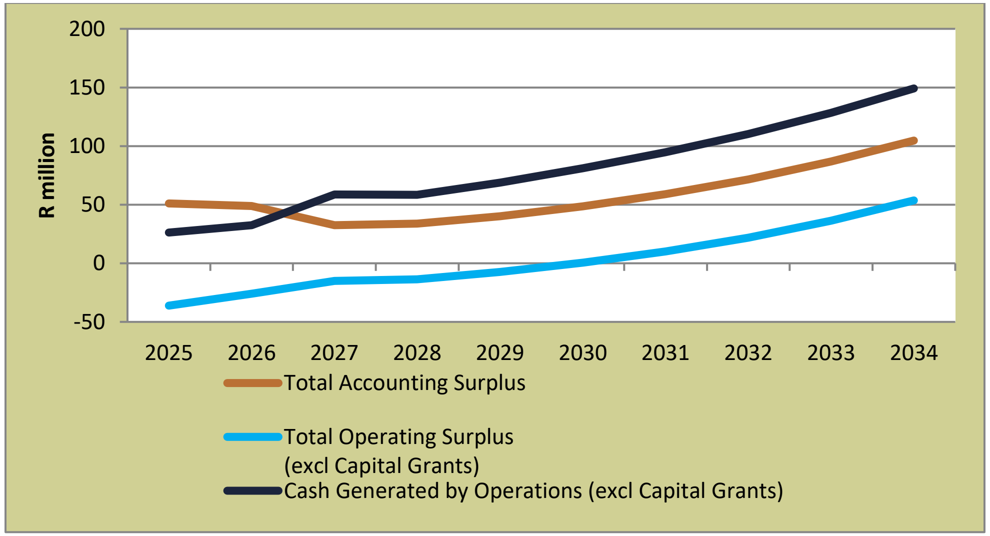
Outcome	MTREF Case	Base Case
Average annual % increase in Revenue	7,2%	7,8%
Average annual % increase in Expenditure	7,6%	7,9%
Accounting Surplus accumulated during Planning Period (Rm)	R 577	R 969
Operating Surplus accumulated during Planning Period (Rm)	**R 24**	**R 416**
Cash generated by Operations during Planning Period (Rm)	**R 808**	**R 1 036**
Average annual increase in Gross Consumer Debtors	13,1%	12,0%
Capital investment programme during Planning Period (Rm)	**R 1 287**	**R 1 527**
External Loan Financing during Planning Period (Rm)	**R 290**	**R 479**
Cash and Cash Equivalents at the end of the Planning Period (Rm)	**R 254**	**R 426**
No of Months Cash Cover at the end of the Planning Period (Rm)	**2,0**	**3,3**
Liquidity Ratio at the end of the Planning Period	**1.1 : 1**	**2.7 : 1**
Gearing at the end of the Planning Period	**6,8%**	**15,7%**
Debt Service to Total Expense Ratio at the end of the Planning Period	**3,5%**	**4,8%**

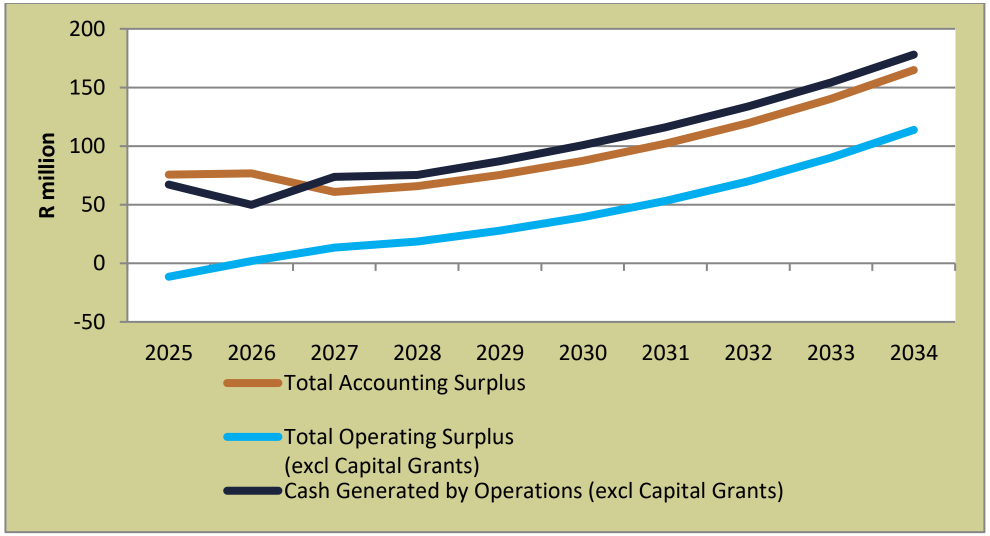
MTREF Case Scenario



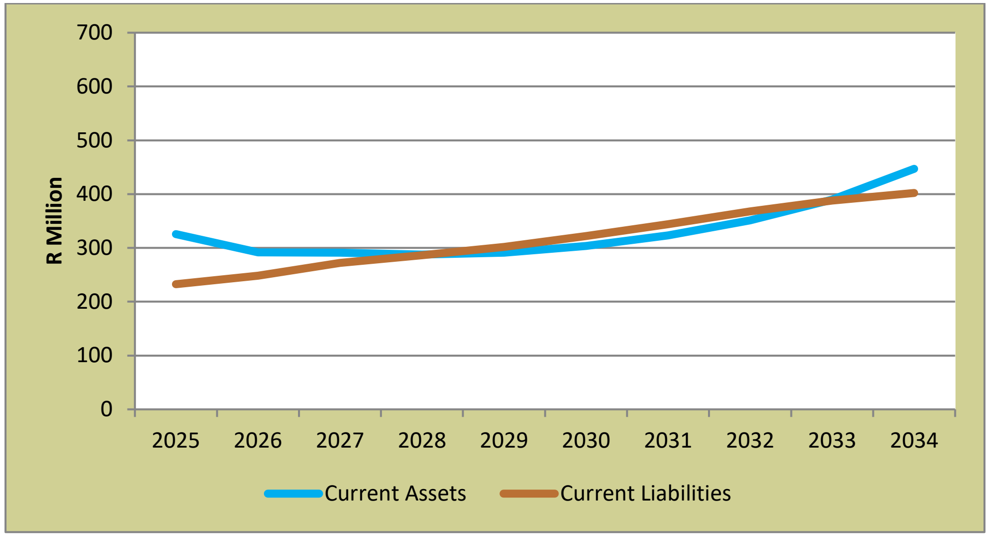
Base Case Scenario



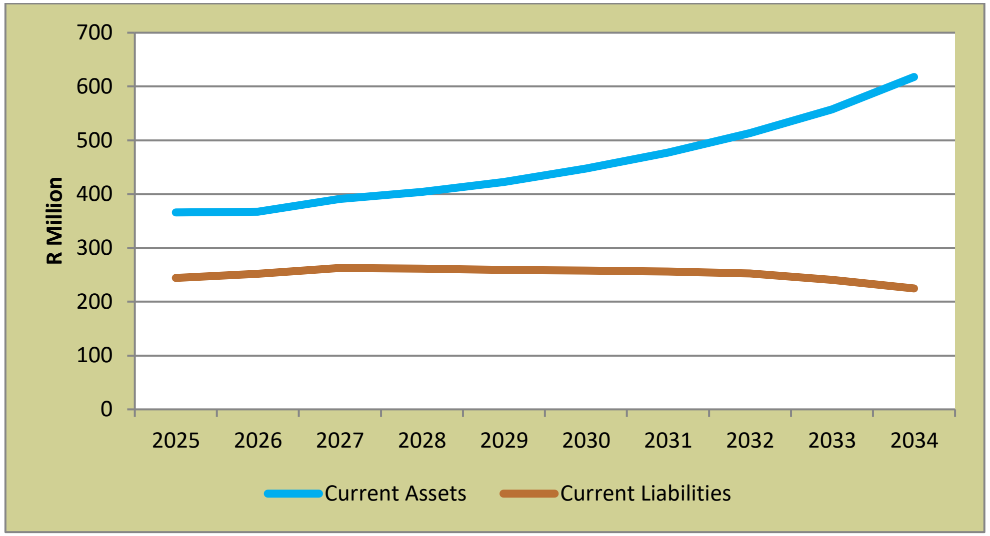


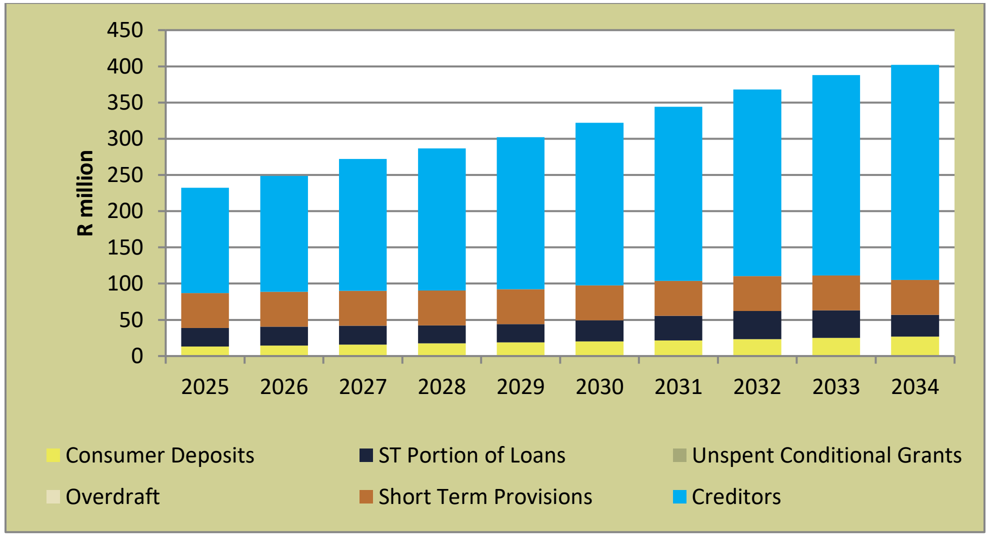


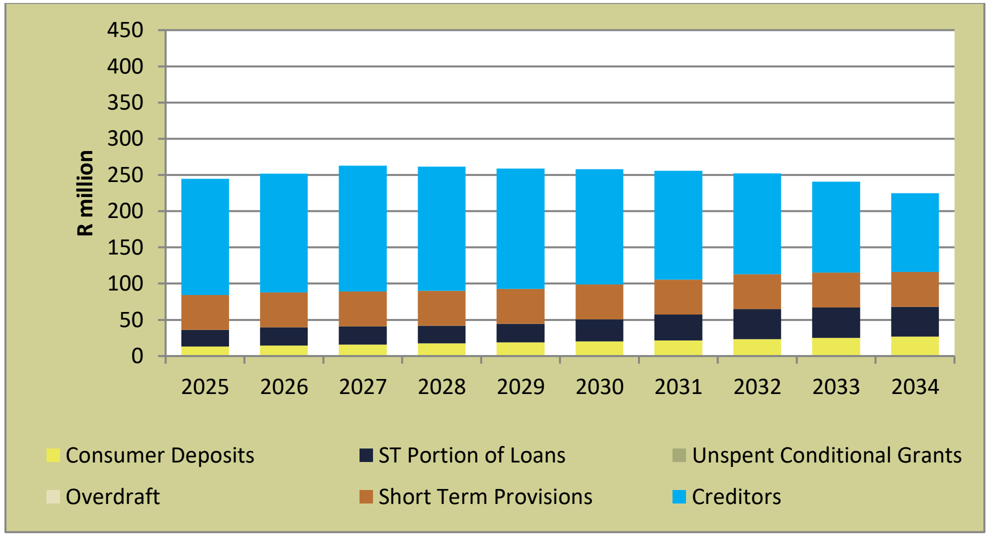
MTREF CASE SCENARIO



BASE CASE SCENARIO







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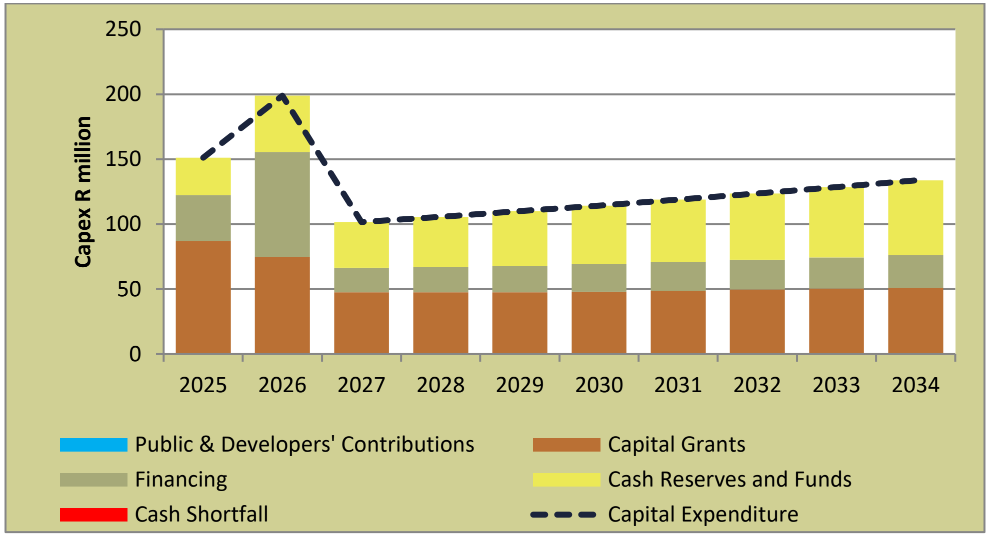

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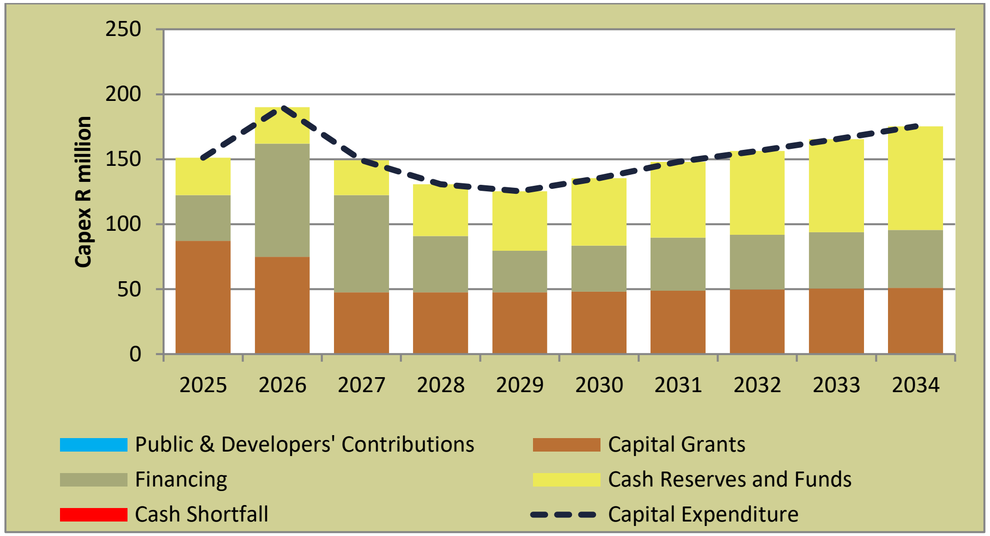
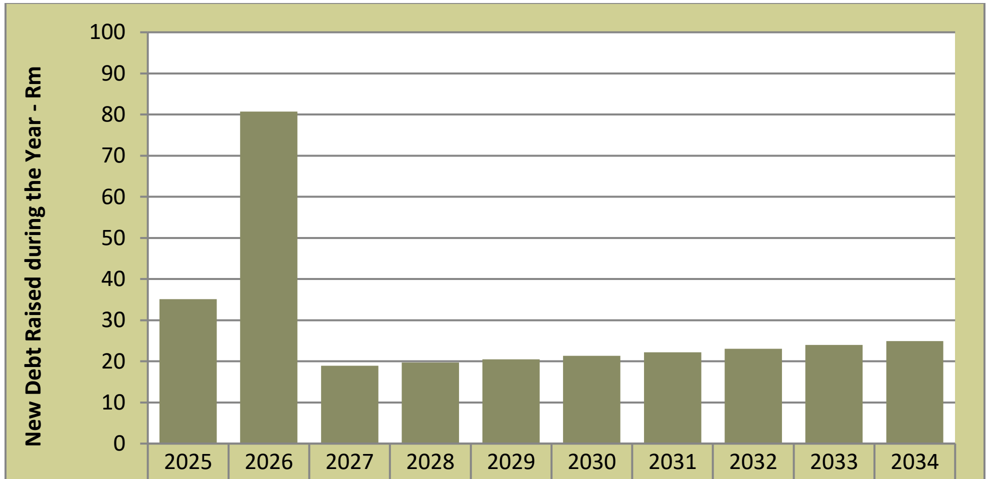
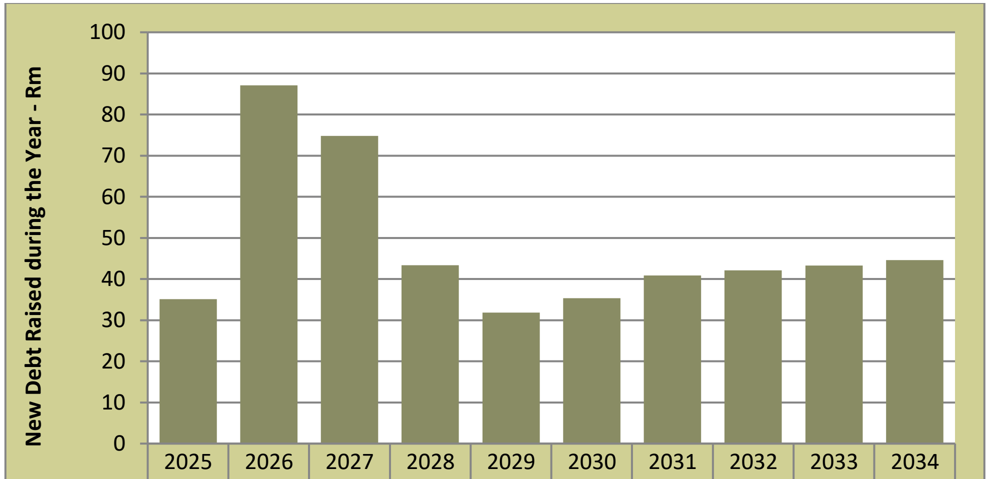




	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
R million	35	81	19	20	20	21	22	23	24	25



	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
R million	35	87	75	43	32	35	41	42	43	45

RECOMMENDATIONS

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

1. Maintain an optimised funding mix that strikes a balance between the utilisation of external borrowings and own cash as a supplement to capital grant funding. It is recommended that the Adjustment Capital Budget borrowing programme is accelerated in order to maintain a high level of capital investment whilst safeguarding the liquidity position. It is recommended a staggered approach to borrowing is undertaken in order to maintain the debt indicators at affordable levels as well as to take advantage of the interest rate cutting cycle.

2. Maintain a balanced approach for the long-term capital investment programme which prioritises investments that contribute to economic growth and revenue generation and prioritise timeous investment in bulk infrastructure. It is recommended that the capital prioritisation programme is informed by the affordable envelope presented in this report. Capital investment decisions must be taken with the reduction of excessive water distribution losses as a priority.

3. Working capital management, particularly payment of creditors, must be strengthened. The increase in creditors observed during FY2023/24 cannot become a trend. The municipality must maintain timeous payment of creditors. Additionally, the improving trend in financial performance must be continued. Revenue must be maximised and cost-containment strategies implemented with cost-savings realised wherever possible.

4. Prevent a deterioration of the collection rate through the implementation of measures such as strict credit control, debt collection procedures etc. The Base Case collection rate of 90% must be achieved, with further improvements targeted thereafter. Failure to do so will result in a reduction of the affordable envelope for capital investment.

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

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

LTFP Update Report 2025

Introduction

This report reflects the detailed observations having assessed the Demographic, Economic & Household Infrastructure changes, together with the municipality's financial performance as reflected in the 2023/24 unaudited financial statements and the updated LTFM utilising information contained in the First Adjustment Budget for the period 2024/25-2026/27.

Demographic, Economic and Household Infrastructure

- The economic recovery observed in 2021 & 2022 ceased during 2023, with a GVA contraction of 0.4%. The 5-year average GVA growth rate of -0.5% is indicative of a contracting local economy.

- The population growth rate came in at 2.80% in 2023. The 5-year average population growth rate was 2.25% p.a. The economically active population as a percentage of total population increased to 51.9% in 2023 from 49.7% in the prior year. Concerning to note, is the trend of population growth exceeding economic growth. This results in an impoverishment of the population.

- The official unemployment rate dropped to 26.5%; but remains the highest rate in the district. 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.

- Trade (4 200 jobs) remained the predominant provider of employment in Bitou in 2023, followed by finance (3 358 jobs).

- The Tress Index of 46.42 indicates a reasonably diversified economy underpinned by primarily three sectors: Finance (21.5%), Community Services (19.6%), and Trade (21.6%). Together these three subsectors constituted approximately 62.7% of economic output in 2023.

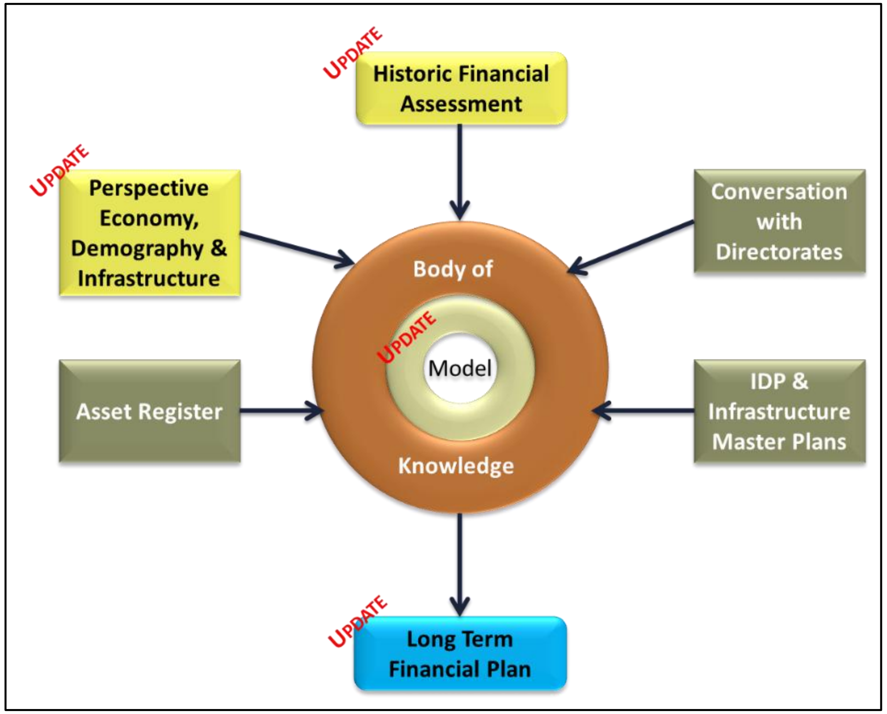
- Household formation saw enormous growth of 28.6% over the assessment period, the highest in the district by an order of magnitude. The Infrastructure Index declined marginally to 0.85. Despite the marginal decline, the municipality has shown an ability to keep up with the rate of household formation. This score is high relative to the national index of 0.77.

- Approximately 31.4% of households fall below the Equitable Share Bracket, while 85.0% of households receive a level of service above the RDP level of service.

Planning Process

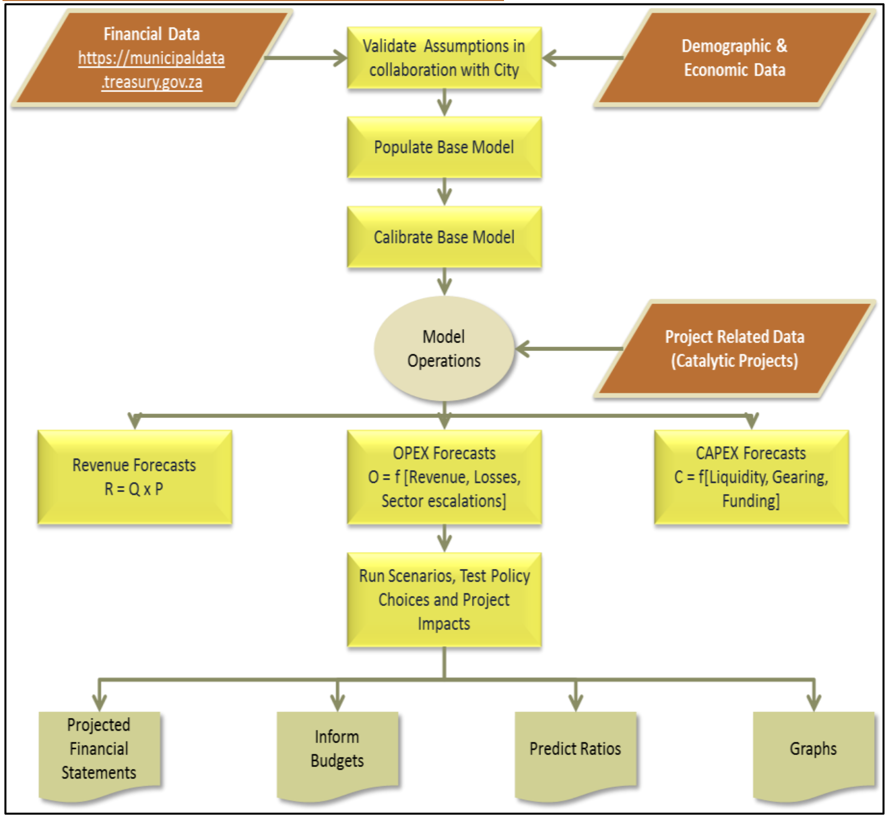
The diagram below illustrates the steps in the process that were followed in drafting the LTFP and the steps taken during this 2025 “LTFP Update”:

Figure 1: Planning Process



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

1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long-Term Financial Model Outcomes

5 Future Revenues

6 Affordable Future Capital Investment

7 Scenario Analysis

8 Ratio Analysis

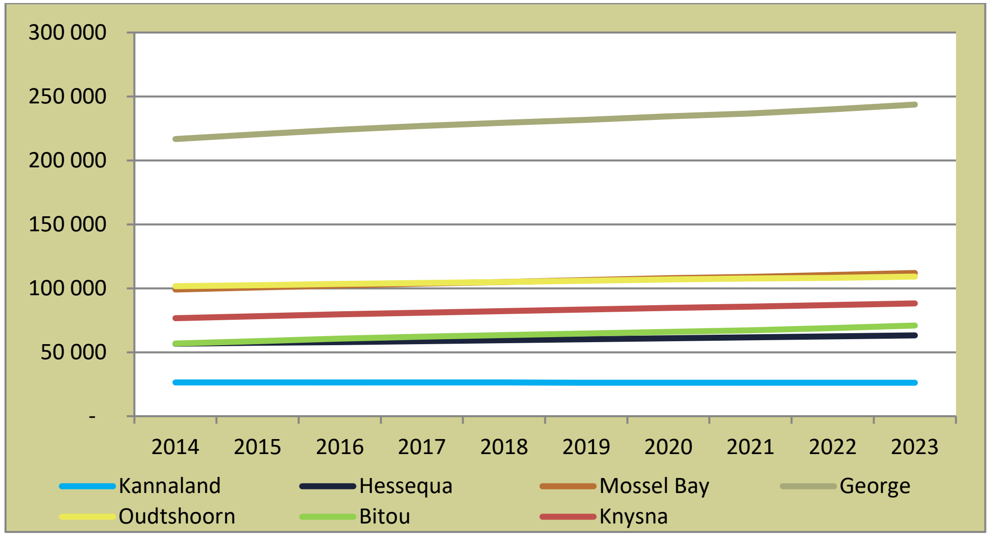
9 Conclusions

UPDATED PERSPECTIVES (DEMOGRAPHIC, ECONOMIC, HOUSEHOLD INFRASTRUCTURE)

DEMOGRAPHY

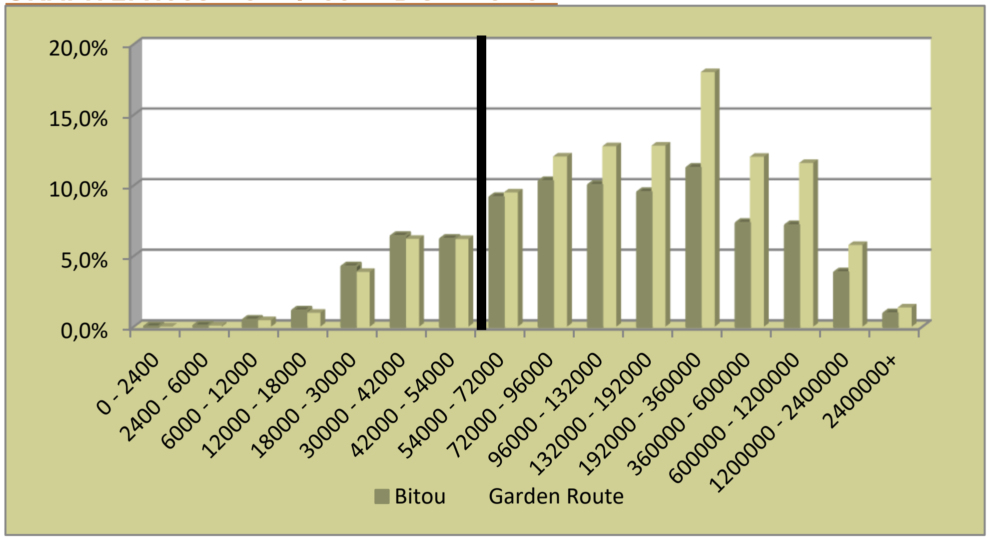
Bitou's population increased to 70 900 people in 2023, remaining the third least populous municipality in the Garden Route District. Population growth in 2023 came in at 2.80%, well above the 5-year average population growth rate of 2.25% p.a. This renders Bitou the fastest growing municipality in the district as far as population is concerned. Any increase in the population places additional pressure on the municipality and its infrastructure to deliver services to its communities. This is particularly challenging in the presence of such rapid population growth as is the case in Bitou.

GRAPH 1: TOTAL POPULATION



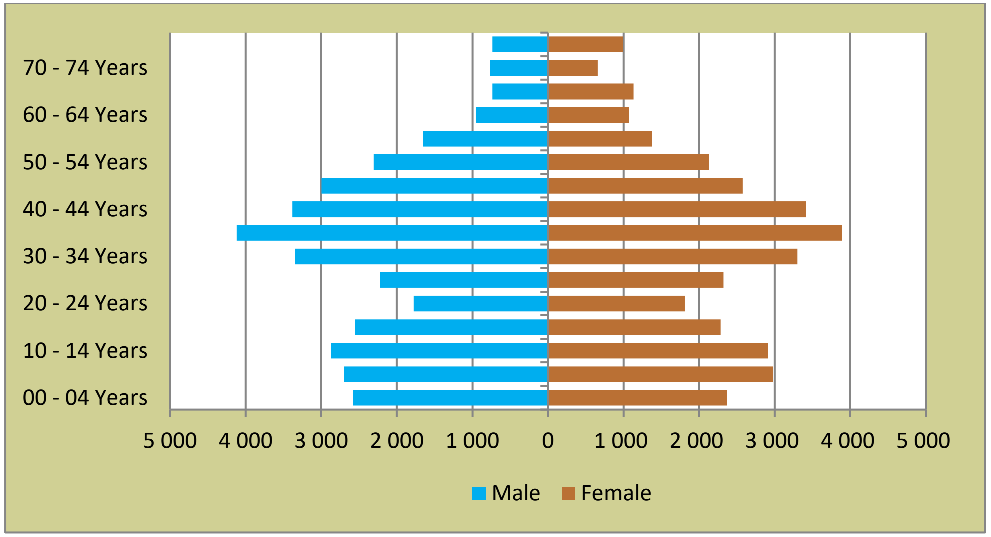
Averaged household income increased by 3.2% during 2023, to a total of R273 785 p.a. This is below the Western Cape Province figure of R383 172 p.a. as well as the Garden Route District figure of R410 577 p.a. Furthermore, this is the lowest average household income in the district. According to the latest S&P Global Market Intelligence update, 31.4% of households in Bitou earn less than R54 000 p.a., placing them below the equitable share bracket. This is well above the district average of 16.4%. The number of households that fall below the equitable share bracket is indicative of the number of indigent households in the municipal area and reflect those who qualify for and/or are largely reliant on government grants as a source of income. The provision of RDP level of basic services to these households is theoretically covered by the equitable share and should compensate the municipality for providing free basic services. 85.0% of households in the municipality receive a level of service above the RDP level, an improvement on the Garden Route District figure of 89.9%.

GRAPH 2: HOUSEHOLD INCOME DISTRIBUTION



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

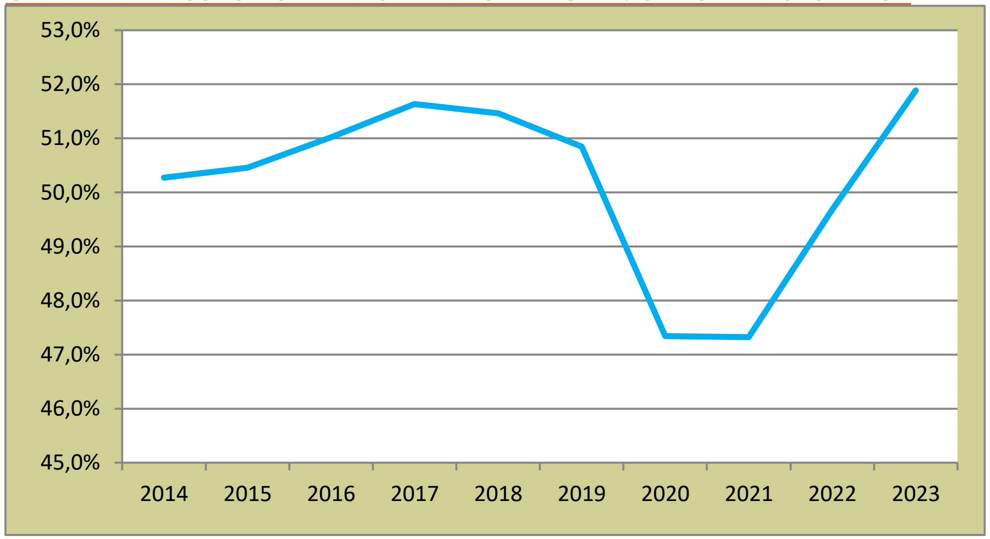
GRAPH 3: AGE PROFILE



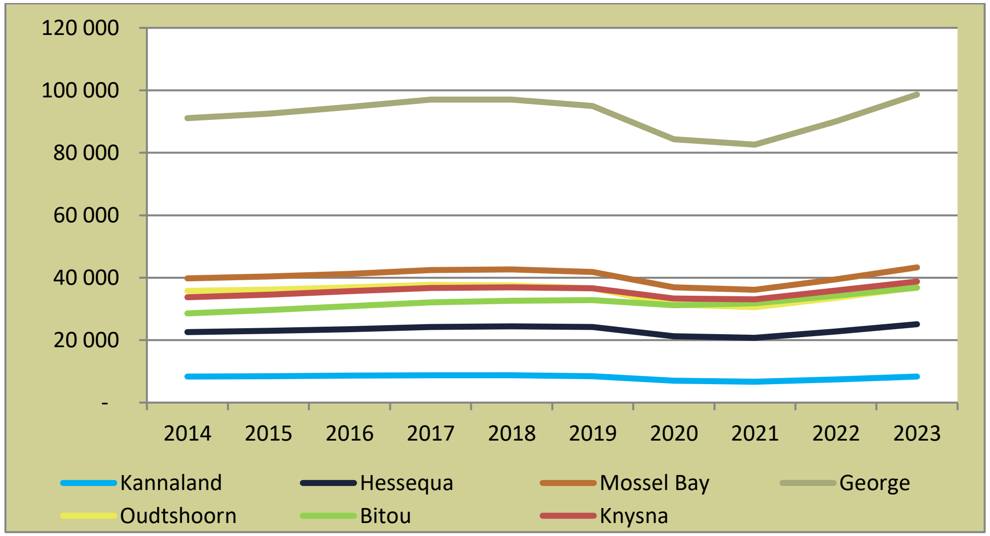
GRAPH 3 illustrates the age profile of Bitou LM's population. Approximately 57.9% of the population fall between the ages of 25 and 64 years, the highest proportion in the district. 35.0% of the population are below the age of 24 years, while just 7.1% are above the age of 65. The largest age cohort 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.

The economically active population (EAP) as a percentage of the total population increased to 51.9% in 2023 from 49.7% in the prior year. This is a continuation of the increasing trend observed since 2021. This trend being sustained is positive to note as it is a strong indicator of the municipality's future economic growth prospects. The total number of economically active people in Bitou LM stood at 36 788 people in 2023.

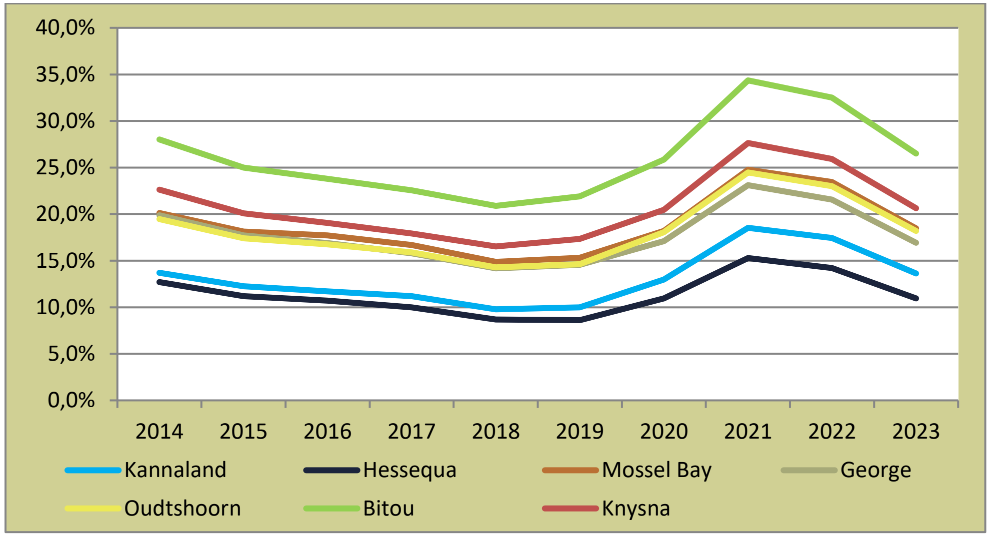
GRAPH 4A: ECONOMICALLY ACTIVE PEOPLE AS A % OF TOTAL POPULATION



GRAPH 4B: ECONOMICALLY ACTIVE POPULATION



GRAPH 5: OFFICIAL UNEMPLOYMENT RATE



Bitou was unable to escape the rapid rise in unemployment in 2021 driven by Covid-19. The unemployment rate increased by 8.5% in 2021 alone. As illustrated in GRAPH 5 above, the downward trend in the unemployment rate since 2021 is a welcome sight. This has been reflected across all municipalities within the Garden Route District. The unemployment rate in Bitou dropped to 26.5% in 2023, down from 32.5% in the prior year. While this is positive to note, the unemployment rate in Bitou remains the highest in the district.

The waning of the high inflationary environment should further boost the upward trend of employment in Bitou. This should facilitate a stimulation of the economy. Bitou must ensure that it plays its role in creating an environment of economic growth through maintaining a high level of service delivery, rendering the municipality an attractive destination for investment.

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

Economy

Bitou's total economic output (GVA) amounted to R6.52 billion in 2023. This accounts for 8.52% of the district GVA. The positive signs of an economic recovery observed in 2021 and 2022 were tempered somewhat during 2023, with the economy contracting by 0.4%. Sluggish growth has been the trend in recent years with the 5-year average economic growth rate coming at in just -0.6%. Further concern is expressed when comparing economic and population growth trends. The 5-year average population growth rate of 2.3% greatly exceeds that of the economy over the same period. This effectively results in an impoverishment of the local population. This is reflected in the decline in GVA per capita of 10.8% over the last 5 years.

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

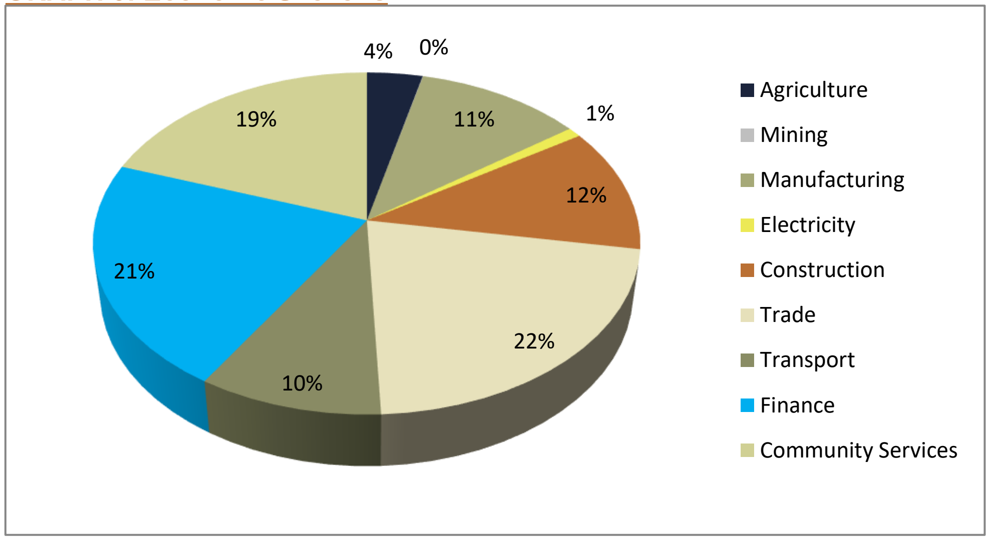
Bitou's local economy is reasonably diversified, as evidenced by a Tress Index of 46.42. The Tress Index is a measure of economic diversification and thus, economic risk. The higher the degree of diversification, the lower the degree of economic risk in the event of adverse economic conditions due to the impact being spread of a greater number of economic sectors. Bitou's economy is heavily tertiary sector driven, with 72.3% of its economic output in 2023 emanating from tertiary sector activities. The local economy is mainly driven by 3 sectors which accounted for approximately 62.7% of economic output in 2023. These sectors are Finance (21.5%), Community Services (19.6%), and Trade (21.6%).

The Finance and Community Services sectors exhibited the most significant proportional growth over the review period, with proportional growth of 2.2% each. All sub-sectors that fall under the umbrella of the secondary sector experienced contractions over the review period, barring manufacturing (0.1% increase), with the Construction sector (4.6%) the most heavily affected. This is likely a product of secondary sector activities being the most severely impacted by reduced economic activity caused by the pandemic as well as sustained load shedding during 2023, and a higher interest rate cycle.

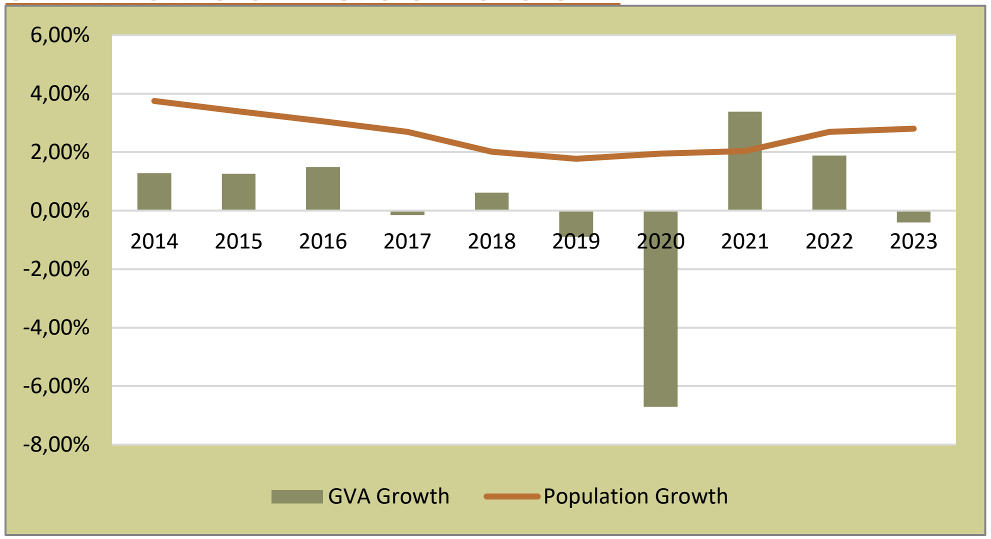
TABLE 1: PROPORTIONAL GROWTH OF ECONOMIC SECTORS

Subsector	2014	2023
Agriculture	3,5%	3,7%
Mining	0,1%	0,0%
Manufacturing	11,1%	11,2%
Electricity	1,2%	0,9%
Construction	16,4%	11,8%
Trade	22,7%	21,6%
Transport	8,4%	9,6%
Finance	19,3%	21,5%
Community Services	17,4%	19,6%

GRAPH 6: ECONOMIC SECTORS

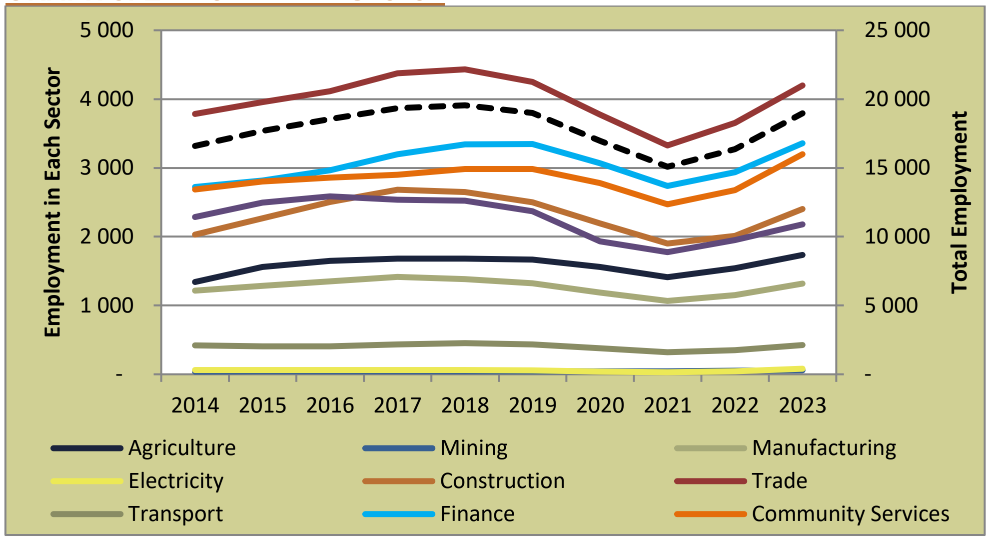


GRAPH 7: GVA GROWTH VS POPULATION GROWTH



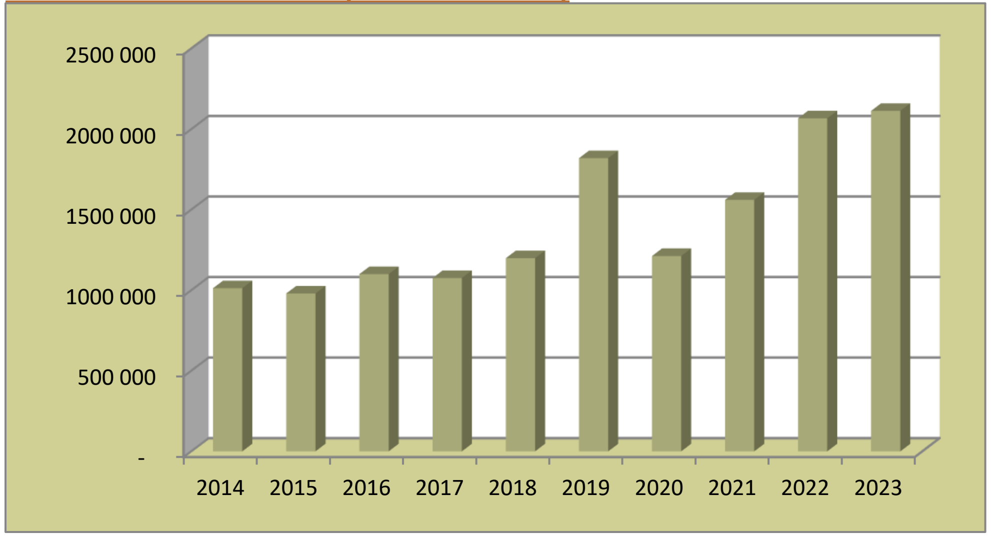
GRAPH 7 above makes it evident that while the impact of the economic contraction in 2020 was severe, an environment of sluggish economic growth has been prevalent for the majority of the review period. The economy has only outpaced the population in terms of growth in 1 of the 10 years under review, with the growth in that year (2021) artificially high due to the extent of the economic contraction in 2020. This is of concern.

GRAPH 8: EMPLOYMENT BY SECTOR

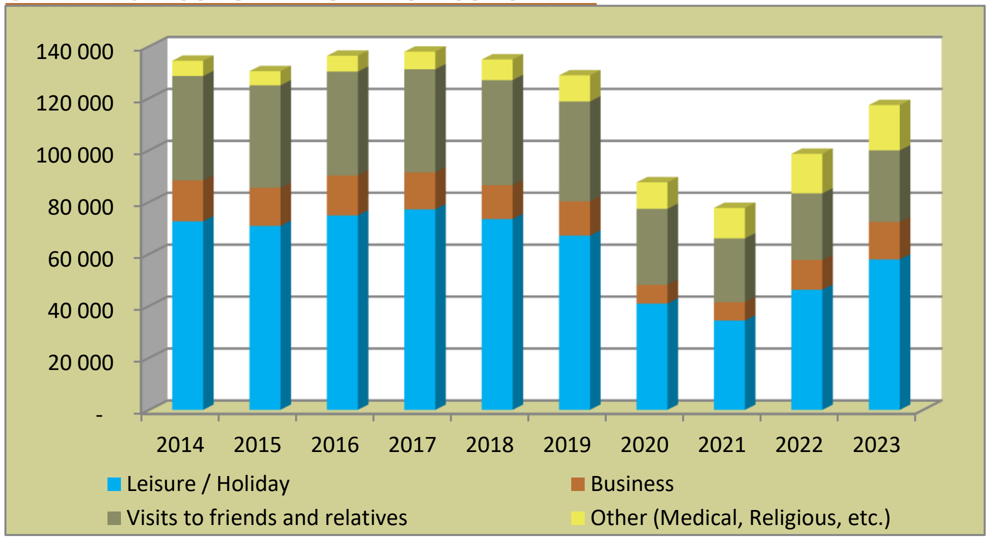


The employment figures reveals that an additional 2 589 jobs were created during 2023. This is consistent with the decline in the unemployment rate. The Trade sector, the biggest contributor to GVA in 2023, is unsurprisingly the main provider of employment in Bitou with 22.2% of jobs falling within this sector. This is followed by finance (17.7%) and community services (16.9%).

GRAPH 9: TOURISM SPEND (CURRENT PRICES)



GRAPH 10: TOURISM TRIPS BY PURPOSE OF TRIP



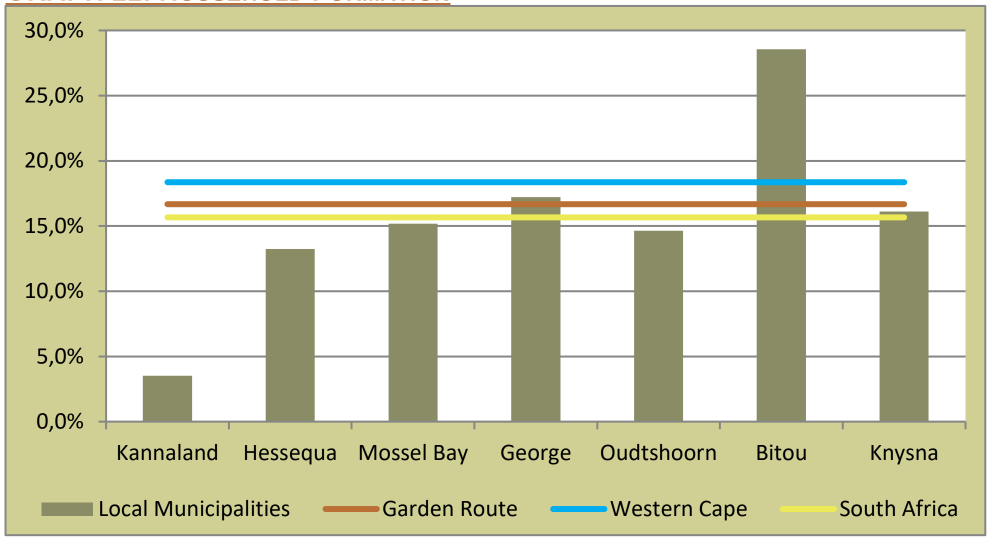
Tourism spend increased at a marginal rate of 2.2% during 2023, to a total of R2.11 billion. This equates to approximately 29.8% of GVA in 2023, marginally down from 31.1% in the prior year. To put it into perspective, this places tourism as the largest contributor to GVA, thus highlighting the importance of tourism to Bitou's economy. For this reason, the municipality must ensure that it does its part in assisting those in the tourism industry through maintaining a high level of service delivery and maintaining the strong perception of Bitou as an attractive destination for tourists.

The number of tourism trips into Bitou increased by 19.0% during 2023, up to 117 392 trips from 98 624 in the prior year. It must be noted that while this remains below pre-pandemic levels, the increasing trend observed since 2021 is a positive development. A return to an economic growth environment as well lower inflation may result in an acceleration of this growth in the coming years. Trips for leisure/holiday purposes remained the predominant reason for trips into Bitou, accounting for 49.4% of trips in 2023. This is followed by trips to visit friends and relatives (23.5%). This further highlights the perception of Bitou as an attractive tourist 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 further increases the pressure on Bitou as they do not receive revenue for providing these services.

GRAPH 11: Household Formation



Bitou has managed to improve its infrastructure index over the review period, with the index improving from 0.82 in 2014 to 0.86 in 2021. A marginal decline has been noted since with the index dropping to 0.85. The infrastructure index provides an indication as to the extent of access to municipal services. It does not, however, measure the quality and security with which these services are provided. The maintenance of the index over time is an indication of the municipality's ability to keep up with the rate of household formation.

GRAPH 12: Infrastructure Index

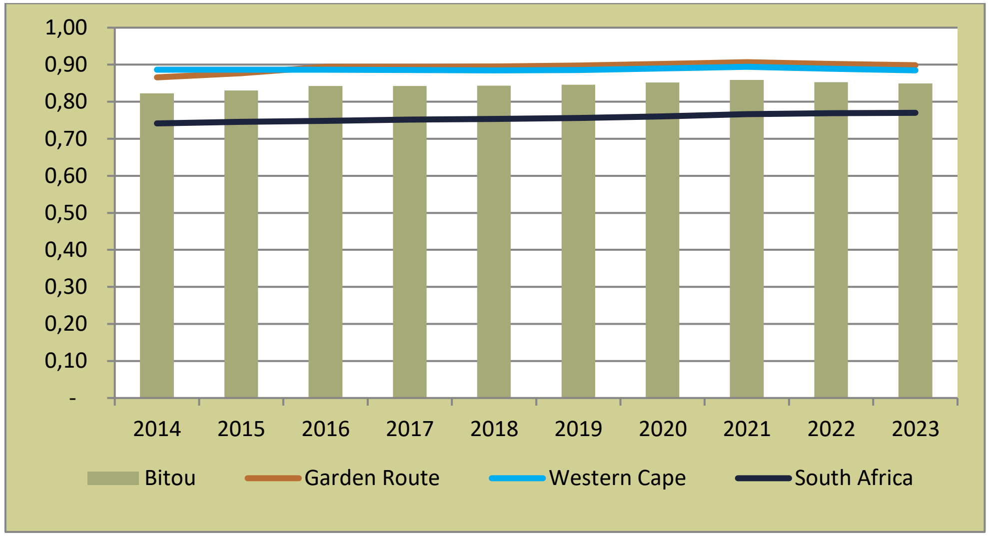


Table 2 below provides a comparison between the level of backlogs of Bitou and the Garden Route District. Bitou has managed to improve access to services in all service categories, except for refuse removal services, over the review period. Bitou outperformed the district in the provision of sanitation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

TABLE 2: HOUSEHOLD INFRASTRUCTURE PROVISION

Infrastructure	Garden Route		Bitou	
Above RDP Level				
Sanitation	206 862	97,6%	23 740	98,8%
Water	209 537	98,9%	23 544	98,0%
Electricity	206 098	97,3%	23 825	99,1%
Refuse Removal	193 243	91,2%	21 672	90,2%
Below RDP or None				
Sanitation	5 023	2,4%	289	1,2%
Water	2 348	1,1%	486	2,0%
Electricity	5 787	2,7%	205	0,9%
Refuse Removal	18 642	8,8%	2 358	9,8%
Total Number of Households	**211 885**	**100,0%**	**24 030**	**100,0%**

1 Planning Process

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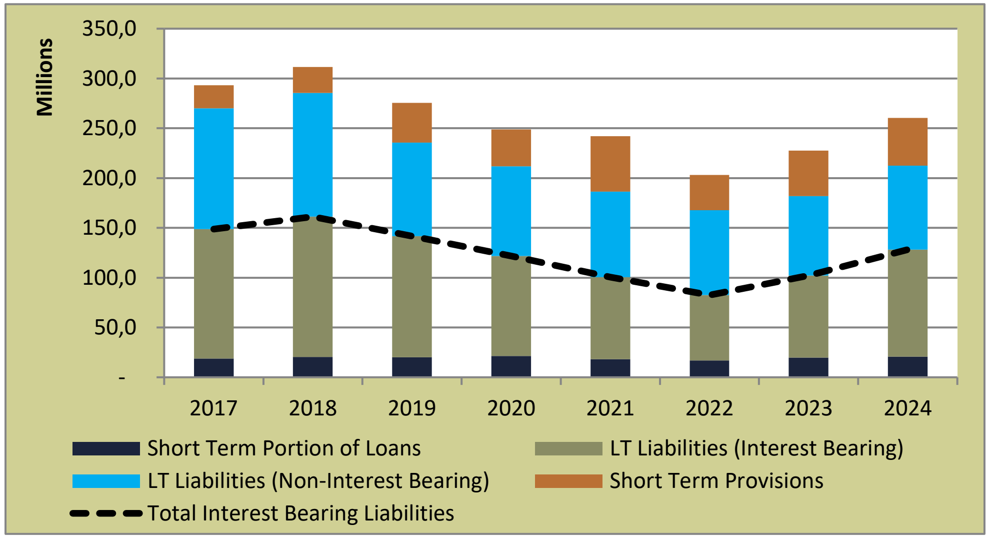
Updated Historic Financial Assessment

Financial Position

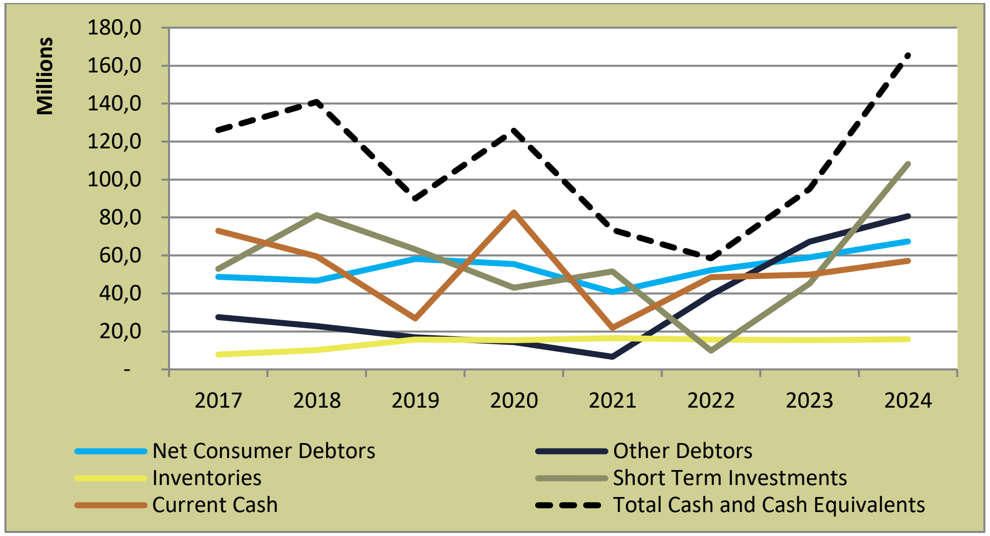
Graph 13: Long-Term Liabilities: Interest Bearing vs Non-Interest Bearing



Bitou LM's net fixed assets position improved during the year, increasing by 4.1% to total R1.33 billion as at FYE2023/24. A marginally lower increase was observed in the accumulated surplus, up from R1.14 billion to R1.18 billion for a total increase of 3.4% during the year. This was underpinned by sound financial performance. Interest-bearing liabilities increased to R107.3 million, up from R82.5 million in the prior year, courtesy of an additional loan undertaken during the year. Non-interest-bearing liabilities increased by R4.8 million to total R84.4 million as at FYE2023/24. This was predominantly driven by increases in employee benefit obligations.

Additional loans to the value of R45.2 million were undertaken during the year. The addition of these loans increased the degree of leverage in the debt profile. This is evidenced by the gearing ratio which increased to 14.1%, up from 12.2% in the prior year. Interestingly, the debt service to total expense ratio declined marginally to 3.5% from 3.8% at the prior year end. Analysis of the Adjustment Capital Budget reveals that the municipality has planned to continue borrowing over the MTREF period. The current debt profile remains affordable, particularly given the stable and improving liquidity position. However, the municipality must remain wary of not overleveraging the debt profile and potentially weakening the financial position. The affordability of the Capital Budget will be explored later in this report, and it is recommended that the outcomes of this affordability analysis are considered in preparation of the 2025/26 budget.

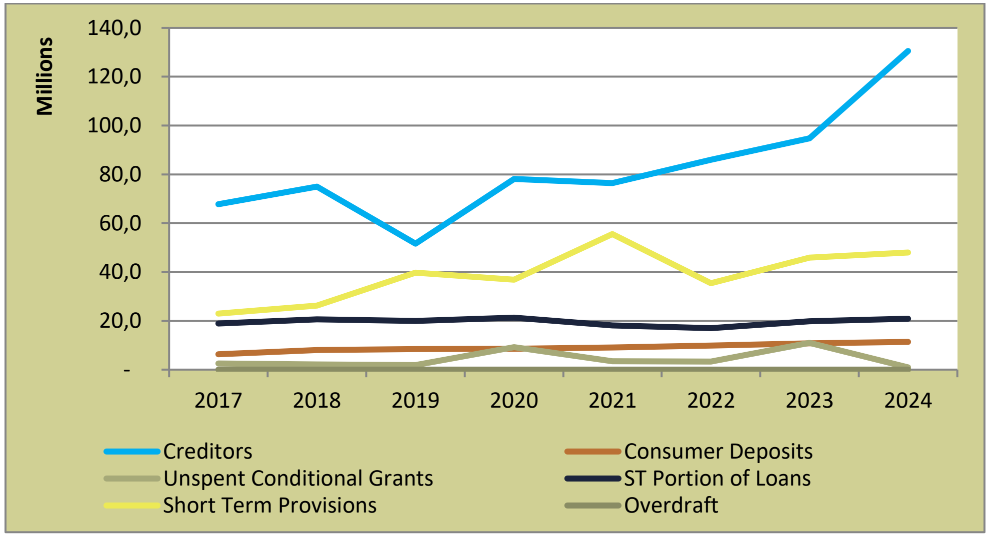
Graph 14: Current Assets



Current assets saw a notable increase during FY2023/24, increasing by 39.1% to R329.4 million. This was predominantly driven by increases in cash and cash equivalents, the majority of which are short-term investments. This should result in additional interest income. Bitou's current assets are highly liquid, as 50.2% of the current assets balance consists of cash and cash equivalents. Cash and cash equivalents totalled R165.4 million as at FYE2023/24, up from R95.1 million at the prior year end.

Current liabilities increased by a comparatively lower 16.2% during the year, up to R211.6 million from R182.2 million in the prior year. The extent of this increase was largely driven by an increase of 37.7% in trade and other payables. Trade payables increased by R29.3 million to R92.2 million as at FYE2023/24. This is of some concern and must be addressed immediately as creditors will need to be serviced at some point in time.

GRAPH 15: CURRENT LIABILITIES

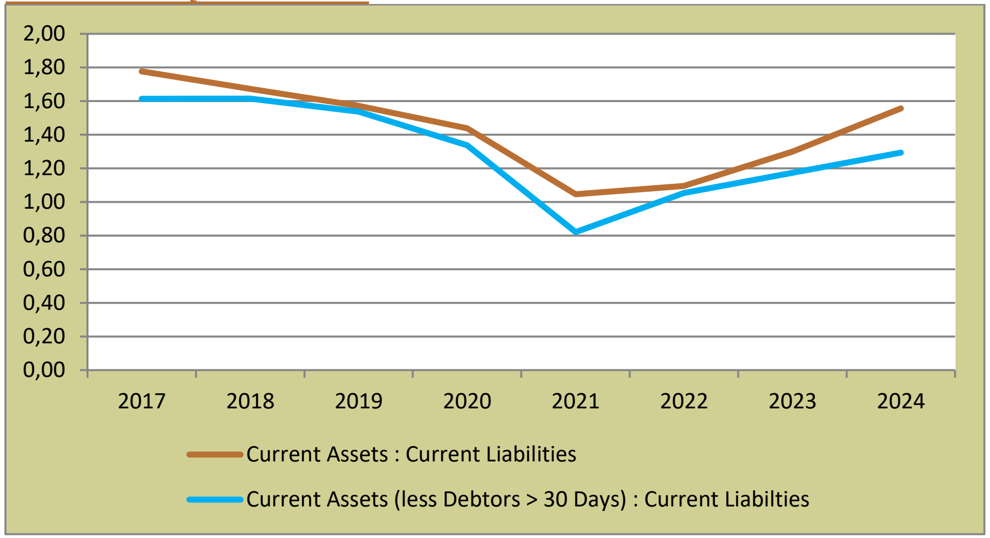


The combined impact of the movements in current assets and liabilities resulted in an improvement of the liquidity position. The liquidity ratio increased to 1.56:1 from 1.30:1 at the prior year end. This remains healthy and represents the fourth consecutive year of improvement. The liquid nature of Bitou's current assets, particularly, provides a healthy liquidity buffer. This leaves Bitou well positioned to absorb potentially harmful financial shocks.

TABLE 3: LIQUIDITY RATIOS

	2017	2018	2019	2020	2021	2022	2023	2024
Current Assets: Current Liabilities	1,78	1,67	1,57	1,44	1,05	1,09	1,30	1,56
Current Assets (less Debtors > 30 Days): Current Liabilities	1,61	1,61	1,54	1,34	0,82	1,05	1,17	1,29

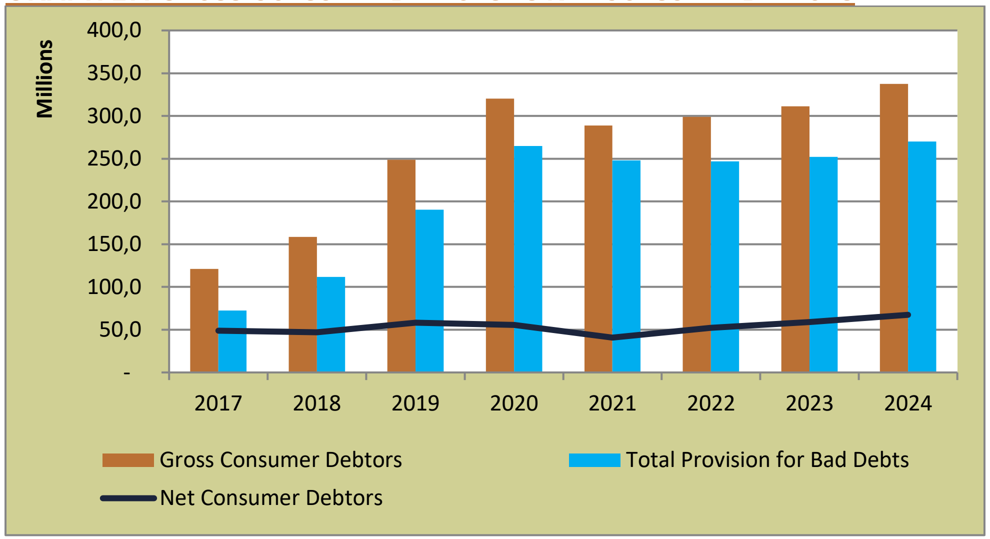
GRAPH 16: LIQUIDITY RATIOS



Gross consumer debtors increased by 8.4% during the year to total R337.3 million as at FYE2023/24. A comparatively lower increase of 7.0% in the provision for bad debts resulted in an increase of 14.3% to R67.4 million in net consumer debtors. The collection rate increased to 88.2%, up from 86.6% in the prior year. This is positive to note. The municipality must aim for further increases in the coming years with the NT norm of 95% a healthy long-term target. Reduced inflation and the genesis of an interest rate cutting cycle will ease pressure on households to service their municipal bills. The municipality must take advantage of this and ensure it is well placed to improve to and maintain a high collection rate.

Rates remained the largest pool of debtors, accounting for 32.5% of net consumer debtors. This is followed by electricity debtors (31.1%) and water debtors (19.0%). The provision for bad debts of R269.9 million fell just short of covering the debtors older than 90 days balance of R274.4 million. While it is ideal for the provision for bad debts to fully provide for debtors older than 90 days, it is reasonable to say that the risk of non-payment was largely provided for during FY2023/24.

Graph 17: Gross Consumer Debtors vs Net Consumer Debtors

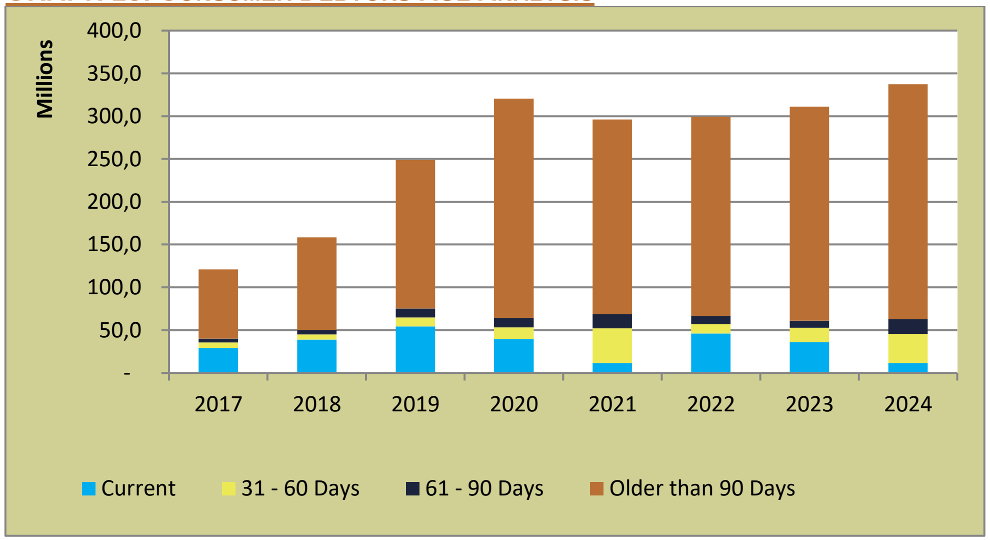


Further scrutiny of the debtors age analysis reveals that debtors older than 90 days form the largest pool of debtors, accounting for 81.3% of consumer debtors. Current debtors accounted for just 3.4% of consumer debtors at the current year end. It would be beneficial for the municipality to attempt to collect as much of the aged debt as possible. It is appreciated that this is not an easy task, but the benefits that can be derived are vast.

Table 4: Debtors Ratios

	2018	2019	2020	2021	2022	2023	2024
Increase in Billed Income p.a. (R'm)	35,4	85,0	14,3	24,5	30,7	2,5	52,2
% Increase in Billed Income p.a.	10%	21%	3%	5%	6%	0%	9%
Gross Consumer Debtors Growth	31%	57%	29%	-10%	4%	4%	8%
Net Debtors' Days	49	43	44	40	28	34	39
Payment Ratio/Collection Rate (%)	87%	70%	72%	86%	83%	87%	88%

Graph 18: Consumer Debtors Age Analysis



Financial Performance

GRAPH 19: ANALYSIS OF SURPLUS

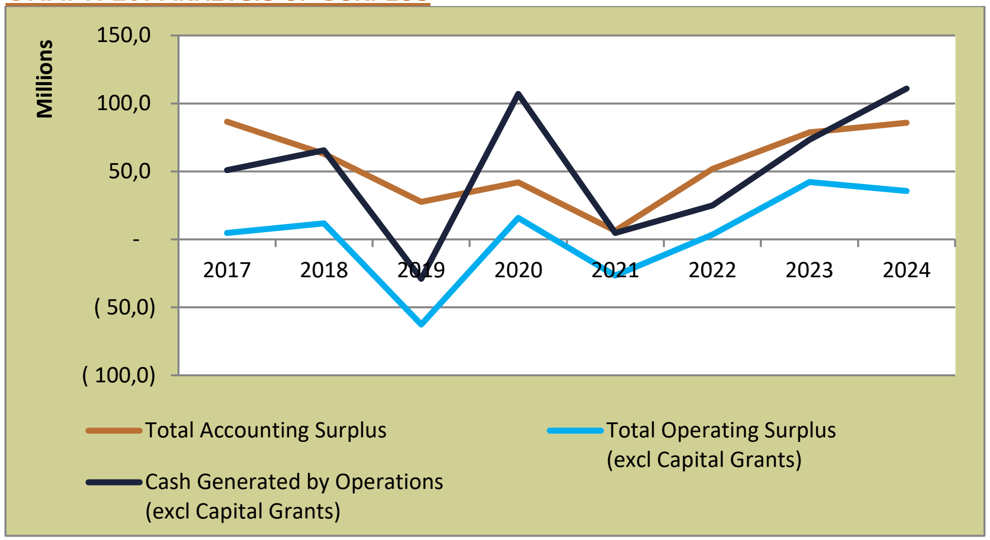


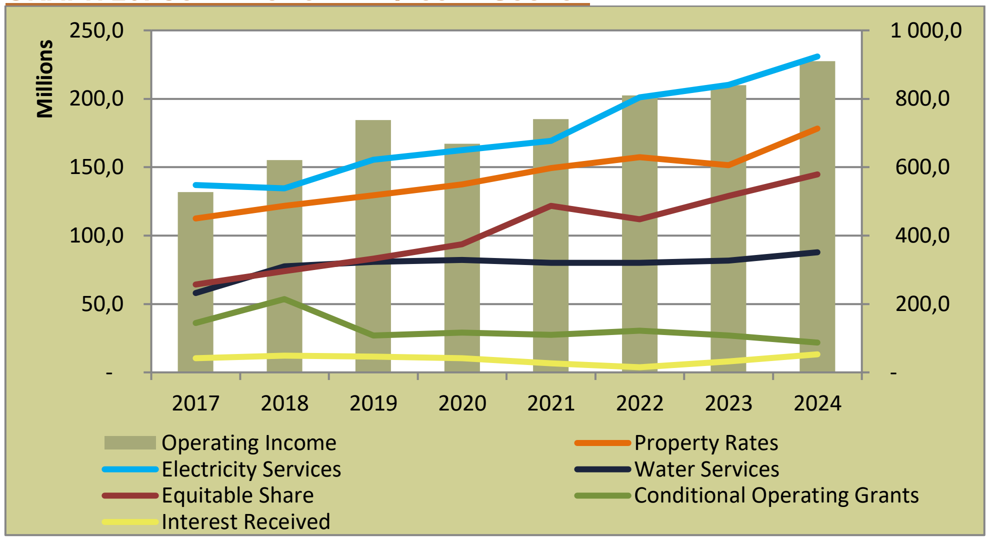
TABLE 5: ANALYSIS OF SURPLUS

	2017	2018	2019	2020	2021	2022	2023	2024
Total Accounting Surplus	86,6	62,8	27,5	41,9	6,3	51,8	78,7	85,9
Total Operating Surplus (excl Capital Grants)	4,8	11,8	(62,7)	15,7	(26,7)	3,5	42,2	35,6
Cash Generated by Operations (excl Capital Grants)	51,0	65,4	(29,0)	107,0	4,7	24,9	73,3	110,9

Total income (including capital grants) increased by 9.54% during FY2023/24, increasing to R960.0 million. Operating expenditure increased by a marginally higher 9.59% to R874.2 million. This resulted in an improvement in the accounting surplus to R85.9 million during FY2023/24, up from R78.7 million in the prior year. Upon the exclusion of capital grants, the municipality posted an operating surplus of R35.6 million, down from R42.2 million in the prior year. This marks the third consecutive operating surplus and fourth in the last 5 years. This continues the trend of improved financial performance observed in the latter half of the review period.

Bitou's ability to generate cash from its operations (excluding capital grants) improved once again during FY2023/24, with a considerable R110.9 million in cash generated by operations. This is an improvement on the prior year value of R73.3 million and marks a peak for the review period. While the improvement in the collection rate certainly underpinned this increase, it must be stated that the increase in trade payables played a role as well. The municipality must be wary of delaying payment to creditors as they will need to be serviced at some point in time and delayed payment may lead to unnecessary interest costs.

GRAPH 20: CONTRIBUTION PER INCOME SOURCE



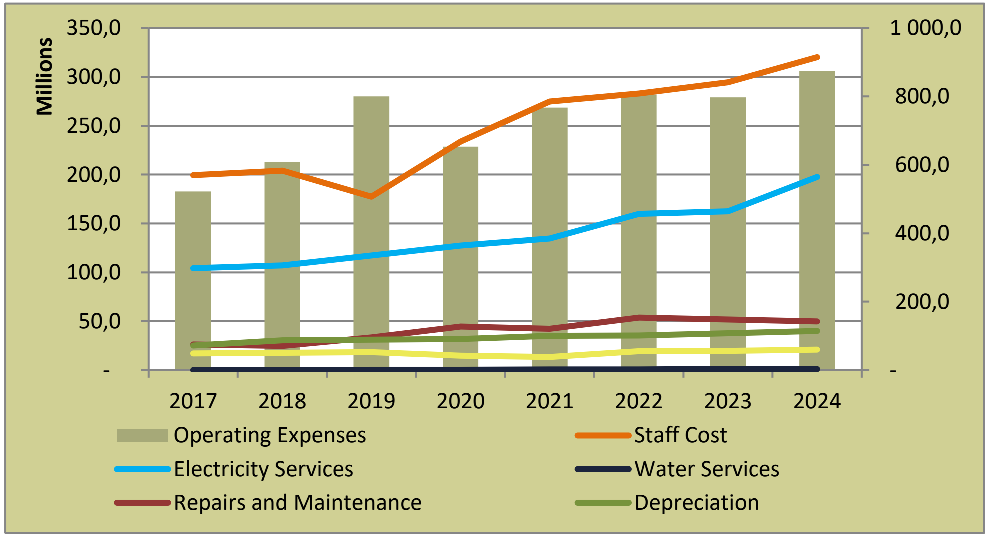
The growth in operating income (excluding capital grants) of 9.23% was underpinned by above CPI growth in electricity services (10%), property rates (18%) and interest received (64%). The growth in electricity services revenue is positive to note as this follows limited growth in the previous year due to the energy crisis. Electricity revenue remained the predominant contributor to revenue, accounting for

25% of revenue in FY2023/24. Other notable contributions include property rates (20%) and equitable share (16%).

Total grants (operating and capital) comprised 23% of total revenue during FY2023/24. This is indicative of a reasonable reliance on grant funding, relative to other comparable municipalities.

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

GRAPH 21: CONTRIBUTION PER EXPENDITURE ITEM



The 9.59% increase in total operating expenditure was underpinned by increases in electricity bulk purchases (22%), staff costs (9%), and depreciation (7%). The improved collection rate resulted in debt impairment costs declining during the year. Staff costs remained the predominant expenditure item, accounting for a third of operating expenditure in FY2023/24. This is followed by electricity bulk purchases with a contribution of 20%.

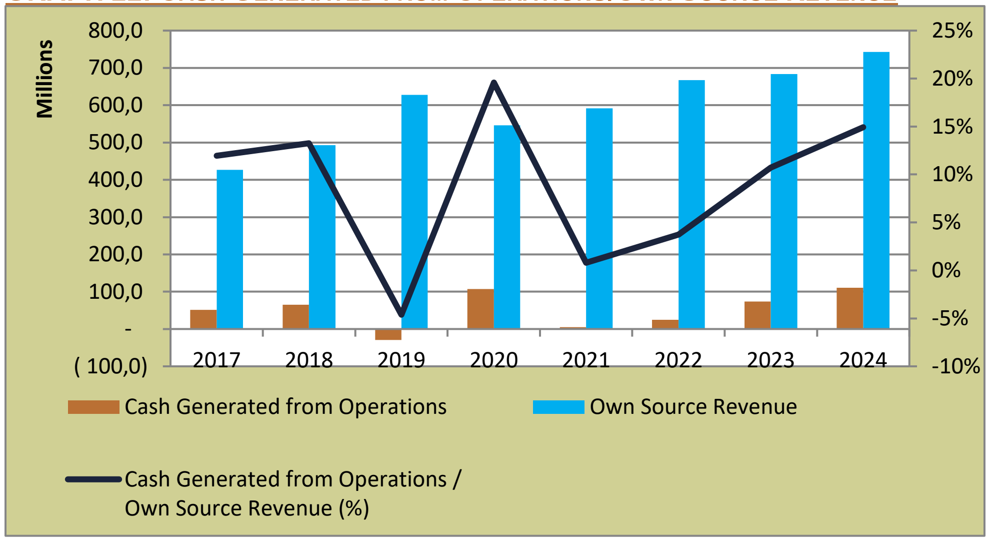
While the contribution of staff costs remains below the maximum norm of 40% as prescribed by NT, we cannot look at this figure in isolation. Contracted services are often seen as an alternative to staff costs, with certain services outsourced to contractors. With this in mind, it is worth analysing the combined contribution of staff costs and contracted services to assess the affordability of the municipality's employee related expenditure profile. The combined contribution of contracted services and staff costs totals 42% of total operating expenditure. This exceeds the NT maximum norm of 40%, thus rendering the affordability of the municipality's employee related expenditure profile questionable. It may be worth exploring whether certain outsourced services could perhaps be brought back within the municipality, should this result in cost-savings.

Expenditure to repair and maintain the municipality's asset base declined during the year to R49.7 million, down from R51.7 million in the prior year. This resulted in repairs and maintenance expenditure as a percentage of PPE & IP declining to 3.7% from 4.0% in the prior year. Ideally we would like to see this ratio increase closer to the NT norm of 8%. It is worth noting that a reasonable portion of the Capital Budget is allocated towards the upgrading of existing assets. The municipality must endeavour to increase the allocation of funds to repair and maintain the municipality's assets in order to avoid unnecessary impairment or early obsolescence of assets.

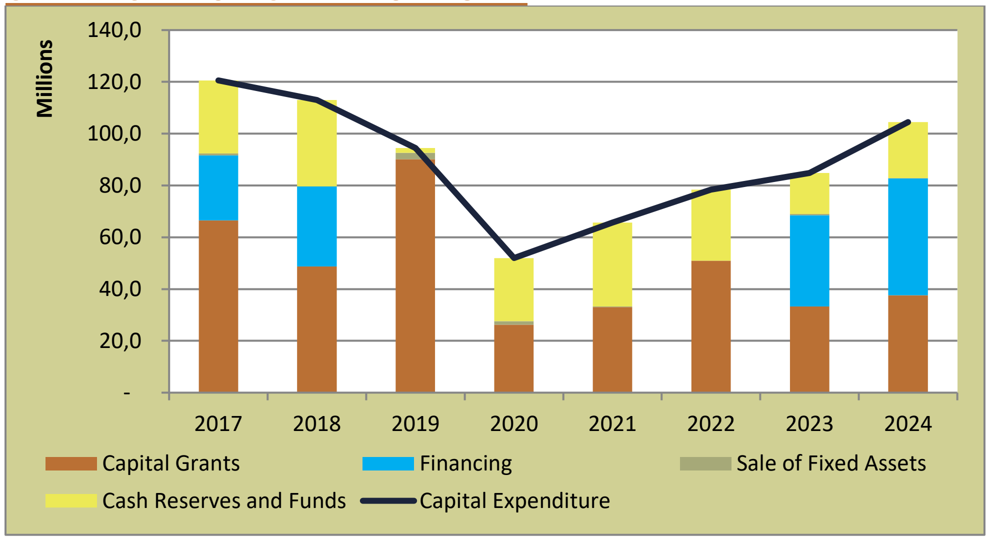
Electricity distribution losses improved to 6.24%, down from 9.29% in the prior year. This remains within the NT norm range of 7%-10%. Water distribution losses increased to 37.89%, up from 35.85% in the prior year. The increase and extent of water losses is of concern and must be addressed by the municipality. The reasons for the extent of water losses be it infrastructure or billing related must be identified and addressed as a matter of urgency.

Cash Flow

GRAPH 22: Cash Generated from Operations/Own Source Revenue



GRAPH 23: Annual Capital Funding Mix

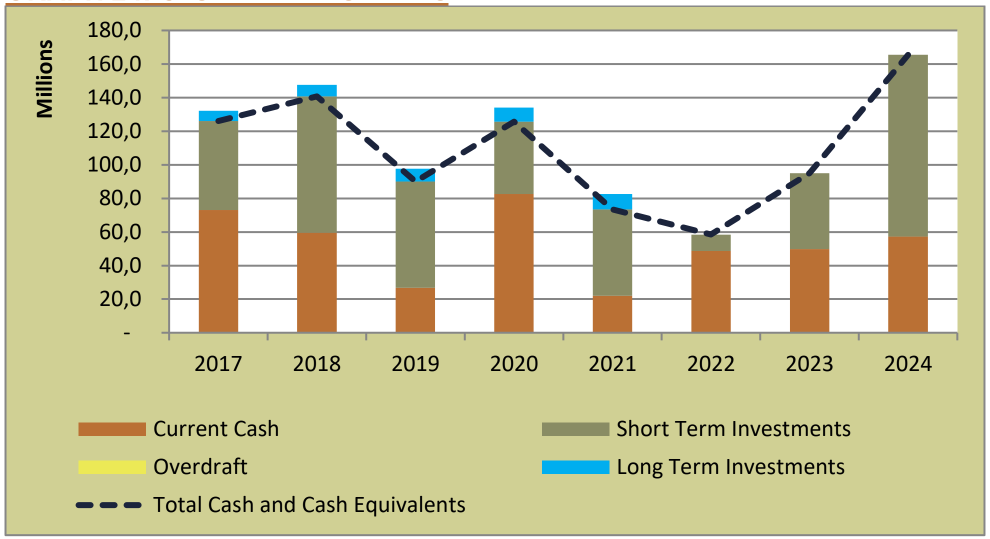


Graph 23 illustrates the gradual acceleration of capital investment since FY2019/20. This is expected to continue over the MTREF period, particularly in FY2024/25. Capital grants were the predominant funding source over the review period, accounting for 54% of capital funding over the review period. This is followed by own cash reserves and funds (26%) and external financing (19%). The municipality preferred to utilise own cash reserves to supplement capital grant funding between FY2018/19-FY2021/22, with no borrowing undertaken during this period. Borrowings were undertaken in each of the last 2 years under review. The municipality has budgeted to borrow throughout the MTREF period, with approximately R140 million in borrowings included in the capital budget over the MTREF period. While we support the fostering of an optimal funding mix that balances the utilisation of the municipality's healthy liquidity reserves and affordable borrowing to supplement capital grant funding, the municipality must remain cautious of overleveraging the debt profile. This may begin to result in diminishing returns, particularly should challenging economic conditions be experienced.

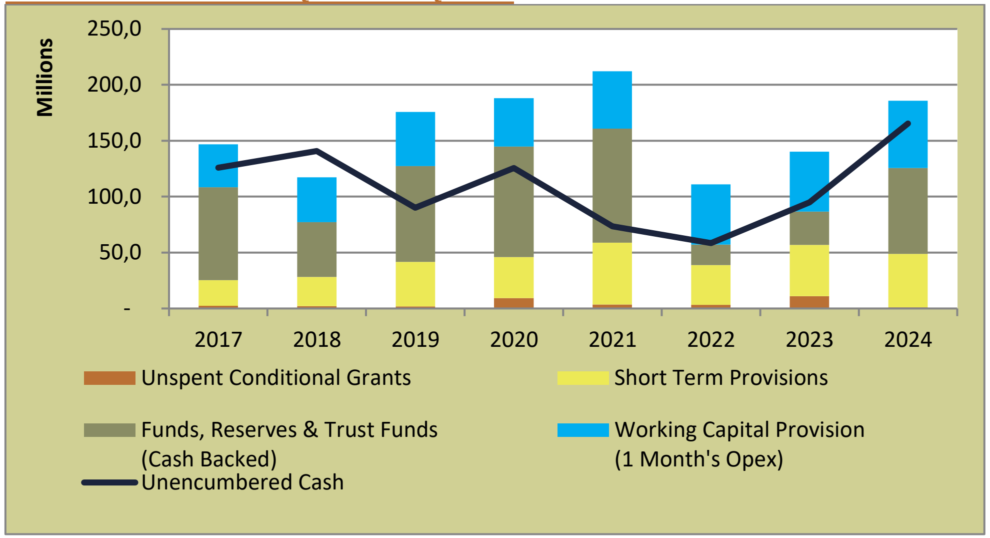
As mentioned earlier in this report, the current debt profile remains affordable. It remains to be seen whether this will remain the case should the Capital Budget borrowing programme be implemented as proposed. This will be explored and tested in detail later in this report.

The municipality is encouraged to utilise the capital investment programme to invest in productive, revenue-generating assets. This will not only assist in providing financial returns to the municipality but will also enable a greater level of service delivery to be attained. This will not only improve the standard of living of residents of Bitou but will greatly improve the perception of the municipality as an attractive investment destination.

GRAPH 24: CASH AND INVESTMENTS



GRAPH 25: MINIMUM LIQUIDITY REQUIRED



Bitou's cash position has been characterised by volatility over the review period, with the cash and cash equivalents balance fluctuating considerably between FY2016/17 and FY2021/22. On a positive note, the cash position has improved consistently since the review period low of R58.5 million as at FYE2021/22, to a review period high of R165.4 million as at FYE2023/24. It is also positive that the municipality has increased its short-term investments. This can provide a valuable boost to revenue through additional interest income. The municipality must focus on improving the collection rate further to continue the upward trend in cash and cash equivalents.

As per TABLE 6 below, the municipality is required to maintain sufficient cash reserves to cover the minimum liquidity requirements that include, unspent conditional grants, short-term provisions, funds, reserves and trust funds, as well as the working capital provision of one month's operating expenditure. The minimum liquidity requirement of R185.7 million exceeded Bitou's cash and cash equivalents balance of R165.4 million, resulting in a cash shortfall of R20.3 million in FY2023/24. An increase from a cash surplus of R91.8 million in the prior year. Bitou has posted cash shortfalls below the minimum liquidity requirements in 7/8 years under review, with the sole cash surplus posted in FY2017/18. The ability to maintain sufficient liquidity to cover the minimum liquidity requirement is a strong indicator of long-term sustainability, thus this is something for Bitou to strive to improve. The cash coverage ratio (including working capital) improved during the year but remains low at 0.9:1.

TABLE 6: MINIMUM LIQUIDITY REQUIREMENTS

	2017	2018	2019	2020	2021	2022	2023	2024
Unspent Conditional Grants	2,5	2,1	1,9	9,2	3,4	3,3	10,9	0,9
Short Term Provisions	23,0	26,2	39,7	36,8	55,5	35,5	45,9	47,9
Funds, Reserves & Trust Funds (Cash Backed)	83,0	48,9	85,9	98,7	102,0	18,6	30,0	76,7
Total	**108,4**	**77,1**	**127,5**	**144,7**	**161,0**	**57,3**	**86,8**	**125,5**
Unencumbered Cash	125,9	140,8	90,1	125,7	73,5	58,5	95,1	165,4
Cash Coverage Ratio (excl Working Capital)	1,2	1,8	0,7	0,9	0,5	1,0	1,1	1,3
Working Capital Provision (1 Month's Opex)	38,3	40,3	48,3	43,5	51,2	53,6	53,5	60,2
Cash Coverage Ratio (incl Working Capital)	0,9	1,2	0,5	0,7	0,3	0,5	0,7	0,9
Minimum Liquidity Required	146,7	117,4	175,8	188,2	212,2	110,9	140,3	185,7
Cash Surplus/(Shortfall)	**(20,8)**	**23,4**	**(85,7)**	**(62,5)**	**(138,7)**	**(52,4)**	**(45,2)**	**(20,3)**

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 FY2023/24 performance of Bitou, the IPM credit model reflects a score of **5.2** which is comparable to a high BBB+ to BBB- on a national ratings scale. This credit score is relatively high compared to other municipalities, and it is at **Investment Grade** level **-** which means that 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	2024 (5)
Financial	**3,0**
Institutional	**2,5**
Socio-Economic	**1,9**
Infrastructure	**2,1**
Environmental	**3,9**

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

The municipality performed reasonably in the infrastructure module. This is linked to the maintenance of an adequate infrastructure index of 0.85, indicative of the ability to keep up with the rate of household formation. Improvements in access to service delivery and curtailing of high water distribution losses will aid in improving the score in this module.

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

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

Analysis of the Adopted Budget reveals that the municipality aims to take advantage of the healthy credit rating and is intending to continue to approach the market for financing. The municipality should be able to access affordable lending rates. The interest rate cutting cycle we appear to have entered underpins this further.

1 Planning Process

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4 Long-Term Financial Model Outcomes

5 Future Revenues

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Long-Term Financial Model Outcomes

MTREF Case Scenario

An MTREF Case was developed utilising the unadjusted figures from the Adjustment Budget 2024/25-2026/27. The purpose of this scenario is to reflect the LTFM outcomes prior to making any adjustments to the current MTREF. In doing so, the collection rate was assumed to be 88.2% throughout the forecast period, as per the FY2023/24 audited financial statements. While no adjustments were made to the capital investment programme or funding mix from the latest capital budget. Assumed growth beyond the MTREF period for both capital expenditure and borrowing is 4% p.a. Finally, distribution losses & R&M expenditure to PPE & IP were maintained at their respective FY2023/24 levels.

The outcomes of this scenario as presented in Table 8 reflect a reasonably poor forecast for financial performance over the MTREF period. While year-on-year improvements are expected thereafter, operating surpluses are forecast from FY2029/30 onwards. The ability to generate cash from operations is expected to remain strong, with cash forecast to be generated by operations throughout the planning period.

As illustrated in Graph 29 below, the liquidity position is forecast to decline over the MTREF period, with current liabilities forecast to exceed current assets between FY2027/28-FY2031/32. This is driven by persistent operating deficits, a rising creditors balance and declining bank balance owing to own high amounts of own cash utilised to fund capital investment. The poor forecast for financial performance is largely driven by the LTFM forecast for debt impairment exceeding the budgeted amounts. These differences range between R30-R34 million p.a. throughout the MTREF period. The LTFM forecasts are more in line with the historic performance, with budgeted amounts reflecting a notable decline from the FY2023/24 performance.

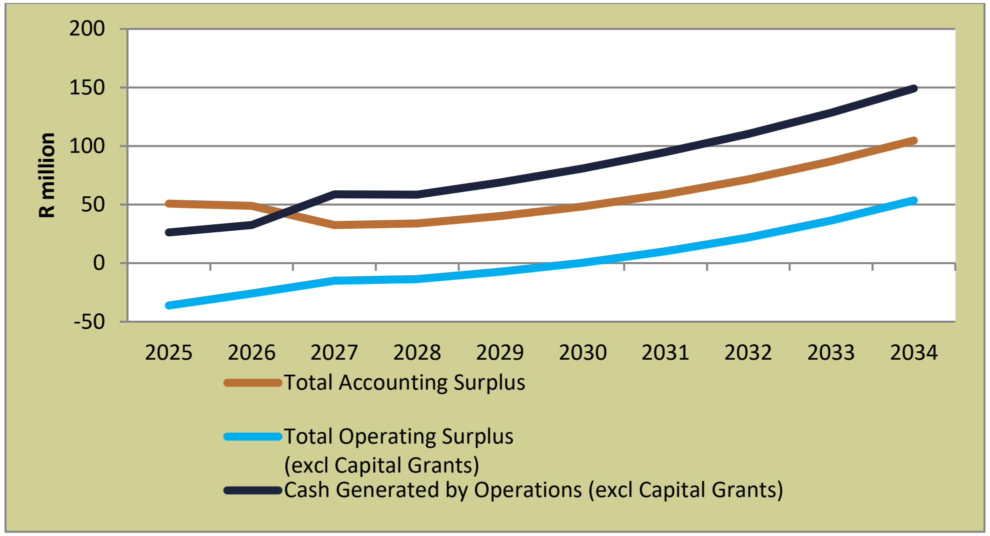
The planning period end liquidity ratio is forecast at 1.1:1, a decline from the FYE2023/24 ratio of 1.56:1. This is predominantly driven by the growth in current liabilities as evidenced in Graph 27 below. This limits the improvement in the liquidity ratio despite strong growth in current assets, driven by growth in cash. This highlights the critical nature of ensuring timeous payment of creditors.

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

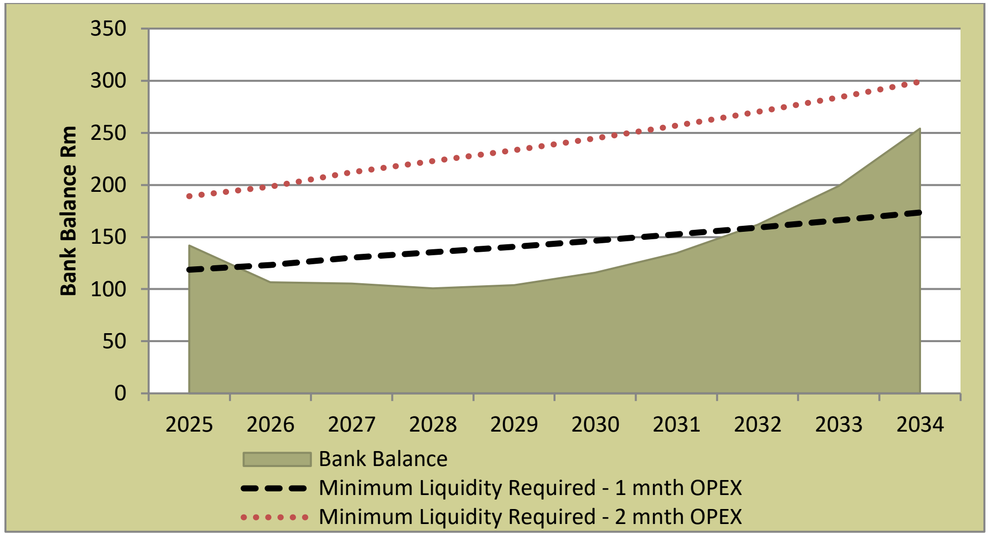
Table 8: MTREF Case Outcomes

Outcome	MTREF Case
Average annual % increase in Revenue	7,2%
Average annual % increase in Expenditure	7,6%
Accounting Surplus accumulated during Planning Period (Rm)	R 577
Operating Surplus accumulated during Planning Period (Rm)	R 24
Cash generated by Operations during Planning Period (Rm)	R 808
Average annual increase in Gross Consumer Debtors	13,1%
Capital investment programme during Planning Period (Rm)	R 1 287
External Loan Financing during Planning Period (Rm)	R 290
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 254
No of Months Cash Cover at the end of the Planning Period (Rm)	2,0
Liquidity Ratio at the end of the Planning Period	1.1 : 1
Gearing at the end of the Planning Period	6,8%
Debt Service to Total Expense Ratio at the end of the Planning Period	3,5%

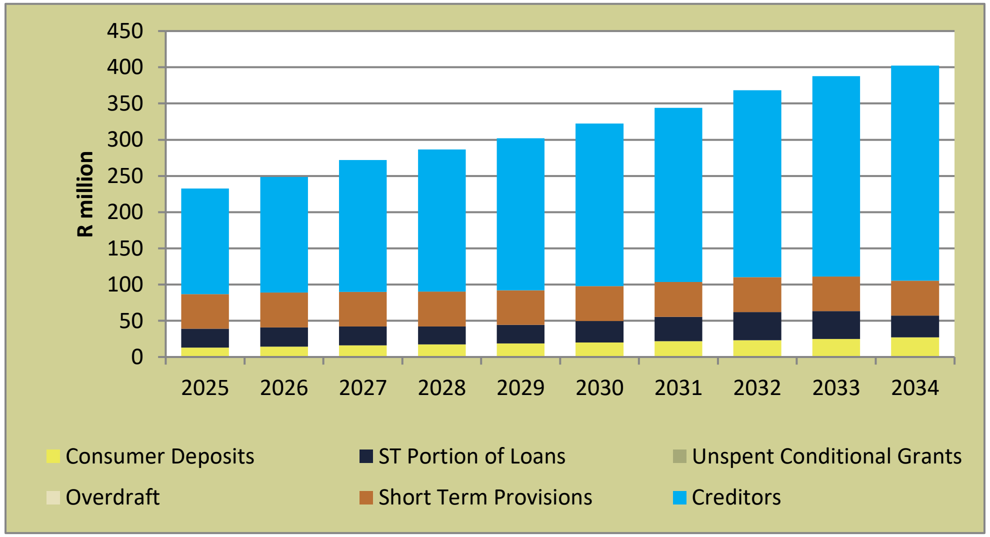
GRAPH 26: MTREF CASE SCENARIO: ANALYSIS OF SURPLUS



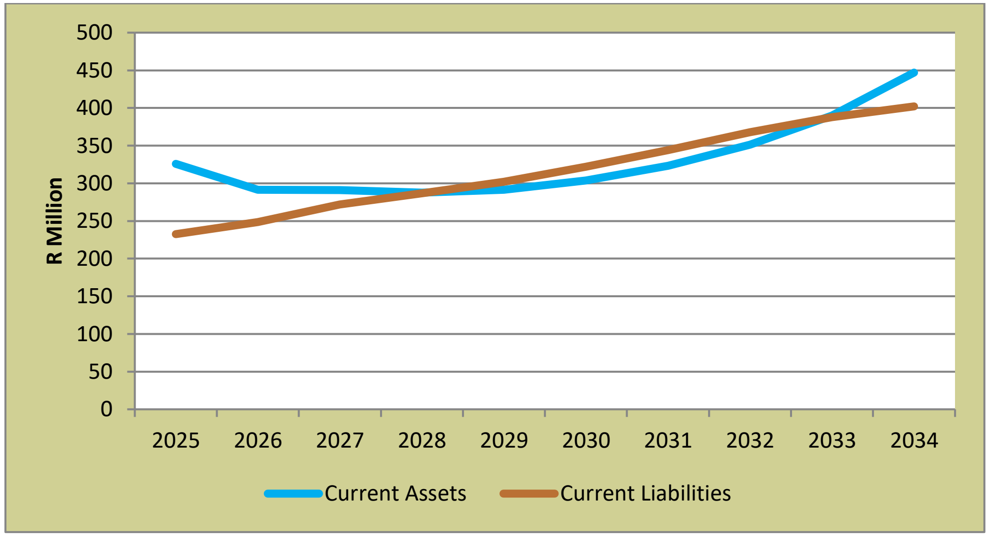
GRAPH 28: MTREF CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY



GRAPH 27: MTREF CASE SCENARIO: CURRENT LIABILITIES



GRAPH 29: MTREF CASE SCENARIO: CURRENT ASSETS VS CURRENT LIABILITIES



Base Case Scenario

To develop a realistic Base Case model, the figures from the Adjustment Budget 2024/25 – 2026/27 were used. The historic analysis reveals that the municipality's liquidity position has begun to recover after a period of decline, while capital investment has received a notable acceleration in recent years. Financial performance has historically been sound in recent years with operating surpluses posted in 3 of the last 4 years under review. The objective of the model is to utilise realistic assumptions to support future financial sustainability. The following are the key assumptions:

1. A collection rate of 90% (from 88.2%) is assumed to be met immediately and maintained for the remainder of the planning period.
2. An operating expenditure cut of 2% was assumed.
3. Tariff increases were included as provided by the municipality.
4. Creditors days were adjusted downwards to 45 days from 127 days mitigate the forecast rise in creditors.
5. The capital investment programme was modelled as discussed with the municipality:
    - FY2024/25: R151 million
    - FY2025/26: R190 million
    - FY2026/27: R149 million
    - FY2027/28: R131 million

   Assumed growth in capital investment beyond FY2027/28 is 6% p.a.
6. The borrowing programme was modelled as discussed with the municipality:
    - FY2024/25: R35 million
    - FY2025/26: R87 million
    - FY2026/27: R75 million
    - FY2027/28: R43 million
7. The annual borrowing under this scenario was adjusted to an average of **13-year** amortising loans at a fixed interest rate equal to 7% over forecast CPI in any given year. Assumed annual growth beyond FY2028/29 is 4%.
8. Repairs and maintenance expenditure was increased to 5% (from 3.7%) of PPE & IP over 10 years.
9. Electricity distribution losses were maintained at 6.24%, while water distribution losses were reduced to 30.00% (from 37.88%) over 10 years.

The outcomes of the Base Case are tabled below.

TABLE 9: BASE CASE OUTCOMES

Outcome	Base Case
Average annual % increase in Revenue	7,8%
Average annual % increase in Expenditure	7,9%
Accounting Surplus accumulated during Planning Period (Rm)	R 969
Operating Surplus accumulated during Planning Period (Rm)	R 416
Cash generated by Operations during Planning Period (Rm)	R 1 036
Average annual increase in Gross Consumer Debtors	12,0%
Capital investment programme during Planning Period (Rm)	R 1 527
External Loan Financing during Planning Period (Rm)	R 479
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 426
No of Months Cash Cover at the end of the Planning Period (Rm)	3,3
Liquidity Ratio at the end of the Planning Period	2.7 : 1
Gearing at the end of the Planning Period	15,7%
Debt Service to Total Expense Ratio at the end of the Planning Period	4,8%

Financial performance is forecast to deteriorate initially, with an operating deficit forecast in FY2024/25. Thereafter, year-on-year improvements are forecast with operating surpluses forecast from FY2025/26 onwards. As in the MTREF Case, a key driver of this is the higher than budgeted forecast for debt impairment. With the LTFM forecasts being in line with the historic performance, we have comfort that a realistic figure is presented. This remains the case despite the assumed increase in repairs and maintenance expenditure to 5% of PPE & IP. This is deemed necessary in order to attempt to curtail excessive water distribution losses as well as to maintain the integrity of the municipality's assets.

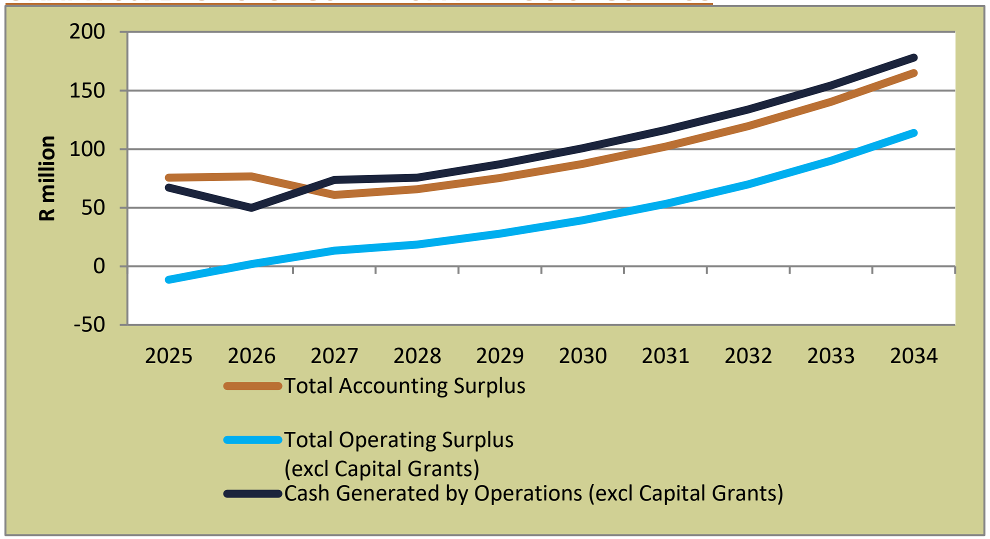
The municipality is forecast to generate a substantial R1.03 billion in cash from operations (excluding capital grants) over the review period. This is driven by the improved collection rate of 90% as well as the modelled cost savings on operating expenditure. Failure to meet these targets may render a reduction in the borrowing and capital investment programmes necessary in order to preserve liquidity. The liquidity position is forecast to remain reasonably stable over the MTREF period, with forecast growth in current assets and current liabilities reasonably modest. Improvements will begin to be observed beyond the MTREF period with year-on-year growth expected over the latter half of the planning period. This is forecast to culminate in a healthy liquidity ratio of 2.7:1 at the end of the planning period. The consistent payment of creditors is the main driver of the limited growth in current liabilities. This is illustrated in Graph 34 below.

The Base Case capital investment programme is underpinned by an aggressive borrowing programme over the MTREF period. The acceleration of borrowings over the MTREF period enabled an acceleration of capital investment that does not hinder the improvement of the liquidity position. The capital investment programme will be discussed in greater detail in Section 6 of this report.

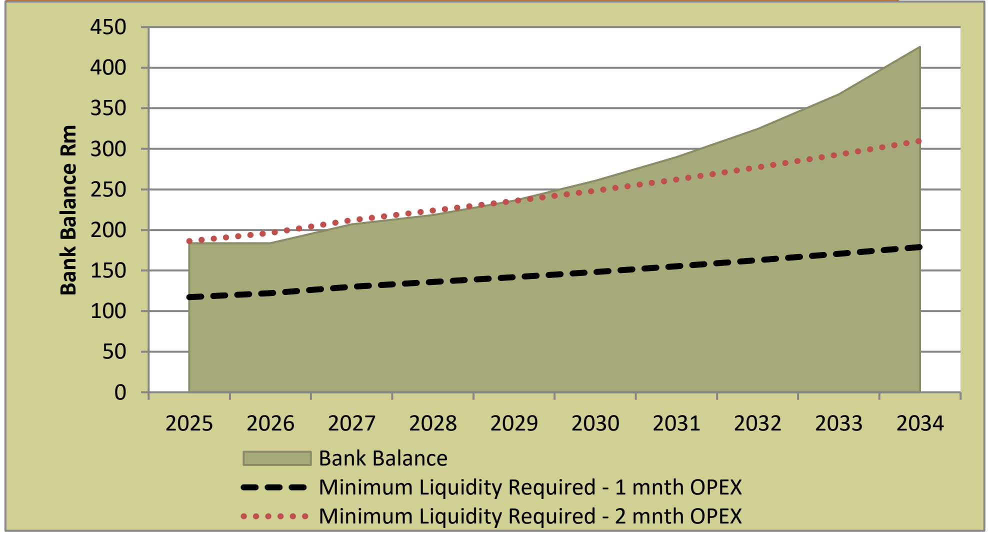
The bank balance is forecast to exhibit steady growth over the planning period. The minimum liquidity requirement of 1-month's opex will comfortably be met throughout the planning period, with 2-month's cash cover on hand from FY2028/29 onwards. Additionally, the Base Case borrowing programme underpins this improvement further whilst enabling the capital investment programme to be implemented in a sustainable manner.

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

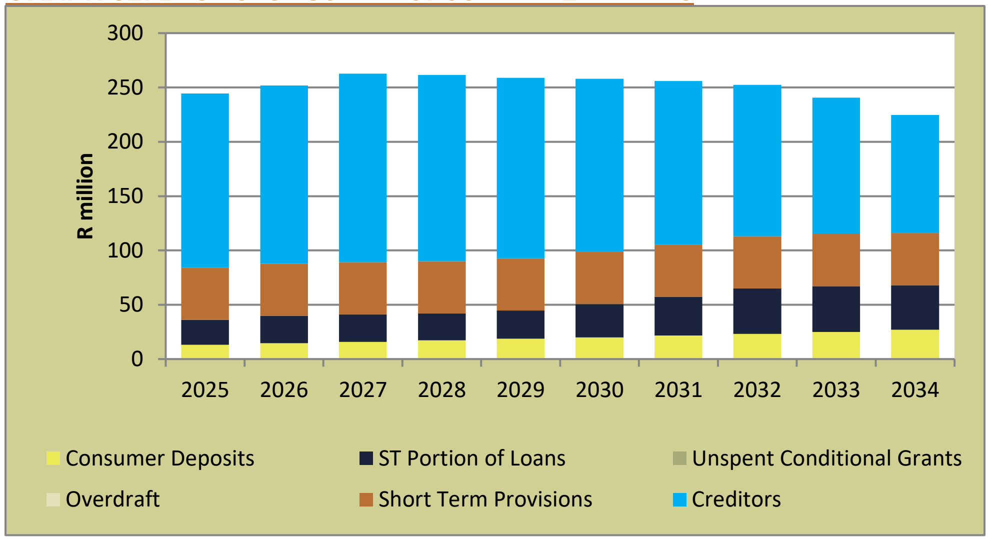
Graph 30: Base Case Scenario: Analysis of Surplus



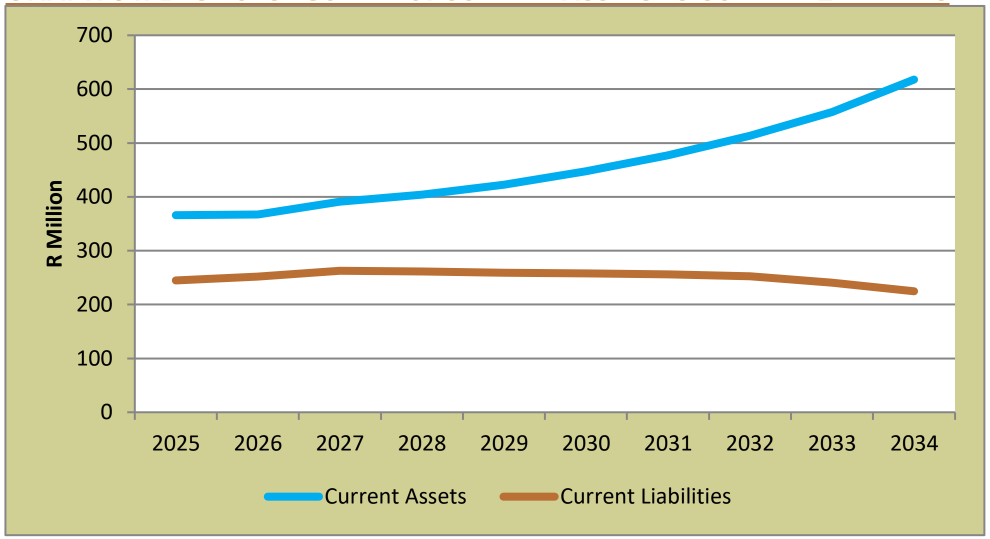
Graph 31: Base Case Scenario: Bank Balance vs Minimum Liquidity



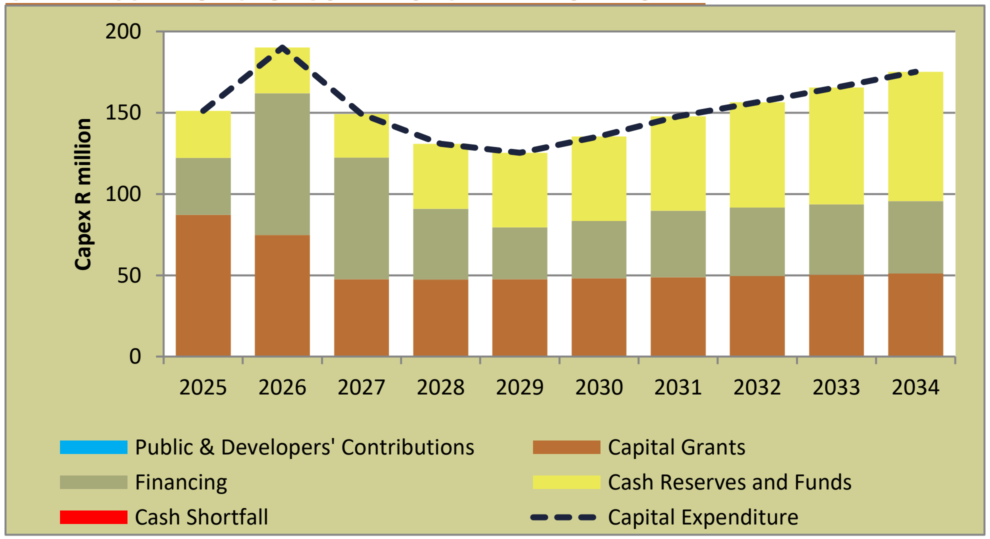
GRAPH 32: BASE CASE SCENARIO: CURRENT LIABILITIES



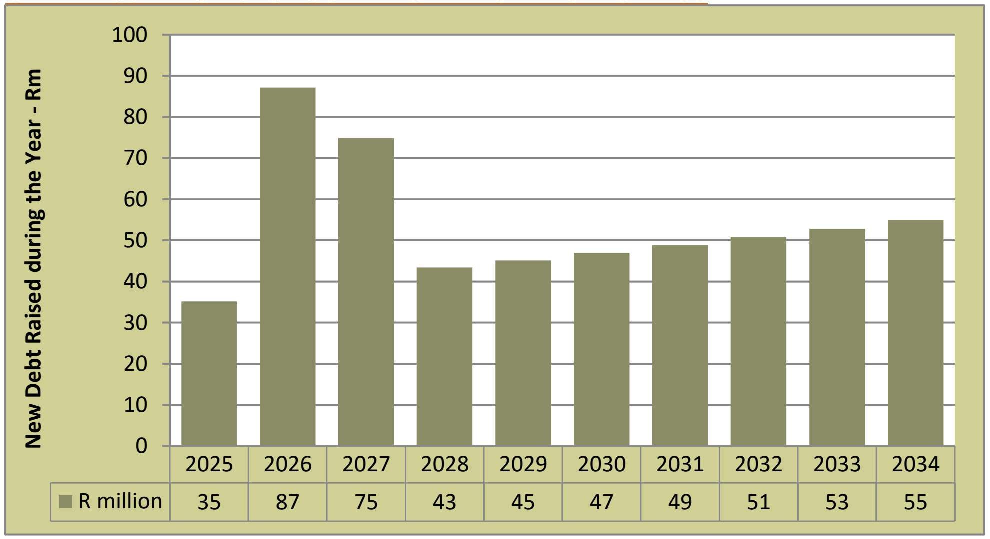
GRAPH 34: BASE CASE SCENARIO: CURRENT ASSETS VS CURRENT LIABILITIES



GRAPH 33: BASE CASE SCENARIO: CAPITAL FUNDING MIX



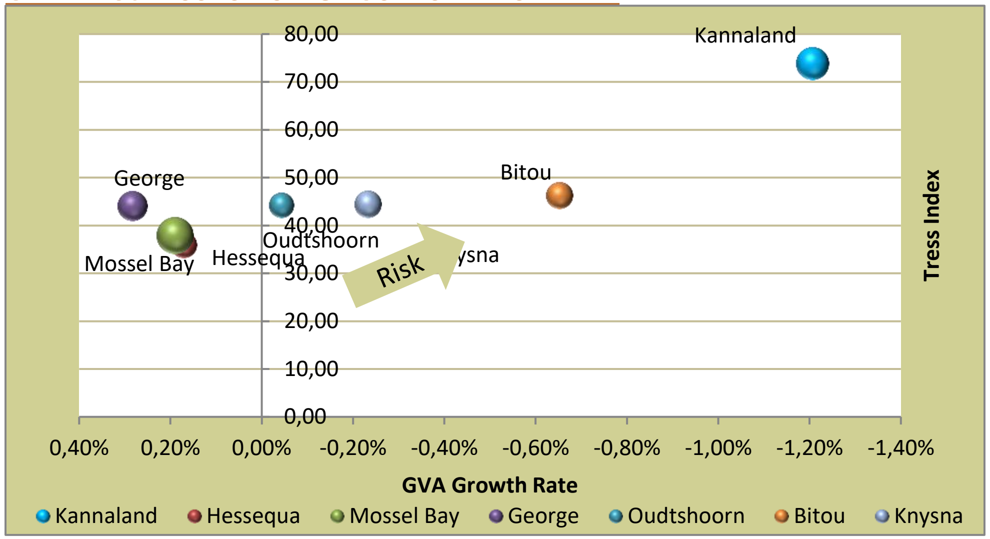
GRAPH 35: BASE CASE SCENARIO: ANNUAL BORROWINGS



Future Revenues

Municipal Revenue Risk Indicator (MRRI) = "High"

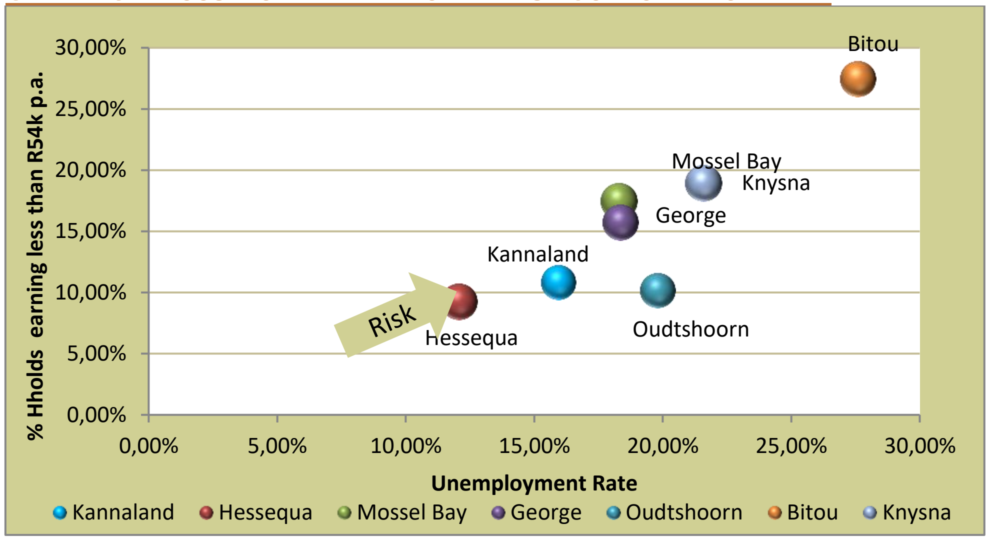
GRAPH 36: ECONOMIC RISK COMPONENT OF MRRI



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

Bitou has exhibited sluggish economic growth in recent years, as evidenced by the 5-year annual average GVA growth rate of -0.55%. This is well exceeded by the annual average population growth rate of 2.25% over the same period. GVA per capita of R62 253 in 2023, 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 sluggish economic growth.

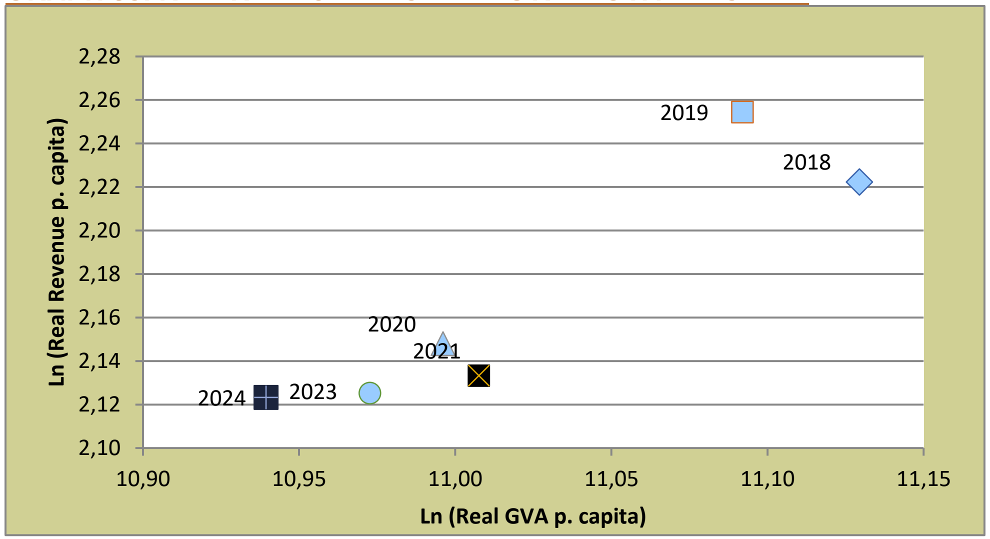
GRAPH 37: HOUSEHOLD ABILITY TO PAY RISK COMPONENT OF MRRI



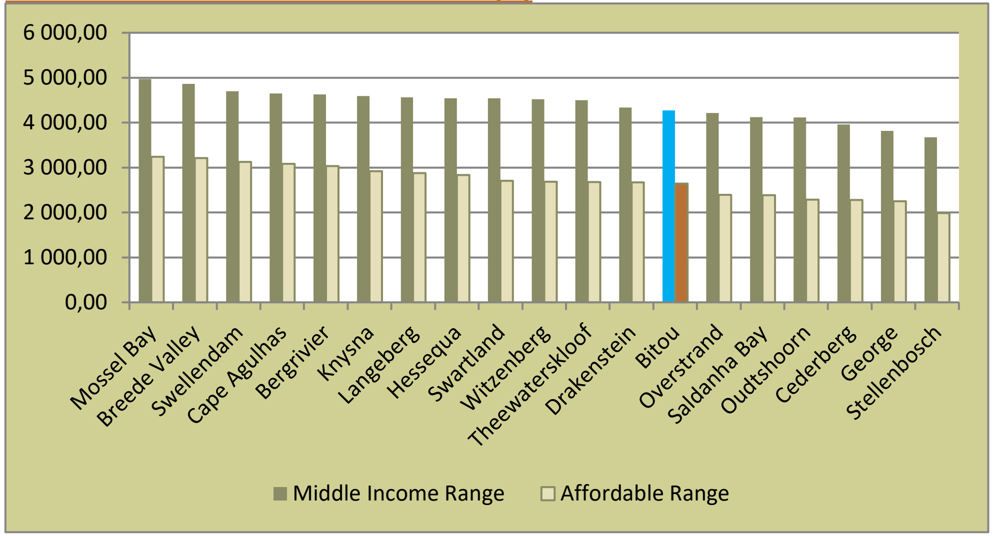
The percentage of indigent households reliant on support of 31.4%, the official unemployment rate of 26.5% and the human development index of 0.71 resulted in a **"High"** rating on the household ability to pay risk component of MRRI. The driving force behind this rating is the reasonably high rate of unemployment and high proportion of indigent households. Bitou is at the very top end of risk in relation to some of the other municipalities in the district.

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

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



GRAPH 39: AVERAGE HOUSEHOLD BILL (R)



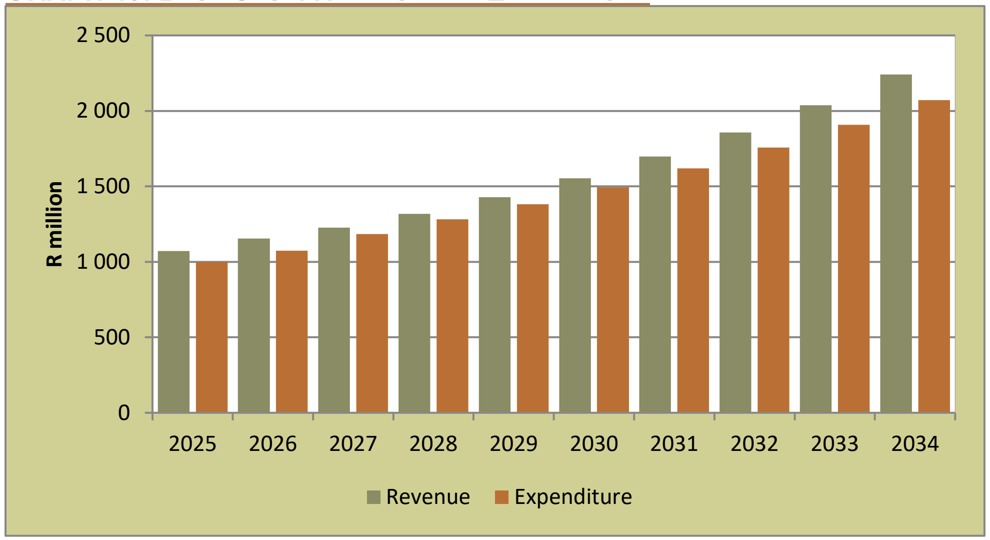
Real municipal revenue (excluding capital transfers) per capita increased in 2019 before a notable decline was observed in 2020. It has not yet recovered, with the 2024 figure representing a low point for the review period. While revenue has exhibited growth over this period, the incredibly high rate of population growth has driven this decline on a per capita basis. GVA per capita has reflected a net decline over the review period, with just 1 period of growth observed (2021). This period of growth came immediately after the profound economic contraction ascribed to the pandemic in 2020. A decline was then observed in 2023 and 2024.

It is crucial for the municipality to foster an enabling environment for economic growth within the region. This can be supported through investment in productive assets. This will support the municipality's economic development and thus should contribute to the return of an economic growth environment. Reduced inflationary pressures and a resultant reduction in interest rates should further support this.

A comparison of the average household bill for the middle income and affordable income range of a selected number of municipalities in the Western Cape province (extracted from Budget Table: SA14) based on the 2024/25 tariffs, reveals that Bitou LM features towards the very bottom of the range. Considering the level of service provided by Bitou LM and the size of the municipality, the current household bill is reasonable compared to other municipalities. This would suggest that there is scope for the municipality to increase tariffs considerably. The scope of the tariff increases is, however, limited by household's ability to pay for services.

Municipal Revenues

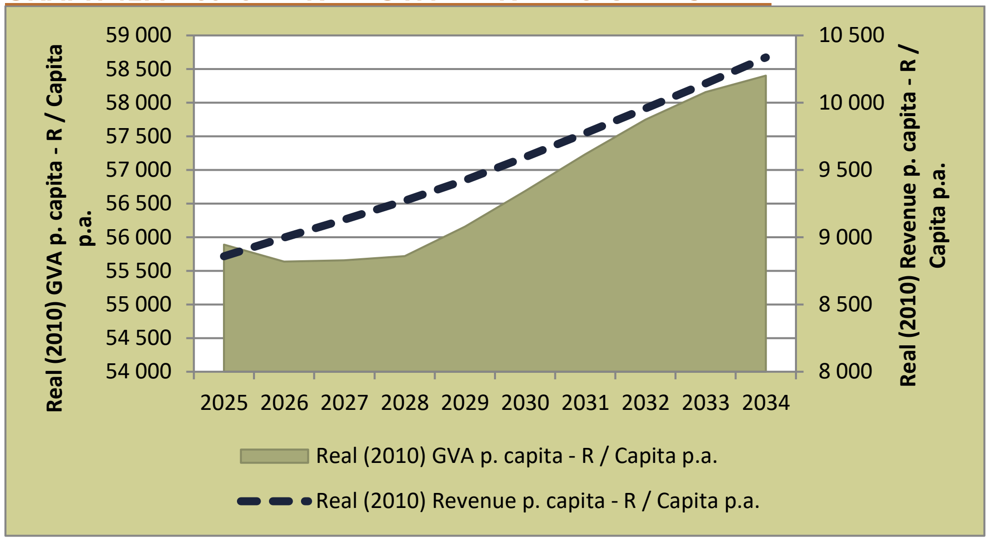
GRAPH 40: BASE CASE: REVENUE AND EXPENDITURE



The Base Case estimates that, over the planning period, future nominal revenue (including capital grants) will grow at an average rate of 7.8% 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 marginally higher rate of 7.9% over the same period.

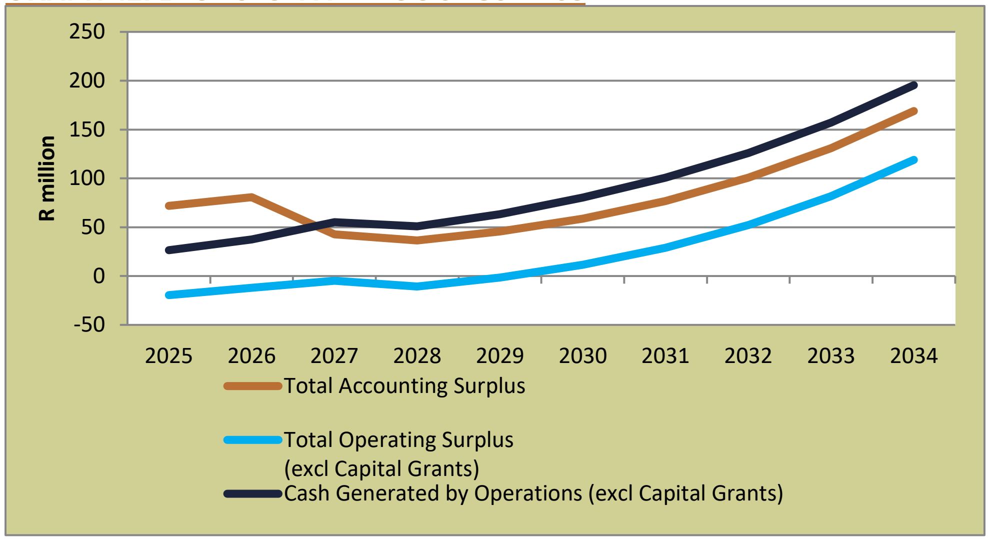
GRAPH 42 below illustrates that operating surpluses are forecast to be posted throughout the planning period. Looking at revenue, electricity revenue will remain the predominant revenue item, with a contribution of 28.6% p.a. forecast. This is followed by property rates with a forecast contribution of 20.0% p.a. On the expenditure side, staff costs (30.7%) & contracted services (10.4%) reflect an employee related expenditure profile that breaches the upper limits of affordability in terms of the NT maximum norm of 40%. This must be closely monitored and savings realised where possible. Electricity bulk purchases will account for 22.9% of expenditure per annum.

GRAPH 41: PROJECTED REAL GVA AND REVENUES PER CAPITA



Real GVA per capita is forecast to increase over the planning period, from R56 352 in 2024 to R58 402 in 2034 for a total increase of 3.6%. Real revenue per capita is forecast to increase year-on-year over the planning period from R8 966 in 2024 to R10 337 in 2034 for an increase of 15.3%. The extent of growth on a per capita basis is limited by the elevated population growth rates. Growth of the local economy is critical for the municipality to generate revenue as it has a direct impact on households' ability to pay for municipal services (MRRI). Economic growth translates into an expansion of the municipality's revenue base, which, in turn, will facilitate an acceleration of the capital investment programme. This is crucial for the municipality to keep up with the increasing population and associated demand for services.

GRAPH 42: BASE CASE: ANALYSIS OF SURPLUS



Bitou has consistently been able to generate cash from operations. This has underpinned a sustained healthy liquidity position. As illustrated in GRAPH 42 above, cash is forecast to be generated by operations throughout the planning period, except for FY2024/25. Bitou is forecast to generate R1.03 billion in cash from operations over the planning period, exclusive of capital grants. This is underpinned by a healthy collection rate assumption of 90% as well as healthy financial performance over the planning period. The Base Case presents a sustainable liquidity position that is achieved whilst the capital investment programme remains higher than historic levels. Further improvements in the collection rate beyond the Base Case recommendation would only bolster the municipality's liquidity and cash positions thus unlocking further borrowing capacity and thus, further capital investment. Additionally, failure to achieve the Base Case collection rate would require further interventions, such as a further reduction of operating expenditure, in order for the Base Case capital investment and borrowing programmes to remain viable.

Affordable Future Capital Investment

Capex Affordability and Funding

The total CAPEX affordability envelope was calculated at R1 527 million for the 10-year planning period.

TABLE 10: CAPEX AFFORDABILITY

Total 10-year CAPEX **Affordability:**	=	R 1 527 million

MTREF Capital Funding Mix

Bitou's Adjustment Budget expects a capital budget amounting to R433 million, funded as follows:

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

R'm	Total	2024/25	2025/26	2026/27
Public & Developers Contributions	**0**	0	0	0
Capital Grants	**191**	87	75	29
Financing	**135**	35	81	19
Cash Reserves and Funds	**107**	29	43	35
Total	**433**	**151**	**199**	**83**

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

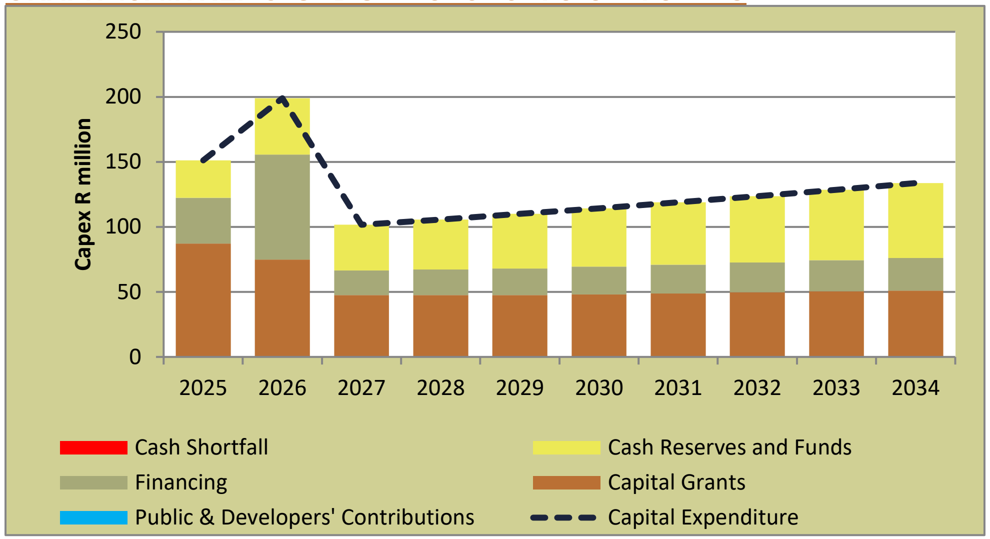
Source	Rm	%
Public & Developers' Contributions	0	0 %
Capital Grants	552	36 %
Financing	479	31 %
Cash Reserves and Funds	496	32 %
Cash Shortfall	0	0 %
Capital Expenditure	**1 527**	**100 %**

Bitou has historically placed heavy reliance on capital grants and own cash resources to fund the capital expenditure programme, with 54% and 26% of funding respectively emanating from these 2 sources. The municipality accelerated the borrowing programme in recent years, with loads undertaken in each of the last 2 years. The municipality has budgeted for to continue the accelerated borrowing over the MTREF period. The affordability of the borrowing programme will be assessed in this section of the report.

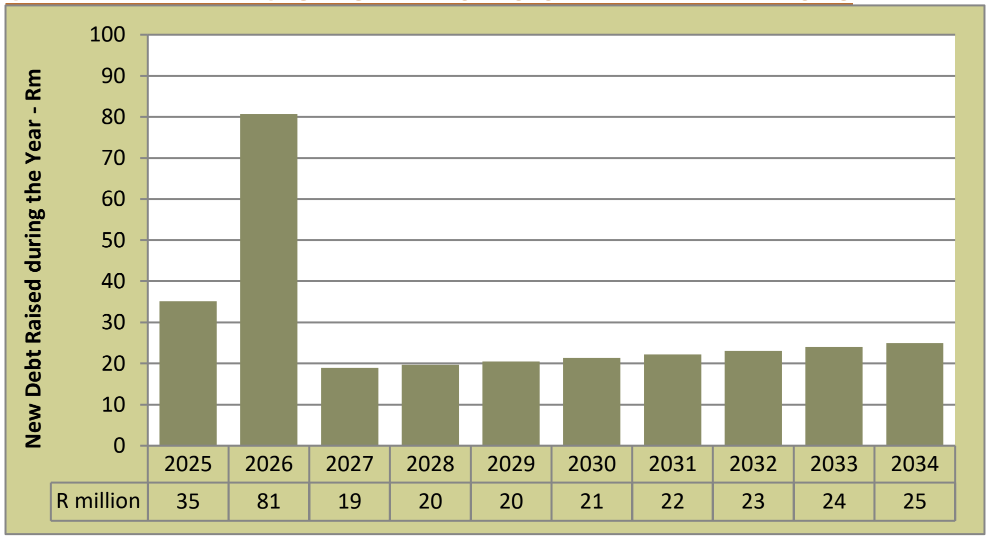
The MTREF Case capital investment programme is forecast to prove affordable, as evidenced by GRAPH 43. The Base Case assumptions, particularly the improved collection rate, underpin the affordability of the Base Case capital investment programme. It is essential that the Base Case collection rate target of 90% is achieved for the Base Case capital investment programme to be implemented in a sustainable manner. Failure to do so will render further reductions of capital investment necessary. The Base Case capital investment programme at an annual average of R152.7 million represents a notable acceleration of the historic capital investment programme (R89.2 million p.a.).

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

GRAPH 43: MTREF CASE DISTRIBUTION OF FUTURE FUNDING

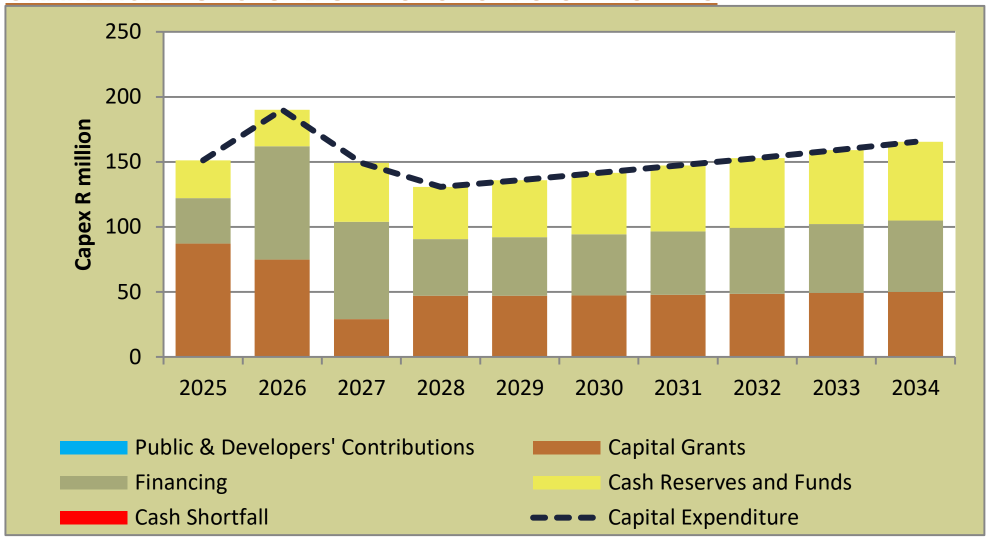


GRAPH 44: MTREF CASE ESTIMATE OF FUTURE EXTERNAL FINANCING



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

GRAPH 45: BASE CASE DISTRIBUTION OF FUTURE FUNDING



GRAPH 46: BASE CASE ESTIMATE OF FUTURE EXTERNAL FINANCING

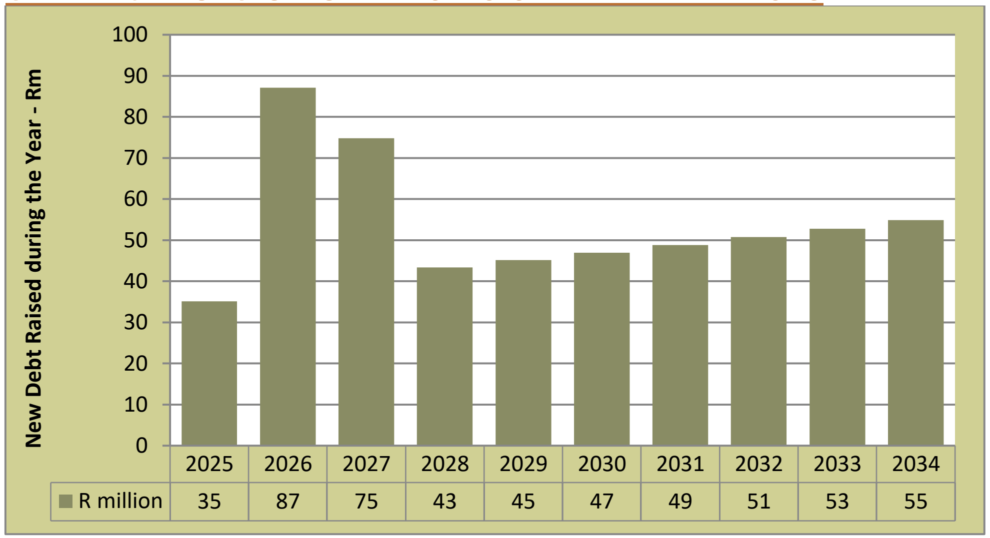


TABLE 13: MTREF CASE DISTRIBUTION OF FUTURE CAPITAL FUNDING (R'M)

R'm	Total	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public & Developers' Contributions	**0**	0	0	0	0	0	0	0	0	0	0
Capital Grants	**552**	87	75	48	47	48	48	49	50	50	51
Financing	**290**	35	81	19	20	20	21	22	23	24	25
Cash Reserves and Funds	**444**	29	43	35	39	42	45	48	51	54	58
Cash Shortfall	**0**	0	0	0	0	0	0	0	0	0	0
Capital Expenditure	**1 287**	151	199	102	106	110	114	119	124	129	134

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

R'm	Total	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public & Developers' Contributions	**0**	0	0	0	0	0	0	0	0	0	0
Capital Grants	**552**	87	75	48	47	48	48	49	50	50	51
Financing	**479**	35	**87**	**75**	**43**	**32**	**35**	**41**	**42**	**43**	**45**
Cash Reserves and Funds	**496**	29	**28**	**27**	**40**	**46**	**52**	**58**	**65**	**72**	**80**
Cash Shortfall	**0**	0	0	0	0	0	0	0	0	0	0
Capital Expenditure	**1 527**	151	**190**	**149**	**131**	**125**	**135**	**148**	**156**	**166**	**175**

LIQUIDITY AND CAPITAL REPLACEMENT RESERVE

The minimum liquidity levels cater for unspent conditional grants, cash-backed reserves, short-term provisions and 1-month's working capital (operating expenditure). The bank balance is forecast to show steady growth over the planning period. The minimum liquidity requirement of 1-month's opex will be met throughout the planning period. While the extent of own cash utilised to fund capex increases over the planning period, this does not hinder the improvement of the bank balance as this is underpinned by the improved collection rate and strengthened financial performance. It would be prudent to continue to consistently service a CRR in order to prepare for future capital expenditure. The annual depreciation charge is a good indicator for the amount that should be put into the CRR each year. The LTFM indicates that Bitou will be able to service a CRR consistently over the planning period, with a total contribution of R500.8 million over the planning period deemed affordable.

GEARING

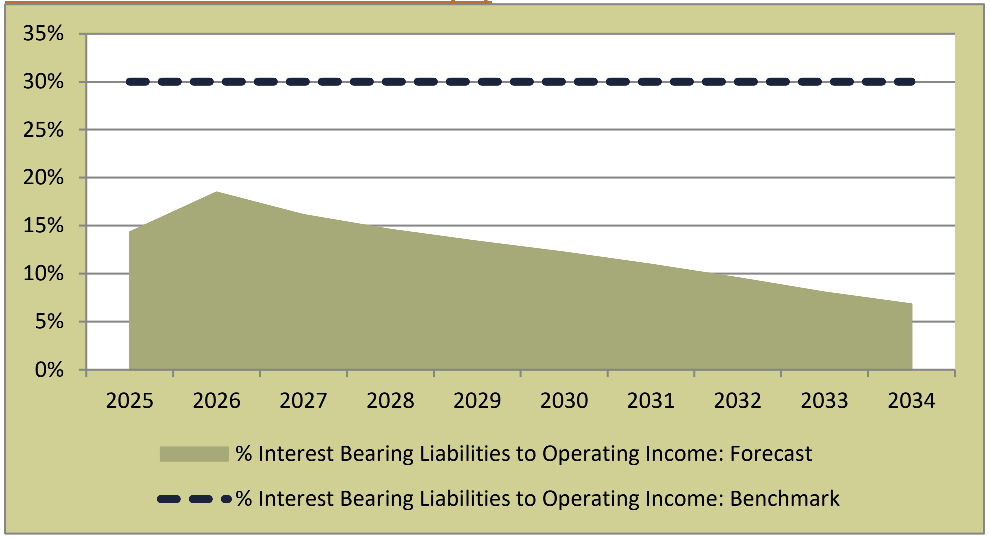
The MTREF Case includes the borrowing programme as presented in the Adjustment Budget with assumed annual growth thereafter being 4%. The assumed average loan tenor is 10 years. The borrowing programme is forecast to remain affordable as evidenced by the debt indicators remaining within their respective limits (GRAPHS 47 & 48). The gearing ratio is forecast to peak at 18.4% in FY2025/26 before reducing to 6.8% by the end of the planning period. The debt service to total expense ratio is forecast to peak at 4.8% in FY2025/26 before reducing to 3.5% at the end of the planning period.

The Base Case presents an accelerated borrowing programme over the MTREF period. Additionally, the average loan tenor has been extended to **13 years**. The consistent borrowing will enable the municipality to take advantage of the interest rate cutting cycle we have now entered. As evidenced by GRAPHS 49 & 50 below, the Base Case borrowing programme remains affordable, whilst taking advantage of the opportunity to adequately leverage the debt profile. The gearing ratio is forecast to peak at 21.6% in FY2026/27 before reducing to 15.7% at the end of the planning period. The debt service to total expense ratio will peak at 5.1% in FY2026/27 & FY2032/33 and drop to 4.8% by the end of the planning period.

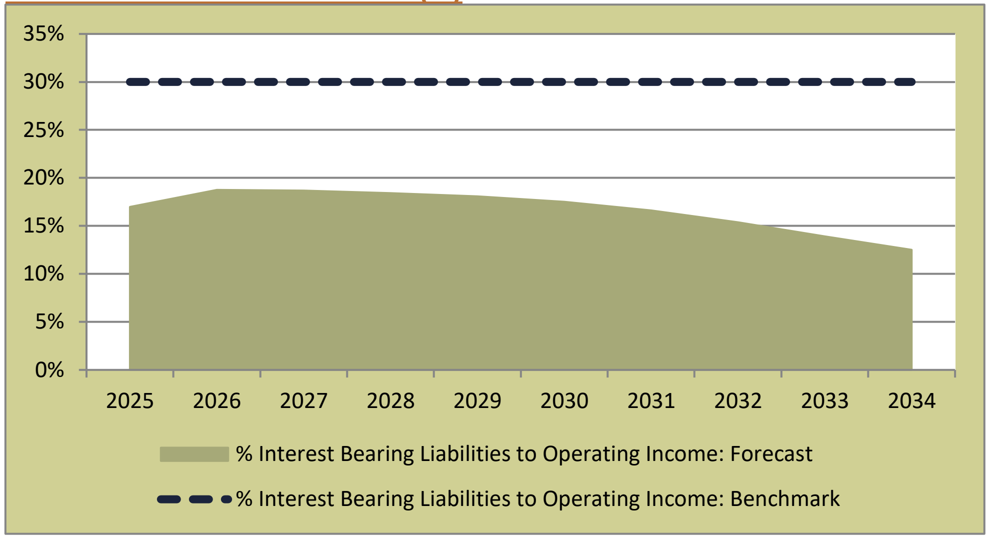
As mentioned, Base Case capital investment programme reflects an annual average capital outlay of R152.7 million. This is a notable acceleration on the historic annual average of R89.2 million. This will enable the municipality to tackle the excessive water distribution losses as well as enable investment in productive, revenue generating assets to occur.

Given the overall Base Case outcome, the capital investment programme is deemed affordable. It must be stated that the affordability of the Base Case capital investment programme is dependent on the achievement of the Base Case assumptions, the collection rate in particular. It would be beneficial for the municipality to consider breaking down the undertaking of borrowings into different periods of the year to fully take advantage of the interest rate cutting cycle.

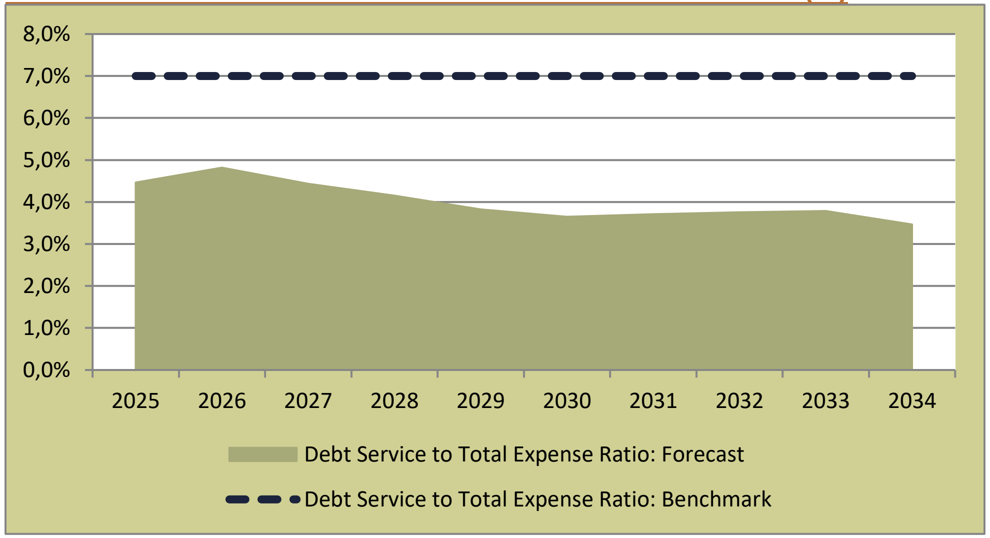
GRAPH 47: MTREF CASE GEARING (%)



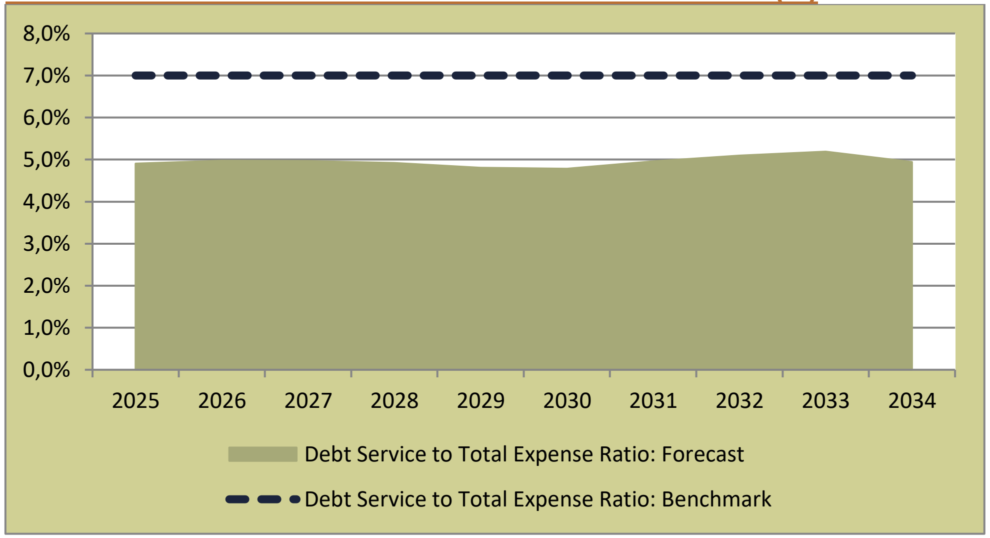
GRAPH 49: BASE CASE GEARING (%)



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



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



SCENARIOS ANALYSIS

Considering our analysis of the Adjustment Budget and the risks identified as part of this update, the following scenarios were run to indicate the potential outcomes. The main purpose of these scenarios is to assist the municipality in its strategic decision making and to serve as an input to the budget for FY2025/26.

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

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

Scenario 1: Collection Rate Sensitivity Analysis

The environment in which the municipality must operate is challenging. Factors such as the high inflationary environment, resultant high interest rates a burdensome cost of living crisis has put additional pressure on households to service their municipal bills. This has a direct impact on the municipality's ability to generate revenue and cash (MRRI). While it appears that we are beginning to move out of the high inflationary environment and are possibly moving into an expansionary monetary policy cycle, households remain under pressure due to the high cost of living. As such, it is a high possibility that the Base Case collection rate of 90% may not be achieved. Should this be the case, the Base Case outcomes will be impacted. As such, this scenario assesses the impact of the municipality failing to achieve the Base Case collection rate of 90%, with a collection rate of 88% assumed to be maintained throughout the planning period. The impact on the capital investment borrowing programmes are also assessed. This was done by reducing borrowing and capital investment to the extent necessary to achieve a largely similar outcome to that of the Base Case.

The reduced collection rate will result in a reduction of R123 million in cash generated by operations over the planning period. This would ordinarily translate into a reduced bank balance and liquidity position. However, the reduced borrowing and capital investment programmes counteract this. In order to maintain an equivalent cash position to that of the Base Case, a downward revision of R201 million in capital investment and R114 million in borrowing is deemed necessary.

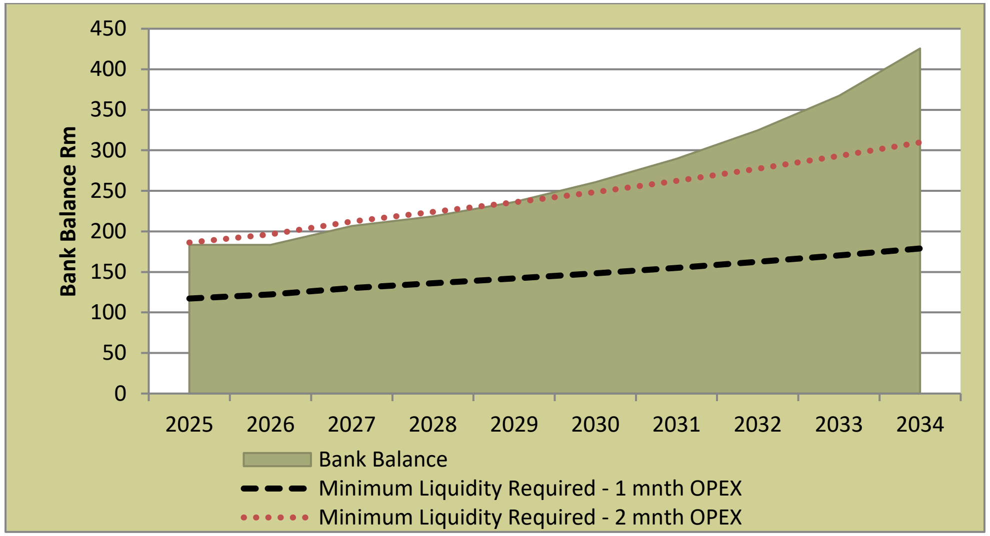
The Base Case outcomes are dependent on the achievement of this and failure to do so will significantly impact the municipality's financial position, rendering a reduction of capital investment a necessity.

Table 15: Scenario 1: Collection Rate Scenario

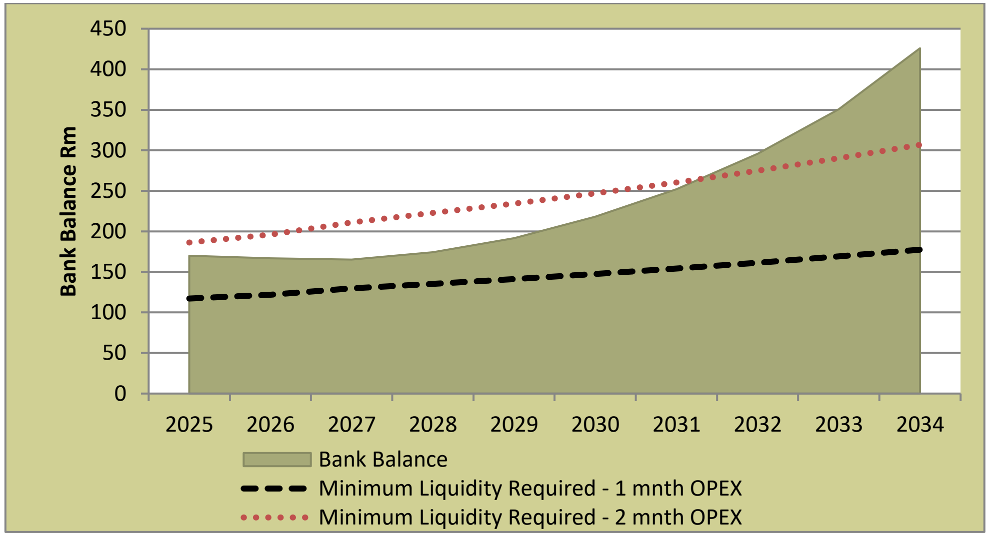
Outcome	Base Case	Reduced Collection Rate
Average annual % increase in Revenue	7,8%	7,8%
Average annual % increase in Expenditure	7,9%	7,9%
Accounting Surplus accumulated during Planning Period (Rm)	R 969	R 868
Operating Surplus accumulated during Planning Period (Rm)	R 416	R 316
Cash generated by Operations during Planning Period (Rm)	R 1 036	R 913
Average annual increase in Gross Consumer Debtors	12,0%	13,7%
apital investment programme during Planning Period (Rm)	R 1 527	R 1 326
External Loan Financing during Planning Period (Rm)	R 479	R 365
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 426	R 426
No of Months Cash Cover at the end of the Planning Period (Rm)	3,3	3,3
Liquidity Ratio at the end of the Planning Period	2.7 : 1	2.9 : 1
Gearing at the end of the Planning Period	15,7%	11,8%
Debt Service to Total Expense Ratio at the end of the Planning Period	4,8%	3,9%

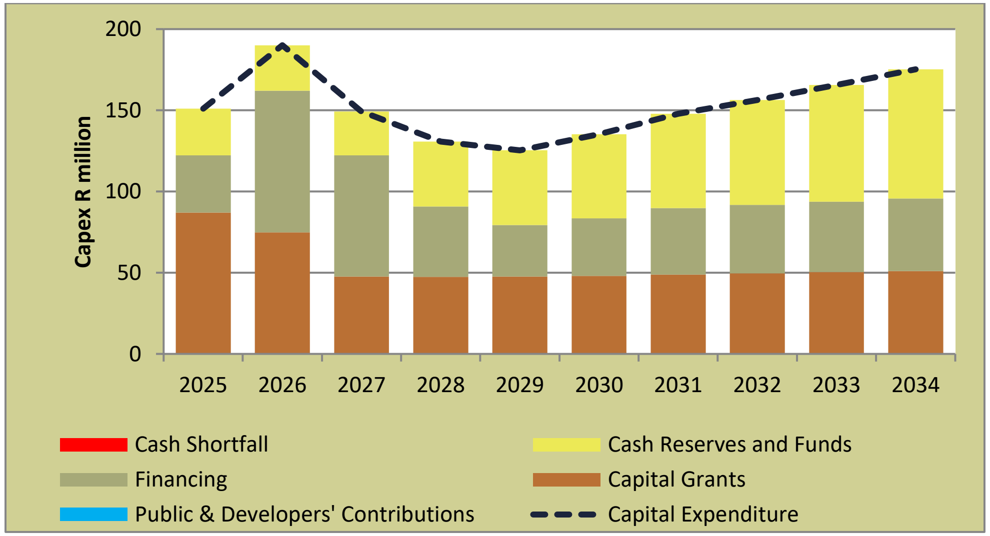
Scenario 1: Collection Rate Sensitivity Analysis

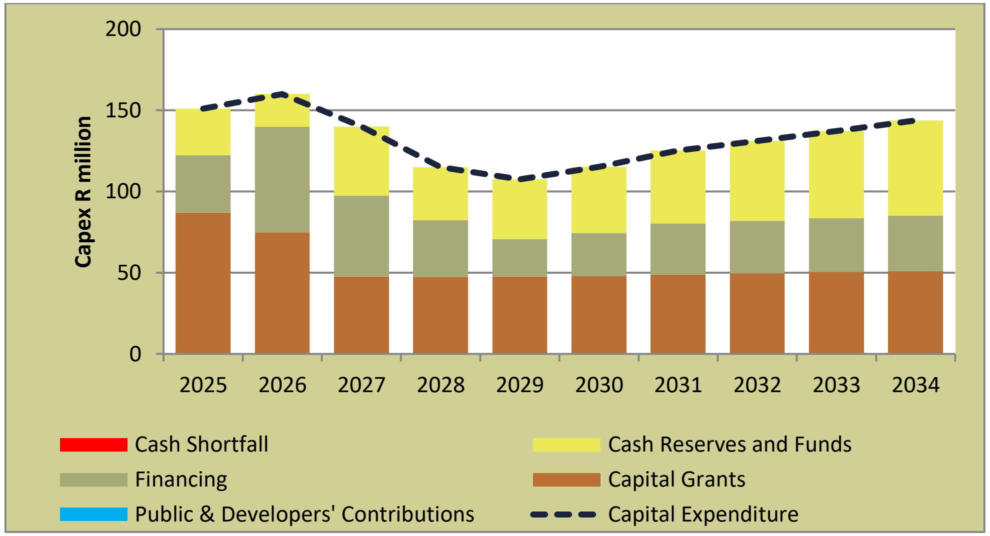
Base Case Scenario



Reduced Collection Rate Scenario







FORECAST RATIOS

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

		N.T. NORM	2025	2027	2029	2031	2033	2034	COMMENTS
FINANCIAL POSITION									
ASSET MANAGEMENT									
R29	Capital Expenditure / Total Expenditure	10% - 20%	13,3%	11,3%	8,6%	8,8%	8,6%	8,6%	CAPEX as a % of Total Expenditure will remain below the NT norm beyond the MTREF period.
R27	Repairs and Maintenance as % of PPE and Investment Property	8%	3,9%	4,1%	4,4%	4,6%	4,9%	5,0%	Repairs and maintenance as a percentage of PPE and IP will remain below the NT benchmark throughout the planning period.
DEBTORS MANAGEMENT									
R4	Gross Consumer Debtors Growth		14,8%	13,5%	12,0%	10,9%	10,2%	9,9%	The Collection Rate is assumed to be maintained at 90% throughout the planning period.
5	Payment Ratio / Collection Rate	95%	90,0%	90,0%	90,0%	90,0%	90,0%	90,0%	
LIQUIDITY MANAGEMENT									
R49	Cash Coverage Ratio (excl Working Capital)		3.8 : 1	4.3 : 1	4.9 : 1	6 : 1	7.6 : 1	8.9 : 1	The bank balance will meet the minimum liquidity requirement throughout the planning period. The liquidity will reach a healthy 2.7:1 by the end of the planning period.
R50	Cash Coverage Ratio (incl Working Capital)		1.6 : 1	1.6 : 1	1.6 : 1	1.8 : 1	2.1 : 1	2.4 : 1	
R51	Cash Surplus / Shortfall on Minimum Liquidity Requirements		R 65,4 m	R 75,5 m	R 93,0 m	R 133,0 m	R 195,1 m	R 244,9 m	
R1	Liquidity Ratio (Current Assets: Current Liabilities)	1:1.5 - 1:2.1	1.5 : 1	1.5 : 1	1.6 : 1	1.9 : 1	2.3 : 1	2.7 : 1	
LIABILITY MANAGEMENT									
R45	Debt Service as % of Total Operating Expenditure	6% - 8%	4,5%	5,1%	4,8%	4,9%	5,1%	4,8%	The external financing programme is forecast to remain within the recommended benchmarks, throughout the planning period
R6	Total Debt (Borrowings) / Operating Revenue	45%	14,5%	21,6%	20,5%	19,0%	16,8%	15,7%	
R7	Repayment Capacity Ratio		1,08	2,94	2,93	2,48	1,96	1,72	
R46	Debt Service Cover Ratio (Cash Generated by Operations / Debt Service)		3.4 : 1	2 : 1	2.1 : 1	2.2 : 1	2.3 : 1	2.5 : 1	

		N.T. NORM	2025	2027	2029	2031	2033	2034	COMMENTS
SUSTAINABILITY									
	Net Financial Liabilities Ratio	< 60%	11,0%	18,1%	15,9%	11,9%	6,3%	2,8%	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%	-1,2%	1,1%	2,0%	3,4%	4,9%	5,7%	
	Asset Sustainability Ratio	> 90%	14,8%	21,7%	21,4%	21,9%	22,6%	23,0%	
FINANCIAL PERFORMANCE									
EFFICIENCY									
R42	**Net Operating Surplus / Total Operating Revenue**	>= 0%	-1,2%	1,1%	2,0%	3,4%	4,9%	5,7%	The net operating surplus is above 0% from FY2025/26 and improves to 5.7% by FY2033/34, an indication that the municipality should endeavour to maintain profitability by managing expenditure and maintaining the high-water surplus margins.
R43	**Electricity Surplus / Total Electricity Revenue**		13,0%	13,2%	13,6%	13,6%	13,6%	13,6%	
R44	**Water Surplus / Total Water Revenue**		98,9%	98,9%	98,9%	98,9%	98,9%	98,9%	
REVENUE MANAGEMENT									
R8	**Increase in Billed Income p.a. (R'm)**		R 59,1 m	R 73,9 m	R 69,7 m	R 84,0 m	R 100,3 m	R 109,3 m	Billed Revenue and Operating Revenue Growth is, for the most part, marginally above forecast CPI over the planning period. Cash generated from operations is expected improve throughout the planning period.
R9	**% Increase in Billed Income p.a.**	CPI	9,7%	9,9%	7,8%	8,1%	8,3%	8,3%	
R12	**Operating Revenue Growth %**	CPI	7,4%	11,4%	7,4%	7,7%	7,8%	7,9%	
R47	**Cash Generated by Operations / Own Revenue**		19,5%	13,2%	12,5%	13,1%	13,9%	14,4%	
R48	**Cash Generated by Operations / Total Operating Revenue**		15,8%	10,3%	9,8%	10,4%	11,1%	11,5%	

		N.T. NORM	2025	2027	2029	2031	2033	2034	COMMENTS
EXPENDITURE MANAGEMENT									
	Creditors Payment Period	30	120	107	93	80	67	60	Creditors' payment period is higher than the NT benchmark but forecast to reduce over the planning period. Staff costs as a percentage of total expenditure is forecast to remain within the recommended benchmark throughout the planning period. Contracted services to total expenditure, however, is forecast to exceed the recommended benchmark. The combined impact breaches the maximum norm and must be reduced as far as possible.
R30	**Contribution per Expenditure Item: Staff Cost (Salaries, Wages and Allowances)**	25% - 40%	33,8%	31,1%	31,0%	30,2%	29,4%	29,1%	
	Contribution per expenditure item: Contracted Services	2% - 5%	8,6%	10,6%	10,9%	10,9%	10,9%	11,0%	
GRANT DEPENDENCY									
R10	**Total Grants / Total Revenue**		25,8%	25,0%	24,0%	23,1%	22,2%	21,8%	The municipality can generate funds from its own sources and is not overly reliant on grants. This is positive to note, as the tightening of the national fiscus will result in a declining reliance on transfers from other spheres of government.
R11	**Own Source Revenue to Total Operating Revenue**		80,8%	78,0%	78,7%	79,3%	79,9%	80,2%	
	Capital Grants to Total Capital Expenditure		57,7%	31,9%	37,9%	33,0%	30,5%	29,2%	

Conclusion

Outcome of the Independent Financial Assessment

Bitou's financial performance remained healthy during FY2023/24, with an operating surplus (excluding capital grants) of R35.6 million posted (FY2022/23: R42.2 million). The strong ability to generate cash from operations continued in FY2023/24, with R110.9 million in cash generated by operations (excluding capital grants). This was underpinned by an improved collection rate (88.2% vs 86.6% in the prior year) as well as the strong financial performance.

Electricity services revenue remained the predominant income contributor in FY2023/24, accounting for 25% of revenue in the current year. Other notable revenue streams include property rates and conditional operating grants. Looking at expenditure, electricity bulk purchases (20%), contracted services (9%) and staff costs (33%) were the main expenditure items during FY2023/24. The combined contribution of staff costs and contracted services totalled 42%, breaching the NT maximum norm of 40%. This is indicative of an unaffordable employee related expenditure profile. Repairs and maintenance expenditure was reduced from the prior year, down to 3.7% of PPE & IP from 4.0% in the prior year.

Capital expenditure has increased rapidly since FY2022/23, owing to the acceleration of the borrowing programme. While the additional loans undertaken in the last 2 years added leverage to the debt profile, the gearing and debt service to total expense ratios of 14.1% and 3.5% respectively remain affordable.

Bitou's liquidity position declined consistently between FY2016/17 and FY2020/21. It has since recovered well, improving to 1.56:1 as at FYE2023/24. This is positive to note and has coincided with the improved collection rate. The cash position has consistently improved over the same period, rising from a review period low of R58.5 million as at FYE2021/22 to a review period high of R165.4 million at the current year end. The municipality must be wary of delaying payment to trade creditors as a means of improving the cash position.

Despite the improved cash position, the municipality was unable to meet the minimum liquidity requirements at any point throughout the review period.

Strengths

- Strong financial performance.
- Affordable debt profile.
- Ability to generate cash from operations.
- Improving liquidity position.

Weaknesses

- Sizable increase in creditors during FY2023/24.
- Inability to meet minimum liquidity requirements.
- Improving but insufficient collection rate (88.2% as at FYE2023/24).

OUTCOME OF THE FUTURE FORECASTS

An MTREF Case was developed utilising the unadjusted figures from the Adjustment Budget 2024/25-2026/27. The idea behind this is to reflect the model outcomes should the status quo be maintained. Poor financial performance and cash generation is forecast which will result in an unsustainable liquidity position and unaffordable capital investment programme. A key driver of the unsustainable outcome is the insufficient collection rate. In order to address these concerns, a Base Case was developed with realistic, achievable assumptions that aim to guide the municipality towards long-term financial sustainability. The key assumptions are listed below.

1. A collection rate of 90% (from 88.2%) is assumed to be met immediately and maintained for the remainder of the planning period.
2. An operating expenditure cut of 2% was assumed.
3. Tariff increases were included as provided by the municipality.
4. Creditors days were adjusted downwards to 45 days from 127 days mitigate the forecast rise in creditors.
5. The capital investment programme was modelled as discussed with the municipality:
    - FY2024/25: R151 million
    - FY2025/26: R190 million
    - FY2026/27: R149 million
    - FY2027/28: R131 million

   Assumed growth in capital investment beyond FY2027/28 is 6% p.a.
6. The borrowing programme was modelled as discussed with the municipality:
    - FY2024/25: R35 million
    - FY2025/26: R87 million
    - FY2026/27: R75 million
    - FY2027/28: R43 million
7. The annual borrowing under this scenario was adjusted to an average of **13-year** amortising loans at a fixed interest rate equal to 7% over forecast CPI in any given year. Assumed annual growth beyond FY2028/29 is 4%.
8. Repairs and maintenance expenditure was increased to 5% (from 3.7%) of PPE & IP over 10 years.
9. Electricity distribution losses were maintained at 6.24%, while water distribution losses were reduced to 30.00% (from 37.88%) over 10 years.

The Base Case reflects a sustainable outcome. Financial performance is forecast to be initially poor over the MTREF period, while significant improvements are forecast thereafter. Cash is forecast to be generated by operations throughout the planning period. The bank balance is forecast to display steady growth, with the minim liquidity requirements of 1-month's opex forecast to be met throughout the planning period. Liquidity will remain flat over the MTREF period but will improve to a healthy liquidity ratio of 2.7:1 by the end of the planning period. The assumptions can be viewed as recommendations for the municipality to implement to promote long-term financial sustainability.

SENSITIVITY ANALYSIS ON THE COLLECTION RATE

This scenario assesses the impact of the municipality achieving a collection rate of 88% rather than 90% as modelled in the Base Case. In order to maintain a healthy liquidity position, as in the Base Case, the capital investment and borrowing programmes will need to be considerably reduced by R201 million and R114 million respectively.

The outcomes of this scenario highlight the critical nature of maintaining a high collection rate. It is crucial for the municipality to ensure that the collection rate is improved to Base Case levels, with further improvements targeted thereafter.

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)	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**
R thousands											
Non-current assets:	1 333 926	1 443 046	1 588 201	1 687 164	1 763 709	1 831 706	1 907 039	1 992 095	2 082 842	2 179 776	2 283 438
Property, plant and equipment	1 319 839	1 428 958	1 574 113	1 673 076	1 749 621	1 817 618	1 892 951	1 978 007	2 068 754	2 165 688	2 269 350
Intangible assets	–	–	–	–	–	–	–	–	–	–	–
Investment properties	14 050	14 050	14 050	14 050	14 050	14 050	14 050	14 050	14 050	14 050	14 050
Investments	–	–	–	–	–	–	–	–	–	–	–
Long-term receivables	–	–	–	–	–	–	–	–	–	–	–
Other non-current assets	38	38	38	38	38	38	38	38	38	38	38
Current assets:	329 369	365 962	367 067	391 180	404 272	422 567	447 388	477 165	513 320	557 469	617 752
Inventories	15 845	17 371	18 413	19 283	20 732	22 241	23 903	25 737	27 735	29 893	32 215
Trade and other receivables	148 092	165 063	165 063	165 063	165 063	164 094	162 835	161 779	160 930	160 289	159 859
Cash & Short term investments	165 432	183 528	183 590	206 834	218 476	236 232	260 651	289 649	324 655	367 287	425 678
TOTAL ASSETS	**1 663 296**	**1 809 009**	**1 955 267**	**2 078 344**	**2 167 981**	**2 254 273**	**2 354 427**	**2 469 260**	**2 596 162**	**2 737 245**	**2 901 190**
Municipal Funds:	1 260 029	1 335 638	1 412 443	1 473 307	1 539 184	1 614 485	1 701 940	1 804 013	1 923 589	2 063 971	2 228 816
Housing development fund & Other Cash Backed Reserves	–	–	–	–	–	–	–	–	–	–	–
Reserves (Not Cash Backed)	76 681	76 681	76 681	76 681	76 681	76 681	76 681	76 681	76 681	76 681	76 681
Accumulated surplus	1 183 348	1 258 957	1 335 762	1 396 626	1 462 503	1 537 804	1 625 259	1 727 332	1 846 908	1 987 290	2 152 135
Non-current liabilities:	191 636	228 856	291 001	342 284	367 141	380 872	394 476	409 291	420 184	432 525	447 672
Long-term liabilities (Interest Bearing)	107 276	118 419	180 466	229 920	248 576	254 568	259 393	264 498	264 890	266 110	269 721
Non-current provisions	84 360	110 437	110 535	112 364	118 565	126 304	135 084	144 793	155 294	166 416	177 951
Current liabilities:	211 631	244 514	251 822	262 752	261 656	258 915	258 011	255 956	252 389	240 748	224 702
Consumer deposits	11 362	13 136	14 486	15 852	17 346	18 673	20 068	21 585	23 231	25 026	27 022
Provisions	47 936	48 075	48 081	48 089	48 089	48 089	48 089	48 089	48 089	48 089	48 089
Trade payables	162 727	160 312	164 181	173 457	171 476	166 281	159 310	150 485	139 364	125 541	108 629
Unspent conditional grants	(31 261)	–	–	–	–	–	–	–	–	–	–
Bank overdraft	–	–	–	–	–	–	–	–	–	–	–
	20 867	22 991	25 074	25 354	24 745	25 872	30 543	35 797	41 705	42 092	40 963
	1 663 296	1 809 008	1 955 267	2 078 344	2 167 981	2 254 272	2 354 427	2 469 260	2 596 162	2 737 245	2 901 190

Municipal Financial Model
Statement of Financial Performance

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
R thousands											
Revenue											
Property rates	178 229	193 661	214 342	232 682	252 929	272 246	293 793	317 651	343 886	372 583	403 787
Service Charges	431 020	474 404	527 961	583 680	637 020	687 230	741 660	801 563	867 093	938 504	1 016 334
Service charges - electricity	230 904	255 022	291 664	329 913	364 198	394 720	427 529	463 703	503 354	546 651	593 980
Service charges - water	87 795	94 702	101 627	108 426	115 845	124 157	133 417	143 651	154 898	167 220	180 658
Service charges - waste water management	67 358	75 050	81 033	87 454	94 455	101 300	108 738	116 858	125 662	135 165	145 432
Service charges - waste management	44 964	49 630	53 638	57 887	62 522	67 053	71 976	77 351	83 179	89 468	96 264
Service charges - other	–	0	0	0	0	0	0	0	0	0	0
Rental from fixed assets	1 354	1 610	2 338	2 218	2 396	2 569	2 758	2 964	3 187	3 428	3 689
Interest	13 203	9 517	9 272	9 810	11 534	12 568	13 876	15 488	17 260	19 240	21 470
Interest earned from receivables	15 535	14 660	14 153	12 507	6 414	7 100	7 800	8 515	9 235	9 952	10 654
Dividends	–	–	–	–	–	–	–	–	–	–	–
Fines, penalties and forfeits	60 451	52 397	52 038	53 743	58 045	62 252	66 823	71 813	77 223	83 062	89 372
Licences and permits	1 427	1 457	1 437	1 516	1 622	1 744	1 884	2 038	2 207	2 388	2 578
Agency services	2 498	2 840	2 971	3 104	3 353	3 596	3 860	4 148	4 461	4 798	5 163
Transfer and subsidies - Operational	166 503	187 363	208 662	260 111	275 570	291 613	308 949	327 700	347 813	369 255	392 080
Other revenue	39 504	35 133	28 773	23 496	25 377	27 216	29 214	31 396	33 761	36 314	39 073
Gains on disposal of Assets	–	3 950	–	–	–	–	–	–	–	–	–
Revaluation of assets gain / (loss)	–	–	–	–	–	–	–	–	–	–	–
Total revenue before Capital Grants	909 725	976 992	1 061 945	1 182 868	1 274 260	1 368 134	1 470 616	1 583 277	1 706 127	1 839 525	1 984 198
Transfers and subsidies - capital (monetary allocations)	50 307	87 112	74 842	47 549	47 400	47 561	48 067	48 806	49 633	50 421	51 066
Public & developers contributions	–	–	–	–	–	–	–	–	–	–	–
Total Revenue after Capital Grants	960 032	1 064 104	1 136 787	1 230 417	1 321 660	1 415 695	1 518 683	1 632 083	1 755 760	1 889 946	2 035 264
Operating expenditure											
Employee related costs	312 820	377 004	383 981	401 555	422 603	445 258	469 691	495 854	523 569	552 693	583 047
Remuneration of councillors	7 376	7 879	8 249	8 636	8 945	9 281	9 640	10 020	10 417	10 826	11 242
Debt impairment	111 763	105 536	112 433	120 773	131 264	141 280	152 207	164 218	177 335	191 599	207 097
Depreciation and amortisation	39 994	41 961	44 939	50 243	54 230	57 353	60 032	62 782	65 678	68 582	71 504
Interest	20 922	23 075	28 857	34 456	36 810	39 001	41 350	43 724	45 712	47 229	48 181
Bulk purchases - electricity	197 628	221 891	250 808	286 302	314 791	341 171	369 528	400 795	435 065	472 487	513 394
Inventory Consumed	16 652	18 942	20 141	21 522	23 511	25 761	28 393	31 433	34 855	38 639	42 759
Repairs and maintenance	–	–	–	–	–	–	–	–	–	–	–
Contracted services	77 655	98 038	109 166	139 944	150 039	160 130	171 066	183 013	195 863	209 640	224 426
Transfers and subsidies	9 208	10 844	13 148	14 124	15 048	15 985	16 995	18 090	19 267	20 527	21 875
Other expenditure	76 934	83 325	88 259	91 998	98 542	105 174	112 327	120 082	128 422	137 342	146 894
Losses on disposal of Assets	3 217	–	–	–	–	–	–	–	–	–	–
Total Expenditure	874 169	988 495	1 059 982	1 169 553	1 255 784	1 340 393	1 431 229	1 530 010	1 636 184	1 749 564	1 870 419
Suplus/ (Shortfall) for the year	**85 863**	**75 609**	**76 805**	**60 864**	**65 876**	**75 302**	**87 454**	**102 073**	**119 576**	**140 382**	**164 845**

Municipal Financial Model
Cash Flow Statement

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**
R thousands											
Cash flows from Operating Activities											
Suplus/Deficit for the year including Capital Grants	85 863	75 609	76 805	60 864	65 876	75 302	87 454	102 073	119 576	140 382	164 845
Suplus/Deficit for the year excluding Capital Grants & Contributions		(11 503)	1 963	13 315	18 476	27 741	39 387	53 268	69 943	89 961	113 779
Capital Grants & Contributions		87 112	74 842	47 549	47 400	47 561	48 067	48 806	49 633	50 421	51 066
Adjustments for non-cash items:											
Depreciation, amortisation and impairment loss	39 994	41 961	44 939	50 243	54 230	57 353	60 032	62 782	65 678	68 582	71 504
Revaluation on investment property (gain) / loss	–	–	–	–	–	–	–	–	–	–	–
Increase / (Release from) current provisions & non-interest bearing liabilities	–	139	6	8	–	–	–	–	–	–	–
Increase / (Release from) other non-current provisions & non-interest bearing liabilities	–	26 077	98	1 829	6 201	7 739	8 779	9 709	10 501	11 122	11 535
(Increase) / Release from non-current interest bearing assets	–	–	–	–	–	–	–	–	–	–	–
Capitalised interest	–	–	–	–	–	0	–	–	(0)	–	(0)
Operating surplus before working capital changes:	125 857	143 786	121 848	112 944	126 307	140 394	156 266	174 565	195 755	220 085	247 884
Change in W/C Investment	–	10 348	2 827	8 407	(3 431)	(5 735)	(7 373)	(9 604)	(12 270)	(15 340)	(18 804)
(Increase)/decrease in inventories	–	(1 526)	(1 042)	(870)	(1 449)	(1 509)	(1 662)	(1 834)	(1 998)	(2 158)	(2 322)
(Increase)/decrease accounts receivable	–	(16 971)	(0)	0	(0)	969	1 260	1 055	849	641	430
Increase/(decrease) in trade payables	–	(2 415)	3 869	9 276	(1 981)	(5 195)	(6 970)	(8 825)	(11 121)	(13 823)	(16 912)
	–	31 261	–	–	–	–	–	–	–	–	–
Net cash flow from Operating activities	125 857	154 134	124 676	121 351	122 876	134 659	148 893	164 961	183 485	204 745	229 080
-											
Cash flows from Investing Activities											
Capital expenditure	–	(151 081)	(190 093)	(149 206)	(130 775)	(125 349)	(135 366)	(147 838)	(156 425)	(165 516)	(175 166)
Decrease/(Increase) in non-current receivables	–	(0)	–	–	–	–	–	–	–	–	–
(Additions) / Disposals of investment property	–	0	–	–	–	–	–	–	–	–	–
Net cash flow from Investing activities	–	(151 081)	(190 093)	(149 206)	(130 775)	(125 349)	(135 366)	(147 838)	(156 425)	(165 516)	(175 166)
-											
Cash flows from Financing Activities											
New loans raised	–	35 125	87 121	74 808	43 400	31 864	35 368	40 902	42 097	43 312	44 574
Loans repaid	–	(21 857)	(22 991)	(25 074)	(25 354)	(24 745)	(25 872)	(30 543)	(35 797)	(41 705)	(42 092)
(Decrease) / Increase in consumer deposits	–	1 774	1 350	1 365	1 495	1 327	1 395	1 517	1 646	1 795	1 996
Net cash flow from Financing activities	–	15 042	65 480	51 099	19 541	8 446	10 891	11 876	7 946	3 402	4 477
Change in Cash	125 857	18 095	62	23 244	11 643	17 756	24 419	28 998	35 006	42 632	58 391
Cash/(Overdraft), Beginning		165 432	183 528	183 590	206 834	218 476	236 232	260 651	289 649	324 655	367 287
Cash/(Overdraft), Ending	**165 432**	**183 528**	**183 590**	**206 834**	**218 476**	**236 232**	**260 651**	**289 649**	**324 655**	**367 287**	**425 678**

Prepared by INCA Portfolio Managers

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

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