BERGRIVIER LOCAL MUNICIPALITY

Long-Term Financial Plan – *Update 2023/24*




Prepared by
INCA Portfolio Managers
June 2024

REPORT OVERVIEW – INTRODUCTION AND BACKGROUND

The Bergrivier Local Municipality (Bergrivier) appointed INCA Portfolio Managers in 2022 to prepare a Long-Term Financial Plan. The initial report has been updated, with the most recent update report titled Bergrivier Local Municipality Long-Term Financial Plan: 2022/23 – 2031/32; September 2023. This is the third update of the original report. This 2023 Update aims to update the LTFP based on the latest available information and report on the findings.

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

A summary of the demographic, economic and household infrastructure perspective was updated with the latest available information as published by S&P Global Insight (S&P). The historic financial analysis was updated with the information captured in the municipality's audited financial statements of 30 June 2023 along with the Tabled Budget for 2024/25. IPM adapted its Long-Term Financial Model (LTFM) to include and project key effects of the energy crisis. This adapted model was populated and run with this latest information, and the outcome thereof is reported herein. The model was re-calibrated against the municipality's Tabled Budget for the 3 years from 2024/25 to 2026/27.

Our update reports normally do not include a renewed analysis of the Asset Register, municipal documents (viz IDP, Master Plans, etc) and conversations with management.

The contents of this report entail the following:

ABBREVIATIONS USED

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

CONTENTS

EXECUTIVE SUMMARY

KEY FINDINGS AND CONCLUSIONS

HISTORIC FINANCIAL ASSESSMENT

- BLM's financial position improved during the year, with total assets increasing by R77.8 million to R821.4 million. Meanwhile, the accumulated surplus increased by 6% to R451.3 million as at FYE2023.
- Despite the gearing ratio increasing from 18% to 23%, it remained within NT norms. Similarly, debt service as a percentage of total operating expenditure of 5.5% in FY2023 remained below the NT norms of 6% to 8%.
- The municipality's liquidity ratio remained at 3.42:1 as at FYE2023. Upon the exclusion of debtors older than 30 days, this ratio remains healthy at 2.94:1.
- It is positive to note that debtor days have improved to 71 days in FY2023 but there is still a substantial way to go to reach the NT norm of 30 days. Creditors' days were 83 days at FY2023, which is significantly higher than the norm of 30 days.
- The municipality achieved a collection rate of 95% as at FYE2023, which is the prescribed minimum by NT. This has improved significantly from a pre-Covid three-year average of 92% to a post-Covid three-year average of 97%.
- Accounting and operating surpluses were achieved throughout the review period, with accounting and operating surpluses amounting to R28.0 million and R7.5 million respectively, in FY2023.
- Repairs and maintenance as a percentage of PPE and IP was 2% in FY2023, falling well below the NT norm of 8%. This needs to be addressed as it could lead to impairment and early obsolescence of useful assets.
- BLM generated cash from operations of R43.7 million in FY2023, but this should be considered against the slow payment of suppliers.
- Capital expenditure amounted to R69.4 million in FY2023 with 57% funded by external borrowings.
- The municipality held sufficient cash reserves for short term liabilities and at least 1 months' operating expenditure, resulting in a cash surplus of R24.3 million in FY2023.
- The cash coverage (excl. working capital) ratio improved to 1.9 in FY2023. With the inclusion of working capital, this ratio declines to 1.3 but this remains sustainable.
- The municipality managed an IPM Credit rating of 7.1, which is considered investment grade.

LONG-TERM FINANCIAL PLAN UPDATE

Bergrivier LM has budgeted to achieve one operating surplus in the last year of the MTREF period. Although this differs from the municipality's history of achieving consistent operating surpluses, it is to be expected as contracted services is expected to substantially increase in the first two MTREF periods. It is concerning to note that the average collection rate in the Tabled budget is 93.8%, when the municipality has consistently met the NT benchmark (of at least 95%) for the last three financial years. This indicates that the budget might be on the conservative side. However, the lower collection rate has not proven to be detrimental as the LTFM outcomes indicate that the municipality will remain financially sustainable. Key adjustments have been made to formulate a Base Case which accelerates capital investment whilst remaining sustainable.

Key assumptions to note that were made in arriving at the Base Case are:

- The collection rate was assumed to be maintained at 95% for the duration of the planning period.
- The model calibrated increases in revenue and expenditure as projected in the Tabled Budget, with the exception of contracted services.
- The decline in contracted services in FY2027 is deemed to be excessive. Therefore, other expenditure was increased by R10 million annually to offset the significant decline.
- Expenditure on repairs and maintenance on PPE as a percentage of the value of PPE & IP is assumed to reach 6% by FY2031.
- Water and electricity distribution losses remain unchanged at 14.6% and 10.7% respectively.
- The MTREF capital investment programme was maintained as per the budget.
- CAPEX is assumed to grow annually by 8% beyond the MTREF period.
- The MTREF borrowing programme was maintained for FY2024, but adjustments have been made to subsequent years as follows:
    - FY2025: R 30.0 million.
    - FY2026: R 30.0 million.
    - FY2027: R28.0 million.
- Borrowings are expected to grow annually by 4% beyond the MTREF period.
- This brings the capital expenditure programme to R930 million over 10 years that is marginally higher than the MTREF outcome of R890m.

TABLE 1: ASSUMPTIONS OF THE BASE CASE VARIABLES

Variable	Base Case Average for a 10-Year Planning Period
RSA consumer inflation rate (CPI)	5.3%
Population Growth Rate	1.3%
GVA Growth Rate	3.2%
Short term investment rate (Margin above CPI)	1.0%
Electricity Price Elasticity of Demand	-0.4
Water Price Elasticity of Demand	-0.2
Employee related cost escalation	7.7%
Bulk electricity cost escalation	9.3%
Collection Rate of customer billings	95.0%

TABLE 2: BASE CASE VS MTREF CASE OUTCOMES

Outcome	Base Case	MTREF Case
Average annual % increase in Revenue	8.6%	8.8%
Average annual % increase in Expenditure	8.2%	7.5%
Accounting Surplus accumulated during Planning Period (Rm)	R 389	R 659
Operating Surplus accumulated during Planning Period (Rm)	R 38	R 309
Cash generated by Operations during Planning Period (Rm)	R 641	R 934
Average annual increase in Gross Consumer Debtors	10.7%	12.3%
Capital investment programme during Planning Period (Rm)	R 930	R 890
External Loan Financing during Planning Period (Rm)	R 314	R 271
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 311	R 618
No of Months Cash Cover at the end of the Planning Period (Rm)	4.3	9.2
Liquidity Ratio at the end of the Planning Period	3.4 : 1	5.1 : 1
Gearing at the end of the Planning Period	16.5%	13.9%
Debt Service to Total Expense Ratio at the end of the Planning Period	5.6%	5.2%

RECOMMENDATIONS:

Based on the results of the Long-Term Financial Model as indicated above, ***it is further recommended that*** Bergrivier:

1. Maintain the funding mix that aims to utilise the scope available for further borrowing at sustainable levels and limit the utilisation of own cash to fund capital expenditure. An extension of the loan tenor is recommended to further facilitate this.

2. Maintain a prudent allocation of capital investment, balancing affordability, and long-term financial viability, while safeguarding the integrity and effectiveness of the capital investment program. In the long-term capital investment programme, prioritizing investment in productive assets that aim to create an enabling environment for economic growth is imperative.

3. Optimize capital investment and repairs and maintenance decisions to prioritize the curtailing of excessive distribution losses pertaining to water services. Continuous monitoring and inspection along transmission mains to allow a prompt address of leakages together with a prudent financial resource allocation towards investment in water infrastructure is recommended. The municipality is also urged to record employee related expenses involved in repairs and maintenance in order to accurately track expenditure.

4. Augment the execution of critical repairs and maintenance, considering the cost-benefit evaluation, with a prioritisation on improving efficiency and minimizing potential disruptions to service delivery.

5. Maintain an average collection rate of at least 95%. To prevent the decline of the collection rate, prioritize decisions and actions that sustain the high collection rate while safeguarding profitability/surpluses. This is influenced by efforts such as effectively implementing regular audits of the indigency register, adopting efficient and regularly updated methods for delivering pre-termination notices for significantly overdue bills, and improving convenient payment methods.

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

7. Annually review and update the long-term financial plan to ensure alignment with emerging trends and the current state of the municipality. This practice ensures that the financial plan remains responsive to evolving circumstances and effectively supports the municipality's strategic objectives. Utilize a long-term financial model that will enable the municipality to quantify developments in the external environment and enable the prediction of the financial impact on the municipality in a more dynamic manner.

8. Enhance working capital management practices by reducing the creditors payment period and maintaining optimal spending implementation of the capital budget and capital grants expenditure.

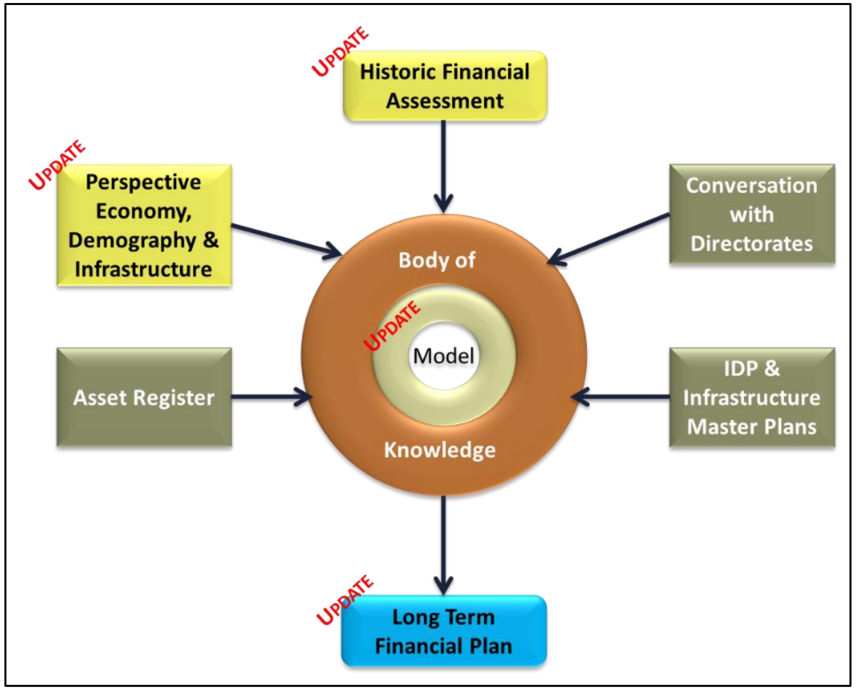
DEMOGRAPHIC, ECONOMIC AND HOUSEHOLD INFRASTRUCTURE

- BLM’s population growth rate of 1.3% recorded in 2023, is the second highest in the district.
- Average household income increased by 3.6% from R 376 487 p.a. in 2022 to R390 082 p.a. in 2022.
- The economically active population as a percentage of population increased from 39.0% in 2022 to 42.5% in 2023.
- The Official Unemployment Rate improved to 7.1% in 2023. This is the lowest unemployment rate in the district and far lower than the unemployment rates of the Western Cape (22.4%) and South Africa (32.6%). The narrow definition of the Official Unemployment Rate excludes discouraged workers, thus with a broader, more realistic definition the rate would be higher.
- The GVA (local economy) shrunk for the second successive period, by 4.2% in 2023.
- BLM has five main economic sub-sectors, which are predominantly from the secondary sector.
- Agriculture produced the highest economic output with 23.7%.
- The GVA growth rate of -4.2% underperforms compared against the population growth rate of 1.3% in the same period. This has led to a 5.5% decline in GVA per Capita.
- The total number of tourism trips amounting to 53 076 trips in 2023 still falls substantially short of the pre-Covid 5-year average of 64 243 trips p.a.
- Tourism contributed 6.0% of total GVA in 2023.
- The Infrastructure Index remained stable at 0.93. This was higher than the district (0.91) and provincial (0.90) indices. Household formation reflected a 3.8% increase with 775 households formed in 2022.

PLANNING PROCESS

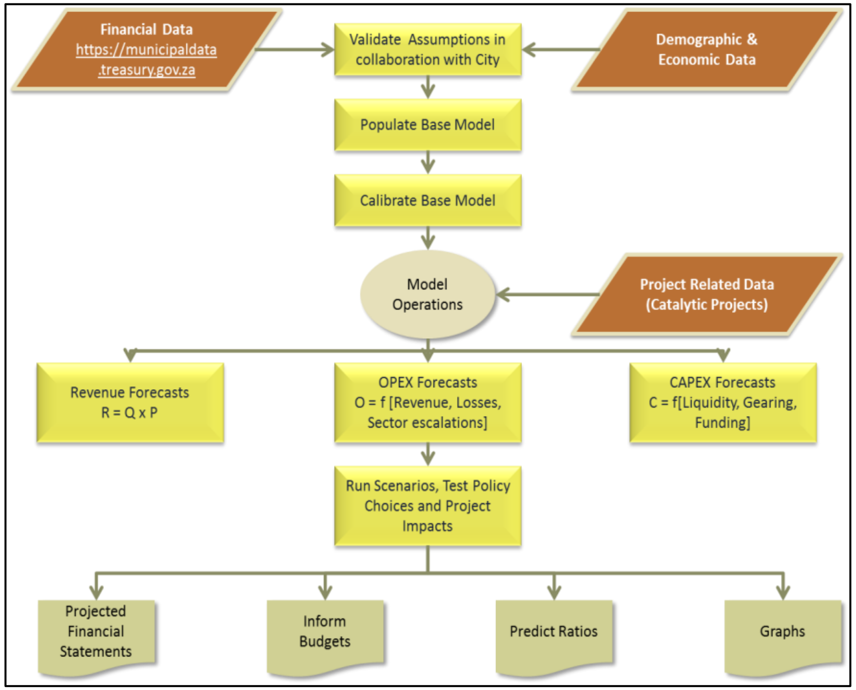
The diagram below illustrates the steps in the process that were followed in drafting the LTFP and the steps taken during this “2024 LTFP Update”:

FIGURE 1: PLANNING PROCESS



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

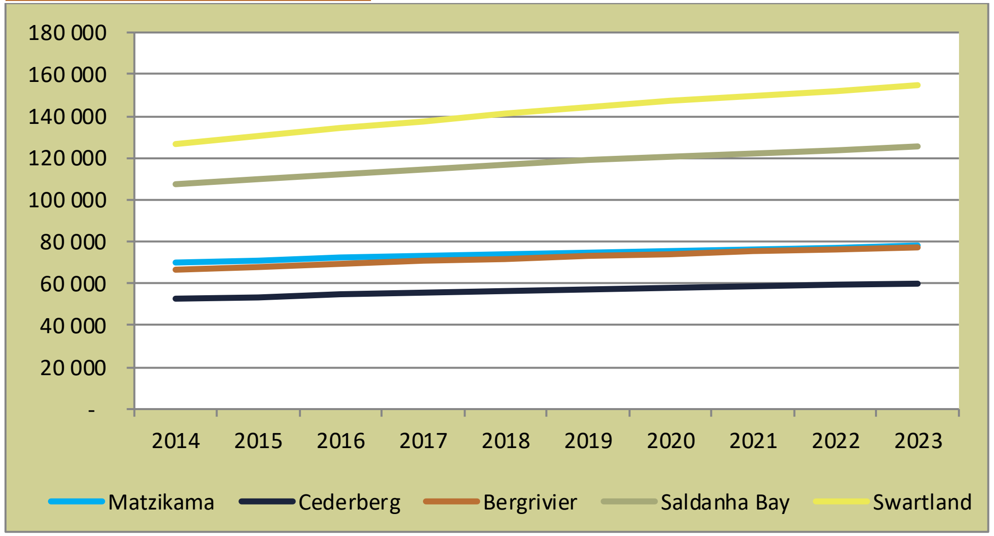
UPDATED PERSPECTIVES (DEMOGRAPHIC, ECONOMIC, HOUSEHOLD INFRASTRUCTURE)

DEMOGRAPHY

Bergrivier LM has a total estimated population of 77 286 (2023). This is the second least populous municipality in the West Coast District, constituting 15.6% of the district's overall population. The municipality has the median population density in the district with 18 people per km^2, lower than that of Swartland (42 per km^2) and Saldanha Bay (62 per km^2).

A population growth rate of 1.3% was recorded in 2023, reflecting a population that has been increasing over the last 10 years. It must be noted that the population growth rate has been slowing down over the review period. Despite the slowing growth rate, the five-year average growth rate of 1.5% p.a was the second highest in the district, only bested by Swartand (1.9%). The five-year average population growth rate is on par with that of the district and province (1.5%) but marginally higher than that of the country (1.4%). This comes as no surprise as "semigration" to the Western Cape has become a theme in recent years, as individuals go in search of employment and consistent service delivery.

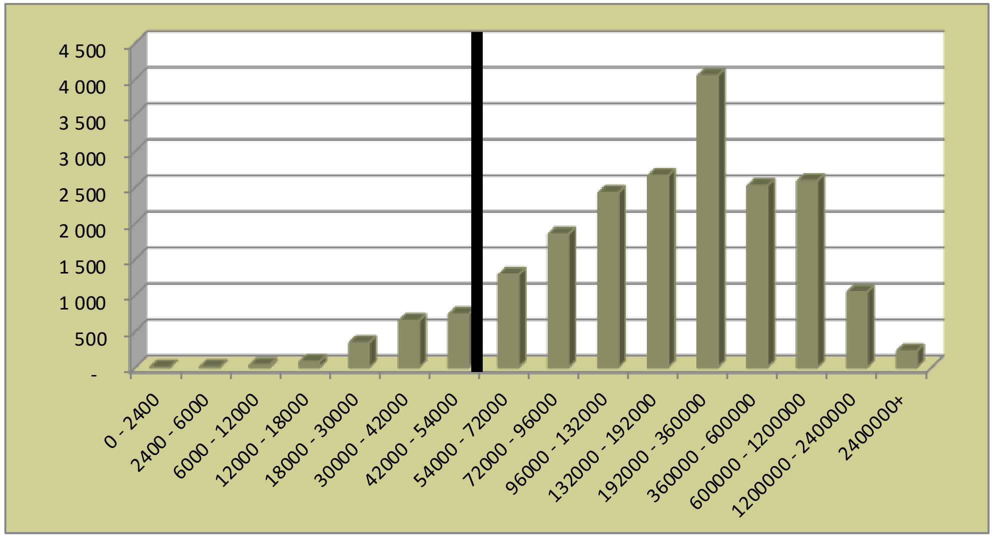
GRAPH 1: TOTAL POPULATION



Bergrivier LM's household income in 2023 was approximately R390 082 p.a. This value increased by 3.6% from R376 487 p.a. in 2022. This increase is substantially lower than the average rate of inflation of approximately 6.0% seen in 2023. This disparity necessitates careful consideration of tariff increases as household income has in fact decreased in real terms. Any further deterioration in household income, coupled with rapid increases in municipal service costs, will endanger the municipality's future cash revenue collection.

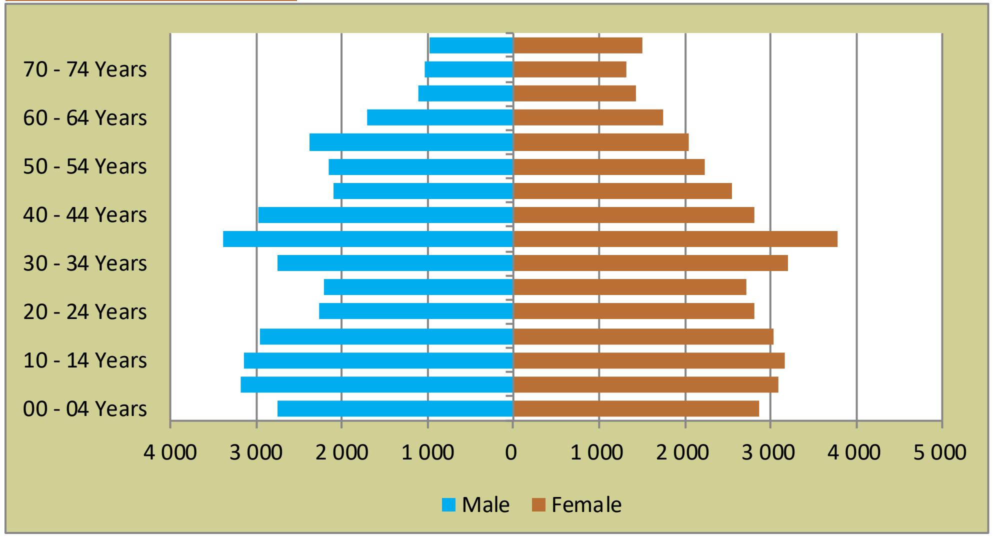
The household income distribution – per GRAPH 2 - indicates that a reasonably low 8.8% of households earn less than R54 000 p.a. Households earning less than R54 000 p.a. are indicative of the number of indigent households in the municipal area and reflect those who qualify for and/or are largely reliant on government grants as a source of income. The household income distribution further reflects a society in which 39.3% of all households earn an income within the range R54 000 p.a. and R192 000 p.a. (essentially R16 000 p.m.). This falls within the "vulnerable middle class" range and this range is largely considered vulnerable due to its proximity to and likelihood of descending to the lower class.

GRAPH 2: HOUSEHOLD INCOME DISTRIBUTION



GRAPH 3 depicts a constrictive population pyramid, which typically represents a developed society with low fertility. This is further corroborated by the younger age cohort (0-24 years of age) constituting 37.8% of Bergrivier LM's population, which is substantially lower than the proportion of the middle-aged cohort (25-64 years of age) of 52.6%. The elderly population contributes the remaining 9.6% to the total population.

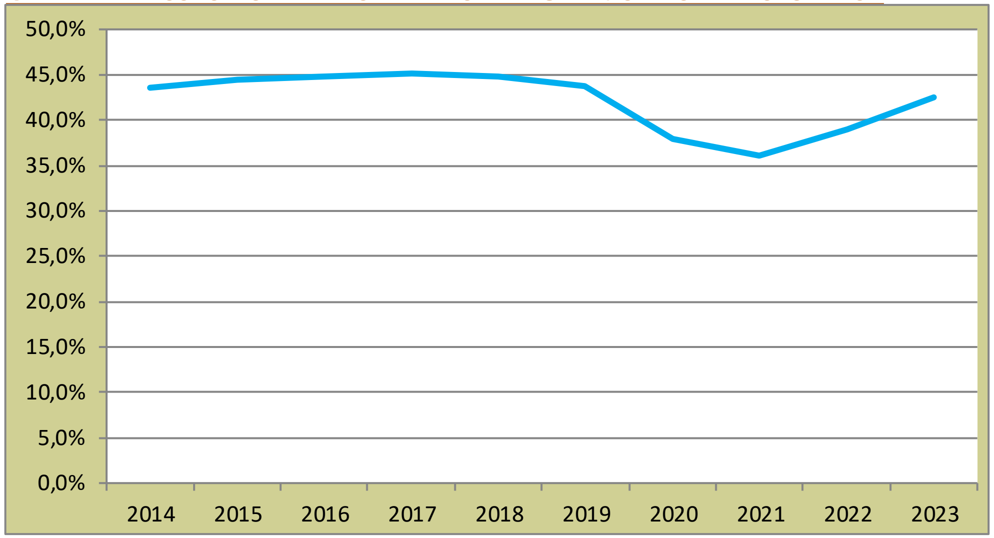
GRAPH 3: AGE PROFILE



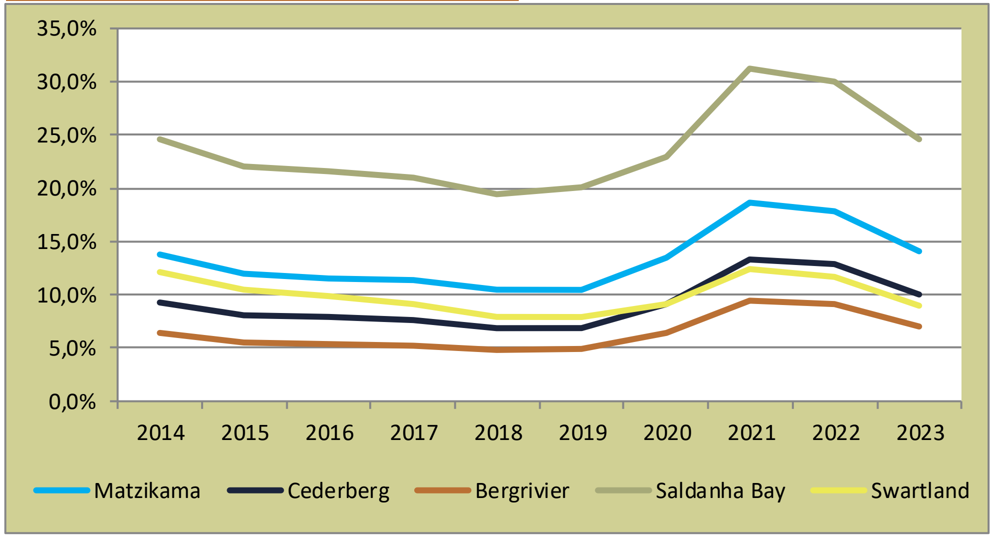
The working age group (15 - 64 years) makes up 66.9% of the total population in Bergrivier. Upon closer inspection, however, 42.5% of the total population is economically active (i.e. people that are able, willing and who are actively looking for work) in 2023. The economically active population increased by 10.3%, or 3 072 people in absolute terms, from 39.0% in 2022.

The official unemployment rate has significantly declined by 2 percentage points to 7.1% in 2023 (2022: 9.1%). This rate renders Bergrivier the municipality with the lowest unemployment rate in the district. Furthermore, it is lower than the provincial and national rates of 22.4% and 32.6% respectively. It should be noted that the official unemployment rate does not consider people who have not recently taken active steps to find employment (i.e. discouraged workers), which would markedly increase the unemployment rate.

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



GRAPH 5: OFFICIAL UNEMPLOYMENT RATE

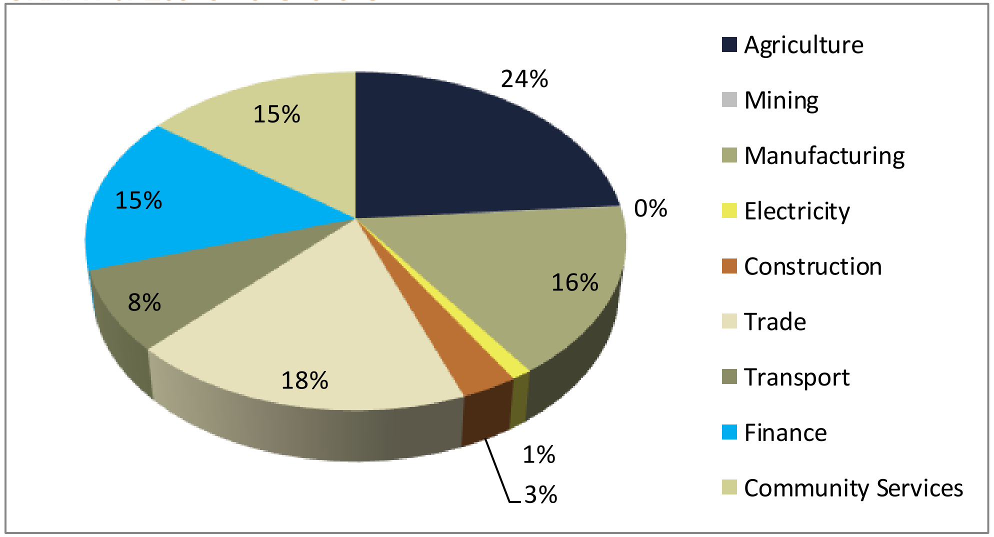


ECONOMY

Bergrivier's *Gross Value Add (GVA)* amounted to R6.5 billion in 2023 current prices or R4.1 billion in 2015 constant prices. This translates to 14.5% of the district's GVA of R28.4 billion. The municipality's economic output suffered a decline of 4.2% in 2023, rendering the post-Covid resurgence (4.0% in 2021 and 0.1% in 2022) futile. The municipality's delicate economic position is further reflected in its 5-year average GVA decline of 1.0% p.a. Over the same period, the population growth rate (1.5% p.a.) exceeded economic growth. This disparity can prove to be burdensome on the local economy and effectively result in the impoverishment of the local population.

The Tress index[1] of 49.5 indicates a reasonably concentrated economy. The Tress Index is a measure of economic diversification, the higher the degree of economic diversification, the lower the degree of economic risk in the event of adverse economic conditions due to the impact being spread over a greater number of sectors.

GRAPH 6: ECONOMIC SECTORS



The tertiary sector was the main economic driver in 2023, contributing 55.8% to the local economy, with the primary and secondary sector contributing 23.8% and 20.4% respectively.

Analysis of the sub-sectors – as seen in GRAPH 6 – reveals that Agriculture produced the highest economic output with 23.7%. Further analysis reveals that there are five main economic sub-sectors driving the economy (including Agriculture). The five main sub-sectors mentioned above are Agriculture (23.7%), Trade (18.1%), Manufacturing (16.4%), Finance (15.1%) and Community Services (14.7%).

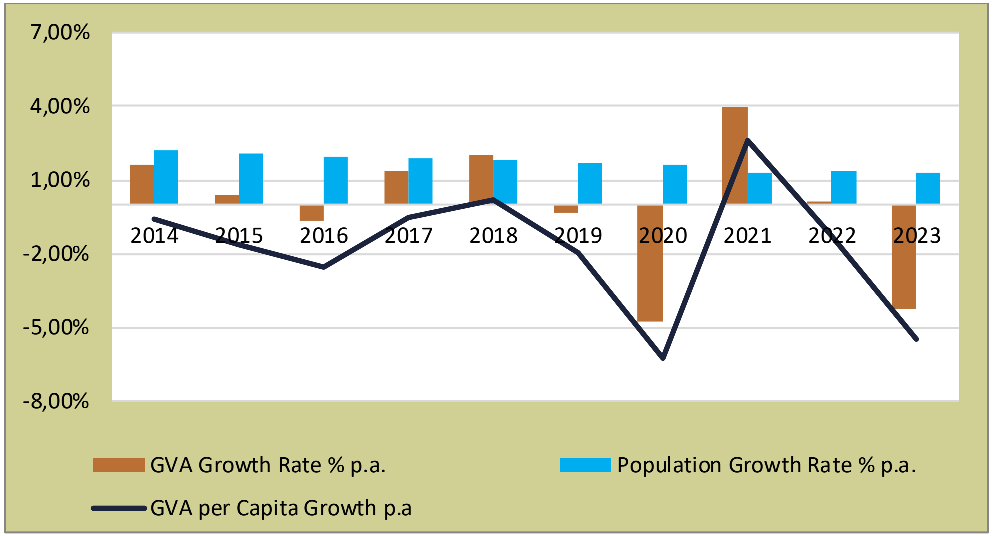
There has been proportional growth in four out of the five main sub-sectors over the review period, as seen in TABLE 3. The only main sub-sector to have seen a decline over the review period was Trade, and this was the largest proportional decline reported to be a decline of 1.6 percentage points. Construction and Electricity also saw declines in their proportional contribution, decreasing by 1.3 and 0.3 percentage points respectively. The mining sector, with the smallest overall contribution to economic output, remained unchanged over the 10-year period.

TABLE 3: PROPORTIONAL GROWTH OF ECONOMIC SECTORS

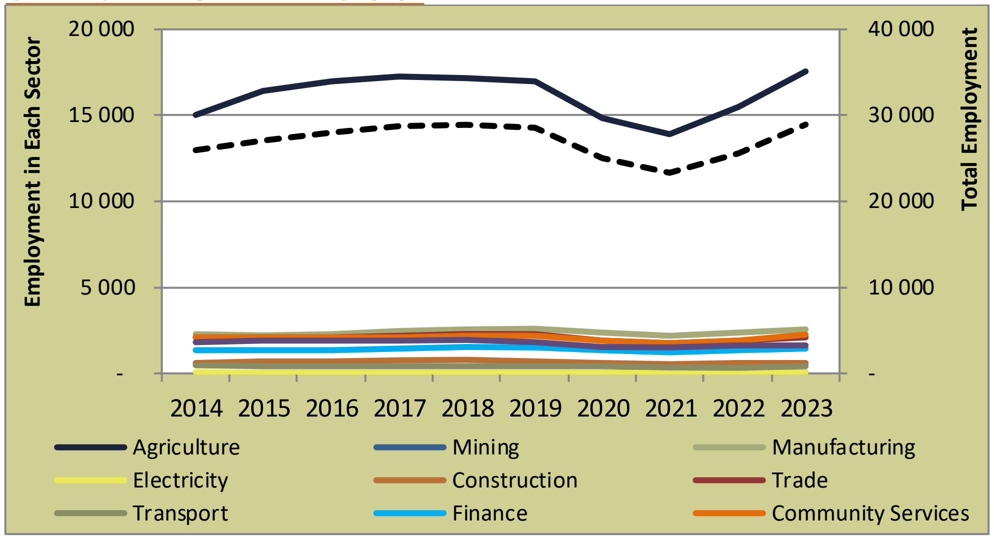
Subsector	2014	2023
Agriculture	23.7%	23.7%
Mining	0.1%	0.1%
Manufacturing	16.1%	16.4%
Electricity	1.4%	1.1%
Construction	4.3%	3.0%
Trade	19.8%	18.1%
Transport	6.7%	7.8%
Finance	14.0%	15.1%
Community Services	14.0%	14.7%

[1] The Tress Index provides insight into the level of concentration (or diversification) within an economic region. A Tress Index value of 0 means that all economic sectors in the region contribute equally to GVA, whereas a Tress index of 100 means that only one economic sector makes up GVA of the region.

GRAPH 7: GVA GROWTH VS POPULATION GROWTH VS GVA PER CAPITA



GRAPH 8: EMPLOYMENT BY SECTOR



GRAPH 7 above depicts the growth rates of GVA, the population and GVA per capita. This will demonstrate how the population and GVA growth rates have affected GVA per capita over the review period. When population growth exceeds economic growth, a decline in the GVA per capita can be observed. A decrease in GVA per capita indicates that a population has become impoverished over the time observed.

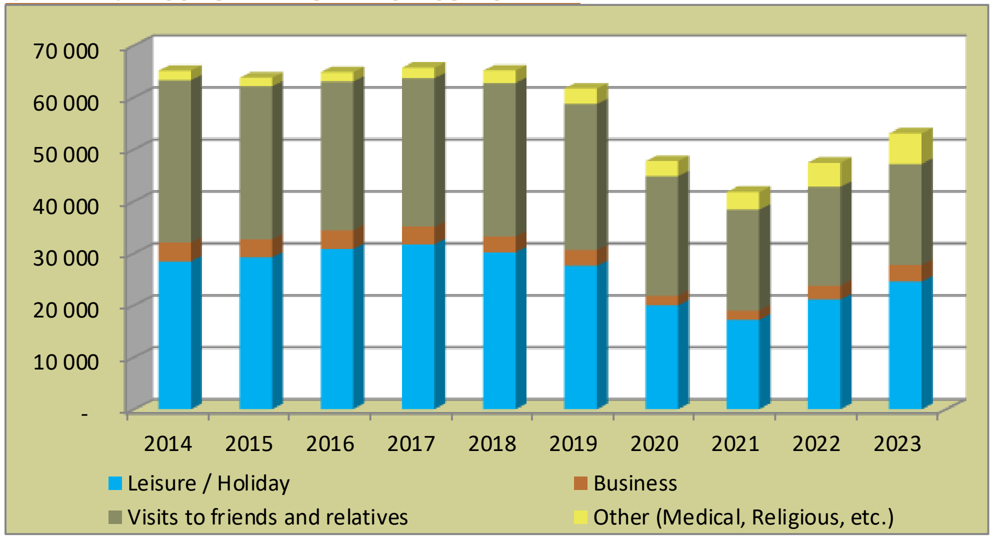
Bergrivier has seen sluggish economic growth relative to population growth for the better part of the review period. There are only two recorded instances where GVA growth outperformed that of the population. This was seen in 2018 and 2021 as illustrated in GRAPH 7. During these two years, GVA per capita growth of 0.6% and 2.6% respectively was observed. This is consistent with the relationship mentioned above. The same is also true for movements in the opposite direction. When the GVA growth rate lagged behind the population growth rate, the GVA per capita declined and this can be seen with the GVA per capita growth line appearing below the x-axis.

Population growth has trended downwards over the review period, but this cannot improve GVA per capita without the aid of economic growth. The municipality is encouraged to continue to invest in productive assets that aim to create an environment conducive to economic growth.

Agriculture has consistently been the leading provider of employment and is ahead by a significant margin. Agriculture currently provides 60.9% of employment opportunities within the municipality, meanwhile the second highest provider of employment contributes 9.0%. This places Agriculture as the dominant sub-sector and renders it pivotal to the municipality's current economic profile. It must be noted that this dominance is concerning as this tends to be cyclical employment and the effects of global warming have led to unpredictable weather patterns and extreme weather conditions which impact all forms of biodiversity around the world.

There has been significant increase in employment opportunities by 12.9% in one calendar year (3 295 additional jobs). Of these additional jobs, 63.4% were provided by the Agriculture sub-sector, which is consistent with its economic dominance.

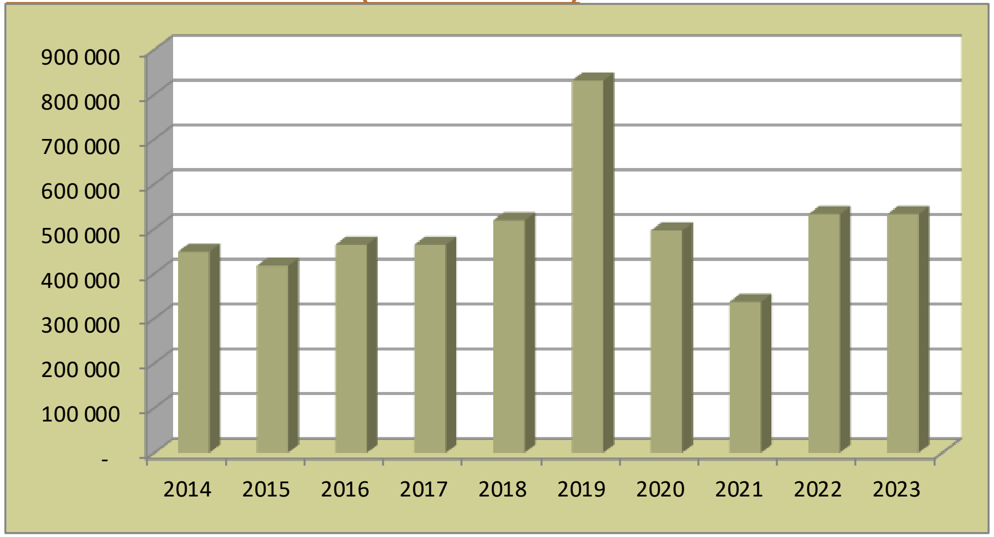
GRAPH 9: TOURISM TRIPS BY PURPOSE OF TRIP



GRAPH 9 provides an indication of the total number of tourism trips and the main reasons for people visiting Bergrivier.

There were 5 642 additional trips to Bergrivier amounting to a total of 53 076 trips recorded in 2023. Despite the increase, tourism trips in 2023 still fall substantially short of the pre-Covid 5-year average 64 243 trips p.a. The most common purpose for trips to Bergrivier remains trips for leisure/holidays, which constituted 46.2% of visits in 2023.

GRAPH 10: TOURISM SPEND (CURRENT PRICES)



Tourism spending has a significant impact on a municipality's economy as it influences revenue generation and economic diversification. It is thus crucial in the assessment of a municipality's local economy.

Tourism spend has been slow to recover from the effects of Covid compared to other municipalities who began their recoveries as early as 2021. Bergrivier began its recovery a year later in 2022 and has not shown further signs of growth. Tourism spend remain unchanged at R532.7 million in 2023, which was the same recorded the previous year. The pivotal role that tourism plays is reflected in the contribution to GVA of 6.0% in 2023. This economic output surpassed the outputs of three sub-sectors combined, namely Construction (3.0%), Electricity (1.1%) and Mining (0.1%). This emphasizes the significant role the tourism industry plays in economic production and diversification. The municipality is therefore encouraged to create a conducive environment for the growth of the tourism industry.

Household Infrastructure

Household formation in 2023 totalled 775 households, reflecting an increase of 3.8% from 2022. The municipality maintained an ***Infrastructure Index*** of 0.93; this remained higher than the indices of both the district (0.91) and the province (0.90). The ability to maintain this index despite 775 additional households in the year is indicative of ongoing investment in infrastructure, which enables the municipality to keep up with the rate of household formation. The maintenance of this index score, or improvement thereof in future, will require this investment in infrastructure to continue as the high population growth rate will continue to increase demand for municipal services.

GRAPH 11: Household Formation

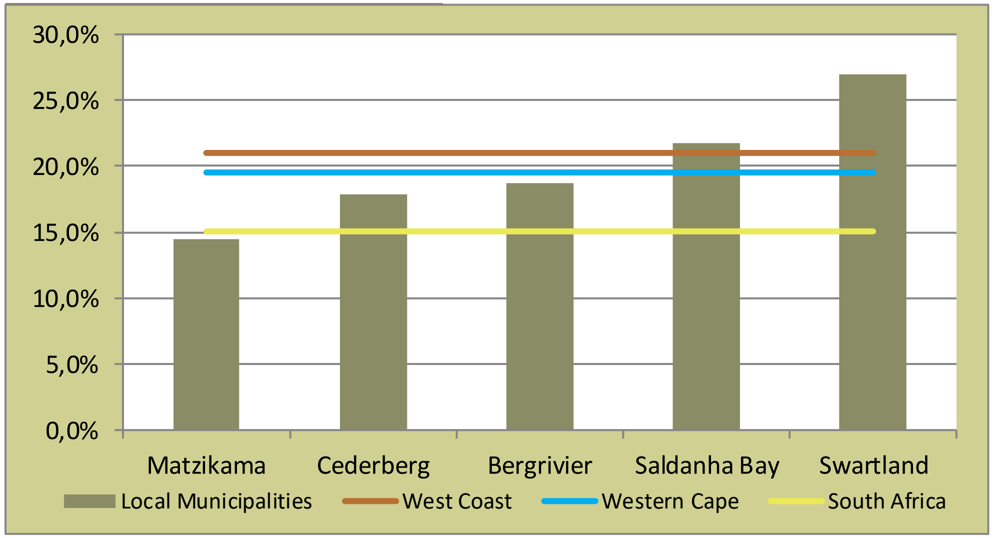


Table 4: Household Infrastructure Provision

Infrastructure	West Coast		Bergrivier	
Above RDP Level				
Sanitation	132,899	96.8%	20,164	97.9%
Water	135,835	99.0%	20,328	98.7%
Electricity	133,675	97.4%	20,250	98.4%
Refuse Removal	121,683	88.6%	17,511	85.1%
Below RDP or None				
Sanitation	4,375	3.2%	424	2.1%
Water	1,439	1.0%	261	1.3%
Electricity	3,598	2.6%	338	1.6%
Refuse Removal	15,590	11.4%	3,078	14.9%
Total Number of Households	**137,273**	**100.0%**	**20,589**	**100.0%**

TABLE 4 above compares the level of backlogs of ***sanitation, water, electricity and refuse removal*** of Bergrivier with that of the district. Bergrivier LM performed better than the district average in all of the municipal services categories, except electricity provision which was marginally below the district average. Over the review period, the water backlog has declined significantly from 7.4% in 2013 to just 1.0% in 2022. The refuse removal backlog remains reasonably high at 12.8% in 2022, although this figure has declined significantly from 19.9% in 2013. It is estimated that a large proportion of these households are located in non-urban areas of the municipality, where refuse removal is not undertaken by the municipality as stated in the last report. However, the municipality should endeavour to further decrease this backlog and simultaneously increase its revenue base. It is crucial that sufficient capital is invested in improving and maintaining critical infrastructure to assist the municipality's backlog eradication efforts.

1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long-Term Financial Model Outcomes

5 Future Revenues

6 Affordable Future Capital Investment

7 Scenario Analysis

8 Ratio Analysis

9 Conclusions

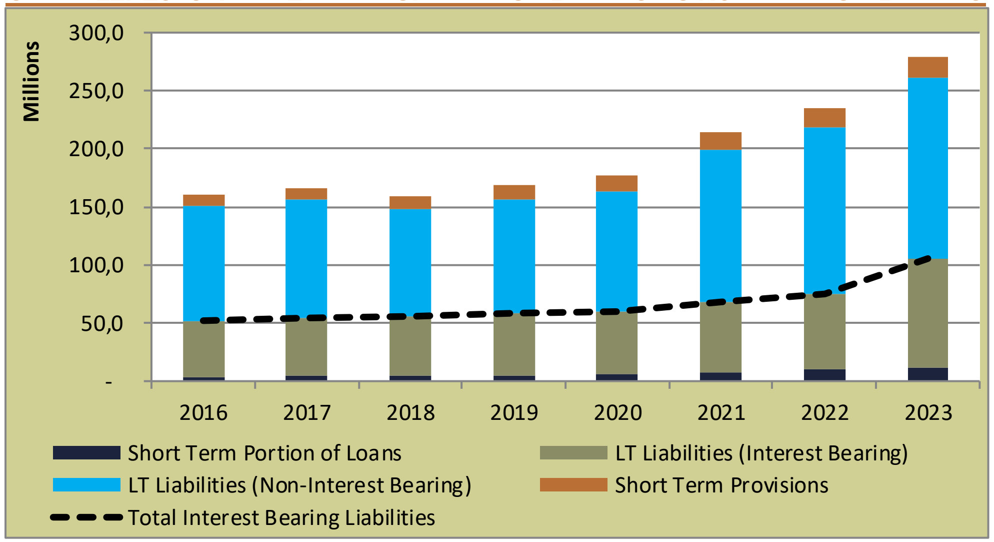
UPDATED HISTORIC FINANCIAL ASSESSMENT

FINANCIAL POSITION

The financial position of Bergrivier LM continued to improve as at FYE2023, evident in the net fixed assets balance increasing by R39.8 million to R548.6 million as at FYE2023. The accumulated surplus increased by 4.9% in FY2023 to R451.6 million.

GRAPH 12 reveals an increasing trend in interest-bearing liabilities over the review period. This was initially sluggish in the earlier periods but in the latter periods, there have been significant increases observed in FY2021 to FY2023. This shift in the growth trend is attributable to the increased undertaking of debt. The average loan amount from FY2016 to FY2020 was R6.5 million p.a., while the average loan amount from FY2021 to FY2023 was higher at R23.1 million p.a. Interest-bearing liabilities increased by 42.1% in FY2023.

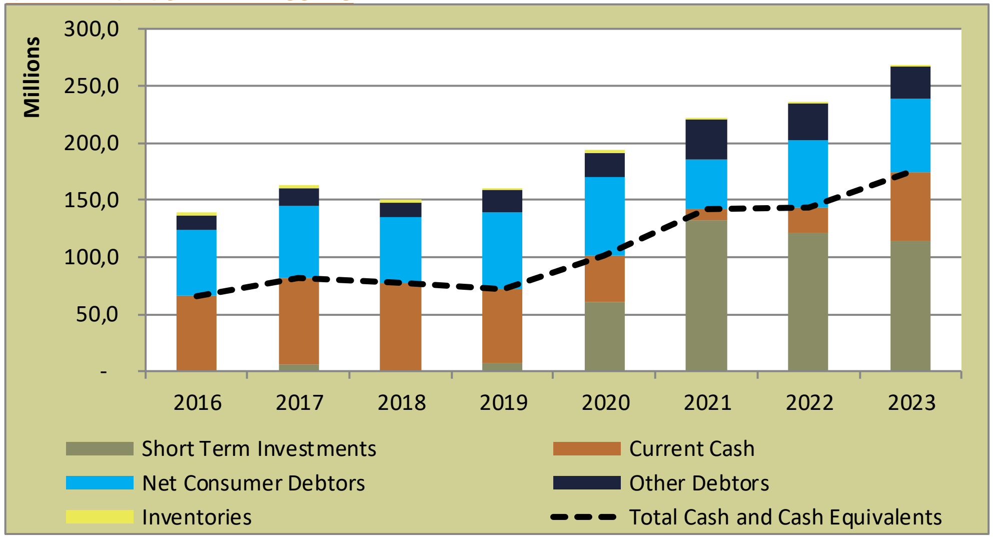
GRAPH 12: LONG TERM LIABILITIES: INTEREST BEARING VS NON-INTEREST BEARING



While the gearing ratio increased from 18% to 23% in FY2023, it remains below the NT maximum level of 45% and the IPM recommendation of 30% specifically for Bergrivier LM. Similarly, the debt service to total expense ratio fell below the NT minimum ratio of 6%, only amounting to 4%. This indicates that scope exists to undertake further borrowings.

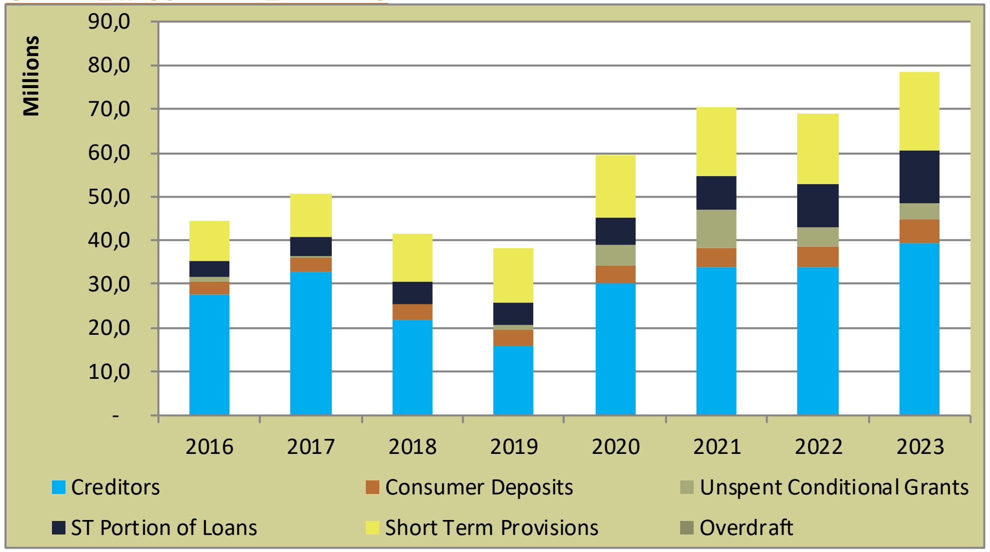
Current Assets increased by 13.5%, from R236.2 million as at FYE2022 to R268.1 million as at FYE2023. This increase was higher than the 10% average annual increase over the review period and it was massively aided by the cash and cash equivalents balance, which increased by R31.1 million (21.7%) during FY2023.

GRAPH 13: CURRENT ASSETS



Current Liabilities – see GRAPH 14 below – increased by R9.4 million (13.6%) to a balance of R78.5 million as at FYE2023. This was mainly driven by an increase in the creditors balance from R33.7 million as at FYE2022 to R39.4 million as at FYE2023. Creditors remained the main contributor, constituting 50.3% of the current liabilities balance as at FYE2023. The consequence of the increase in the creditors balance led to the deterioration of the creditors' days from 51 days in FY2022 to 54 days in FY2023. Although this is in excess of the NT norm of 30 days, this was in line with the average creditors payment period of 54 days p.a. seen over the review period. It is noted that a contributing factor in the year end creditors balance is the delay of payment to Eskom for the June account. The delayed payment which is intentionally made in July for financial reasons, results in an inflated creditors balance at year end and thus impacts the creditors days calculation.

Graph 14: Current Liabilities



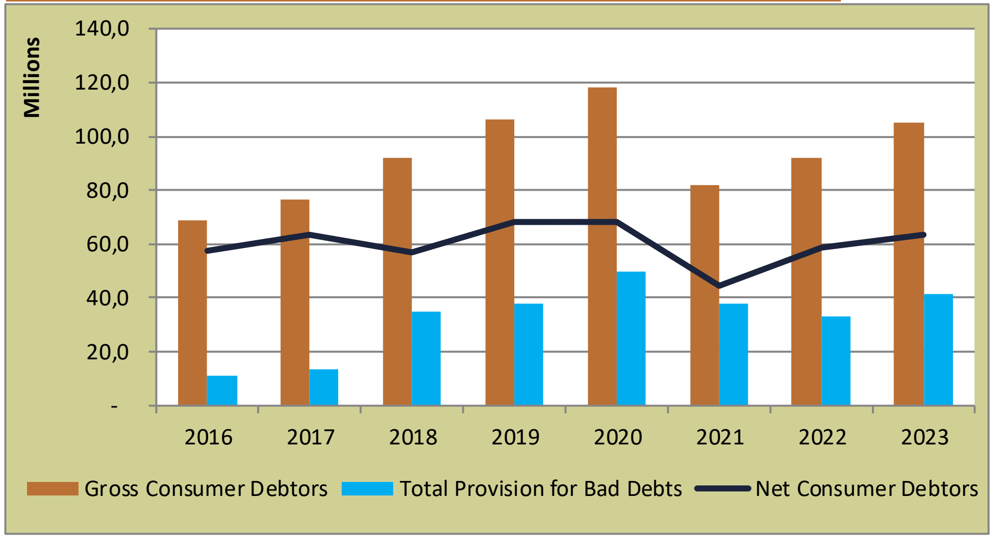
The combined effect of the movements in current assets and current liabilities is evident in Bergrivier's liquidity ratio. The liquidity ratio remained healthy at a ratio of 3.42:1 as at FYE2023. This ratio is higher than the NT norm of at least 1.5:1, indicating the municipality's ability to pay its current/short term obligations. Should debtors older than 30 days be excluded from the calculation (i.e., least liquid debtors) the ratio reduces to 2.94:1.

Table 5: Liquidity Ratios

`	2016	2017	2018	2019	2020	2021	2022	2023
Current Assets : Current Liabilities	3.12	3.22	3.61	4.19	3.27	3.15	3.42	3.42
Current Assets (less Debtors > 30 Days) : Current Liabilities	2.21	2.34	2.67	3.05	2.46	2.81	2.94	2.94

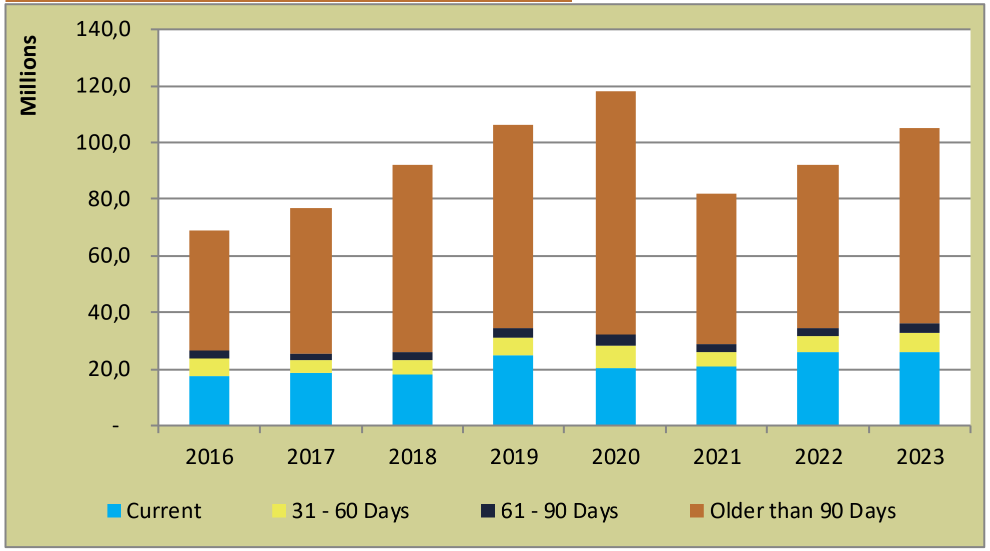
Gross consumer debtors – Graph 15 - increased by 14.3% to R105.2 million as at FYE2023. This has returned to an uptrend after a significant downturn as at FYE2021. Net consumer debtors have fluctuated over the review period due to the varying provisioning for bad debts implemented by the municipality. Consistent with the issue raised in the previous LTFP update, the provision for bad debts of R41.6 million does not sufficiently cover debtors older than 90 days of R69.4 million. The provision provides coverage for only 60% of debtors who are largely considered at high risk of default, falling substantially behind the NT norm of 100%. This has continued to be the municipality's crux with the ratio averaging 51% p.a. over the last 8 years.

Graph 15: Gross Consumer Debtors VS Net Consumer Debtors



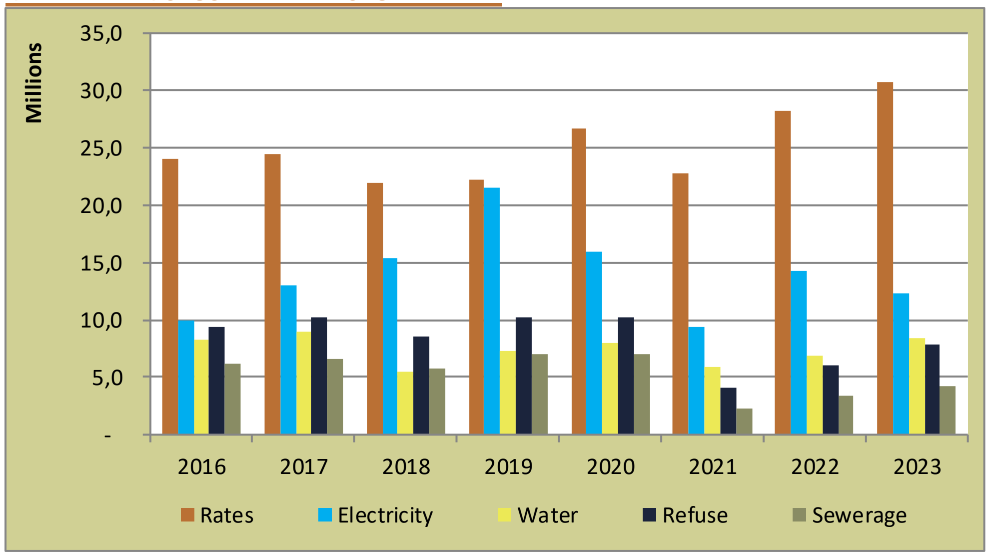
The age analysis of consumer debtors reflects a saturation of debtors older than 90 days. This debtor category constituted 66% of gross consumer debtors as a FYE2023. The most liquid debtors (current debtors) constitute 24.8% of the gross consumer debtors balance. More recently, this increased from R57.8 million as at FYE2022 to R69.2 million as at FYE2023. Net debtor days marginally deteriorated during the year to 73 days as at FYE2023 (2022: 71 days). This is higher than the NT norm of 30 days. High debtor days exposes the municipality to cash flow risks. This indicates that the municipality has room to improve its credit control policy.

Graph 16: Consumer Debtors Age Analysis



Rates debtors remained the highest contributor to net debtors, comprising 48% of the net debtors' balance as at FYE2023. This trend is expected to continue with the implementation of the new valuation roll as of 1 July 2023.

Graph 17: Consumer Debtors by Type



Billed revenue increased by 5% in FY2023. This is despite a reduction in electricity revenue of 7%, primarily due to consistent load shedding. The collection rate of 95% for FY2023 achieved the NT norm for the third financial period in a row. This collection rate bolsters the municipality's bank balance as evidenced by cash and cash equivalents increasing by R31.1million as at FYE2023. As a stand-alone assessment, this indicates sound revenue management but once it is analysed in conjunction with the net debtor days of 73 days and debtors older than 90 days comprising of 66% of the gross debtors' balance, it highlights an ongoing need to improve its credit management policy.

Table 6: Debtors Ratios

	2017	2018	2019	2020	2021	2022	2023
Increase in Billed Income p.a. (R'm)	14.0	2.5	23.0	23.8	18.5	25.0	14.3
% Increase in Billed Income p.a.	7%	1%	11%	10%	7%	9%	5%
Gross Consumer Debtors Growth	12%	20%	15%	11%	-30%	12%	14%
Net Debtor Days	110	98	105	95	58	71	73
Payment Ratio / Collection Rate	93%	92%	92%	94%	109%	95%	95%

Financial Performance

Graph 18: Analysis of Surplus

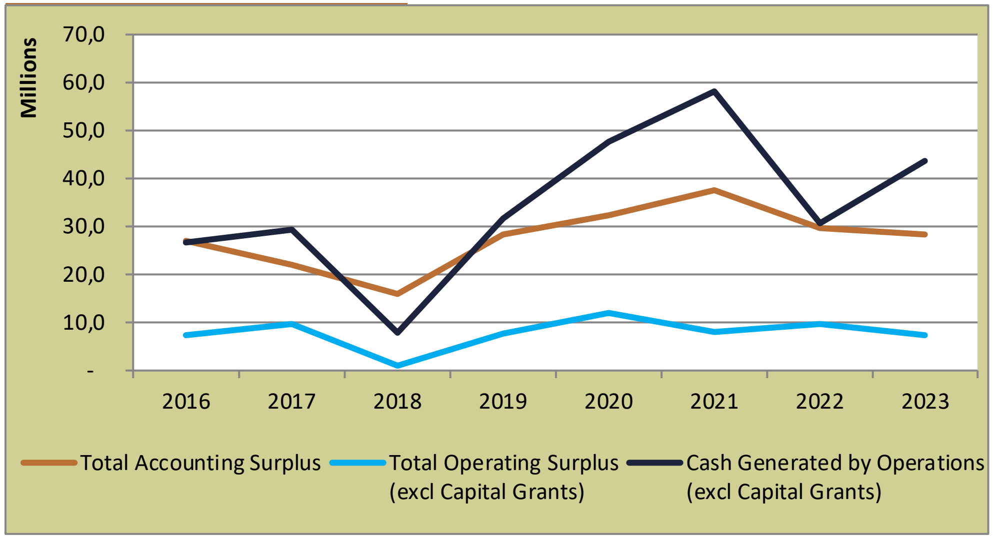
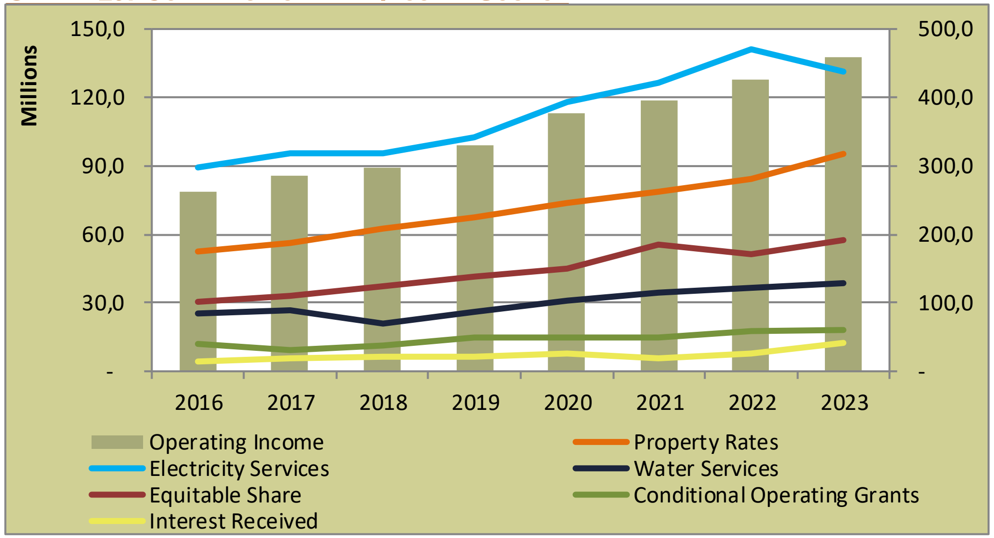


Table 7: Total Income vs Total Expenditure

	2016	2017	2018	2019	2020	2021	2022	2023
Total Income	280.8	298.6	312.3	350.5	397.6	424.5	445.6	480.5
Total Operating Expenditure	253.8	276.6	296.3	322.8	365.4	386.9	415.8	454.4
Operating Income (excl Cond Grants)	248.9	277.0	285.7	315.3	362.3	380.3	407.8	441.6

Total Income grew at an average rate of 8.0% p.a. over the 8-year period, whilst total operating expenditure grew at a marginally higher rate – 8.7% p.a. - over the same period. This is not as concerning as the difference is marginal, but larger differences have a greater impact as evidenced in the period FY2021 to FY2023 in which income increased at an average rate of 6.5% and expenses increased at an average rate of 7.6%. This resulted in reductions in the accounting surplus, operating surplus and cash generated by operations from FY2021 to FY2023. The municipality realised an accounting surplus of R28.3 million in FY2023, decreasing by R1.6 million from FY2022. When capital grants are excluded, the surplus achieved by the municipality amounts to R7.5 million in FY2023, a decrease from R9.8 million posted in the prior year. The municipality did manage to improve its cash generated by operations during the year to R43.7 million from R30.7 million in FY2022. Compared to accounting and operating profit movements, this is a stark contrast as seen in Graph 18. This contrast necessitates further analysis of the cash generation. Further analysis reveals that the improved cash generation was not solely attributable to improved cash collection as the collection rate remained at 95% in FY2023. The remaining factor is thus working capital movements and in particular creditors. Upon analysing creditors, it is evident that the delayed payment of creditors has bolstered the extent of cash generation. This is reflected in the increased creditors' payment period – 54 days for FY2023 compared to 51 days for FY2022.

Graph 19: Contribution per Income Source

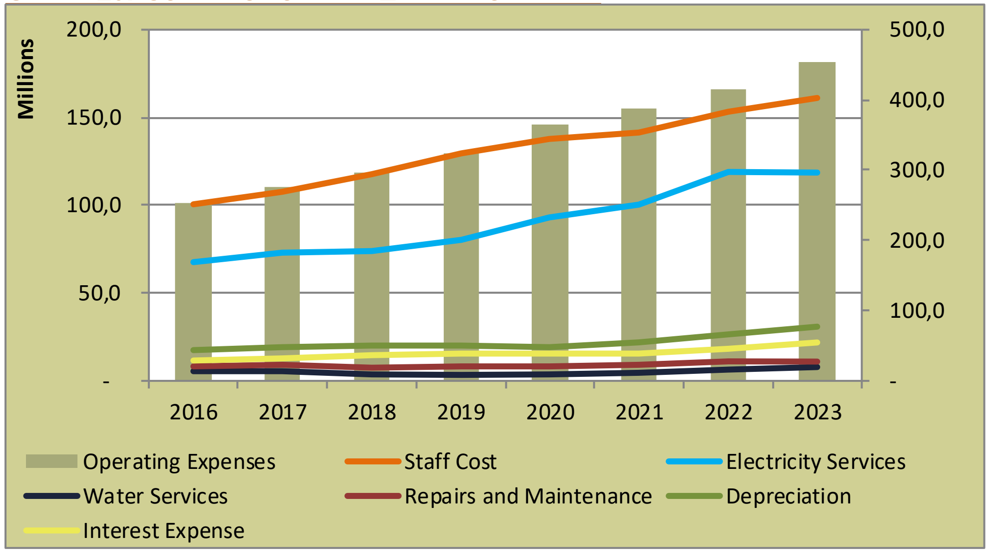


Electricity services revenue has remained the main contributor (29%) to total operating revenue in FY2023, despite a 6.7% decline in revenue generation from R141.1 million in FY2022 to R131.7 million in FY2023. This decline is largely attributed to the consistent load shedding experienced during that time. The gross surplus margin has reduced from 16% in FY2022 to 10% in FY2023, mainly due to the city's inability to fully pass on increases in the NERSA approved bulk electricity tariffs to its consumers. Although electricity distribution losses decreased to 10.7%

in FY2023, from 12.6% in FY2023, it remained marginally above the NT maximum level of 10%.

Property Rates and Equitable Share round off the three main sources of income, contributing 21% and 13%, respectively, to total operating income. Water services revenue contributed 8% in FY2023. Water distribution losses decreased from 15.1% in FY2022 to 14.6% in FY2023. The water losses are reasonably low when compared to the NT benchmark of 30%.

Graph 20: Contribution per Expenditure Item



Operating expenditure is primarily driven by Electricity Bulk Purchases and Staff Costs, which together contributed to 47% of the total operating expenditure in FY2023.

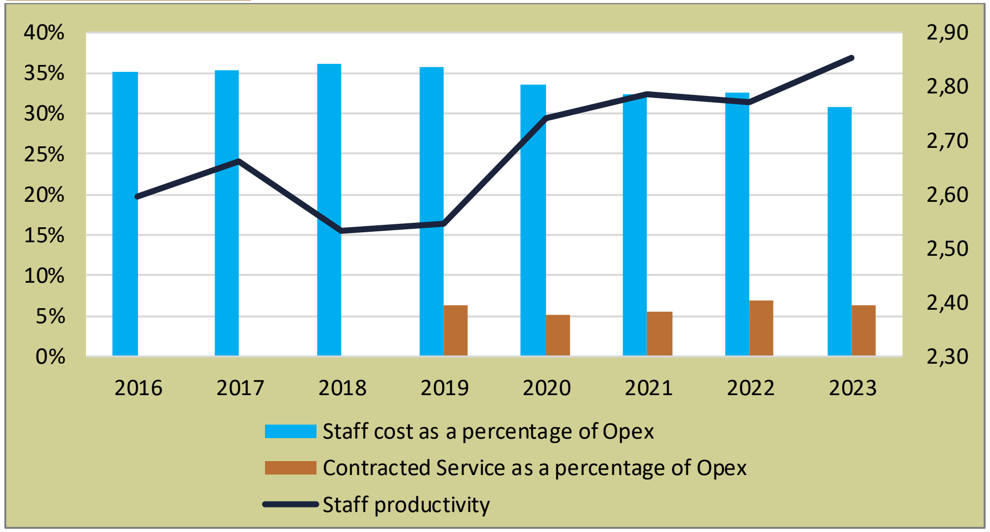
Expenditure incurred to repair and maintain capital assets remained at 2% of PPE and IP for FY2023. This ratio is considered to be low when compared to the NT norm of 8%. We are aware that the expenditure incurred for repairs and maintenance excludes employee and other operational costs, causing a low ratio.

Staff costs as a percentage of operating expenditure amounted to 31% in FY2023, which is within NT norms and an improvement from the municipality's 34% annual average during the review period.

Although contracted services contribution to total operating expenditure decreased to 6% in FY2023 from 7% in FY2022, it still remained higher than the NT norm maximum of 5%.

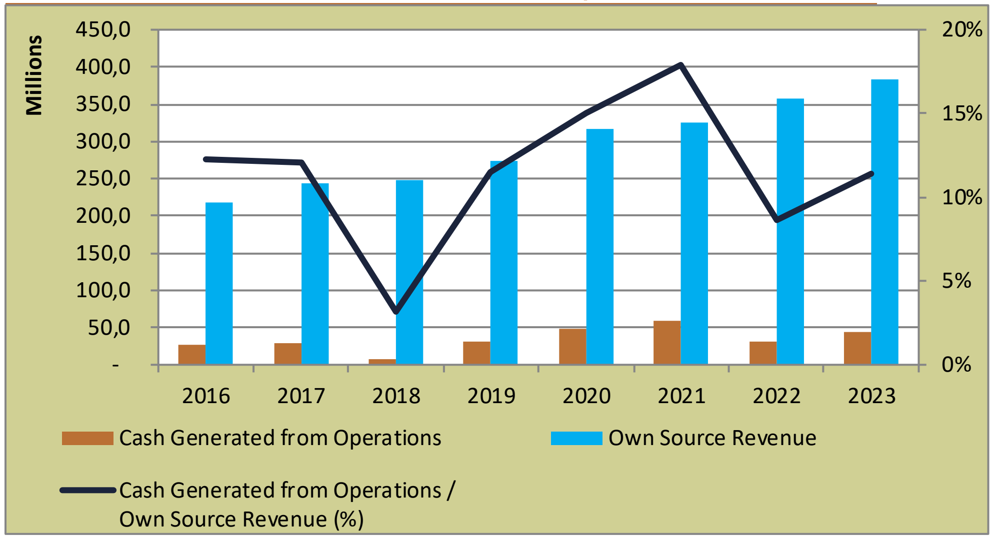
Staff productivity (a ratio analysis of operating income to employee related costs) has averaged 2.7 over the review period. This has improved from 2.8 in 2022 to 2.9 in 2023. This indicates that the municipality has utilised its human resources efficiently to produce returns.

Graph 21: Staff and Contracted Services / Operating Expenditure vs Staff Productivity

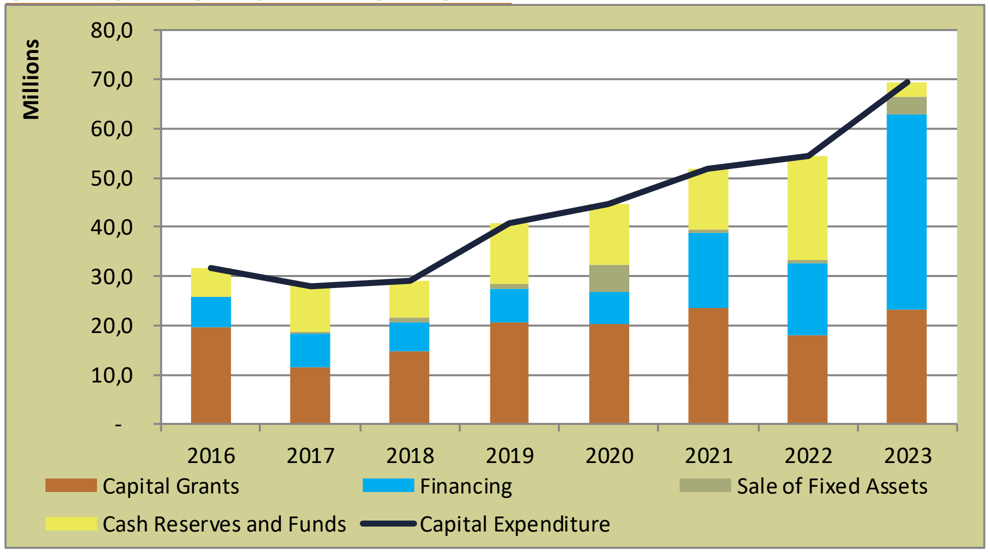


Cash Flow

Graph 22: Cash Generated from Operations/Own Source Revenue



Graph 23: Annual Capital Funding Mix



The lowest collection rate for the review period of 92% noted in FY2018, coincides with the lowest ratio of cash generated from operations to own source revenue. The highest collection rate of 100% coincides with the highest cash generated from operations as a percentage of own source revenue as per Graph 22. This highlights the importance of a high collection rate on the municipality's ability to generate cash from its revenue. Cash generated from operations as a percentage of own source revenue amounted to 11% in FY2023, increasing from 9% in FY2022.

BLM invested a cumulative R349.8 million in the acquisition of capital assets over the past 8 years. This amount was primarily funded by capital grants (43%) and supplemented by own cash reserves (24%); external borrowings (29%); and sale of fixed assets (4%). The capital budget implementation indicator has averaged 86% over the review period.

Graph 24 shows an increasing trend in the financial years following 2019 and these increases coincide with increasing collection rates and/or lower own cash utilisation for CAPEX. Cash and cash equivalents increased from R143.6 million as at FYE2022 to R174.7 million as at FYE2023, this improvement was aided by less utilisation of own cash for CAPEX, and the improved cash generation from operations.

Graph 24: Cash and Investments

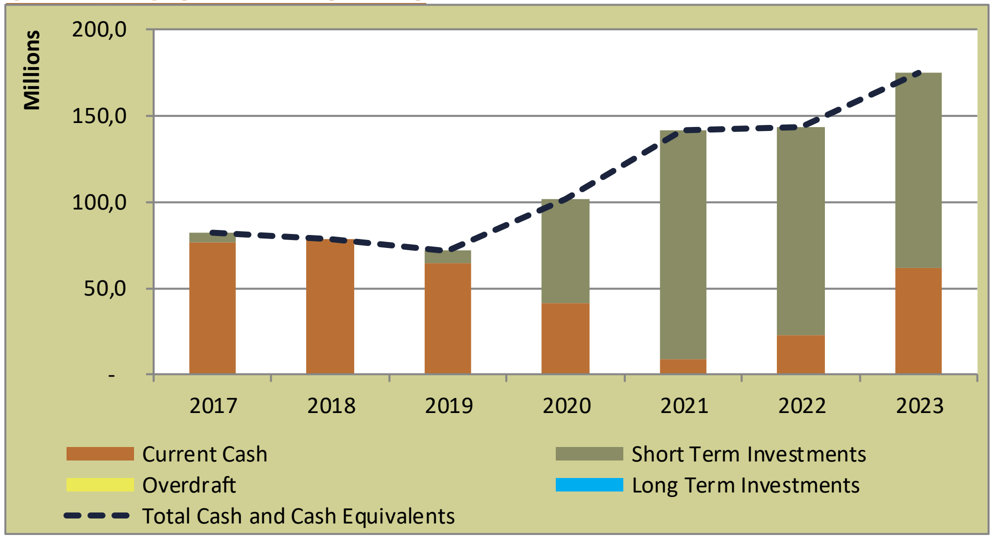
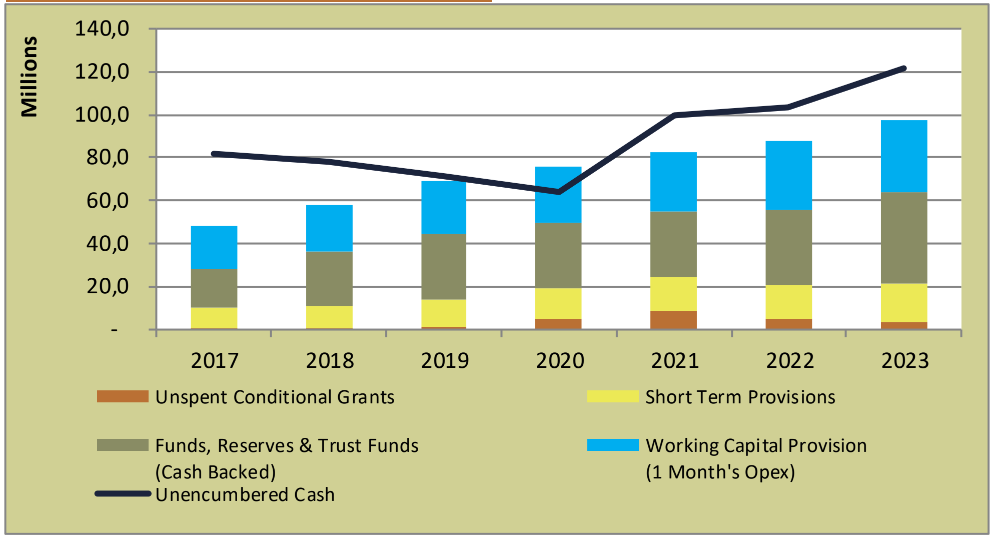


Table 8: Minimum Liquidity Levels

	2016	2017	2018	2019	2020	2021	2022	2023
Unspent Conditional Grants	1.1	0.4	0.2	1.1	5.0	8.8	4.7	3.8
Short Term Provisions	9.1	9.8	11.0	12.6	14.1	15.6	16.3	18.0
Funds, Reserves & Trust Funds (Cash Backed)	15.7	18.0	25.2	31.1	30.8	30.8	35.1	42.3
Total	**25.9**	**28.2**	**36.4**	**44.8**	**50.0**	**55.2**	**56.1**	**64.1**
Unencumbered Cash	65.7	82.1	77.9	71.4	64.0	99.5	103.1	121.6
Cash Coverage Ratio (excl Working Capital)	2.5	2.9	2.1	1.6	1.3	1.8	1.8	1.9
Working Capital Provision (1 Month's Opex)	19.0	20.4	21.7	24.3	26.0	27.7	31.3	33.2
Cash Coverage Ratio (incl Working Capital)	1.5	1.7	1.3	1.0	0.8	1.2	1.2	1.3
Minimum Liquidity Required	44.9	48.6	58.1	69.1	75.9	82.8	87.4	97.3
Cash Surplus/(Shortfall)	**20.8**	**33.5**	**19.8**	**2.3**	**(11.9)**	**16.6**	**15.7**	**24.3**

Graph 25: Minimum Liquidity Required



Presented in Table 8 above, Bergrivier is required to maintain sufficient cash reserves to cover Unspent Conditional Grants (R3.8 million), Short-Term Provisions (R18.0 million) and a Working Capital Provision (including 1 month's Opex) (R33.2 million). The municipality's unencumbered cash balance is more than sufficient to meet the required minimum liquidity levels of R97.3 million, resulting in a cash surplus of R24.3 million as at FYE2023. The municipality posted cash surpluses above the minimum liquidity requirements in 7 of the 8 years under review. The cash coverage ratio (including working capital) improved to 1.3:1 for FY2023.

In our determination of the minimum liquidity requirements of a municipality we strictly apply the guidelines of National Treasury, which excludes items that municipalities in their own discretion may wish to provide for in cash. Amongst others, these items include - Consumer deposits, Builders deposits, Retentions held, Guarantees to service providers and Self-insurance reserves.

IPM Shadow Credit Score

***Note**: The IPM Shadow Credit Score is based on the latest available information (2023 audited financial statements and previous audit reports)*

Bergrivier was assessed for an IPM shadow credit score, to provide information to management and to council as to the current risk rating that 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.

The IPM credit model reflects a score of **7.1**, which is comparable to a **High A+** on a national ratings scale. This credit score is high compared to other municipalities, which means that Bergrivier should be successful in accessing external borrowing at reasonably affordable rates.

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

TABLE 9: IPM CREDIT MODEL OUTCOMES

Modules	2023 (5)
Financial	3.9
Institutional	4.1
Socio-Economic	2.4
Infrastructure	3.5
Environmental	3.9

From the assessment it is evident that the socio-economic environment continues to be one of Bergrivier's main impediments in achieving higher credit scores. This is mainly linked to low economic growth and growth in indigent households. This is to be monitored closely as it is the only module which deteriorated during the year and subsequently decreased the credit score.

The strong performance by the other four modules were driven by factors such as a strong liquidity ratio, positive audit outcomes, experienced management, an improved infrastructure index and assessment of the latest Blue Drop Score and Green Drop Score to name a few.

1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long-Term Financial Model Outcomes

5 Future Revenues

6 Affordable Future Capital Investment

7 Scenario Analysis

8 Ratio Analysis

9 Conclusions

LONG-TERM FINANCIAL MODEL OUTCOMES

To develop a realistic Base Case model, the figures from the Tabled Budget 2024/25 – 2026/27 were used. The historic analysis reveals a municipality that has consistently posted operating surpluses and maintained a health liquidity position over the review period. Borrowing has increased in recent years allowing for an acceleration of the capital investment programme. There still remains ample scope to raise new debt as Bergrivier's debt profile remains affordable with low gearing and debt service to total expense ratios. The objective of the model is to utilise realistic assumptions to support future financial sustainability. The following are the key assumptions:

- The collection rate was assumed to be maintained at 95% for the duration of the planning period.
- The model calibrated increases in revenue and expenditure as projected in the Tabled Budget, with the exception of contracted services.
- The decline in contracted services in FY2027 is deemed to be excessive. Therefore, other expenses were increased by R10 million annually from FY2027 to offset the significant decline.
- Expenditure on repairs and maintenance on PPE as a percentage of the value of PPE & IP is assumed to reach 6% by FY2031.
- Water and electricity distribution losses remain unchanged at 14.6% and 10.7% respectively.
- The MTREF capital investment programme was maintained as per the budget.
- CAPEX is assumed to grow annually by 8% beyond the MTREF period.
- The MTREF borrowing programme was maintained for FY2024, but adjustments have been made to subsequent years as follows:
    - FY2025: R 30.0 million
    - FY2026: R 30.0 million.
    - FY2027: R 28.0 million.
- Borrowings are assumed to grow annually by 4% beyond the MTREF period.
- This brings the capital expenditure programme to R930 million for the planning period.

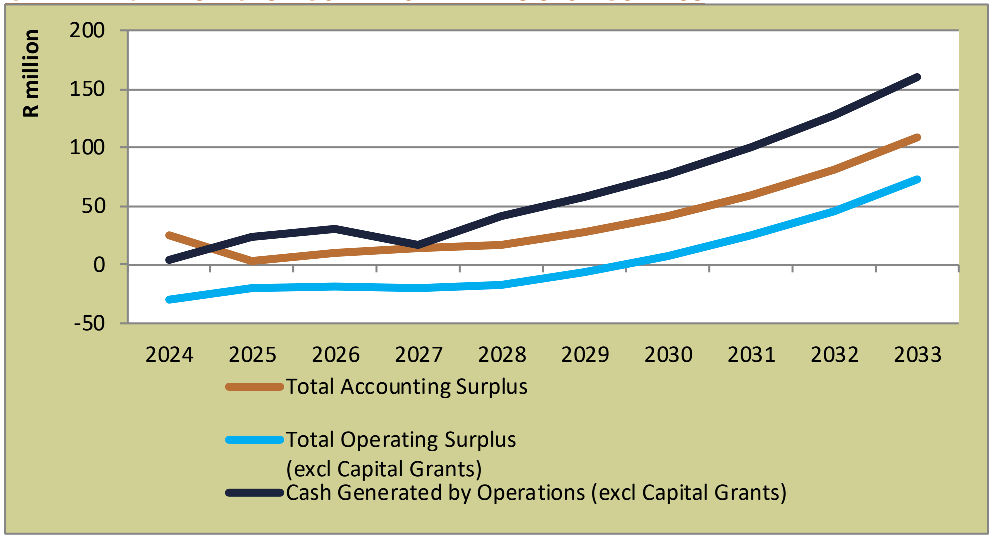
TABLE 10: ASSUMPTIONS OF THE BASE CASE VARIABLES

Variable	Base Case Average for a 10-Year Planning Period
RSA consumer inflation rate (CPI)	5.3%
Population Growth Rate	1.3%
GVA Growth Rate	3.2%
Short term investment rate (Margin above CPI)	1.0%
Electricity Price Elasticity of Demand	-0.4
Water Price Elasticity of Demand	-0.2
Employee related cost escalation	7.7%
Bulk electricity cost escalation	9.3%
Collection Rate of customer billings	95.0%

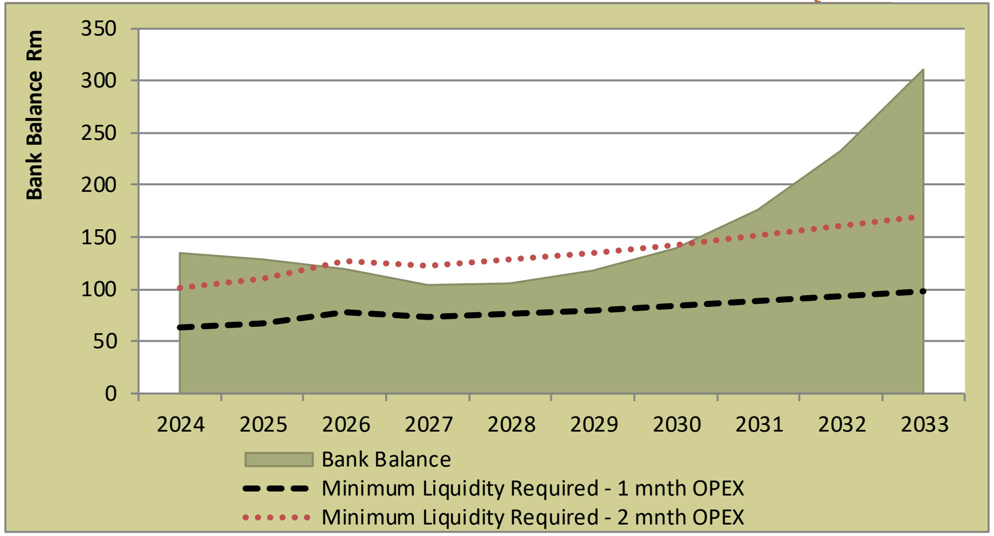
TABLE 11: ASSUMPTIONS OF THE BASE CASE VARIABLES

Outcome	10-Year Outcome
Average annual % increase in Revenue	8.6%
Average annual % increase in Expenditure	8.2%
Accounting Surplus accumulated during Planning Period (Rm)	R 389
Operating Surplus accumulated during Planning Period (Rm)	R 38
Cash generated by Operations during Planning Period (Rm)	R 641
Average annual increase in Gross Consumer Debtors	10.7%
Capital investment programme during Planning Period (Rm)	R 930
External Loan Financing during Planning Period (Rm)	R 314
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 311
No of Months Cash Cover at the end of the Planning Period (Rm)	4.3
Liquidity Ratio at the end of the Planning Period	3.4 : 1
Gearing at the end of the Planning Period	16.5%
Debt Service to Total Expense Ratio at the end of the Planning Period	5.6%

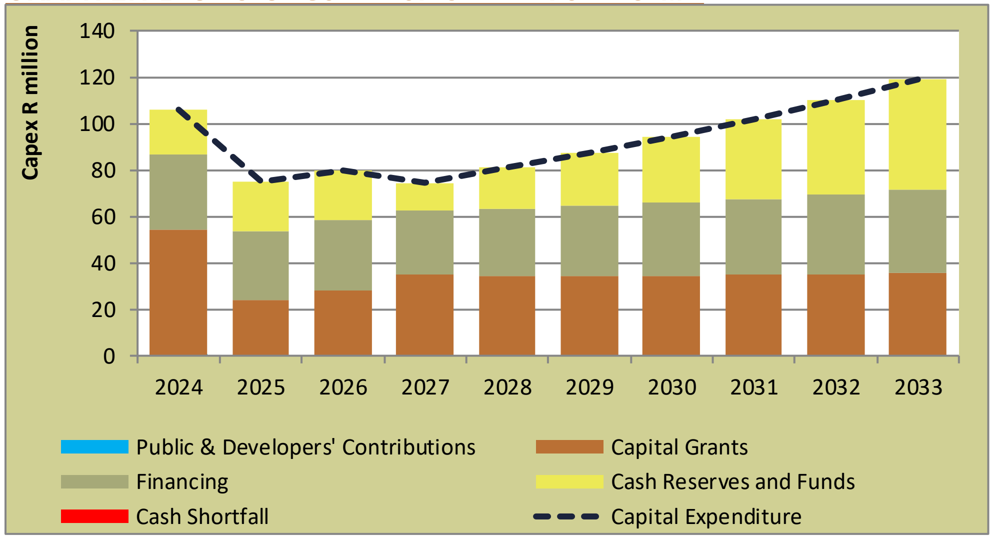
GRAPH 26: BASE CASE SCENARIO: ANALYSIS OF SURPLUS



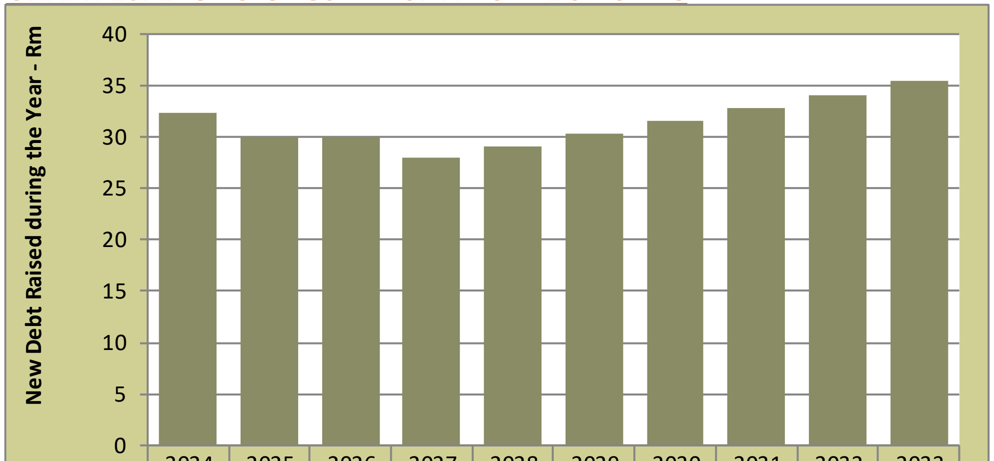
GRAPH 28: BASE CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY



GRAPH 27: BASE CASE SCENARIO: CAPITAL FUNDING MIX

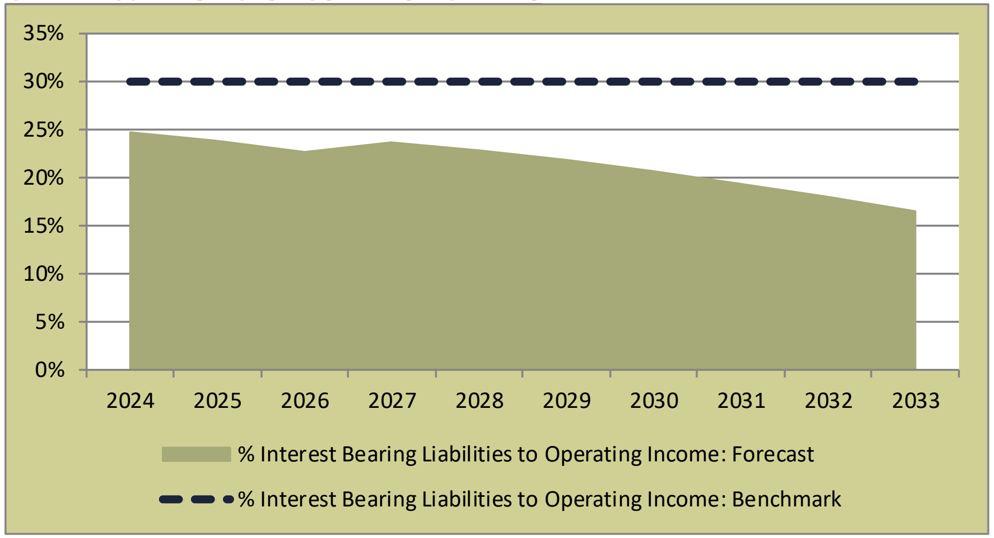


GRAPH 29: BASE CASE SCENARIO: ANNUAL BORROWING

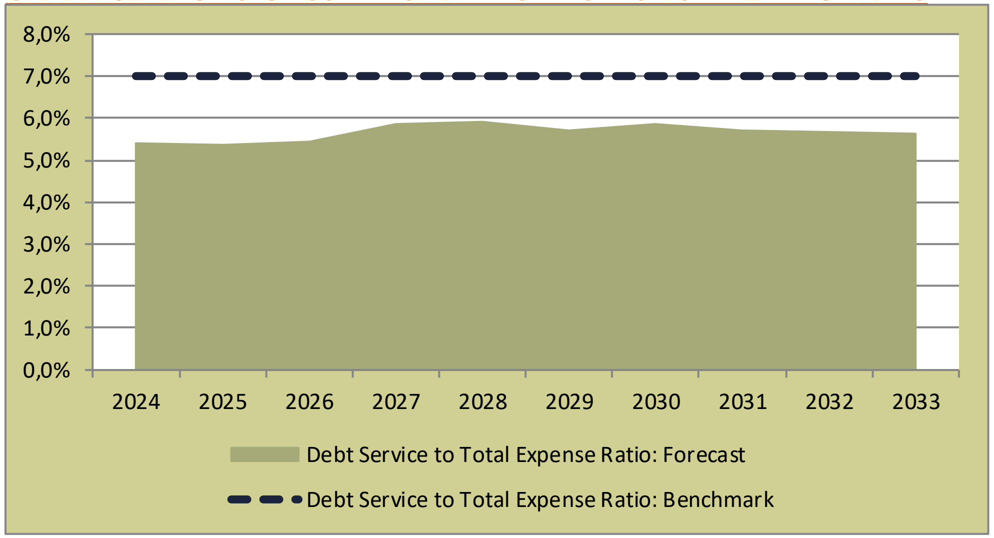


	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
R million	32	30	30	28	29	30	31	33	34	35

GRAPH 30: BASE CASE SCENARIO: GEARING



GRAPH 31: BASE CASE SCENARIO: DEBT SERVICE TO TOTAL EXPENSE RATIO



Under the assumptions and the recommendations of the Base Case, financial performance and cash generation is forecast to trend upwards. Bergrivier is expected to post accounting surpluses and generate cash from operations throughout the planning period. At the end of the planning period, Bergrivier is expected to post an accounting surplus of R109 million, an operating surplus of R73 million and generate cash from operations of R160 million in FY2033. This is a testament to the municipality's historic financial performance and prudent budgeting.

With a high average collection rate and an optimal capital funding mix, Bergrivier is expected to meet the minimum liquidity requirements throughout the planning period. The forecast bank balance is R311 million at the end of the planning period. Additionally, a CRR with a balance of R73 million is forecast. Further scrutiny of the municipality's liquidity reveals that the liquidity ratio will amount to 3.4:1 at the end of the planning period.

The municipality's capital investment programme over the planning period is expected to amount to R930 million. The optimisation of the capital funding mix reduces the over-reliance on capital grants for capital expenditure. Under the Base Case assumptions, capital grant funding (37%) is well supplemented by external borrowings (34%) and own cash reserves (29%).

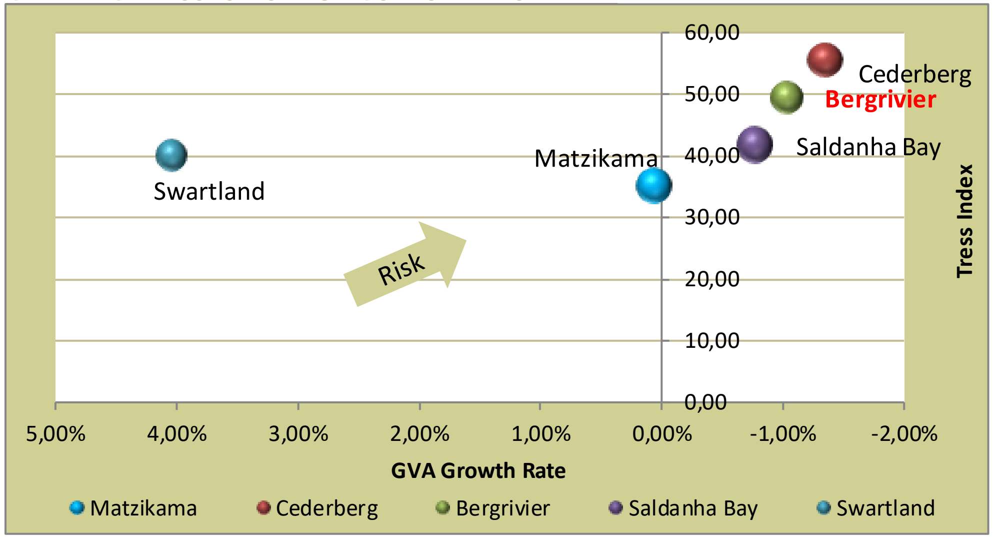
At the assumed level of borrowings, the gearing ratio is forecast to remain within the recommended benchmark of 30% throughout the planning period. Similarly, the debt service to total expense ratio is below the maximum sustainable level.

The Base Case assumptions are seen as realistic and achievable outcomes and can be seen as recommendations for the municipality to follow to ensure long-term financial sustainability. The outcome of the Base Case facilitates an enhancement in financial performance whilst maintaining a prudent balance with the capital investment program of the municipality.

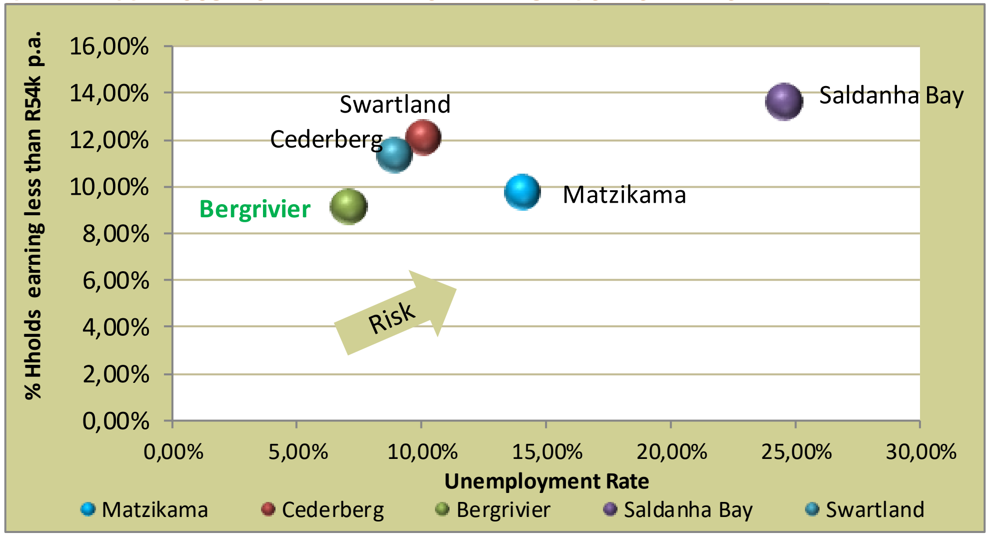
Future Revenues

Municipal Revenue Risk Indicator (MRRI) = "Medium"

GRAPH 32: Economic Risk Component of MRRI



GRAPH 33: Household Ability to Pay Risk Component of MRRI



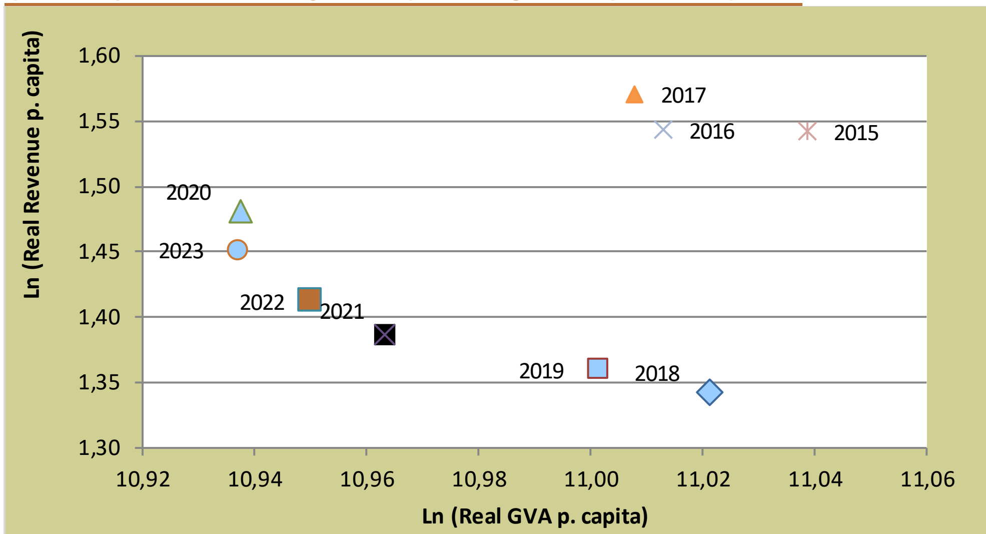
The ***Municipal Revenue Risk Indicator (MRRI)*** measures the risk of the municipality's ability to generate its own revenues. This risk is a function of the economy (size of the economy as measured by GVA per capita, GVA growth rate and Tress Index); and the household ability to pay (measured by percentage of households with income below R 54 000 p.a., unemployment rate and human development index).

The latest S&P Global Market Intelligence Update of the Bergrivier LM economy reveals that an average economic contraction of 1.8% p.a. has been observed over the last 5 years. The Tress Index of 49.5 is indicative of a reasonably concentrated economy. The lower the degree of economic diversification, the higher the risk associated with potentially harmful economic events. The combination of these factors results in an Economic Risk component of the MRRI of "**High**".

The high percentage of indigent households reliant on support (9.1%), the official unemployment rate (7.1%), and the human development index of 0.70, resulted in a ***"Medium to Low" Household Ability to Pay Risk*** component of MRRI.

Therefore, the overall rating on the MRRI is deemed to be "**Medium**" on the MRRI indicator scale, i.e. there is a medium risk that the municipality will not be able to generate the forecast cash revenue expected in future.

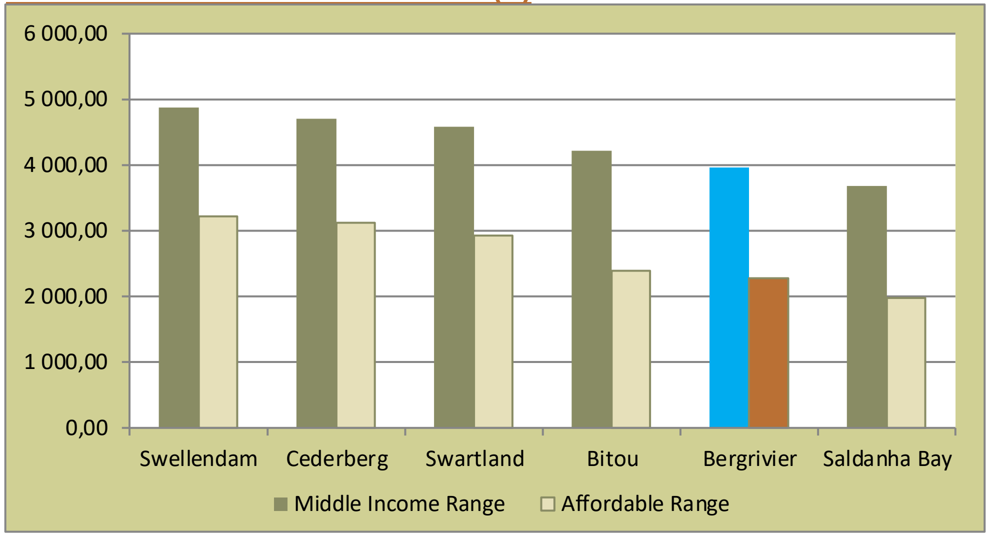
GRAPH 34: REAL REVENUE PER CAPITA VS REAL GVA PER CAPITA



The GVA per capita has decreased over the past ten years, with a 1.3% decrease recorded in 2023. BLM's GVA per capita sits at R53 267 in 2023 having decreased from R56 336 in the prior year. The decrease in GVA per capita can be attributed to population growth rate exceeding the economic growth rate over the 10-year review period.

Real municipal revenue (excluding capital transfers) increased consistently throughout the review period, at an average rate of 7.9% p.a. This indicates that despite the contracting economy, there has been a reasonably stable revenue base. However, sustained periods of low levels of GVA growth will negatively impact the municipality's ability to generate income from households.

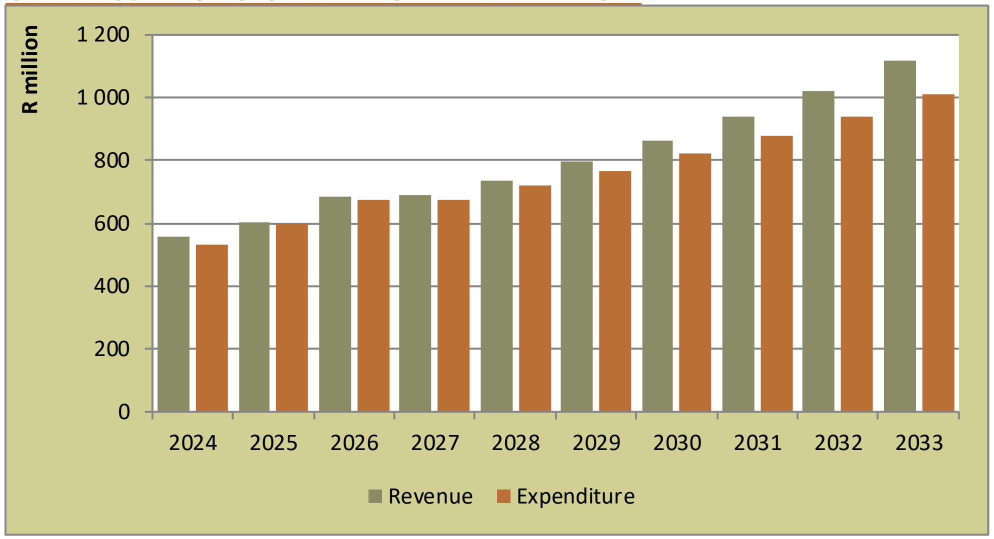
GRAPH 35: AVERAGE HOUSEHOLD BILL (R)



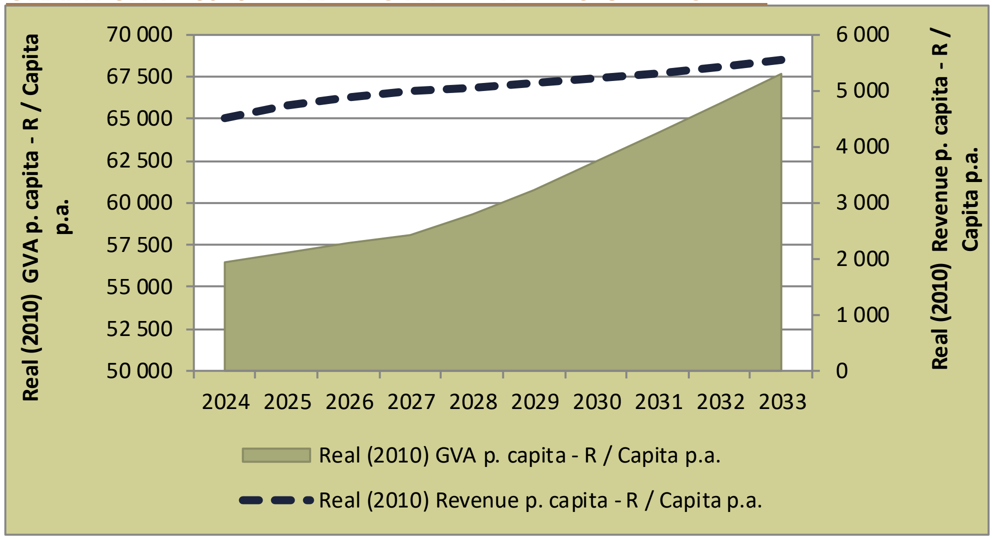
A comparison of the Average Household Bill for the Middle Income and Affordable Range of a selected number of municipalities in the Western Cape province (extracted from Budget Table: SA14), based on the 2023/24 tariffs, reveals that Bergrivier features at the lower of the range. Considering the level of service provided by Bergrivier, the current household bill is reasonable compared to other municipalities. The scope of the tariff increases is, however, limited by household's ability to pay for services.

Municipal Revenues

GRAPH 36: Base Case: Revenue and Expenditure



GRAPH 37: Projected Real GVA and Revenues per Capita

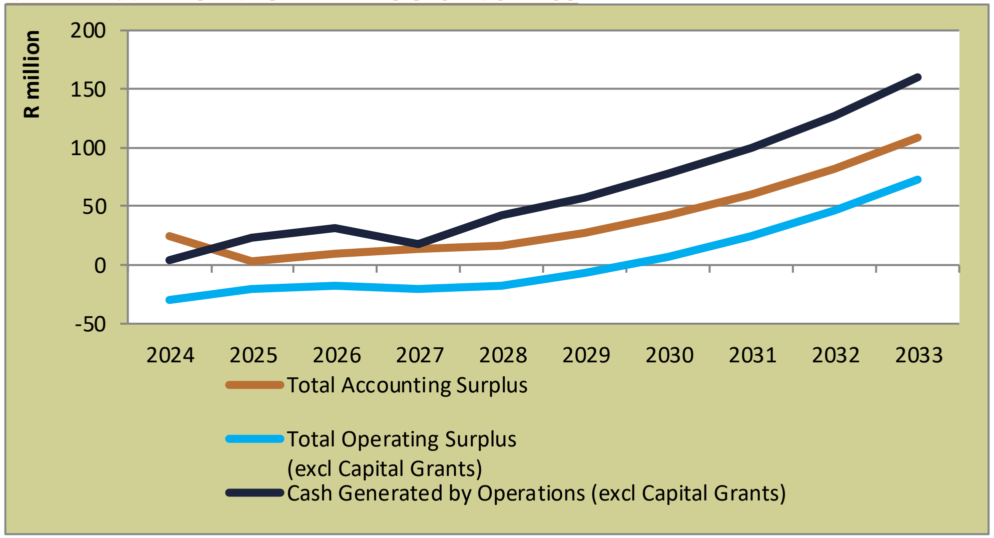


The Base Case estimates that, over the planning period, Future Nominal Revenue (including Capital Grants) will grow at an average rate of 8.6% p.a. The revenue growth includes: (i) tariff increases, (ii) increased sales and (iii) additional revenue sources. Future Nominal Expenditure is estimated to grow at a lower rate of 8.2% p.a. over the same period.

The Real GVA per Capita and Real Revenue per Capita are expected to consistently increase over the planning period. The Real Revenue per Capita is expected to increase steadily at an average rate 2.1% p.a. from R4 501 in 2024 to R5 554 p.a. in 2033, indicative of a municipality benefiting from its growing population. Similarly, Real GVA per Capita is expected to grow over the planning period. This is initially expected to display gradual growth during the MTREF period then pick up steam thereafter. Growth of the local economy (GVA growth) is significant to the municipality as it affects the ability of the municipality to generate revenue (MRRI). Growth in GVA will result in an increase in the municipality's revenue base, which will improve profitability and ultimately accelerate investment in capital expenditure.

The municipality's overall financial performance is one that is expected to trend upwards over the planning period. The only setback is a decline in cash generation in FY2027. The overall picture, however, remains positive. It must be emphasized that the forecast cash generation is contingent on maintaining the proposed collection rate of 95% throughout the planning period.

GRAPH 38: Base Case: Analysis of Surplus



1	Planning Process
2	Updated Perspectives (Demographic, Economic, Household Infrastructure)
3	Updated Historic Financial Assessment
4	Long-Term Financial Model Outcomes
5	Future Revenues
6	**Affordable Future Capital Investment**
7	Scenario Analysis
8	Ratio Analysis
9	Conclusions

AFFORDABLE FUTURE CAPITAL INVESTMENT

CAPEX AFFORDABILITY AND FUNDING

Capex needs were assessed using the Masterplans provided by the municipality as well the Capital Replacement Cost (CRC) assessed in the LTFP drafted in May 2022. It is assumed that projects that were meant to be undertaken (as per the dates on the Masterplans) before FY2024 progressed as planned and therefore are not included in this CAPEX needs assessment.

In determining the current cost of the capital projects in the Masterplans, these amounts were adjusted for inflation. The amounts calculated are solely for CAPEX, and do not include any associated fees. Five Masterplans were received for this calculation, namely Electricity, Roads, Waste, Water and Water Waste. The current cost of implementation of these Masterplans amounts to **R215.6 million**.

The inflation adjusted CRC amounts to **R892.9 million.** This is a more robust, less conservative CRC as it has not been decreased by extending the longevity of assets. This assumption has been changed due to the persisting low levels of repairs and maintenance.

Cumulatively these capital needs amount to **R1 108 million.**

TABLE 12: CAPEX DEMAND VS AFFORDABILITY

Total 10-year CAPEX **Demand:**	=	R 1 108 million
Total 10-year CAPEX **Affordability:**	=	R 930 million

Capex Demand exceeds Capex Affordability by R178 million under the Base Case scenario. There is a scenario that has been modelled which accelerates capital investment, which will be seen later in the report.

MTREF CAPITAL FUNDING MIX

Bergrivier's MTREF Budget FY2024/25 to FY2026/27 expects a capital budget amounting to R231 million, funded as follows:

TABLE 13: 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	**87**	24	28	35
Financing	**74**	24	26	24
Cash Reserves and Funds	**70**	28	26	16
Total	**231**	**76**	**80**	**75**

The MTREF funding mix was adjusted slightly, in order to arrive at the Base Case. Additionally, debt financing was adjusted upwards to preserve own cash reserves.

IPM recommends that the MTREF capital budget be adjusted as follows:

TABLE 14: BASE CASE FUNDING MIX (R'M)

R'm	Total	2024/25	2025/26	2026/27
Public & Developers Contributions	**0**	0	0	0
Capital Grants	**87**	24	28	35
Financing	**88**	30	30	28
Cash Reserves and Funds	**56**	22	22	12
Total	**231**	**76**	**80**	**75**

10-YEAR CAPITAL FUNDING MIX

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

TABLE 15: BASE CASE 10-YEAR CAPITAL FUNDING MIX

Source	Rm	%
Public & Developers' Contributions	0	0%
Capital Grants	350	37 %
Financing	314	34 %
Cash Reserves and Funds	266	29 %
Cash Shortfall	0	0%
Capital Expenditure	**930**	**100%**

Bergrivier's funding mix has improved over the review period. In FY2016, capital grants accounted for 62% of the funding for capital expenditure. This has decreased to a contribution of 43% in FY2023. The Base Case projects the reduced reliance on capital grants to continue over the planning period and this is especially important as grant funding in future is expected to decline in real terms due to the prevailing national fiscus constraints. Therefore, it is imperative that the municipality continues on its current course to reduce its reliance on grant funding as well as maintains a high collection rate and undertakes debt funding to preserve its own cash.

GRAPH 39: BASE CASE DISTRIBUTION OF FUTURE FUNDING

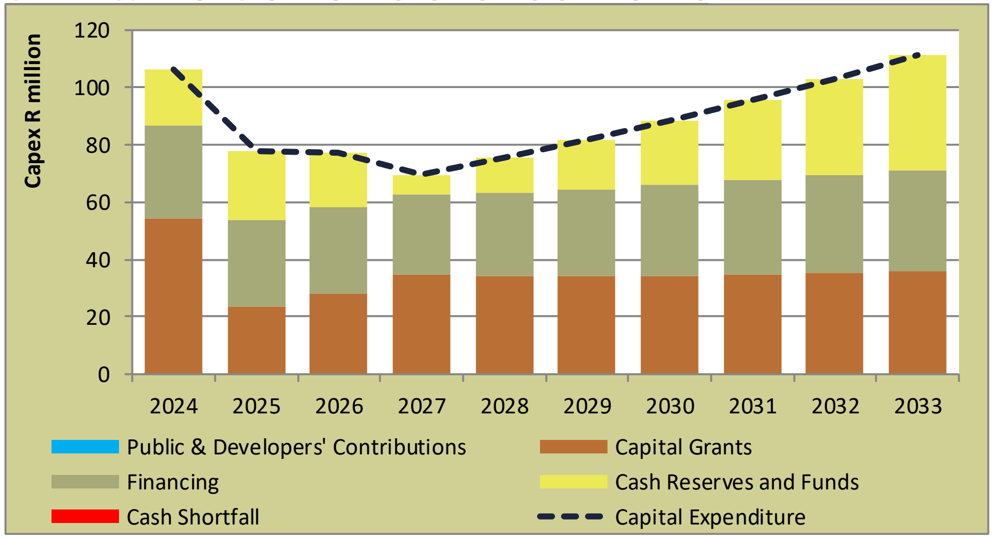


TABLE 16 & TABLE 17 below compare the distribution of capital funding over the planning period for both the MTREF Case and Base Case.

TABLE 16: MTREF CASE DISTRIBUTION OF FUTURE CAPITAL FUNDING (R'M)

R'm	Total	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public & Developers' Contributions	**0**	0	0	0	0	0	0	0	0	0	0
Capital Grants	**350**	54	24	28	35	34	34	34	35	35	36
Financing	**271**	32	24	26	24	25	26	27	28	29	30
Cash Reserves and Funds	**269**	19	28	25	16	20	24	28	32	36	40
Cash Shortfall	**0**	0	0	0	0	0	0	0	0	0	0
Capital Expenditure	**890**	**106**	**76**	**80**	**75**	**79**	**84**	**89**	**95**	**100**	**106**

TABLE 17: BASE CASE DISTRIBUTION OF FUTURE CAPITAL FUNDING (R'M)

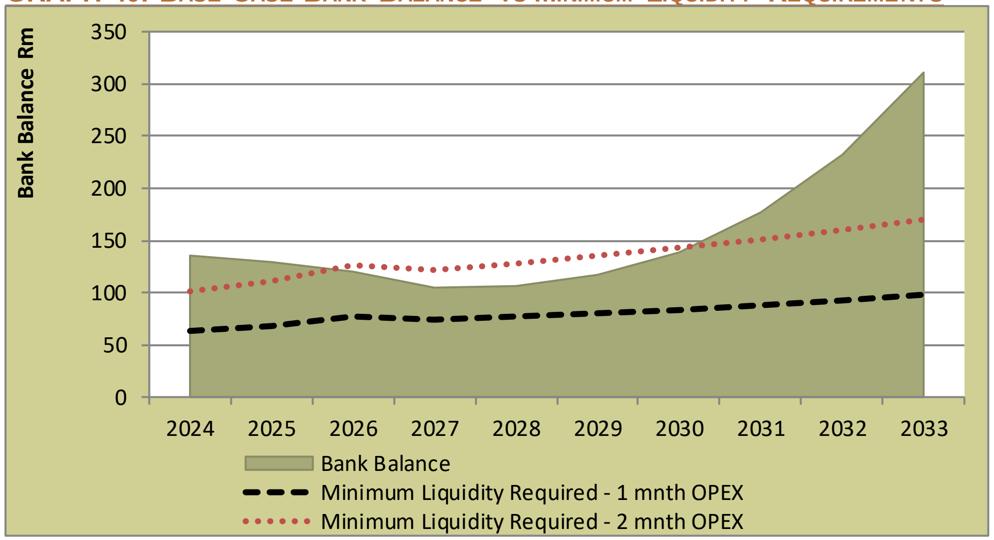
R'm	Total	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public & Developers' Contributions	**0**	0	0	0	0	0	0	0	0	0	0
Capital Grants	**350**	54	24	28	35	34	34	34	35	35	36
Financing	**314**	32	30	30	28	29	30	31	33	34	35
Cash Reserves and Funds	**266**	19	22	22	12	17	23	28	34	41	48
Cash Shortfall	**0**	0	0	0	0	0	0	0	0	0	0
Capital Expenditure	**930**	**106**	**76**	**80**	**75**	**81**	**87**	**94**	**102**	**110**	**119**

Liquidity and Capital Replacement Reserve

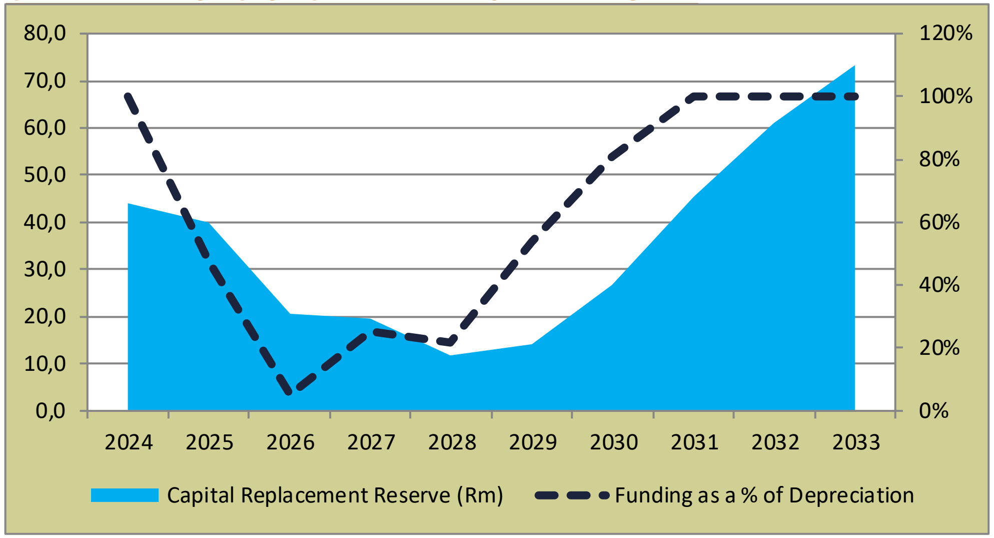
The minimum liquidity levels cater for unspent conditional grants, cash-backed reserves, short term provisions and 1-month's working capital (operating expenditure). The municipality's liquidity ratio remains healthy at 3.4:1 at the end of the planning period and the cash balance of R311 million covers the minimum liquidity requirements including 2-month's operational expenditure.

Due to the accelerated CAPEX programme, the municipality is encouraged to service a capital replacement reserve. This will allow the municipality to preserve funds for future asset replacement. Although depreciation is not a cash expense, it is a general rule of thumb to use the depreciation expense as a means to gauge what amount should be placed in the capital replacement reserve in a financial year.

GRAPH 40: Base Case Bank Balance vs Minimum Liquidity Requirements



GRAPH 41: Base Case Capital Replacement Reserve



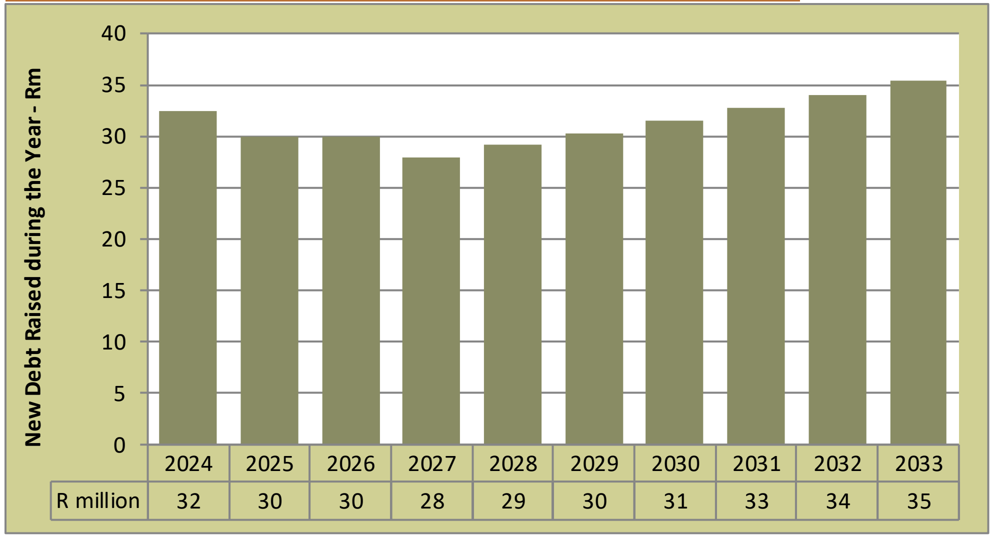
Gearing

Bergrivier LM has accessed debt funding consistently over the review period, with an acceleration evident in recent years. Under the Base Case assumptions, borrowing is forecast to grow annually by 4.0% beyond the MTREF period.

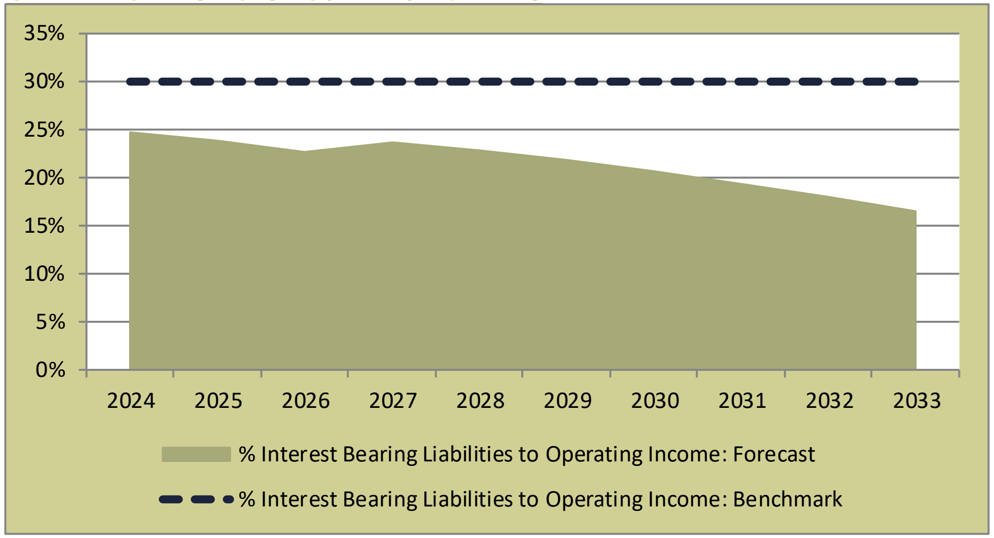
Under the Base Case assumptions, debt funding is forecast to be undertaken throughout the planning period. The gearing ratio is forecast to reach a planning period high of 24.7% in FY2024 then gradually reduce over the period to 16.5% in FY2033. The ratio will remain below the IPM recommended ratio of 30% throughout the planning period.

The debt service to total expense ratio is expected to peak at 5.9% in FY2027, FY2028 and FY2030 periods over the planning period. Towards the end of the planning period, this ratio is expected to plateau at 5.7% for three consecutive years. The ratio is expected to remain below the NT norm of 8%.

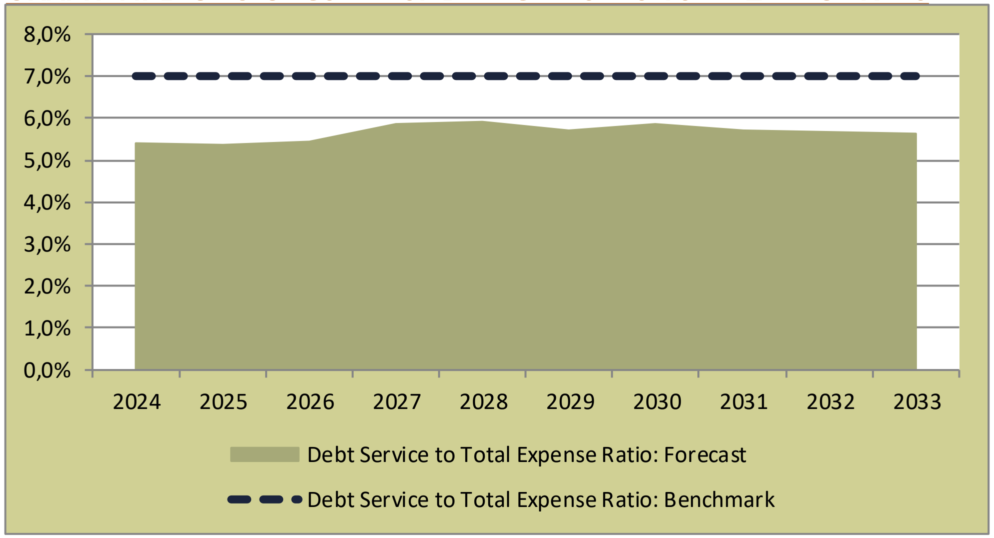
GRAPH 42: Base Case Estimate of Future External Financing



GRAPH 43: Base Case Scenario: Gearing



GRAPH 44: Base Case Scenario: Debt Service to Total Expense Ratio



SCENARIOS ANALYSIS

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

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

1.1. A negative and positive scenario indicating the impact of negative and positive movements of 2.0% from the Base Case. All other input variables are assumed to be consistent with the Base Case

2. To indicate the financial impact of an improvement in profitability on the long-term financial sustainability:

2.1. A negative and positive scenario indicating the impact of negative and positive movements in operating expenditure of 2.0% from the Base Case. All other input variables are assumed to be consistent with the Base Case.

3. To indicate the impact of an acceleration of capital investment on long-term financial sustainability of water restrictions:

3.1. A scenario indicating the impact of accelerating the capital investment programme. Several changes have been made to the capital investment programme during the MTREF period and the annual growth rate in CAPEX. All other input variables are assumed to be consistent with the Base Case.

4. To indicate the impact extending the loan tenor:

4.1. A scenario indicating the impact of increasing the average loan tenor to 15 years. All other input variables are assumed to be consistent with the Base Case.

5. To indicate the impact of an undertaking of a capital project in FY2027 on long-term financial sustainability:

5.1. A scenario indicating the impact of accelerating capital investment, particularly in FY2027. This scenario follows on from Scenario 4, with the average loan tenor on new debt in this scenario maintained at 15 years. All other input variables are assumed to be consistent with the Base Case.

Scenario 1: Sensitivity Analysis on the Collection Rate

Decrease the collection rate by 2 percentage points.

The South African economy remains under pressure after its post-Covid resurgence. High inflation rates, rising fuel costs, crippling power cuts, increasing unemployment rates and high interest rates are some of the issues observed in the country. These issues also place immense pressure on household income due to the rising cost of living. When the cost of living increases proportionally higher than income, households will have less disposable income and may find themselves defaulting on payments. This, together with high tariff increases, can threaten the municipality's ability to collect on its billed revenue. This scenario explores the collection ratio remaining at 93% p.a (marginally lower than the budgeted average collection rate of 93.8% over the MTREF period) over the planning period as collecting on billed revenue may prove to be difficult under the current economic conditions.

The outcomes are tabulated in Table 18. Although certain financial metrics do deteriorate, the municipality would still find itself in a financially sustainable position. The liquidity ratio is expected to remain healthy at 2:2 at the end of the planning period. Cash generated from operations declined by R141 million over the duration of the planning period. Furthermore, the minimum liquidity requirements will not be met between FY2026 and FY2032. The most notable deterioration is the depletion of a capital replacement reserve. Under this scenario, there would be no capacity to service a CRR.

Increase the collection rate by 2 percentage points.

In this scenario, the model was adjusted by assuming the collection would be maintained at 97% for the duration of the planning period. This increases the Base Case recommendations by 2 percentage points and aims to illustrate the positive impact of an increase in the collection rate will have on the long-term financial sustainability of the municipality.

The increase in the collection rate substantially increases cash generation which exhibits positive outcomes in key performance metrics. There is a substantial increase, amounting to R141 million, in the cash and cash equivalents balance at the end of the planning period. This additional cash can be utilised to accelerate capital investment. Moreover, this cash generation would allow the municipality to build up a CRR with a balance of R145 million at the end of the planning period, unlocking further potential acceleration of capital investment. The improved cash balance would drive the liquidity ratio up to 4.6:1 as at FY2033.

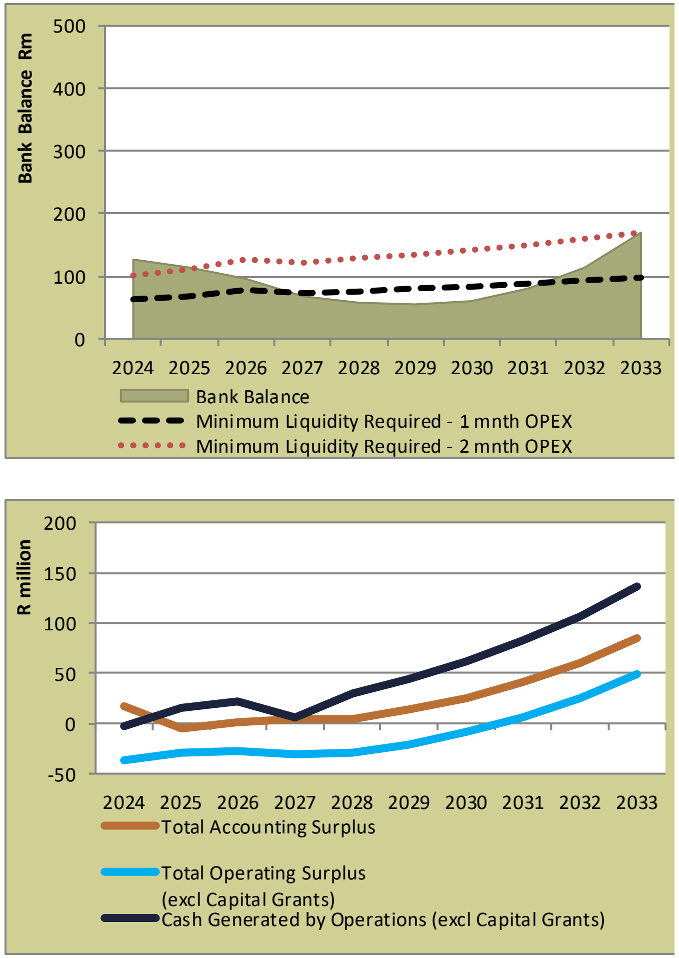
In essence, the outcomes demonstrate the importance of maintaining a high collection. Although the budgeted collection rate may not be detrimental, it does preclude the municipality from building a capital replacement reserve which would be pivotal to bridging the gap between capex demand and capex affordability.

Table 18: Outcomes of the Collection Rate Sensitivity Analysis

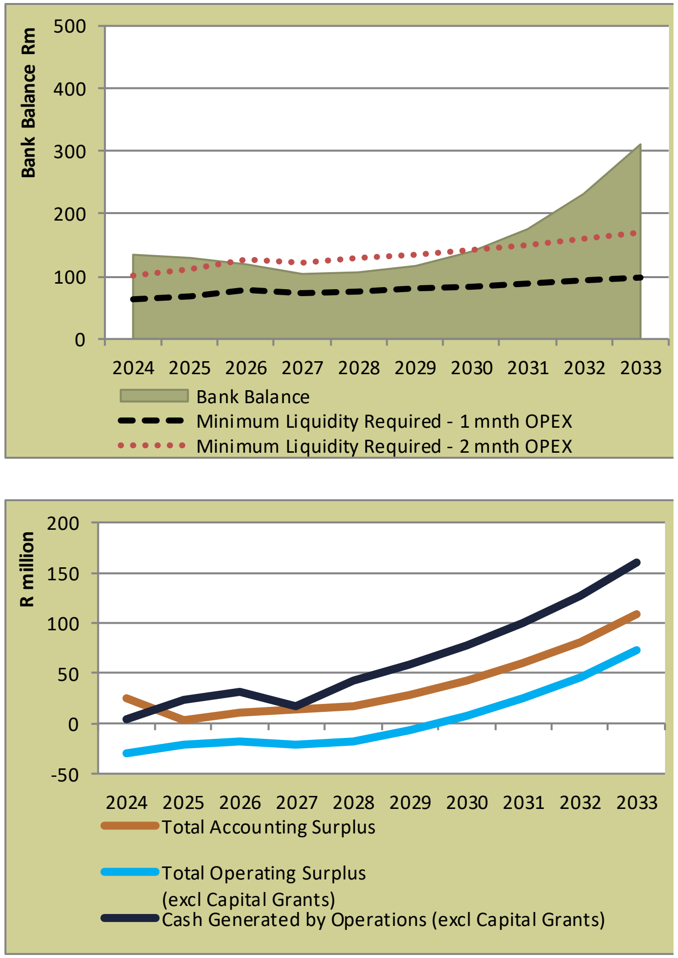
Outcome	Collection Rate -2%	Base Case: 95%	Collection Rate +2%
Average annual % increase in Revenue	8.6%	8.6%	8.7%
Average annual % increase in Expenditure	8.3%	8.2%	8.0%
Accounting Surplus accumulated during Planning. Period (Rm)	R 248	R 389	R 529
Operating Surplus accumulated during Planning. Period (Rm)	-R 103	R 38	R 179
Cash generated by Operations during Planning. Period (Rm)	**R 500**	**R 641**	**R 782**
Average annual increase in Gross Consumer Debtors	13.7%	10.7%	6.6%
Capital investment programme during Planning. Period (Rm)	R 930	R 930	R 930
External Loan Financing during Planning Period (Rm)	R 314	R 314	R 314
Cash and Cash Equivalents at the end of the Planning Period (Rm)	**R 170**	**R 311**	**R 452**
No of Months Cash Cover at the end of the Planning Period (Rm)	2.4	4.3	6.3
Liquidity Ratio at the end of the Planning Period	**2.2 : 1**	**3.4 : 1**	**4.6 : 1**
Gearing at the end of the Planning Period	16.6%	16.5%	16.3%
Debt Service to Total Expense Ratio at the end of the Planning Period	5.5%	5.6%	5.7%

Scenario 1: Sensitivity Analysis on the Collection Rate

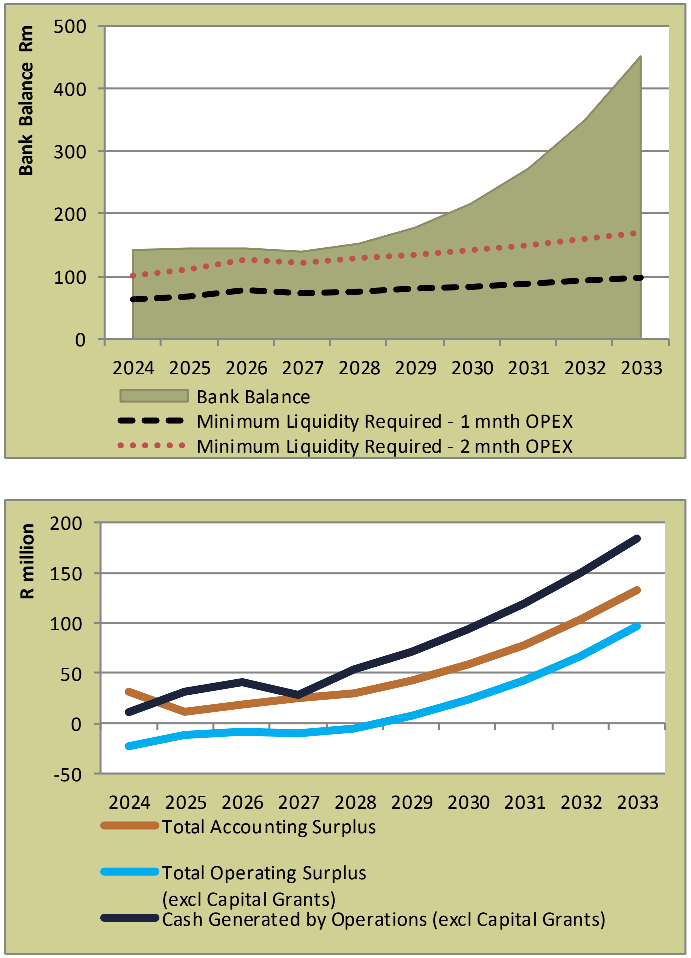
Decrease Collection Rate by 2%



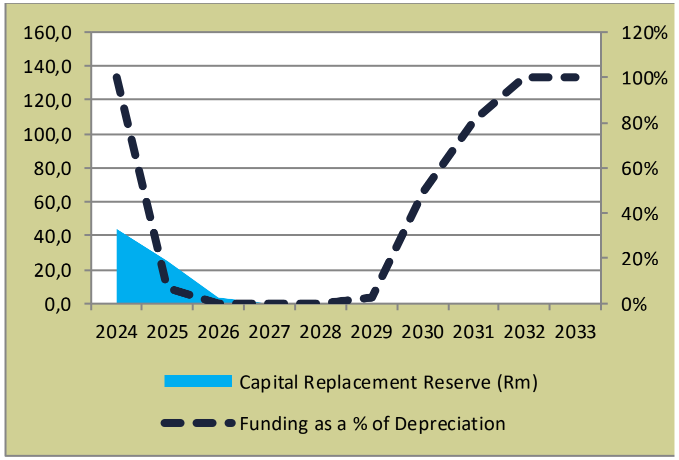
Base Case



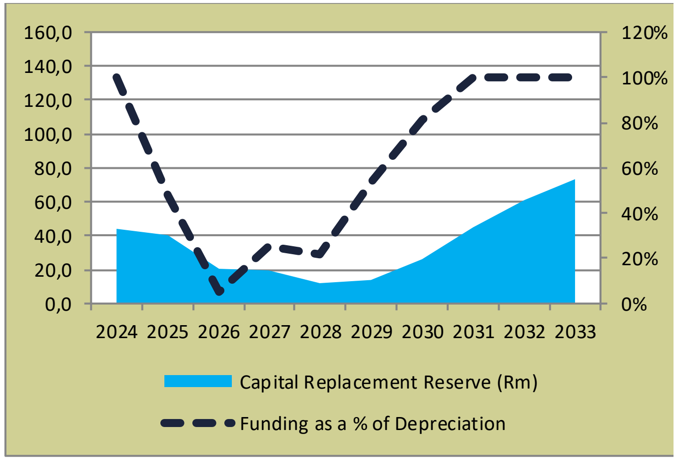
Increase Collection Rate by 2%



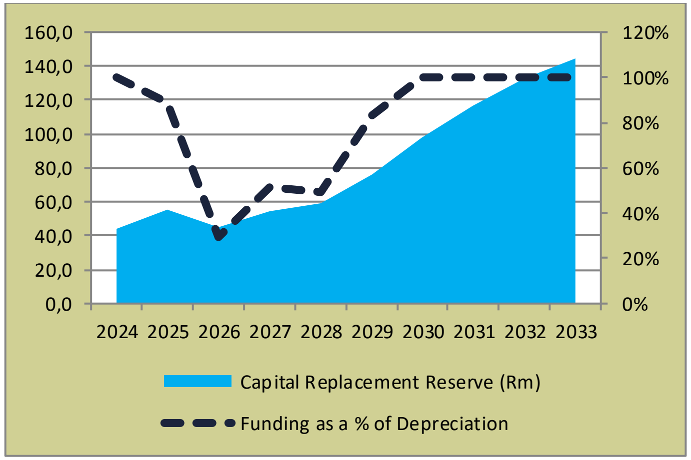
Decrease Collection Rate by 2%



Base Case



Increase Collection Rate by 2%



SCENARIO 2: OPEX SENSITIVITY ANALYSIS

Operating Expenditure 2% Higher than Base Case

From FY2021 to FY2023, there has been a greater disparity observed between the growth rates for income and for operating expenditure. During this period income increased at an average rate of 6.5% p.a. and expenses increased at a higher average rate of 7.6% p.a. This has resulted in a decline in financial performance with accounting and operating surpluses decreasing. This, together with the persistent inflation rate, increases the probability of surges in operating expenditure. To assess the impact that such adverse conditions will have on the finances of the municipality, the model was adjusted by assuming the municipality will spend an additional 2% on operations annually over the planning period.

The increase in operating expenditure results in a 0.1% increase in average expenditure growth, while average revenue growth remains unchanged. This can be seen impacting the municipality's financial performance. The operating deficits are expected to accumulate to R84 million over the review period, a deterioration of R122 million compared to the Base Case. The effects can also be seen in the municipality's liquidity position. The bank balance at the end of the planning period is expected to decline by R121 million. This notwithstanding, the liquidity ratio is forecast to remain healthy at 2.4:1.

Operating Expenditure 2% Lower than Base Case

The opposite was also assessed with a decrease in operating expenditure of 2% annually over the planning period.

Under this scenario, the average annual growth in revenue increases to 8.7% whilst the average annual growth in expenditure decreases to 8.1%. Again, the results can be seen in Bergrivier's forecast financial performance. The municipality would accumulate an operating surplus of R132 million over the planning period and the municipality can expect to post an operating surplus as early as FY2029. Additionally the cost savings would see the municipality with more disposable cash in its hands.

The bank balance at the end of the planning period would exceed that of the Base Case by R93 million. Bergrivier's liquidity ratio would increase to 4.2:1 and its CRR balance at the end of FY2033 would amount to R131 million.

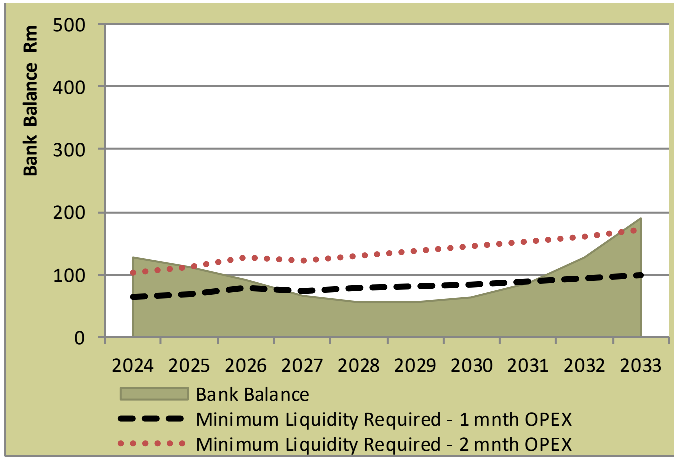
These improvements underpin the positive impact of cost-saving measures on the organization's overall financial health and viability, positioning it favourably for future growth and resilience in a dynamic economic landscape.

TABLE 19: SCENARIO 2: OPEX SENSITIVITY ANALYSIS

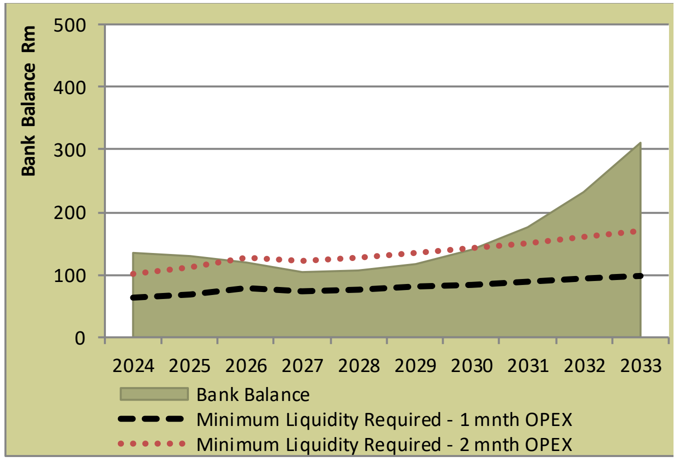
Outcome	Opex +2%	Base Case	Opex -2%
Average annual % increase in Revenue	**8.6%**	**8.6%**	**8.7%**
Average annual % increase in Expenditure	**8.3%**	**8.2%**	**8.1%**
Accounting Surplus accumulated during Planning. Period (Rm)	R 266	R 389	R 482
Operating Surplus accumulated during Planning. Period (Rm)	**-R 84**	**R 38**	**R 132**
Cash generated by Operations during Planning. Period (Rm)	R 520	R 641	R 734
Average annual increase in Gross Consumer Debtors	10.7%	10.7%	10.7%
Capital investment programme during Planning. Period (Rm)	R 930	R 930	R 930
External Loan Financing during Planning Period (Rm)	R 314	R 314	R 314
Cash and Cash Equivalents at the end of the Planning Period (Rm)	**R 190**	**R 311**	**R 404**
No of Months Cash Cover at the end of the Planning Period (Rm)	2.6	4.3	5.7
Liquidity Ratio at the end of the Planning Period	**2.4 : 1**	**3.4 : 1**	**4.2 : 1**
Gearing at the end of the Planning Period	16.6%	16.5%	16.4%
Debt Service to Total Expense Ratio at the end of the Planning Period	5.6%	5.6%	5.7%

Scenario 2: Opex Sensitivity

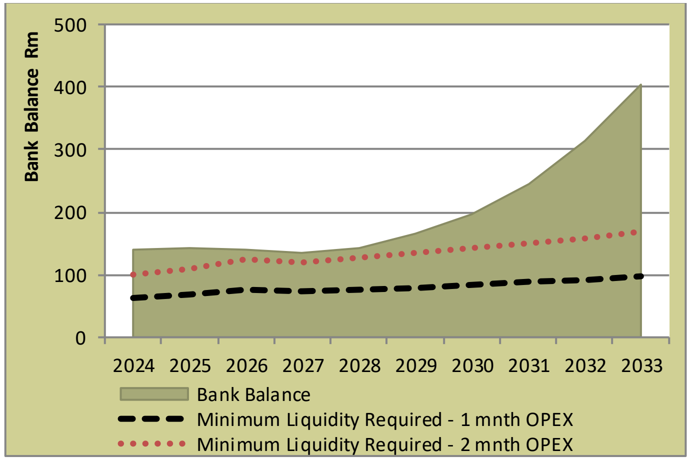
Opex +2%

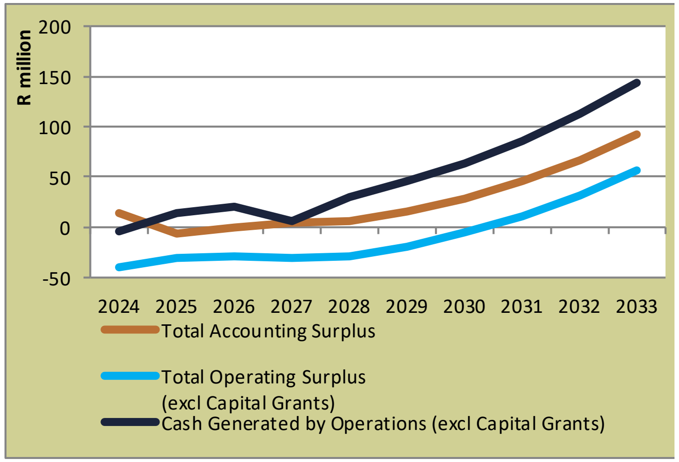


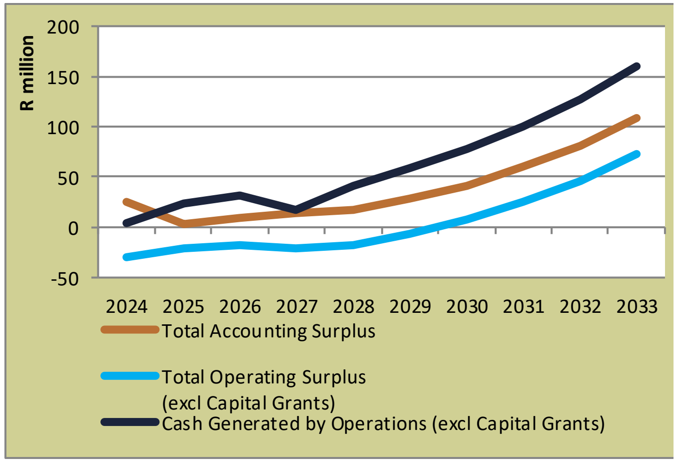
Base Case

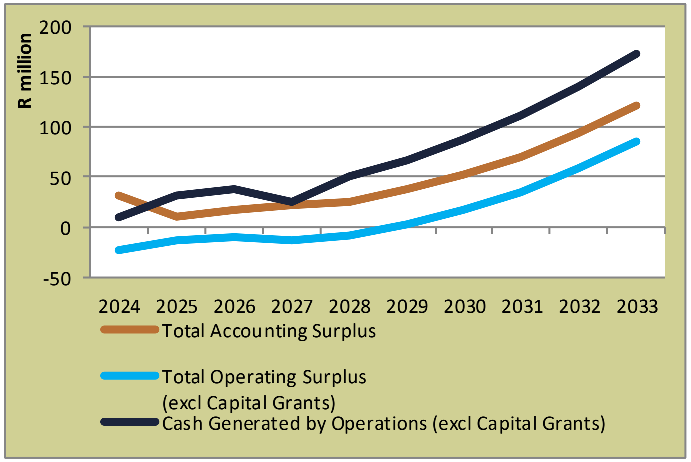


Opex -2%

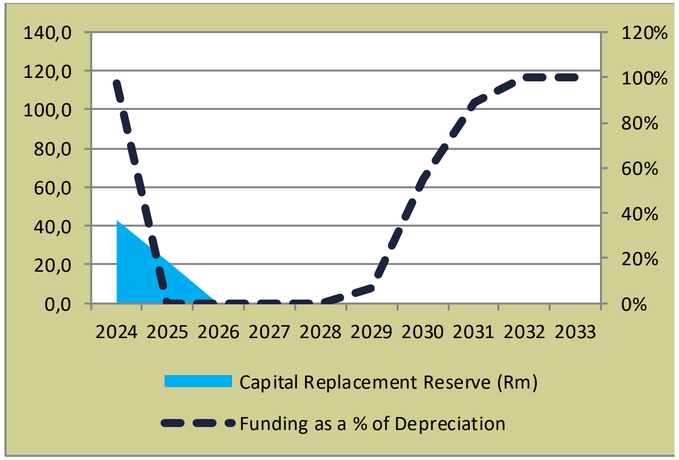




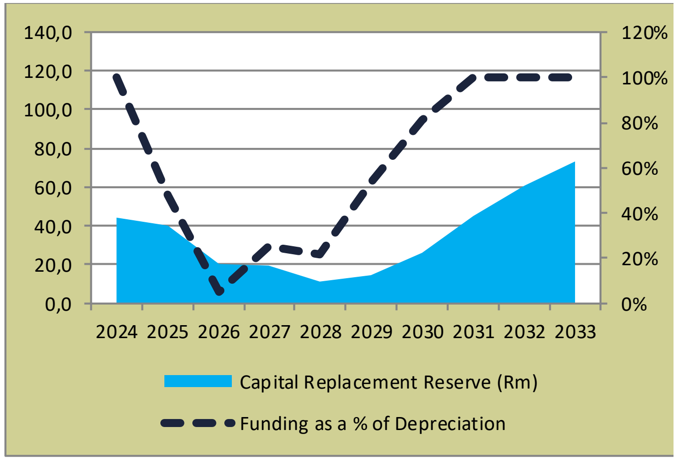




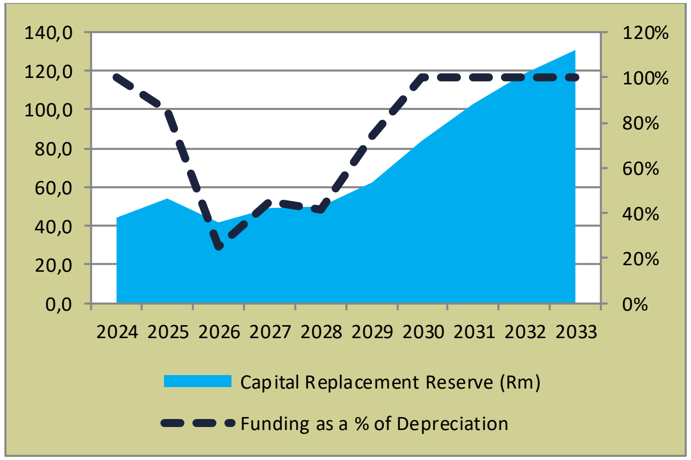
OPEX +2%



BASE CASE



OPEX -2%



Scenario 3: Accelerated Capex

The capital investment programme under the Base Case fell R178 million short of Bergrivier's capex demand. This scenario seeks to accelerate capital expenditure in order to decrease the shortfall. While the aim is to accelerate capital investment, one must remain cognisant of not weakening the municipality's liquidity levels. Several adjustments were made to the Base Case capital investment programme to achieve this.

The adjustments were made to capital investment programme during the MTREF period were as follows:

- FY2025: R90.0 million
- FY2026: R85.0 million
- FY2027: R75.0 million

Additionally, capital expenditure beyond the MTREF period was modelled to increase at 12% p.a. The Base Case borrowing programme was left unchanged.

This results in a capital outlay of R1 038 million over the planning period. This decreases the demand-affordability disparity to R70 million. Financial sustainably is not endangered with this accelerated investment as the liquidity ratio remains healthy at 2.2:1 and the minimum liquidity requirements of including 1-month's operating expenditure, are met throughout the planning period. The annual average growth in expenditure increases marginally to 8.3% and this is due to corresponding increase in repairs and maintenance expenditure.

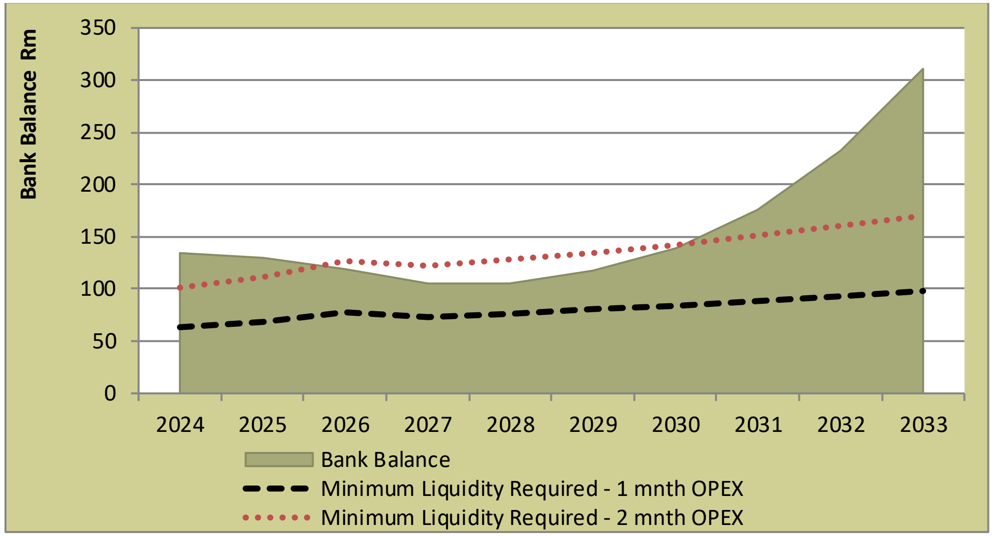
This highlights that the capital affordability envelope can be pushed further to try to meet capital demand, whilst remaining financially sustainable.

Table 20: Scenario 3: Accelerated Capex

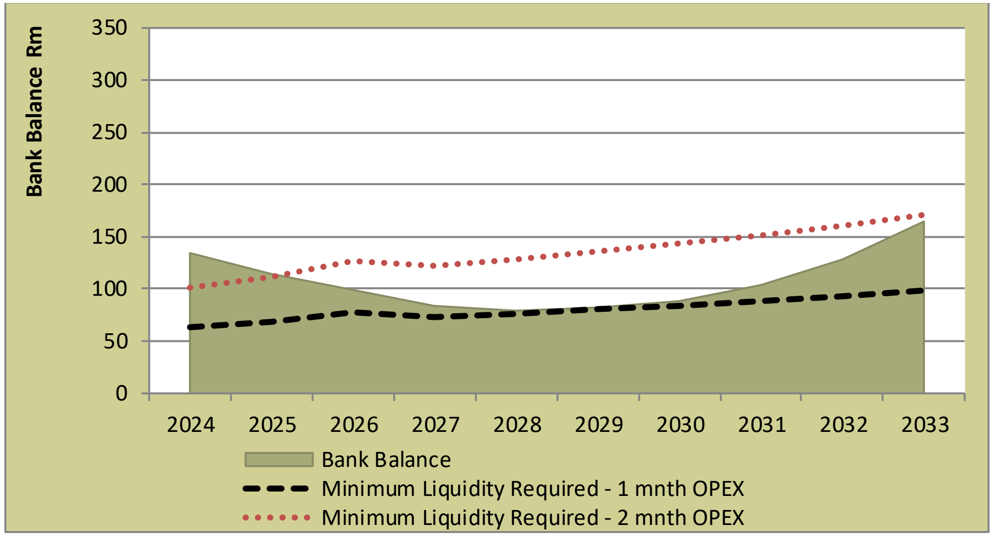
Outcome	Base Case	Accelerated Capex
Average annual % increase in Revenue	8.6%	8.6%
Average annual % increase in Expenditure	**8.2%**	**8.3%**
Accounting Surplus accumulated during Planning. Period (Rm)	R 389	R 335
Operating Surplus accumulated during Planning. Period (Rm)	R 38	-R 16
Cash generated by Operations during Planning. Period (Rm)	R 641	R 603
Average annual increase in Gross Consumer Debtors	10.7%	10.7%
Capital investment programme during Planning. Period (Rm)	**R 930**	**R 1,038**
External Loan Financing during Planning Period (Rm)	R 314	R 314
Cash and Cash Equivalents at the end of the Planning Period (Rm)	**R 311**	**R 165**
No of Months Cash Cover at the end of the Planning Period (Rm)	4.3	2.3
Liquidity Ratio at the end of the Planning Period	**3.4 : 1**	**2.2 : 1**
Gearing at the end of the Planning Period	16.5%	16.6%
Debt Service to Total Expense Ratio at the end of the Planning Period	5.6%	5.6%

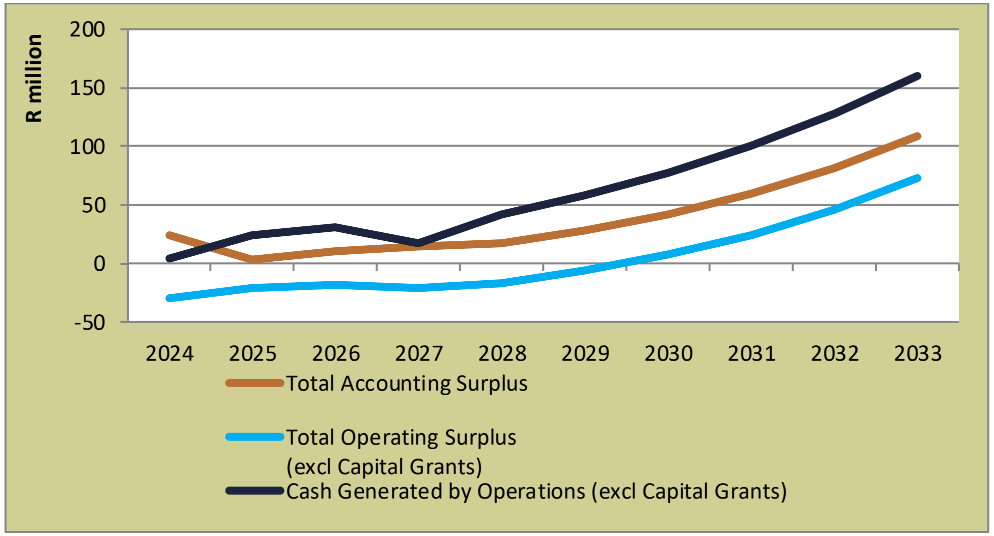
Scenario 3: Accelerated Capex

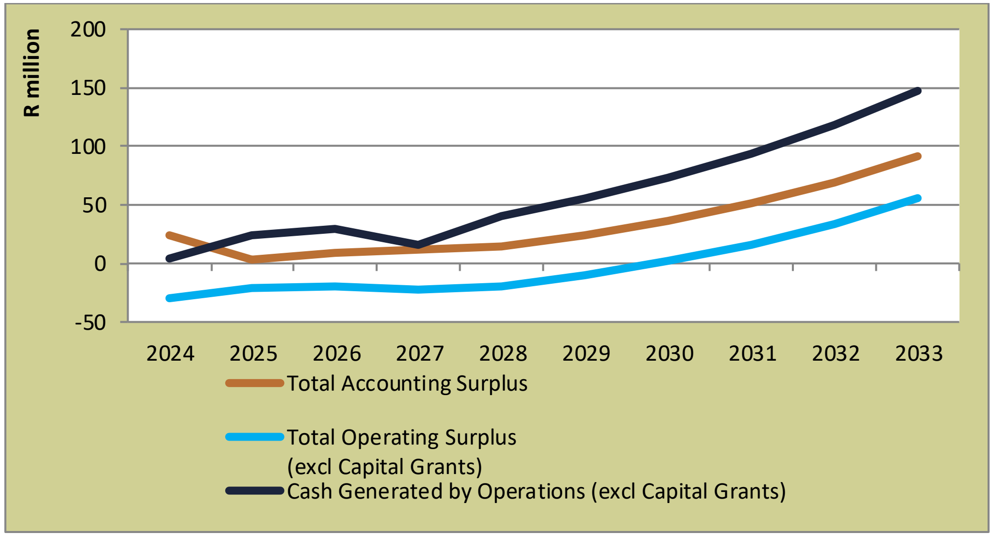
Base Case Scenario



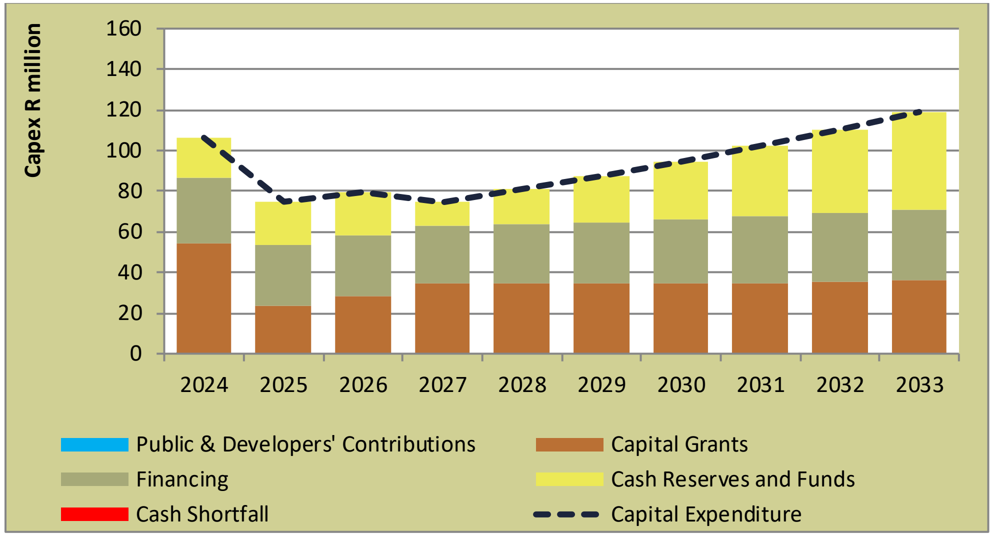
Accelerated Capex



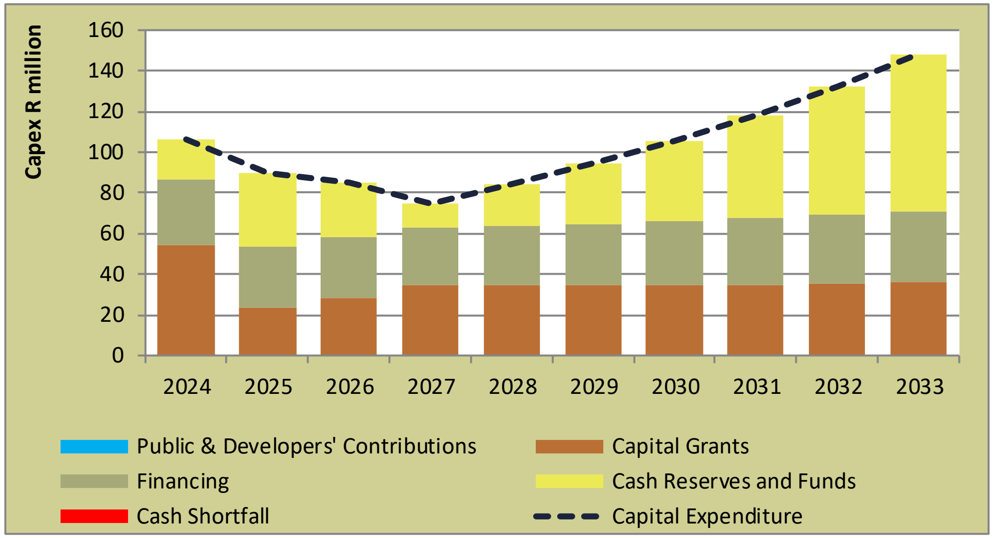




Base Case Scenario



Accelerated Capex



SCENARIO 4: EXTENDED LOAN TENOR

Bergrivier's borrowing has accelerated in recent years, leading to less reliance on capital grants for capital investment. Additionally, the municipality has budgeted to undertake borrowings throughout the MTREF period, according to the Tabled Budget. The Base Case reflects a diverse funding mix, consistent with what has been budgeted for, with capital grants (37%) remaining the main source of funds for capital investment, supplemented by borrowings (34%) and own cash reserves (29%). The Base Case assumes an average loan tenor of 10 years. This scenario analyses the impact of extending the average loan tenor on new debt to 15 years. This has the impact of reducing annual debt service charges through extending the period of time over which the debt must be repaid. The impact of this adjustment is reflected in TABLE 20.

The extension of the loan tenor is most impactful on Bergrivier's the liquidity position. There are movements observed in financial performance and cash generation of the municipality, but these are marginal. With the reduction of annual debt service charges, it is forecast that this will result in an additional R64 million in available cash at the end of the planning period. Owing to decreased monthly expenses and the higher bank balance, sufficient cash will be held to meet the minimum liquidity requirement of 2-month's operating expenditure by FY2029. This is a key indicator of long-term sustainability. This is forecast to translate into an even-healthier liquidity ratio of 4.4:1 at the end of the planning period.

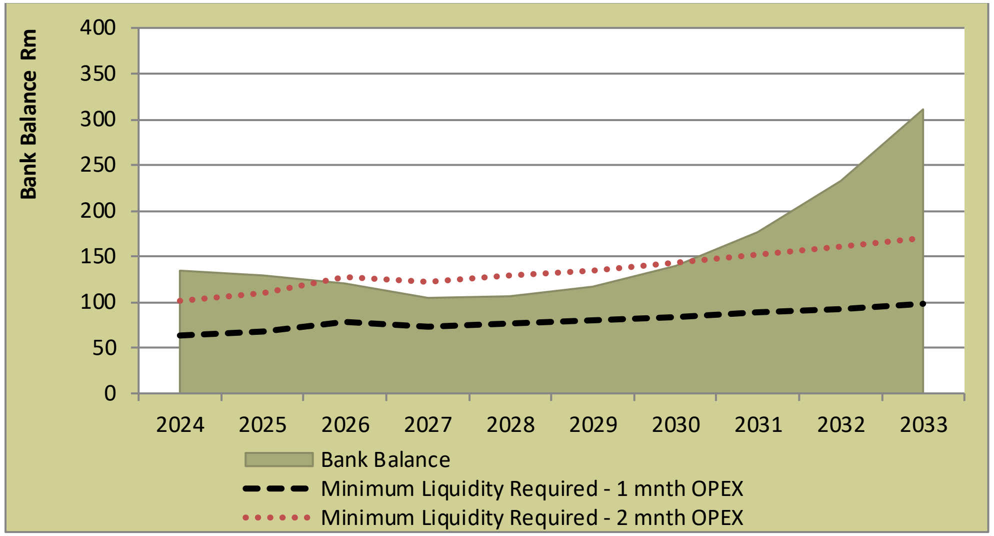
The impact of extending the average loan tenor on the debt indicators is explained below. Through extending the period of time over which the debt must be repaid, a higher degree of debt will remain on the municipality's books for a longer period. This is reflected in the increase in the gearing ratio to 23.0% at the end of the planning period. Regardless of the increase, Bergrivier's debt portfolio remains affordable. The reduction of annual debt service charges is reflected in the reduced planning period end debt service to total expense ratio of 4.6%. Based on the scenario outcomes, it is our view that an extension of the average loan tenor would be beneficial to the municipality and as such, is something for Bergrivier to consider.

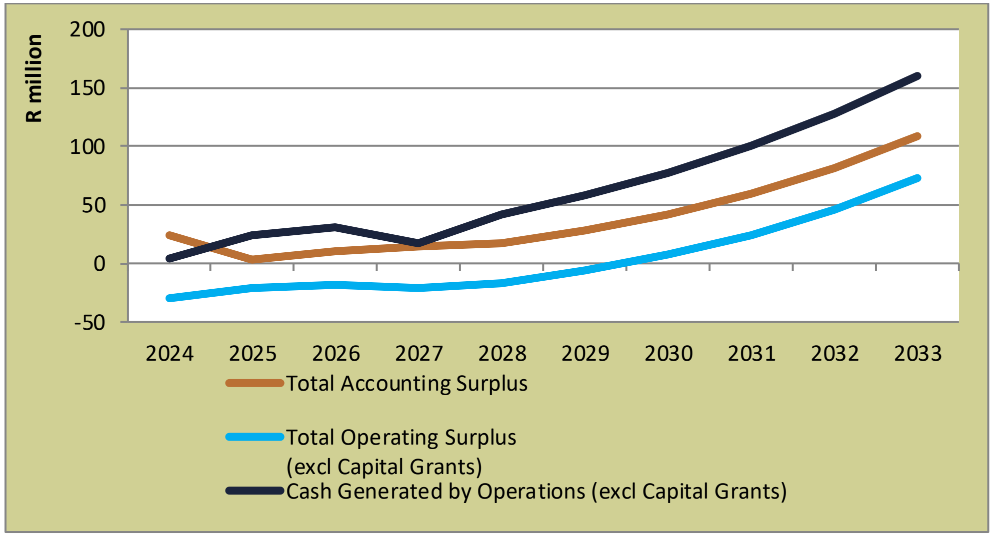
TABLE 21: SCENARIO 4: EXTENDED LOAN TENOR

Outcome	Base Case	Loan Tenor: 15 years
Average annual % increase in Revenue	8.6%	8.7%
Average annual % increase in Expenditure	8.2%	8.2%
Accounting Surplus accumulated during Planning. Period (Rm)	R 389	R 381
Operating Surplus accumulated during Planning. Period (Rm)	R 38	R 31
Cash generated by Operations during Planning. Period (Rm)	**R 641**	**R 634**
Average annual increase in Gross Consumer Debtors	10.7%	10.7%
Capital investment programme during Planning. Period (Rm)	R 930	R 930
External Loan Financing during Planning Period (Rm)	R 314	R 314
Cash and Cash Equivalents at the end of the Planning Period (Rm)	**R 311**	**R 375**
No of Months Cash Cover at the end of the Planning Period (Rm)	4.3	5.2
Liquidity Ratio at the end of the Planning Period	**3.4 : 1**	**4.4 : 1**
Gearing at the end of the Planning Period	16.5%	23.0%
Debt Service to Total Expense Ratio at the end of the Planning Period	5.6%	4.6%

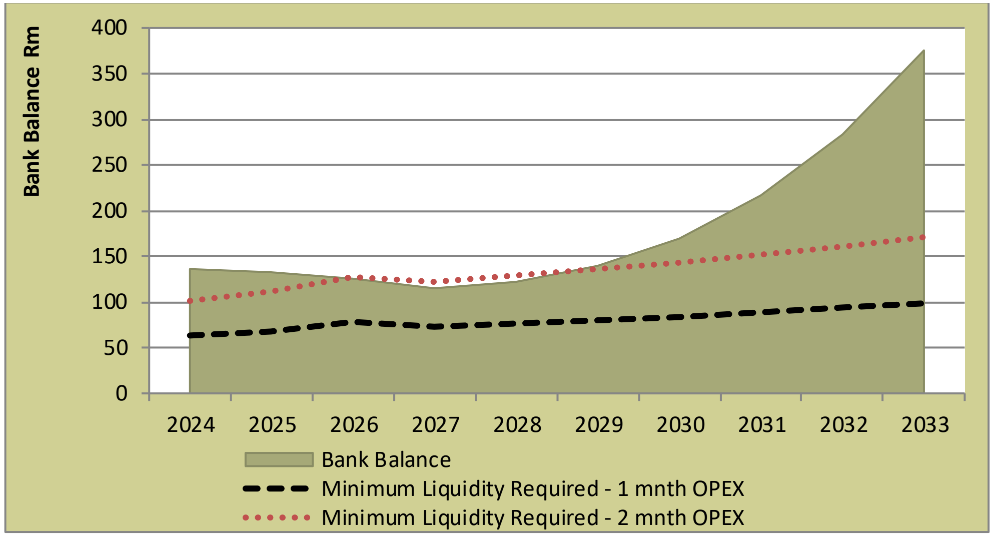
Scenario 4: Extended Loan Tenor

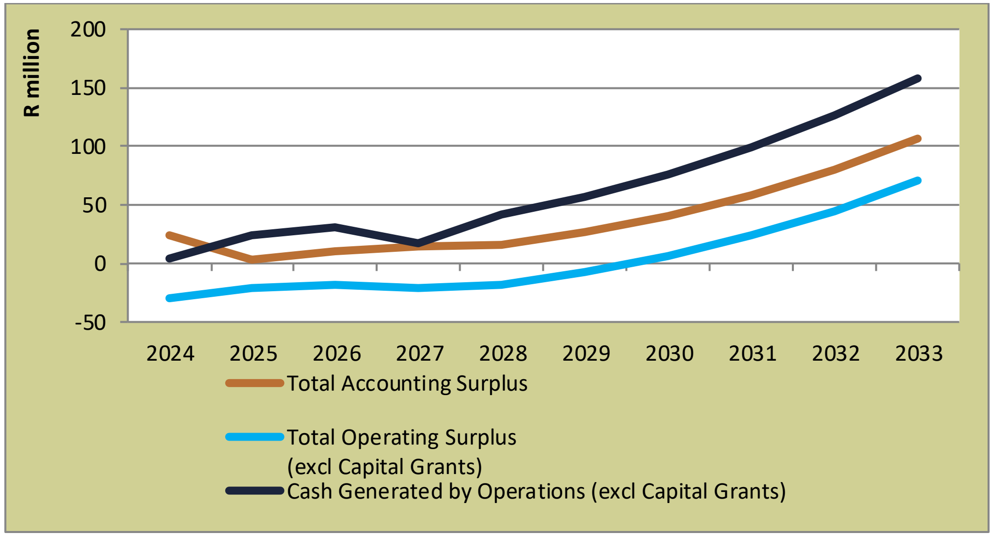
Base Case Scenario



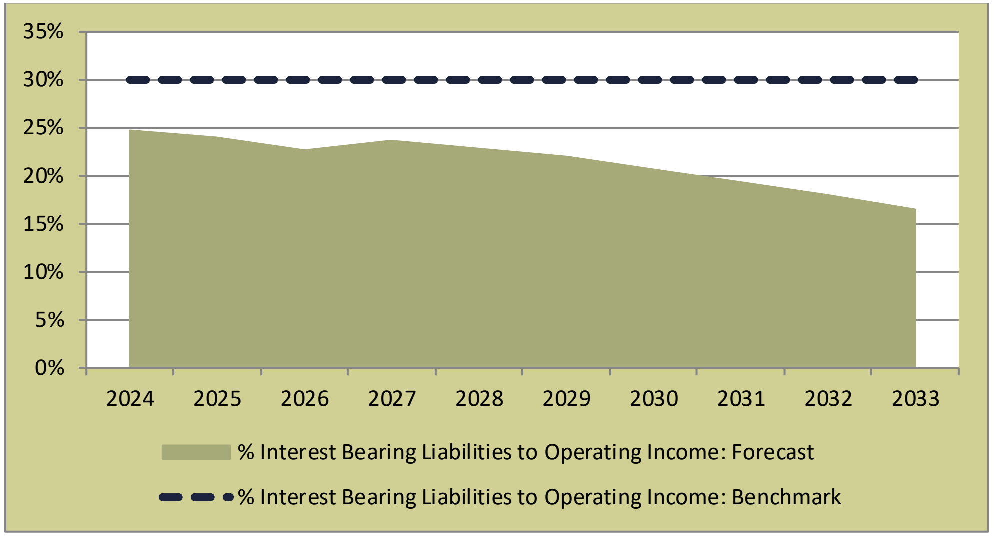


Extended Loan Tenor

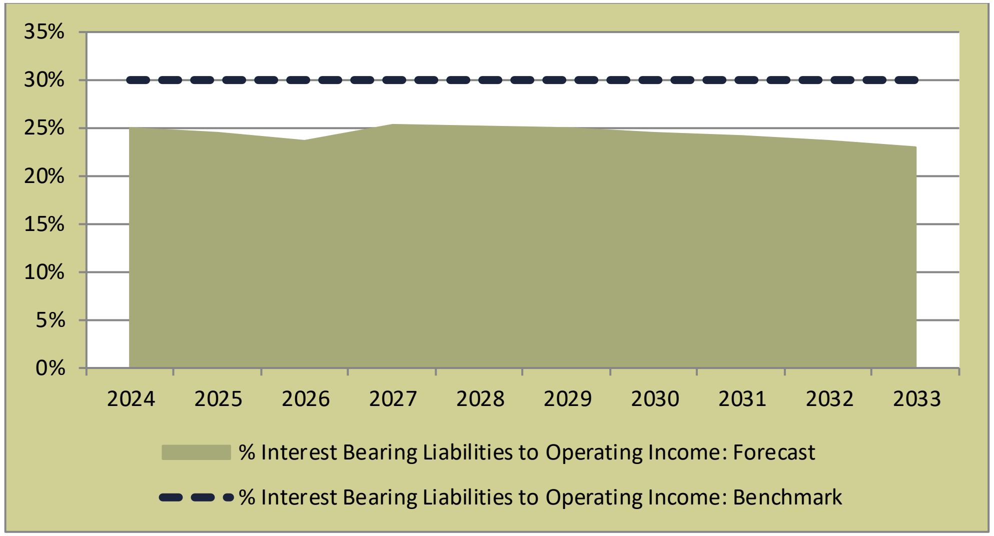


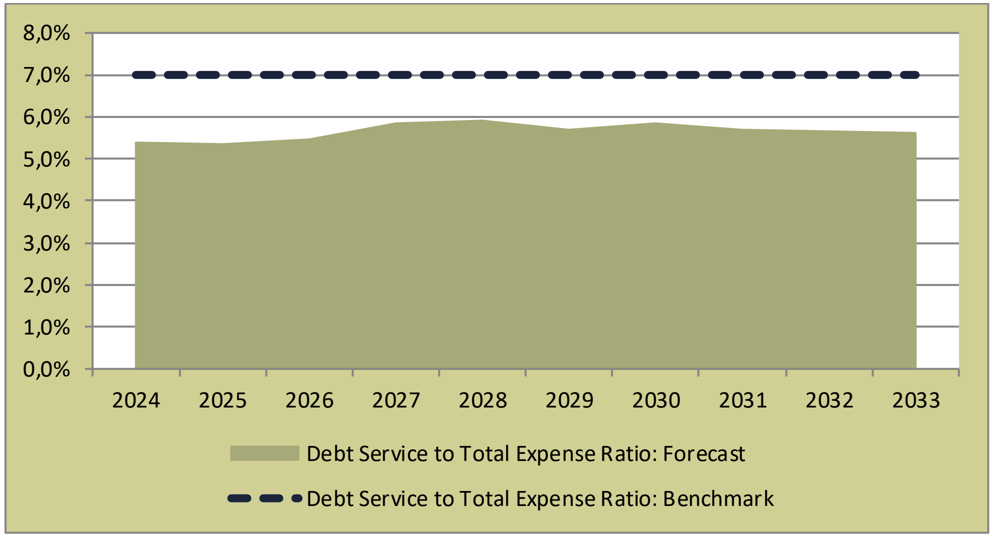


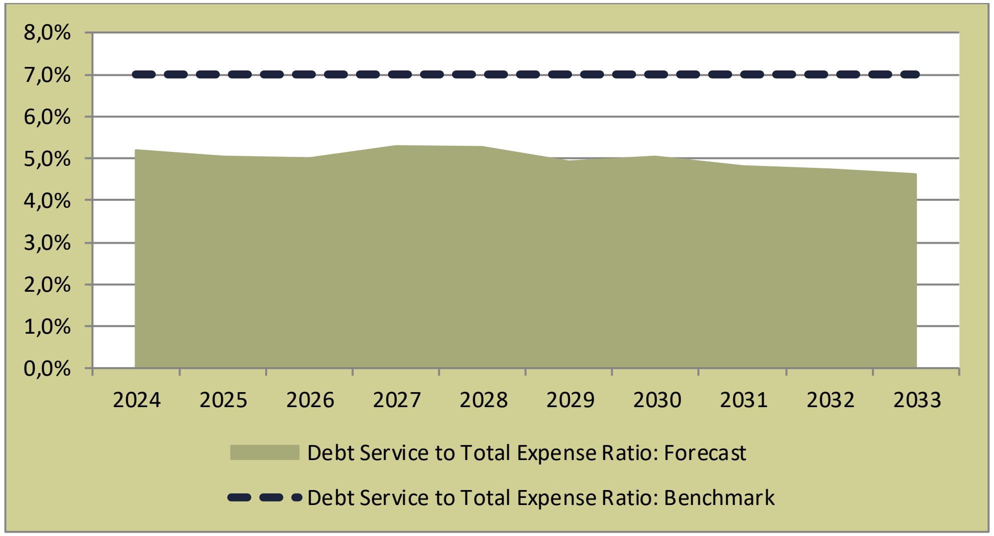
Base Case Scenario



Extended Loan Tenor







Scenario 5: Accelerated Capex in FY2027

The Base Case includes an accelerated capital investment programme as compared to the Adjustment Budget. This was made possible by accelerating the borrowing programme. This scenario builds on Scenario 4 in the sense that it maintains the extended average loan tenor of 15 years. An additional capital investment of R40 million has been modelled for FY2027, solely funded with the municipality's own cash reserves in order to assess whether it would be financially viable and sustainable. Additionally, it remained imperative to maintain the municipality's strong liquidity in the final outcomes.

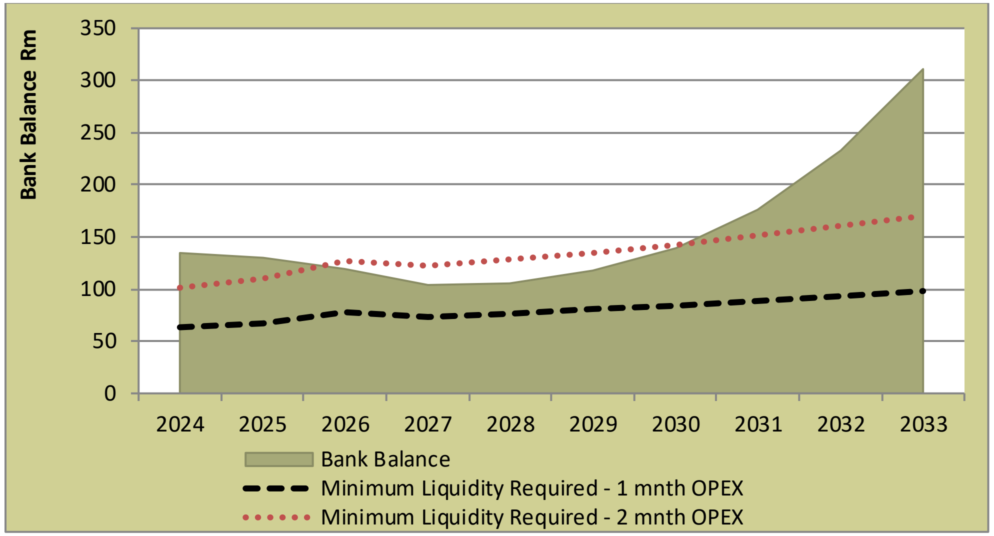
Although there are declines in financial performance, Bergrivier still finds itself in a financially sustainable position. Operating surpluses and cash generated from operations decline by R47 million and R34 million respectively. On a positive note, capital investment increases by R40 million earmarked for a project without devastating the municipality's liquidity. The planning period bank balance is only R2 million lower than that of the Base Case at R309 million. It must be highlighted that if the average loan tenor is kept at 10 years, the planning period end bank balance would be R66 million lower than that of the Base Case and Bergrivier would fail to meet minimum liquidity requirements from FY2027 to F2029. Another upside is that the liquidity ratio is expected to remain healthy at 3.8:1. The debt indicators are forecast to increase but will remain below their respective limits throughout the planning period.

This scenario aims to emphasize the extent to which capital investment can be increased in FY2027, with the utilisation of own cash reserves. The results indicate that an additional R40 million from own cash reserves would be affordable. The municipality can access other avenues of funding like capital grants or developer contributions if the project is in excess of the R40 million. In conclusion, the outcomes of this scenario reflect a sustainable outcome characterised by a healthy, sustainable liquidity position.

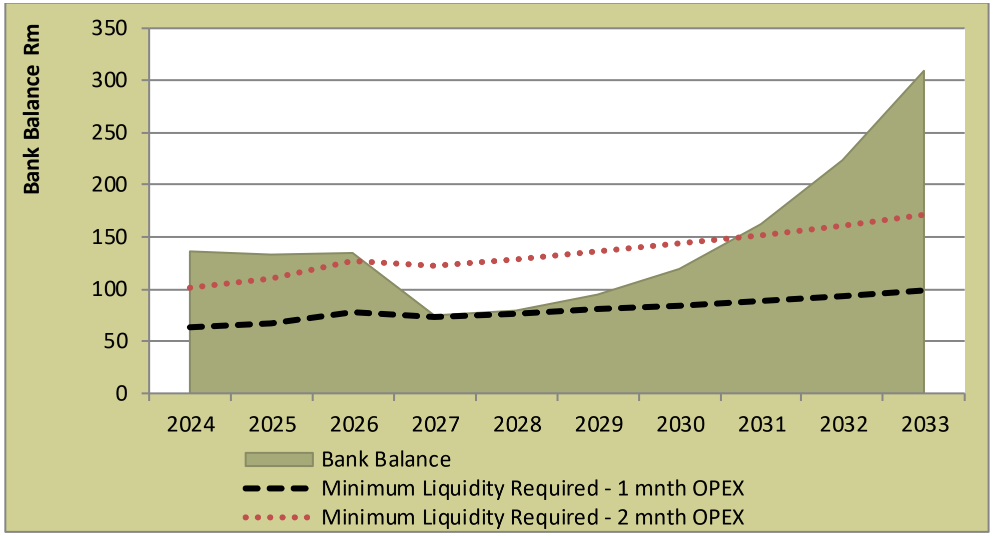
Table 22: Scenario 5: Accelerated Capex in FY2027

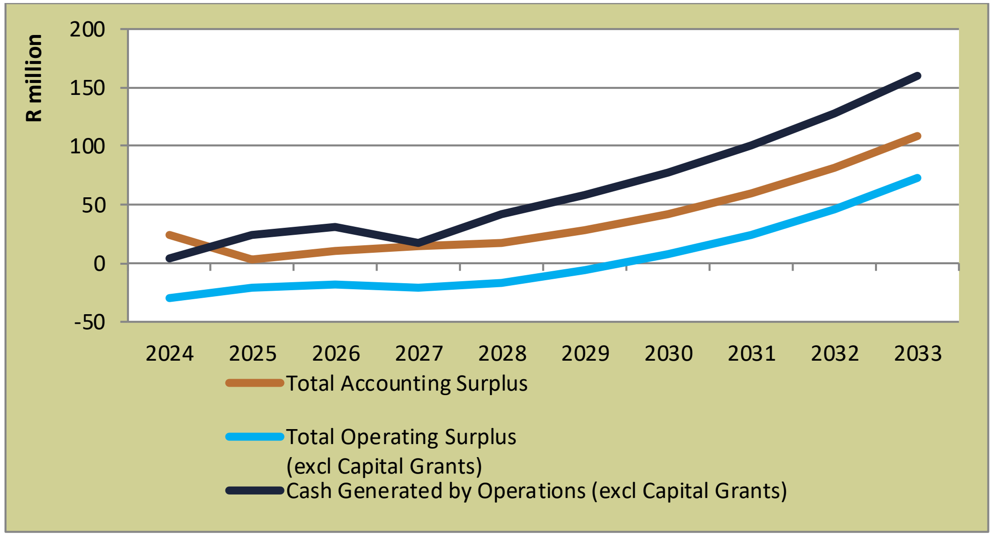
Outcome	Base Case	Accelerated Capex
Average annual % increase in Revenue	8.6%	8.6%
Average annual % increase in Expenditure	8.2%	8.3%
Accounting Surplus accumulated during Planning. Period (Rm)	R 389	R 342
Operating Surplus accumulated during Planning. Period (Rm)	**R 38**	**-R 8**
Cash generated by Operations during Planning. Period (Rm)	**R 641**	**R 607**
Average annual increase in Gross Consumer Debtors	10.7%	10.7%
Capital investment programme during Planning. Period (Rm)	**R 930**	**R 970**
External Loan Financing during Planning Period (Rm)	R 314	R 314
Cash and Cash Equivalents at the end of the Planning Period (Rm)	**R 311**	**R 309**
No of Months Cash Cover at the end of the Planning Period (Rm)	4.3	4.3
Liquidity Ratio at the end of the Planning Period	**3.4 : 1**	**3.8 : 1**
Gearing at the end of the Planning Period	16.5%	23.1%
Debt Service to Total Expense Ratio at the end of the Planning Period	5.6%	4.6%

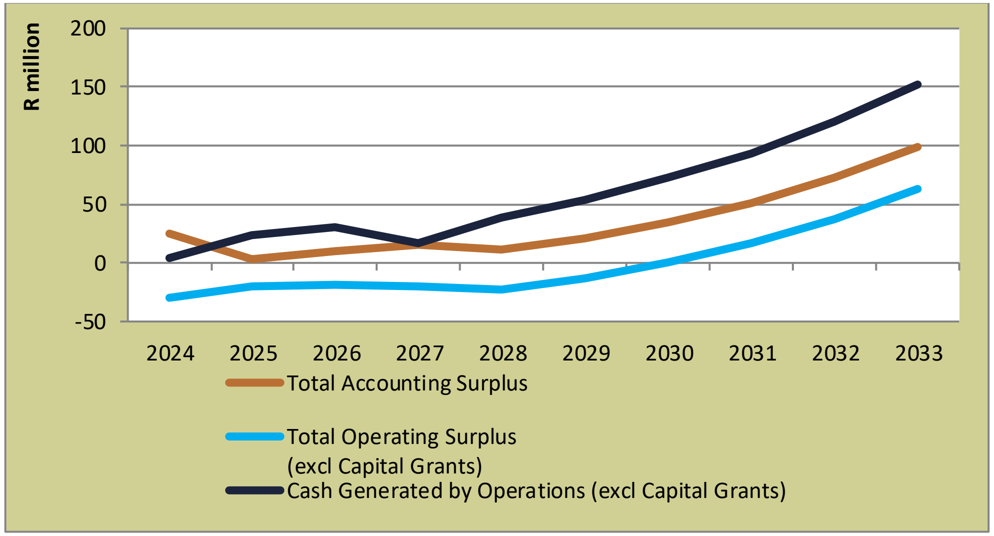
Base Case Scenario



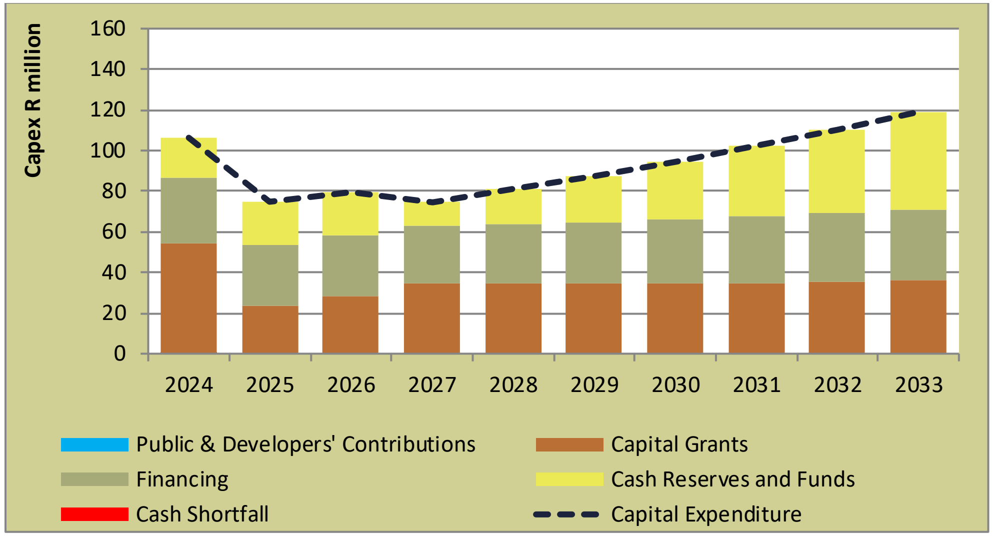
Accelerated Capex in FY2027



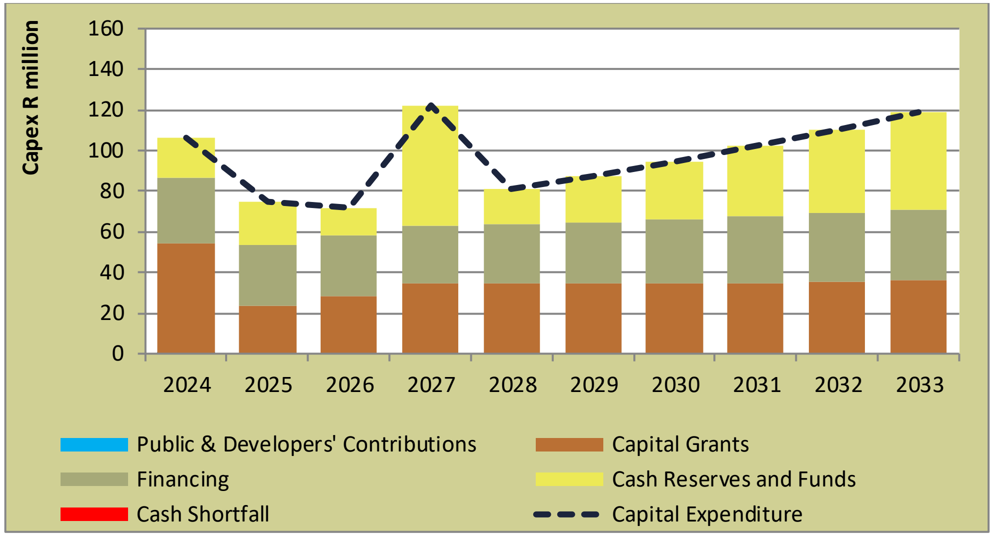




Base Case Scenario



Accelerated Capex in FY2027



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

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.

TABLE 22: OUTCOME OF FUTURE RATIO ANALYSIS

-		N.T. NORM	2024	2026	2028	2030	2032	2033	Comments
FINANCIAL POSITION									
ASSET MANAGEMENT									
R29	**Capital Expenditure / Total Expenditure**	10% - 20%	16.7%	10.6%	10.1%	10.3%	10.5%	10.5%	Capex as a % of Total Expenditure is expected to decrease over the planning period to preserve liquidity. Repairs and Maintenance will increase over the planning period but not reach NT norm.
R27	**Repairs and Maintenance as % of PPE and Investment Property**	8%	5.0%	5.7%	5.8%	5.8%	5.9%	5.9%	
DEBTORS MANAGEMENT									
R4	**Gross Consumer Debtors Growth**		11.4%	11.4%	10.7%	10.2%	9.9%	9.9%	The collection rate is assumed at 95% for the duration of the planning period.
R5	**Payment Ratio / Collection Rate**	95 %	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	
LIQUIDITY MANAGEMENT									
R49	**Cash Coverage Ratio (excl Working Capital)**		5.3 : 1	4.1 : 1	4.2 : 1	5.5 : 1	9 : 1	11.9 : 1	Liquidity remains positive throughout the planning period, reaching 3.4:1 as at FY2033. The Cash Cover Ratio and other liquidity metrics improve by the end of the planning period.
R50	**Cash Coverage Ratio (incl Working Capital)**		2.1 : 1	1.5 : 1	1.4 : 1	1.6 : 1	2.5 : 1	3.1 : 1	
R51	**Cash Surplus / Shortfall on Minimum Liquidity Requirements**		R 71.0 m	R 41.4 m	R 28.4 m	R 54.2 m	R 138.4 m	R 211.8 m	
R1	**Liquidity Ratio (Current Assets : Current Liabilities)**	1.5 - 2.0 : 1	2.7 : 1	2 : 1	1.9 : 1	2.1 : 1	2.7 : 1	3.4 : 1	
LIABILITY MANAGEMENT									
R45	**Debt Service as % of Total Operating Expenditure**	6% - 8%	5.4%	5.4%	5.9%	5.9%	5.7%	5.6%	External borrowings are utilized as part of a balanced funding mix and in a financially responsible manner. The debt and repayment ratios remain healthy over the entire forecast period and Bergrivier's debt is considered affordable.
R6	**Total Debt (Borrowings) / Operating Revenue**	45 %	24.7%	22.6%	22.9%	20.6%	17.9%	16.5%	
R7	**Repayment Capacity Ratio**		2.83	3.58	2.80	1.87	1.26	1.03	
R46	**Debt Service Cover Ratio (Cash Generated by Operations / Debt Service)**		2 : 1	1.6 : 1	1.8 : 1	2.3 : 1	3.1 : 1	3.4 : 1	

SUSTAINABILITY									
	Net Financial Liabilities Ratio	< 60%	23.9%	27.2%	30.7%	27.9%	19.5%	13.2%	Operational surpluses are forecast to be posted from FY2030 until the end 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.
	Operating Surplus Ratio	0% - 10%	-5.9%	-2.8%	-2.5%	0.9%	4.7%	6.7%	
	Asset Sustainability Ratio	> 90%	40.6%	43.2%	44.8%	46.3%	48.0%	48.8%	
FINANCIAL PERFORMANCE									
EFFICIENCY									
R42	**Net Operating Surplus / Total Operating Revenue**	>= 0%	-5.9%	-2.8%	-2.5%	0.9%	4.7%	6.7%	The net operating surplus ratio improves throughout the planning period as operating surpluses begin to be posted. Electricity surplus margins improve at the end of the period, but these must be monitored as these have fallen significantly under the review period.
R43	**Electricity Surplus / Total Electricity Revenue**		7.9%	6.4%	8.4%	8.4%	8.4%	8.4%	
R44	**Water Surplus / Total Water Revenue**		79.8%	80.0%	80.0%	80.0%	80.0%	80.0%	
REVENUE MANAGEMENT									
R8	**Increase in Billed Income p.a. (R'm)**		R 29.3 m	R 39.0 m	R 40.1 m	R 48.9 m	R 61.6 m	R 68.9 m	Revenue growth is positive over the forecast period due to an increase in quantities of services sold as well as moderate increase in tariffs. Deteriorating ability of households to pay rates and service charges may have an adverse effect on the cash generating ability of the municipality. Overall revenue management remains healthy, largely driven by the collection rate.
R9	**% Increase in Billed Income p.a.**	CPI	9.2%	9.9%	8.5%	8.8%	9.4%	9.6%	
R12	**Operating Revenue Growth %**	CPI	7.2%	13.7%	7.3%	8.7%	9.4%	9.6%	
R47	**Cash Generated by Operations / Own Revenue**		14.0%	11.6%	12.9%	16.1%	19.6%	21.4%	
R48	**Cash Generated by Operations / Total Operating Revenue**		11.7%	9.0%	10.9%	13.5%	16.5%	18.1%	
EXPENDITURE MANAGEMENT									
	Creditors Payment Period	30	43	47	49	46	42	40	Creditors' payment period decreases but still falls marginally shy of the NT norm at the end of the planning period. Employee related costs are well below the NT maximum. Contracted services exceed the NT norms throughout this time.
R30	**Contribution per Expenditure Item: Staff Cost (Salaries, Wages and Allowances)**	25% - 40%	28.3%	28.8%	31.2%	31.2%	31.2%	31.1%	
	Contribution per Expenditure Item: Contracted Services	2% - 5%	7.2%	13.3%	7.0%	7.0%	7.0%	7.0%	
GRANT DEPENDENCY									
R10	**Total Grants / Total Revenue**		24.8%	26.0%	20.0%	19.3%	18.6%	18.2%	The municipality is considered self-sufficient as it is not heavily reliant on grant funding. This is encouraged to continue as the national fiscus will require of municipalities to lower its dependence on transfers from other spheres of government.
R11	**Own Source Revenue to Total Operating Revenue**		83.4%	77.2%	83.9%	84.1%	84.4%	84.5%	
	Capital Grants to Total Capital Expenditure		51.0%	35.3%	42.5%	36.5%	32.0%	30.1%	

1	Planning Process
2	Updated Perspectives (Demographic, Economic, Household Infrastructure)
3	Updated Historic Financial Assessment
4	Long-Term Financial Model Outcomes
5	Future Revenues
6	Affordable Future Capital Investment
7	Scenario Analysis
8	Ratio Analysis
9	**Conclusions**

CONCLUSION

OUTCOME OF THE INDEPENDENT FINANCIAL ASSESSMENT

Bergrivier continued to generate accounting surpluses during the current year, amounting to R28.3 million for FY2023. Should capital grants be excluded from total revenue, this figure decreases but still remains positive with an operating surplus of R7.5 million posted during the period. Both these surpluses have reduced from their prior year figures: accounting surpluses decreased by R1.6 million and operating surpluses decreased by R2.3 million. There has been a decreasing trend in surpluses from FY2021 to FY2023 and during this period, income increased at an average rate of 6.5% and expenses increased at an average rate of 7.6%. The higher increase in expenses comes as no surprise due to rising fuel costs, the steep inflation rate since Covid-19 and interest rate hikes which would drive up the municipality's input costs.

Cash generated from operations increased from R30.7 million in FY2022 to R43.7 million in FY2023. This increase can be attributed to other factors besides collection rate as this rate remained at 95% for both periods. The increase in cash generated from operations was partly driven by the delayed payment of creditors as indicated by an increase in the creditors' payment period from 51 days in FY2022 to 54 days in FY2023 – significantly higher than the NT benchmark of 30 days.

Staff Costs as a percentage of total operating expenditure have consistently been below the NT maximum level of 40% over the past 8 years. There were concerns historically with the municipality reaching 36% in FY2019, but this has since decreased to 31% as of FY2023. Contracted services as a percentage of total operating expenditure have, in contrast, exceeded the 5% NT benchmark in 4 of the last 5 years. This poses a question of whether internal capacity has been compromised in order to stay within the NT norms.

The annual expenditure for repairs and maintenance amounted to 2% of property, plant and equipment and investment property. This has been decreasing for the last 6 years and is below the NT norm of 8%. We are aware that the repairs and maintenance may be understated as the municipality does not account for employee and operational expenditure into the final cost.

CAPEX increased marginally by 4.3% in FY2023. Bergrivier spent R69.4 million on capital investment in FY2023. This was primarily funded by external borrowings (57%) and capital grants (33%). The remaining 10% was funded by own cash reserves and sale of fixed assets. Over the review period, capital grants had the highest contribution to CAPEX, but this has shifted over the last two financial years with either cash reserves or external borrowing being used to accelerate the municipality's capital investment programme.

The municipality has not managed to fully implement its capital budget for the past 6 years, with the ratio of capital expenditure as a percentage of budgeted capital expenditure averaging 86% p.a. This ratio stood at 84% in FY2023, below the NT recommended minimum of 95%. This low budget implementation together with the contracted services exceeding recommended norms is indicative of capacity constraints in the municipality, rather than discrepancies in planning. Bergrivier's CAPEX amounted to 13% of total expenditure, which was within NT norms.

Despite the increase in the external borrowings in recent years, the gearing ratio in FY2023 came to 23%, remaining below the NT benchmark of 45% and the IPM recommended norm of 30%, indicating scope to take up additional borrowings. The debt service cover ratio further indicates a municipality with capacity to undertake additional debt with a ratio of 2.5 in FY2023; it reveals that the municipality generates sufficient cash from its operations to service its annual debt obligations. The debt to operating expense ratio in the same year came to 4%, below the NT maximum norm.

The liquidity position as indicated by the ratio of current assets to current liabilities of 3.4:1, as at FYE2023, remains strong and well and truly above the NT benchmark of 1.5:1. This ratio excluding the least liquid debtors – debtors greater than 30 days – reduces to 2.94:1. This indicates that the municipality has sufficient liquid assets to meet short-term financial obligations.

Net debtor days deteriorated from 71 days as at FYE2022 to 73 days as at FYE2023. Although this is a negative result, the municipality should continue to strive for sound credit management as this ratio is still a significant improvement from 103 days average which occurred from FY2016 to FY2021. The provision for bad debts as a percentage of debtors older than 90 days amounted to 60% in FY2022. The provision for bad debts of R41.6 million does not sufficiently cover debtors older than 90 days of R69.4 million. The provision provides coverage of only 60% of debtors who are largely considered at a high risk of defaulting, falling substantially behind the NT norm of 100%.

STRENGTHS

- Consistent achievement of accounting and operating surpluses as well as cash generated from operations.
- NT recommended collection rate achieved in the last 3 financial years.
- Strong liquidity and cash reserves.
- Low level of grant dependency with an optimal capital funding mix

WEAKNESSES

- Low implementation ratio of capital budget.
- Reduced spending on repair and maintenance of infrastructure.
- Expenditure is increasing at a higher rate than revenue.
- Contracted services have exceeded the NT norm for the last 5 years.

Outcome of the Future Forecasts

Under the Base Case assumptions, Bergrivier's financial performance is expected to largely trend upwards. Although operating deficits are expected to be posted for the first half of the planning period, the overall trend is a positive one. Bergrivier is expected to post accounting surpluses and to generate cash from operations throughout the planning period. Consistently generating cash from operations is contingent on the maintenance of the collection rate of at least 95% p.a. This cash generation is expected to translate into a planning period end bank balance of R311 million. Another upside of the cash generation is that the municipality is forecast to meet minimum liquidity requirements including 2-month's operating expenditure by the end of the planning period. Consistent with its historic financial position, healthy liquidity positions will persist with a forecast liquidity ratio of 3.4:1 as at FY2033. The capital investment programme amounts to R886 million over the planning period.

A few additional scenarios were run to assess the impact of improvements/regressions to certain metrics, as well as the impact of alternative strategic decisions. The outcomes thereof are summarised below.

Collection rate sensitivity to movements of 2%.

A decrease of 2% in the collection rate was not detrimental to the municipality's sustainability prospects. The liquidity ratio, although reduced, remained healthy at 2.2:1 at the end of the planning period. The bank balance is forecast to fail to meet minimum liquidity requirements from FY2027 to FY2031, leaving only five financial periods where this requirement is met. This poses a liquidity risk. The 2% decrease in the collection rate is forecast to cause a decline of R141 million in the planning period end bank balance. Affordable capital investment is expected to remain unchanged at R930 million.

An improvement in the collection rate by 2 percentage points further cements the sustainability of the municipality. The minimum liquidity requirements including 2-months' operating expenditure is forecast to be covered throughout the planning period. The improved cash generation would allow the municipality to build up a CRR, with a forecast balance of R145 million at the end of the planning period. Additionally, the liquidity ratio is set to strengthen to 4.6:1, well above the minimum NT norm.

Operating expenditure sensitivity to movements of 2%.

An increase in total operating expenditure of 2% annually has a negative impact on the liquidity position of the municipality but this once again does not substantially dent the municipality's financial sustainability. Although the liquidity ratio declines to 2.4:1; this is still healthy. The bank balance at the end of the planning is set to be R121 million shy of that of the Base Case.

This highlights the importance of maintaining budgeted levels of operational expenditure and the effect that unexpected and unplanned expenses can have on the liquidity of the municipality.

Cost savings of 2% annually in operational expenditure are forecast to improve the liquidity ratio to 4.2:1, The bank balance at the end of the planning period exceeds the Base Case bank balance by R93 million, presenting an opportunity to increase capital expenditure, repay creditors or dedicate those resources to needed avenues.

Accelerated Capex

The aim of scenario 3 is to accelerate capital investment in an effort to meet the capex demand of the municipality. Capital investment was accelerated with the utilisation of own cash reserves, without harming the municipality's liquidity position. This resulted in a total capital outlay of R1 03/ million over the planning period, bringing the capital investment programme just R70 million short of meeting capital demand. The forecast planning period end liquidity ratio of 2.2:1, while reduced from the Base Case, remains sustainable. The additional capital expenditure will assist in the municipality's backlog eradication efforts.

Extended Loan Tenor

The Base Case assumes an average loan tenor of 10 years on new debt. In this scenario, the loan tenor has been extended to 15 years on new debt to demonstrate the effect of such a financial arrangement. What is observed is that the longer repayment period reduces the annual debt service charges as the debt can be repaid over a longer period of time. This is reflected in the planning period end debt service to total expense ratio of 4.6%, lower than the Base Case ratio of 5.6%. With more cash at the municipality's disposal, it comes as no surprise that the liquidity ratio strengthens to 4.4:1 at the end of the planning period.

Accelerated capex in FY2027

This scenario builds on from Scenario 4 in that the extended loan tenor of 15 years is maintained. Additionally, the capital investment programme is increased by R40 million in FY2027 funded by own cash reserves. The intention behind this scenario is to see the extent to which the capital investment programme can be accelerated, for the undertaking of a project in FY2027, whilst maintaining healthy liquidity levels as seen historically in the municipality. The project would not be detrimental to the municipality's financial sustainability as strong liquidity levels would persist. The utilisation of own cash reserves of up R40 million allows for minimum liquidity requirements to be met throughout the planning period and the liquidity ratio of 3.8:1 is expected as at FY2033.

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	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
R thousands										
Non-current assets:	638,423	669,400	710,416	742,993	779,434	819,595	863,851	912,598	966,258	1,025,282
Property, plant and equipment	601,741	640,690	682,095	715,069	751,388	791,405	835,495	884,053	937,501	996,290
Intangible assets	2,552	2,109	1,775	1,434	1,556	1,700	1,866	2,055	2,267	2,502
Investment properties	21,693	21,637	21,581	21,525	21,525	21,525	21,525	21,525	21,525	21,525
Investments	33	–	–	–	–	–	–	–	–	–
Long-term receivables	11,951	4,511	4,511	4,511	4,511	4,511	4,511	4,511	4,511	4,511
Other non-current assets	454	454	454	454	454	454	454	454	454	454
Current assets:	234,805	229,248	219,751	204,831	206,132	217,744	239,613	277,247	333,252	411,984
Inventories	1,462	1,461	1,531	1,829	1,881	2,007	2,148	2,303	2,474	2,660
Trade and other receivables	98,418	98,418	98,418	98,418	98,418	98,418	98,418	98,418	98,418	98,418
Cash & Short term investments	134,925	129,368	119,802	104,585	105,833	117,318	139,047	176,526	232,361	310,906
TOTAL ASSETS	**873,228**	**898,648**	**930,167**	**947,825**	**985,566**	**1,037,338**	**1,103,463**	**1,189,845**	**1,299,511**	**1,437,266**
Municipal Funds:	518,743	521,955	531,931	546,321	563,250	591,104	632,949	692,497	774,086	882,737
Housing development fund & Other Cash Backed Reserves	261	261	261	261	261	261	261	261	261	261
Reserves (Not Cash Backed)	42,318	42,318	42,318	42,318	42,318	42,318	42,318	42,318	42,318	42,318
Accumulated surplus	476,165	479,377	489,352	503,742	520,671	548,525	590,370	649,918	731,507	840,158
Non-current liabilities:	265,938	278,948	289,938	296,665	315,694	334,927	356,626	379,573	403,606	433,503
Long-term liabilities (Interest Bearing)	108,154	118,796	127,385	131,673	136,679	139,364	141,925	143,105	142,742	145,673
Non-current provisions	157,785	160,152	162,554	164,992	179,014	195,563	214,701	236,467	260,863	287,830
Current liabilities:	88,546	97,744	108,298	104,838	106,622	111,307	113,888	117,775	121,819	121,026
Consumer deposits	5,963	6,498	7,058	7,638	8,089	8,559	9,066	9,611	10,199	10,851
Provisions	18,226	18,500	18,777	19,059	19,059	19,059	19,059	19,059	19,059	19,059
Trade and other payables	48,547	53,389	61,051	54,429	55,361	56,089	56,828	57,529	58,132	58,617
Bank overdraft	–	–	–	–	–	–	–	–	–	–
Current portion of interest bearing liabilities	15,810	19,357	21,412	23,712	24,113	27,600	28,935	31,576	34,429	32,499
TOTAL MUNICIPAL FUNDS AND LIABILTIES	**873,228**	**898,648**	**930,167**	**947,825**	**985,566**	**1,037,338**	**1,103,463**	**1,189,845**	**1,299,511**	**1,437,266**

Municipal Financial Model
Statement of Financial Performance

Model year	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
R thousands										
Revenue										
Property rates	107,804	117,361	127,224	137,155	148,352	161,108	175,529	191,725	209,807	229,872
Service Charges	237,882	272,845	301,863	332,010	360,742	391,096	425,413	464,036	507,355	555,964
Service charges - electricity	144,451	163,046	179,326	195,401	208,771	221,520	235,623	251,100	267,976	286,377
Service charges - water	40,125	43,952	47,964	52,272	57,021	62,373	68,420	75,227	82,868	91,416
Service charges - sanitation	17,139	18,843	20,631	22,468	24,347	26,445	28,787	31,391	34,272	37,461
Service charges - refuse	36,166	47,005	53,943	61,869	70,603	80,758	92,582	106,317	122,239	140,710
Service charges - other	0	(0)	–	–	–	–	–	–	–	–
Rental of facilities and equipment	1,735	1,850	1,961	2,079	2,237	2,413	2,609	2,825	3,063	3,324
Interest earned - external investments	10,483	8,098	6,870	6,841	6,328	6,705	7,702	9,373	12,120	16,128
Interest earned - outstanding debtors	9,044	10,265	10,883	11,535	7,003	7,728	8,484	9,268	10,076	10,904
Dividends received	–	–	–	–	–	–	–	–	–	–
Fines, penalties and forfeits	24,332	24,947	25,599	26,268	28,267	30,489	32,960	35,691	38,697	42,004
Licences and permits	28	40	43	46	50	56	62	68	76	85
Agency services	4,933	5,253	5,547	5,880	6,327	6,825	7,378	7,989	8,662	9,402
Transfers and subsidies (operating)	83,405	110,357	149,914	105,380	113,275	122,058	131,814	142,589	154,431	167,431
Other revenue	20,829	22,756	23,974	25,008	26,911	29,027	31,379	33,979	36,840	39,989
Gain on disposal of PPE	1,000	3,995	3,064	3,202	3,580	4,056	4,643	5,354	6,205	7,212
Revaluation of assets gain / (loss)	–	–	–	–	–	–	–	–	–	–
Total revenue before Capital Grants	501,474	577,766	656,942	655,403	703,075	761,561	827,973	902,899	987,332	1,082,316
Capital Grants	54,158	23,723	28,176	34,844	34,404	34,318	34,497	34,852	35,304	35,794
Public & developers contributions	160	–	–	–	–	–	–	–	–	–
Total Revenue after Capital Grants	555,792	601,490	685,118	690,247	737,479	795,879	862,470	937,751	1,022,636	1,118,110
Operating expenditure										
Employee related costs	173,228	195,469	209,580	226,395	241,332	257,581	275,522	295,215	316,632	339,884
Remuneration of councillors	7,336	7,618	7,966	8,324	8,744	9,211	9,723	10,282	10,885	11,531
Debt impairment	37,069	39,963	42,526	45,147	48,794	52,785	57,262	62,258	67,810	73,975
Depreciation and asset impairment	32,584	36,647	38,772	41,857	44,499	47,266	50,176	53,249	56,503	59,958
Finance charges	14,688	16,262	17,415	18,160	18,880	19,569	20,409	21,063	21,798	22,407
Bulk purchases	133,022	152,634	167,872	179,074	191,324	203,004	215,926	230,105	245,566	262,424
Inventory Consumed	23,045	24,394	25,846	27,397	26,229	28,370	30,816	33,585	36,664	40,100
Repairs and maintenance	–	–	–	–	–	–	–	–	–	–
Contracted services	45,971	63,208	100,475	50,333	56,471	60,197	64,317	68,845	73,752	79,119
Transfers and subsidies	9,966	8,841	9,012	9,415	10,036	10,723	11,483	12,318	13,231	14,227
Other expenditure	51,517	50,311	52,609	66,549	70,654	75,256	80,340	85,920	91,992	98,610
Loss on disposal of PPE	2,805	2,931	3,069	3,207	3,586	4,063	4,650	5,362	6,215	7,223
Total Expenditure	531,231	598,277	675,142	675,857	720,551	768,026	820,624	878,202	941,048	1,009,459
Suplus/ (Shortfall) for the year	**24,560**	**3,212**	**9,976**	**14,390**	**16,929**	**27,854**	**41,846**	**59,548**	**81,588**	**108,651**

Municipal Financial Model
Cash Flow Statement

Model year	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
R thousands										
Cash flows from Operating Activities										
Suplus/Deficit for the year including Capital Grants	24,560	3,212	9,976	14,390	16,929	27,854	41,846	59,548	81,588	108,651
Suplus/Deficit for the year excluding Capital Grants & Contributions	(29,758)	(20,511)	(18,200)	(20,454)	(17,476)	(6,465)	7,348	24,696	46,284	72,857
Capital Grants & Contributions	54,318	23,723	28,176	34,844	34,404	34,318	34,497	34,852	35,304	35,794
Adjustments for non-cash items:										
Depreciation, amortisation and impairment loss	32,584	36,647	38,772	41,857	44,499	47,266	50,176	53,249	56,503	59,958
Revaluation on investment property (gain) / loss	–	–	–	–	–	–	–	–	–	–
Increase / (Release from) current provisions & non-interest bearing liabilities	269	273	277	282	–	–	–	–	–	–
Increase / (Release from) other non-current provisions & non-interest bearing liabilities	2,332	2,367	2,402	2,438	14,022	16,549	19,138	21,767	24,396	26,967
(Increase) / Release from non-current interest bearing assets	(33)	33	–	–	–	–	–	–	–	–
Capitalised interest	–	–	–	0	0	–	(0)	(0)	(0)	(0)
Operating surplus before working capital changes:	59,712	42,532	51,428	58,967	75,450	91,668	111,159	134,564	162,487	195,577
Change in W/C Investment	(1,238)	4,843	7,593	(6,920)	879	602	598	546	433	298
(Increase)/decrease in inventories	(393)	1	(70)	(298)	(53)	(126)	(141)	(156)	(170)	(187)
(Increase)/decrease accounts receivable	(6,136)	0	0	0	(0)	0	0	(0)	0	(0)
Increase/(decrease) in trade payables	5,291	4,842	7,662	(6,622)	932	728	738	701	603	485
Net cash flow from Operating activities	58,475	47,374	59,020	52,048	76,329	92,270	111,757	135,109	162,920	195,875
Cash flows from Investing Activities										
Capital expenditure	(106,194)	(75,152)	(79,844)	(74,490)	(80,939)	(87,427)	(94,432)	(101,996)	(110,163)	(118,982)
Decrease/(Increase) in non-current receivables	(7,440)	7,440	–	–	–	–	–	–	–	–
(Additions) / Disposals of investment property	(3,743)	56	56	56	–	–	–	–	–	–
Net cash flow from Investing activities	(117,376)	(67,656)	(79,789)	(74,434)	(80,939)	(87,427)	(94,432)	(101,996)	(110,163)	(118,982)
Cash flows from Financing Activities										
New loans raised	32,400	30,000	30,000	28,000	29,120	30,285	31,496	32,756	34,066	35,429
Loans repaid	(13,958)	(15,810)	(19,357)	(21,412)	(23,712)	(24,113)	(27,600)	(28,935)	(31,576)	(34,429)
(Decrease) / Increase in consumer deposits	673	535	559	581	451	470	507	545	588	652
Net cash flow from Financing activities	19,115	14,725	11,202	7,169	5,859	6,642	4,403	4,366	3,078	1,652
Change in Cash	(39,786)	(5,557)	(9,566)	(15,217)	1,248	11,485	21,728	37,479	55,835	78,545
Cash/(Overdraft), Beginning	174,711	134,925	129,368	119,802	104,585	105,833	117,318	139,047	176,526	232,361
Cash/(Overdraft), Ending	**134,925**	**129,368**	**119,802**	**104,585**	**105,833**	**117,318**	**139,047**	**176,526**	**232,361**	**310,906**

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