INCA
Portfolio Managers

GEORGE MUNICIPALITY

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

GEORGE
THE CITY FOR ALL REASONS

Prepared by
INCA Portfolio Managers
February 2024

REPORT OVERVIEW – INTRODUCTION AND BACKGROUND

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

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

A summary of the demographic, economic and household infrastructure perspective was updated with the latest available information as published by S&P Global Market Intelligence. The historic financial analysis was updated with the information captured in the municipality's audited financial statements of 30 June 2023 along with the Adjustment Budget for FY2023/24. IPM adapted its Long-Term Financial Model (LTFM) to include and project key effects of the energy crisis through the inclusion of a load shedding scenario. This adapted model was populated and run with this latest information, and the outcome thereof is reported herein.

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

Abbreviations Used

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

CONTENTS

Key Findings and Conclusions drawn from the 2023 LTFP Update

Highlights from the FY2022/23 Financial Results

The historical analysis shows:

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

Long-Term Financial Plan Update

The LTFM indicates that the current MTREF is unsustainable. As such, necessary adjustments have been implemented to formulate the Base Case. These adjustments address the underlying issues contributing to the unsustainable outcome.

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

1. A collection rate of 95% is assumed to be achieved within 3 years, whereafter it is assumed to remain at this level for the remainder of the planning period.
2. The model incorporated the increases in revenue and expenditure items as announced in the Adjustment Budget.
3. The Adjustment Budget capital investment programme was maintained over the MTREF period. An amount of R295 million is assumed in FY2026/27. Growth beyond the MTREF period is 5.5% p.a.
4. The Adjustment Budget borrowing programme was left unaltered over the MTREF period. An amount of R150 million is assumed to be borrowed in FY2026/27. Assumed annual growth beyond the MTREF period is 4%.
5. The annual borrowing under this scenario was adjusted to an average of 13-year amortising loans at a fixed interest rate equal to 4% over forecast CPI in any given year. Assumed annual growth in borrowing beyond the MTREF period is 4%.
6. Repairs and maintenance expenditure was reduced to 4% of PPE & IP over the planning period.
7. Electricity losses were maintained at FYE2022/23 levels, while water distribution losses were reduced to 20.0% over a 3-year period.
8. A load shedding impact scenario was incorporated into the Base Case. This scenario assumes an average of stage 2 load shedding for 2 years.. This is assumed to result in a reduction of 19.3% of electricity consumption. Additionally, permanent reductions of 5% in water and electricity sales are assumed.

Long-Term Financial Model Outcomes

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

Outcome	Base Case	MTREF Case
Average annual % increase in Revenue	7,2%	8,1%
Average annual % increase in Expenditure	8,3%	9,7%
Accounting Surplus accumulated during Planning. Period (Rm)	R 1 691	R 89
Operating Surplus accumulated during Planning. Period (Rm)	R 278	-R 1 324
Cash generated by Operations during Planning. Period (Rm)	R 3 225	R 2 677
Average annual increase in Gross Consumer Debtors	11,4%	16,2%
Capital investment programme during Planning. Period (Rm)	R 5 052	R 6 566
External Loan Financing during Planning Period (Rm)	R 2 068	R 2 643
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 1 431	-R 608
No of Months Cash Cover at the end of the Planning Period (Rm)	3,3	-1,3
Liquidity Ratio at the end of the Planning Period	1.8 : 1	0.2 : 1
Gearing at the end of the Planning Period	21,9%	20,5%
Debt Service to Total Expense Ratio at the end of the Planning Period	5,0%	6,9%

RECOMMENDATIONS

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

1. Maintain the funding mix that primarily funds capital expenditure through a combination of external borrowings and cash resources, with a focus of sufficiently utilising debt to alleviate pressure on cash resources. An extended loan tenor should be considered.

2. Maintain a balanced approach for the long-term capital investment programme which prioritises investments that contribute to economic growth and revenue generation and prioritise timeous investment in bulk infrastructure.

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

4. Prevent deterioration in profitability / surpluses to continue its ability to generate cash from operations and avoid deterioration of its liquidity, by ensuring that actual expenditure doesn't exceed budgeted expenditure.

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

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

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

8. Finally, George's current position of financial strength is a product of a sustained period of sound operational management as well as prudent, disciplined financial management. This enables the municipality to invest in needed bulk infrastructure for future growth and development.

DEMOGRAPHIC, ECONOMIC AND HOUSEHOLD INFRASTRUCTURE

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

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

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

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

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

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

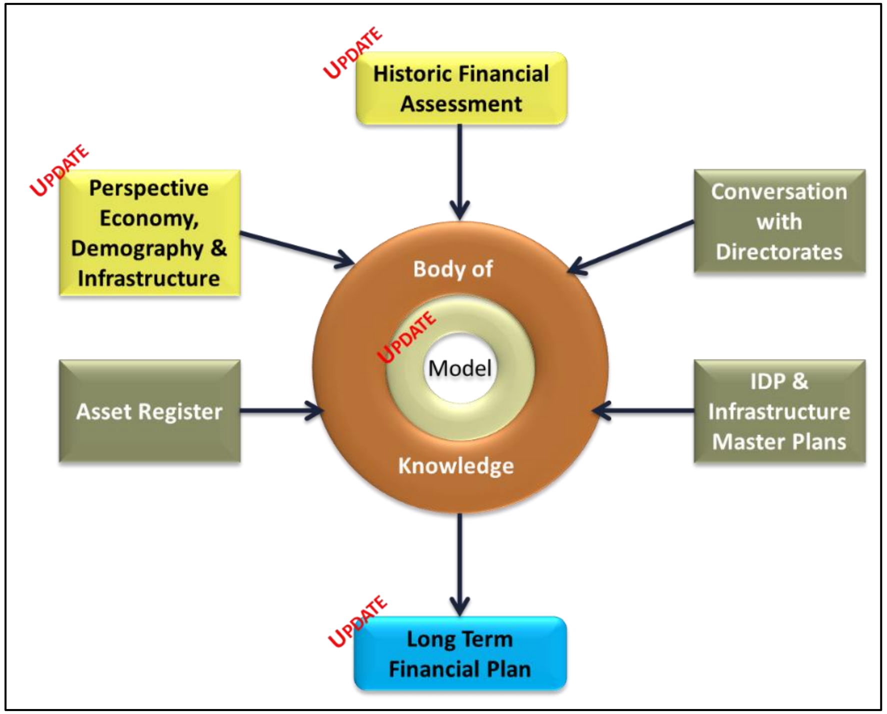
- Household formation saw moderate growth of 19.4% over the assessment period. George has been able to maintain its infrastructure index of 0.92; indicative of its ability to keep up with the rate of household formation. This score is high relative to the national index of 0.77.

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

Planning Process

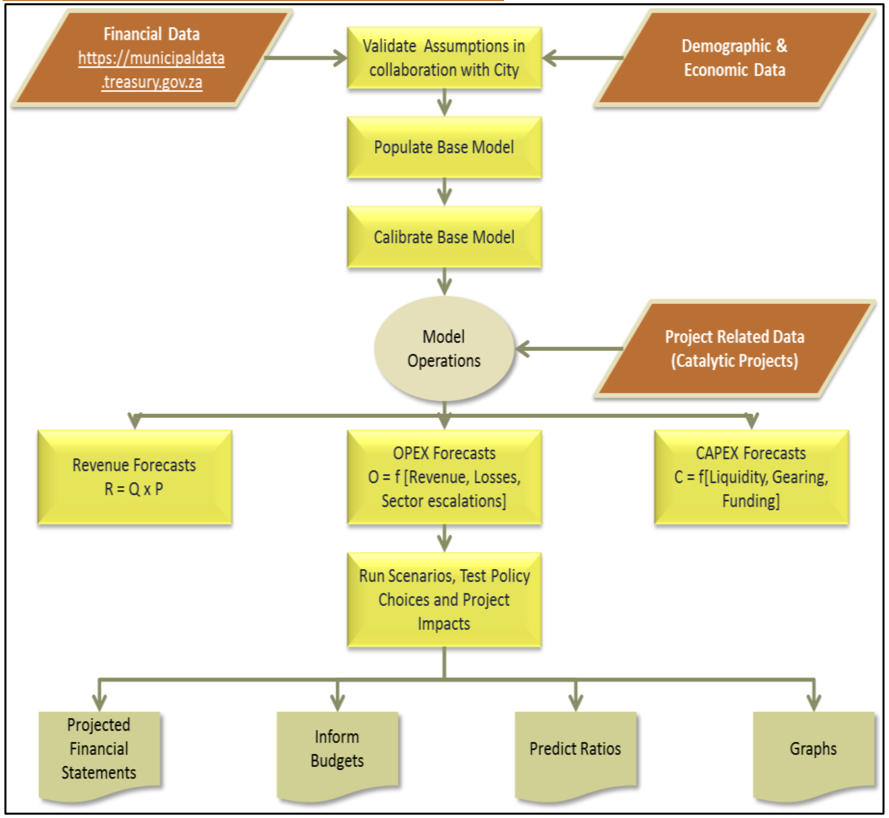
The diagram below illustrates the steps in the process that were followed in drafting the LTFP and the steps taken during this 2023 “LTFP Update”:

Figure 1: Planning Process



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

Figure 2: Financial Model Framework



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

1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long-Term Financial Model Outcomes

5 Future Revenues

6 Affordable Future Capital Investment

7 Scenario Analysis

8 Ratio Analysis

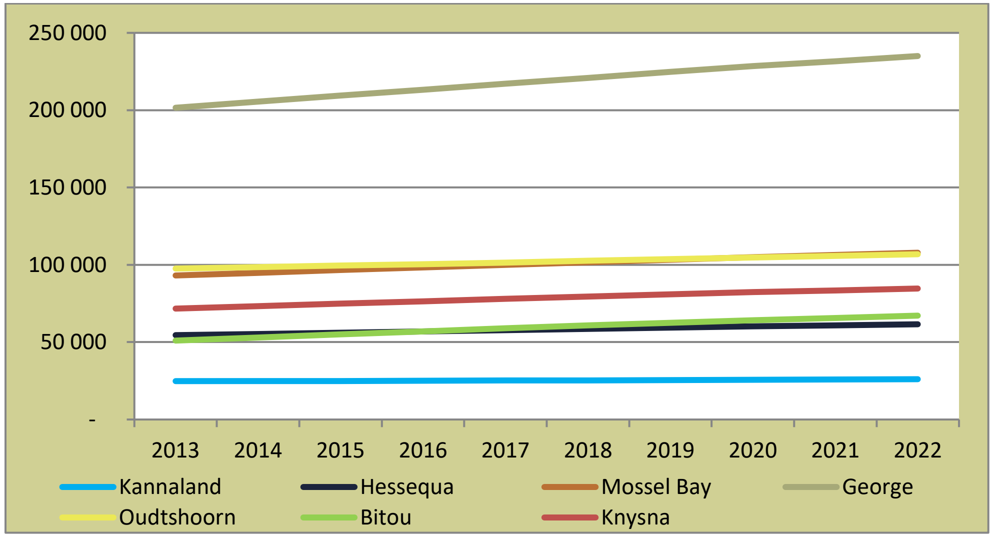
9 Conclusions

UPDATED PERSPECTIVES (DEMOGRAPHIC, ECONOMIC, HOUSEHOLD INFRASTRUCTURE)

DEMOGRAPHY

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

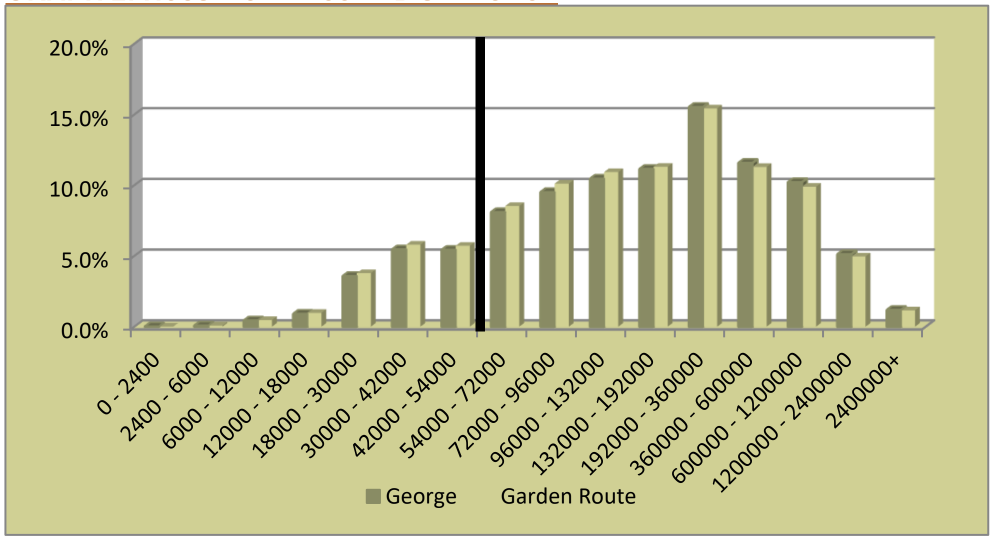
GRAPH 1: TOTAL POPULATION



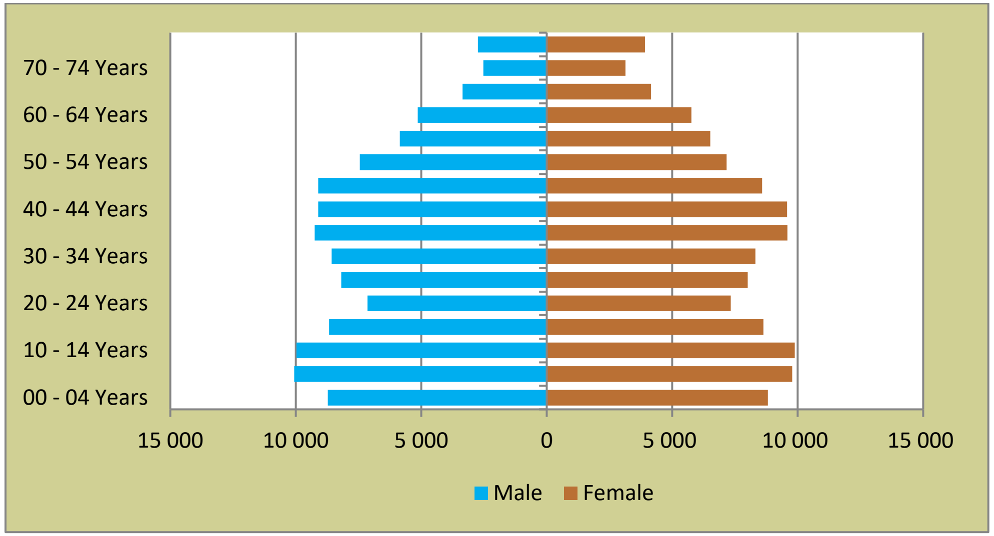
Average household income increased by 4.2% during 2022 to a total of R367 664 p.a., the third highest in the district. GRAPH 2 illustrates a comparison of the household income distribution of George and of the Garden Route District. This comparison reveals that approximately 16.1% of households in George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

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

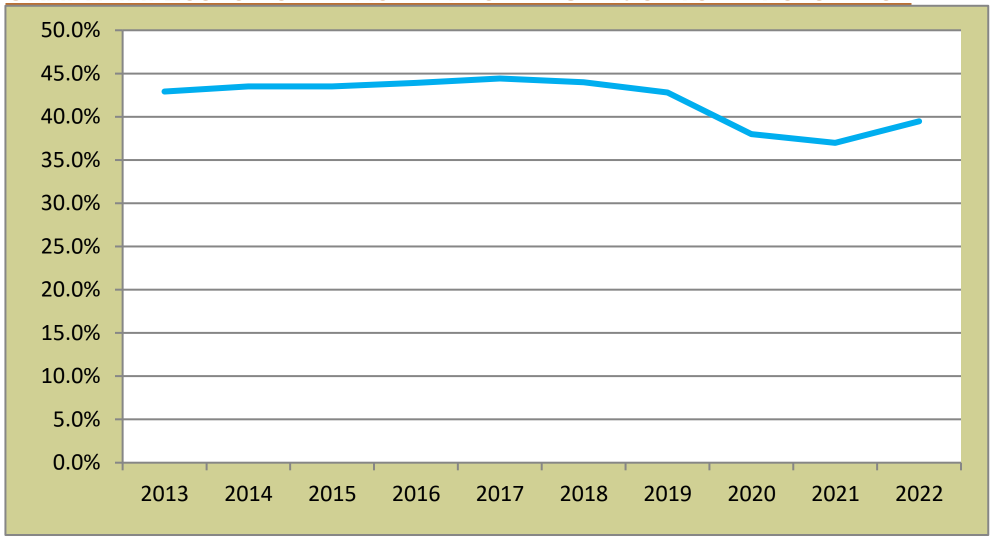
GRAPH 2: HOUSEHOLD INCOME DISTRIBUTION



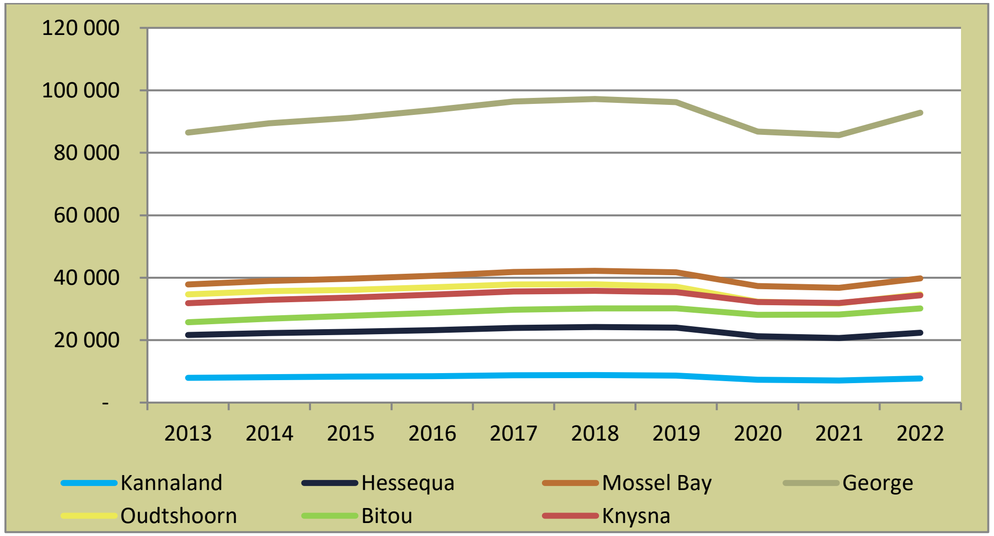
Graph 3: Age Profile



Graph 4A: Economically Active People as a % of Total Population



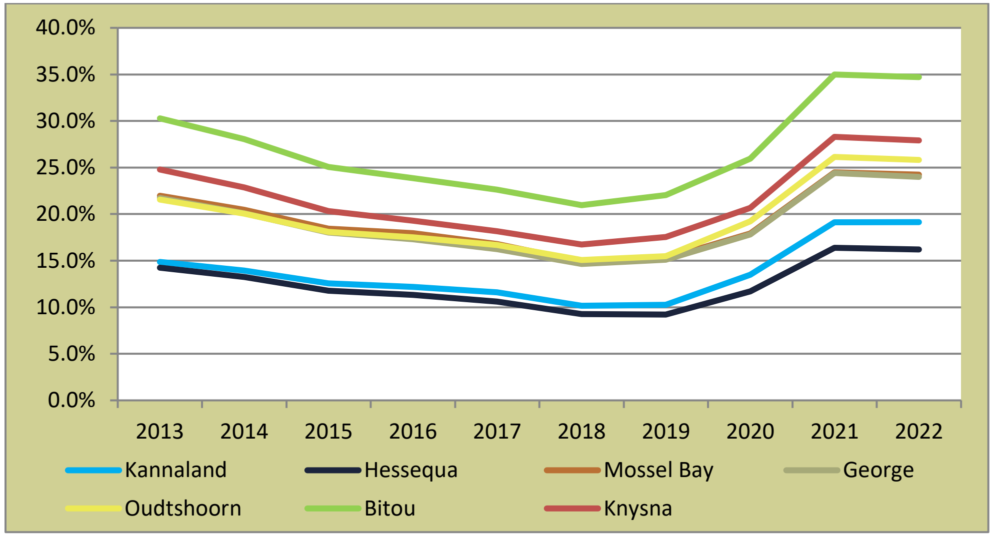
Graph 4B: Economically Active Population



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

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

GRAPH 5: OFFICIAL UNEMPLOYMENT RATE



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

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

ECONOMY

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

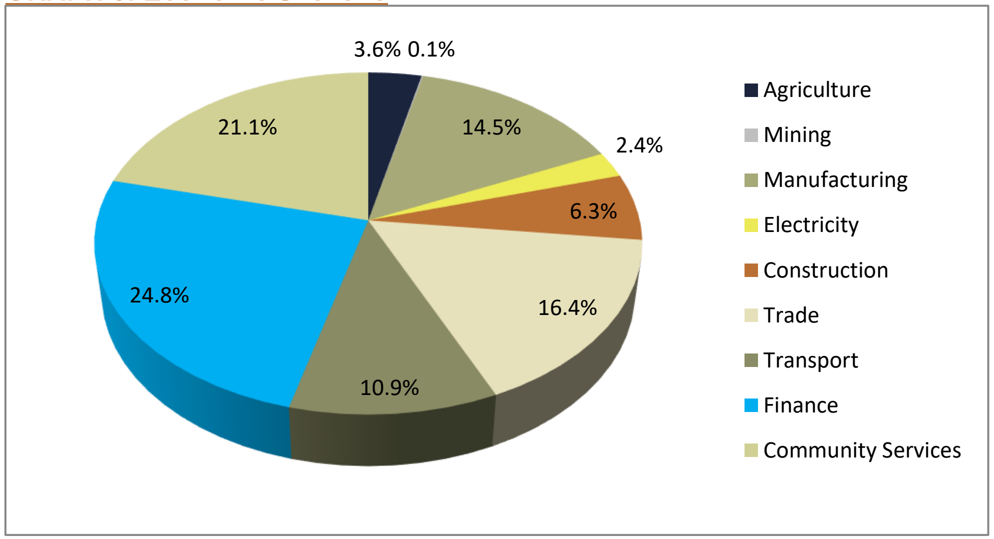
George's local economy is reasonably concentrated, as evidenced by a Tress Index of 44.69. The Tress Index is a measure of economic diversification and thus, economic risk. The higher the degree of diversification, the lower the degree of economic risk in the event of adverse economic conditions due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

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

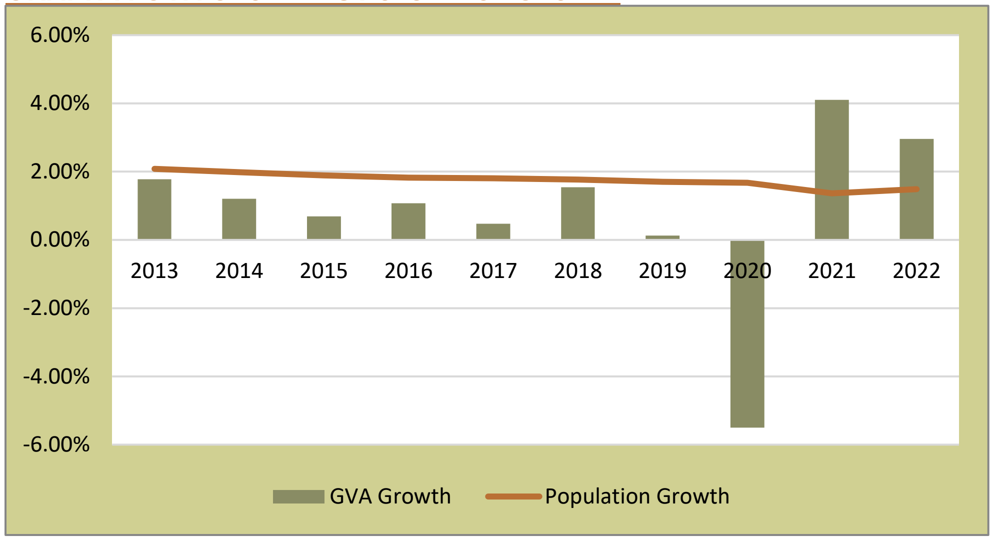
TABLE 1: PROPORTIONAL GROWTH OF ECONOMIC SECTORS

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

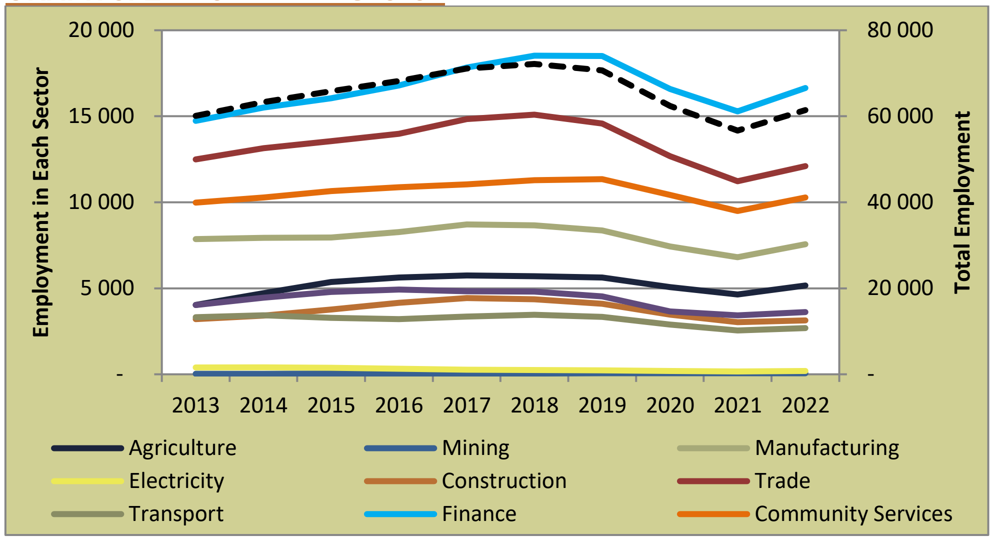
GRAPH 6: ECONOMIC SECTORS



GRAPH 7: GVA GROWTH VS POPULATION GROWTH



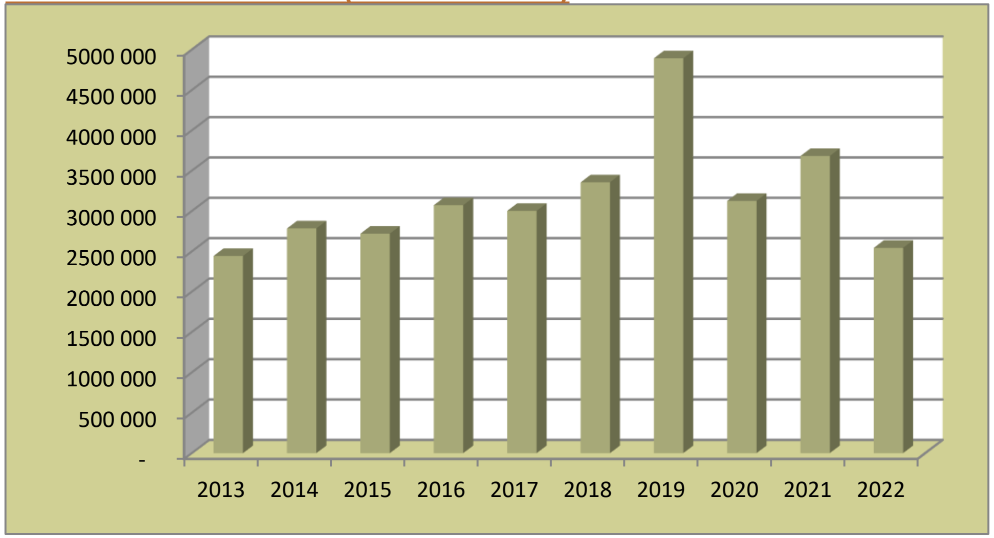
GRAPH 8: EMPLOYMENT BY SECTOR



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

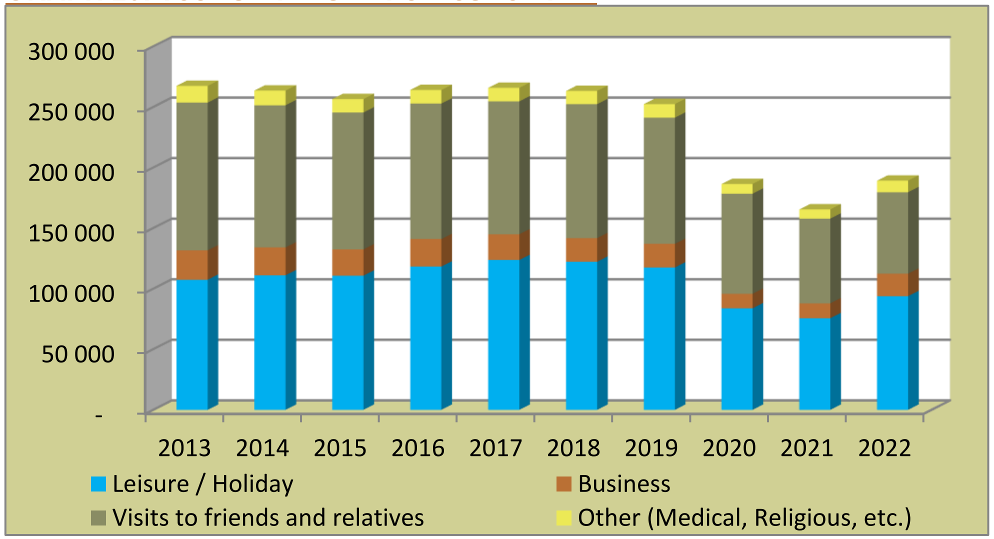
Scrutiny of the employment figures reveals that an additional 4 753 jobs were created during 2022, bringing the total number of employment opportunities to 61 426. Finance continues to be the predominant provider of employment in George, accounting for 27.1% of total jobs in 2022. This is followed by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

GRAPH 9: TOURISM SPEND (CURRENT PRICES)



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

GRAPH 10: TOURISM TRIPS BY PURPOSE OF TRIP

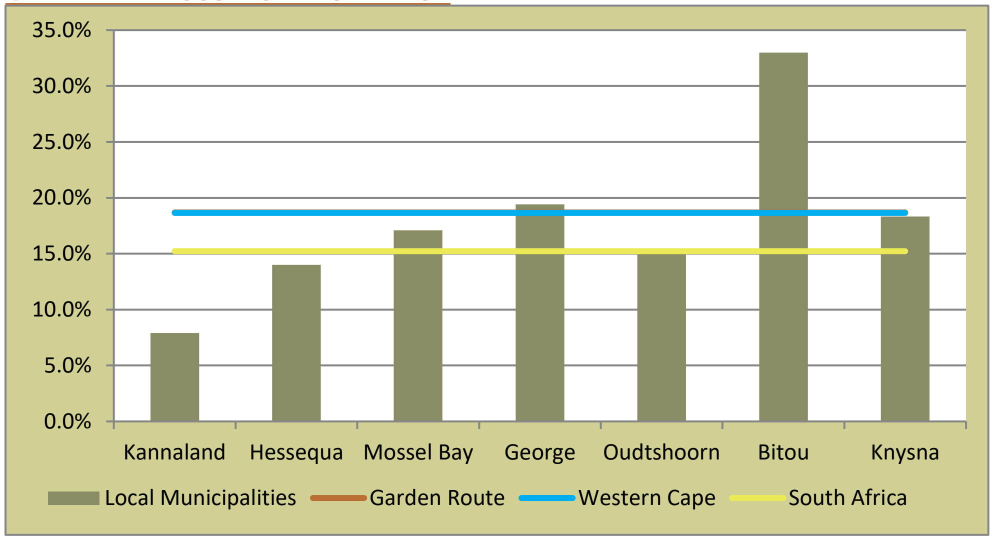


An analysis of the tourism sector would be incomplete without an analysis of the number of tourism trips and purpose thereof. As such, the total number of trips increased by 14.4% in 2022 to a total of 189 215 trips. While the increase remains positive to note, the absolute level of tourism trips remains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

Household Infrastructure

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

Graph 11: Household Formation



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

Graph 12: Infrastructure Index

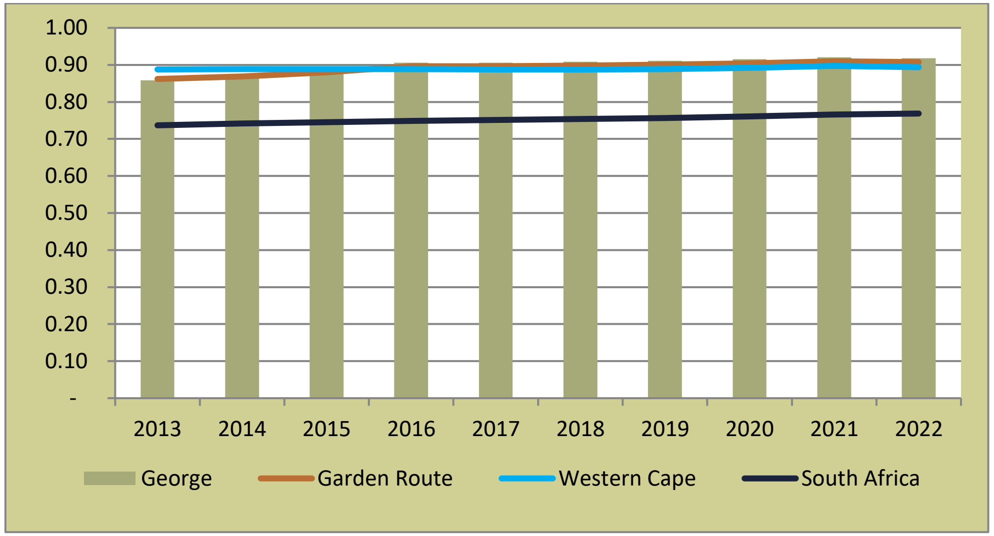


Table 2 below provides a comparison between the level of backlogs of George and the Garden Route District. George has managed to improve access to services in all service categories over the review period. Moreover, George has outperformed the district in the provision of all infrastructure services.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

TABLE 2: Household Infrastructure Provision

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

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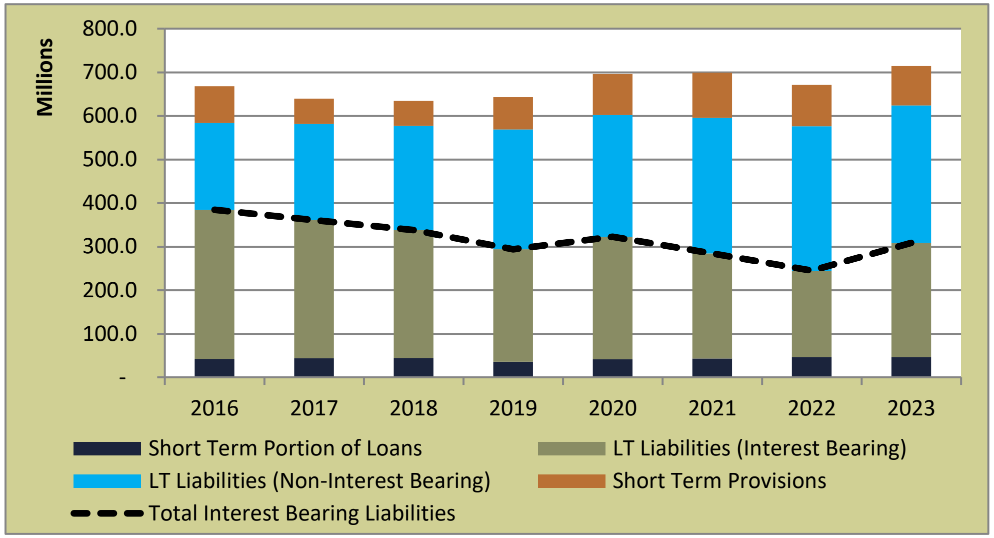
Updated Historic Financial Assessment

Financial Position

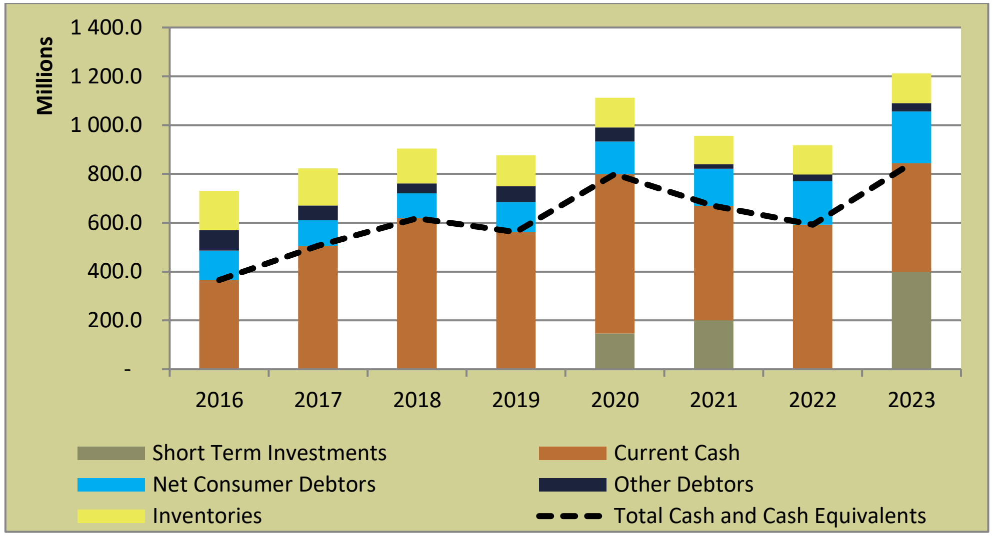
Graph 13: Long-Term Liabilities: Interest Bearing vs Non-Interest Bearing



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

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

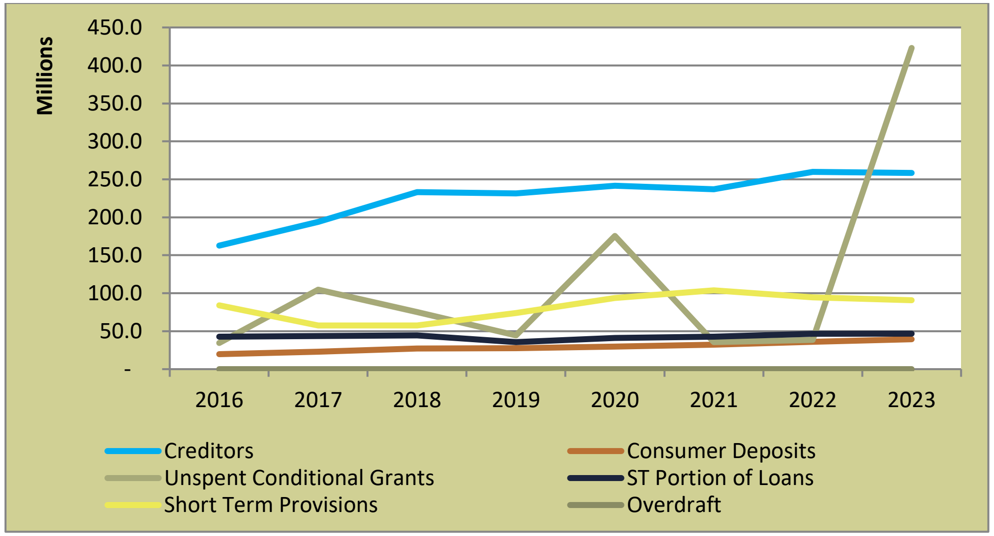
Graph 14: Current Assets



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

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

GRAPH 15: CURRENT LIABILITIES

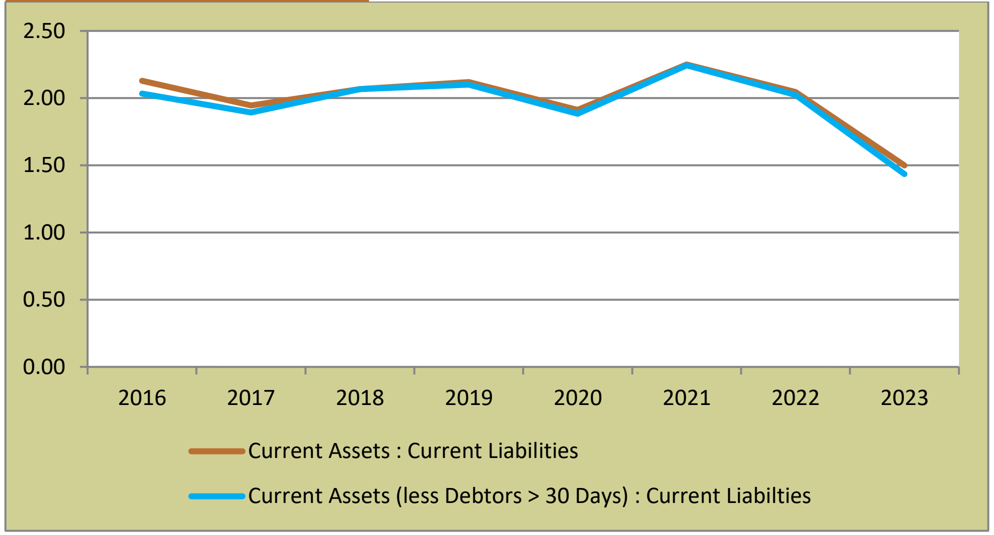


The combined impact of the movements in current assets and liabilities resulted in a decline in the liquidity ratio from 2.05:1 to 1.50:1 at the current year end. It must be stated that this ratio is heavily impacted by the substantial amount of unspent conditional grants which will likely be rolled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

TABLE 3: LIQUIDITY RATIOS

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

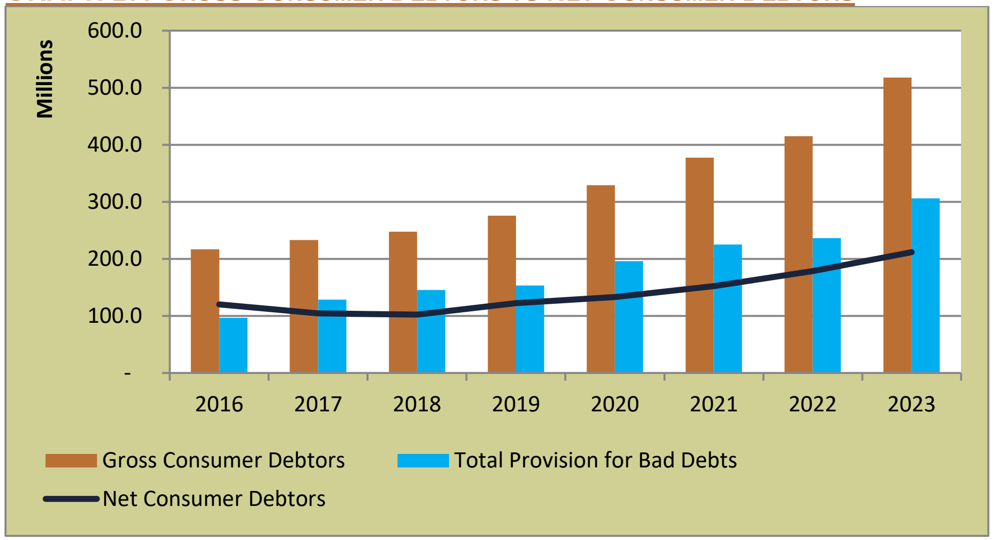
GRAPH 16: LIQUIDITY RATIOS



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

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

GRAPH 17: GROSS CONSUMER DEBTORS VS NET CONSUMER DEBTORS



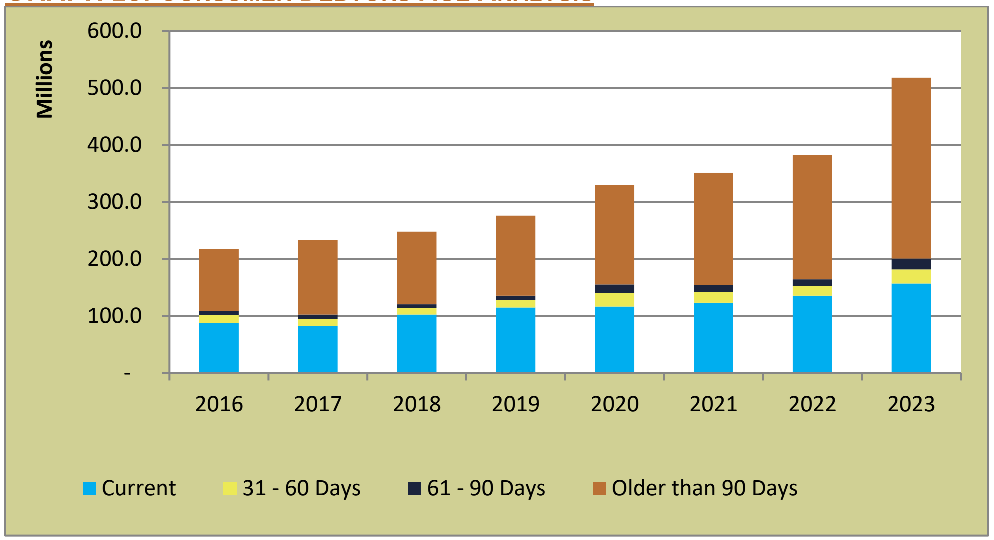
Scrutiny of the debtors age analysis reveals that debtors older than 90 days form the largest pool of debtors, accounting for 61.2% of gross consumer debtors at the current year end. This is followed by current debtors which accounted for 30.2% of gross consumer debtors. The substantial increase of R98.9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

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

TABLE 4: DEBTORS RATIOS

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

GRAPH 18: CONSUMER DEBTORS AGE ANALYSIS



Financial Performance

GRAPH 19: ANALYSIS OF SURPLUS

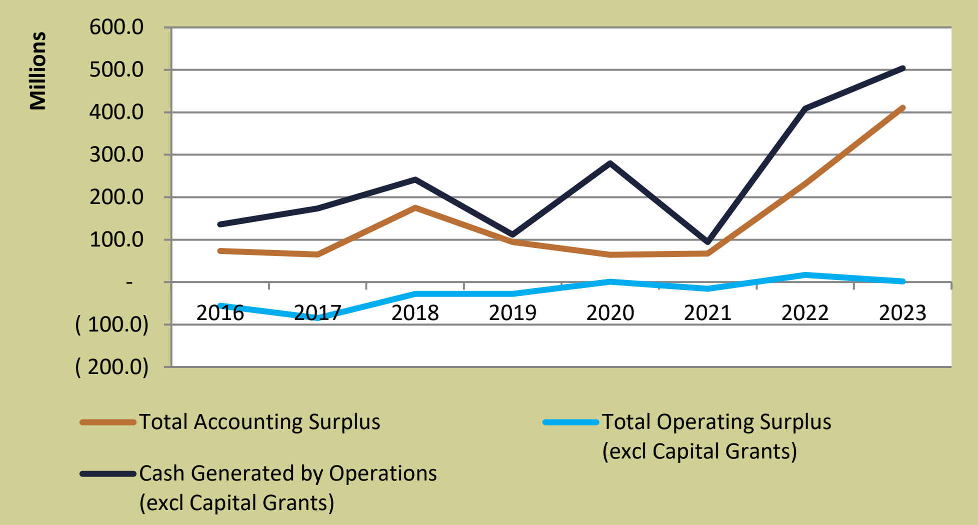


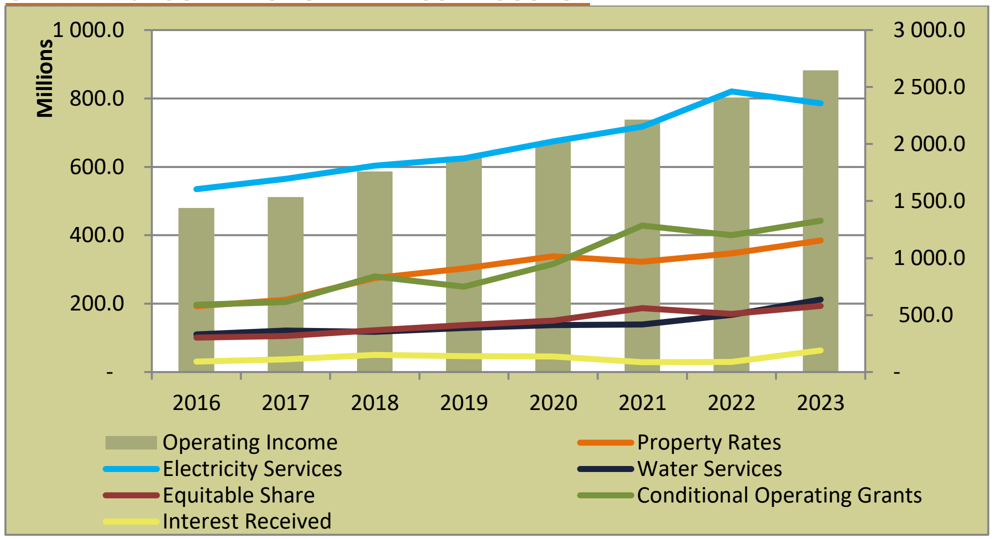
TABLE 5: TOTAL INCOME VS TOTAL EXPENDITURE

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

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

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

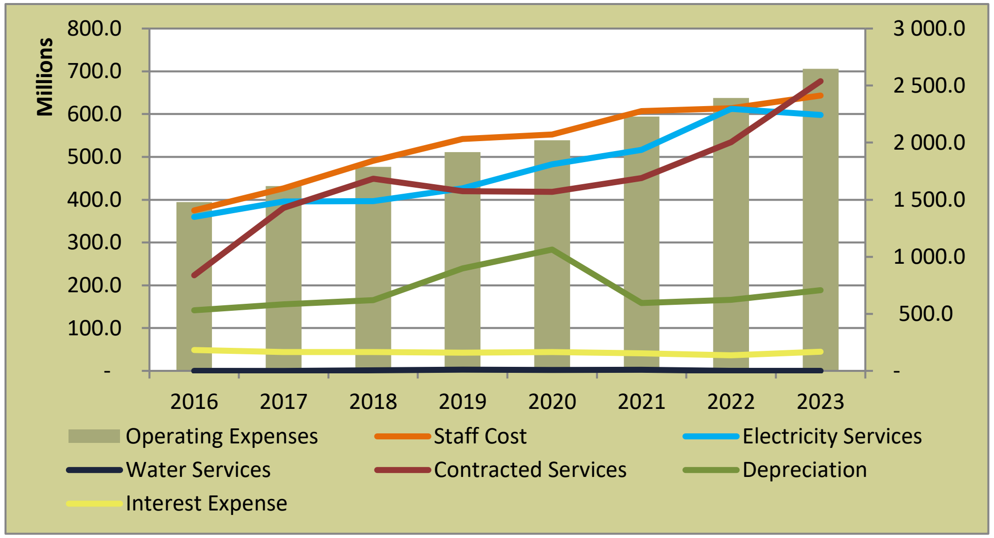
GRAPH 20: CONTRIBUTION PER INCOME SOURCE



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

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

GRAPH 21: CONTRIBUTION PER EXPENDITURE ITEM



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

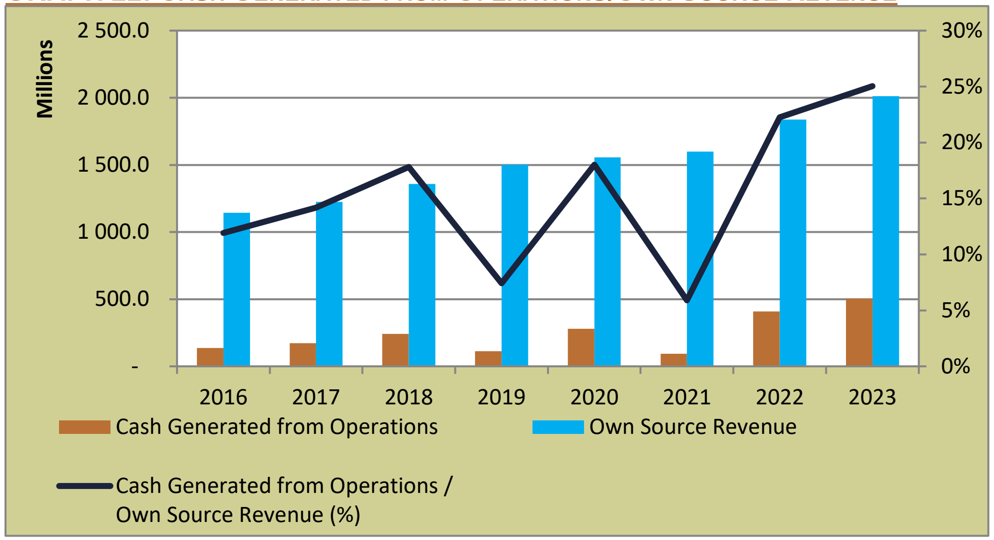
Expenditure on contracted services increased significantly by 27% to R676.9 million in FY2022/23. This resulted in contracted services overtaking staff costs as the predominant expenditure item, accounting for 20% of total revenue in FY2022/23. This increase was predominantly driven by increases of R54.3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

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

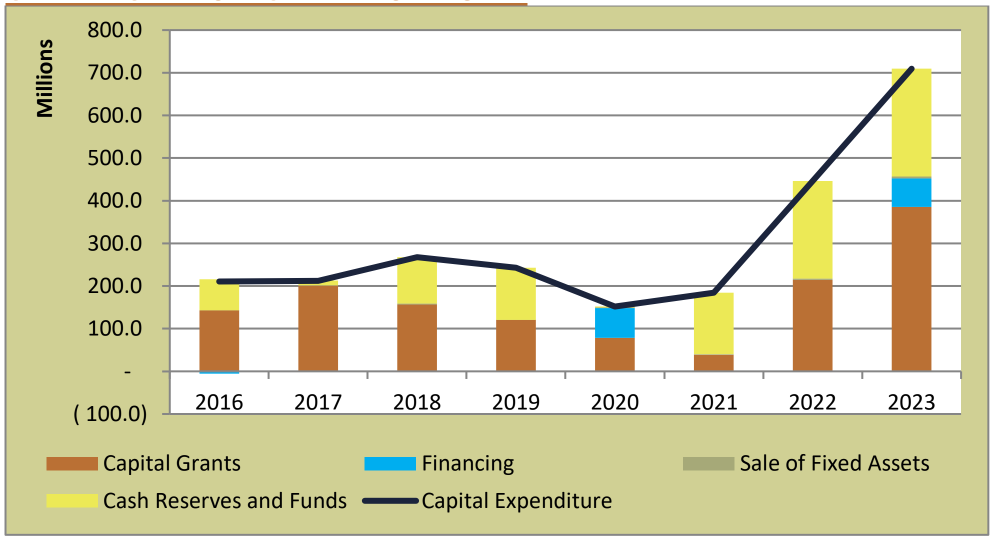
Electricity distribution losses declined marginally during the year to 8.52%, down from 8.98% recorded in the prior year. This remains within the NT norm range. Water distribution losses increased to 27.22% during the year, up from 25.05% in the prior year. This exceeds the NT maximum norm of 20% and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

Cash Flow

GRAPH 22: Cash Generated from Operations/Own Source Revenue



GRAPH 23: Annual Capital Funding Mix

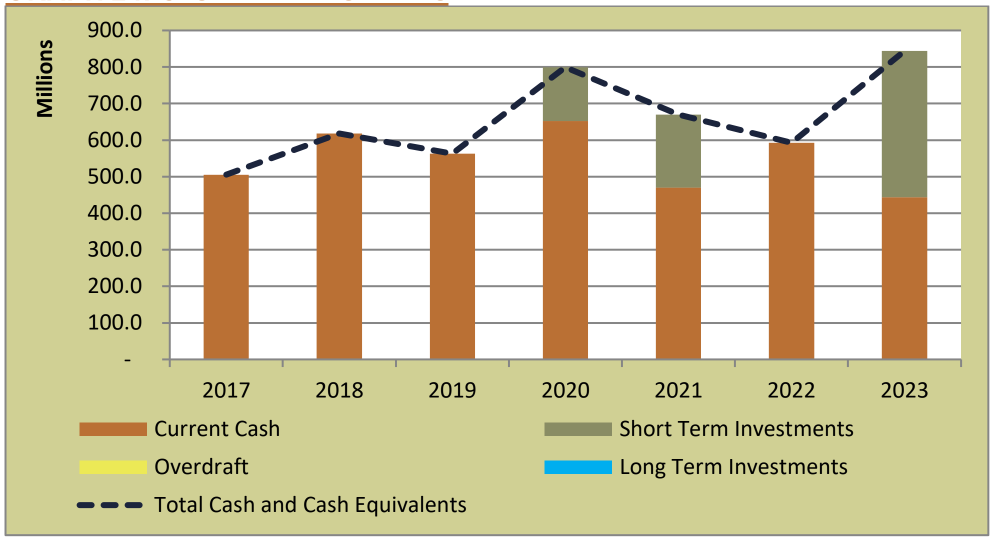


The receipt of the BFI grant in FY2021/22 has coincided with a rapid acceleration of the capital investment programme in the last 2 years. As the BFI project is expected to be completed by FYE2024/25, the accelerated capital investment programme is forecast to continue during the MTREF period. This is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

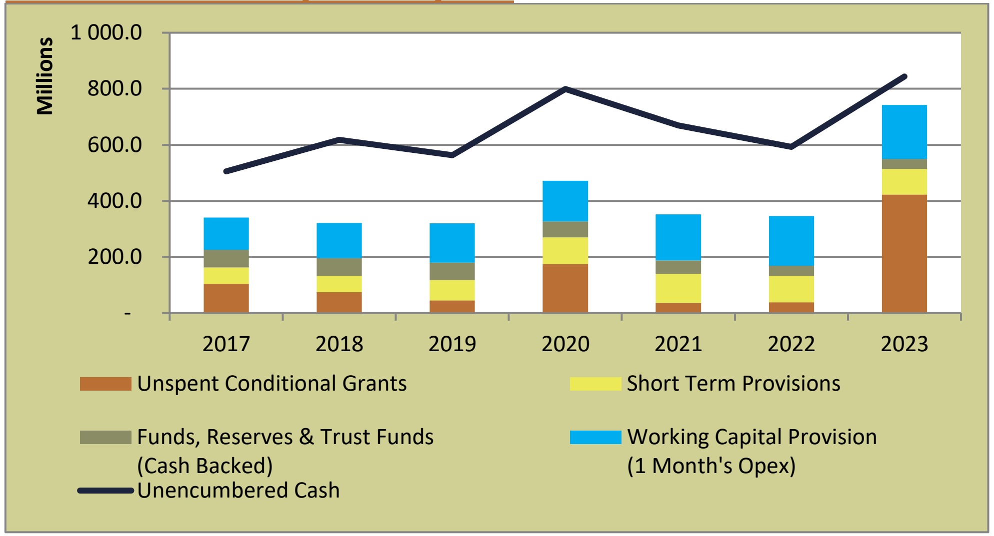
The debt indicators being a gearing ratio of 11.7% and debt service to total expense ratio of 1.3% indicate plentiful scope to accelerate the external financing programme in an affordable manner. It is noted that the municipality has budgeted for this in the Adjustment Budget. This is positive to note.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

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

GRAPH 24: Cash and Investments



GRAPH 25: Minimum Liquidity Required



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

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

TABLE 6: MINIMUM LIQUIDITY REQUIREMENTS

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

IPM Shadow Credit Score

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

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

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

TABLE 7: IPM Credit Model Outcomes

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

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

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

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

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

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

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LONG-TERM FINANCIAL MODEL OUTCOMES

MTREF CASE SCENARIO

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

In doing so, the collection rate was maintained at 91.9% throughout the forecast period. While no adjustments were made to the capital investment programme or funding mix. Assumed growth beyond the MTREF period for capital expenditure and borrowing is 5% and 4% p.a. respectively. All revenue items with the exception of water services revenue, were calibrated to the MTREF figures. Finally, distribution losses were maintained at their respective FY2022/23 levels.

The outcomes of this scenario are presented in TABLE 8. Financial performance is forecast to deteriorate in FY2024/25, whereafter improvements are forecast for the remainder of the MTREF period. Thereafter, financial performance is forecast to exhibit limited growth. Cash generation is forecast to exhibit year-on-year improvements throughout the planning period.

The municipality has budgeted for a rapidly accelerated capital investment programme in the Adjustment Budget. This is consistent with the receipt of the BFI grants for the water infrastructure projects as well as the renewable energy projects that are due to be completed by FYE2024/25. While the BFI funding has contributed significantly to the acceleration of capital investment, the municipality has budgeted to supplement this grant funding with significant borrowings and own cash over the MTREF period. The extent of the acceleration of the capital investment programme is deemed unaffordable, as illustrated in GRAPH 27 below. Cash shortfalls on budgeted capital expenditure are forecast from FY2025/26 onwards and will result in the municipality's cash resources being exhausted by the end of the MTREF period.

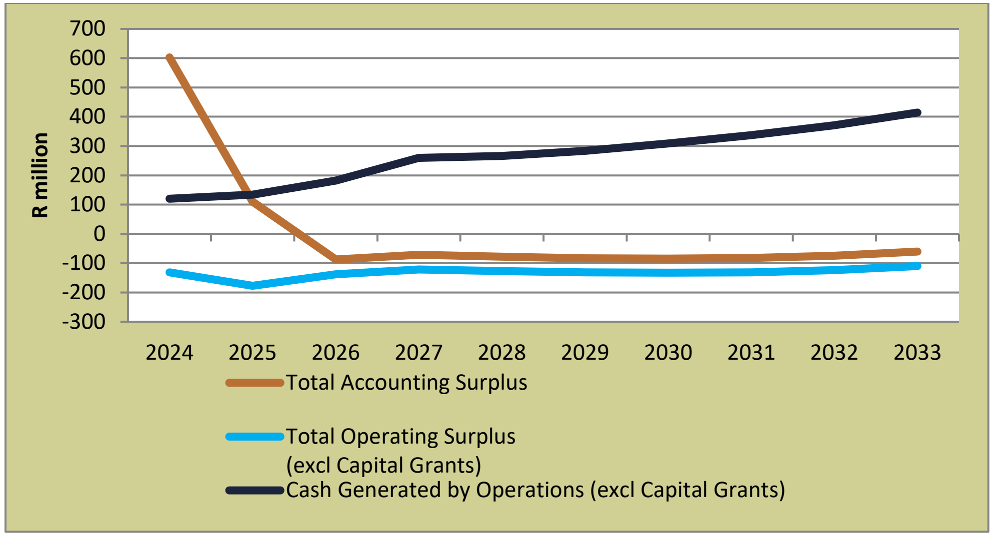
This, along with the poor financial performance, is forecast to have a detrimental impact on the municipality's liquidity position. This is evidenced by the planning period end liquidity ratio of just 0.2:1, as well as the movement into an overdraft position from FY2028/29 onwards.

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

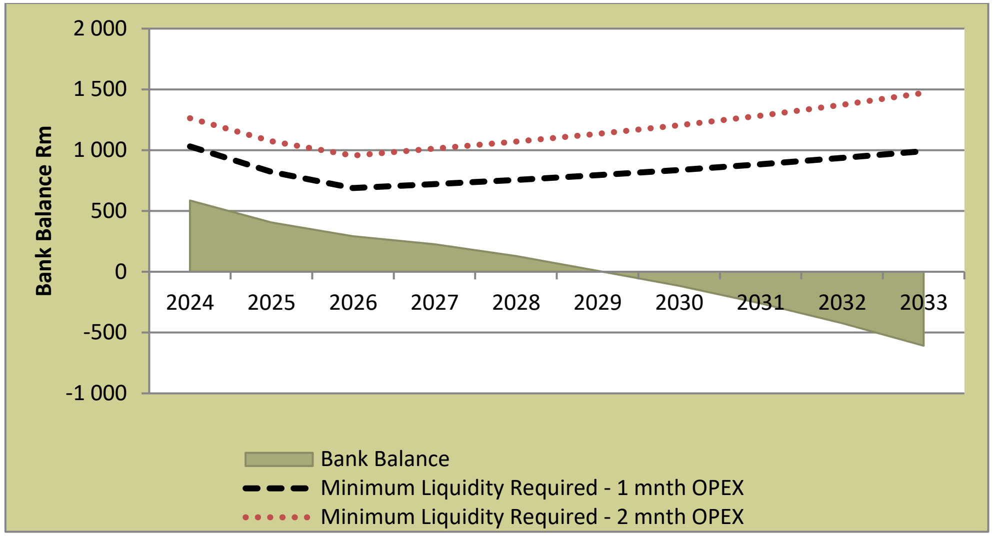
TABLE 8: MTREF CASE OUTCOMES

Outcome	MTREF Case
Average annual % increase in Revenue	8,1%
Average annual % increase in Expenditure	9,7%
Accounting Surplus accumulated during Planning. Period (Rm)	R 89
Operating Surplus accumulated during Planning. Period (Rm)	-R 1 324
Cash generated by Operations during Planning. Period (Rm)	R 2 677
Average annual increase in Gross Consumer Debtors	16,2%
Capital investment programme during Planning. Period (Rm)	R 6 566
External Loan Financing during Planning Period (Rm)	R 2 643
Cash and Cash Equivalents at the end of the Planning Period (Rm)	-R 608
No of Months Cash Cover at the end of the Planning Period (Rm)	-1,3
Liquidity Ratio at the end of the Planning Period	0.2 : 1
Gearing at the end of the Planning Period	20,5%
Debt Service to Total Expense Ratio at the end of the Planning Period	6,9%

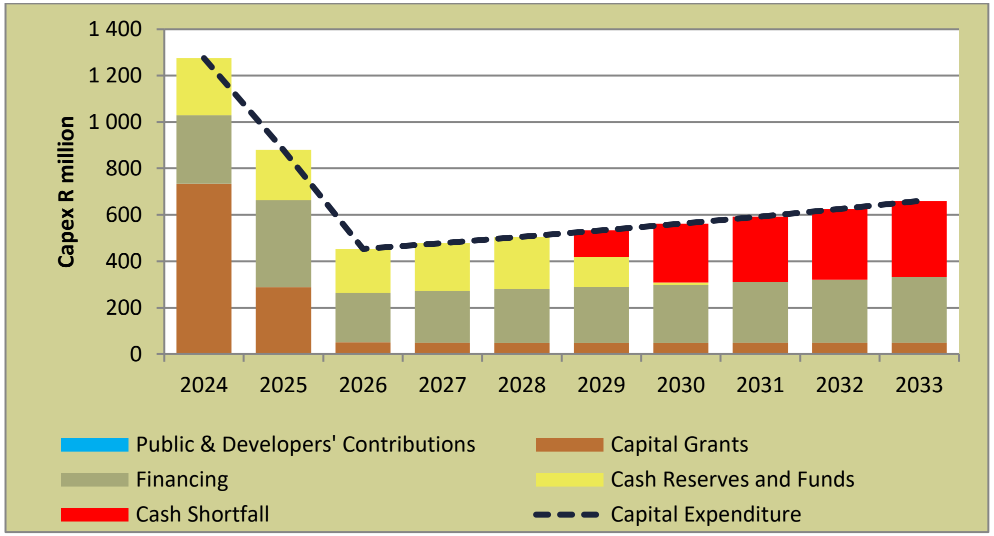
GRAPH 26: MTREF CASE SCENARIO: ANALYSIS OF SURPLUS



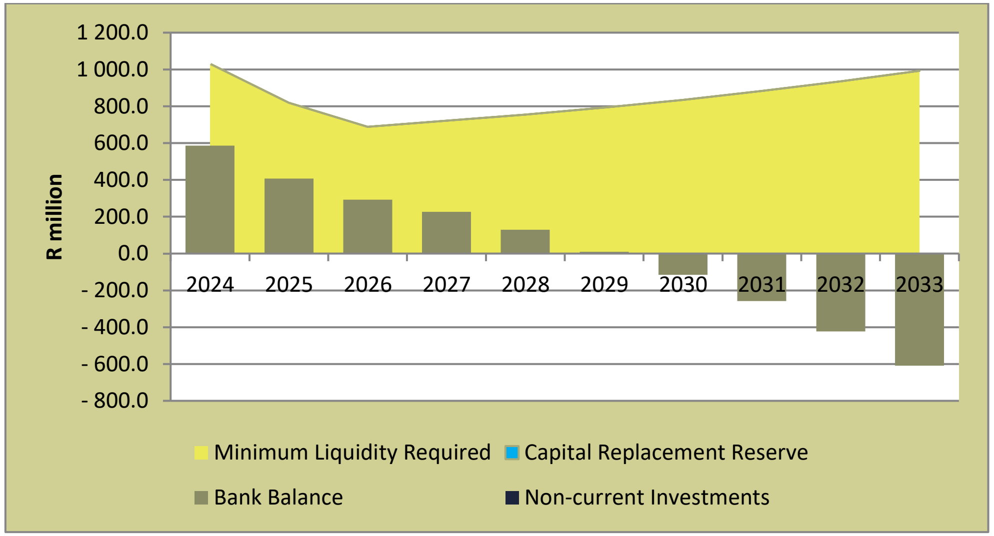
GRAPH 28: MTREF CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY



GRAPH 27: MTREF CASE SCENARIO: CAPITAL FUNDING MIX



GRAPH 29: MTREF CASE SCENARIO: CASH VS RESERVES



Base Case Scenario

To develop a realistic Base Case model, the figures from the Adjusted Budget 2023/24 – 2025/26 were used. The historic analysis reveals that the municipality has maintained a healthy liquidity position underpinned by the maintenance of a high collection rate. Financial performance has historically been reasonably volatile with operating surpluses posted in 3 of the 8 years under review. The objective of the model is to utilise realistic assumptions to support future financial sustainability. The following are the key assumptions:

1. A collection rate of 95% is assumed to be achieved within 3 years, whereafter it is assumed to remain at this level for the remainder of the planning period.
2. The model incorporated the increases in revenue and expenditure items as announced in the Adjustment Budget.
3. The Adjustment Budget capital investment programme was maintained over the MTREF period. An amount of R295 million is assumed in FY2026/27. Growth beyond the MTREF period is 5.5% p.a.
4. The Adjustment Budget borrowing programme was left unaltered over the MTREF period. An amount of R150 million is assumed to be borrowed in FY2026/27. Assumed annual growth beyond the MTREF period is 4%.
5. The annual borrowing under this scenario was adjusted to an average of 13-year amortising loans at a fixed interest rate equal to 4% over forecast CPI in any given year. Assumed annual growth in borrowing beyond the MTREF period is 4%.
6. Repairs and maintenance expenditure was reduced to 4% of PPE & IP over the planning period.
7. Electricity losses were maintained at FYE2022/23 levels, while water distribution losses were reduced to 20.0% over a 3-year period.
8. A load shedding impact scenario was incorporated into the Base Case. This scenario assumes an average of stage 2 load shedding for 2 years.. This is assumed to result in a reduction of 19.3% of electricity consumption. Additionally, permanent reductions of 5% in water and electricity sales are assumed.

The outcomes of the Base Case are tabled below.

Table 9: Base Case Outcomes

Outcome	Base Case
Average annual % increase in Revenue	7,2%
Average annual % increase in Expenditure	8,3%
Accounting Surplus accumulated during Planning. Period (Rm)	R 1 691
Operating Surplus accumulated during Planning. Period (Rm)	R 278
Cash generated by Operations during Planning. Period (Rm)	R 3 225
Average annual increase in Gross Consumer Debtors	11,4%
Capital investment programme during Planning. Period (Rm)	R 5 052
External Loan Financing during Planning Period (Rm)	R 2 068
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 1 431
No of Months Cash Cover at the end of the Planning Period (Rm)	3,3
Liquidity Ratio at the end of the Planning Period	1.8 : 1
Gearing at the end of the Planning Period	21,9%
Debt Service to Total Expense Ratio at the end of the Planning Period	5,0%

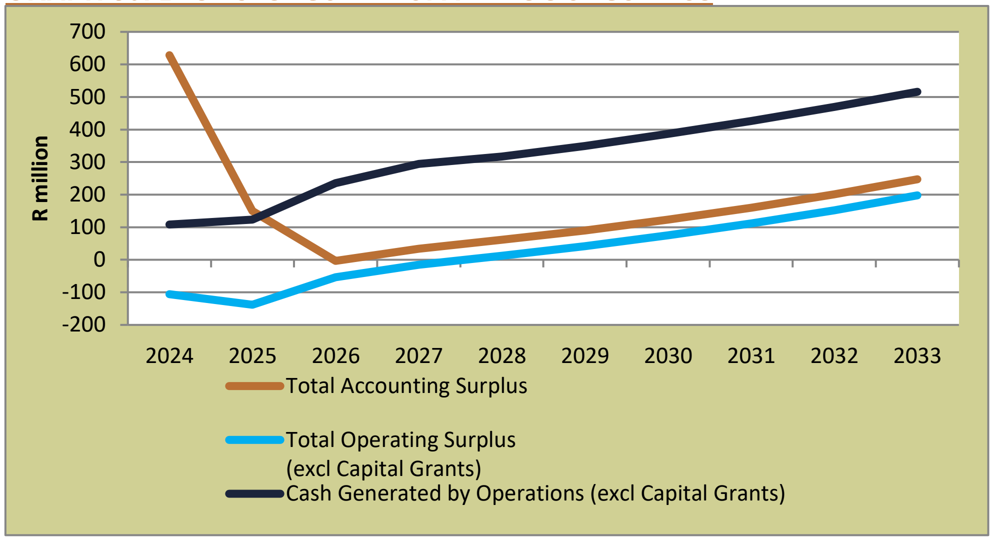
The accounting surplus is forecast to deteriorate over the MTREF period due to the level of capital grants returning closer to historic levels as the BFI water project is completed. A dip in the operating surplus is forecast for FY2024/25 partly due to the load shedding impact scenario. Year-on-year improvements are forecast for the remainder of the planning period. Notwithstanding the impact of the energy crisis, electricity services revenue is forecast to remain the predominant revenue source over the planning period. Repairs and maintenance expenditure was reduced to 4% of PPE & IP. This reduction is not necessarily a reduction in the absolute value of repairs and maintenance expenditure but is rather reflective of the increase in the carrying value of PPE & IP due to the significant acceleration of the capital investment programme. Additionally, the municipality's asset base will reflect significantly reduced ageing following the extent of investment in new assets, thus requiring reduced repairs and maintenance expenditure over the short-term.

Cash generation is forecast to remain healthy during the forecast period with year-on-year improvements forecast throughout the forecast period. The municipality is forecast to generate R3.22 billion in cash from operations over the planning period. This is forecast to underpin a healthy liquidity position, as evidenced by the forecast planning period end bank balance and liquidity ratio of R1.43 billion and 1.8:1 respectively. Moreover, a further contributing factor to the healthy liquidity position is the accelerated borrowings included in the Adjustment Budget. This will alleviate pressure on the municipality's own cash to supplement borrowings and capital grants in funding capital expenditure. In our view, the Base Case funding mix strikes a balance between affordable borrowings and putting the healthy liquidity position to productive use. This is considered an optimal funding mix.

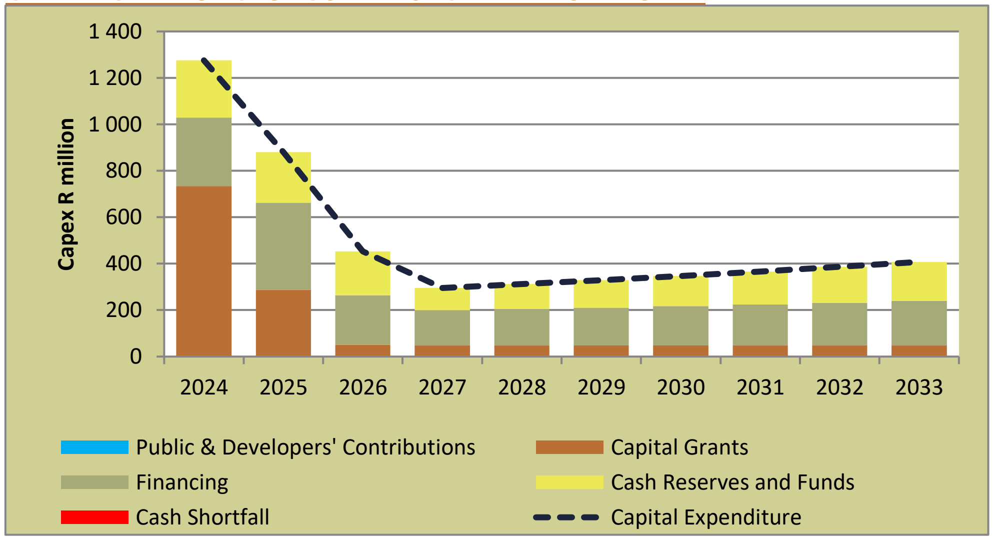
At the assumed level of borrowings, the debt indicators are forecast to remain below the maximum limits of 35% and 7% for George LM. A substantial R2.06 billion in borrowings in assumed over the planning period. The planning period end gearing ratio of 21.9% and debt service to total expense ratio of 5.0% are testament to the affordability of the Base Case borrowings programme. The municipality is forecast to meet the minimum liquidity requirements of 1-month's operating expenditure initially in FY2029/30 and for the remainder of the planning period. This is a key indicator of long-term financial sustainability.

The Base Case assumptions are seen as realistic and achievable outcomes and can be seen as recommendations for the municipality to follow to ensure long-term financial sustainability. A balance is struck between enabling an affordable yet significant acceleration of the capital investment programme, whilst ensuring that long-term financial sustainability is not threatened.

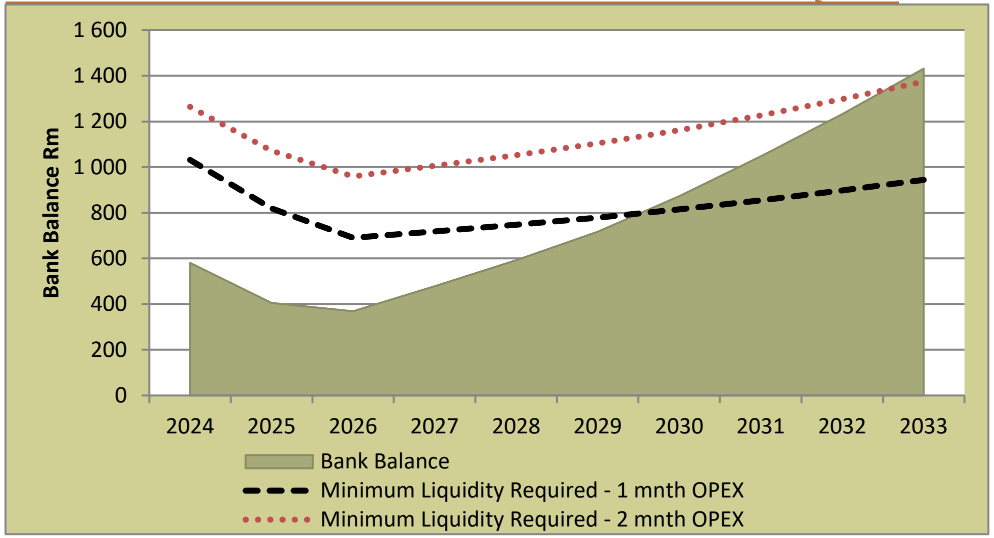
GRAPH 30: BASE CASE SCENARIO: ANALYSIS OF SURPLUS



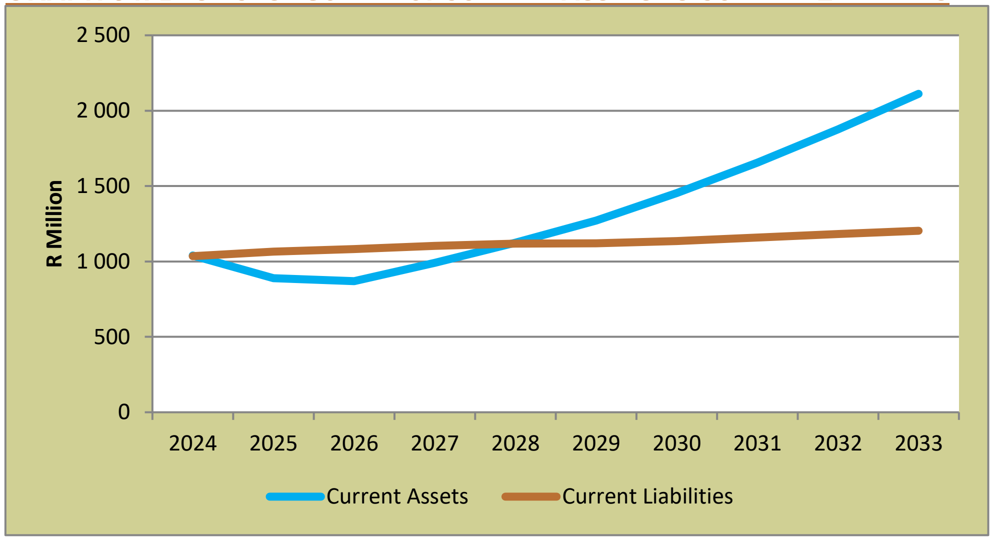
GRAPH 31: BASE CASE SCENARIO: CAPITAL FUNDING MIX



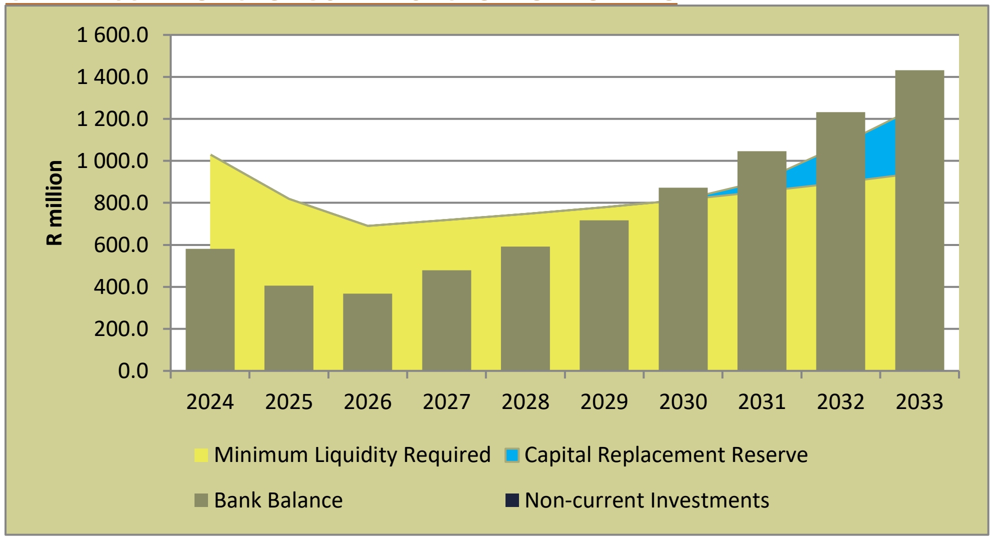
GRAPH 32: BASE CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY



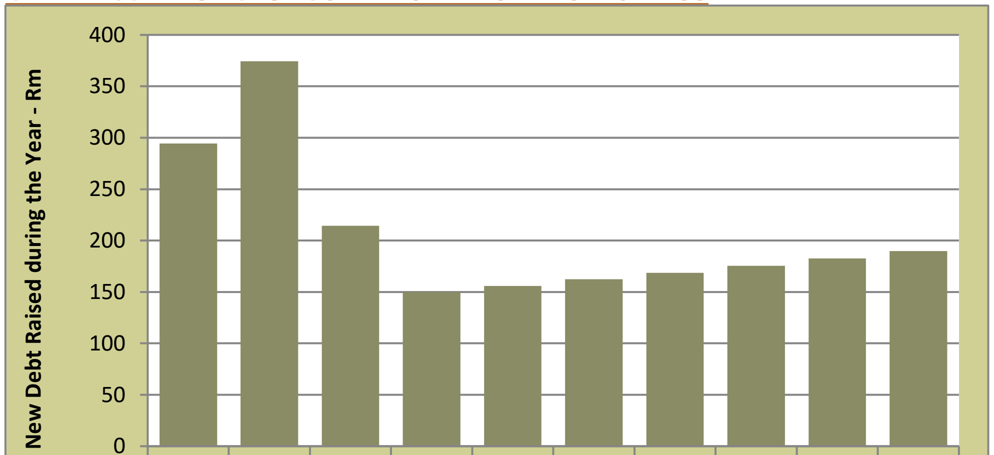
GRAPH 34: BASE CASE SCENARIO: CURRENT ASSETS VS CURRENT LIABILITIES



GRAPH 33: BASE CASE SCENARIO: CASH VS RESERVES



GRAPH 35: BASE CASE SCENARIO: ANNUAL BORROWINGS



	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
R million	295	374	214	150	156	162	169	175	182	190

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

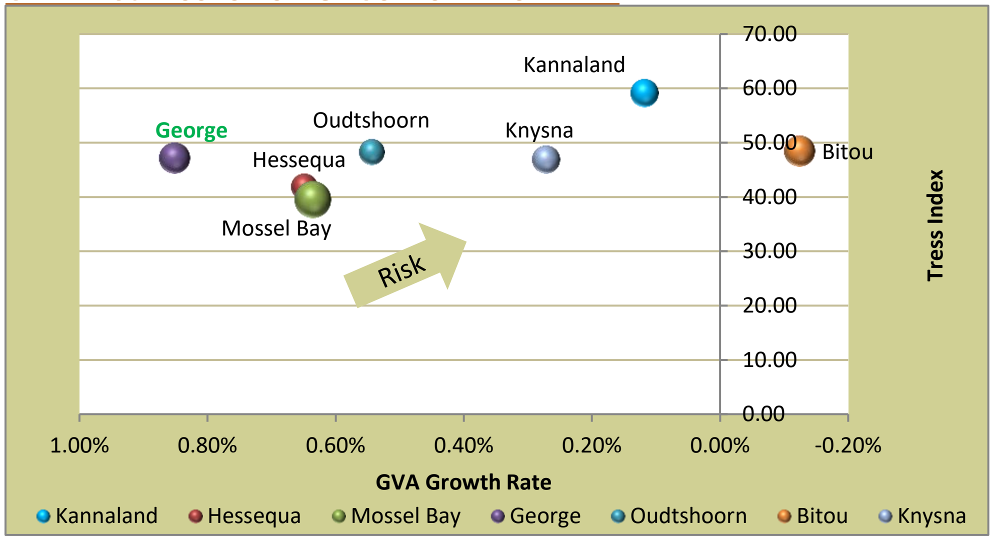
8 Ratio Analysis

9 Conclusions

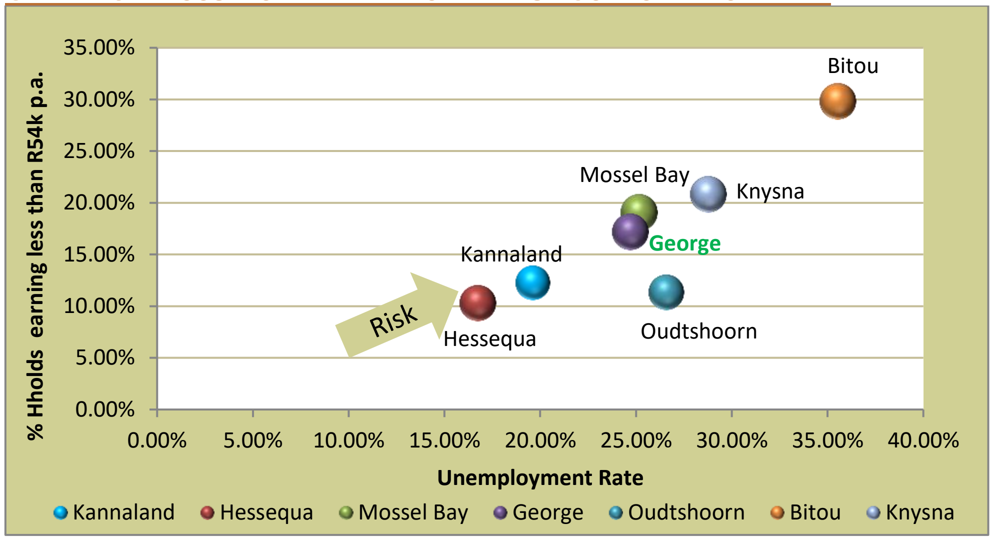
Future Revenues

Municipal Revenue Risk Indicator (MRRI) = "High"

GRAPH 36: ECONOMIC RISK COMPONENT OF MRRI



GRAPH 37: HOUSEHOLD ABILITY TO PAY RISK COMPONENT OF MRRI



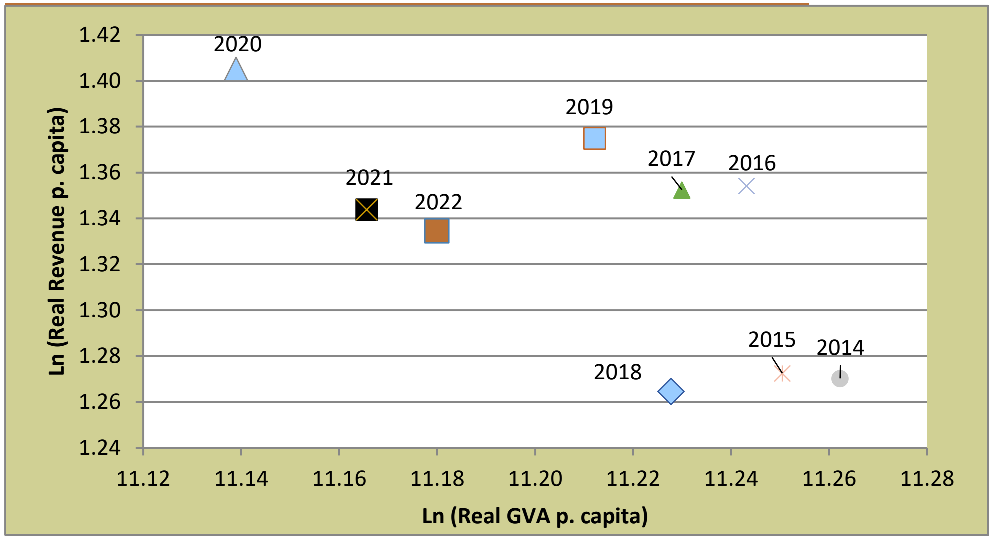
The Municipal Revenue Risk Indicator (MRRI) measures the risk of the municipality's ability to generate its own revenues. This is a function of the economy (size of the economy as measured by GVA per capita, GVA growth rate and Tress Index); and the household ability to pay (measured by percentage of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

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

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

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

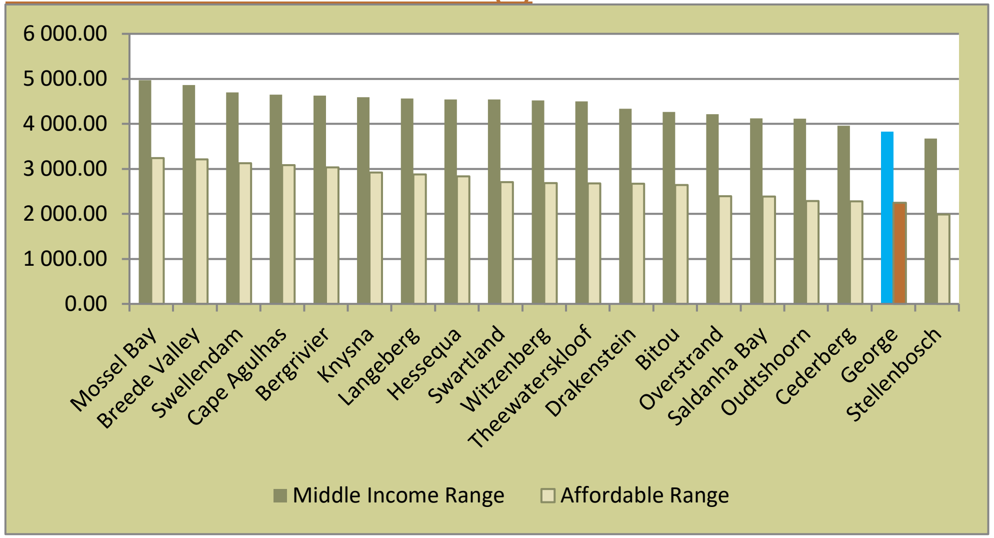
GRAPH 38: REAL REVENUE PER CAPITA VS REAL GVA PER CAPITA



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

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

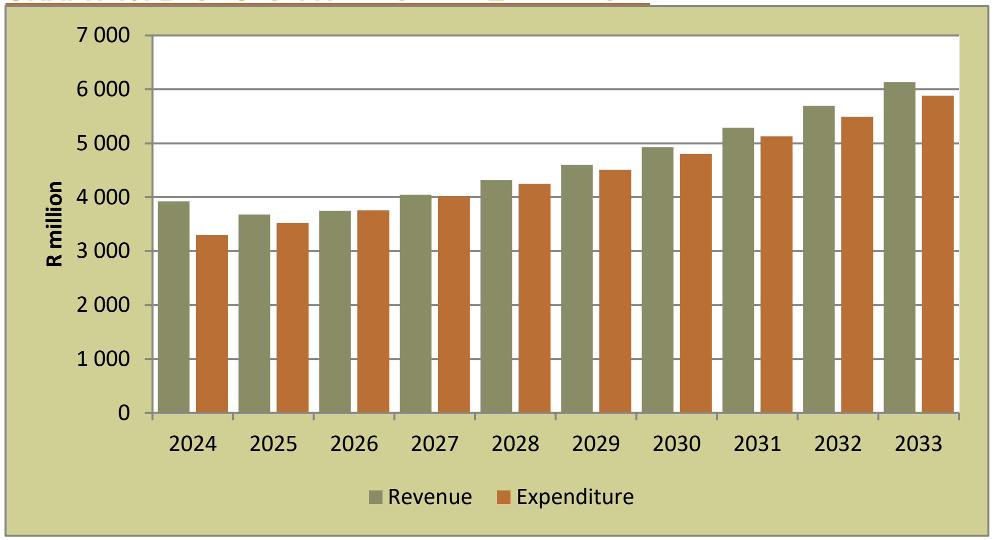
GRAPH 39: AVERAGE HOUSEHOLD BILL (R)



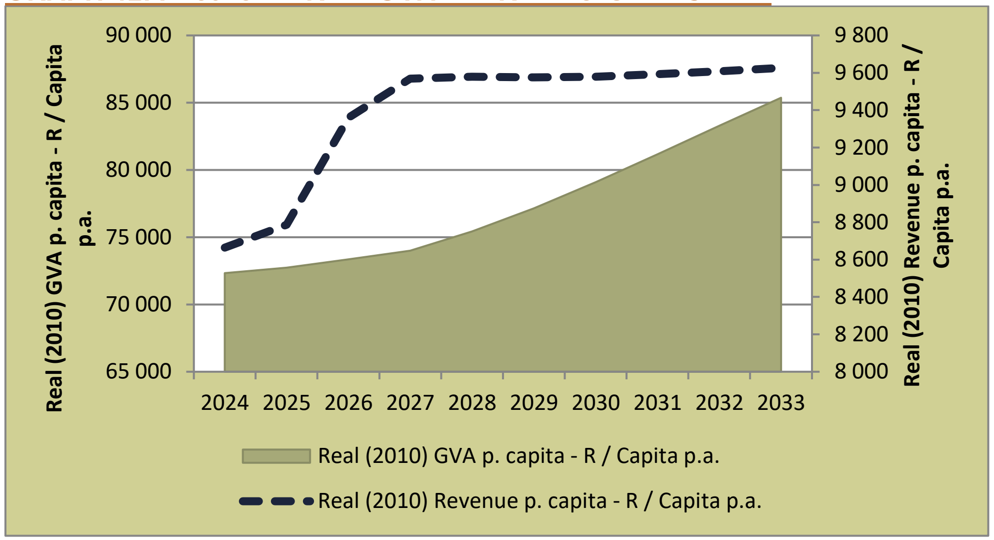
A comparison of the average household bill for the middle income and affordable income range of a selected number of municipalities in the Western Cape province (extracted from Budget Table: SA14) based on the 2023/24 tariffs, reveals that George LM features towards the very bottom of the range. Considering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

Municipal Revenues

Graph 40: Base Case: Revenue and Expenditure



Graph 41: Projected Real GVA and Revenues per Capita

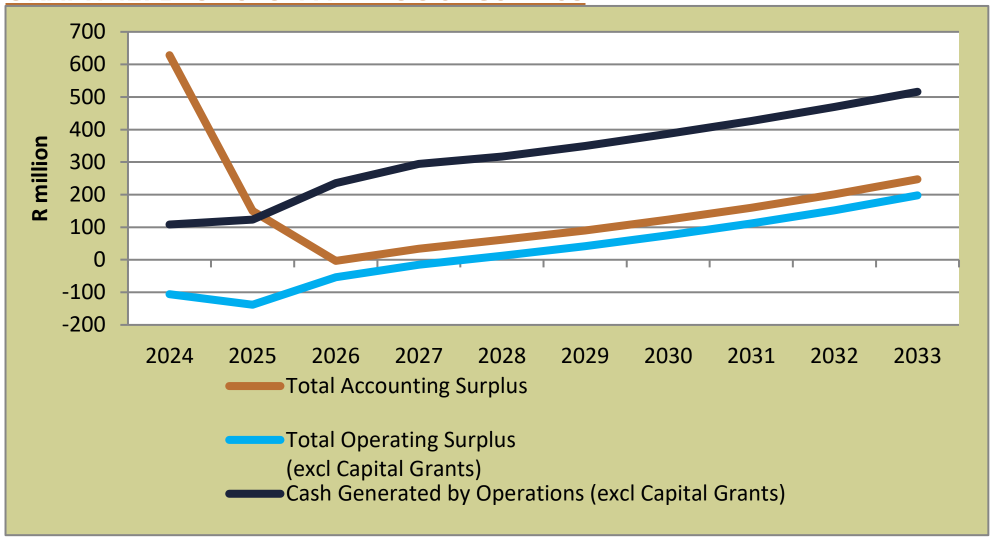


The Base Case estimates that, over the planning period, future nominal revenue (including capital grants) will grow at an average rate of 7.2% p.a. This growth in revenue includes: (i) tariff increases, (ii) increased sales and (iii) additional revenue sources. Future nominal expenditure is estimated to grow at a comparatively higher rate of 8.3% over the same period.

Graph 42 below illustrates that operating deficits are forecast to continue until FY2027/28. Financial performance is forecast to be at its worst in FY2024/25 as a result of the load shedding impact scenario included in the Base Case. Electricity services revenue is forecast to remain the predominant contributor, followed by property rates. The impact of the energy crisis on the municipality's finances was severe, with electricity services revenue decreasing by 4% from the prior year. It is thus a very positive development that George has begun implementing renewable energy projects to alleviate the impact of load shedding thereby protecting the municipality's main source of revenue. Additionally, this will likely contribute to reducing the cost of electricity bulk purchases in future. Electricity bulk purchases are forecast to remain the predominant expenditure item, followed by staff costs.

Real GVA per capita is forecast to increase over the planning period, from R72 717 in 2023 to R85 622 in 2033 for a total increase of 17.7%. Real revenue per capita is forecast to increase year-on-year over the planning period from R4 358 in 2023 to R6 177 in 2033 for an increase of 41.7%. Growth of the local economy is critical for the municipality to generate revenue as it has a direct impact on households' ability to pay for municipal services (MRRI). Economic growth translates into an expansion of the municipality's revenue base, which, in turn, will facilitate an acceleration of the capital investment programme. This is crucial for the municipality to keep up with the increasing population and associated demand for services.

GRAPH 42: BASE CASE: ANALYSIS OF SURPLUS



Cash generation is forecast to be positive and improving throughout the forecast period. The forecast accumulated cash generated by operations of R3.22 billion over the planning period is underpinned by the assumed improved collection rate and improving financial performance. This will assist in facilitating an accelerated capital investment programme and will promote long-term sustainability.

Affordable Future Capital Investment

CAPEX Affordability and Funding

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

TABLE 10: CAPEX Demand vs Affordability

Total 10-year CAPEX **Demand:**	=	R 11 660 million
Total 10-year CAPEX **Affordability:**	=	R 5 052 million

MTREF Capital Funding Mix

George's Adjustment Budget expects a capital budget amounting to R2 770 million, funded as follows:

TABLE 11A: MTREF Case 3-year MTREF Funding Mix R'm

R'm	Total	2023/24	2024/25	2025/26
Public & Developers Contributions	**0**	0	0	0
Capital Grants	**1 072**	734	288	50
Financing	**883**	295	375	214
Cash Reserves and Funds	**656**	240	223	189
Total	**2 607**	**1 269**	**885**	**453**

10-Year Capital Funding Mix

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

TABLE 12: Base Case 10-Year Capital Funding Mix

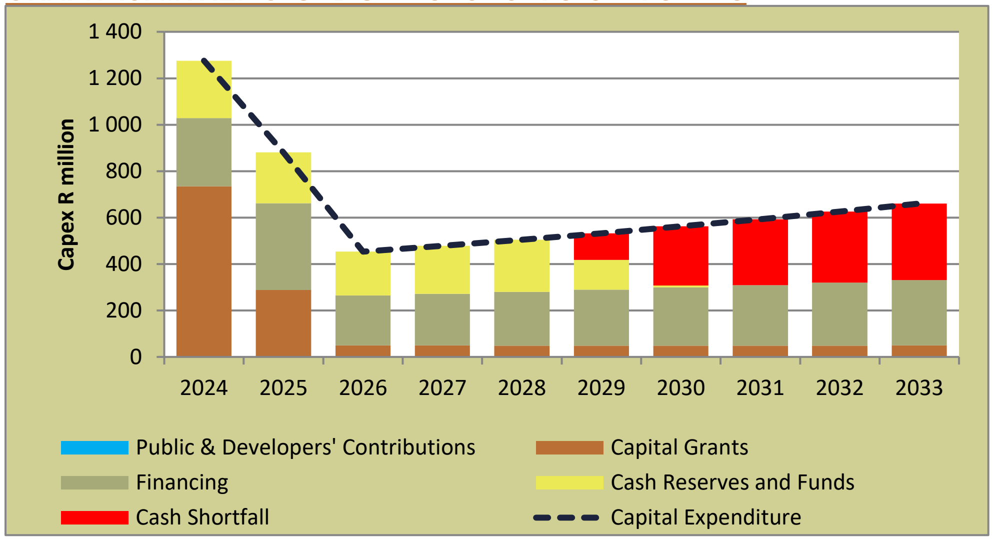
Source	Rm	%
Public & Developers' Contributions	0	0%
Capital Grants	1 413	28%
Financing	2 068	41%
Cash Reserves and Funds	1 571	31%
Cash Shortfall	0	0%
Capital Expenditure	**5 052**	**100%**

George has historically placed heavy reliance on capital grants and own cash resources to fund the capital expenditure programme, with 56% and 38% of funding respectively emanating from these 2 sources. The utilisation of own cash resources to fund capital expenditure has accelerated significantly in the most recent 2 years. The municipality undertook external financing on just 2 occasions during the review period being FY2019/20 and FY2022/23. The municipality has budgeted to accelerate the borrowings programme over the MTREF period to the tune of R883 million. This is positive to note, and a similar philosophy is reflected in the Base Case.

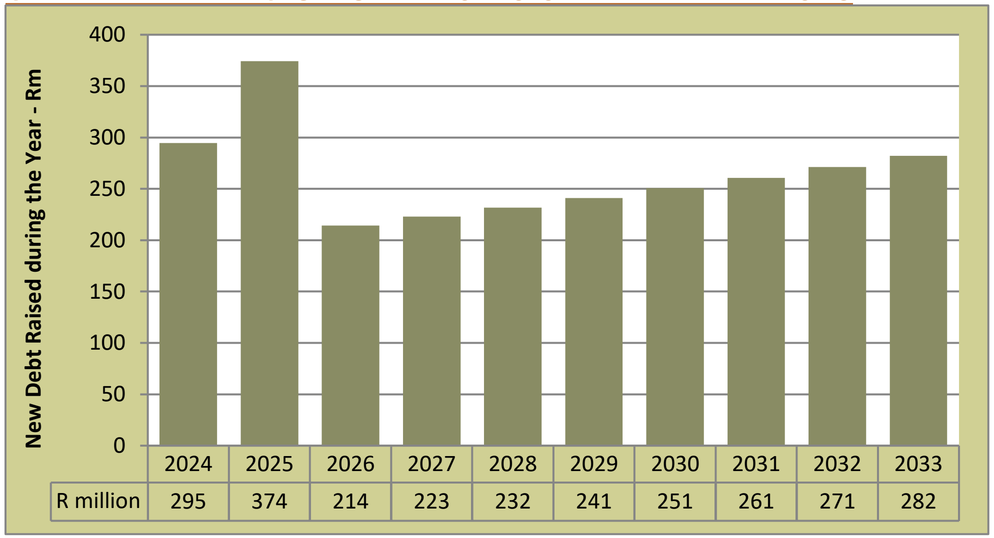
The receipt of the BFI grant has resulted in a notable acceleration of the capital investment programme since FY2021/22. This acceleration is set to continue according to the municipality's Adjustment Budget. The MTREF Case suggests that the budgeted acceleration of capital investment will prove to be unaffordable over the long-term. This is addressed in the Base Case. The adjustment Budget capital investment programme was maintained over the MTREF period, it was then reduced in FY2026/27 to R295 million, with an assumed growth factor of 5.5% p.a. for the remainder of the planning period. Beyond the MTREF period, it is expected that the level of capital investment will return closer to historic levels as the BFI project is completed.

This is reflected in the Base Case. As illustrated in **Graph 45**, the Base Case capital investment programme is affordable and sustainable.

GRAPH 43: MTREF Case Distribution of Future Funding

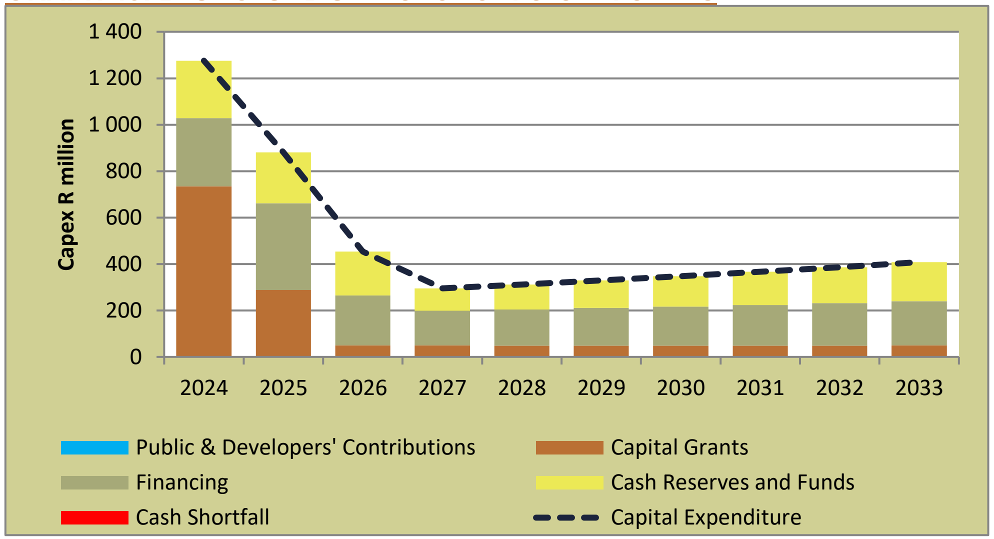


GRAPH 44: MTREF Case Estimate of Future External Financing



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

GRAPH 45: Base Case Distribution of Future Funding



GRAPH 46: Base Case Estimate of Future External Financing

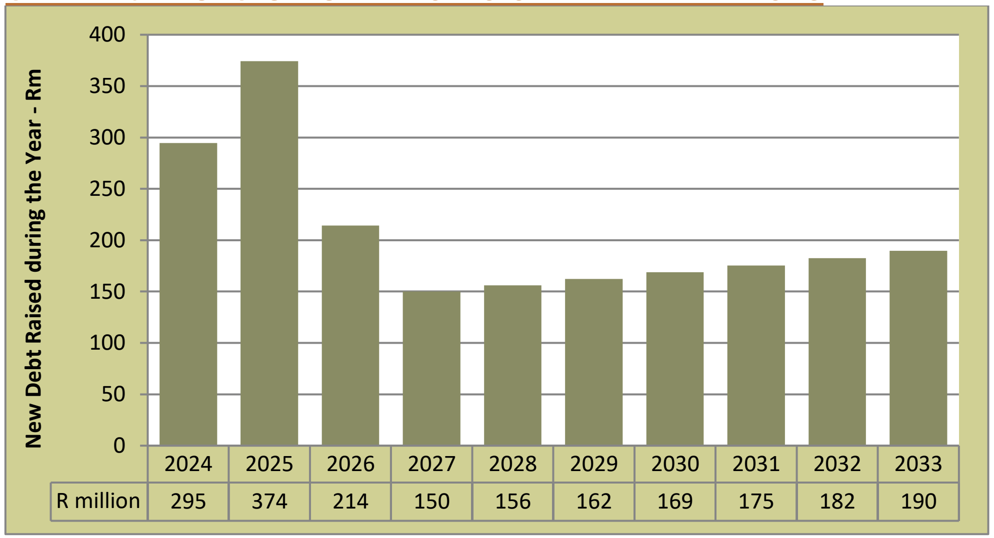


TABLE 13 & TABLE 14 below compare the distribution of capital funding over the planning period for both the MTREF Case and Base Case.

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

R'm	Total	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public & Developers' Contributions	0	0	0	0	0	0	0	0	0	0	0
Capital Grants	1 413	734	288	50	49	48	48	48	49	49	49
Financing	2 643	295	374	214	223	232	241	251	261	271	282
Cash Reserves and Funds	1 223	247	219	189	206	225	129	9	0	0	0
Cash Shortfall	1 287	0	0	0	0	0	114	254	284	306	329
Capital Expenditure	**6 566**	1 276	881	453	478	505	533	562	593	626	660

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

R'm	Total	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public & Developers' Contributions	0	0	0	0	0	0	0	0	0	0	0
Capital Grants	1 413	734	288	50	49	48	48	48	49	49	49
Financing	**2 068**	295	374	214	**150**	**156**	**162**	**169**	**175**	**182**	**190**
Cash Reserves and Funds	**1 571**	247	219	189	**96**	**107**	**118**	**130**	**142**	**155**	**168**
Cash Shortfall	0	0	0	0	0	0	**0**	**0**	**0**	**0**	**0**
Capital Expenditure	**5 052**	1 276	881	453	**295**	**312**	**329**	**347**	**366**	**386**	**408**

LIQUIDITY AND CAPITAL REPLACEMENT RESERVE

The minimum liquidity levels cater for unspent conditional grants, cash-backed reserves, short-term provisions and 1-month's working capital (operating expenditure). Liquidity is forecast to be sufficient to cover 1-month's operating expenditure from FY2029/30 onwards. It would be prudent to continue to build liquidity levels to allow for the Capital Replacement Reserve to be built up to fund future capital expenditure.

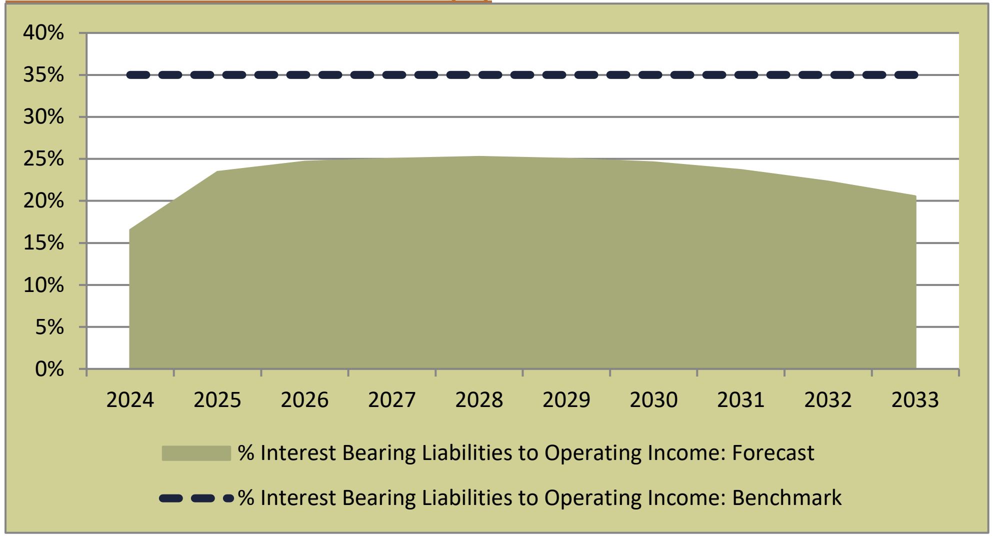
GEARING

The MTREF Case includes the borrowing programme as presented in the Adjustment Budget with assumed annual growth thereafter being 4%. The assumed average loan tenor is 10 years. This is forecast to result in an affordable gearing ratio which is forecast to peak at 25.23% in FY2025/26 before reducing to 20.54% by the end of the planning period. The debt service to total expense ratio is forecast to reach 6.89% by the end of the planning period. This places the Adjustment Budget borrowing programme at the limit of affordability.

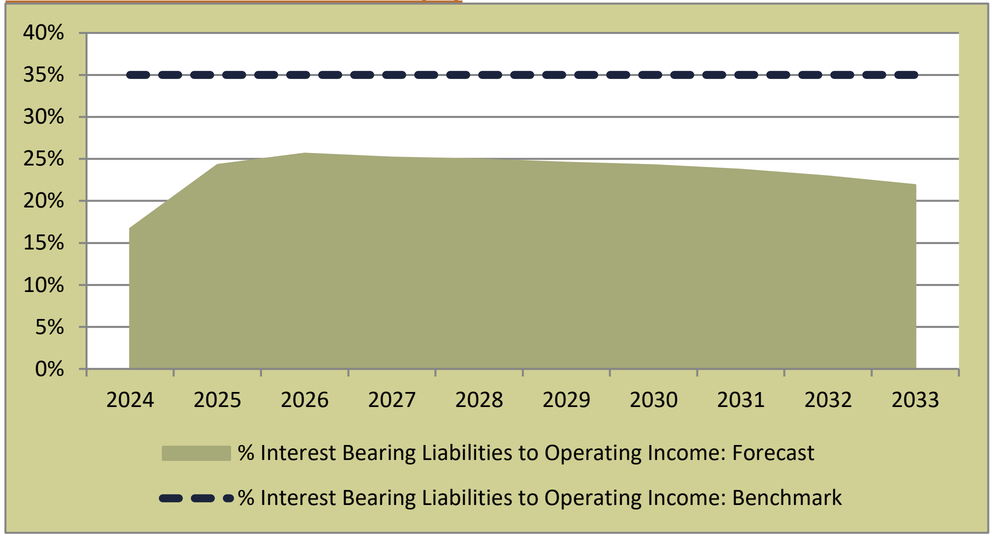
The Base Case attempts to rectify the issues identified in the MTREF Case. Firstly, the average loan tenor on new debt was extended to 13 years in the Base Case. This has the impact of reducing annual debt service charges through increasing the number of years over which the debt must be repaid. The doubts regarding affordability of the MTREF Case's borrowings programme was on the debt service side as opposed to the gearing side. The extension of the average loan tenor rectifies this and renders the Base Case borrowings programme affordable. The Base Case borrowing programme reflects a similar amount of borrowing over the planning period as the MTREF Case, however, borrowing is reduced beyond the MTREF period as indicated in Tables 13 & 14. The level of borrowing and extended loan tenor is forecast to result in an affordable debt profile as evidenced by the gearing ratio which is forecast to peak at 25.63% in FY2025/26 before reducing to 21.87% by the end of the planning period. The debt service to total expense ratio is forecast to peak at 5.00% at the end of the planning period.

It is noted that the Base Case reflects a decline in the total capital outlay compared to the MTREF Case. Considering the MTREF Case projections reflect an unaffordable capital investment programme, the reduced capital outlay is deemed necessary. Additionally, the BFI projects which are scheduled to be completed by FY2024/25 contribute significantly to this acceleration, it is expected that capital investment will return closer to historic levels once these projects are completed. The Base Case capital investment programme nonetheless reflects an acceleration of capital expenditure as compared to the historic outcomes. The annual average capital outlay of R505.2 million is a significant increase from the historic average of R304.9 million p.a. Moreover, the adjustments made to the funding mix promote long-term sustainability.

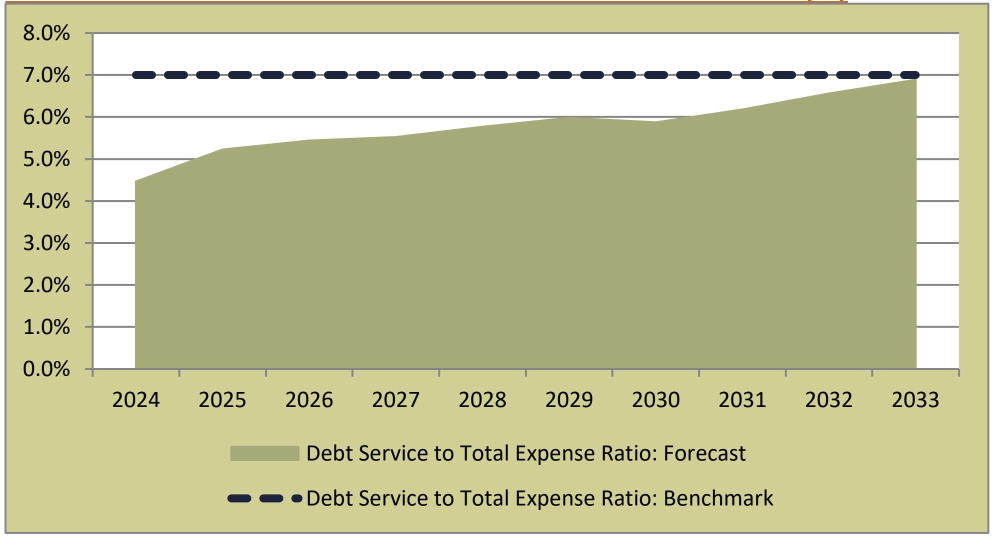
GRAPH 47: MTREF CASE GEARING (%)



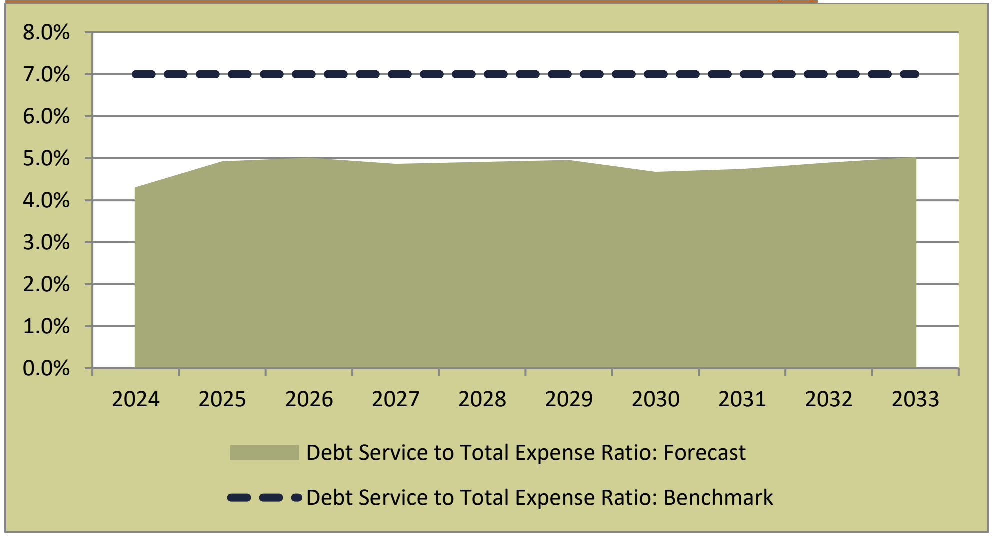
GRAPH 49: BASE CASE GEARING (%)



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



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



Scenarios Analysis

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

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

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

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

    2.1. A positive & negative scenario indicating the impact of positive and negative 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 assess the feasibility of an accelerated capital investment programme on long-term financial sustainability:**

    3.1. A scenario assessing the feasibility of accelerating the Adjustment Budget capital investment programme. This is assumed to be achieved through increasing borrowings and the extent of own cash utilised to fund capital investment. All other input variables are assumed to be consistent with the Base Case.

Scenario 1: Sensitivity Analysis on the Collection Rate

The challenging economic environment in which George and other municipalities must operate is littered with issues such as the energy crisis, a high inflationary environment, governmental inefficiencies to name but a few. This places enormous pressure on municipal finances. This pressure extends to the households from which municipalities extract their revenue. It is likely that this challenging environment is one of the primary causes of the drop in the collection rate exhibited during FY2022/23. Should this challenging environment persist, a further reduction of the collection rate is not out of the realms of possibilities. However, through prudent credit control and disciplined operational management, a recovery of the collection rate is feasible. As such, this scenario assesses the impact of both positive and negative movements of 2% from the assumed Base Case level of 95% (achieved within three years).

As evidenced in Table 15 and the graphs below, the impact of a deterioration of the collection rate is significant. Financial performance is forecast to decline significantly with operating deficits forecast throughout the forecast period. The reduced collection rate will naturally result in a decline in cash generated by operations, to the tune of 22.9% in this scenario. This is forecast to translate into a significantly reduced liquidity position as evidenced by the planning period end liquidity ratio of 1.2:1 and bank balance of R745 million. The minimum liquidity requirements will not be met throughout the planning period.

The positive scenario reflects substantial improvements to financial performance and cash generation, as evidenced by an additional R687 million in cash forecast to be generated by operations over the planning period. The planning period end bank balance is forecast to improve by a considerable 51.6% to R2.16 billion. This is forecast to translate into a planning period end liquidity ratio of 2.4:1.

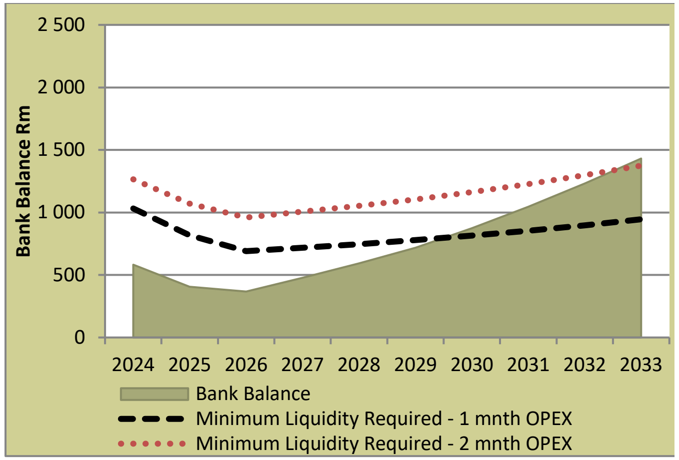
The outcomes of this scenario are evidence of the critical nature of maintaining a high collection rate, in excess of 95% at a minimum. The municipality has managed to meet this mark on average over the 8-year review period with an average collection rate of 95%. This must be a minimum target for the municipality to achieve throughout the planning period.

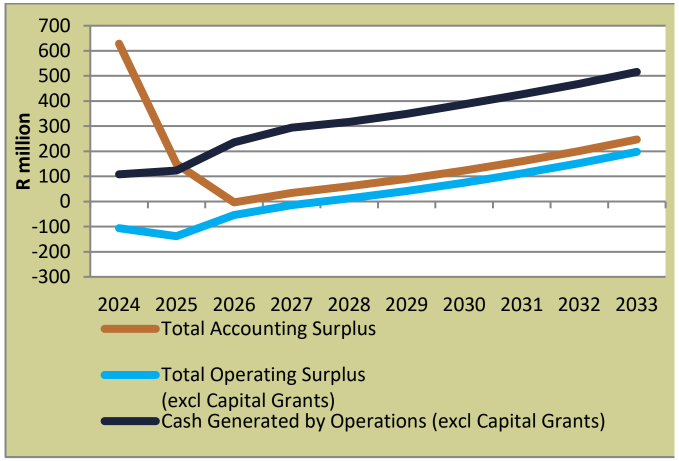
Table 15: Scenario 1: Sensitivity Analysis on the Collection Rate

Outcome	Base Case	Collection Rate -2%	Collection Rate +2%
Average annual % increase in Revenue	7,2%	7,1%	7,3%
Average annual % increase in Expenditure	8,3%	8,5%	8,2%
Accounting Surplus accumulated during Planning. Period (Rm)	R 1 691	R 949	R 2 374
Operating Surplus accumulated during Planning. Period (Rm)	**R 278**	**-R 464**	**R 960**
Cash generated by Operations during Planning. Period (Rm)	**R 3 225**	**R 2 487**	**R 3 912**
Average annual increase in Gross Consumer Debtors	11,4%	14,5%	7,4%
Capital investment programme during Planning. Period (Rm)	R 5 052	R 5 019	R 5 019
External Loan Financing during Planning Period (Rm)	R 2 068	R 2 104	R 2 104
Cash and Cash Equivalents at the end of the Planning Period (Rm)	**R 1 431**	**R 745**	**R 2 169**
No of Months Cash Cover at the end of the Planning Period (Rm)	**3,3**	**1,7**	**5,0**
Liquidity Ratio at the end of the Planning Period	**1.8 : 1**	**1.2 : 1**	**2.4 : 1**
Gearing at the end of the Planning Period	21,9%	22,3%	22,0%
Debt Service to Total Expense Ratio at the end of the Planning Period	5,0%	5,0%	5,1%

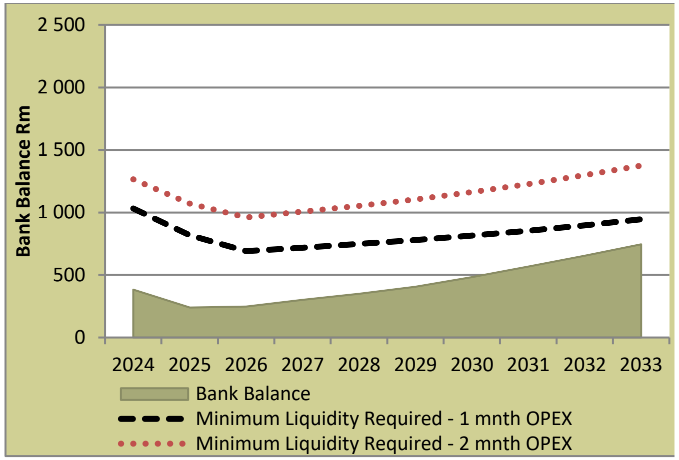
Scenario 1: Sensitivity Analysis on the Collection Rate

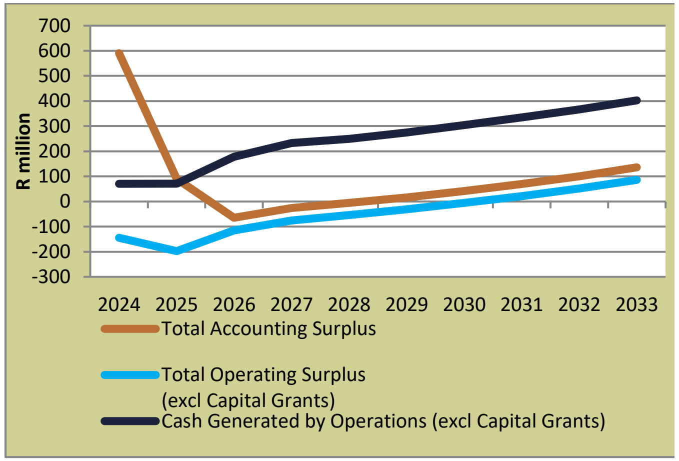
Base Case Scenario



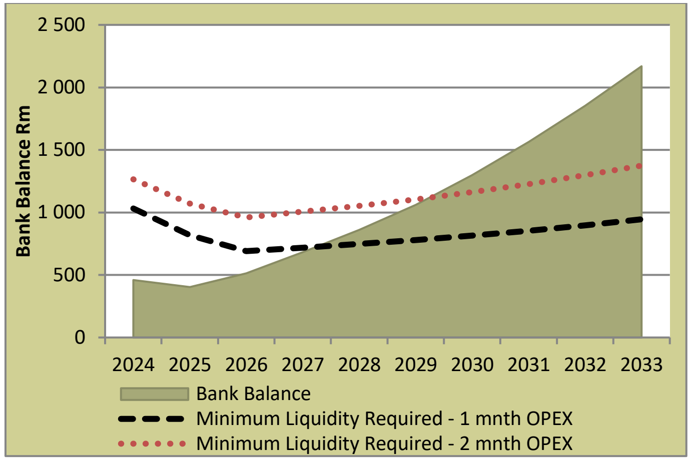


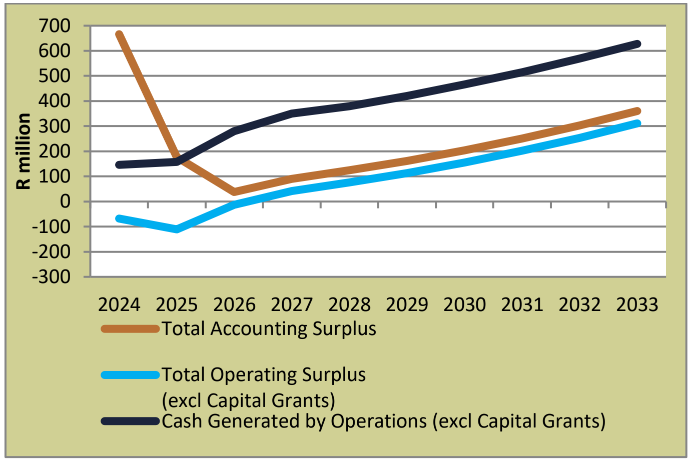
Reduce Collection Rate by 2%





Increase Collection Rate by 2%





Scenario 2: Sensitivity Analysis on Opex

The impact of the challenges outlined in Scenario 1 have a profound impact on not only the municipality's ability to extract revenue from households but additionally on the municipality's expenditure. The impact of the high inflationary environment and resultant input cost increases as well as the need for additional expenditure on items such as generators and fuel to combat load shedding is significant. On the other hand, through sound operational management and the implementation of measures to mitigate the impact of load shedding, such as the investment in renewable energy, the municipality may achieve a cost reduction on operating expenditure. As such, this scenario assesses the impact of both positive and negative movements of 2% in operating expenditure form the levels assumed in the Base Case.

In the positive scenario, financial performance naturally sees a significant improvement as evidenced by an improvement of 173.4% in the accumulated operating surplus. Accumulated cash generated by operations is forecast to improve by a considerable 14.8% over the planning period to a total of R3.70 billion. These improvements translate into a healthier liquidity position as evidenced by the improved bank balance and planning period end liquidity ratio of 2.2:1. The additional R477 million in available cash can be put to productive use to further improve the municipality's growth prospects.

In the negative scenario, financial performance is forecast to decline significantly, as evidenced by the movement into an accumulated operating deficit of R231 million over the planning period. A similar impact is forecast to be had on cash generation due to the decline in financial performance. This is expected to translate into a significantly reduced liquidity position, as evidenced by the bank balance which is forecast to remain below the minimum liquidity requirements of 1-month's operating expenditure throughout the planning period.

The implementation of planned renewable energy projects may result in a decline in future electricity bulk purchases. While there will of course be other operational costs involved with these projects, a lower degree of reliance on Eskom as well as the ability to generate a stable supply of electricity will be of immense benefit to George.

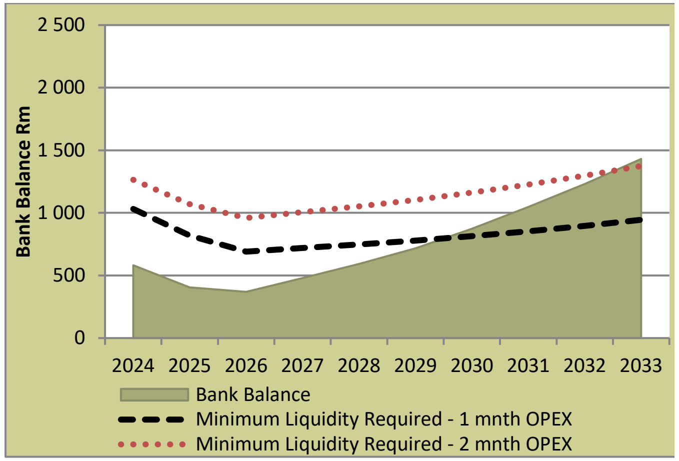
It is critically important for the municipality to employ a prioritised, efficient approach to operational expenditure management. In this harsh economic environment that is characterized by price increases, the importance of stringent management of operating expenditure increases considerably.

Table 16: Scenario 2: Sensitivity Analysis on Opex

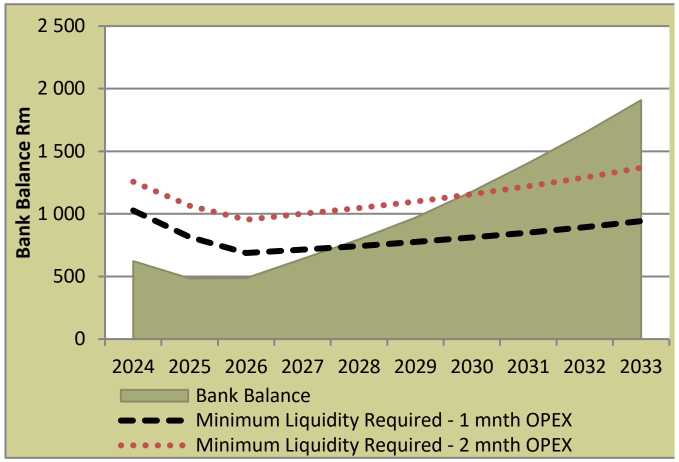
Outcome	Base Case	Opex -2%	Opex +2%
Average annual % increase in Revenue	7,2%	7,3%	7,2%
Average annual % increase in Expenditure	8,3%	8,3%	8,4%
Accounting Surplus accumulated during Planning. Period (Rm)	R 1 691	R 2 174	R 1 182
Operating Surplus accumulated during Planning. Period (Rm)	**R 278**	**R 761**	**-R 231**
Cash generated by Operations during Planning. Period (Rm)	**R 3 225**	**R 3 702**	**R 2 720**
Average annual increase in Gross Consumer Debtors	11,4%	11,4%	11,4%
Capital investment programme during Planning. Period (Rm)	R 5 052	R 5 052	R 5 052
External Loan Financing during Planning Period (Rm)	R 2 068	R 2 068	R 2 068
Cash and Cash Equivalents at the end of the Planning Period (Rm)	**R 1 431**	**R 1 908**	**R 927**
No of Months Cash Cover at the end of the Planning Period (Rm)	**3,3**	**4,5**	**2,1**
Liquidity Ratio at the end of the Planning Period	**1.8 : 1**	**2.2 : 1**	**1.3 : 1**
Gearing at the end of the Planning Period	21,9%	21,8%	22,0%
Debt Service to Total Expense Ratio at the end of the Planning Period	5,0%	5,0%	5,0%

Scenario 2: Sensitivity Analysis on Opex

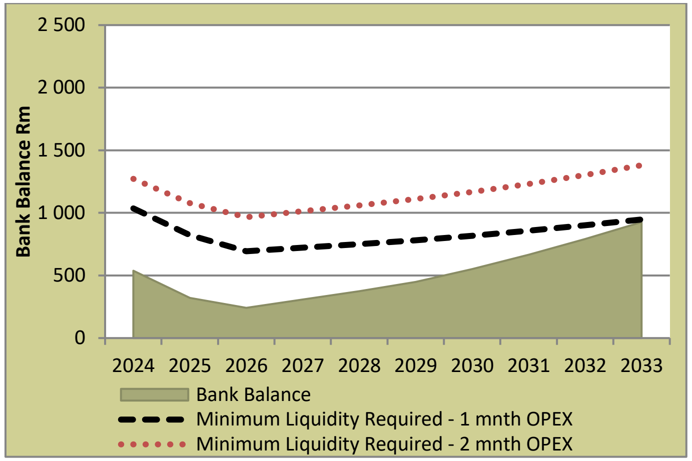
Base Case Scenario

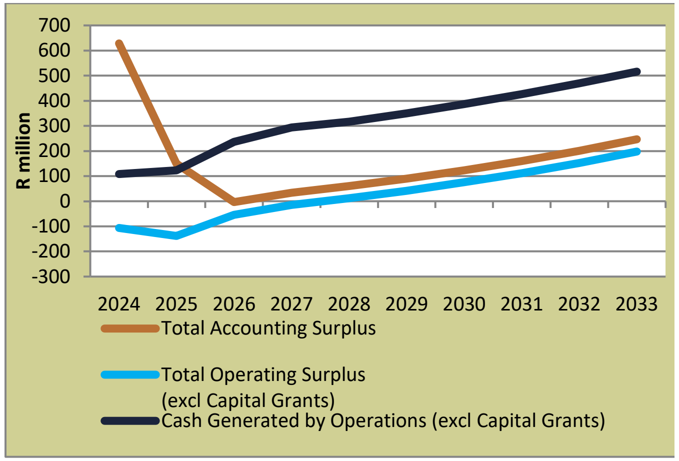


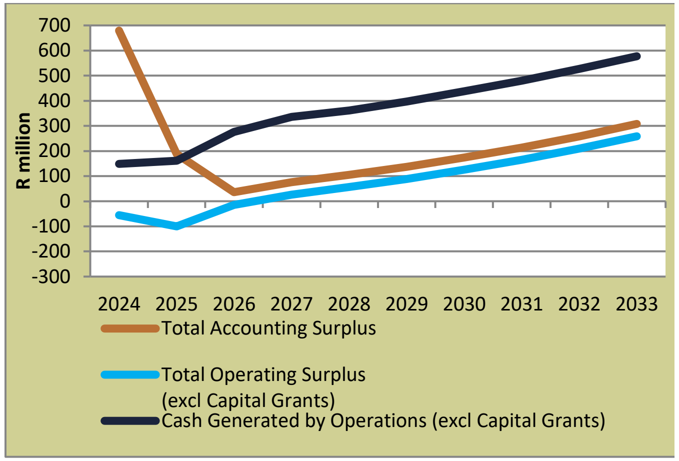
Reduce Opex by 2.0%

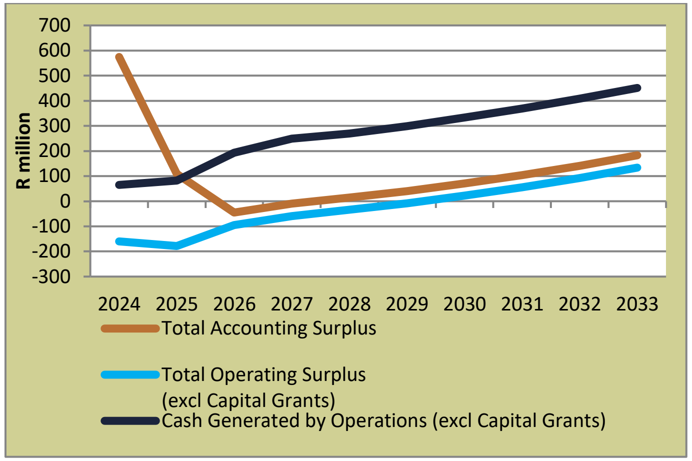


Increase Opex by 2.0%









SCENARIO 3: ACCELERATED CAPITAL INVESTMENT

George has budgeted for a considerable acceleration of the capital investment programme over the MTREF period, largely due to the implementation of the BFI and renewable energy projects. This is positive to note and will undoubtedly result in significant future economic benefits. The Base Case maintains the Adjustment Budget capital investment programme as put forward. Considering the affordability of the Base Case capital investment programme, this scenario aims to assess the extent to which capital investment can be accelerated without threatening long-term sustainability. The capital investment programme was thus accelerated as far as possible whilst ensuring the planning period end liquidity ratio remains at or above 1.5:1. The acceleration of capital investment was achieved through accelerating external financing as well as the utilisation of own cash to fund capital investment.

The outcomes presented in TABLE 17 indicate that an additional capital outlay of R395 million is deemed affordable, considering the liquidity ratio parameter mentioned above. An additional R377 million in external financing facilitates this acceleration without straining the liquidity/cash position of the municipality. The minimum liquidity requirement of 1-month's operating expenditure is forecast to be met in FY2030/31. The debt indicators indicate that the additional financing remains affordable. Financial performance is forecast to deteriorate due to the costs to service the additional debt, however, as indicated by the other key indicators this will not be detrimental to the municipality's overall financial position.

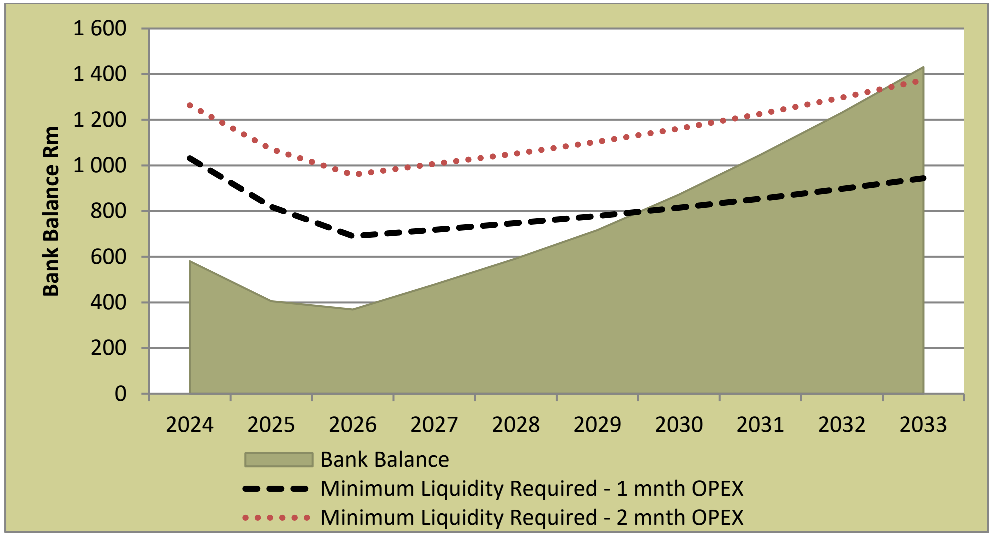
The scenario outcomes indicate that there is scope to affordably accelerate the Adjustment Budget capital investment programme. While liquidity will be reduced compared to the Base Case, the potential benefits of an additional R395 million of capital investment may prove more beneficial to the municipality. This is something for the municipality to consider.

TABLE 17: SCENARIO 3: ACCELERATED CAPITAL INVESTMENT

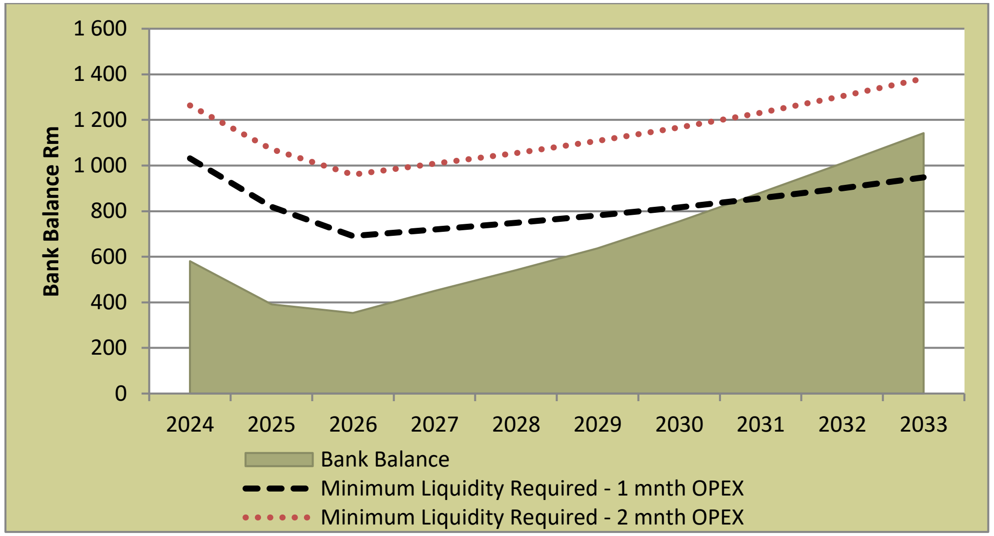
Outcome	Base Case	Accelerated Capex
Average annual % increase in Revenue	7,2%	7,2%
Average annual % increase in Expenditure	8,3%	8,4%
Accounting Surplus accumulated during Planning. Period (Rm)	R 1 691	R 1 445
Operating Surplus accumulated during Planning. Period (Rm)	**R 278**	**R 32**
Cash generated by Operations during Planning. Period (Rm)	**R 3 225**	**R 3 047**
Average annual increase in Gross Consumer Debtors	11,4%	11,4%
Capital investment programme during Planning. Period (Rm)	**R 5 052**	**R 5 447**
External Loan Financing during Planning Period (Rm)	**R 2 068**	**R 2 445**
Cash and Cash Equivalents at the end of the Planning Period (Rm)	**R 1 431**	**R 1 142**
No of Months Cash Cover at the end of the Planning Period (Rm)	**3,3**	**2,6**
Liquidity Ratio at the end of the Planning Period	**1.8 : 1**	**1.5 : 1**
Gearing at the end of the Planning Period	**21,9%**	**26,5%**
Debt Service to Total Expense Ratio at the end of the Planning Period	**5,0%**	**5,8%**

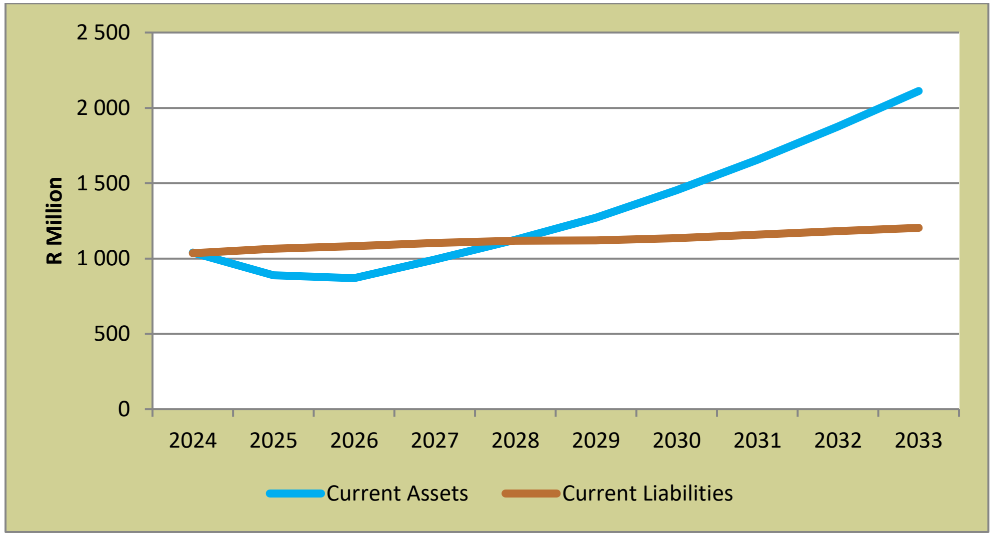
Scenario 3: Accelerated Capital Investment

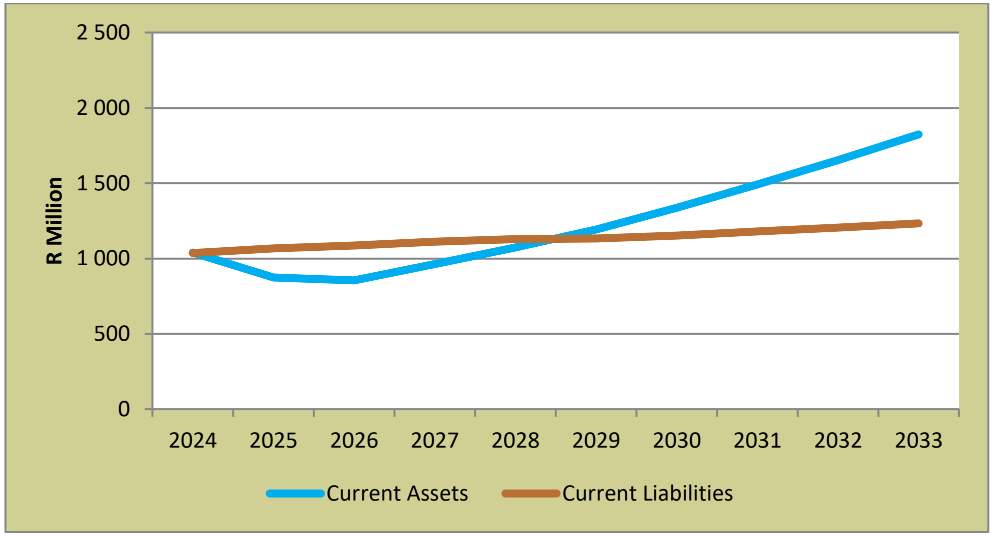
Base Case Scenario



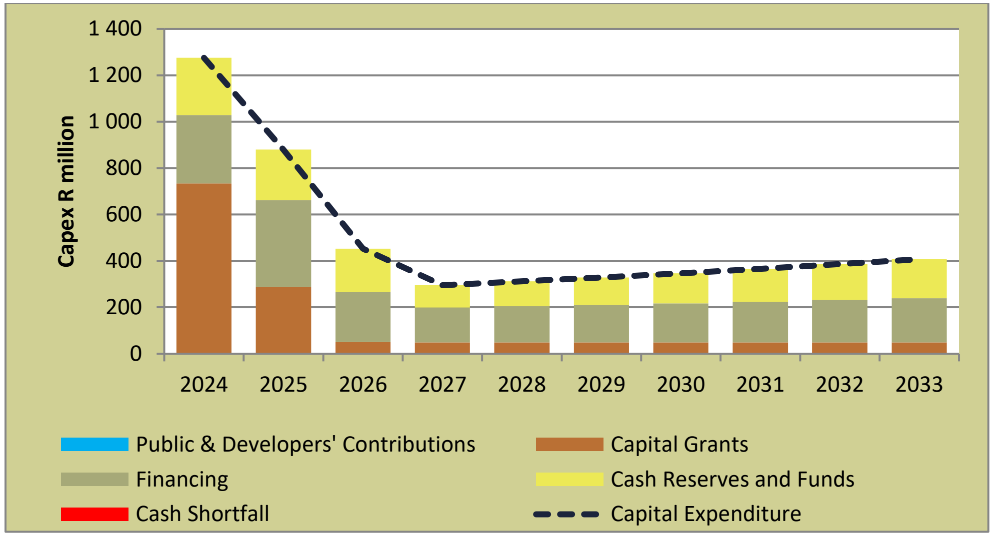
Accelerated Capital Investment



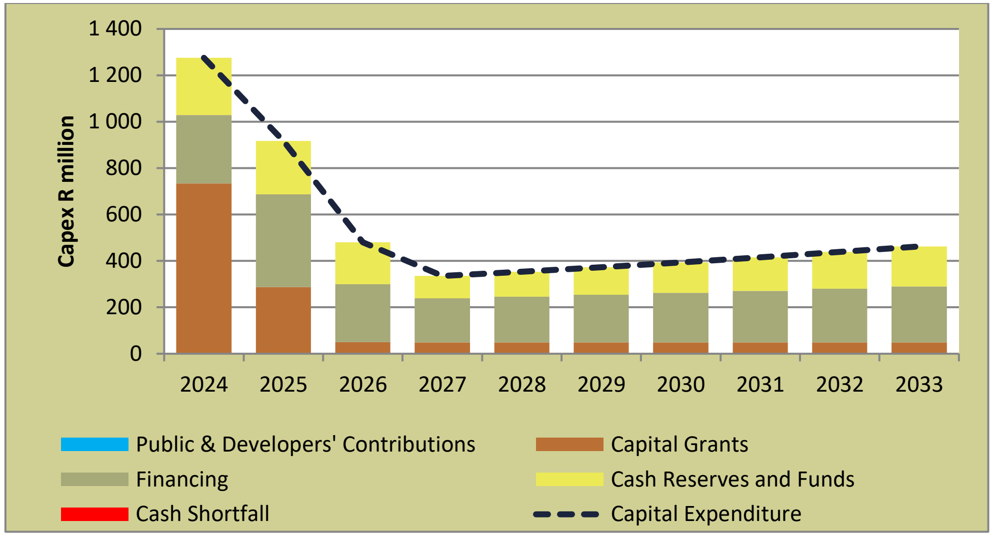


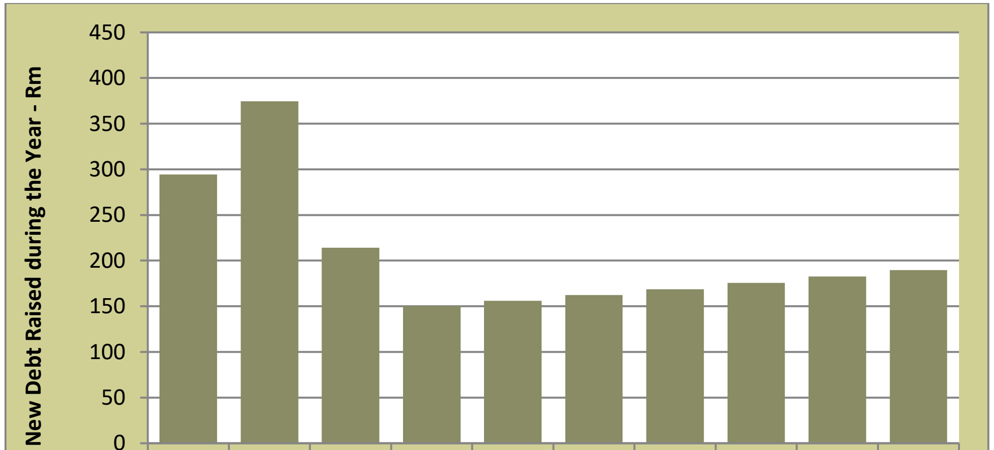


Base Case Scenario

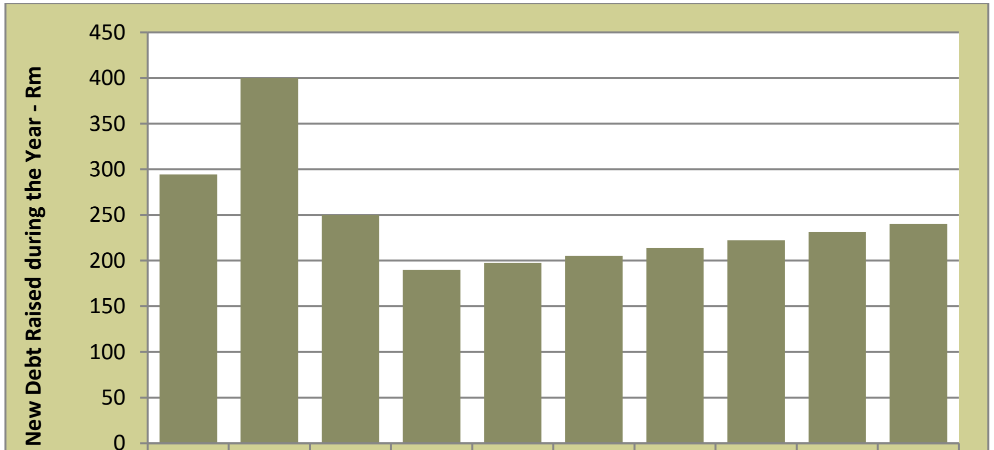


Accelerated Capital Investment





	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
R million	295	374	214	150	156	162	169	175	182	190



	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
R million	295	400	250	190	198	206	214	222	231	240

FORECAST RATIOS

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

		N.T. NORM	2024	2026	2028	2030	2032	2033	COMMENTS
FINANCIAL POSITION									
ASSET MANAGEMENT									
R29	Capital Expenditure / Total Expenditure	10% - 20%	27,9%	10,8%	6,8%	6,7%	6,6%	6,5%	CAPEX as a % of Total Expenditure will remain below the NT norm beyond the MTREF period.
R27	Repairs and Maintenance as % of PPE and Investment Property	8%	4,3%	4,5%	4,3%	4,2%	4,0%	4.0%	Repairs and maintenance as a percentage of PPE and IP will remain below the NT benchmark throughout the planning period.
DEBTORS MANAGEMENT									
R4	Gross Consumer Debtors Growth		20,6%	11,6%	10,5%	9,5%	8,9%	8,7%	The Collection Rate is assumed to increase to 95% by FY2025/26.
R5	Payment Ratio / Collection Rate	95%	93,0%	95,0%	95,0%	95,0%	95,0%	95,0%	
LIQUIDITY MANAGEMENT									
R49	Cash Coverage Ratio (excl Working Capital)		0.7 : 1	0.9 : 1	1.3 : 1	1.9 : 1	2.5 : 1	2.8 : 1	The bank balance will meet the minimum liquidity requirement from FY2029/30 onwards. The liquidity will reach a healthy 1.8:1 by the end of the planning period.
R50	Cash Coverage Ratio (incl Working Capital)		0.6 : 1	0.5 : 1	0.8 : 1	1.1 : 1	1.4 : 1	1.5 : 1	
R51	Cash Surplus / Shortfall on Minimum Liquidity Requirements		-R 458,8 m	-R 325,9 m	-R 159,8 m	R 53,9 m	R 328,8 m	R 480,6 m	
R1	Liquidity Ratio (Current Assets: Current Liabilities)	1:1.5 - 1:2.1	1 : 1	0.8 : 1	1 : 1	1.3 : 1	1.6 : 1	1.8 : 1	
LIABILITY MANAGEMENT									
R45	Debt Service as % of Total Operating Expenditure	6% - 8%	4,3%	5,0%	4,9%	4,7%	4,9%	5,0%	The external financing programme is forecast to remain within the recommended benchmarks, whilst taking advantage of scope to sufficiently leverage the debt profile.
R6	Total Debt (Borrowings) / Operating Revenue	45%	16,7%	25,6%	24,9%	24,2%	22,9%	21,9%	
R7	Repayment Capacity Ratio		0,68	5,04	4,14	3,75	3,38	3,14	
R46	Debt Service Cover Ratio (Cash Generated by Operations / Debt Service)		6 : 1	1.5 : 1	1.8 : 1	1.9 : 1	1.9 : 1	1.9 : 1	

		N.T. NORM	2024	2026	2028	2030	2032	2033	COMMENTS
SUSTAINABILITY									
	Net Financial Liabilities Ratio	< 60%	20,3%	35,2%	28,6%	22,0%	14,9%	11,2%	Net Financial Liabilities are below the benchmark, but the Operating Surplus Ratio remains below the recommended lower benchmark for the majority of the planning period. Asset Sustainability is not calculated but entered as an assumption in the model. The municipality must ensure that a greater proportion of CAPEX is spent on asset replacement should it be required.
	Operating Surplus Ratio	0% - 10%	-3,3%	-1,5%	0,3%	1,5%	2,7%	3,3%	
	Asset Sustainability Ratio	> 90%	63,2%	11,4%	12,0%	13,0%	14,1%	14,7%	
FINANCIAL PERFORMANCE									
EFFICIENCY									
R42	Net Operating Surplus / Total Operating Revenue	>= 0%	-3,3%	-1,5%	0,3%	1,5%	2,7%	3,3%	The net operating surplus is below 0% for the MTREF period and improves to 3.3% by 2033, an indication that the municipality should endeavour to improve profitability by managing expenditure and maintaining the high-water surplus margins.
R43	Electricity Surplus / Total Electricity Revenue		21,3%	25,9%	26,8%	26,8%	26,8%	26,8%	
R44	Water Surplus / Total Water Revenue		100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	
REVENUE MANAGEMENT									
R8	Increase in Billed Income p.a. (R'm)		R 206,5 m	R 316,4 m	R 162,1 m	R 195,0 m	R 238,2 m	R 260,7 m	Billed Revenue and Operating Revenue Growth is, for the most part, marginally above forecast CPI over the planning period. Cash generated from operations is expected improve throughout the planning period.
R9	% Increase in Billed Income p.a.	CPI	12,3%	15,2%	6,2%	6,6%	7,1%	7,3%	
R12	Operating Revenue Growth %	CPI	20,5%	9,2%	6,6%	7,1%	7,7%	7,8%	
R47	Cash Generated by Operations / Own Revenue		34,0%	9,5%	10,4%	10,8%	11,1%	11,3%	
R48	Cash Generated by Operations / Total Operating Revenue		26,4%	7,7%	8,6%	8,9%	9,2%	9,3%	

		N.T. NORM	2024	2026	2028	2030	2032	2033	COMMENTS
EXPENDITURE MANAGEMENT									
	Creditors Payment Period	30	85	83	82	71	60	54	Creditors' payment period is higher than the NT benchmark but forecast to reduce over the planning period. Staff costs as a percentage of total expenditure is forecast to remain within the recommended benchmark throughout the planning period. Contracted services to total expenditure, however, is forecast to exceed the recommended benchmark. The combined impact remains affordable.
R30	**Contribution per Expenditure Item: Staff Cost (Salaries, Wages and Allowances)**	25% - 40%	15,9%	19,4%	20,5%	20,7%	20,8%	20,9%	
	Contribution per expenditure item: Contracted Services	2% - 5%	16,9%	17,8%	17,9%	17,6%	17,2%	17,1%	
GRANT DEPENDENCY									
R10	**Total Grants / Total Revenue**		36,8%	19,4%	18,8%	18,6%	18,3%	18,1%	The municipality can generate funds from its own sources and is not overly reliant on grants. This is positive to note, as the tightening of the national fiscus will result in a declining reliance on transfers from other spheres of government. The initially high levels are due to the BFI grants.
R11	**Own Source Revenue to Total Operating Revenue**		77,8%	81,7%	82,1%	82,2%	82,4%	82,5%	
	Capital Grants to Total Capital Expenditure		57,6%	11,1%	15,5%	13,9%	12,7%	12,1%	

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

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

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

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

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

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

Strengths

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

Weaknesses

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

Outcome of the Future Forecasts

An MTREF Case was developed utilising the unadjusted figures from the Adjustment Budget 2023/24-2025/26. The idea behind this is to reflect the model outcomes should the status quo be maintained. This resulted in an unsustainable outcome, highlighted by sustained deficits as well as an unsustainable liquidity position. In order to address these concerns, a Base Case was developed with realistic, achievable assumptions that aim to guide the municipality towards long-term financial sustainability. The key assumptions are listed below.

9. A collection rate of 95% is assumed to be achieved within 3 years, whereafter it is assumed to remain at this level for the remainder of the planning period.
10. The model incorporated the increases in revenue and expenditure items as announced in the Adjustment Budget.
11. The Adjustment Budget capital investment programme was maintained over the MTREF period. An amount of R295 million is assumed in FY2026/27. Growth beyond the MTREF period is 5.5% p.a.
12. The Adjustment Budget borrowing programme was left unaltered over the MTREF period. An amount of R150 million is assumed to be borrowed in FY2026/27. Assumed annual growth beyond the MTREF period is 4%.
13. The annual borrowing under this scenario was adjusted to an average of 13-year amortising loans at a fixed interest rate equal to 4% over forecast CPI in any given year. Assumed annual growth in borrowing beyond the MTREF period is 4%.
14. Repairs and maintenance expenditure was reduced to 4% of PPE & IP over the planning period.
15. Electricity losses were maintained at FYE2022/23 levels, while water distribution losses were reduced to 20.0% over a 3-year period.
16. A load shedding impact scenario was incorporated into the Base Case. This scenario assumes an average of stage 2 load shedding for 2 years.. This is assumed to result in a reduction of 19.3% of electricity consumption. Additionally, permanent reductions of 5% in water and electricity sales are assumed.

The Base Case reflects a sustainable outcome, characterised by an improved collection rate as well as a sustainable capital investment programme and debt profile that is sufficiently leveraged. These assumptions can be viewed as recommendations for the municipality to implement to ensure that long-term financial sustainability is prioritised. Additionally, 3 scenarios were run to highlight the impact of changes to certain assumptions, whilst holding all other variables constant. The outcomes of these scenarios are summarised below.

Sensitivity Analysis on the Collection Rate

This scenario assesses the impact of positive and negative movements of 2% from the Base Case collection rate of 95%. The negative scenario is forecast to result in a barely sustainable outcome that is characterised by significantly reduced liquidity and sustained poor financial performance. The positive scenario on the other hand is forecast to result in a considerably improved liquidity position underpinned by a healthier bank balance. This will unlock a further acceleration of capital investment.

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

Sensitivity Analysis on Operating Expenditure

This scenario assesses the impact of the municipality achieving a cost-saving of 2.0%, as well as an increase of 2% of operating expenditure. The negative scenario forecasts a significant deterioration of financial performance with operating deficits forecast throughout the planning period. this is set to translate into a significantly reduced liquidity position and cash shortfalls on the minimum liquidity requirements throughout the planning period. The positive scenario is forecast to result in a considerable improvement in financial performance and cash generation. The liquidity position is forecast to improve markedly with an additional R477 million in cash forecast to be available at the end of the planning period. This can be put to productive use which can aid the municipality’s future growth prospects.

It is crucial to stringently manage the level of operating expenditure, ensuring unnecessary increases are avoided and that the municipality’s operations are running as efficiently as possible.

ACCELERATED CAPITAL INVESTMENT

This scenario assesses the extent to which the capital investment programme can be accelerated without threatening the liquidity position is assessed. This scenario operates on the premise that the planning period end liquidity ratio must remain at or above 1.5:1. The outcomes indicate that an additional R395 million in capital investment is deemed affordable. This is facilitated through assuming an additional R377 million in borrowings over the planning period. The debt indicators reveal that the additional borrowing will remain affordable.

The Base Case capital investment programme and funding mix represents an affordable, sustainable acceleration of the historic programme. While this scenario indicates that a further acceleration is possible without the liquidity position being threatened.

CONCLUSION

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

ANNEXURE 1: PROJECTED FINANCIAL STATEMENTS

Municipal Financial Model

Statement of Financial Position

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
R thousands											
Non-current assets:	3 967 129	5 093 897	5 722 743	5 893 625	5 894 558	5 907 633	5 933 999	5 974 735	6 030 845	6 103 274	6 192 919
Property, plant and equipment	3 817 953	4 888 777	5 520 847	5 692 469	5 693 067	5 705 708	5 731 561	5 771 704	5 827 139	5 898 811	5 987 618
Intangible assets	909	7 061	4 614	4 714	5 048	5 483	5 995	6 589	7 264	8 021	8 859
Investment properties	143 912	143 347	142 570	141 731	141 731	141 731	141 731	141 731	141 731	141 731	141 731
Investments	–	–	–	–	–	–	–	–	–	–	–
Long-term receivables	119	50 476	50 476	50 476	50 476	50 476	50 476	50 476	50 476	50 476	50 476
Other non-current assets	4 236	4 236	4 235	4 235	4 235	4 235	4 235	4 235	4 235	4 235	4 235
Current assets:	1 286 840	1 039 509	889 053	869 492	992 029	1 123 730	1 271 421	1 453 457	1 656 157	1 875 274	2 111 904
Inventories	121 965	200 462	225 444	243 264	255 610	274 366	296 609	322 555	352 242	385 659	422 917
Trade and other receivables	320 996	257 915	257 915	257 915	257 915	257 915	257 915	257 915	257 915	257 915	257 915
Cash & Short term investments	843 879	581 132	405 694	368 314	478 504	591 450	716 897	872 986	1 046 000	1 231 699	1 431 073
TOTAL ASSETS	**5 253 969**	**6 133 405**	**6 611 796**	**6 763 117**	**6 886 587**	**7 031 363**	**7 205 419**	**7 428 191**	**7 687 002**	**7 978 548**	**8 304 824**
Municipal Funds:	3 818 487	4 446 842	4 596 289	4 592 889	4 627 218	4 688 165	4 778 128	4 901 584	5 061 478	5 262 670	5 509 943
Housing development fund & Other Cash Backed Reserves	–	35 873	35 873	35 873	35 873	35 873	35 873	35 873	35 873	35 873	35 873
Reserves (Not Cash Backed)	35 729	85 684	85 684	85 684	85 684	85 684	85 684	85 684	85 684	85 684	85 684
Accumulated surplus	3 782 758	4 325 285	4 474 732	4 471 332	4 505 661	4 566 608	4 656 571	4 780 027	4 939 921	5 141 113	5 388 386
Non-current liabilities:	577 116	651 260	950 503	1 088 335	1 155 363	1 224 283	1 307 693	1 391 039	1 467 300	1 534 625	1 591 230
Long-term liabilities (Interest Bearing)	270 235	448 616	733 960	856 783	907 401	954 978	1 013 200	1 067 405	1 110 502	1 140 625	1 156 069
Non-current provisions	306 881	202 645	216 543	231 553	247 962	269 305	294 493	323 634	356 798	394 000	435 161
Current liabilities:	858 366	1 035 304	1 065 004	1 081 893	1 104 005	1 118 916	1 119 598	1 135 568	1 158 224	1 181 253	1 203 650
Consumer deposits	39 416	43 707	47 158	50 828	54 698	57 721	60 846	64 181	67 732	71 511	75 659
Provisions	90 790	153 342	153 342	153 342	153 342	153 342	153 342	153 342	153 342	153 342	153 342
Trade and other payables	681 401	754 235	775 449	786 272	796 585	799 429	801 392	803 521	804 768	804 025	800 295
Bank overdraft	–	–	–	–	–	–	–	–	–	–	–
Current portion of interest bearing liabilities	46 759	84 020	89 056	91 450	99 381	108 423	104 019	114 524	132 382	152 374	174 354
TOTAL MUNICIPAL FUNDS AND LIABILTIES	**5 253 969**	**6 133 405**	**6 611 796**	**6 763 117**	**6 886 587**	**7 031 363**	**7 205 419**	**7 428 191**	**7 687 002**	**7 978 548**	**8 304 824**

Municipal Financial Model

Statement of Financial Performance

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
R thousands											
Revenue											
Property rates	384 703	441 442	472 734	501 796	532 434	566 979	606 340	650 645	699 981	754 405	813 916
Service Charges	1 296 511	1 445 439	1 600 048	1 887 036	2 065 877	2 192 935	2 327 404	2 477 452	2 643 660	2 826 677	3 027 037
Service charges - electricity	785 776	904 921	1 016 919	1 248 626	1 392 163	1 483 437	1 577 657	1 682 683	1 798 949	1 926 934	2 067 037
Service charges - water	211 953	225 357	240 721	270 003	279 399	287 035	295 681	305 434	316 225	327 993	340 663
Service charges - sanitation	157 408	161 500	176 049	190 054	203 179	217 425	233 412	251 243	271 022	292 859	316 855
Service charges - refuse	141 374	153 662	166 360	178 352	191 136	205 038	220 654	238 093	257 465	278 891	302 482
Service charges - other	–	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Rental of facilities and equipment	4 215	5 071	5 545	5 878	6 390	6 902	7 471	8 103	8 801	9 568	10 413
Interest earned - external investments	63 346	42 194	29 057	17 486	17 346	24 168	31 554	39 891	50 115	61 354	73 174
Interest earned - outstanding debtors	14 406	20 998	12 428	13 173	18 697	21 046	23 423	25 879	28 405	30 985	33 599
Dividends received	–	–	–	–	–	–	–	–	–	–	–
Fines, penalties and forfeits	73 097	90 083	94 427	100 079	108 798	117 522	127 200	137 957	149 842	162 908	177 294
Licences and permits	–	4 904	5 128	5 437	5 894	6 462	7 134	7 914	8 807	9 817	10 945
Agency services	16 142	19 734	20 918	22 173	24 105	26 038	28 182	30 565	33 198	36 093	39 280
Transfers and subsidies (operating)	636 048	708 034	706 654	678 095	719 473	763 952	813 272	867 739	927 453	992 493	1 063 130
Other revenue	159 624	174 189	196 480	216 892	235 786	254 693	275 668	298 979	324 737	353 054	384 231
Gain on disposal of PPE	–	237 810	244 945	252 293	264 770	282 377	305 121	333 116	366 529	405 513	450 162
Revaluation of assets gain / (loss)	–	–	–	–	–	–	–	–	–	–	–
Total revenue before Capital Grants	2 648 092	3 189 899	3 388 364	3 700 338	3 999 570	4 263 074	4 552 769	4 878 240	5 241 528	5 642 869	6 083 182
Capital Grants	409 114	734 465	287 566	50 348	49 196	48 411	48 118	48 196	48 513	48 958	49 451
Public & developers contributions	–	–	–	–	–	–	–	–	–	–	–
Total Revenue after Capital Grants	3 057 206	3 924 364	3 675 930	3 750 686	4 048 766	4 311 485	4 600 887	4 926 436	5 290 042	5 691 827	6 132 632
Operating expenditure											
Employee related costs	617 889	697 965	739 385	779 496	842 579	896 565	956 644	1 023 037	1 095 945	1 175 526	1 261 886
Remuneration of councillors	25 557	29 923	32 709	34 995	36 643	38 494	40 548	42 804	45 261	47 916	50 763
Debt impairment	150 597	205 655	202 045	202 016	219 683	234 966	251 650	270 253	290 848	313 516	338 397
Depreciation and asset impairment	188 171	198 618	250 923	281 577	294 402	298 584	302 490	306 258	310 018	313 881	317 952
Finance charges	45 065	62 462	88 931	98 216	102 977	108 369	114 003	119 539	127 446	135 101	141 941
Bulk purchases	598 225	712 346	805 799	924 674	1 018 653	1 085 438	1 154 378	1 231 224	1 316 296	1 409 942	1 512 455
Inventory Consumed	127 170	339 225	343 862	371 320	386 306	415 447	451 371	494 396	544 564	601 803	666 163
Repairs and maintenance	–	–	–	–	–	–	–	–	–	–	–
Contracted services	676 926	770 803	771 656	750 599	781 604	818 076	859 130	905 279	956 642	1 013 334	1 075 881
Transfers and subsidies	43 556	82 666	35 329	35 356	37 968	40 625	43 558	46 798	50 353	54 232	58 469
Other expenditure	169 962	148 565	204 719	220 622	235 678	252 176	270 377	290 489	312 559	336 634	362 935
Loss on disposal of PPE	3 240	47 780	51 125	55 215	57 946	61 799	66 776	72 903	80 216	88 748	98 519
Total Expenditure	2 646 358	3 296 009	3 526 483	3 754 086	4 014 438	4 250 539	4 510 923	4 802 980	5 130 148	5 490 634	5 885 359
Suplus/ (Shortfall) for the year	**410 848**	**628 355**	**149 447**	**(3 400)**	**34 329**	**60 946**	**89 963**	**123 456**	**159 894**	**201 193**	**247 273**

Municipal Financial Model
Cash Flow Statement

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
R thousands											
Cash flows from Operating Activities											
Suplus/Deficit for the year including Capital Grants	410 848	628 355	149 447	(3 400)	34 329	60 946	89 963	123 456	159 894	201 193	247 273
Suplus/Deficit for the year excluding Capital Grants & Contributions		(106 110)	(138 119)	(53 748)	(14 867)	12 536	41 845	75 260	111 381	152 235	197 822
Capital Grants & Contributions		734 465	287 566	50 348	49 196	48 411	48 118	48 196	48 513	48 958	49 451
Adjustments for non-cash items:											
Depreciation, amortisation and impairment loss	188 171	198 618	250 923	281 577	294 402	298 584	302 490	306 258	310 018	313 881	317 952
Revaluation on investment property (gain) / loss	–	–	–	–	–	–	–	–	–	–	–
Increase / (Release from) current provisions & non-interest bearing liabilities	–	62 552	–	–	–	–	–	–	–	–	–
Increase / (Release from) other non-current provisions & non-interest bearing liabilities	–	(104 236)	13 898	15 010	16 409	21 343	25 189	29 140	33 165	37 201	41 161
(Increase) / Release from non-current interest bearing assets	–	–	–	–	–	–	–	–	–	–	–
Capitalised interest	–	–	–	–	–	0	0	(0)	–	0	0
Operating surplus before working capital changes:	599 019	785 288	414 269	293 188	345 140	380 873	417 641	458 855	503 076	552 275	606 386
Change in W/C Investment	–	57 418	(3 768)	(6 996)	(2 034)	(15 911)	(20 280)	(23 817)	(28 440)	(34 160)	(40 987)
(Increase)/decrease in inventories	–	(78 497)	(24 982)	(17 820)	(12 346)	(18 756)	(22 243)	(25 947)	(29 687)	(33 417)	(37 258)
(Increase)/decrease accounts receivable	–	63 081	0	(0)	0	(0)	0	(0)	0	0	(0)
Increase/(decrease) in trade payables	–	72 834	21 214	10 824	10 312	2 844	1 963	2 130	1 247	(743)	(3 730)
Net cash flow from Operating activities	599 019	842 706	410 501	286 192	343 106	364 962	397 361	435 038	474 637	518 115	565 399
Cash flows from Investing Activities											
Capital expenditure	–	(1 275 594)	(880 547)	(453 299)	(295 334)	(311 660)	(328 855)	(346 994)	(366 128)	(386 311)	(407 597)
Decrease/(Increase) in non-current receivables	–	(50 357)	1	0	–	–	–	–	–	–	–
(Additions) / Disposals of investment property	–	565	777	839	–	–	–	–	–	–	–
Net cash flow from Investing activities	–	(1 325 386)	(879 769)	(452 460)	(295 334)	(311 660)	(328 855)	(346 994)	(366 128)	(386 311)	(407 597)
Cash flows from Financing Activities											
New loans raised	–	294 504	374 400	214 273	150 000	156 000	162 240	168 730	175 479	182 498	189 798
Loans repaid	–	(78 862)	(84 020)	(89 056)	(91 450)	(99 381)	(108 423)	(104 019)	(114 524)	(132 382)	(152 374)
(Decrease) / Increase in consumer deposits	–	4 291	3 451	3 670	3 869	3 024	3 125	3 335	3 550	3 780	4 148
Net cash flow from Financing activities	–	219 933	293 831	128 888	62 419	59 643	56 942	68 046	64 505	53 895	41 571
Change in Cash	599 019	(262 747)	(175 438)	(37 380)	110 191	112 945	125 447	156 089	173 014	185 699	199 373
Cash/(Overdraft), Beginning		843 879	581 132	405 694	368 314	478 504	591 450	716 897	872 986	1 046 000	1 231 699
Cash/(Overdraft), Ending	**843 879**	**581 132**	**405 694**	**368 314**	**478 504**	**591 450**	**716 897**	**872 986**	**1 046 000**	**1 231 699**	**1 431 073**

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