



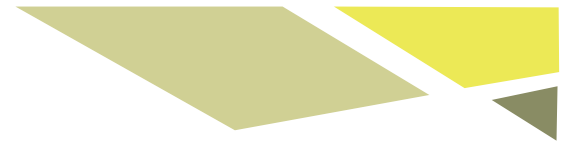
# GEORGE LOCAL MUNICIPALITY

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Long-Term Financial Plan – *Update 2026*



Prepared by  
INCA Portfolio Managers  
November 2025



## REPORT OVERVIEW – INTRODUCTION AND BACKGROUND

The George Municipality appointed INCA Portfolio Managers in 2014 to prepare a Long-Term Financial Plan. The deliverable of that assignment was a report entitled *George; Long Term Financial Plan: 2014/15 – 2023/24*; March 2015. A more recent Long-Term Financial Plan was developed in April 2023 based on the FY2021/22 financial information. This was subsequently updated in November 2024. This 2025 update aims to update the LTFP based on the latest available information and report on the findings.

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

A summary of the demographic, economic and household infrastructure perspective was updated with the latest available information as published by S&P Global Market Intelligence. The historic financial analysis was updated with the information captured in the municipality's pre-audited financial statements of 30 June 2025 along with the Adjustment Budget for FY2025/26. The LTFM, as institutionalised in George Municipality, was populated and run with this latest information, and the outcome thereof is reported herein.



## ABBREVIATIONS USED

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



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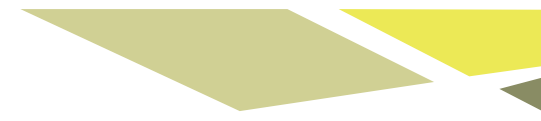


## EXECUTIVE SUMMARY

### KEY FINDINGS AND CONCLUSIONS DRAWN FROM THE 2025 LTFP UPDATE

#### HIGHLIGHTS FROM THE FY2024/25 FINANCIAL RESULTS

- George's liquidity remains healthy with a ratio of 1.58:1 at FYE2024/25 (FYE2023/24: 1.35:1). These ratios are negatively impacted by notable unspent conditional grants balances. Upon the removal of this impact, the liquidity ratio improves to 1.95:1 at FYE2024/25 (FYE2023/24: 1.79:1).
- Cash generated from operations (exclusive of capital grants) declined to R21.5 million for FY2024/25, down from R735.1 million in the prior year.
- The municipality's cash and near cash reserves at FYE2024/25 came to R1 327.6 million, which was R469.8 million more than the minimum liquidity required to be held. Cash surpluses were posted for the entire review period.
- Financial performance declined during the year, with an operating deficit (excluding capital grants) of R15.6 million moving from a surplus of R24.7 million in the prior year.
- The collection rate was calculated at 93.3%, up from 92.8% in FY2023/24. This was below the NT recommended 95.0% but remains healthy. The calculation methodology follows that of NT's Circular 71.
- Electricity bulk purchases, staff costs and contracted remained the largest expenditure items accounting for 17.7%, 15.3% and 15.8% respectively. On the revenue side, electricity revenue was the main revenue source for the municipality making up 33.4% of total revenue during FY2024/25.
- Electricity distribution and water distribution losses of 9.73% and 24.60%, respectively, were recorded for FY2024/25.
- Gearing and debt-service to total operating expenditure ratios were 24.0% and 4.1%, respectively. Scope remains to obtain additional borrowing to accelerate CAPEX but this must be carefully managed.
- Repairs and maintenance expenditure as a percentage of PPE & IP declined marginally to 4.5% during FY2024/25, down from 4.7% in the prior year. This is reasonably low relative to the NT form of 8%. This does not reflect a decline in actual R&M expenditure but is rather a reflection of the accelerated capital investment in recent years which has rapidly increased PPE values.
- The total capital outlay over the review period came in at R4.27 billion, R1.32 billion of which was expended in FY2024/25. The historic funding mix was comprised of capital grants (60.0%), borrowings (17.5%) and own cash reserves (22.5%).



## LONG-TERM FINANCIAL PLAN UPDATE

To develop a realistic Base Case model, the figures from the Adjustment Budget 2025/26 – 2027/28 and historic audited financial statements were used. The objective of the model is to utilise realistic assumptions to support future financial sustainability. The following are the key assumptions:

1. The collection rate is assumed to improve to 96.0% within a year and will be maintained at this level for the entire planning period.
2. The model incorporated the increases in revenue and expenditure items as announced in the Adjustment Budget.
3. The MTREF capital investment programme was adjusted as follows:
  - FY2025/26: R875.0 million (Budget: R969.7 million)
  - FY2026/27: R700.0 million (Budget: R767.7 million)
  - FY2027/28: R575.0 million (Budget: R636.9 million)
  - FY2028/29: R550.0 million (Budget: n/a)Assumed growth beyond FY2028/29 is 6% p.a.
4. The borrowing programme was included as follows:
  - FY2025/26: R604.3 million (Budget: R604.3 million)
  - FY2026/27: R500.4 million (Budget: R500.4 million)
  - FY2027/28: R300.0 million (Budget: R382.9 million)
  - FY2028/29: R150.0 million (Budget: n/a)
5. The annual borrowing under this scenario was adjusted to an average of **13-year** amortising loans at a fixed interest rate equal to 6% over forecast CPI in any given year. Assumed annual growth in borrowing beyond FY2028/29 is 4%.
6. Repairs and maintenance expenditure as a % of PPE & IP was increased to 6.0% (from 4.5%) over 5 years and then maintained at this level for the remainder of the planning period.
7. Electricity losses were maintained at 9.73% whilst water losses were reduced to 20.0% from 24.6% over a period of 5 years.
8. Tariff increases were included as put forward in the Adjustment Budget Document for FY2025/26-FY2027/28.
9. Creditors days were reduced in order to mitigate the forecast rise in creditors in the MTREF Case.

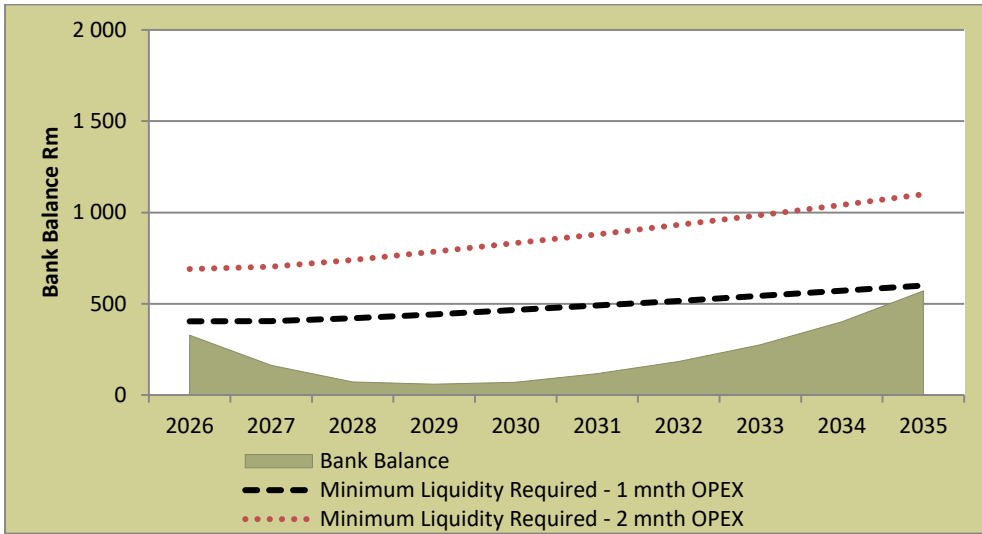
## LONG-TERM FINANCIAL MODEL OUTCOMES

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

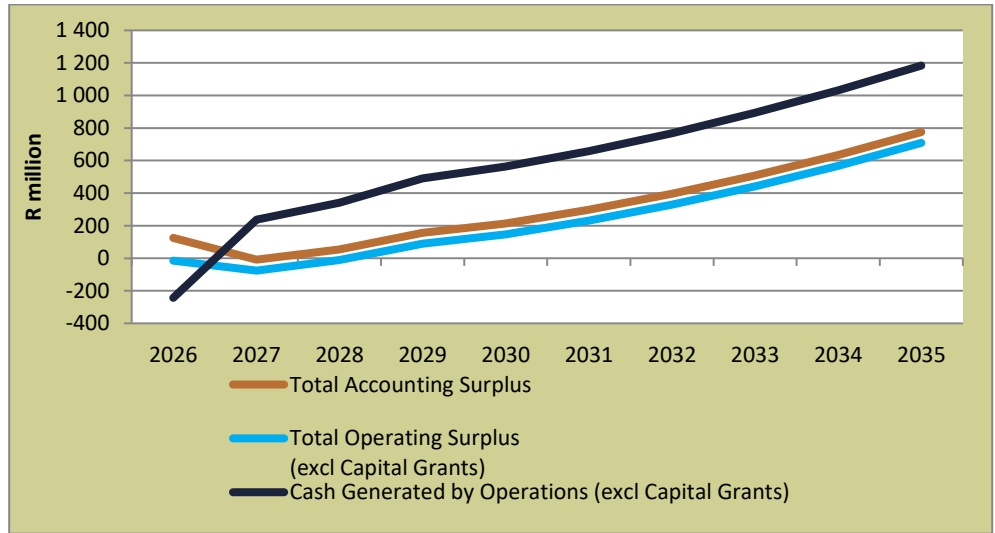
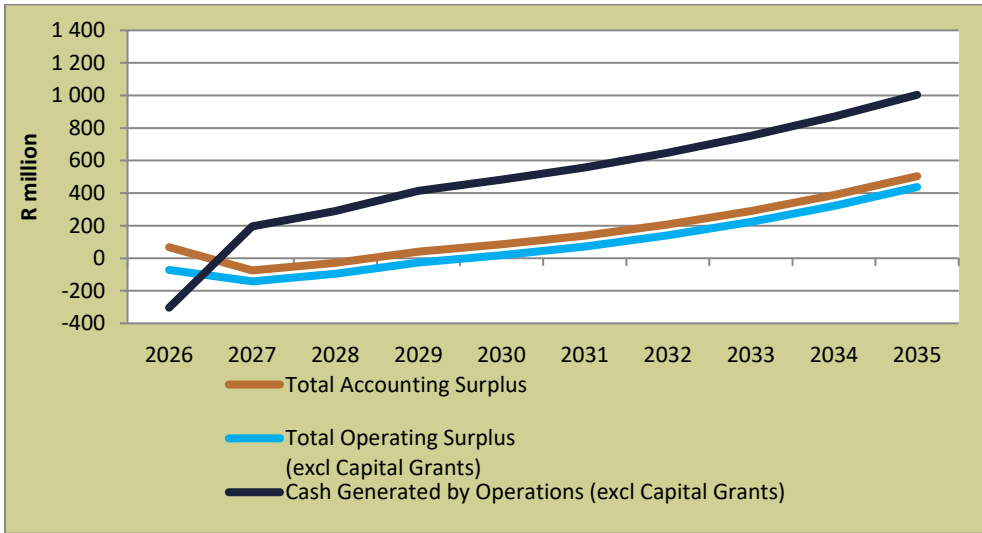
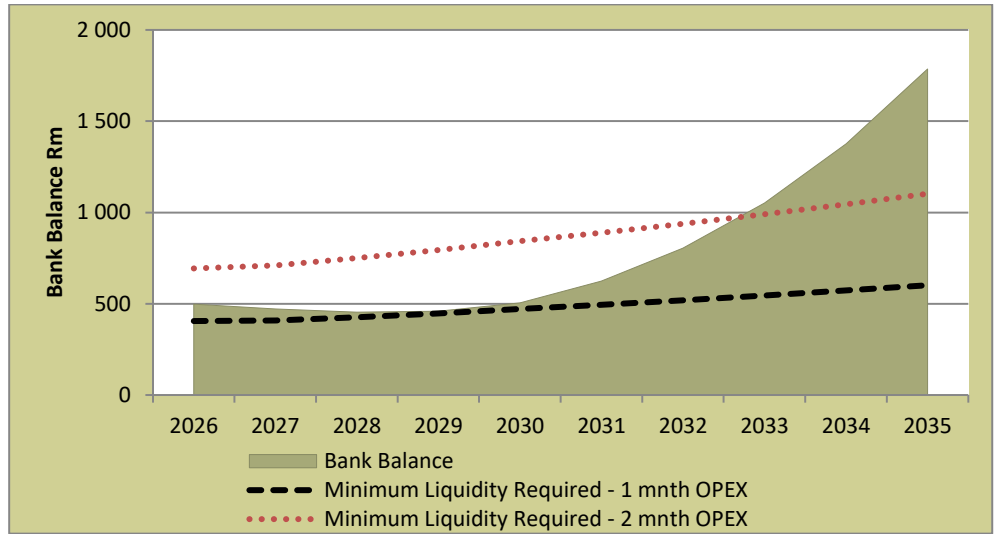
Outcome	MTREF Case	Base Case
Average annual % increase in Revenue	5,8%	5,9%
Average annual % increase in Expenditure	7,3%	7,0%
Accounting Surplus accumulated during Planning Period (Rm)	R 1 618	R 3 151
Operating Surplus accumulated during Planning Period (Rm)	R 878	R 2 411
Cash generated by Operations during Planning Period (Rm)	R 4 909	R 5 923
Average annual increase in Gross Consumer Debtors	14,3%	11,5%
Capital investment programme during Planning Period (Rm)	R 7 616	R 6 777
External Loan Financing during Planning Period (Rm)	R 4 391	R 2 590
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 570	R 1 786
No of Months Cash Cover at the end of the Planning Period (Rm)	1,1	3,6
Liquidity Ratio at the end of the Planning Period	0,8 : 1	2,8 : 1
Gearing at the end of the Planning Period	26,3%	17,6%
Debt Service to Total Expense Ratio at the end of the Planning Period	11,0%	6,6%



**MTREF CASE SCENARIO**

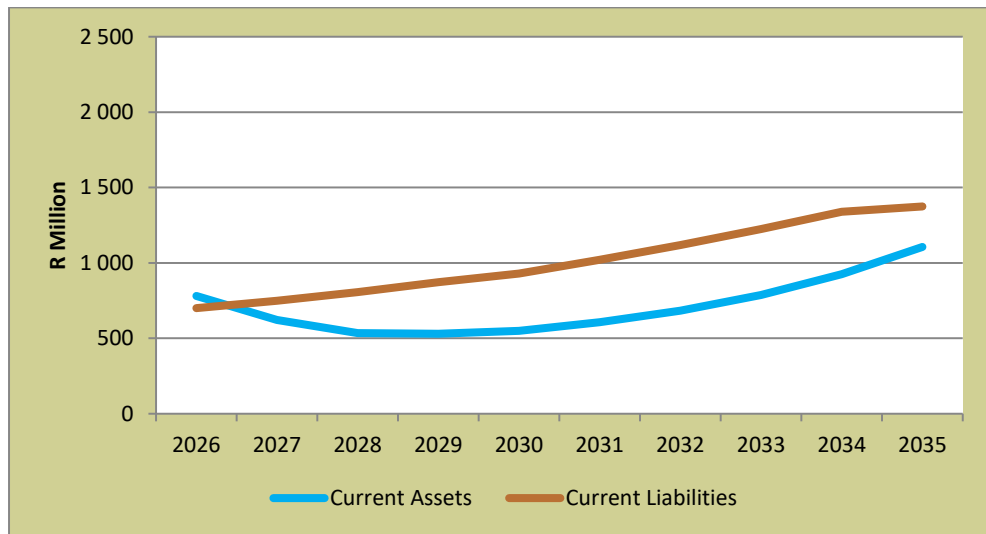


**BASE CASE SCENARIO**

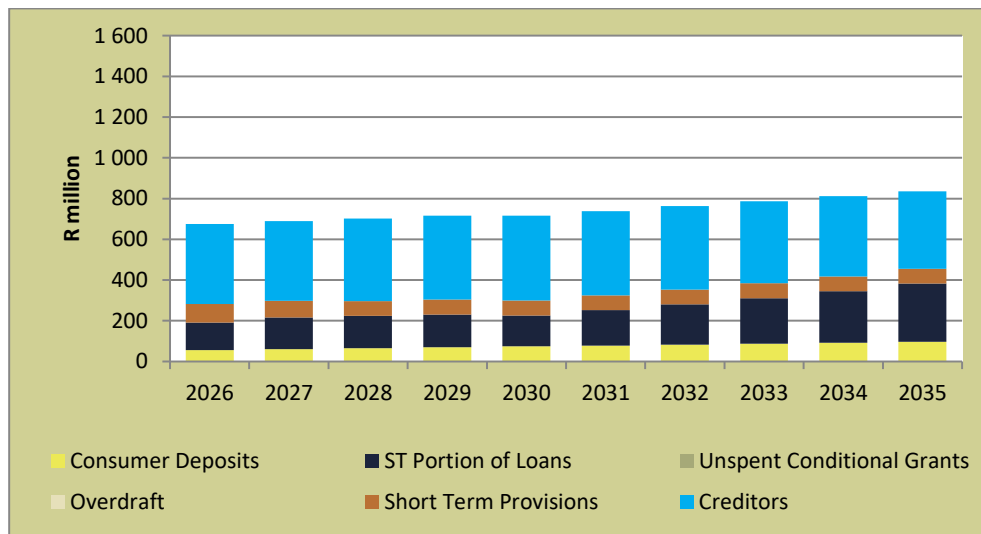
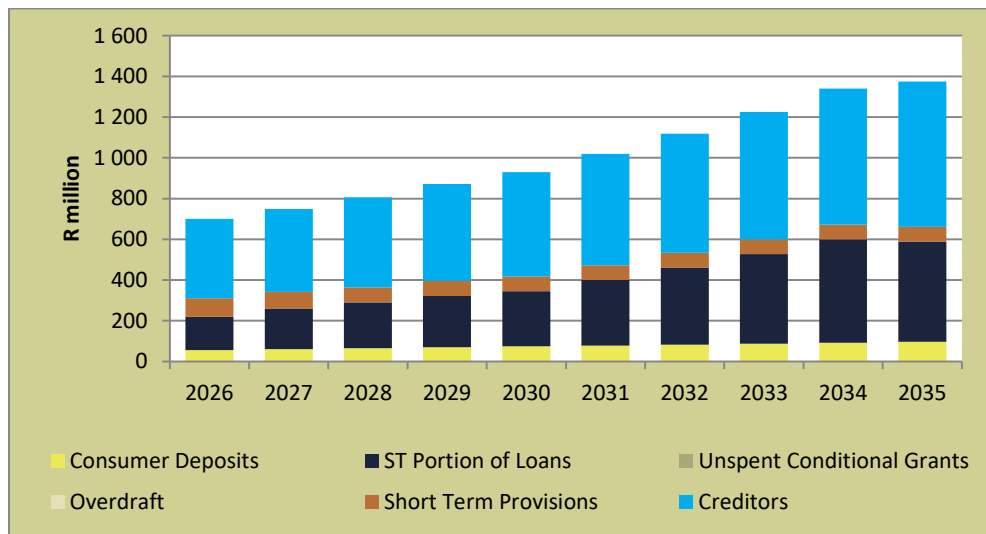
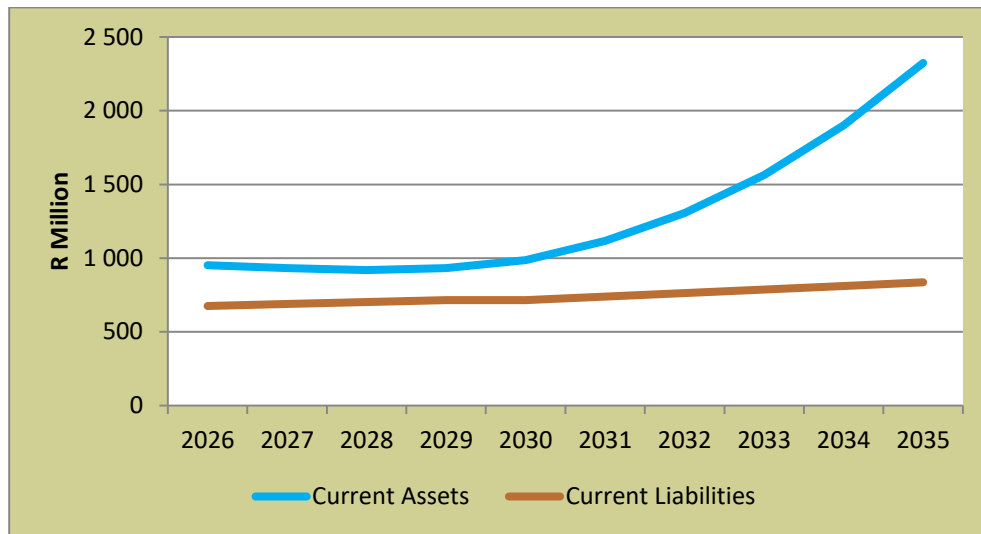




### MTREF CASE SCENARIO



### BASE CASE SCENARIO



## CAPEX AFFORDABILITY & FUNDING MIX

### BASE CASE 10-YEAR CAPITAL FUNDING MIX

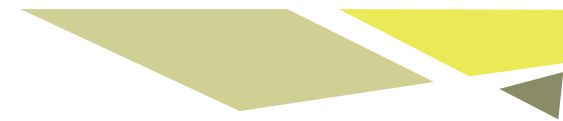
Source	Rm	%
Public & Developers' Contributions	0	0 %
Capital Grants	740	11 %
Financing	2 589	38 %
Cash Reserves and Funds	3 447	51 %
Cash Shortfall	0	0 %
<b>Capital Expenditure</b>	<b>6 777</b>	<b>100 %</b>

### BASE CASE DISTRIBUTION OF FUTURE CAPITAL FUNDING (R'M)

R'm	Total	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>2034</u>	<u>2035</u>
Public & Developers' Contributions	0	0	0	0	0	0	0	0	0	0	0
Capital Grants	740	141	67	66	66	66	66	67	67	67	66
Financing	2 589	604	500	300	150	156	162	169	175	182	190
Cash Reserves and Funds	3 447	136	132	209	334	361	390	420	453	487	525
Cash Shortfall	0	0	0	0	0	0	0	0	0	0	0
<b>Capital Expenditure</b>	<b>6 777</b>	<b>881</b>	<b>700</b>	<b>575</b>	<b>550</b>	<b>583</b>	<b>619</b>	<b>656</b>	<b>695</b>	<b>737</b>	<b>781</b>

### KEY TAKEAWAYS

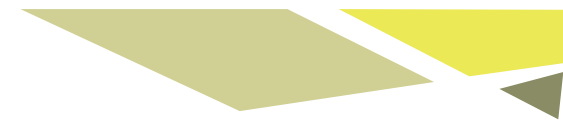
- The affordable capital envelope for the 10-year planning period was calculated at **R6 777 million**.
- This is primarily funded through own cash reserves (51%), borrowings (38%) and capital grants (11%).
- The borrowing programme has been carefully managed to avoid an overleveraging of the debt profile.



## RECOMMENDATIONS

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

1. Maintain an optimised funding mix that strikes a balance between the utilisation of external borrowings and own cash as a supplement to capital grant funding. It is recommended that the Adjustment Capital Budget borrowing programme is revised downwards as the model outcomes suggest the level of debt will be unsustainable. It is recommended that the borrowing programme is reduced and that a more staggered approach to borrowing is undertaken in order to maintain the debt indicators at affordable levels as well as to take advantage of the interest rate cutting cycle.
2. Maintain a balanced approach for the long-term capital investment programme which prioritises investments that contribute to economic growth and revenue generation and prioritise timeous investment in bulk infrastructure. Returns are already being realised on the water infrastructure projects in the form of reduced distribution losses. It is recommended that the capital prioritisation programme is informed by the affordable envelope presented in this report. The outcome of this programme should then be run through the LTFM as a scenario.
3. Review the extent of the acceleration of capital expenditure included in the Adjustment Capital Budget, particularly in FY2024/25. Long-term sustainability must be prioritised. The model outcomes suggest the Adjustment Capital Budget will result in a notable deterioration of liquidity. It is thus recommended that in the absence of increased grant funding, the capital investment programme is revised downwards, in accordance with the Base Case assumptions.
4. Working capital management, particularly payment of creditors, must be strengthened. The increase in creditors observed during FY2023/24 cannot become a trend. The municipality must maintain timeous payment of creditors. Revenue must be maximised and cost-containment strategies implemented with cost-savings realised wherever possible. Maintaining low distribution losses is critical for ensuring service charges revenue is maximised.
5. Prevent a deterioration of the collection rate through the implementation of measures such as strict credit control, debt collection procedures etc. A collection rate in excess of 96% must be maintained at a minimum, with further improvements targeted.
6. Institutionalise the utilisation of a sophisticated tariff model to ensure that tariffs reflect the true cost of delivering the service, on an organisation-wide approach (also taking into account property rates and organisational overheads).
7. Update the long-term financial plan annually with the most recent information to remain a relevant and valuable strategic tool that serves as input to the annual budgeting process. Continue the ongoing utilisation of the long-term financial model to support strategic financial decision-making in the municipality.



# LTFP UPDATE REPORT 2025

## INTRODUCTION

This report reflects the detailed observations having assessed the Demographic, Economic & Household Infrastructure changes, together with the municipality's financial performance as reflected in the 2024/25 pre-audited financial statements and the updated LTFM utilising information contained in the Adjustment Budget for the period 2025/26-2027/28.

## DEMOGRAPHIC, ECONOMIC AND HOUSEHOLD INFRASTRUCTURE

- The economic recovery observed in 2021 & 2022 slowed during 2024, with GVA growth of 0.2%. The 5-year average GVA growth rate of 0.5% is indicative of sluggish economic growth.
- The population growth rate came in at 1.52% in 2024. The 5-year average population growth rate was 1.31% p.a. The economically active population as a percentage of total population increased to 41.9% in 2024 from 40.6% in the prior year. Concerning to note, is the trend of population growth exceeding economic growth. This results in an impoverishment of the population.
- The official unemployment rate dropped to 13.9%; lower than that of the district (15.2%), province (21.0%) nation (32.6%). 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 (25 435 jobs) remained the predominant provider of employment in George in 2024, followed by trade (18 600 jobs).
- The Tress Index of 43.96 indicates a reasonably diversified economy underpinned by primarily four sectors: Finance (24.4%), Community Services (21.8%), Trade (16.1%) and Manufacturing (14.9%). Together these four subsectors constituted approximately 77.1% of economic output in 2024.
- Household formation saw moderate growth of 16.6% over the assessment period. The Infrastructure Index was maintained at 0.91. Despite the marginal decline, the municipality has shown an ability to keep up with the rate of household formation. This score is high relative to the national index of 0.77.
- Approximately 16.9% of households fall below the Equitable Share Bracket and are thus considered as part of the indigent population.



**1 Planning Process**

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long-Term Financial Model Outcomes

5 Future Revenues

6 Affordable Future Capital Investment

7 Scenario Analysis

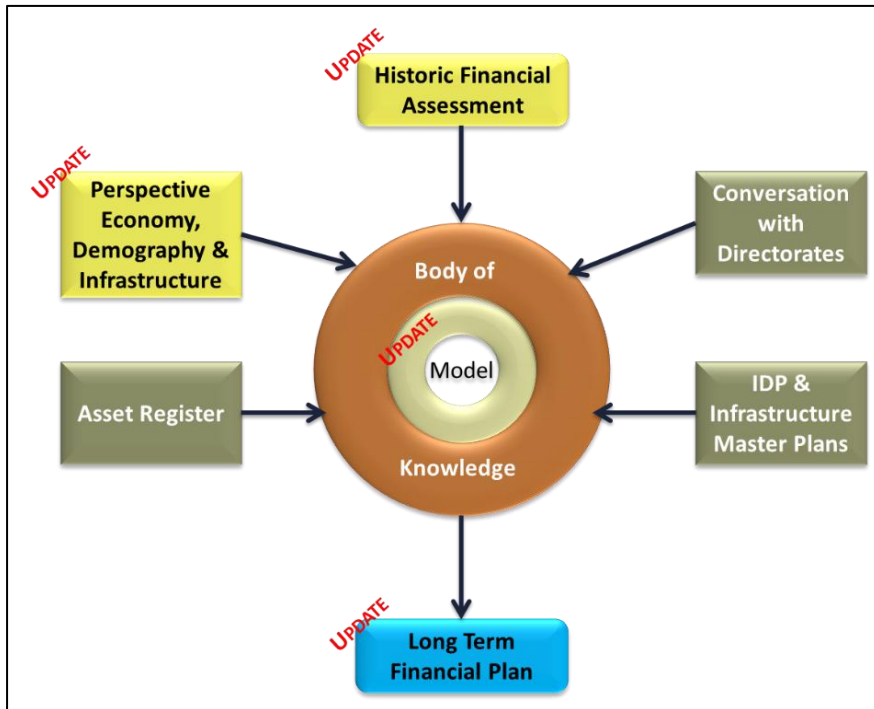
8 Ratio Analysis

9 Conclusions

# PLANNING PROCESS

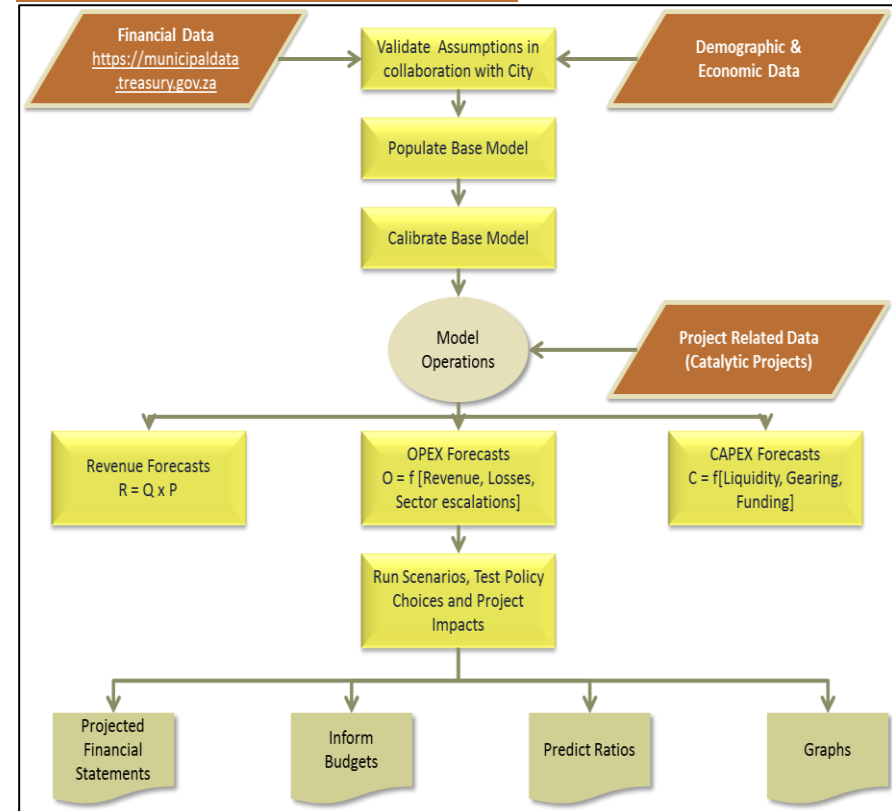
The diagram below illustrates the steps in the process that were followed in drafting the LTFP and the steps taken during this 2025 “LTFP Update”:

**FIGURE 1: PLANNING PROCESS**



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



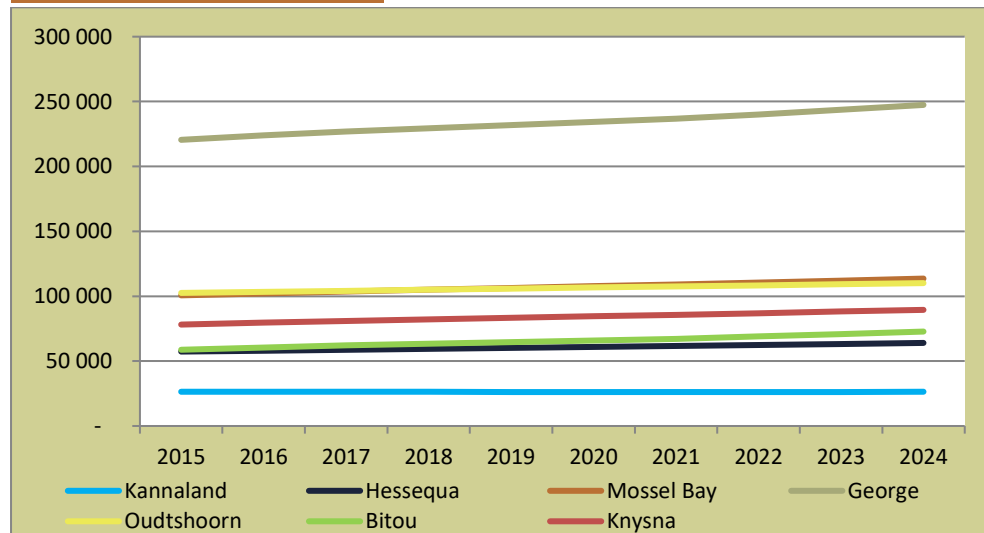
1	Planning Process
<b>2</b>	<b>Updated Perspectives (Demographic, Economic, Household Infrastructure)</b>
3	Updated Historic Financial Assessment
4	Long-Term Financial Model Outcomes
5	Future Revenues
6	Affordable Future Capital Investment
7	Scenario Analysis
8	Ratio Analysis
9	Conclusions

# UPDATED PERSPECTIVES (DEMOGRAPHIC, ECONOMIC, HOUSEHOLD INFRASTRUCTURE)

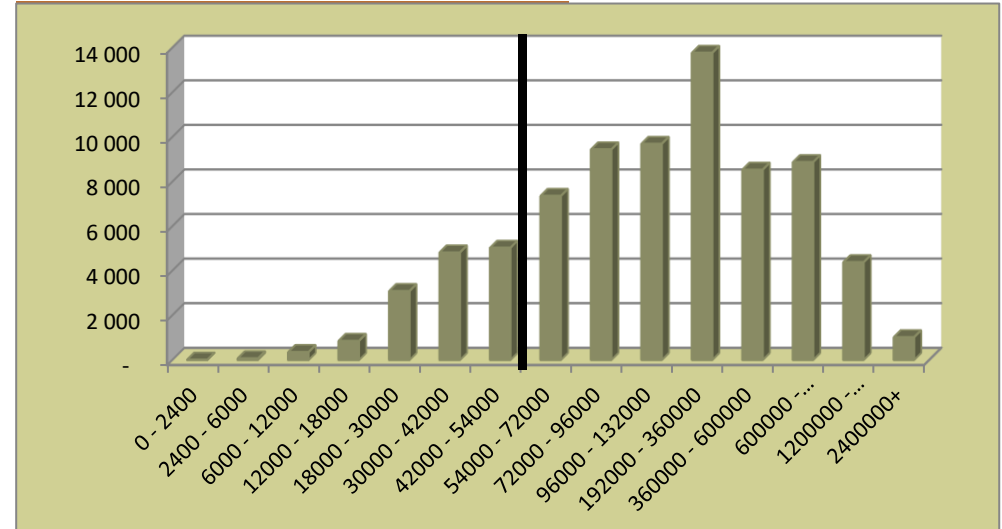
## DEMOGRAPHY

George has a total population of 247 390 people in 2024. This represents approximately 34% of the district's total population of 723 630 people. This marks George as the most populous municipality in the district, consistent with its status as the economic hub of the district. The population grew at a rate of 1.5% in 2024. Over the past 5 years the average population growth was 1.3% p.a. This rate is in line with the district and national averages of 1.3% p.a. and marginally below the provincial average of 1.4% p.a. over the same period. Additionally, George is the fourth most densely populated municipality in the district, with population density of 47.7 people per km<sup>2</sup>. The reasonably low population growth rate, in theory, provides stability and alleviates pressure on service delivery. It may, however, also imply that the low growth within the area may result in lower expectations of future revenue growth within the municipality.

**GRAPH 1: TOTAL POPULATION**



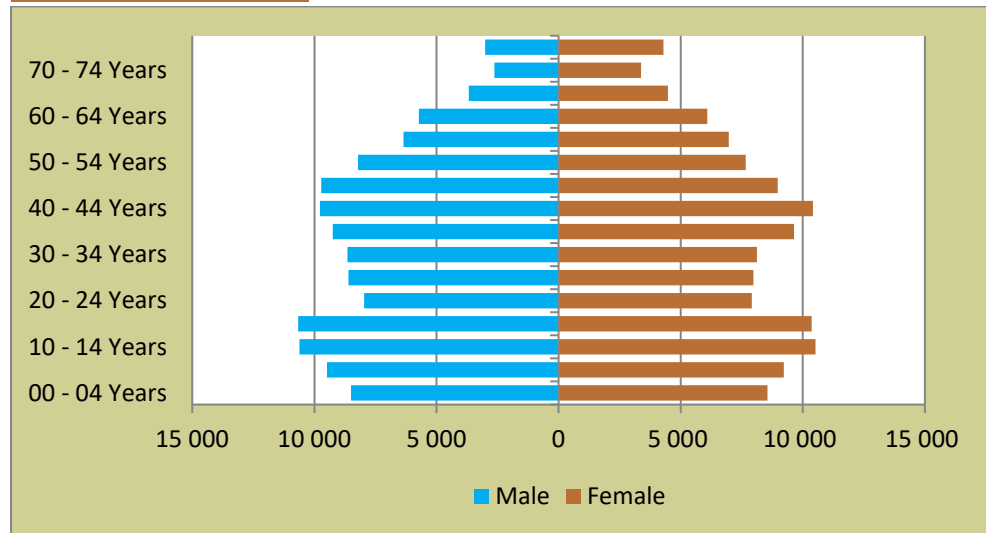
**GRAPH 2: HOUSEHOLD INCOME DISTRIBUTION**



**GRAPH 2** above illustrates a comparison of the household income distribution of George LM. Approximately 83.1% of the households in the municipality earn an income above the Equitable share bracket of R54 000 p.a. Theoretically, 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 this should compensate the municipality for providing free basic services.

Average household income grew at a rate of 3.5% during 2024. In absolute terms, the average household income increased from R414 442 p.a. in 2023 to R429 109 p.a. in 2024. This is the third highest household income in the district behind only Mossel Bay & Hessequa.

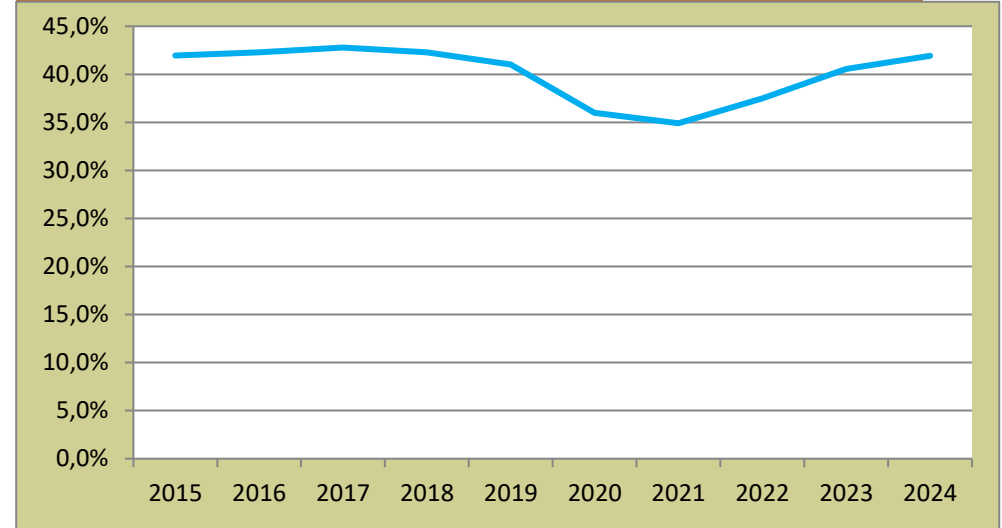
**GRAPH 3: AGE PROFILE**



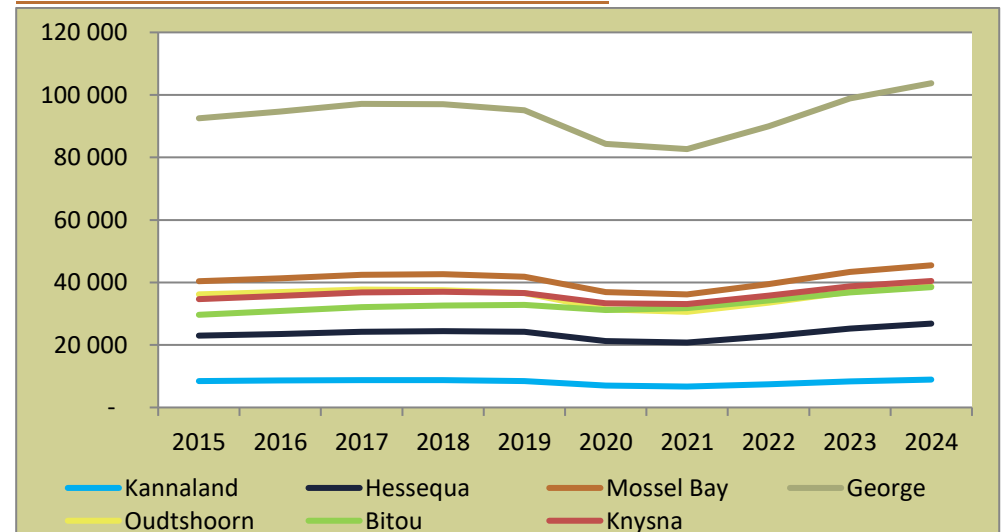
**GRAPH 3** presents the demographic composition of George Local Municipality, highlighting both gender and age distribution. The age profile of George reflects a large number of working age people, with 53.4% of the population between the ages of 25-64 years. The bulk of the population being considered economically active is favourable for the municipality’s long-term revenue generation as these age cohorts are traditionally the main consumers of municipal services as well as the drivers of economic activity within the region.

The economically active population as a percentage of the total population increased to 41.9% in 2024 from 40.6% in the prior year. It is positive to note that this is the third consecutive year of growth in this metric, following a prolonged period of decline. This bodes well for the municipality’s future economic growth prospects as a larger proportion of the population are contributing to the economy. The total number of economically active people in George LM increased by 4.9% to 103 731 people in 2024.

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

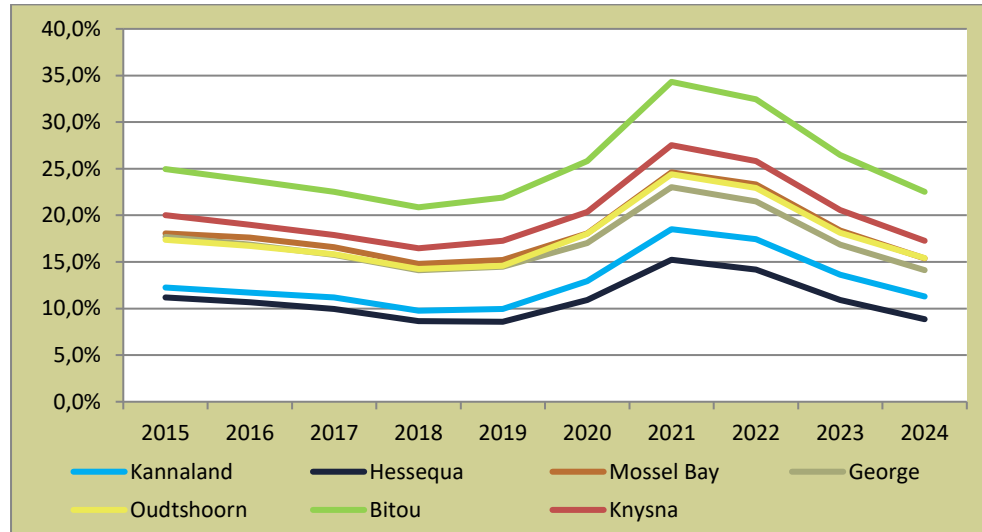


**GRAPH 4B: ECONOMICALLY ACTIVE POPULATION**





**GRAPH 5: OFFICIAL UNEMPLOYMENT RATE**



The unemployment rate declined further during the year, falling to 13.9% in 2024 from 16.5% in the prior year. This represents a continuation of the declining trend in unemployment observed since 2021. The impact of Covid-19 is evident in the sharp rise in unemployment in 2020 & 2021, as depicted in [GRAPH 5](#). Reduced unemployment rates as well as growth in household income are indicative of a reasonably healthy and growing economy within George LM. This bodes well for the municipality's future revenue prospects as an expanding economy coupled with higher levels of employment indicate an expansion of the municipality's rates and revenue base.

It is important to note that the official unemployment rate is based on a narrow definition that excludes discouraged workers and those not actively seeking employment. Therefore, if a broader and more realistic definition were applied, the actual unemployment rate would likely be considerably higher.

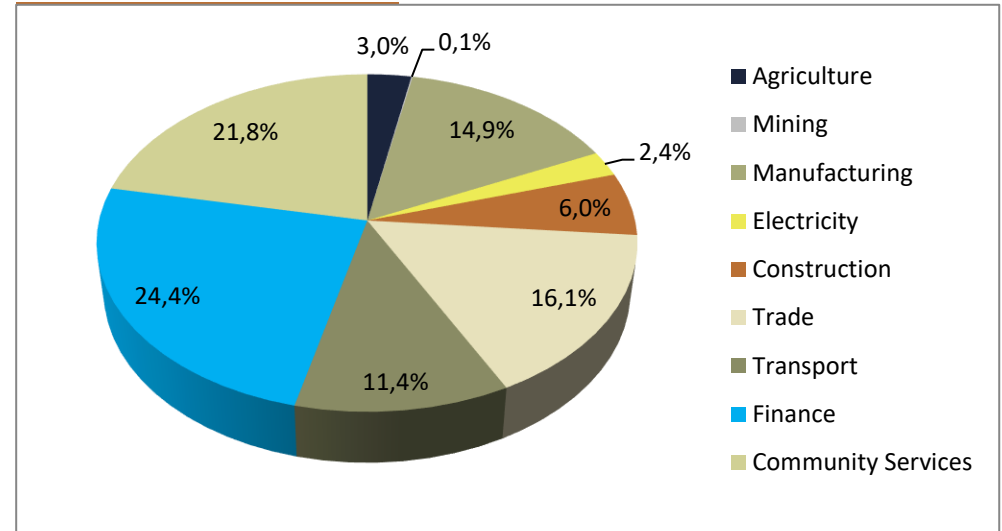
## ECONOMY

The municipality's total gross value added (GVA), which measures economic output, amounted to R27.49 billion (current prices) in 2024. This represents 33.9% of the district's total GVA of R81.12 billion (current prices). The municipality's economy was significantly impacted by the pandemic, as evidenced by an economic contraction of 5.8% in 2020. The economy rebounded well in 2021, with an economic expansion of 4.5% which was followed by a further expansion of 2.6% in 2022 which completed the economic recovery in full. Economic growth has slowed somewhat in the most recent 2 years with growth of just 0.9% and 0.2% in 2023 & 2024 respectively. This poses a notable concern as population growth trends have accelerated over the same period. 5-year average growth rates of 0.5% and 1.3% p.a. for the economy and population respectively indicate a decline in the well-being and wealth of the municipality's population.

George's local economy remains reasonably diversified, as reflected by a Tress Index of 43.96. A Tress Index of zero indicates a fully diversified economy, while a higher index (closer to 100) signifies greater economic concentration. Greater economic diversification reduces risk by spreading the impact of adverse economic conditions across multiple sectors, mitigating potential downturns. Finance, Community Services and Trade are the largest economic sectors within George LM, closely followed by manufacturing. The local economy is heavily driven by the tertiary sector, with approximately 73.6% of economic output in 2024 stemming from these activities.

The Community Services, Finance and Transport sectors exhibited proportional growth of 1.9%, 1.5% and 0.6% respectively over the review period. Secondary sector activities, except for manufacturing, all reflect proportional declines since 2015. The construction sector was the most heavily impacted with its 2024 proportional contribution down 3.0% compared to 2015.

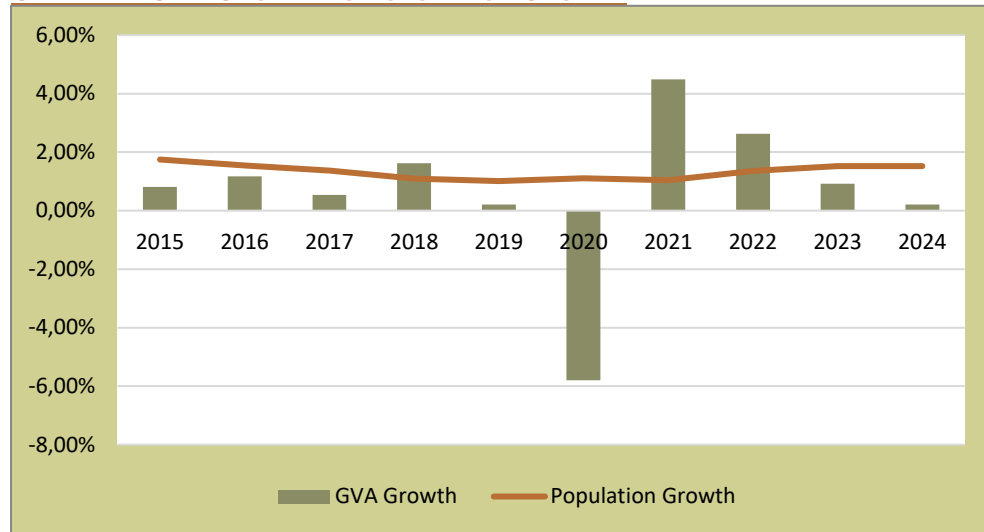
**GRAPH 6: ECONOMIC SECTORS**



**TABLE 1: CONTRIBUTION OF SUB-SECTORS TO GVA (CONSTANT 2015 PRICES)**

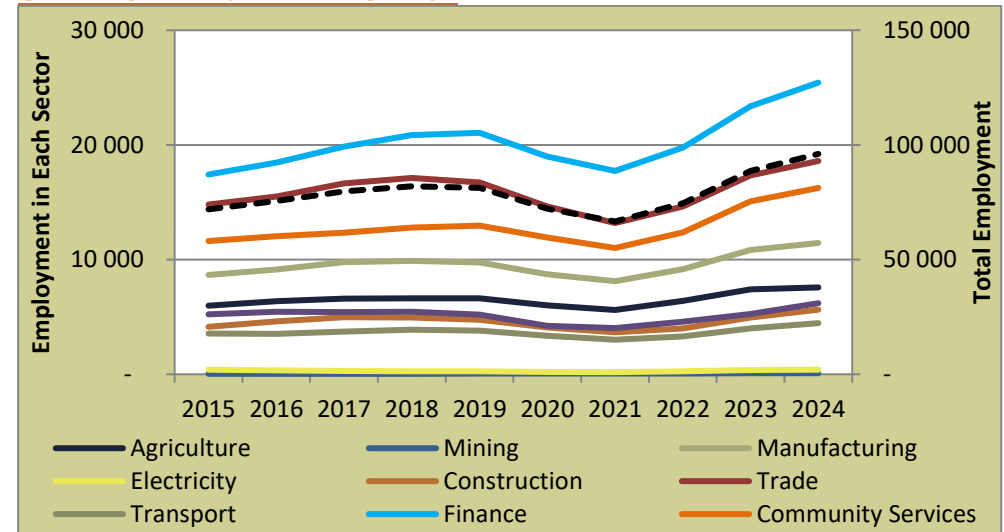
Subsector	2015	2024
Agriculture	2,8%	3,0%
Mining	0,1%	0,1%
Manufacturing	14,5%	14,9%
Electricity	2,9%	2,4%
Construction	9,1%	6,0%
Trade	17,1%	16,1%
Transport	10,8%	11,4%
Finance	22,9%	24,4%
Community Services	19,9%	21,8%

**GRAPH 7: GVA GROWTH VS POPULATION GROWTH**



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 exceeded by population growth for the majority of the review period, barring 2018, 2021 and 2022, 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.

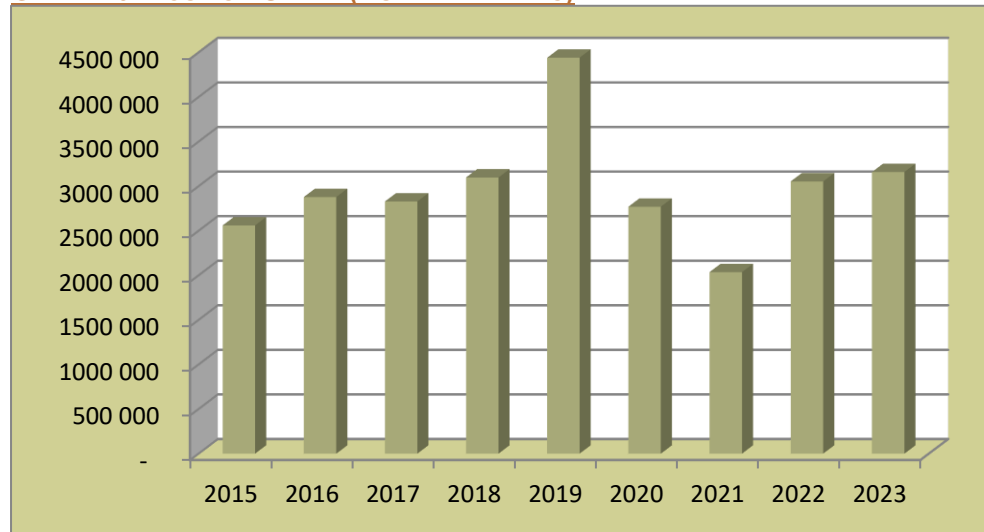
**GRAPH 8: EMPLOYMENT BY SECTOR**



A closer analysis of George’s employment data reveals a notable improvement in 2023, with the creation of 7 363 new jobs representing an 8.3% increase in comparison to the prior year. This brought the total number of employment opportunities in the municipality to 96 088, the highest over the entire review period.

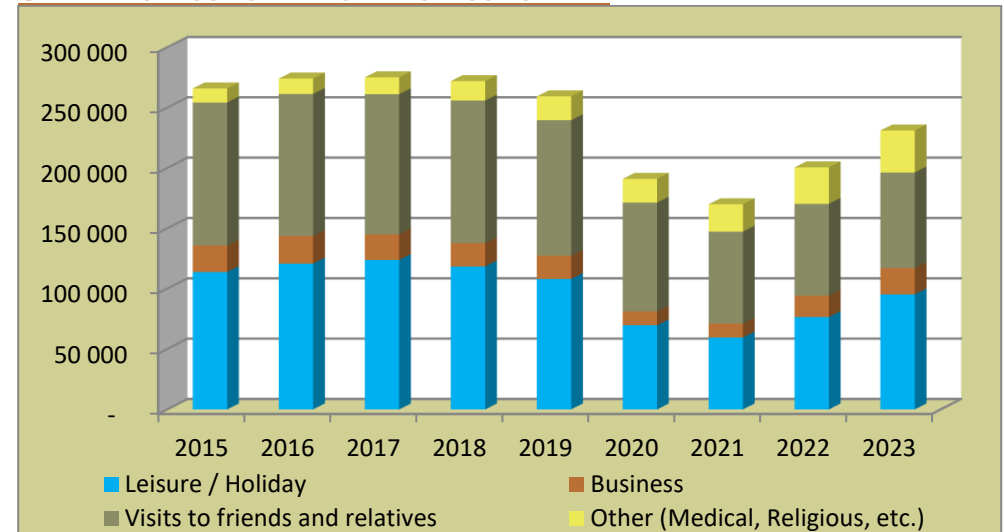
This is consistent with the decline in the unemployment rate discussed above. The Finance (26.5%), Trade (19.3%) and Community Services (16.9%), remain the predominant providers of employment within the region. These sectors not only reflect the economic strengths of the region but also highlight areas with strong potential for further expansion and investment.

**GRAPH 9: TOURISM SPEND (CURRENT PRICES)**



Tourism spend in the municipality has continued the upward trend since the substantial drop observed in 2020 and 2021. Total tourism spend in 2023 amounted to R3.16 billion, a marginal increase of 3.4% from 2022. The upward trend noted in tourism spend would indicate that the effects of the COVID pandemic are no longer felt in this sector. Despite the increases since 2022, tourism spend remains well below the peak observed in 2019. Tourism spend contributed approximately 10.9% of economic output in 2023.

**GRAPH 10: TOURISM TRIPS BY PURPOSE OF TRIP**

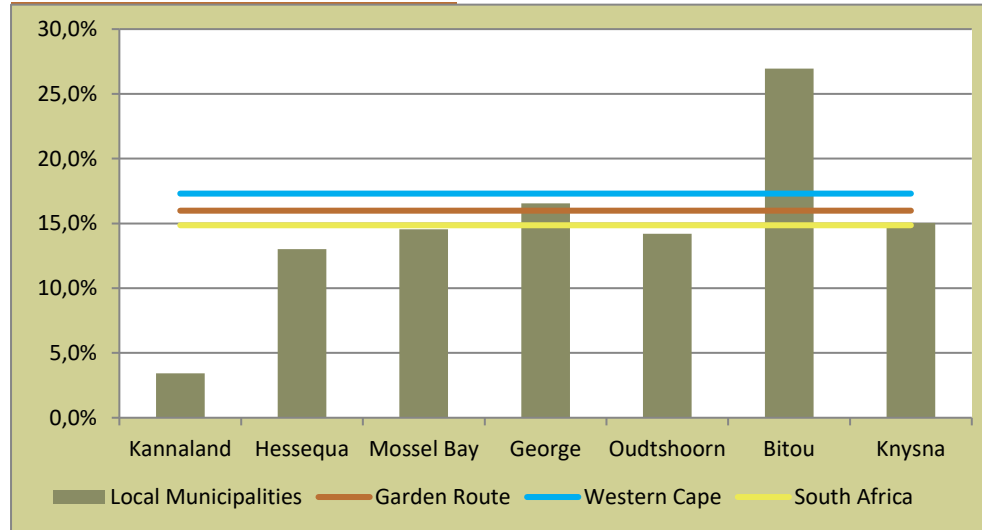


**GRAPH 10** illustrates the number and purpose of trips within the municipality's tourism sector in 2023. The total number of trips increased by 15.2% during the year, reaching 231 187 trips. Leisure/Holiday has become the main reason for visitation in 2023 overtaking visitation of friends and relatives. In 2023, trips for leisure/holiday purposes accounted for 41.2% or 95 298 trips and visits of friends and relatives made up 34.3% or 79 241 trips.

## HOUSEHOLD INFRASTRUCTURE

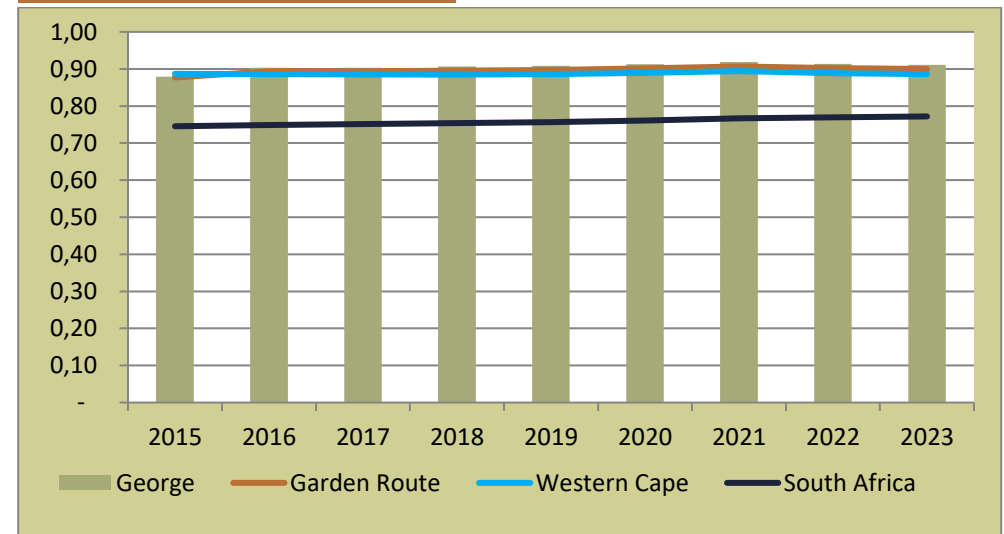
Household formation in George since 2015 came in at 16.6%. This translates to an additional 10 244 households in absolute terms. George's rate of household formation exceeded the district (16.0%) and national (14.9%) rates but lagged the provincial rate (17.3%). Any growth in households places additional pressure on the municipality to keep up with the increase in the demand for infrastructure services, as more households form within the municipality. This pressure is exacerbated given high rates of household formation.

**GRAPH 11: HOUSEHOLD FORMATION**



George has managed to improve access to municipal services over the review period, as measured by the infrastructure index averaging 0.91 over the review period. This is relatively higher than the district, provincial and national indices of 0.90, 0.89 and 0.77 respectively. The maintenance of this index is indicative of the municipality's ability to keep up with the rate of household formation and growing population. It must be stated that the infrastructure index is a measure of access to municipal services and does not necessarily give an indication as to the quality as well as the security with which these services are provided.

**GRAPH 12: INFRASTRUCTURE INDEX**



**TABLE 2** below compares service backlogs between George and the Garden Route District. Over the review period, George has improved access to services across all categories while outperforming the district in the provision of all infrastructure services. Ongoing investment in infrastructure has enabled the municipality to reduce backlogs across all service categories over the review period. This must continue.



**TABLE 1: HOUSEHOLD INFRASTRUCTURE PROVISION**

Infrastructure	Garden Route		George	
<i>Above RDP Level</i>				
Sanitation	210 816	97,4%	70 577	97,9%
Water	214 446	99,1%	71 683	99,4%
Electricity	210 719	97,4%	70 385	97,6%
Refuse Removal	199 012	91,9%	69 549	96,4%
<i>Below RDP or None</i>				
Sanitation	5 625	2,6%	1 540	2,1%
Water	1 994	0,9%	434	0,6%
Electricity	5 722	2,6%	1 732	2,4%
Refuse Removal	17 429	8,1%	2 568	3,6%
<b>Total Number of Households</b>	<b>216 441</b>	<b>100,0%</b>	<b>72 117</b>	<b>100,0%</b>



1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

**3 Updated Historic Financial Assessment**

4 Long-Term Financial Model Outcomes

5 Future Revenues

6 Affordable Future Capital Investment

7 Scenario Analysis

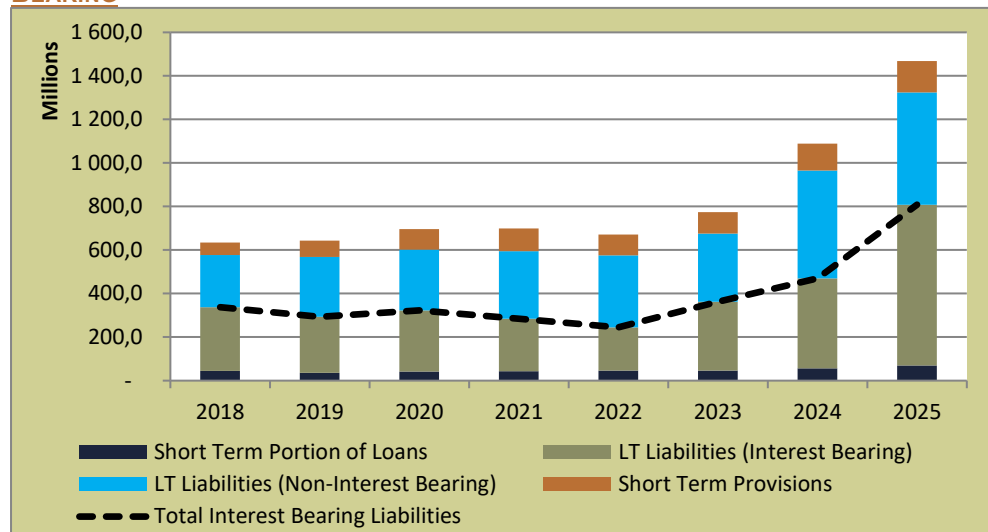
8 Ratio Analysis

9 Conclusions

# UPDATED HISTORIC FINANCIAL ASSESSMENT

## FINANCIAL POSITION

**GRAPH 13: LONG-TERM LIABILITIES: INTEREST BEARING VS NON-INTEREST BEARING**



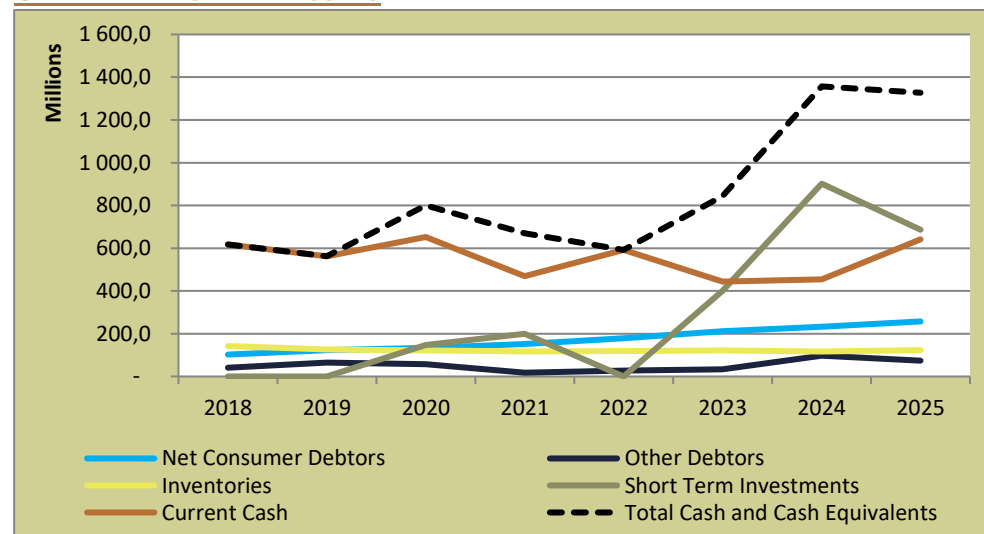
George LM's net fixed assets position improved considerably during FY2024/25, increasing by 23.0% to R5.84 billion as at FYE2024/25. This reflects notable capital investment in recent years, underpinned by the receipt of BFI grant funding and an accelerated borrowing programme. Healthy financial performance contributed to an increase of 21.9% in the accumulated surplus which totalled R5.21 billion as at FYE2024/25. Consistent growth in the accumulated surplus has been recorded over the review period, highlighting the compounding impact of sustained healthy financial performance.

George LM's long-term interest-bearing liabilities increased by a noteworthy 78.1%, from R414.4 million at FYE2023/24 to R738.0 million at FYE2024/25. This is pursuant to additional loans to the value of approximately R394.0 million undertaken during the year. This followed borrowings of R215.9 million in the prior year. This highlights the accelerated external funding strategy employed by George in recent years. This is expected to continue over the MTREF period, with notable borrowings

included in the capital budget. The additional leverage added to the balance sheet resulted in an increase in the gearing ratio (total debt to total revenue) up to 24.0% from 15.7% at the prior year end. Interestingly, the debt service to total expense ratio declined marginally to 4.1% from 4.3% at the prior year end. This can be ascribed to the extended loan tenors (12 & 15 years) obtained for 2 of the larger loans undertaken during FY2024/25. This has the impact of reducing annual debt service charges through extending the period of time over which the loan must be repaid.

Non-interest-bearing liabilities, mainly consisting of provisions for landfill site rehabilitation and employee benefit obligations, increased by 4.1% during the year. The increase in the provision for the rehabilitation of landfill sites was driven by additions to the provision of R15.9 million as well as a change in the discount factor which increased the provision by R21.2 million.

**GRAPH 14: CURRENT ASSETS**

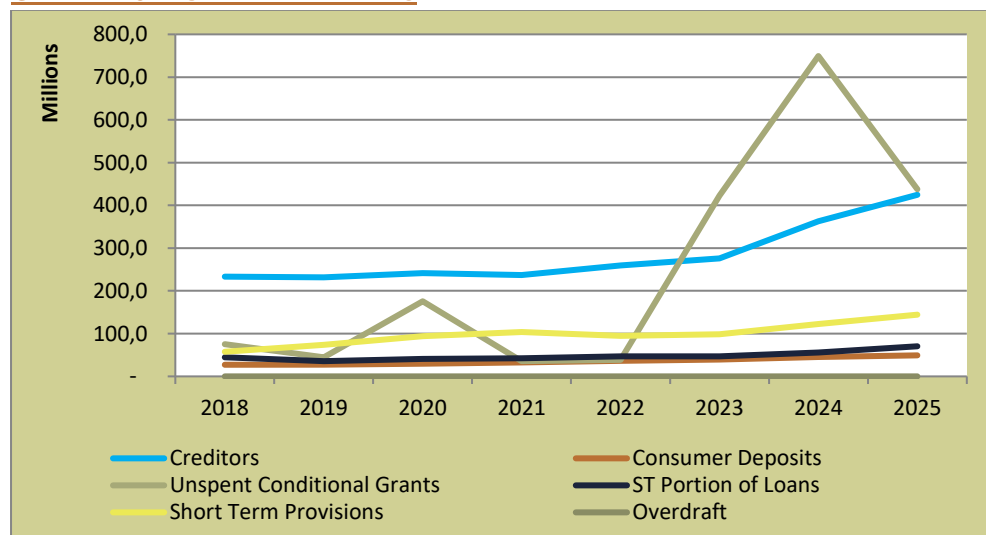


Current assets declined marginally during the year, falling to R1.78 billion from R1.80 billion at the prior year end. This was driven by reductions in cash and cash equivalents, which fell to R1.32 billion from R1.35 billion, as well as reduced other

debtors (including VAT receivable). It is noted that the presence of notable unspent conditional grants in recent years has impacted on these balances. With the impact of the unspent conditional grants balances removed, cash and cash equivalents would reflect healthy growth during the year, increasing from R607.7 million to R890.1 million as at FYE2024/25.

Current liabilities reflected a more notable decline of 15.8% during the year, down to R1.12 billion as at FYE2024/25. This decline was primarily ascribed to reduced unspent conditional grants of R437.5 million (FYE2023/24: R749.3 million) and despite an increase in payables from exchange transactions which rose to R424.7 million from R363.0 million at the prior year end. The increase in payables from exchange transactions was primarily driven by increases in retentions as well as trade payables.

**GRAPH 15: CURRENT LIABILITIES**



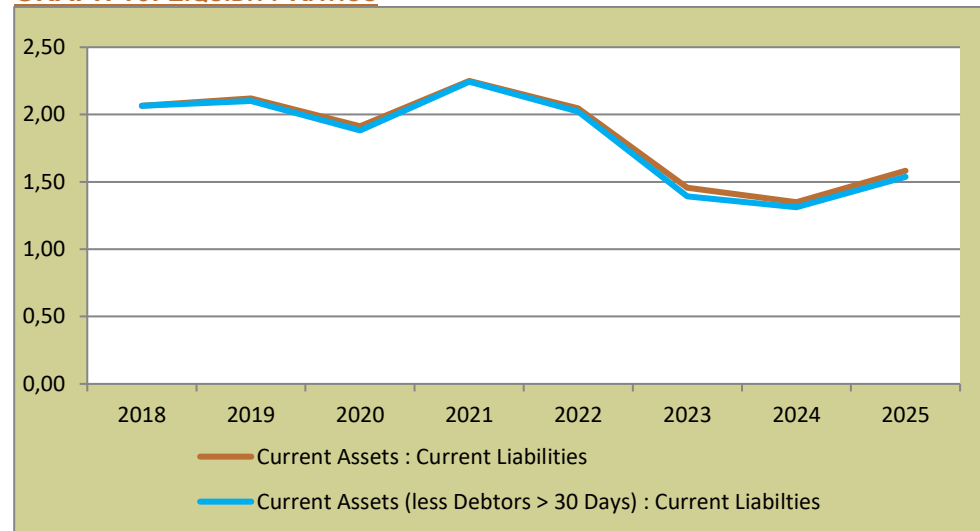
The movements in current assets and current liabilities resulted in a strengthening of the liquidity position, as evidenced in Table 2. The liquidity ratio improved to 1.58:1 from 1.35:1 at the prior year end. However, as stated in the previous update, the presence of notable unspent conditional grant balances have masked the true nature of the liquidity position in recent years. With the impact of this removed from

the analysis, the liquidity ratio is calculated at 1.95:1 as at FYE2024/25 (FYE2023/24: 1.79:1). This presents a truer reflection of George's liquidity position.

**TABLE 2: LIQUIDITY RATIOS**

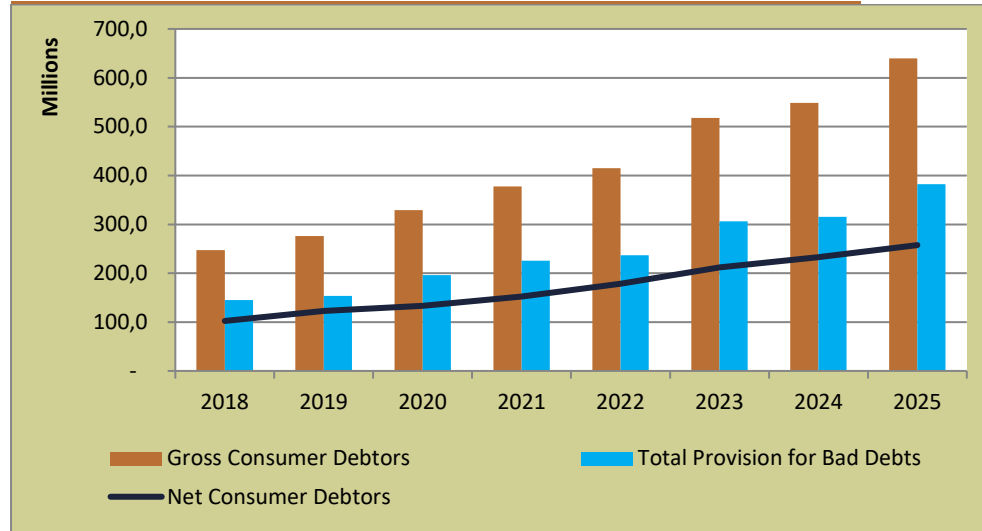
	2018	2019	2020	2021	2022	2023	2024	2025
<b>Current Assets: Current Liabilities</b>	2,07	2,12	1,91	2,25	2,05	1,46	1,35	1,58
<b>Current Assets (less Debtors &gt; 30 Days): Current Liabilities</b>	2,07	2,10	1,88	2,24	2,02	1,39	1,31	1,54

**GRAPH 16: LIQUIDITY RATIOS**

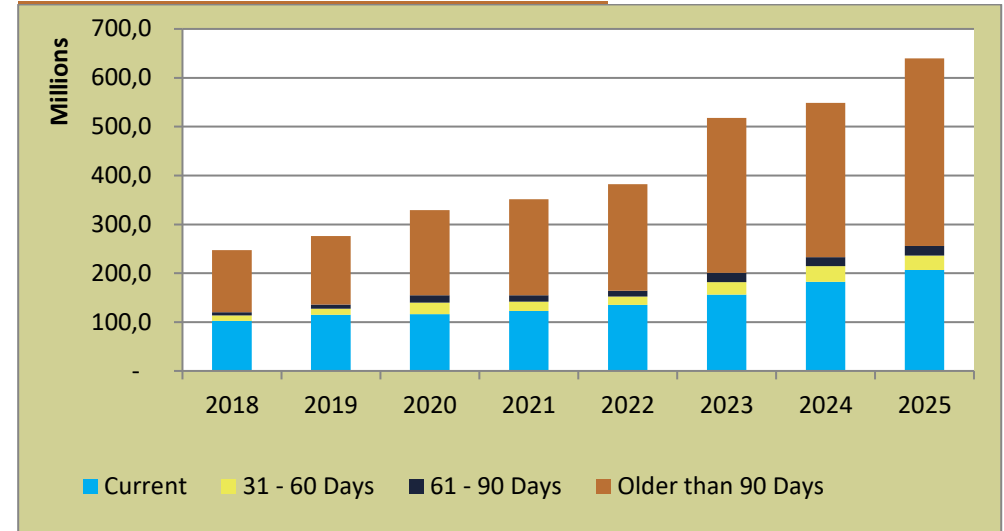


Gross consumer debtors increased by 16.7% up to R639.8 million as at FYE2024/25. A proportionally higher increase in the provision for bad debts of 21.1% was recorded during the year. Despite this, net consumer debtors increased by 10.7% up to R257.5 million as at FYE2024/25. The provision for bad debts essentially covered all debtors older than 90 days (99.6% as at FYE2022/25) thus mitigating the risk associated with non-payment.

**GRAPH 17: GROSS CONSUMER DEBTORS VS NET CONSUMER DEBTORS**



**GRAPH 18: CONSUMER DEBTORS AGE ANALYSIS**



**TABLE 3: DEBTORS RATIOS**

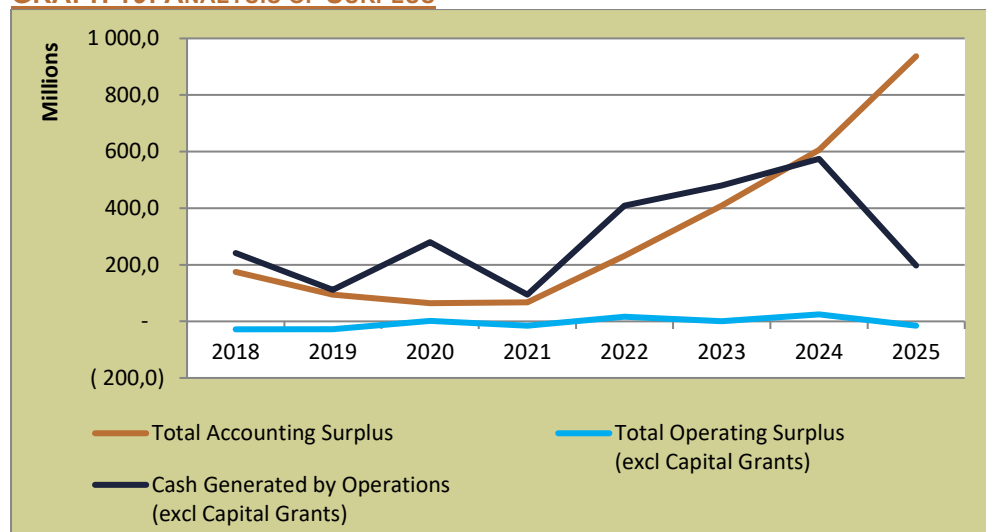
	2019	2020	2021	2022	2023	2024	2025
<b>Increase in Billed Income p.a. (R'm)</b>	84,4	115,4	40,6	176,4	112,0	243,6	268,0
<b>% Increase in Billed Income p.a.</b>	7%	9%	3%	13%	7%	14%	14%
<b>Gross Consumer Debtors Growth</b>	12%	19%	15%	10%	25%	6%	17%
<b>Payment Ratio/Collection Rate (%)</b>	96,4%	94,9%	94,9%	95,4%	92,0%	92,8%	93,3%

The collection rate was calculated at 93.3% as at FYE2024/25. This reflects an increase from 92.8% calculated in the prior year. IPM's calculation of the collection rate utilises the same formula as included in NT's Circular 71. George LM must be commended for maintaining healthy collection rates over the review period. This has underpinned healthy growth in cash and cash equivalents and enabled the municipality to continue meeting demand for service delivery whilst remaining financially sustainable.

The debtors age analysis reveals that the majority of debtors are older than 90 days (60.0%), while just short of a third (32.3%) of debtors are current. While the bulk of debtors being older than 90 days poses a concern, the municipality has managed this risk well through adequately providing for bad debts.

## FINANCIAL PERFORMANCE

**GRAPH 19: ANALYSIS OF SURPLUS**



**TABLE 4: ANALYSIS OF SURPLUS**

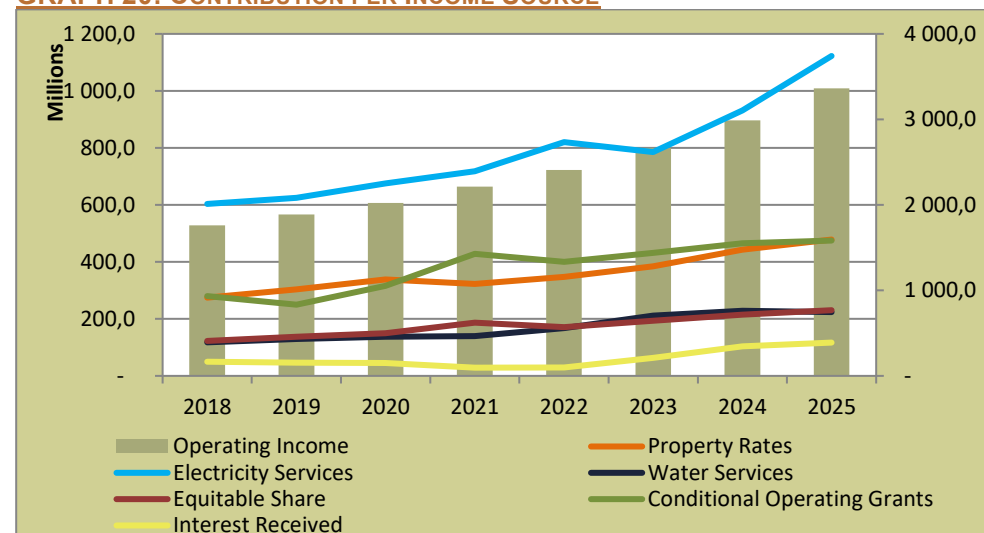
	2018	2019	2020	2021	2022	2023	2024	2025
<b>Total Accounting Surplus</b>	174,7	94,4	64,3	67,1	231,4	408,9	605,3	937,1
<b>Total Operating Surplus (excl Capital Grants)</b>	(28,1)	(27,8)	1,1	(15,9)	16,8	0,6	24,7	(15,6)
<b>Cash Generated by Operations (excl Capital Grants)</b>	241,6	111,6	280,1	94,3	408,6	480,2	574,4	197,5

During FY2024/25, total income increased to R4.31 billion from R3.56 billion in the prior year (21.0%). During the same period, total expenditure increased to R3.37 billion from R2.96 billion (14.1%). Upon the exclusion of **conditional** grants, operating income of R2.88 billion was reported in FY2024/25 (FY2023/24: R2.52 billion) for an increase of 14.6%. These movements are reflected in the increased accounting surplus of R937.1 million (FY2023/24: R605.3 million). Upon the

exclusion of **capital** grants, an operating deficit of R15.6 million was posted (FY2023/24: R24.7 million surplus). This indicates that the municipality's operational performance deteriorated during FY2024/25, despite an improvement in the accounting surplus.

Cash generated from operations (excluding capital grants) declined to R197.5 million during FY2024/25, from R574.4 million in the prior year. This is partly attributable to reduced cash receipts of operational grant income compared to the prior year, as well as a noteworthy increase in cash payments to suppliers. George LM generated cash from operations throughout the planning period, a feat which has contributed heavily to the maintenance of a healthy financial position.

**GRAPH 20: CONTRIBUTION PER INCOME SOURCE**

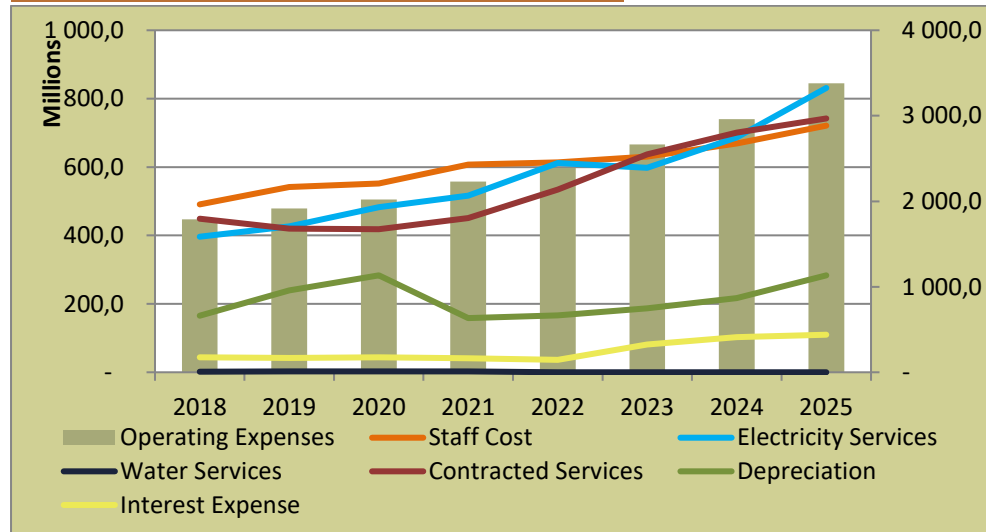


Electricity services remained the predominant revenue source for the municipality, accounting for R1.12 billion in revenue during FY2024/25. This equates to 33% of operating revenue. The municipality must be commended for maintaining low electricity distribution losses (9.73% during FY2024/25) and thus limiting the associated loss of revenue. This is particularly important given the erosion of electricity surplus margins in recent years due to the municipality's inability to fully

pass on NERSA's bulk purchases tariff increases to the consumer. Other noteworthy revenue items include property rates and conditional operating grants which both accounted for 14% of operating revenue during FY2024/25.

With electricity services remaining the main source of the municipality's revenue, a return of the energy crisis poses a significant threat to the municipality's financial sustainability. To mitigate this risk, it is recommended that the municipality implements stringent management of its operational expenditure as well as ensuring that its tariffs accurately reflect the true cost of supply.

**GRAPH 21: CONTRIBUTION PER EXPENDITURE ITEM**



The increase in operating expenditure was driven by increases in electricity bulk purchases (21.0%), depreciation (30.6%) and staff costs (7.7%). Depreciation increased significantly owing to notable additions of infrastructure assets during the year. Electricity bulk purchases remained the predominant expenditure item, accounting for 17.7% of expenditure during FY2024/25. This is followed by contracted services (15.8%) and staff costs (15.3%).

In order to properly assess the affordability of the municipality's employee related expenditure profile, it is worth assessing the combined contribution of staff costs and contracted services. It is worthwhile including contracted services in this assessment as they represent an alternative to staff costs as certain services are outsourced to

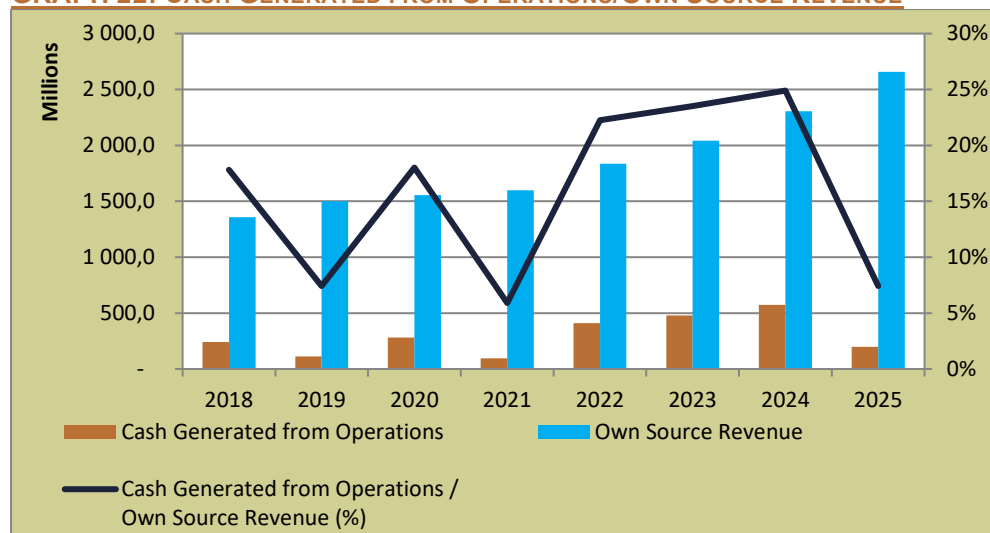
contractors. While the contribution of contracted services of 15.8% far exceeds NT's recommended maximum norm of 5% for this expenditure item, it is appreciated that this directly contributes to the low staff costs contribution of 15.3%. Additionally, the outsourcing of transport services related to the GIPTN Bus Service further inflates expenditure incurred on contracted services. This item totalled R283.4 million during FY2024/25. The combined contribution of staff costs and contracted services totalled 31.1% during FY2024/25. This remains well within the NT maximum norm of 40%. This suggests that George's employee related expenditure profile remains affordable and further indicates that the municipality is getting value for money with the outsourcing of certain services.

The total grants to total revenue ratio was calculated at 38% during FY2024/25. This would suggest that the municipality is reasonably reliant on fiscus to generate revenue. This is, however, inflated due to the elevated capital grant funding received in recent years. One would reasonably expect that once the BFI grant funding period is complete, this ratio will fall closer to historic norms.

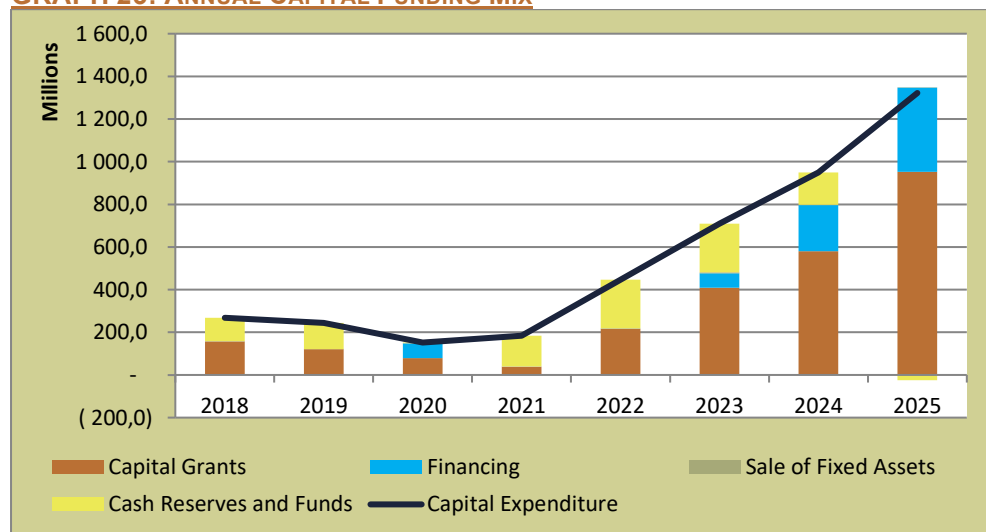
Operational expenditure incurred to repair and maintain the municipality's assets increased to R262.8 million during FY2024/25, up 17.5% from R223.7 million in the prior year. This equates to 4.5% of PPE & IP (FY2023/24: R4.7%). While this remains below the NT norm of 8%, this is to be expected given the rapid rise in the carrying value of PPE in recent years. We are thus satisfied that adequate repairs and maintenance is taking place.

## CASH FLOW

**GRAPH 22: CASH GENERATED FROM OPERATIONS/OWN SOURCE REVENUE**



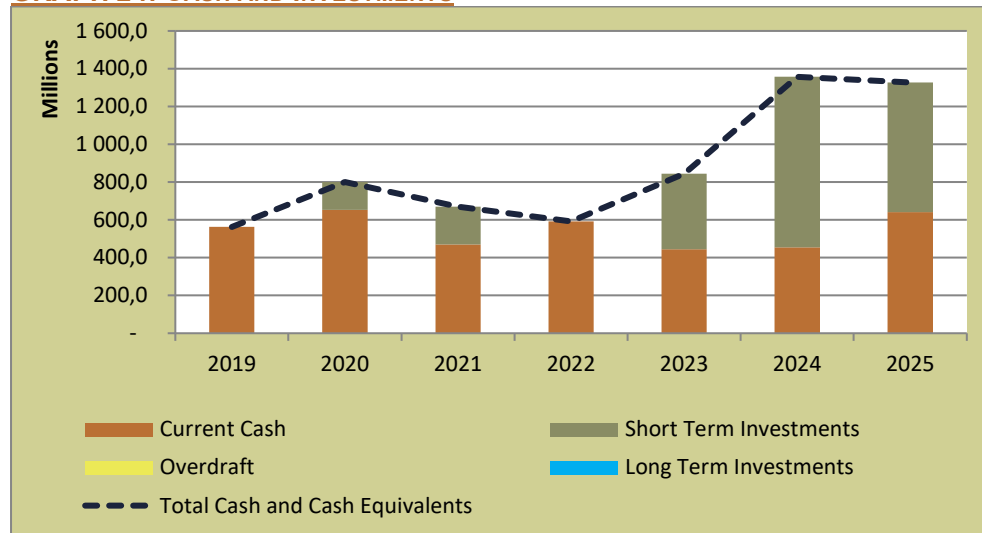
**GRAPH 23: ANNUAL CAPITAL FUNDING MIX**



George LM's ability to generate cash from operations was underpinned by the maintenance of healthy collection rates throughout the review period. This must be maintained. **GRAPH 24** below illustrates the movements in cash and cash equivalents over the review period. While some volatility was evident, George managed to maintain healthy cash balances throughout the review period. This has underpinned the maintenance of a healthy liquidity position and enabled capital investment to be accelerated utilising own cash at points over the review period. Furthermore, the municipality has been prudent in its management of its cash and cash equivalents, converting this cash into short and long-term investments. This was particularly effective in recent years with cash and cash equivalents elevated due to the BFI grant funding. This resulted in noteworthy increases in interest income which totalled R116.8 million in FY2024/25, up from R63.3 million in FY2022/23.

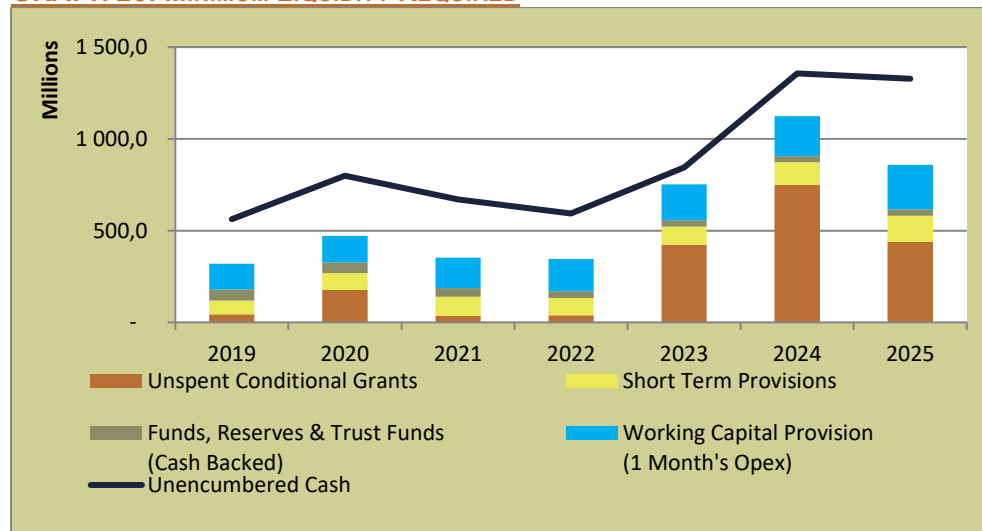
The total capital outlay over the review period amounted to R4.27 billion at an annual average of R534.2 million. As evidenced in Graph 23, there has been a rapid acceleration of capital investment since FY2021/22. This has been underpinned by accelerated grant funding owing to the successful BFI application. The municipality has implemented an aggressive borrowing strategy in recent years, which is expected to continue over the MTREF period. Whilst sufficient scope currently exists to add leverage to the balance sheet, an overleveraging of the debt profile may begin to provide diminishing returns and thus the degree of leverage added to the balance sheet must be carefully monitored. The LTFM must be utilised to quantify affordable borrowing limits given the municipality's debt absorption capacity. This has formed a key part of the modelling of the Base Case to be discussed later in the report.

**GRAPH 24: CASH AND INVESTMENTS**



As per **TABLE 6** below, the municipality is required to maintain sufficient cash reserves to cover the minimum liquidity requirements that include, unspent conditional grants, short-term provisions, funds, reserves and trust funds, as well as the working capital provision of one month's operating expenditure. The minimum liquidity requirement of R857.8 million was exceeded by George's cash and cash equivalents balance of R1.32 billion, resulting in a cash surplus of R469.8 million in FY2024/25. This represents an increase from a cash surplus of R233.6 million in the prior year. George has posted cash surpluses above the minimum liquidity requirements throughout the review period. The ability to maintain sufficient liquidity to cover the minimum liquidity requirement is a strong indicator of long-term sustainability. The cash coverage ratio (including working capital) improved during the year to a healthy 1.5.1.

**GRAPH 25: MINIMUM LIQUIDITY REQUIRED**



**TABLE 5: MINIMUM LIQUIDITY REQUIREMENTS**

	2018	2019	2020	2021	2022	2023	2024	2025
Unspent Conditional Grants	75,1	44,6	175,6	35,6	38,4	422,8	749,3	437,5
Short Term Provisions	57,6	74,0	93,9	103,8	94,6	98,5	122,8	144,3
Funds, Reserves & Trust Funds (Cash Backed)	62,9	61,6	57,8	48,3	35,9	35,7	33,9	33,9
<b>Total</b>	<b>195,6</b>	<b>180,2</b>	<b>327,3</b>	<b>187,8</b>	<b>168,9</b>	<b>557,0</b>	<b>905,9</b>	<b>615,8</b>
Unencumbered Cash	617,8	562,6	799,5	669,6	592,5	843,9	1 357,0	1 327,6
<b>Cash Coverage Ratio (excl Working Capital)</b>	<b>3,2</b>	<b>3,1</b>	<b>2,4</b>	<b>3,6</b>	<b>3,5</b>	<b>1,5</b>	<b>1,5</b>	<b>2,2</b>
Working Capital Provision (1 Month's Opex)	125,9	139,7	144,7	164,4	177,3	195,1	217,5	242,0
<b>Cash Coverage Ratio (incl Working Capital)</b>	<b>1,9</b>	<b>1,8</b>	<b>1,7</b>	<b>1,9</b>	<b>1,7</b>	<b>1,1</b>	<b>1,2</b>	<b>1,5</b>
Minimum Liquidity Required	321,6	319,9	472,0	352,1	346,2	752,1	1 123,5	857,8
<b>Cash Surplus/(Shortfall)</b>	<b>296,2</b>	<b>242,7</b>	<b>327,5</b>	<b>317,5</b>	<b>246,4</b>	<b>91,8</b>	<b>233,6</b>	<b>469,8</b>

## 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 FY2024/25 performance of George, the IPM credit model reflects a score of 6.3 which is comparable to a **A-** on a national ratings scale. This credit score is relatively low compared to other municipalities but is considered to be at **Investment Grade** level. This means the municipality should obtain competitive lending rates when approaching the market for financing.

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

**TABLE 6: IPM CREDIT MODEL OUTCOMES**

Modules	2025 (5)
Financial	2,7
Institutional	3,6
Socio-Economic	2,6
Infrastructure	3,4
Environmental	4,8

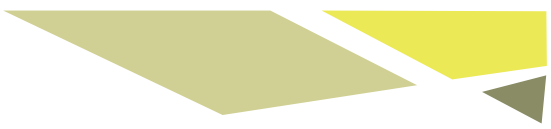
From the assessment it is evident that the socio-economic environment continues to be George's main impediment in achieving higher credit scores. This is mainly linked to a lack of economic growth in the region.

The unqualified audit opinion received during FY2024/25 assisted in improving the score received under the Institutional module. It is essential that the unqualified audit opinion is maintained going forward to avoid a deterioration in not only this module of the credit model but also the municipality's standing with financial institutions.

The score achieved on the financial module is driven by the high collection rate and healthy liquidity position. By implementing the recommendations of the LTFP update

report, maintaining financial discipline and prudent financial management, George should be able to maintain and improve this score over time.

George has maintained healthy levels of access to infrastructure services over the review period. This, along with ensuring high levels of access to hygienic toilets and refuse removal services, contributed to high scores on the infrastructure and environmental modules of the credit model.



1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

**4 Long-Term Financial Model Outcomes**

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9 Conclusions



## LONG-TERM FINANCIAL MODEL OUTCOMES

### MTREF CASE SCENARIO

The MTREF Case was developed using the unadjusted figures from the Adjustment Budget for 2025/26-2027/28 as well as the 2024/25 pre-audited financials. The purpose of this scenario is to reflect the LTFM outcomes prior to making any adjustments to the current MTREF. It is our view that George has been reasonably conservative in its operational budget estimates, with operating deficits of R37.6 million, R21.1 million and R6.6 million expected over the MTREF period. This represents a decline in financial performance from FY2024/25 levels (operating deficit of R15.6 million). We thus expect the operating budget to be outperformed.

In arriving at the MTREF Case, no adjustments were made to the Adjustment Operating and Capital Budgets. The collection rate was maintained at 93.3% throughout the planning period, in line with the FY2024/25 calculation. Interest rates on new debt were set at 5% above forecast CPI, with average loan tenors set at 10 years. Other key metrics such as repairs and maintenance expenditure, distribution losses and creditors days were maintained at their respective FY2024/25 levels.

The results of the MTREF Case as presented in Table 8 below reflect a notable deterioration in liquidity from current levels. Financial performance is expected to deteriorate with accounting and operating deficits forecast over the MTREF period. This is predominantly driven by higher than budgeted debt impairment expenditure, owing to the lower than budgeted collection rate. George LM is forecast to post its first accounting surplus in FY2028/29, whereafter year-on-year improvements are forecast.

Despite the negative short-term forecast for financial performance, the municipality is expected to continue to generate healthy cash from operations. A total of R4.90 billion in cash is forecast to be generated over the planning period, excluding capital grants. This is underpinned by the healthy collection rate, although reduced from the budgeted 96%. A further factor underpinning the ability to generate cash from operations is the forecast growth in creditors. Creditors are expected to increase by a considerable 83% over the planning period. While this supports operational cash flows, it begins to result in a deterioration of liquidity.

The cash position is expected to deteriorate significantly over the planning period, with the minimum liquidity requirement of one-months opex not met at any point over the planning period. While the lower collection rate and poor forecast financial performance play a role in this deterioration, the main driver remains the capital budget and funding mix. Significant amounts of own cash have been included in the budgeted funding mix, along with exceptional borrowings. The MTREF Case indicates that this is forecast to prove unaffordable and will result in a notable deterioration of liquidity. The debt indicators reveal that the budgeted borrowing programme is forecast to lead to an overleveraging of the debt profile, particularly from a debt service perspective. This further contributes to the forecast deterioration of liquidity.

Overall, the MTREF Case scenario reflects relatively poor financial performance and a strained liquidity position. The underlying causes of the undesirable outcome presented in the MTREF Case have been addressed in developing the Base Case.

A summary of the MTREF Case outcome is provided below:

#### Strengths:

- Ability to generate cash from operations.
- Healthy financial performance over long-term.

#### Weaknesses:

- Forecast growth in creditors.
- Cash shortfall on budgeted capital investment.
- Deteriorating liquidity position.
- Overleveraged debt profile.

## BASE CASE SCENARIO

To develop a realistic Base Case model, the figures from the Adjustment Budget 2025/26–2027/28 were utilised. For FY2024/25, the pre-audited figures were utilised. As discussed above, the Adjustment Operating Budget is reasonably conservative, with a decline in financial performance expected. Given the historic levels and recent improving trend, this is unlikely to transpire. Other key issues identified in the MTREF Case include a forecast overleveraging of the debt profile, leading to a deterioration of liquidity. These issues are addressed in the Base Case. Key to the modelling of future financial sustainability is the use of realistic assumptions, of which the following are the key assumptions:

To develop a realistic Base Case the following are the key assumptions were made:

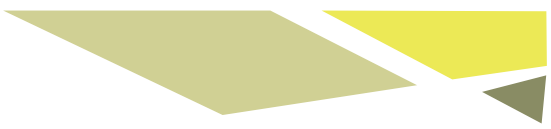
1. The collection rate is assumed to improve to 96.0% within a year and maintained at this level for the entire planning period.
2. The model incorporated the increases in revenue and expenditure items as announced in the Adjustment Budget.
3. The MTREF capital investment programme was adjusted as follows:
  - a. FY2025/26: R875.0 million (Budget: R969.7 million)
  - b. FY2026/27: R700.0 million (Budget: R767.7 million)
  - c. FY2027/28: R575.0 million (Budget: R636.9 million)
  - d. FY2028/29: R550.0 million (Budget: n/a)Assumed growth in capital investment beyond FY2028/29 is 6% p.a.
4. The borrowing programme was adjusted as follows:
  - a. FY2025/26: R604.3 million (Budget: R604.3 million)
  - b. FY2026/27: R500.4 million (Budget: R500.4 million)
  - c. FY2027/28: R300.0 million (Budget: R382.9 million)
  - d. FY2028/29: R150.0 million (Budget: n/a)
5. The annual borrowing under this scenario was adjusted to an average of **13-year** amortising loans at a fixed interest rate equal to 6% over forecast CPI in any given year. Assumed annual growth in borrowing beyond FY2028/29 is 4%.
6. Repairs and maintenance expenditure as a % of PPE & IP was increased to 6.0% (from 4.5%) over 5 years and maintained at this level for the remainder of the planning period.
7. Electricity losses maintained at 9.73% while water distribution losses were reduced to 20.00% from 24.60% over 5 years.

8. Tariff increases were included as put forward in the Adjustment Budget Document for FY2025/26-FY2027/28.
9. Creditors days were reduced in order to mitigate the forecast rise in creditors in the MTREF Case.

The Base Case scenario presents a sustainable long-term outcome. This is characterised by improved financial performance and cash generation, pursuant to the improved collection rate, as well as a sustainable capital investment programme underpinned by an affordable funding mix.

Financial performance is expected to deteriorate over the MTREF period, with operating deficits forecast until FY2028/29. This mirrors the MTREF Case and is again a reflection of the conservative operating budget as well as a higher than budgeted forecast for debt impairment. If the assertion that the operating budget is likely to be outperformed holds true, then it is expected that the Base Case forecast will too be outperformed. Additionally, if the budgeted figures for debt impairment prove more accurate than the LTFM forecast, one can expect the Base Case outcome to be outperformed. Another factor contributing to the strained financial performance over the short-term is the modelled increase in repairs and maintenance expenditure. A total of R1.03 billion is forecast to be spent on operational repairs and maintenance over the MTREF period, with this total increasing to R4.34 billion over the planning period. This, coupled with adequate capital investment in the renewal and upgrading of assets is likely to contribute towards the integrity of the municipality's asset base being maintained.

George LM is forecast to generate cash from operations throughout the planning period, except for FY2025/26. The cash utilisation from operations forecast in FY2025/26 is driven by movements in unspent conditional grants. The healthy forecast cash generation is underpinned by the healthy collection rate as well as strong financial performance beyond the MTREF period. A total of R6.00 billion in cash is forecast to be generated by operations over the planning period. Important to note is that the municipality is forecast to note year-on-year improvements in cash generation over the planning period, whilst maintaining creditors at consistent level. This is achieved through the reduction in creditors days assumed in the Base Case. This was a key weakness identified in the MTREF Case which contributed to the forecast erosion of liquidity. This has been addressed in the Base Case and contributes to the sustainable long-term outcome.



George LM historically maintained a healthy liquidity position over the review period. This is expected to continue in the Base Case. While a short-term reduction in liquidity is forecast, the long-term outlook presents favourably with an improvement in liquidity expected over the planning period. This is underpinned by the healthy collection rate and strong long-term forecast financial performance. Liquidity pressures are expected over the short-term, primarily driven by the initially poor forecast financial performance as well as the accelerated capital investment and borrowing programmes included over the MTREF period. Additionally, the bank balance is forecast to decline in FY2025/26 due to the FY2024/25 balance being impacted by the presence of unspent conditional grants. These pressures are evident in [GRAPH 33](#) below, where both current assets and current liabilities reflect limited growth over the first half of the planning period. This further emphasises the importance of curbing growth in current liabilities, particularly creditors, to maintain a sustainable liquidity position. Given the aggressive borrowing programme, current liabilities will grow due to increases in the short-term portion of loans as more debt is undertaken. For this to remain sustainable, it is essential that any growth in creditors is limited to ensure that the municipality's current liabilities remain manageable.

[GRAPHS 30 & 32](#) present a comparison between the forecast cash positions of the MTREF & Base Case respectively. Poor financial performance and an overly aggressive capital budget and funding mix over the MTREF period are the main drivers of the notable decline in cash depicted in the MTREF Case (Graph 30). This presents a notable red flag and thus was the main issue to address in arriving at the Base Case. The improved collection rate as well as the adjustments made to the capital budget and funding mix were aimed at ensuring a stable and healthy cash position is maintained. The minimum liquidity requirement of 1-months opex is utilised as a yardstick for the sustainability of the cash position. Thus, decisions are made with the aim of ensuring these minimum liquidity requirements are met throughout the planning period. This has necessitated the reduction in both the own cash portion of the funding mix as well as the reduced borrowing programme in FY2027/28 & FY2028/29. These adjustments have resulted in the minimum liquidity requirements being met throughout the planning period, as depicted in [GRAPH 32](#) below. This is reflective of a sustainable long-term outcome.

The Base Case presents a reduced capital investment programme from the capital budget. These downward revisions were aimed at ensuring that sufficient liquidity is maintained throughout the planning period. The MTREF Case outcome suggests

that the budgeted capital investment programme and funding mix is expected to result in a notable deterioration of liquidity. As such, the capital budget has been revised downwards. This will be discussed in greater detail in Section 6 of this report.

The budgeted borrowing programme was maintained for FY2025/26 & FY2026/27 before a reduction was made in FY2027/28. The MTREF Case, which presents the unadjusted budgeted borrowing programme, reflected a forecast overleveraging of the debt profile. This contributed to the forecast deterioration of liquidity. This thus necessitated the downward revisions made in arriving at the Base Case borrowing programme. This will be discussed in greater detail in Section 6 of this report.

The Base Case aims to utilise realistic and achievable assumptions in order to promote the long-term financial sustainability of the municipality. The strengths of the MTREF Case have largely been maintained, while the weaknesses identified have been addressed to a large extent. It must be emphasised that the credibility of the Base Case outcome is dependent on the municipality successfully implementing the Base Case assumptions.

#### **Strengths:**

- Strong forecast for financial performance over long-term.
- Healthy repairs and maintenance expenditure.
- Strong ability to generate cash from operations.
- Limited growth of current liabilities over long-term.
- Healthy liquidity position forecast.
- Sustainable capital investment programme.

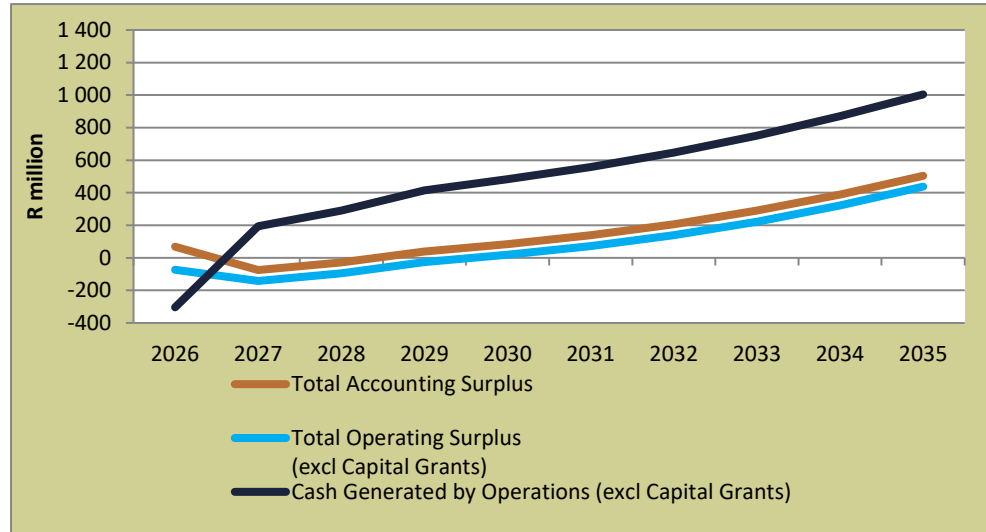
#### **Weaknesses:**

- Operating deficits forecast over MTREF period.
- Overleveraged debt profile over short-term.

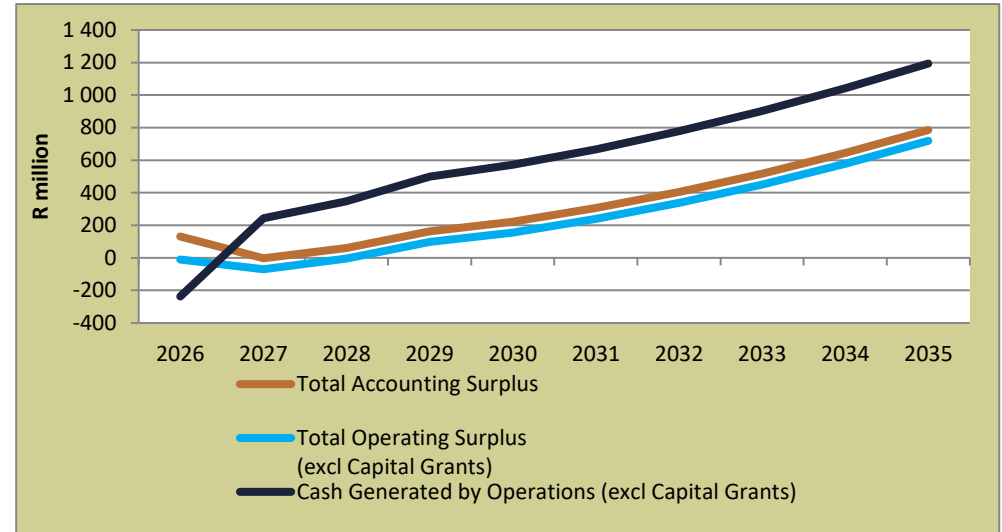
**TABLE 8: MTREF CASE VS BASE CASE OUTCOMES**

<b>Outcome</b>	<b>MTREF Case</b>	<b>Base Case</b>
Average annual % increase in Revenue	5,8%	5,9%
Average annual % increase in Expenditure	7,3%	7,0%
Accounting Surplus accumulated during Planning Period (Rm)	R 1 618	R 3 232
Operating Surplus accumulated during Planning Period (Rm)	<b>R 878</b>	<b>R 2 492</b>
Cash generated by Operations during Planning Period (Rm)	<b>R 4 909</b>	<b>R 6 005</b>
Average annual increase in Gross Consumer Debtors	14,3%	11,5%
Capital investment programme during Planning Period (Rm)	<b>R 7 616</b>	<b>R 6 777</b>
External Loan Financing during Planning Period (Rm)	<b>R 4 392</b>	<b>R 2 589</b>
Cash and Cash Equivalents at the end of the Planning Period (Rm)	<b>R 570</b>	<b>R 1 867</b>
No of Months Cash Cover at the end of the Planning Period (Rm)	<b>1,1</b>	<b>3,7</b>
Liquidity Ratio at the end of the Planning Period	<b>0,8 : 1</b>	<b>2,9 : 1</b>
Gearing at the end of the Planning Period	<b>26,3%</b>	<b>17,6%</b>
Debt Service to Total Expense Ratio at the end of the Planning Period	<b>11,0%</b>	<b>6,5%</b>

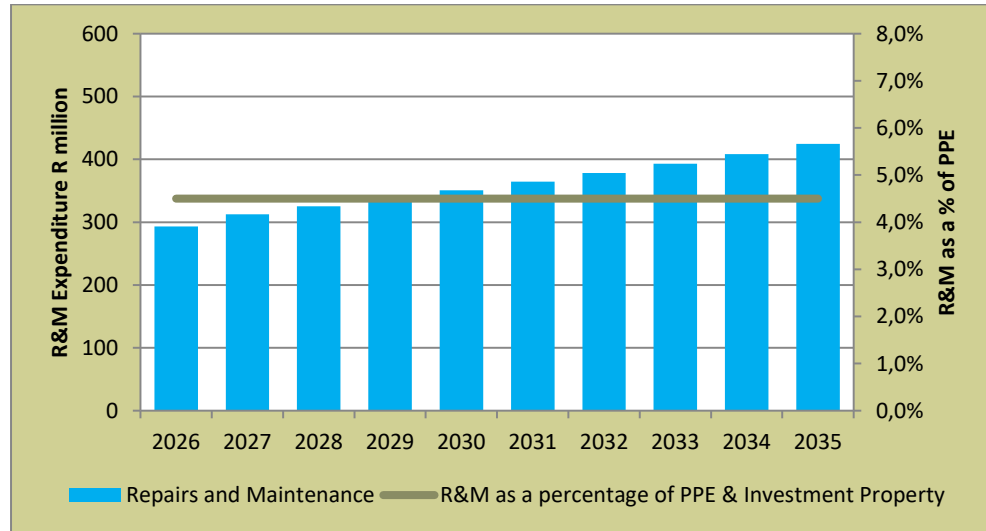
**GRAPH 26: MTREF CASE SCENARIO: ANALYSIS OF SURPLUS**



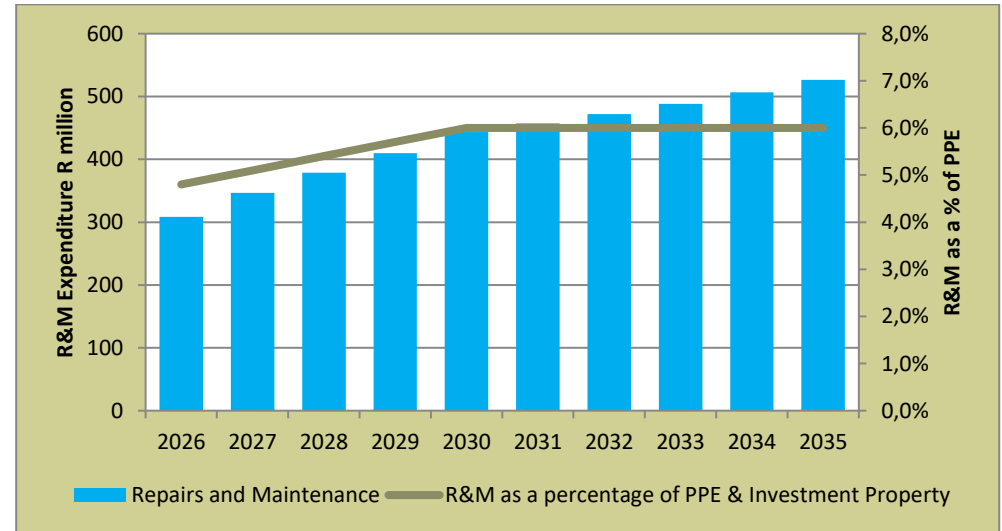
**GRAPH 28: BASE CASE SCENARIO: ANALYSIS OF SURPLUS**



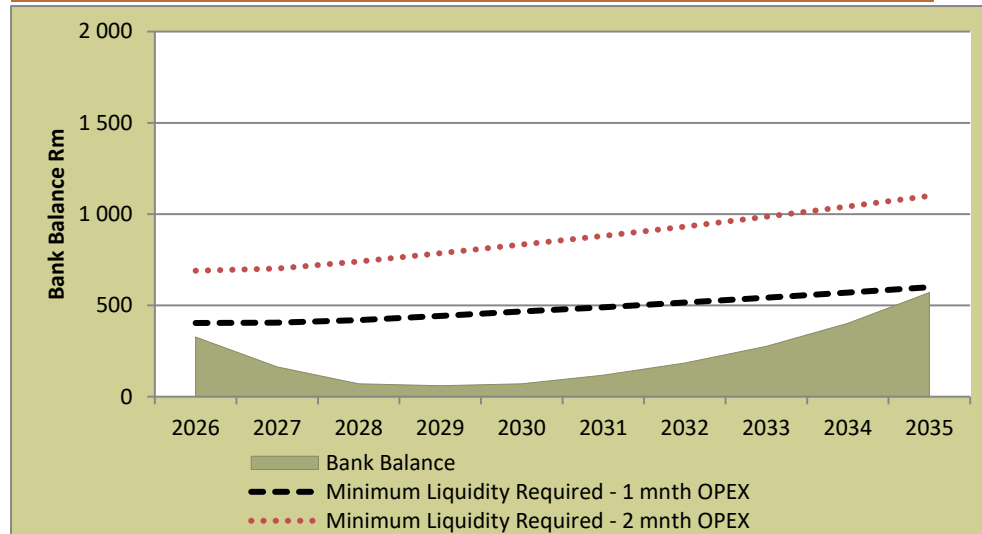
**GRAPH 27: MTREF CASE SCENARIO: R&M EXPENDITURE TO PPE & IP**



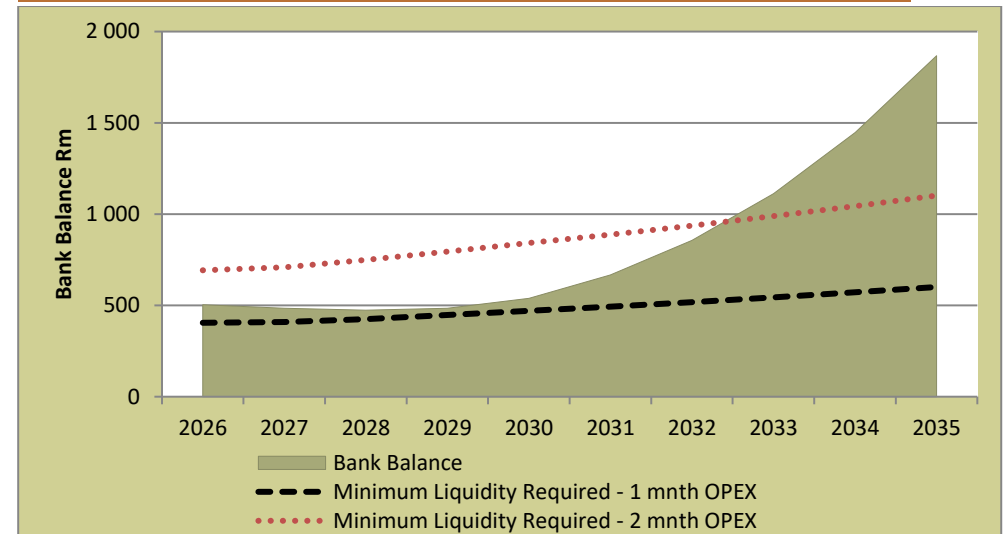
**GRAPH 29: BASE CASE SCENARIO: R&M EXPENDITURE TO PPE & IP**



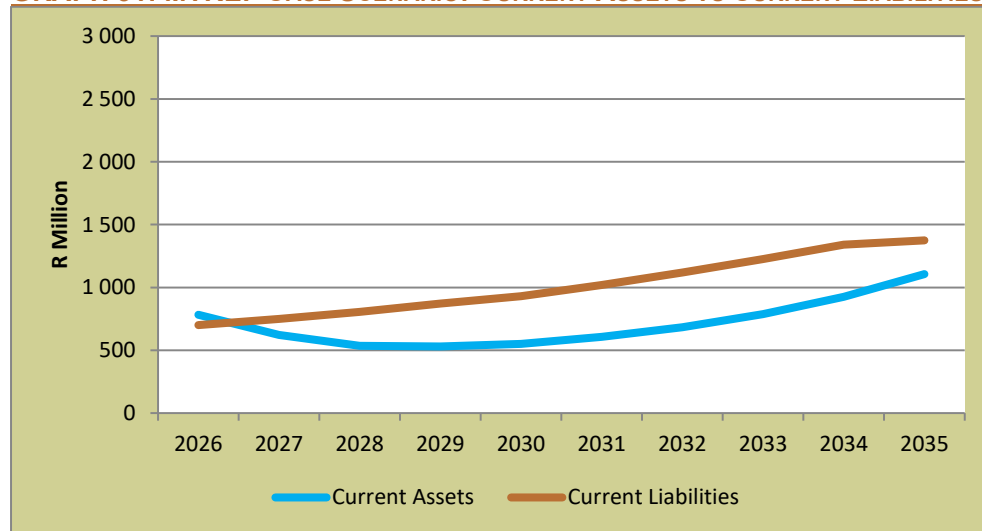
**GRAPH 30: MTREF CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY**



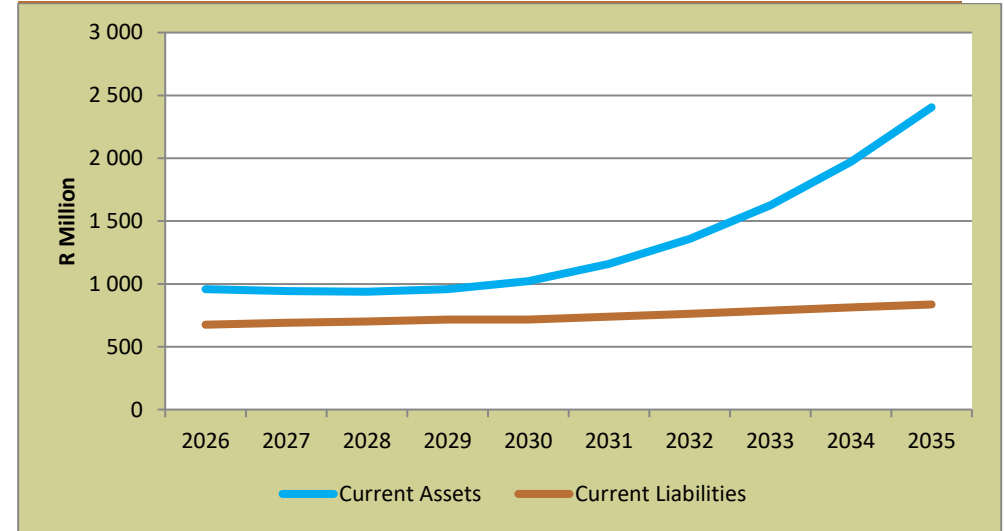
**GRAPH 32: BASE CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY**



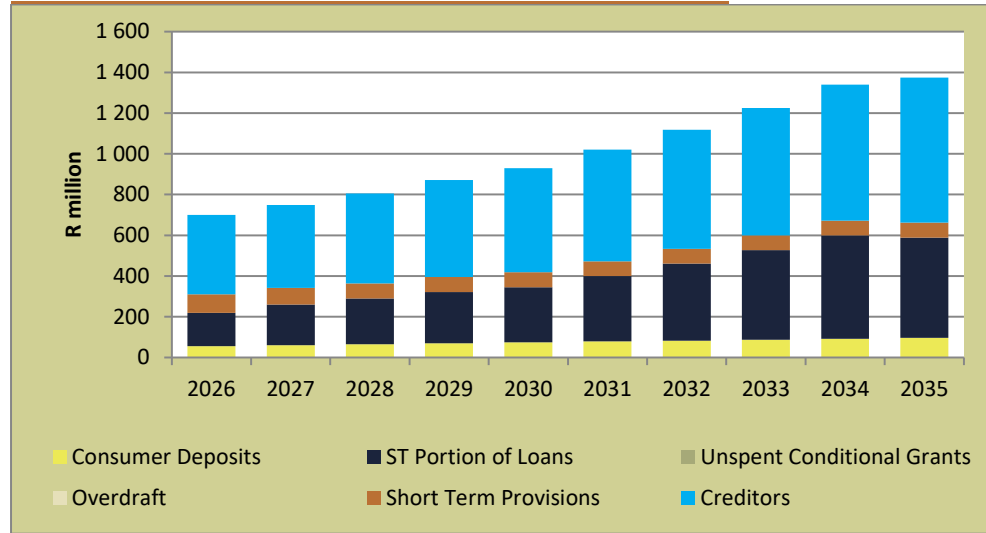
**GRAPH 31: MTREF CASE SCENARIO: CURRENT ASSETS VS CURRENT LIABILITIES**



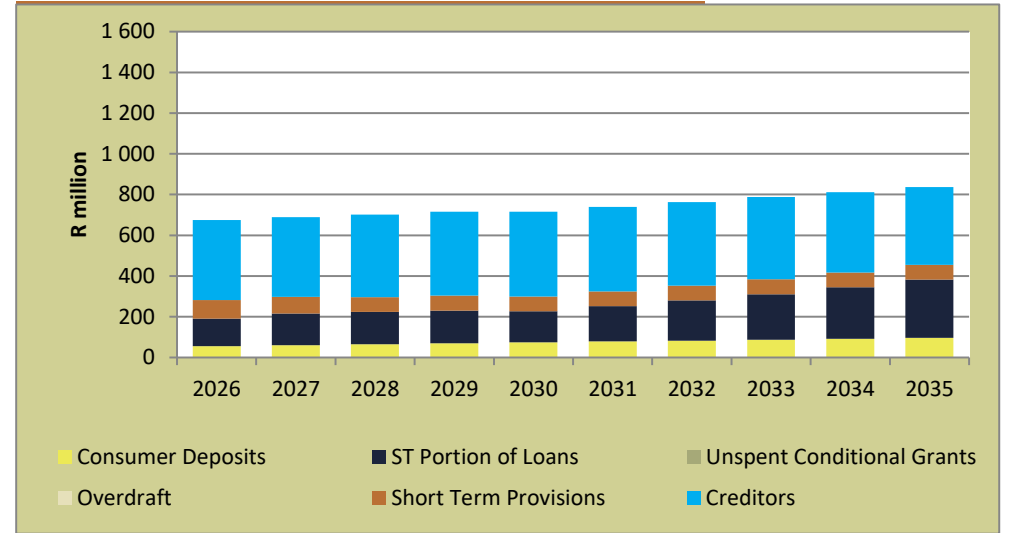
**GRAPH 33: BASE CASE SCENARIO: CURRENT ASSETS VS CURRENT LIABILITIES**



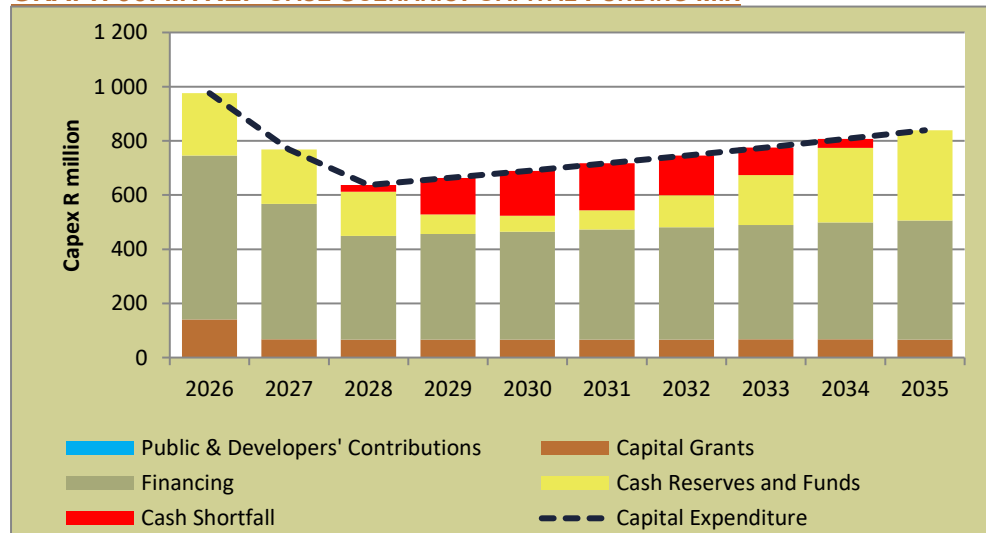
**GRAPH 34: MTREF CASE SCENARIO: CURRENT LIABILITIES**



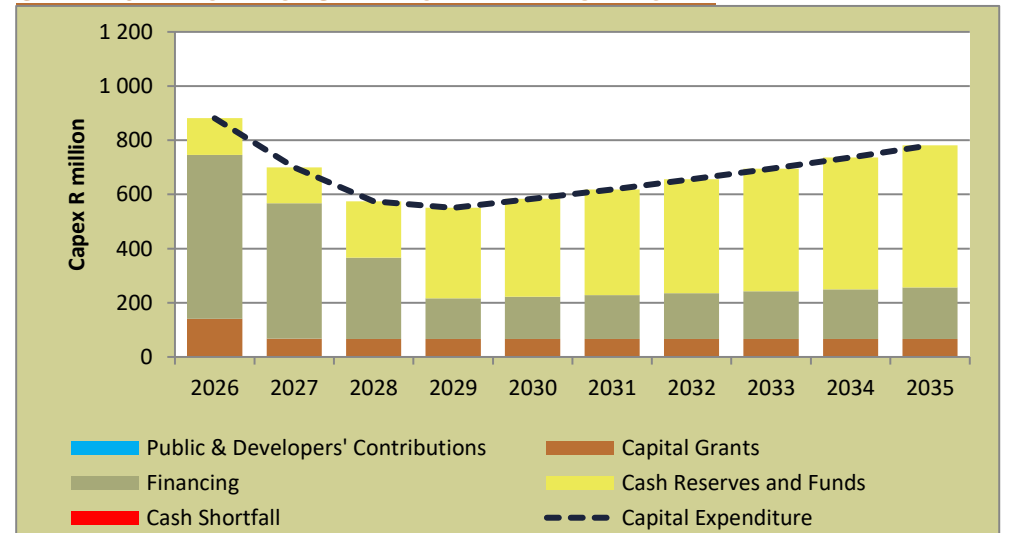
**GRAPH 36: BASE CASE SCENARIO: CURRENT LIABILITIES**

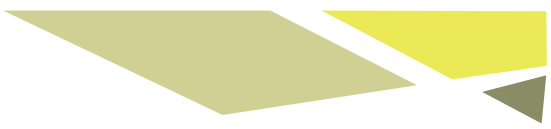


**GRAPH 35: MTREF CASE SCENARIO: CAPITAL FUNDING MIX**



**GRAPH 37: BASE CASE SCENARIO: CAPITAL FUNDING MIX**





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

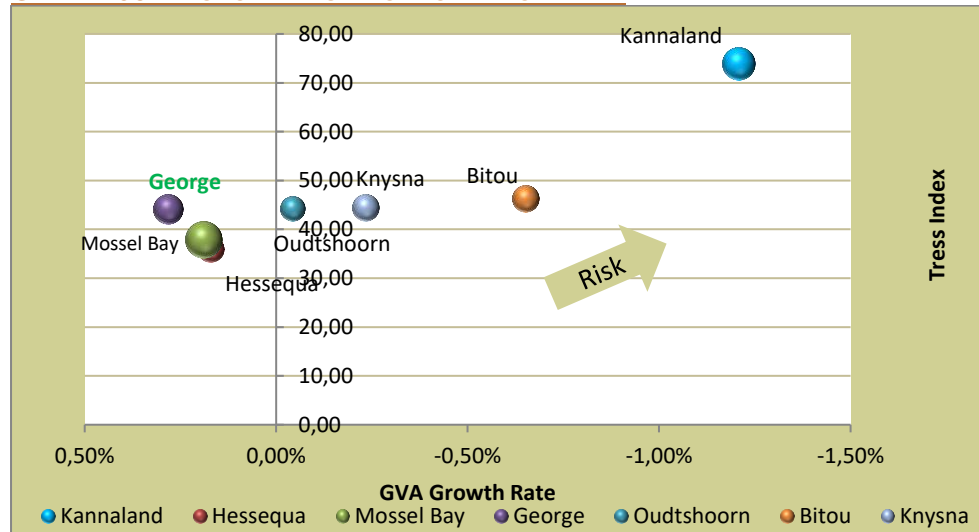
8 Ratio Analysis

9 Conclusions

## FUTURE REVENUES

### MUNICIPAL REVENUE RISK INDICATOR (MRRI) = “MEDIUM TO HIGH”

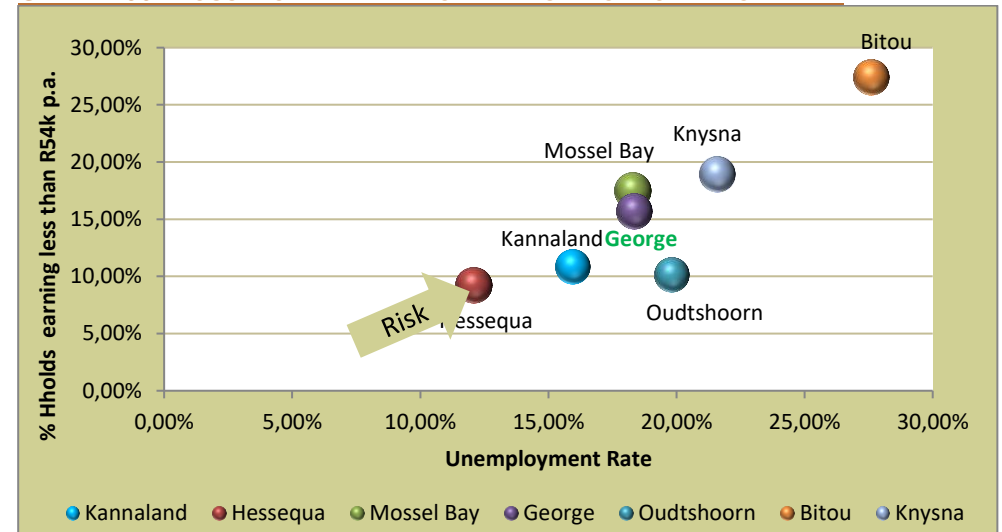
GRAPH 38: ECONOMIC RISK COMPONENT OF MRRI



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

George experienced sluggish economic growth in recent years, with a 5-year annual average Gross Value Added (GVA) growth rate of 0.59%. This GVA growth is significantly outpaced by the town’s annual population growth rate, which averaged 1.3% over the same period. In 2024, the GVA per capita stood at R70 937. The economy is well diversified, as reflected by a Tress Index of 43.76. The municipality scored **“High”** rating on the economic risk component of the Municipal Risk Rating Index (MRRI). This is mainly driven by the stagnant economy.

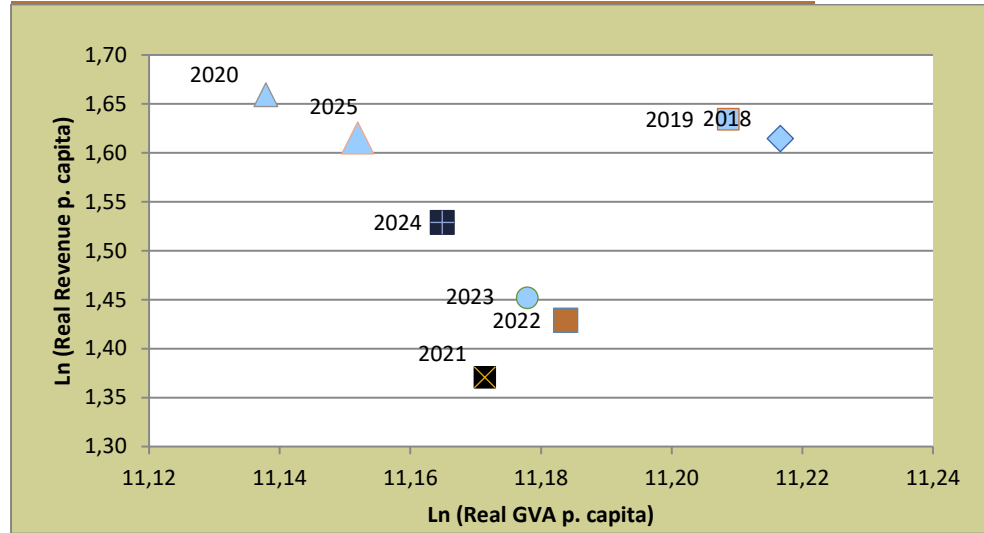
GRAPH 39: HOUSEHOLD ABILITY TO PAY RISK COMPONENT OF MRRI



The percentage of indigent households reliant on support of 16.93%, the official unemployment rate of 14.12% and the human development index of 0.74 resulted in a **“Medium”** rating on the household ability to pay risk component of MRRI.

As a result, George has a **“Medium to 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 40: REAL REVENUE PER CAPITA VS REAL GVA PER CAPITA**

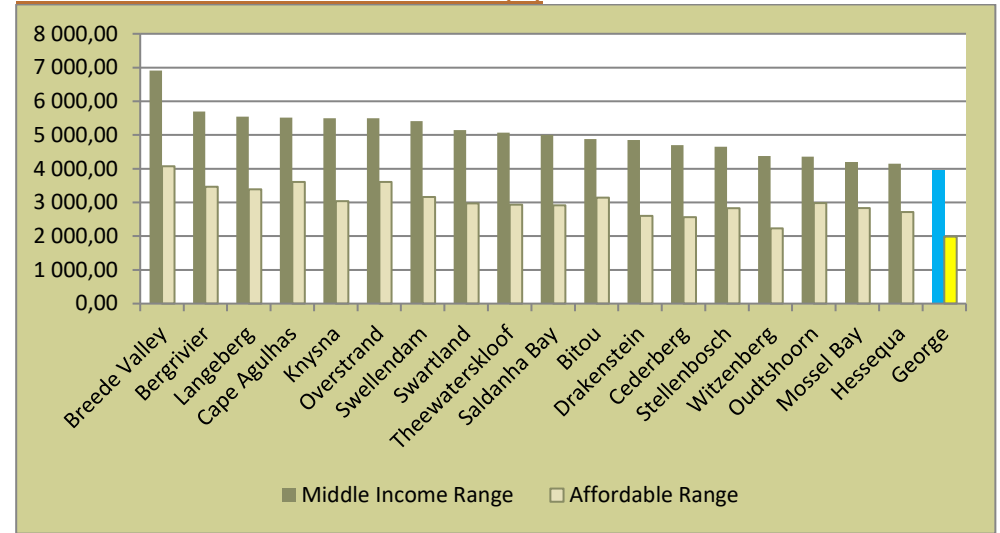


Real municipal revenue (excluding capital transfers) per capita reflected volatility over the review period, with a notable decline in 2021 from the review period peak in 2020. Thereafter, steady growth has been observed with year-on-year improvements noted with 2025 approaching the historic peak.

GVA per capita has steadily declined over the review period, with minor improvements noted in 2021 & 2022 following the severe contraction pursuant to Covid-19 in 2020. The improvements in 2021 & 2022 are more representative of the extent of decline observed in 2020 than actual economic growth. Slight reductions have been observed in 2023 & 2024.

It is imperative that the municipality maintains an enabling environment for economic growth within the municipal area. The stagnant economy is a derivative of the national economic growth challenges. Improvements and maintenance of service delivery will assist in manifesting a perception of the municipality being an attractive destination for capital to be invested.

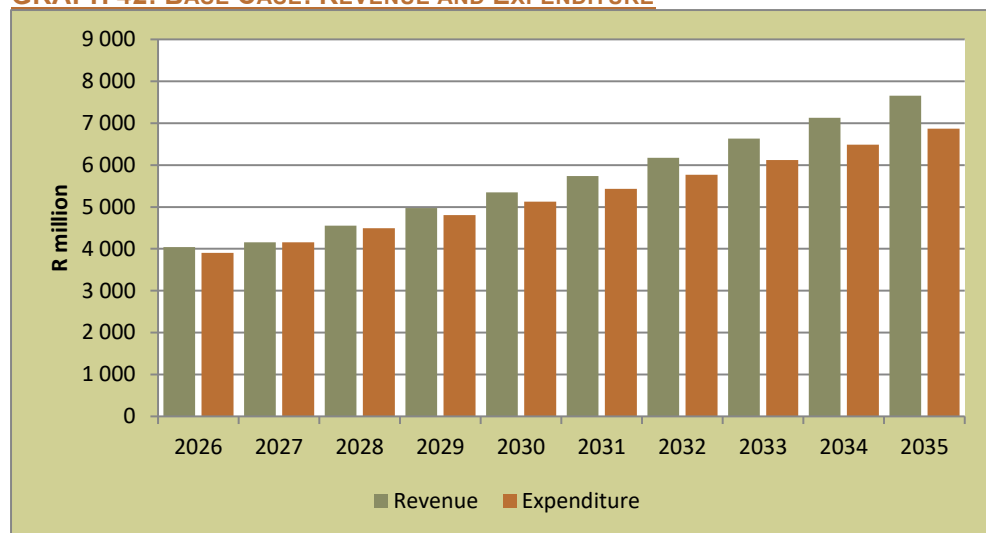
**GRAPH 41: AVERAGE HOUSEHOLD BILL (R)**



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 2025/26 tariffs, reveals that George LM features in the lower half of the range. Considering the level of service provided by George LM and the size of the municipality, the current household bill is very reasonably low compared to other municipalities. This would suggest that there is scope for the municipality to increase tariffs if needed. This must, however, be balanced with household affordability.

## MUNICIPAL REVENUES

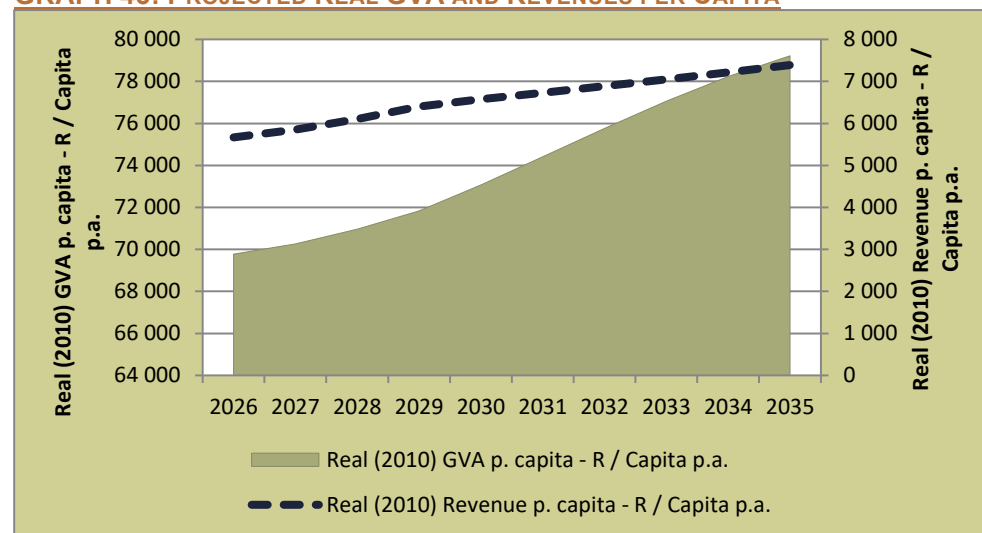
**GRAPH 42: BASE CASE: REVENUE AND EXPENDITURE**



The Base Case estimates that, over the planning period, future nominal revenue (including capital grants) will grow at an average rate of 5.9% 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 higher rate of 7.0% over the same period.

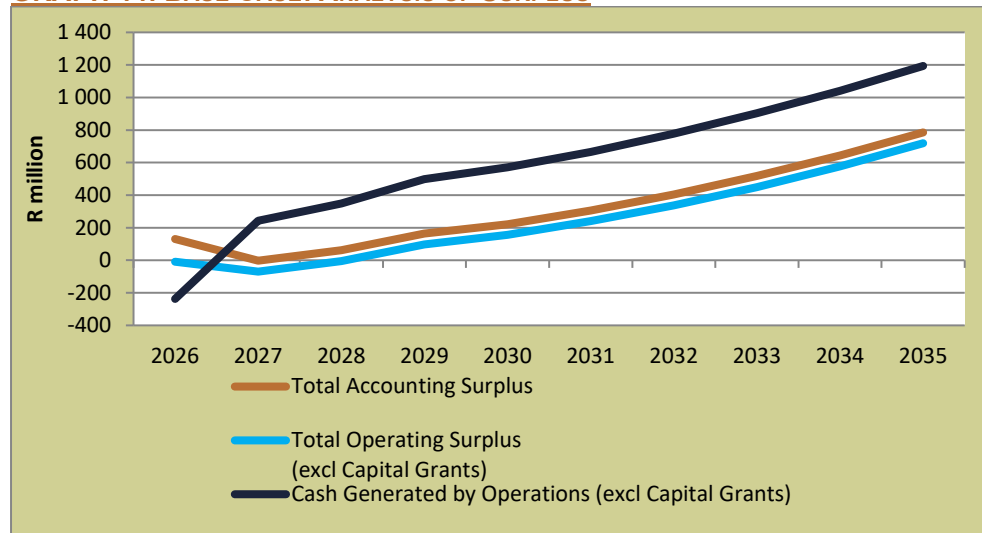
**GRAPH 44** below indicates that George is forecast to post operating surpluses from FY2028/29. This is contrary to the historic performance and underpinned by a conservative operating budget. Electricity services are forecast to remain the main revenue generator for the municipality with an annual average contribution of 36.5%. This is followed by property rates with an annual average contribution of 13.7%. On the expenditure side, electricity bulk purchases are forecast to remain the main expenditure item with an annual average contribution of 24.0%. Employee related expenditure, inclusive of staff costs and contracted services, are forecast to contribute a combined 37.5% p.a. on average over the planning period.

**GRAPH 43: PROJECTED REAL GVA AND REVENUES PER CAPITA**

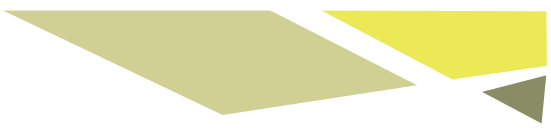


Real GVA per capita is forecast to increase by 13.6% over the planning period, from R69 698 p.a. in 2025 to R79 218 in 2035. Real revenue per capita on the other hand, is forecast to increase by 46.9% from R5 029 p.a. in 2025 to R7 389 p.a. in 2035. The growth of the local economy is crucial for the municipality, as it directly impacts its ability to generate revenue (MRRI). A stronger local economy will expand the municipality's revenue base, supporting the growth and acceleration of the capital investment program. This is especially important to meet the needs of a growing population and the increasing demand for municipal services.

**GRAPH 44: BASE CASE: ANALYSIS OF SURPLUS**



The municipality is forecast to generate cash from operations throughout the planning period, except for FY2025/26. A cumulative R6.00 billion in cash is forecast to be generated by operations over the planning period. This is underpinned by the improved collection rate, healthy forecast financial performance and despite the modelling of consistent payment of current and historic creditors. It is essential that the municipality combines revenue growth with stringent management of operating expenditure.



1 Planning Process

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9 Conclusions

# AFFORDABLE FUTURE CAPITAL INVESTMENT

## CAPEX AFFORDABILITY AND FUNDING

The total affordable capital envelope was calculated at R6 777 million for the planning period. This figure was arrived at after employing an optimised funding mix that underpins capital investment programme. The forecast capital investment has been balanced with the municipality's long-term sustainability.

**TABLE 9: CAPEX AFFORDABILITY**

Total 10-year CAPEX Affordability:	=	R 6 777 million
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## MTREF CAPITAL FUNDING MIX

George's Adjustment Budget FY2025/26 to FY2027/28 expects a capital budget amounting to R843.0 million, funded as follows:

**TABLE 10: MTREF CASE 3-YEAR MTREF FUNDING MIX R'M**

R'm	Total	2025/26	2026/27	2027/28
Public & Developers Contributions	0	0	0	0
Capital Grants	274	141	67	66
Financing	1 487	604	500	383
Cash Reserves and Funds	612	222	200	190
<b>Total</b>	<b>2 373</b>	<b>967</b>	<b>768</b>	<b>638</b>

## 10-YEAR CAPITAL FUNDING MIX

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

**TABLE 11: BASE CASE 10-YEAR CAPITAL FUNDING MIX**

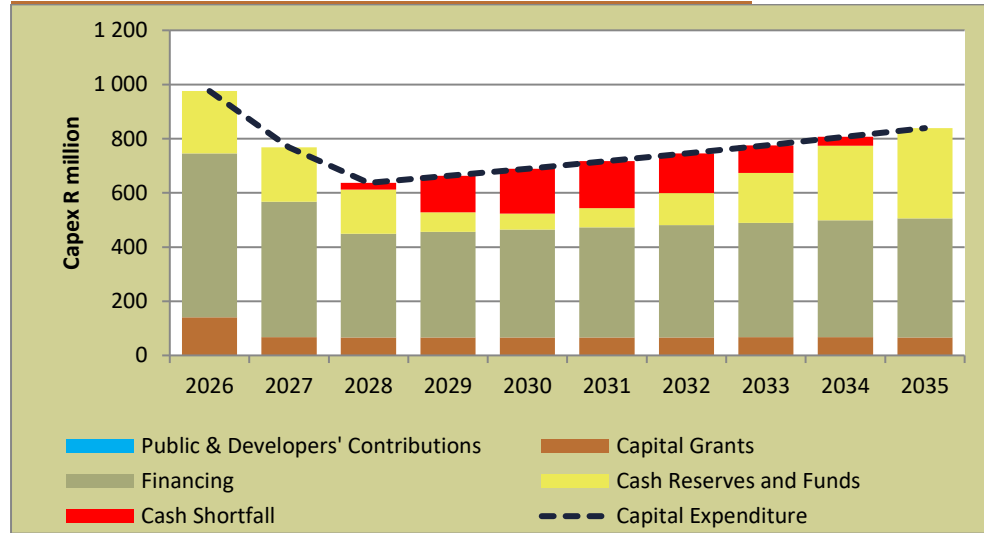
Source	Rm	%
Public & Developers' Contributions	0	0 %
Capital Grants	740	11 %
Financing	2 589	38 %
Cash Reserves and Funds	3 447	51 %
Cash Shortfall	0	0 %
<b>Capital Expenditure</b>	<b>6 777</b>	<b>100 %</b>

George has historically placed heavy reliance on capital grants and own cash resources to fund the capital expenditure programme, with 59% and 22% of funding respectively emanating from these 2 sources. The utilisation of own cash resources to fund capital expenditure has accelerated since FY2021/22. In recent years, the undertaking of external financing has accelerated rapidly. Analysis of the capital budget suggests this is set to continue over the MTREF period. The sustainability of the proposed borrowing programme will be assessed.

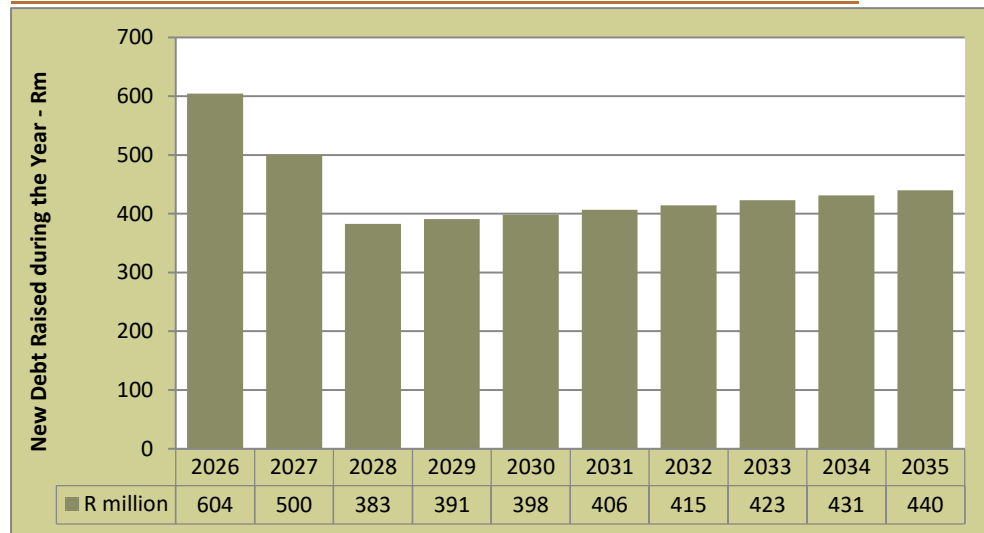
The extent of the acceleration of capital investment in recent years has been underpinned by the receipt of BFI grant funding for water and transport projects. According to the Adjustment Budget for 2025/26-2027/28, capital grant funding is set to return closer to historic levels. This suggests that for capital investment to remain close to the levels seen in recent years, a significant acceleration of both borrowings and own cash utilisation will be required. While George has maintained a healthy liquidity position throughout the review period, excessive own cash utilisation or the undertaking of excessive levels of leverage may begin to erode the liquidity position. This was evidenced by the MTREF Case outcome which was characterised by a notable deterioration of cash and cash equivalents and consequently liquidity. This outcome informed the derivation of the Base Case capital investment programme and funding mix, with long-term sustainability prioritised over short-term capital investment.

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

**GRAPH 45: MTREF CASE DISTRIBUTION OF FUTURE FUNDING**

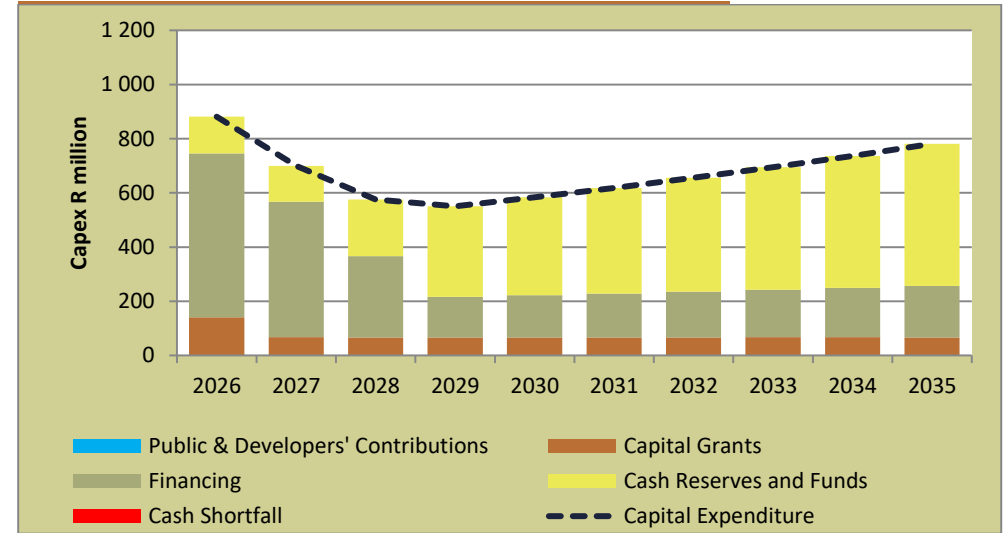


**GRAPH 46: MTREF CASE ESTIMATE OF FUTURE EXTERNAL FINANCING**

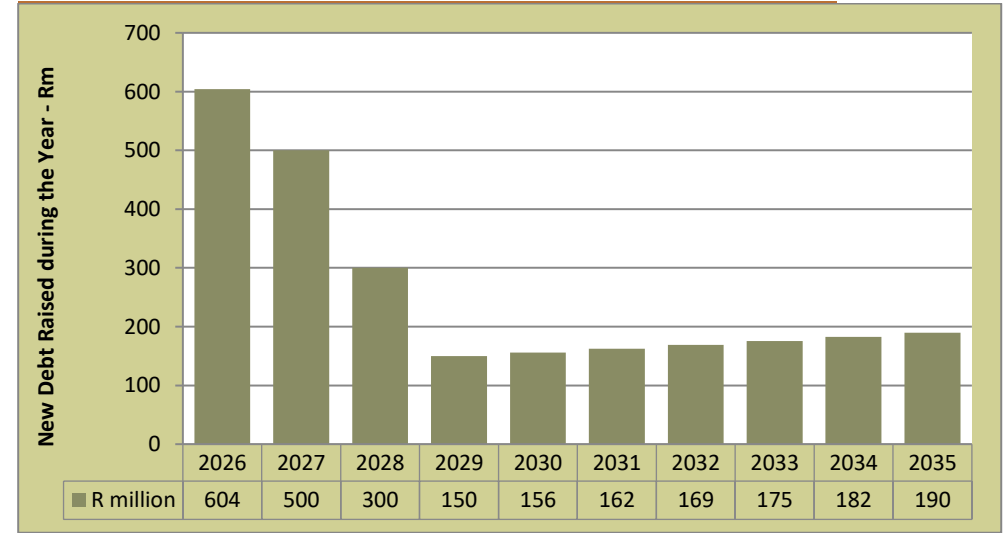


The Base Case's funding mix and annual borrowings are presented by the graphs below:

**GRAPH 47: BASE CASE DISTRIBUTION OF FUTURE FUNDING**



**GRAPH 48: BASE CASE ESTIMATE OF FUTURE EXTERNAL FINANCING**



**TABLE 12: MTREF CASE DISTRIBUTION OF FUTURE CAPITAL FUNDING (R'M)**

R'm	Total	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Public & Developers' Contributions	0	0	0	0	0	0	0	0	0	0	0
Capital Grants	740	141	67	66	66	66	66	67	67	67	66
Financing	4 392	604	500	383	391	398	406	415	423	431	440
Cash Reserves and Funds	1 704	231	200	163	71	59	70	118	184	276	332
Cash Shortfall	781	0	0	25	135	166	174	147	102	33	0
Capital Expenditure	2 723	976	768	637	663	689	717	746	776	807	839

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

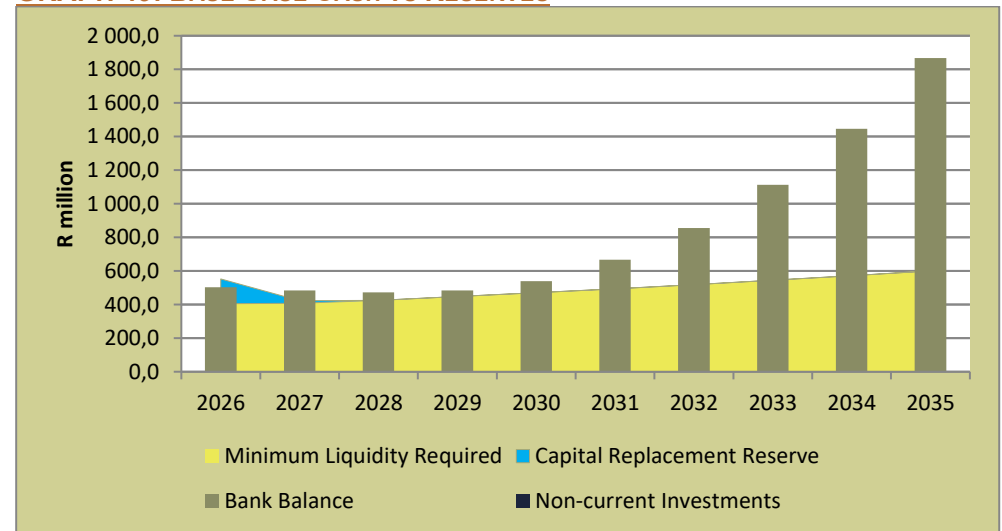
R'm	Total	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Public & Developers' Contributions	0	0	0	0	0	0	0	0	0	0	0
Capital Grants	740	141	67	66	66	66	66	67	67	67	66
Financing	2 589	604	500	300	150	156	162	169	175	182	190
Cash Reserves and Funds	3 447	136	132	209	334	361	390	420	453	487	525
Cash Shortfall	0	0	0	0	0	0	0	0	0	0	0
Capital Expenditure	6 777	881	700	575	550	583	619	656	695	737	781

## LIQUIDITY AND CAPITAL REPLACEMENT RESERVE

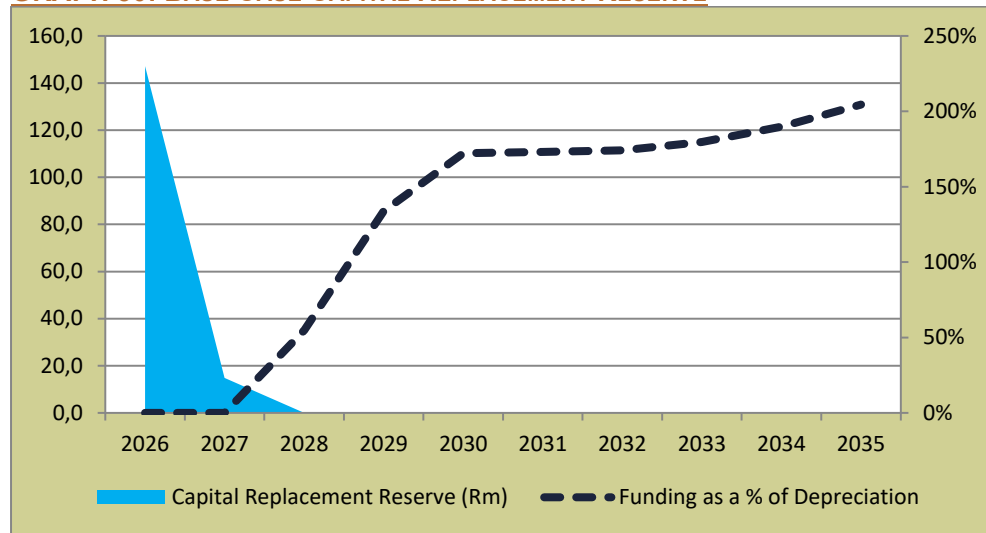
The minimum liquidity levels cater for unspent conditional grants, cash-backed reserves, short-term provisions and 1-month's working capital (operating expenditure). Liquidity is forecast to be sufficient to cover 1-month's operating expenditure for the entire planning period. This highlights the sustainability of the Base Case outcome. This is despite a significant portion of the capital outlay being funded through own cash reserves over the planning period. 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.

It is recommended that the annual depreciation charges be utilised as a guide to determine the extent of the funds to be set aside for future capital investment. It would be prudent for the municipality to service a capital replacement reserve to prepare for the future capital projects. However, servicing a CRR is only feasible once liquidity has reached a sustainable level whereby current obligations can be met. This is depicted in **GRAPH 49**. While the municipality is forecast to hold sufficient liquidity to meet minimum liquidity requirements throughout the planning period, the extent of own cash utilisation to fund capital investment, particularly beyond the MTREF period, is expected to result in the CRR being fully deployed to fund capital investment in each year of the planning period. Thus, while sufficient liquidity is forecast to be held to fund the CRR with the full annual depreciation charge, these funds will be directly employed to fund capital investment. This is depicted in Graph 50 below, which illustrates this point.

**GRAPH 49: BASE CASE CASH VS RESERVES**



**GRAPH 50: BASE CASE CAPITAL REPLACEMENT RESERVE**



**GEARING**

The MTREF Case assumes the borrowing programme as presented in the Adjustment Budget will be implemented over the MTREF period, with annual growth thereafter at a conservative 2%. The interest rate on new debt is assumed to be 5% above forecast CPI in any given year, while the average loan tenor on new debt is assumed to be 10 years. The accelerated borrowing programme over the MTREF period is forecast to move the debt indicators to unsustainable levels. The debt service to total expense ratio is forecast to reach 15.5% in FY2025/26, before falling to 8.0% in the following year. Thereafter, year-on-year growth is expected with this ratio forecast to reach 11.0% as at FYE2034/35. IPM recommends a maximum debt service to total expense ratio of 7.5% for George. This is forecast to be exceeded throughout the planning period. This contributes to the erosion of the liquidity position in the MTREF Case and thus indicates that the MTREF Case borrowing programme will prove unsustainable.

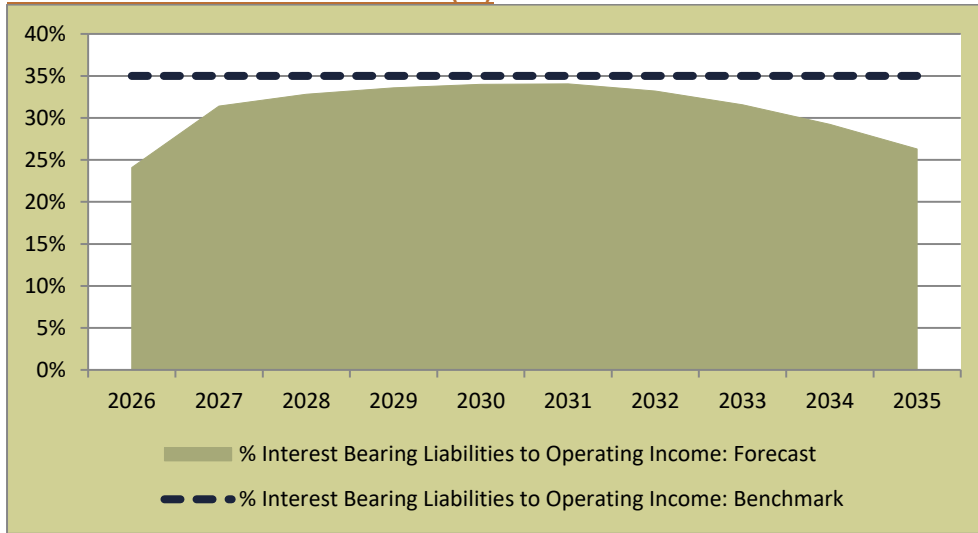
In arriving at the Base Case, adjustments were made to the Adjustment Budget capital budget. These adjustments include an adjustment of capital investment as referenced in the assumptions listed above. Total borrowings of R2 589 million over the planning period are deemed appropriate. Additional adjustments include the

modelling of an average loan tenor of 13 years, up from 10 years in the MTREF Case. This was aimed at supporting the liquidity position through reducing annual debt service charges and thus mitigating the key risk identified in the MTREF Case capital programme and funding mix.

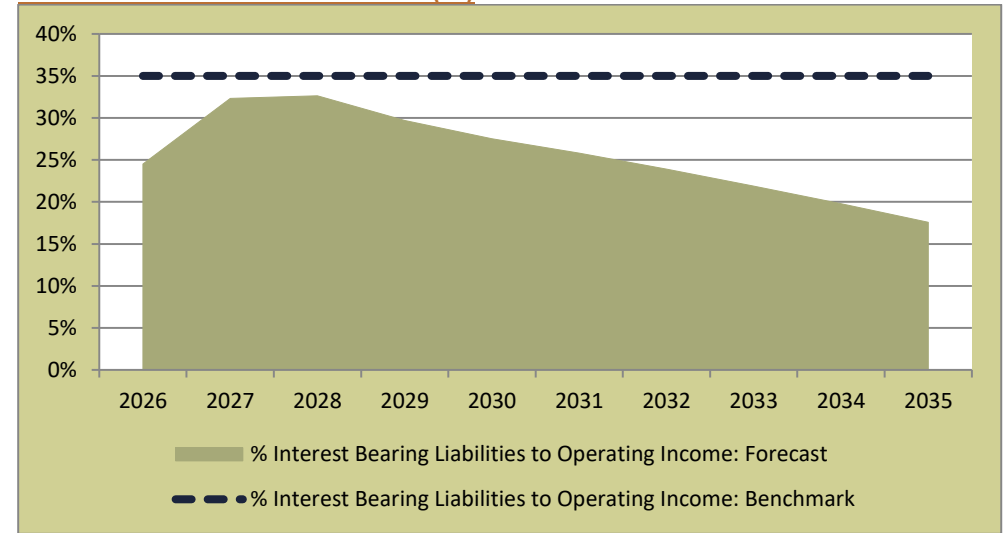
The Base Case maintains budgeted borrowings for FY2025/26 & FY2026/27 before reducing borrowings in FY2027/28 with a further reduction to R150.0 million in FY2028/29. Thereafter, annual growth of 4% p.a. is deemed affordable. Analysis of Graphs 53 & 54 below indicate that the Base Case borrowing programme is forecast to remain affordable from a gearing point of view, with the maximum recommended limit of 35% not breached at any point over the planning period. From a debt service perspective, the maximum recommended limit of 7.5% is forecast to be breached over the MTREF period. While this poses a slight concern, we are comfortable that George’s healthy cash and liquidity position renders the municipality able to absorb the additional debt service charges. The reduction of borrowings in FY2027/28 & FY2028/29 allows the debt service to total expense ratio to fall below the recommended maximum in FY2028/29 and then remain at affordable levels for the remainder of the planning period. This is further underpinned by the 13-year average loan tenor. The Base Case thus presents an affordable borrowing programme that underpins the accelerated capital investment programme without compromising the long-term liquidity position.

The Base Case presents a total affordable envelope of R6.77 billion over the 10-year planning period. This equates to an average capital outlay of R677.7 million p.a. This exceeds the historic average capital outlay of R534.2 million p.a. by a noteworthy margin. This is underpinned by the Base Case borrowing programme. Furthermore, it must be stated that the viability of the Base Case capital investment programme is dependent on the achievement of the Base Case assumptions, particularly the 96% collection rate. The Base Case capital investment programme in conjunction with the increased expenditure on repairs and maintenance is likely to result in an improvement in the integrity of the municipality’s asset base and consequently, allow the municipality to improve the level of service delivery within the municipality. The Base Case affordable capital envelope must inform the capital prioritisation exercise to ensure that the allocation of the funds within the affordable capital envelope are directed towards areas that require urgent attention as well as to revenue generating capital projects.

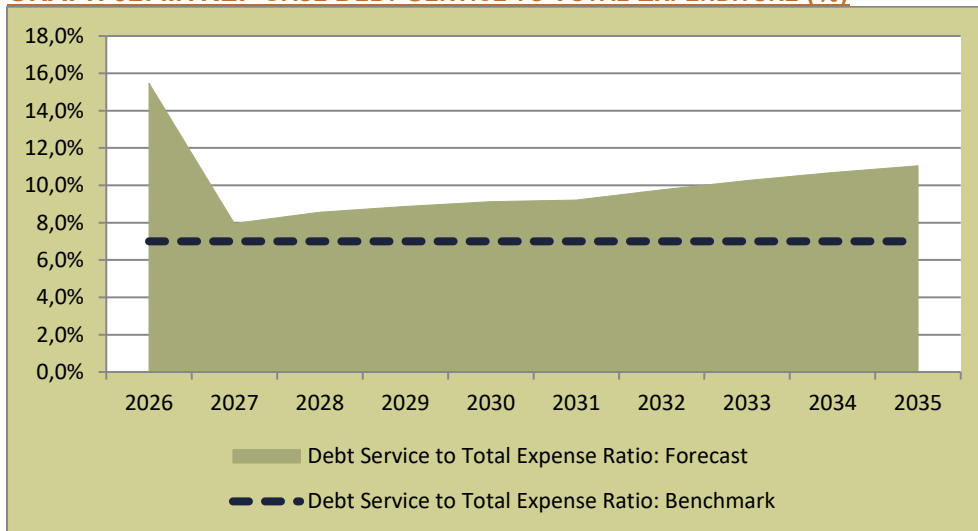
**GRAPH 51: MTREF CASE GEARING (%)**



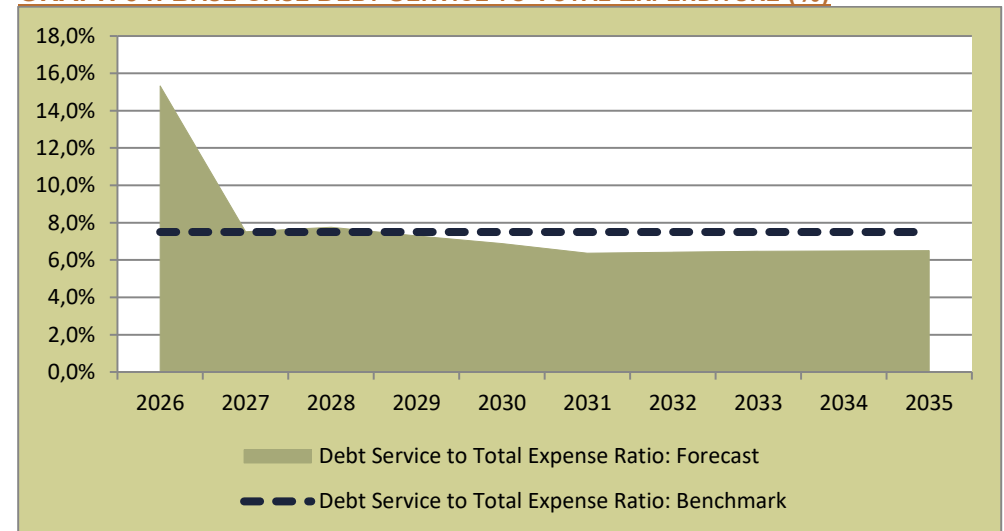
**GRAPH 53: BASE CASE GEARING (%)**

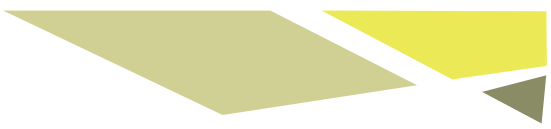


**GRAPH 52: MTREF CASE DEBT SERVICE TO TOTAL EXPENDITURE (%)**



**GRAPH 54: BASE CASE DEBT SERVICE TO TOTAL EXPENDITURE (%)**





1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long-Term Financial Model Outcomes

5 Future Revenues

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## SCENARIOS ANALYSIS

Considering our analysis of the Adjustment Budget and the risks identified as part of this update, the following scenarios were run to indicate the potential outcomes. The main purpose of these scenarios is to assist the municipality in its strategic decision making and to serve as an input to the budget for FY2026/27.

### **1. To assess the impact of a reduced collection rate:**

1.1. This scenario assesses the impact of the municipality's collection rate being maintained at 93.3% throughout the planning period. All other input variables are assumed to be consistent with the Base Case.

### **2. To demonstrate the impact of reducing the loan tenor:**

2.1. This scenario assesses the impact of the reduction of the loan tenor from 13 years as proposed in the Base Case to 10 years. All other input variables are assumed to be consistent with the Base Case.

## SCENARIO 1: REDUCED COLLECTION RATE

While we have entered into an interest rate cutting cycle with a lower inflationary environment, the cost of living remains extremely high. This is unlikely to change over the short to medium term, with geopolitical instability creating uncertainty around future inflationary expectations. These factors may impact the municipality through more consumers being unable to service their municipal bills. This renders the possibility of a reduction in the collection rate feasible. This scenario aims to assess the impact of this on the municipality's long-term financial sustainability. In doing so, this scenario models a reduced collection rate of 93.3% throughout the planning period.

The reduced collection rate is forecast to result in a deterioration of financial performance and cash generation. This is reflected in the reduced accumulated operating surplus compared to the Base Case, as well as a reduction of R1.26 billion in cash generated by operations over the planning period. This translates into a noteworthy reduction in the municipality's planning period end bank balance forecast at R602 million, compared to R1.86 billion in the Base Case. This contributes to a weakened liquidity position. The extent of the reduction in liquidity is depicted in the graphs below. It is noted that the minimum liquidity requirements of 1-months opex will not be met between FY2026/27 & FY2033/34. Furthermore, the municipality is forecast to move maintain a liquidity ratio below 1:1 between FY2027/28 & FY2032/33. This suggest potential challenges with meeting current obligations during this period.

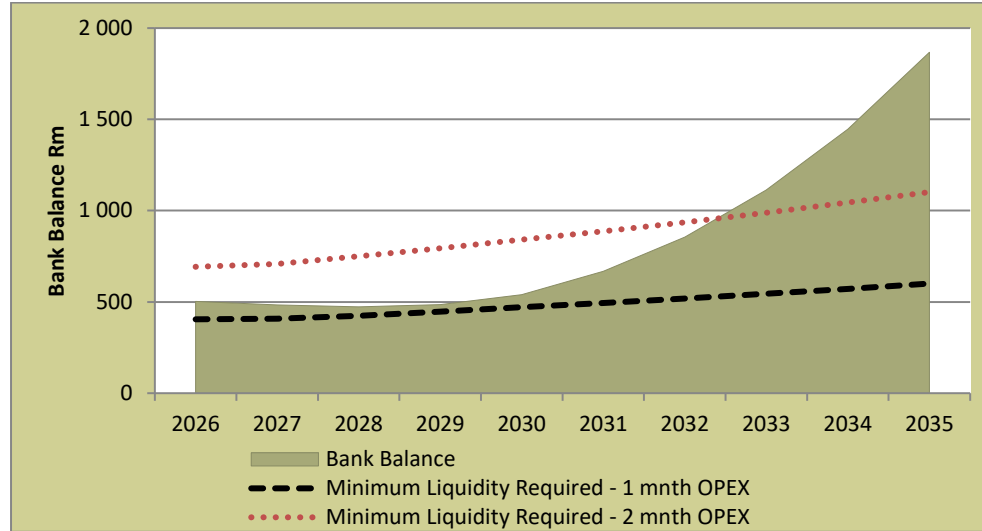
The outcomes of this scenario highlight the impact of the municipality failing to meet the Base Case collection rate of 96%. It would appear that the municipality is confident of meeting this level of debt collection, given the budget being built on a collection rate of 96%. Failure to do so will likely result in the need for a more conservative approach to be undertaken with respect to the capital investment and borrowing programmes, or alternatively, operational cost-cutting measures will need to be implemented.

**TABLE 14: SCENARIO 1: REDUCED COLLECTION RATE**

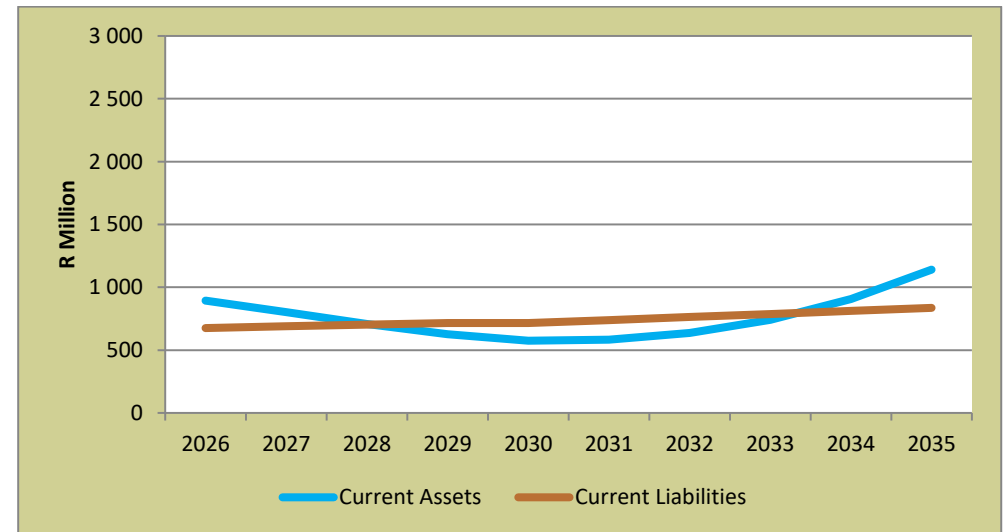
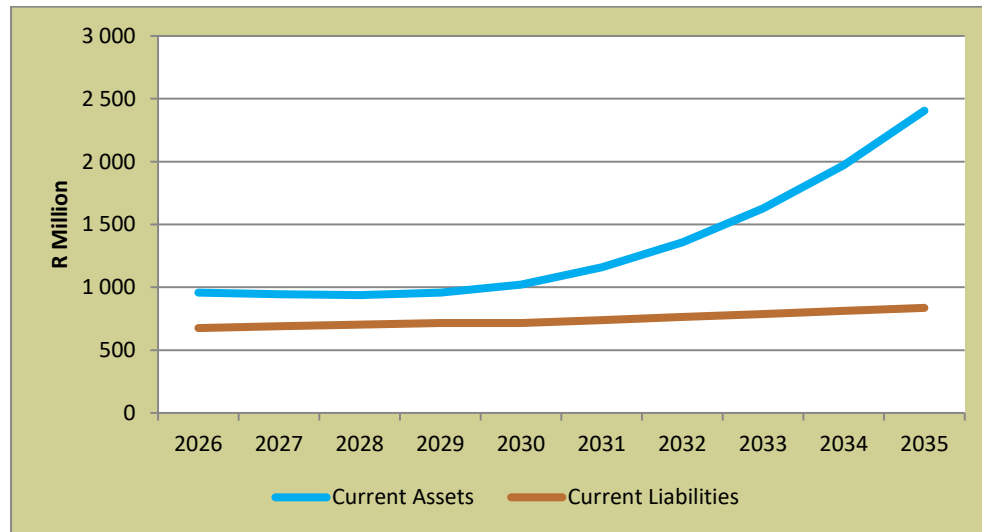
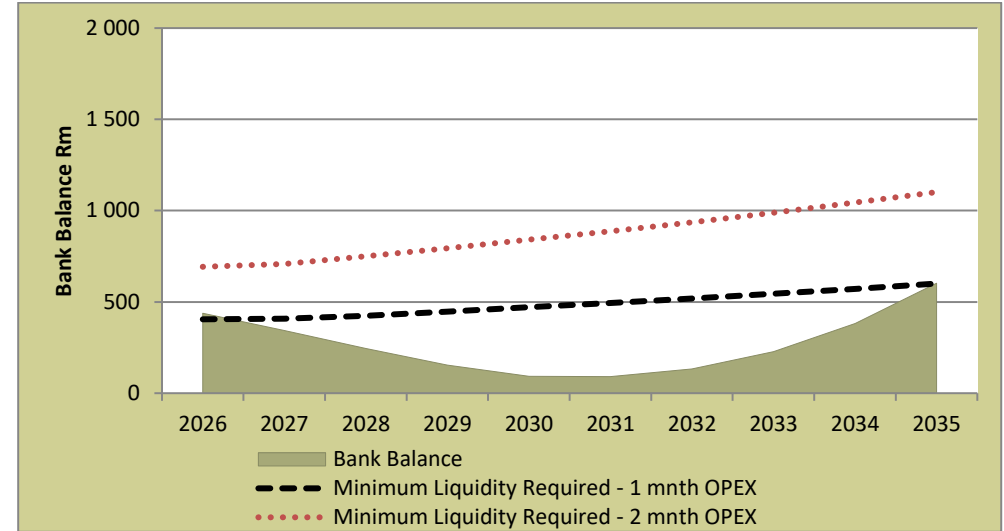
Outcome	Base Case (96%)	Collection Rate 93.3%
Average annual % increase in Revenue	5,9%	5,8%
Average annual % increase in Expenditure	7,0%	7,2%
Accounting Surplus accumulated during Planning Period (Rm)	R 3 232	R 1 967
Operating Surplus accumulated during Planning Period (Rm)	R 2 492	R 1 227
Cash generated by Operations during Planning Period (Rm)	R 6 005	R 4 740
Average annual increase in Gross Consumer Debtors	11,5%	16,0%
Capital investment programme during Planning Period (Rm)	R 6 777	R 6 777
External Loan Financing during Planning Period (Rm)	R 2 589	R 2 589
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 1 867	R 602
No of Months Cash Cover at the end of the Planning Period (Rm)	3,7	1,2
Liquidity Ratio at the end of the Planning Period	2,9 : 1	1,4 : 1
Gearing at the end of the Planning Period	17,6%	17,7%
Debt Service to Total Expense Ratio at the end of the Planning Period	6,5%	6,4%

# SCENARIO 1: REDUCED COLLECTION RATE

BASE CASE (96%)



REDUCED COLLECTION RATE (93.3%)



## SCENARIO 2: REDUCED LOAN TENOR

The Base Case incorporates a 13-year loan tenor on all new debt from FY2025/26 onwards. It is noted that the bulk of the municipality's recently undertaken loans, particularly the more significant loans, employ loan tenors of 15 years. Smaller loans, presumably for assets with shorter useful lives, have employed 5-year loan tenors. IPM encourages the undertaking of longer loan tenors as this enables the municipality to better manage its cash flows through reducing annual debt service charges. As such, the Base Case assumes 13-year loan tenors.

This scenario aims to assess the impact of 10-year loan tenors being utilised, rather than the 13-years assumed in the Base Case. In order to effectively assess the impact of a reduced loan tenor, the Base Case borrowing programme has been maintained.

The scenario outcomes reflect a noteworthy decline in cash and cash equivalents, with a reduction of R280.0 million in the planning period end bank balance forecast. This translates into a reduced liquidity ratio of 2.3:1. In terms of the debt indicators, a reduced gearing ratio is expected due to these loans being redeemed more quickly. As a result of this, the debt service to total expense ratio is expected to increase, with annual debt service charges more significant compared to the Base Case. This is expected to result in a breaching of the maximum recommended debt service to total expense ratio of 7.5% until FY2030/31. This contributes directly to the reduced cash and liquidity position in comparison to the Base Case.

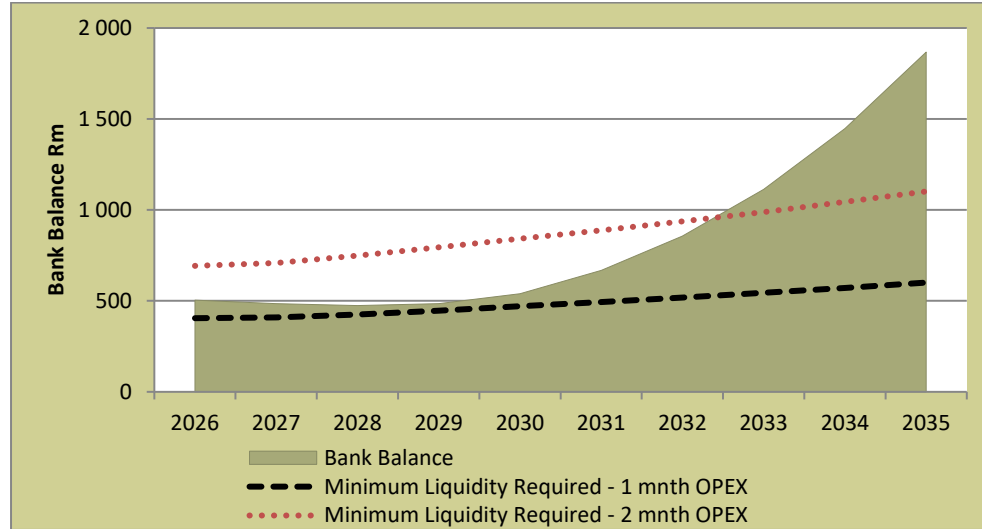
The outcomes of this scenario highlight the cash low management and liquidity benefits that can be derived from utilising an extended loan tenor. It is appreciated that it does not necessarily make financial sense to utilise loan tenors that may exceed the useful lives of assets such as vehicles. In terms of loans undertaken for bulk infrastructure though, it is recommended that 15 or even 20-year loan tenors are considered.

**TABLE 15: SCENARIO 2: REDUCED LOAN TENOR**

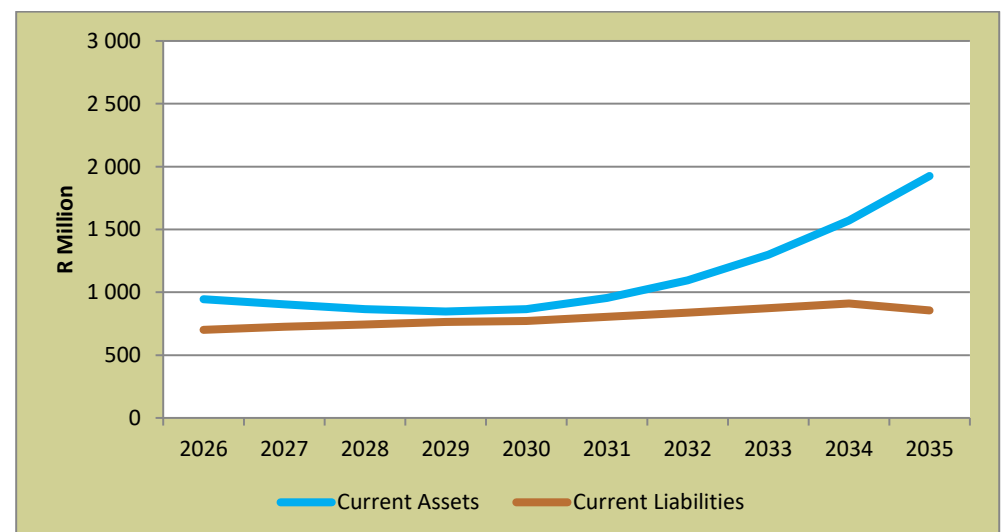
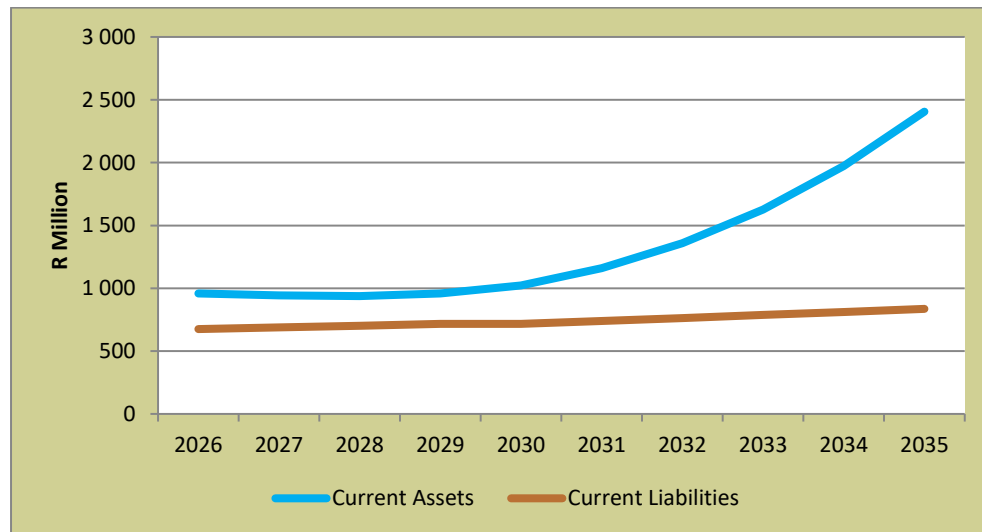
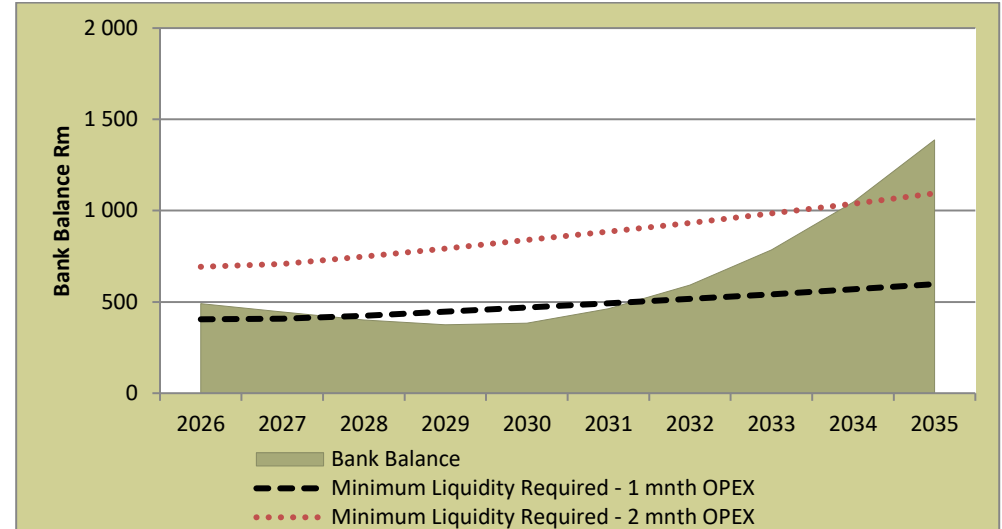
Outcome	Base Case	10-Yr Loan Tenor
Average annual % increase in Revenue	5,9%	5,9%
Average annual % increase in Expenditure	7,0%	6,9%
Accounting Surplus accumulated during Planning Period (Rm)	R 3 232	R 3 300
Operating Surplus accumulated during Planning Period (Rm)	R 2 492	R 2 560
Cash generated by Operations during Planning Period (Rm)	R 6 005	R 6 072
Average annual increase in Gross Consumer Debtors	11,5%	11,5%
Capital investment programme during Planning Period (Rm)	R 6 777	R 6 777
External Loan Financing during Planning Period (Rm)	R 2 589	R 2 589
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 1 867	R 1 387
No of Months Cash Cover at the end of the Planning Period (Rm)	3,7	2,8
Liquidity Ratio at the end of the Planning Period	2,9 : 1	2,3 : 1
Gearing at the end of the Planning Period	17,6%	10,4%
Debt Service to Total Expense Ratio at the end of the Planning Period	6,5%	7,4%

## SCENARIO 2: REDUCED LOAN TENOR

### BASE CASE (13-YR LOAN TENOR)

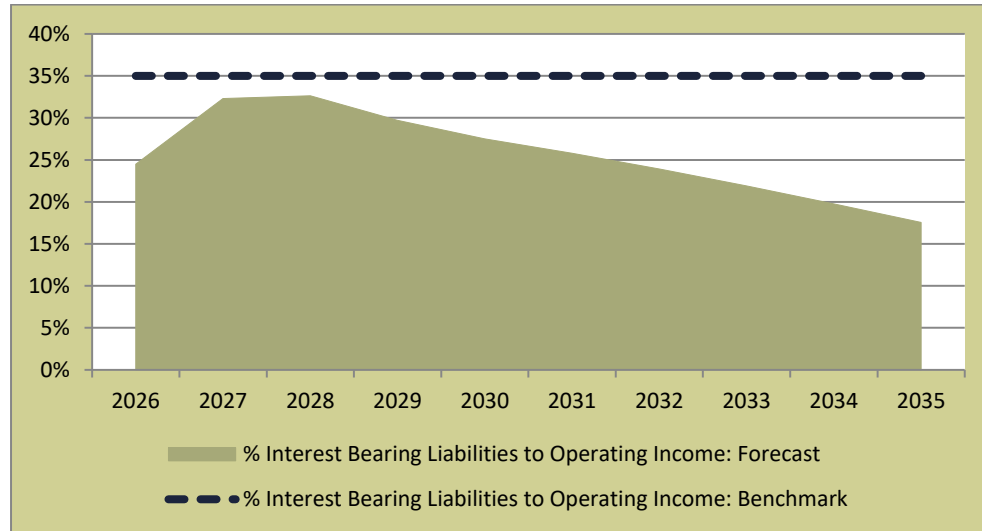


### 10-YR LOAN TENOR

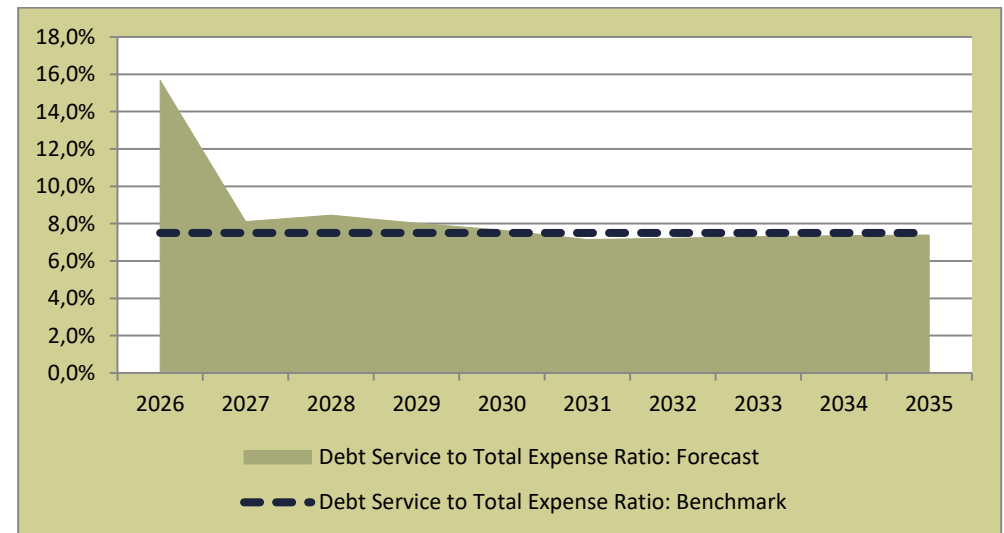
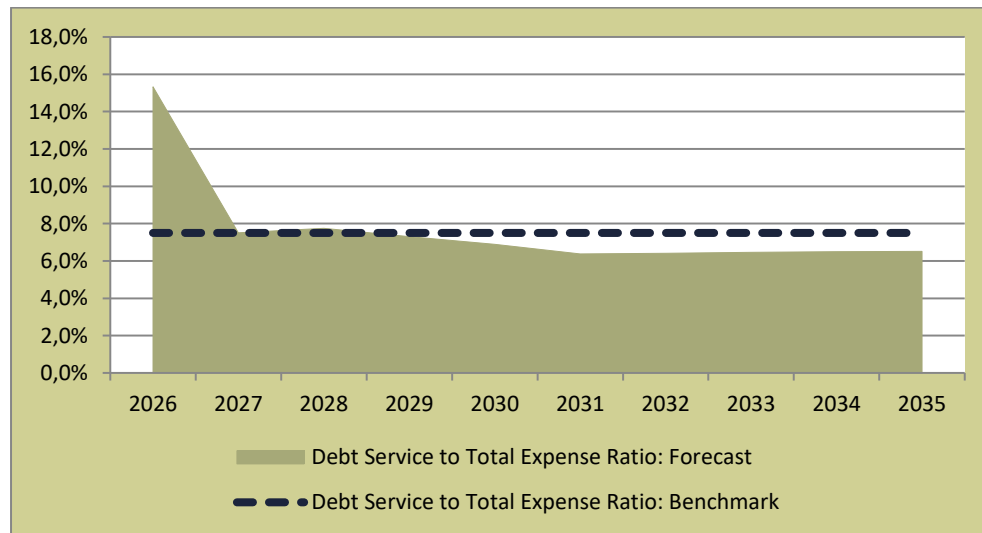
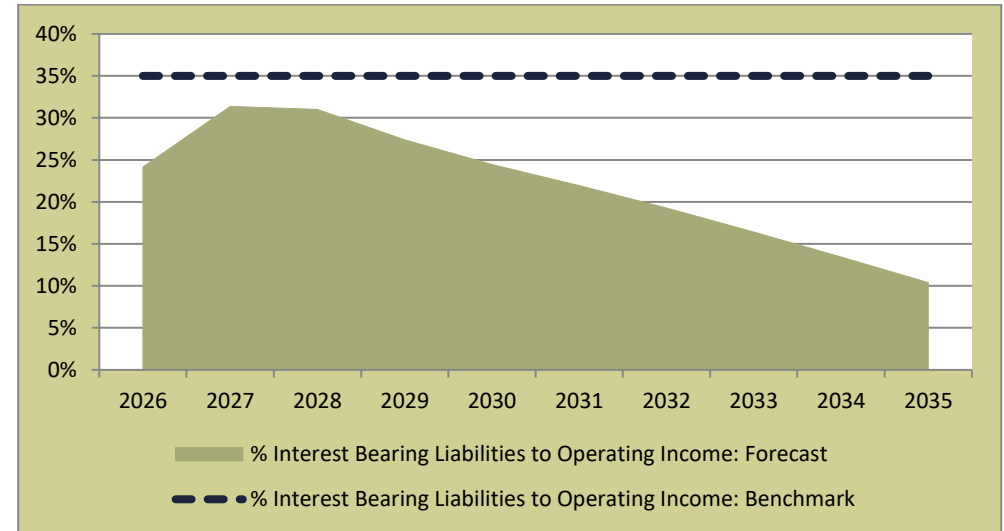


## SCENARIO 2: REDUCTION IN LOAN TENOR

### BASE CASE (13-YR LOAN TENOR)



### 10-YR LOAN TENOR




## 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.

		<u>N.T. NORM</u>	<u>2026</u>	<u>2028</u>	<u>2030</u>	<u>2032</u>	<u>2034</u>	<u>2035</u>	<u>COMMENTS</u>
<b>FINANCIAL POSITION</b>									
<b>ASSET MANAGEMENT</b>									
R29	Capital Expenditure / Total Expenditure	10% - 20%	18,4%	11,3%	10,2%	10,2%	10,2%	10,2%	CAPEX as a % of Total Expenditure will remain within the recommended range throughout the planning period.
R27	Repairs and Maintenance as % of PPE and Investment Property	8%	4,8%	5,4%	6,0%	6,0%	6,0%	6,0%	Repairs and maintenance as a percentage of PPE and IP will increase to 6.0% over 5 years.
<b>DEBTORS MANAGEMENT</b>									
R4	Gross Consumer Debtors Growth		13,0%	12,6%	11,8%	10,9%	10,1%	9,8%	The Collection Rate is assumed to improve to 96% in 1 year and maintained for the entire planning period.
R5	Payment Ratio / Collection Rate	95%	96,0%	96,0%	96,0%	96,0%	96,0%	96,0%	
<b>LIQUIDITY MANAGEMENT</b>									
R49	Cash Coverage Ratio (excl Working Capital)		4,3 : 1	4,7 : 1	5,4 : 1	8,6 : 1	14,5 : 1	18,7 : 1	The bank balance will meet the minimum liquidity requirement for the entire period. The liquidity ratio will rise to 2.9:1 by the end of the planning period.
R50	Cash Coverage Ratio (incl Working Capital)		1,2 : 1	1,1 : 1	1,1 : 1	1,6 : 1	2,5 : 1	3,1 : 1	
R51	Cash Surplus / Shortfall on Minimum Liquidity Requirements		R 98,5 m	R 45,0 m	R 63,1 m	R 332,1 m	R 868,7 m	R 1 259,9 m	
R1	Liquidity Ratio (Current Assets : Current Liabilities)	1:1.5 - 1:2.1	1,4 : 1	1,3 : 1	1,4 : 1	1,8 : 1	2,4 : 1	2,9 : 1	
<b>LIABILITY MANAGEMENT</b>									
R45	Debt Service as % of Total Operating Expenditure	6% - 8%	15,3%	7,8%	6,9%	6,4%	6,5%	6,5%	The external financing programme is forecast to remain within the recommended benchmarks from FY2027/28 onwards, whilst maintaining an adequately leveraged debt profile over the long-term.
R6	Total Debt (Borrowings) / Operating Revenue	45%	24,5%	32,6%	27,5%	23,9%	19,8%	17,6%	
R7	Repayment Capacity Ratio		-4,02	6,62	3,27	2,25	1,53	1,25	
R46	Debt Service Cover Ratio (Cash Generated by Operations / Debt Service)		-0,2 : 1	1,2 : 1	1,8 : 1	2,3 : 1	2,6 : 1	2,8 : 1	

		<u>N.T.</u> <u>NORM</u>	<u>2026</u>	<u>2028</u>	<u>2030</u>	<u>2032</u>	<u>2034</u>	<u>2035</u>	<u>COMMENTS</u>
<b>SUSTAINABILITY</b>									
	<b>Net Financial Liabilities Ratio</b>	< 60%	27,0%	35,4%	30,0%	22,1%	10,8%	4,1%	Net Financial Liabilities are below the benchmark, while the Operating Surplus Ratio will reach and remain in range from FY2029/30. 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.
	<b>Operating Surplus Ratio</b>	0% - 10%	-0,2%	-0,1%	2,9%	5,5%	8,2%	9,5%	
	<b>Asset Sustainability Ratio</b>	> 90%	41,8%	21,2%	22,1%	23,3%	24,6%	25,3%	
<b>FINANCIAL PERFORMANCE</b>									
<b>EFFICIENCY</b>									
R42	<b>Net Operating Surplus / Total Operating Revenue</b>	>= 0%	-0,2%	-0,1%	2,9%	5,5%	8,2%	9,5%	The net operating surplus will remain below zero until FY2027/28 and then improves to 9.5% by 2035, an indication that the municipality should endeavour to improve profitability by managing expenditure and improving surplus margins on electricity services and maintaining the high-water surplus margin.
R43	<b>Electricity Surplus / Total Electricity Revenue</b>		24,7%	27,8%	29,3%	29,3%	29,3%	29,3%	
R44	<b>Water Surplus / Total Water Revenue</b>		49,4%	51,1%	51,9%	51,5%	51,0%	50,8%	
<b>REVENUE MANAGEMENT</b>									
R8	<b>Increase in Billed Income p.a. (R'm)</b>		R 210,7 m	R 306,9 m	R 269,5 m	R 293,4 m	R 334,8 m	R 355,2 m	Billed Revenue and Operating Revenue Growth is, for the most part, are above the forecast CPI range over the planning period. Cash generated from operations is expected improve throughout the planning period.
R9	<b>% Increase in Billed Income p.a.</b>	CPI	9,6%	11,4%	8,2%	7,6%	7,5%	7,4%	
R12	<b>Operating Revenue Growth %</b>	CPI	15,9%	9,9%	7,7%	7,6%	7,6%	7,5%	
R47	<b>Cash Generated by Operations / Own Revenue</b>		-3,1%	11,1%	14,4%	16,3%	18,3%	19,3%	
R48	<b>Cash Generated by Operations / Total Operating Revenue</b>		-2,5%	9,2%	12,1%	13,8%	15,7%	16,6%	

		<u>N.T.</u> <u>NORM</u>	<u>2026</u>	<u>2028</u>	<u>2030</u>	<u>2032</u>	<u>2034</u>	<u>2035</u>	<u>COMMENTS</u>
<b>EXPENDITURE MANAGEMENT</b>									
	<b>Creditors Payment Period</b>	30	67	60	53	46	39	35	Creditors' payment period is higher than the NT benchmark but will reduce to 35 days by the end of the planning period.
<b>R30</b>	<b>Contribution per Expenditure Item: Staff Cost (Salaries, Wages and Allowances)</b>	25% - 40%	18,8%	19,7%	19,4%	19,2%	18,9%	18,8%	
	<b>Contribution per expenditure item: Contracted Services</b>	2% - 5%	18,2%	18,6%	18,8%	18,4%	18,0%	17,9%	
<b>GRANT DEPENDENCY</b>									
<b>R10</b>	<b>Total Grants / Total Revenue</b>		22,4%	18,3%	17,0%	16,1%	15,1%	14,7%	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.
<b>R11</b>	<b>Own Source Revenue to Total Operating Revenue</b>		80,4%	82,9%	84,0%	84,9%	85,7%	86,1%	
	<b>Capital Grants to Total Capital Expenditure</b>		16,0%	11,5%	11,3%	10,2%	9,1%	8,5%	



1 Planning Process

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# CONCLUSION

## OUTCOME OF THE INDEPENDENT FINANCIAL ASSESSMENT

### Financial Performance

George LM's financial performance deteriorated during the 2024/25 financial year. This is reflected in the movement from an operating surplus of R24.7 million in FY2023/24 to an operating deficit of R15.6 million in FY2024/25. Additionally, cash generated from operations (excluding capital grants) reflected a noteworthy decline to R21.5 million from R735.1 million in the prior year, a low for the review period. Electricity services continued to be the municipality's largest source of revenue during the year, followed by income from property rates, highlighting the ongoing reliance on these key revenue streams.

### Operating Expenditure

Over the review period, staff costs, contracted services and electricity bulk purchases were the largest expenditure items, contributing on average 60% of operating expenditure over the planning period. When including contracted services, total staff-related expenditure averaged 40%. This is in line with the National Treasury maximum norm of 40%. However, ongoing monitoring is essential to ensure long-term affordability and sustainability.

### Liquidity & Cash Flow

The collection rate was calculated at 93.3% for FY2024/25. The liquidity position improved as shown by a liquidity ratio of 1.58:1 as at FYE2024/25 (FYE2023/24: 1.35:1). This was suppressed by the presence of unspent conditional grants of R437.5 million. Upon the removal of this impact, the liquidity ratio improves to 1.95:1 at FYE2024/25. The municipality posted a cash surplus in excess of the minimum liquidity requirements for the entire planning period, with the surplus posted in FY2024/25 amounting to R469.8 million.

### Debtors & Collections

A reasonable portion, approximately 32.3% of gross outstanding debtors are current, though concern is raised with 60.0% in excess of 90 days. The provision for bad debts covers essentially 100% of these aged accounts, which largely mitigates the counterparty risk associated with long outstanding debtors.

## STRENGTHS

- Meeting of minimum liquidity requirements.
- High collection rate.
- Ability to generate cash from operations.
- Adequately providing for aged debtors.

## WEAKNESSES

- High creditors days.
- Deterioration of financial performance.

## OUTCOME OF THE FUTURE FORECASTS

### Base Case Scenario

The revisions made in the Base Case focused on incorporating more accurate financial forecasts, a closer evaluation of revenue generation capabilities, as well as a more prudent assessment of expenditure trends. This exercise aimed to ensure that the budget is not only realistic but also achievable. As a result, the Base Case provides a more realistic foundation for the municipality's financial planning over the proposed period.

### Financial Performance

- Projected operating deficits throughout the MTREF period, due to the conservative budget assumptions.
- Improvements from FY2028/29, with the municipality posting both accounting and operating surpluses.

### Key Adjustments in the Base Case

- Collection rate in line with budget.
- Prudent assessment of sustainable borrowing capacity to ensure long-term sustainability is prioritised.

### Key Assumptions

- **Collection rate** maintained at 96% throughout the planning period.
- **Tariff increases** were included as put forward in the budget document.
- **Creditors' payment period** reduced to manage rising creditor balances.
- **Repairs and maintenance** expenditure increased to 6% of PPE & IP over 5 years.
- **Electricity and water distribution losses:**
  - Electricity: Maintained at 9.73%.
  - Water: Reduced to 20.00 over 5 years (from 24.60%).

### • Capital Investment Programme

- The MTREF capital investment programme was adjusted as follows:
  - FY2025/26: R875.0 million (Budget: R969.7 million)
  - FY2026/27: R700.0 million (Budget: R767.7 million)
  - FY2027/28: R575.0 million (Budget: R636.9 million)
  - FY2028/29: R550.0 million (Budget: n/a)

Assumed growth in capital investment beyond FY2028/29 is 6% p.a.

- The borrowing programme was adjusted as follows:
  - FY2025/26: R604.3 million (Budget: R604.3 million)
  - FY2026/27: R500.4 million (Budget: R500.4 million)
  - FY2027/28: R300.0 million (Budget: R382.9 million)
  - FY2028/29: R150.0 million (Budget: n/a)

### Outcome of the Base Case

- More sustainable financial outlook.
- Affordable capital investment programme.
- Improved financial performance and liquidity position.

## SCENARIOS ANALYSIS

### REDUCED COLLECTION RATE

- Significant deterioration in financial performance and reduced cash generation.
- Liquidity ratio drops to 1.4:1 (from 2.9:1 in the Base Case).
- Maintaining and improving the collection rate is crucial for financial stability.
- The municipality must aim to meet the Base Case collection rate of 96% and strive for further improvements.

### REDUCTION IN LOAN TENOR (10 YEARS)

- Liquidity ratio decreases to 2.4:1 by the end of the planning period.
- Cash balance decreases due to repaying loans quicker.
- Gearing reduces.
- Debt service costs increase.



## CONCLUSION

**Conservative Forecast vs. Realistic Plan:** The budget initially presented a conservative outlook, whereas the Base Case provides a more realistic and sustainable financial strategy.

**Financial Stability:** By implementing prudent budgeting, and maintaining fiscal discipline, the municipality is better positioned for long-term financial health, laying a stable foundation for future growth and development.

**Financial Sustainability and Resilience:** The report serves as a roadmap for fostering financial sustainability and resilience. The municipality must apply the recommendations to strengthen its financial position while navigating economic challenges and potential financial shocks.

**Investment and Growth:** Strengthened financial management will enable greater investment in infrastructure and economic development, reducing unemployment and improving residents' quality of life.

**Key Priorities:** George should adopt the Base Case with a strong focus on improving the collection rate, take advantage of underleveraged profile and continually improve financial performance. Achieving these goals will secure the municipality's long-term financial sustainability and resilience.

# ANNEXURE 1: PROJECTED FINANCIAL STATEMENTS

## Municipal Financial Model - George Local Municipality Statement of Financial Position

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>2034</u>	<u>2035</u>
<i>R thousands</i>											
<b>Non-current assets:</b>	5 844 042	6 431 367	6 802 645	7 024 075	7 205 196	7 406 816	7 630 931	7 879 548	8 154 672	8 458 328	8 792 570
Property, plant and equipment	5 695 863	6 277 123	6 648 574	6 870 185	7 050 884	7 252 003	7 475 566	7 723 583	7 998 070	8 301 063	8 634 630
Intangible assets	360	6 528	6 528	6 528	6 951	7 451	8 004	8 604	9 241	9 903	10 579
Investment properties	143 583	143 418	143 246	143 064	143 064	143 064	143 064	143 064	143 064	143 064	143 064
Investments	-	-	-	-	-	-	-	-	-	-	-
Long-term receivables	-	61	61	61	61	61	61	61	61	61	61
Other non-current assets	4 236	4 236	4 236	4 236	4 236	4 236	4 236	4 236	4 236	4 236	4 236
<b>Current assets:</b>	1 782 718	958 114	943 789	937 695	957 623	1 021 348	1 159 430	1 358 324	1 626 280	1 972 506	2 405 414
Inventories	123 665	106 460	111 591	116 225	124 925	134 330	143 849	154 247	165 444	177 338	189 818
Trade and other receivables	331 497	348 107	348 107	348 107	348 107	348 107	348 107	348 107	348 107	348 107	348 107
Cash & Short term investments	1 327 556	503 547	484 091	473 363	484 591	538 911	667 475	855 970	1 112 730	1 447 061	1 867 490
<b>TOTAL ASSETS</b>	<b>7 626 760</b>	<b>7 389 482</b>	<b>7 746 435</b>	<b>7 961 770</b>	<b>8 162 820</b>	<b>8 428 164</b>	<b>8 790 362</b>	<b>9 237 872</b>	<b>9 780 953</b>	<b>10 430 834</b>	<b>11 197 984</b>
<b>Municipal Funds:</b>	5 246 616	5 378 048	5 375 462	5 436 811	5 599 906	5 821 418	6 127 788	6 532 301	7 049 389	7 693 514	8 478 850
Housing development fund & Other Cash Backed Reserves	33 944	26 589	26 589	26 589	26 589	26 589	26 589	26 589	26 589	26 589	26 589
Reserves (Not Cash Backed)	(0)	296 847	396 847	496 847	496 847	496 847	496 847	496 847	496 847	496 847	496 847
Accumulated surplus	5 212 672	5 054 612	4 952 027	4 913 376	5 076 470	5 297 983	5 604 353	6 008 865	6 525 953	7 170 079	7 955 414
<b>Non-current liabilities:</b>	1 254 096	1 336 069	1 681 128	1 823 431	1 847 089	1 890 868	1 923 825	1 942 475	1 944 180	1 925 687	1 883 006
Long-term liabilities (Interest Bearing)	738 001	820 069	1 165 128	1 307 431	1 297 646	1 301 922	1 291 143	1 262 398	1 213 774	1 142 910	1 046 869
Long-term trade payables: Eskom	-	-	-	-	-	-	-	-	-	-	-
Non-current provisions	516 095	516 000	516 000	516 000	549 443	588 946	632 682	680 077	730 406	782 777	836 137
<b>Current liabilities:</b>	1 126 048	675 365	689 844	701 527	715 825	715 878	738 748	763 096	787 384	811 633	836 128
Consumer deposits	49 161	55 982	60 767	65 798	70 577	74 571	78 532	82 665	86 957	91 449	96 254
Provisions	144 329	90 568	81 565	73 131	73 131	73 131	73 131	73 131	73 131	73 131	73 131
Trade payables	424 712	393 913	392 141	404 902	412 332	416 452	414 067	409 826	403 194	393 690	380 905
Current portion of long-term trade payables: Eskom	-	-	-	-	-	-	-	-	-	-	-
Unspent conditional grants	437 501	-	-	-	-	-	-	-	-	-	-
Bank overdraft	-	-	-	-	-	-	-	-	-	-	-
Current portion of interest bearing liabilities	70 345	134 901	155 371	157 697	159 785	151 724	173 019	197 475	224 103	253 362	285 838
<b>TOTAL MUNICIPAL FUNDS AND LIABILITIES</b>	<b>7 626 760</b>	<b>7 389 482</b>	<b>7 746 435</b>	<b>7 961 770</b>	<b>8 162 820</b>	<b>8 428 164</b>	<b>8 790 362</b>	<b>9 237 872</b>	<b>9 780 953</b>	<b>10 430 834</b>	<b>11 197 984</b>

**Municipal Financial Model - George Local Municipality**  
**Statement of Financial Performance**

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>2034</u>	<u>2035</u>
<i>R thousands</i>											
<b>Revenue</b>											
Property rates	478 380	516 928	561 929	611 345	665 167	717 517	775 166	838 017	905 822	978 218	1 054 689
Service Charges	1 713 213	1 885 158	2 114 044	2 371 236	2 627 681	2 844 355	3 057 844	3 287 905	3 533 969	3 795 831	4 073 952
Service charges - electricity	1 122 369	1 242 263	1 416 677	1 615 012	1 809 324	1 970 201	2 124 859	2 291 913	2 471 038	2 662 199	2 865 920
Service charges - water	223 808	237 904	255 921	275 211	295 789	315 404	335 896	357 994	381 656	406 828	433 414
Service charges - waste water management	192 586	212 023	231 108	251 822	273 578	292 520	312 592	334 008	356 665	380 501	405 533
Service charges - waste management	174 450	192 968	210 337	229 190	248 990	266 230	284 498	303 989	324 610	346 303	369 086
Service charges - other	-	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Rental from fixed assets	5 447	5 680	5 935	6 202	6 738	7 205	7 699	8 226	8 784	9 371	9 988
Interest	116 822	67 067	26 906	26 995	27 231	28 465	32 023	39 775	50 727	65 045	82 753
Interest earned from receivables	26 474	23 368	24 536	25 763	30 074	33 041	35 864	38 686	41 458	44 125	46 636
Dividends	-	-	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits	81 535	98 076	102 489	107 101	116 354	124 410	132 947	142 055	151 692	161 829	172 475
Licences and permits	1 402	5 412	5 656	5 910	6 430	6 958	7 547	8 190	8 881	9 610	10 364
Agency services	14 899	21 653	22 628	23 646	25 689	27 467	29 352	31 363	33 490	35 729	38 079
Transfer and subsidies - Operational	705 334	765 031	692 750	769 021	805 298	842 771	882 247	923 711	966 781	1 011 088	1 056 315
Other revenue	220 010	262 150	278 859	290 016	315 072	336 886	360 003	384 667	410 761	438 211	467 040
Gains on disposal of Assets	-	247 394	249 868	252 367	280 187	314 104	354 394	401 221	454 547	514 031	578 935
<b>Total revenue before Capital Grants</b>	<b>3 363 517</b>	<b>3 897 918</b>	<b>4 085 601</b>	<b>4 489 602</b>	<b>4 905 921</b>	<b>5 283 180</b>	<b>5 675 086</b>	<b>6 103 819</b>	<b>6 566 912</b>	<b>7 063 087</b>	<b>7 591 228</b>
Transfers and subsidies - capital (monetary allocations)	952 679	141 002	67 301	66 147	66 075	66 155	66 431	66 766	66 975	66 899	66 421
Public & developers contributions	-	-	-	-	-	-	-	-	-	-	-
<b>Total Revenue after Capital Grants</b>	<b>4 316 196</b>	<b>4 038 919</b>	<b>4 152 902</b>	<b>4 555 749</b>	<b>4 971 996</b>	<b>5 349 335</b>	<b>5 741 516</b>	<b>6 170 585</b>	<b>6 633 886</b>	<b>7 129 987</b>	<b>7 657 648</b>
<b>Operating expenditure</b>											
Employee related costs	693 444	866 553	911 473	963 256	1 013 853	1 068 337	1 126 478	1 187 973	1 252 435	1 319 385	1 388 240
Remuneration of councillors	27 697	32 676	34 309	36 025	37 377	38 825	40 355	41 953	43 600	45 277	46 961
Debt impairment	191 925	167 686	181 912	197 532	216 701	233 347	250 429	268 800	288 395	309 171	331 133
Depreciation and amortisation	283 029	293 740	328 549	353 389	369 301	381 881	394 418	407 042	419 875	433 031	446 619
Interest	109 853	141 264	177 242	193 164	193 125	193 108	194 404	196 795	197 692	196 721	193 606
Bulk purchases - electricity	831 301	935 354	1 042 247	1 165 449	1 278 501	1 392 180	1 501 464	1 619 508	1 746 080	1 881 158	2 025 111
Inventory Consumed	303 494	257 336	269 218	280 026	302 781	328 389	355 411	385 325	417 874	452 694	489 320
Contracted services	742 114	872 263	860 078	940 375	1 005 988	1 073 143	1 125 533	1 181 472	1 240 732	1 303 196	1 368 937
Transfers and subsidies	103 415	105 770	105 706	111 510	118 575	125 576	132 914	140 667	148 777	157 206	165 948
Other expenditure	206 853	184 231	193 631	202 043	215 375	228 774	241 234	254 451	268 342	282 856	297 993
Losses on disposal of Assets	1 752	50 615	51 121	51 632	57 324	64 263	72 506	82 086	92 996	105 166	118 445
<b>Total Expenditure</b>	<b>3 494 878</b>	<b>3 907 487</b>	<b>4 155 487</b>	<b>4 494 400</b>	<b>4 808 901</b>	<b>5 127 822</b>	<b>5 435 146</b>	<b>5 766 072</b>	<b>6 116 799</b>	<b>6 485 861</b>	<b>6 872 312</b>
<b>Suplus/ (Shortfall) for the year</b>	<b>821 318</b>	<b>131 432</b>	<b>(2 585)</b>	<b>61 349</b>	<b>163 095</b>	<b>221 512</b>	<b>306 370</b>	<b>404 513</b>	<b>517 087</b>	<b>644 126</b>	<b>785 336</b>

**Municipal Financial Model - George Local Municipality**  
**Cash Flow Statement**

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>2034</u>	<u>2035</u>
<i>R thousands</i>											
<b><u>Cash flows from Operating Activities</u></b>											
<b>Suplus/Deficit for the year <u>including</u> Capital Grants</b>	821 318	131 432	(2 585)	61 349	163 095	221 512	306 370	404 513	517 087	644 126	785 336
Suplus/Deficit for the year <u>excluding</u> Capital Grants & Contributions		(9 570)	(69 886)	(4 798)	97 020	155 357	239 939	337 747	450 113	577 227	718 915
Capital Grants & Contributions		141 002	67 301	66 147	66 075	66 155	66 431	66 766	66 975	66 899	66 421
<b>Adjustments for non-cash items:</b>											
Depreciation, amortisation and impairment loss	283 029	293 740	328 549	353 389	369 301	381 881	394 418	407 042	419 875	433 031	446 619
Revaluation on investment property (gain) / loss	-	-	-	-	-	-	-	-	-	-	-
Increase / (Release from) current provisions & non-interest bearing liabilities	-	(53 761)	(9 003)	(8 434)	-	-	-	-	-	-	-
Increase / (Release from) other non-current provisions & non-interest bearing liabilities	-	(95)	-	-	33 443	39 503	43 736	47 395	50 329	52 371	53 359
(Increase) / Release from non-current interest bearing assets	-	-	-	-	-	-	-	-	-	-	-
Capitalised interest	-	-	-	-	-	-	-	-	-	-	-
Eskom Debt Relief (synthetic grant)	-	-	-	-	-	-	-	-	-	-	-
<b>Operating surplus before working capital changes:</b>	<b>1 104 347</b>	<b>371 316</b>	<b>316 960</b>	<b>406 304</b>	<b>565 839</b>	<b>642 896</b>	<b>744 524</b>	<b>858 950</b>	<b>987 291</b>	<b>1 129 528</b>	<b>1 285 314</b>
<b>Change in W/C Investment</b>	<b>-</b>	<b>(467 705)</b>	<b>(6 902)</b>	<b>8 127</b>	<b>(1 271)</b>	<b>(5 284)</b>	<b>(11 904)</b>	<b>(14 640)</b>	<b>(17 829)</b>	<b>(21 397)</b>	<b>(25 265)</b>
(Increase)/decrease in inventories	-	17 205	(5 131)	(4 634)	(8 700)	(9 405)	(9 519)	(10 399)	(11 197)	(11 894)	(12 480)
(Increase)/decrease accounts receivable	-	(16 610)	-	-	-	-	(0)	-	-	-	-
Increase/(decrease) in trade payables	-	(30 799)	(1 771)	12 761	7 430	4 120	(2 385)	(4 241)	(6 632)	(9 503)	(12 785)
Increase/(decrease) in unspent grants	-	(437 501)	-	-	-	-	-	-	-	-	-
<b>Net cash flow from Operating activities</b>	<b>1 104 347</b>	<b>(96 389)</b>	<b>310 058</b>	<b>414 431</b>	<b>564 569</b>	<b>637 611</b>	<b>732 619</b>	<b>844 310</b>	<b>969 463</b>	<b>1 108 131</b>	<b>1 260 049</b>
<b><u>Cash flows from Investing Activities</u></b>											
Capital expenditure	-	(881 168)	(700 000)	(575 000)	(550 423)	(583 500)	(618 533)	(655 658)	(694 999)	(736 687)	(780 861)
Decrease/(Increase) in non-current receivables	-	(61)	-	(0)	-	-	-	-	-	-	-
(Additions) / Disposals of investment property	-	164	173	181	-	-	-	-	-	-	-
<b>Net cash flow from Investing activities</b>	<b>-</b>	<b>(881 065)</b>	<b>(699 827)</b>	<b>(574 819)</b>	<b>(550 423)</b>	<b>(583 500)</b>	<b>(618 533)</b>	<b>(655 658)</b>	<b>(694 999)</b>	<b>(736 687)</b>	<b>(780 861)</b>
<b><u>Cash flows from Financing Activities</u></b>											
New loans raised	-	604 302	500 430	300 000	150 000	156 000	162 240	168 730	175 479	182 498	189 798
Loans repaid	-	(457 678)	(134 901)	(155 371)	(157 697)	(159 785)	(151 724)	(173 019)	(197 475)	(224 103)	(253 362)
(Decrease) / Increase in consumer deposits	-	6 821	4 784	5 031	4 779	3 994	3 961	4 133	4 293	4 492	4 805
<b>Net cash flow from Financing activities</b>	<b>-</b>	<b>153 446</b>	<b>370 313</b>	<b>149 660</b>	<b>(2 918)</b>	<b>209</b>	<b>14 477</b>	<b>(156)</b>	<b>(17 704)</b>	<b>(37 113)</b>	<b>(58 759)</b>
<b>Change in Cash</b>	<b>1 104 347</b>	<b>(824 009)</b>	<b>(19 456)</b>	<b>(10 728)</b>	<b>11 228</b>	<b>54 320</b>	<b>128 563</b>	<b>188 495</b>	<b>256 760</b>	<b>334 331</b>	<b>420 429</b>
Cash/(Overdraft), Beginning		1 327 556	503 547	484 091	473 363	484 591	538 911	667 475	855 970	1 112 730	1 447 061
<b>Cash/(Overdraft), Ending</b>	<b>1 327 556</b>	<b>503 547</b>	<b>484 091</b>	<b>473 363</b>	<b>484 591</b>	<b>538 911</b>	<b>667 475</b>	<b>855 970</b>	<b>1 112 730</b>	<b>1 447 061</b>	<b>1 867 490</b>

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