

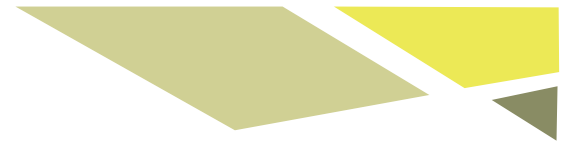


GEORGE LOCAL MUNICIPALITY

Long-Term Financial Plan – *Update 2026*



Prepared by
INCA Portfolio Managers
May 2026



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.

A Long-Term Financial Plan (LTFP) is a strategic financial management tool that provides a forward-looking assessment of a municipality's financial position, sustainability, and capacity to deliver services over an extended planning horizon that spans beyond the 3-year budget cycle. The LTFP, underpinned by IPM's Long-Term Financial Model (LTFM), aims to provide a framework for the municipality to remain financially sustainable over the long-term and thus in a position to execute on its core mandate of providing services to its communities.

The Long-Term Financial Plan plays a critical role in informing the budget process. It serves as the financial foundation upon which the MTREF is developed, ensuring that short and medium-term financial decisions are consistent with long-term sustainability. Key assumptions from the LTFP, including revenue growth rates, operating cost drivers, capital funding strategies, and debt affordability limits, guide budget preparation and scenario analysis. In this way, the LTFP enhances the credibility of the budget by grounding it in realistic projections and clearly defined financial constraints.

A summary of the demographic, economic and household infrastructure perspective was updated with the latest available information as published by S&P Global Market Intelligence. The historic financial analysis was updated with the information captured in the municipality's audited financial statements of 30 June 2025 along with the Tabled Budget for FY2026/27. 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

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 audited financial statements and the updated LTFM utilising information contained in the Tabled Budget for the period 2026/27-2028/29.

KEY FINDINGS AND CONCLUSIONS DRAWN FROM THE 2025 LTFP UPDATE

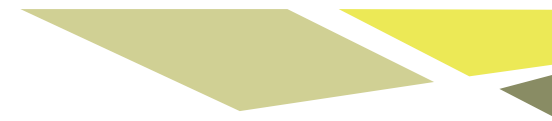
DEMOGRAPHIC, ECONOMIC AND HOUSEHOLD INFRASTRUCTURE

- 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.



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 Tabled Budget 2026/27 – 2028/29 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 maintained at this level for the entire planning period.
2. The model incorporated the increases in revenue and expenditure items as announced in the Tabled Budget.
3. The Base Case mirrors the MTREF capital investment programme:
 - FY2025/26: R1.23 billion
 - FY2026/27: R767.7 million
 - FY2027/28: R636.9 million
 - FY2028/29: R677.1 millionAssumed growth in capital investment beyond FY2028/29 is 6% p.a.
4. The borrowing programme was included as follows:
 - FY2025/26: R604.3 million
 - FY2026/27: R500.4 million
 - FY2027/28: R382.9 million
 - FY2028/29: R150.0 million
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 5.0% (from 4.5%) over 5 years and maintained at this level for the remainder of the planning period.
7. Electricity losses reduced to 7%, from 9.73% and while water distribution losses reduced to 20.00% from 24.60% over 5 years.
8. Tariff increases were included as put forward in the Tabled Budget Document for FY2026/27-FY2028/29.
9. Trade and other payables days were reduced from 82 to 45 days, achieved over 10 years, in order to mitigate the forecast rise in creditors in the MTREF Case.
10. A reduction of 2% in operating expenditure.

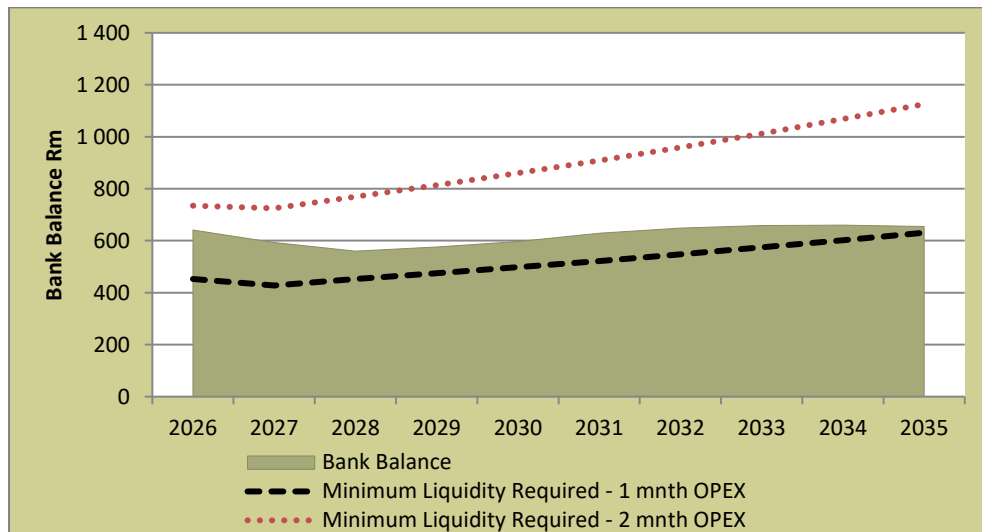
LONG-TERM FINANCIAL MODEL OUTCOMES

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

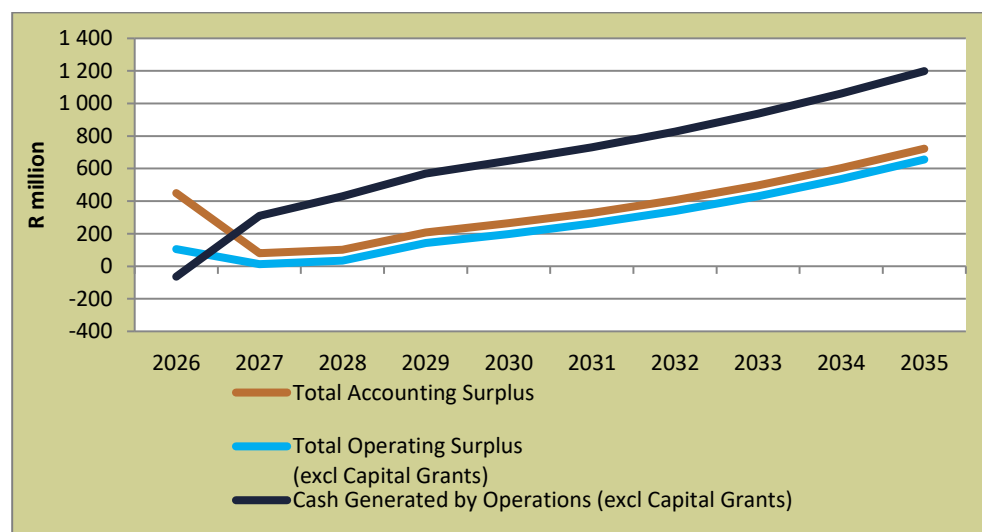
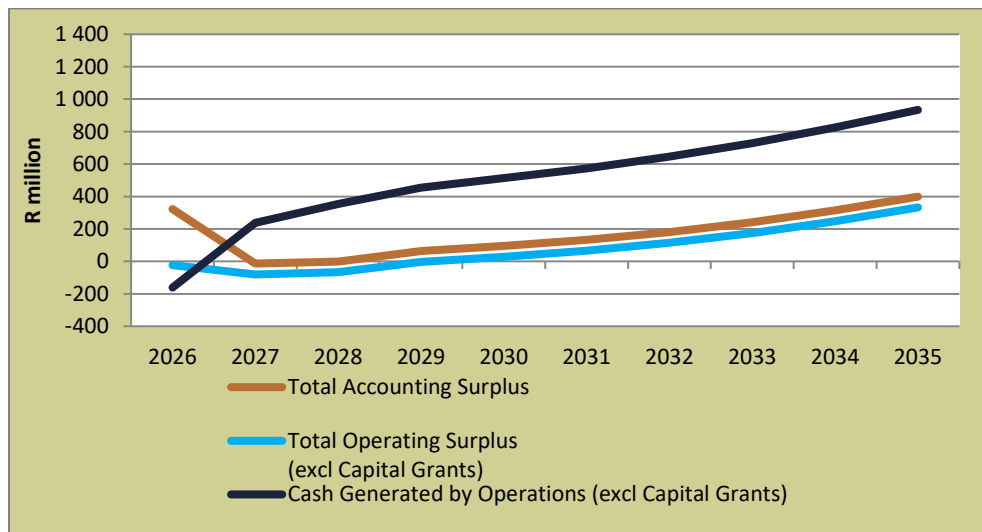
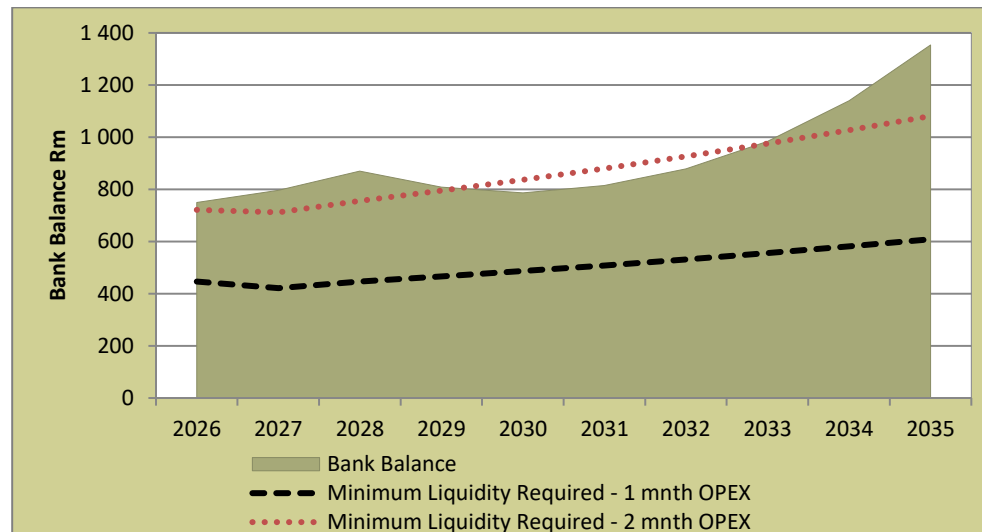
Outcome	MTREF Case	Base Case
Average annual % increase in Revenue	5,3%	5,4%
Average annual % increase in Expenditure	7,3%	6,9%
Accounting Surplus accumulated during Planning Period (Rm)	R 1 721	R 3 902
Operating Surplus accumulated during Planning Period (Rm)	R 777	R 2 957
Cash generated by Operations during Planning Period (Rm)	R 5 094	R 6 890
Average annual increase in Gross Consumer Debtors	11,2%	11,0%
Capital investment programme during Planning Period (Rm) (FY2026/27 – FY2035/36)	R 8 119	R 8 119
External Loan Financing during Planning Period (Rm) (FY2026/27 – FY2035/36)	R 4 553	R 2 266
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 646	R 1 595
No of Months Cash Cover at the end of the Planning Period (Rm)	1,3	3,4
Liquidity Ratio at the end of the Planning Period	0,8 : 1	2,2 : 1
Gearing at the end of the Planning Period	33,4%	21,4%
Debt Service to Total Expense Ratio at the end of the Planning Period	13,6%	7,6%



MTREF CASE SCENARIO

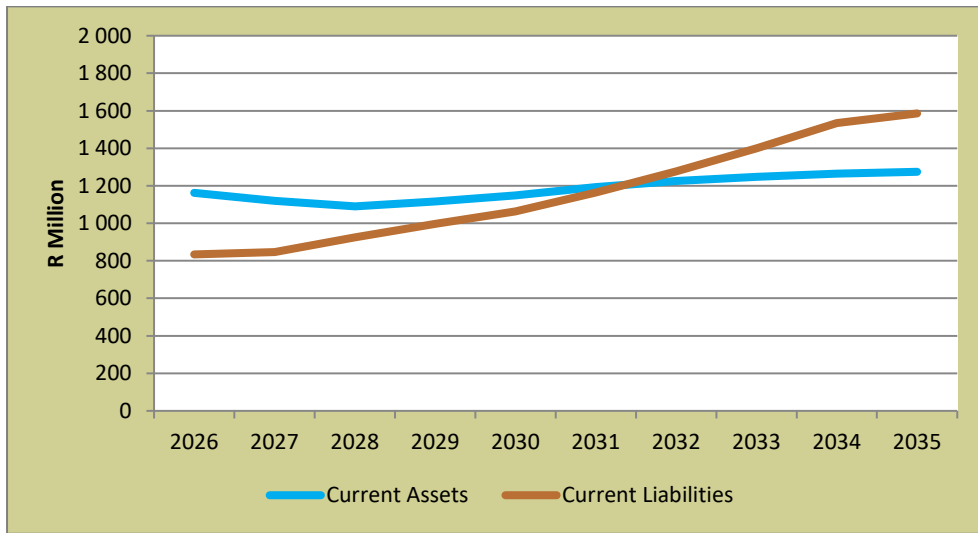


BASE CASE SCENARIO

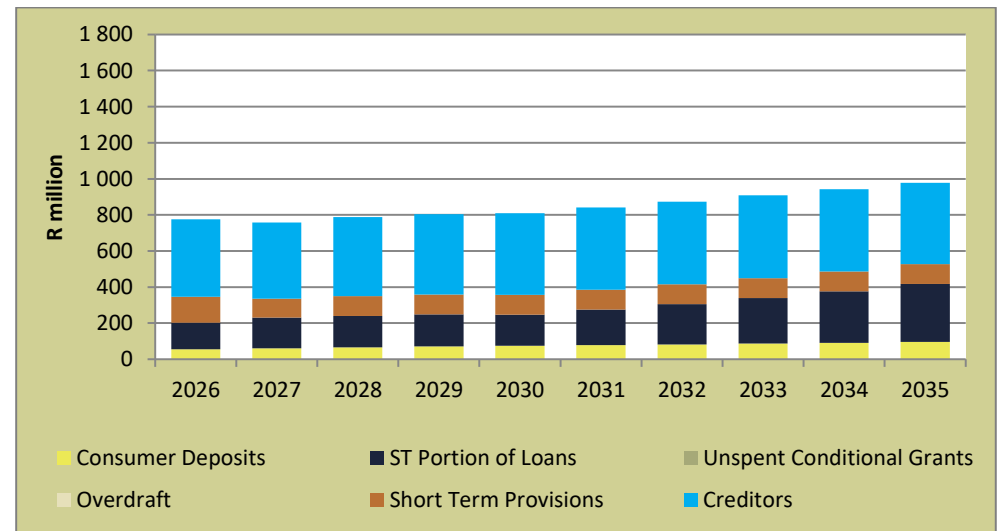
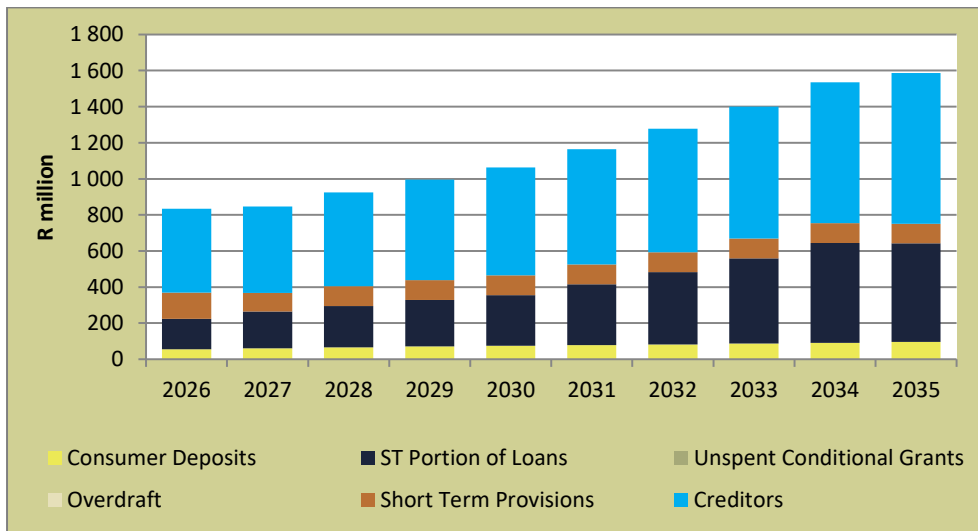
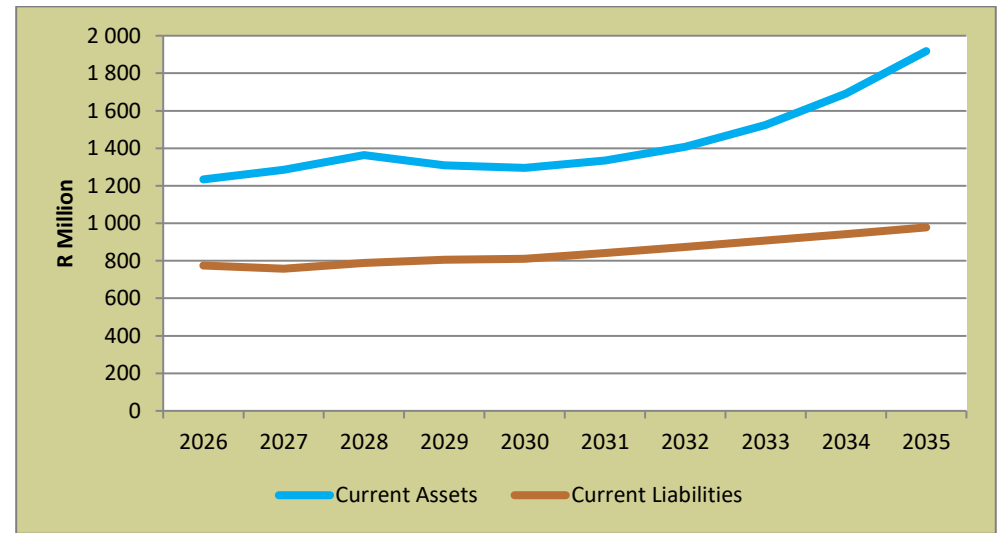




MTREF CASE SCENARIO



BASE CASE SCENARIO



CAPEX AFFORDABILITY & FUNDING MIX

BASE CASE 10-YEAR CAPITAL FUNDING MIX

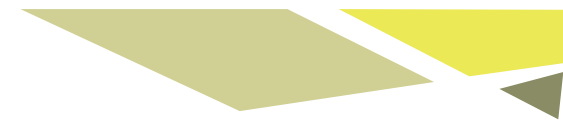
Source	Rm	%
Public & Developers' Contributions	0	0 %
Capital Grants	665	8.2 %
Financing	2 266	27.9 %
Cash Reserves and Funds	5 189	63.9 %
Cash Shortfall	0	0 %
Capital Expenditure	8 119	100 %

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

R'm	Total	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Public & Developers' Contributions	0	0	0	0	0	0	0	0	0	0	0
Capital Grants	665	67	66	66	66	66	67	67	67	66	65
Financing	2 266	500	383	150	156	162	169	175	182	190	197
Cash Reserves and Funds	5 189	206	190	461	496	533	572	613	657	705	756
Cash Shortfall	0	0	0	0	0	0	0	0	0	0	0
Capital Expenditure	8 119	774	639	678	718	761	807	855	907	961	1 019

KEY TAKEAWAYS

- The affordable capital envelope for the 10-year planning period (FY2026/27-FY2035/36) was calculated at **R8 119 million**.
- Financing is recommended to account for 27.9% of the capital funding mix over the planning horizon, as opposed to 56.1% under the MTREF Case.
- 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. 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.
4. Apply greater financial discipline in managing operating expenditure and reducing losses, sufficient cash reserves can be generated to fund the required capital expenditure while simultaneously strengthening the overall cash position.
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.



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

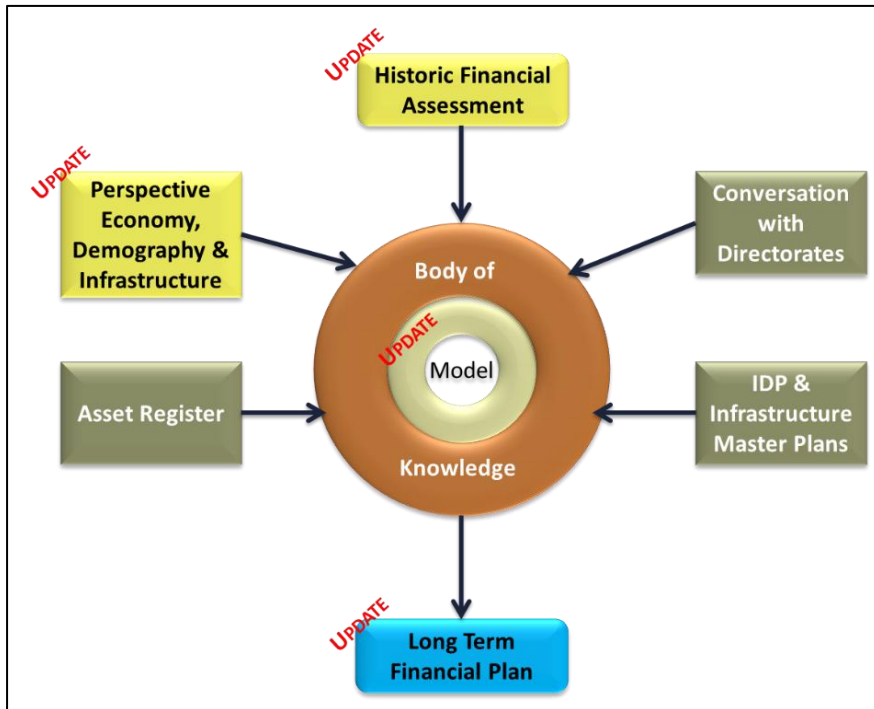
8 Ratio Analysis

9 Conclusions

PLANNING PROCESS

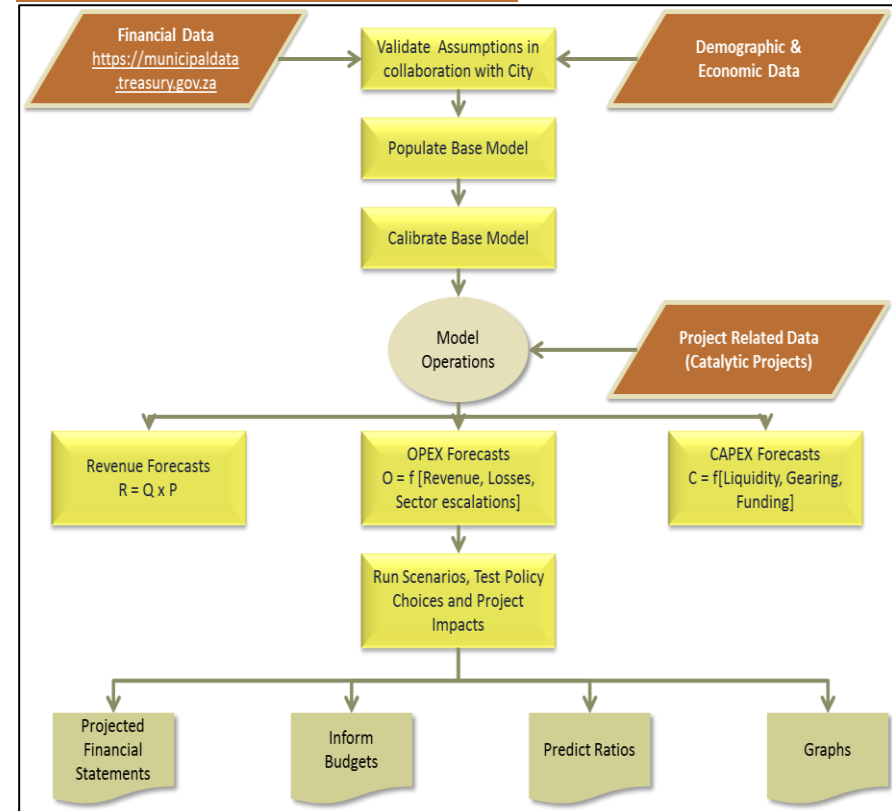
The diagram below illustrates the steps in the process that were followed in drafting the LTFP and the steps taken during this 2026 “LTFP Update”:

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.



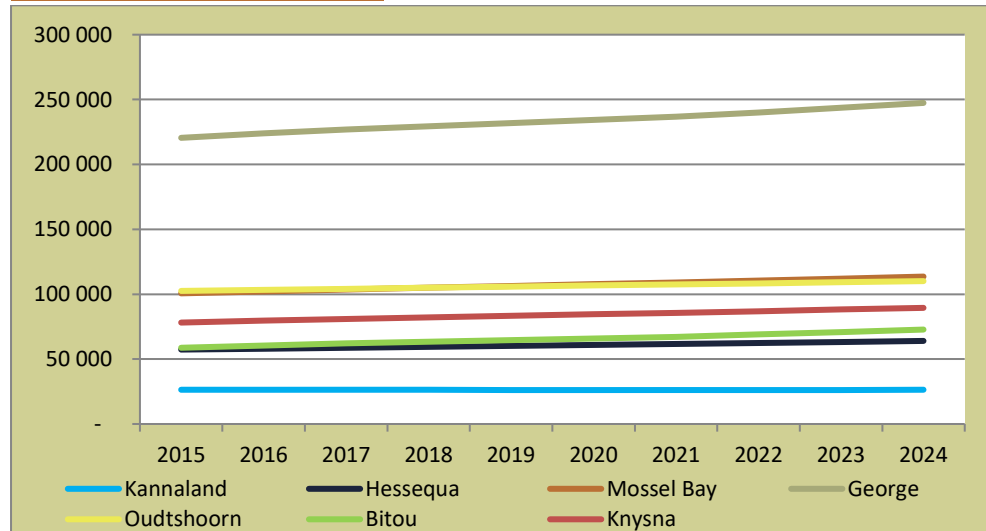
1	Planning Process
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UPDATED PERSPECTIVES (DEMOGRAPHIC, ECONOMIC, HOUSEHOLD INFRASTRUCTURE)

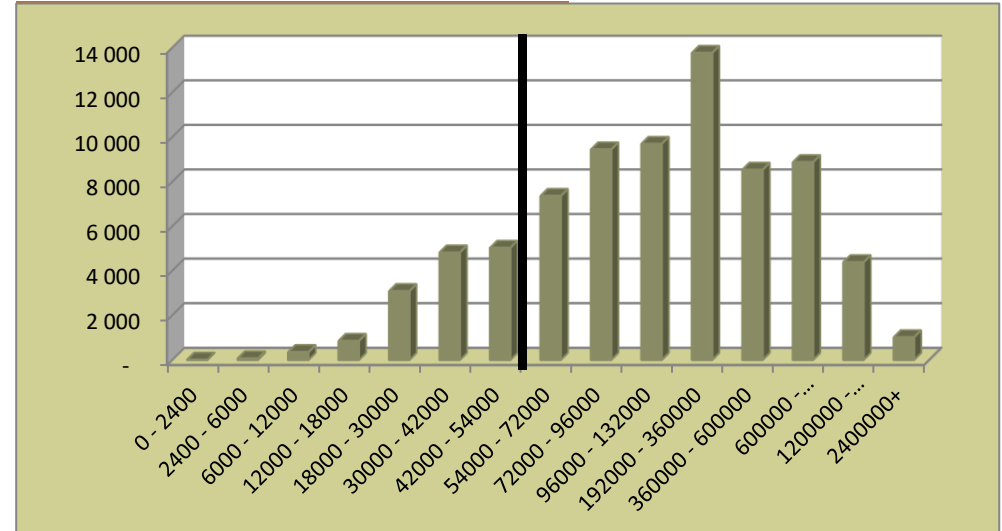
DEMOGRAPHY

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 km². 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



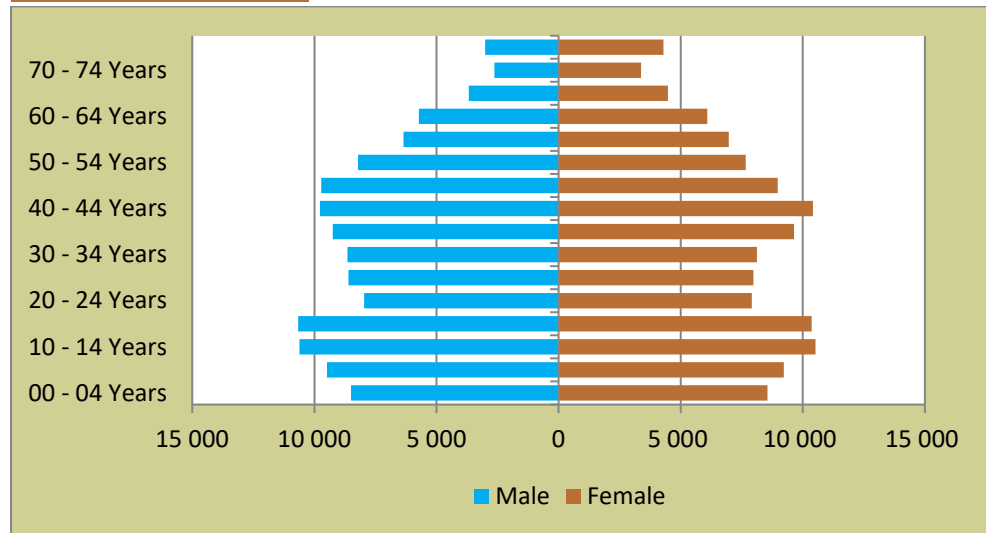
GRAPH 2: HOUSEHOLD INCOME DISTRIBUTION



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.

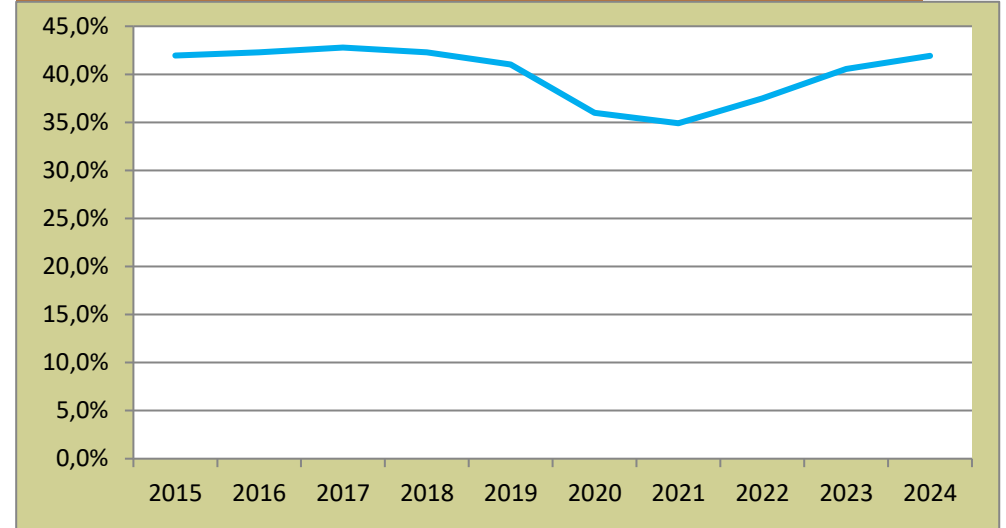
GRAPH 3: AGE PROFILE



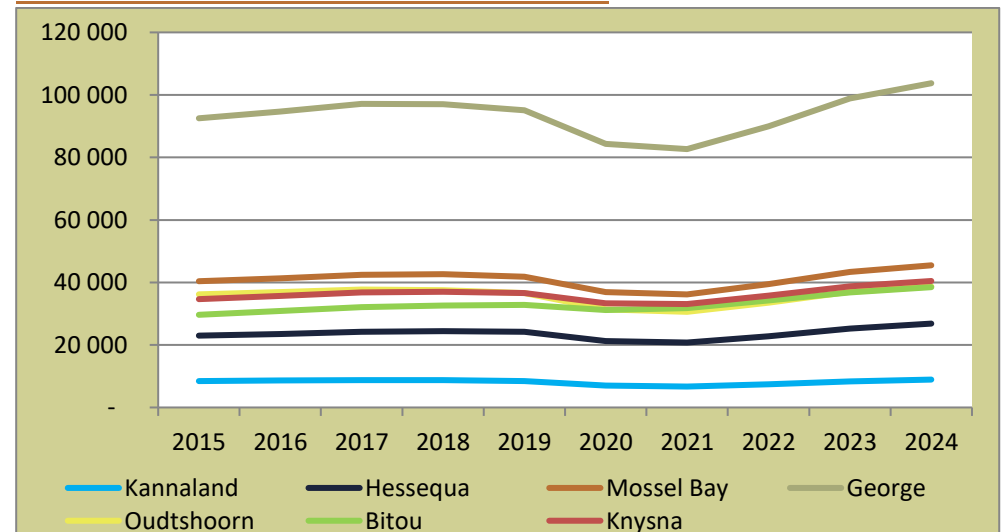
GRAPH 3 presents the demographic composition of George Local Municipality, highlighting both gender and age distribution. The age profile of George reflects a large number of working age people, with 53.4% of the population between the ages of 25-64 years. The bulk of the population being considered 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

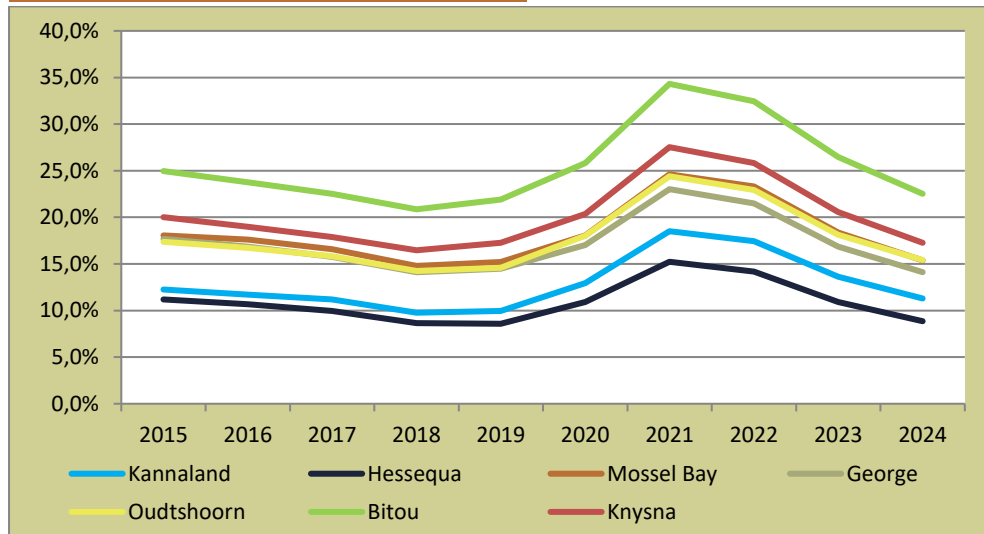


GRAPH 4B: ECONOMICALLY ACTIVE POPULATION





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

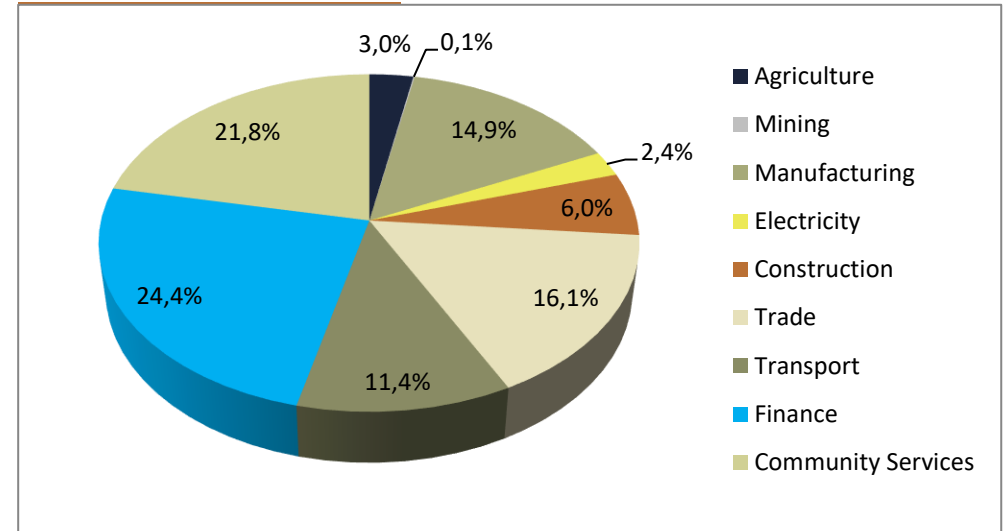
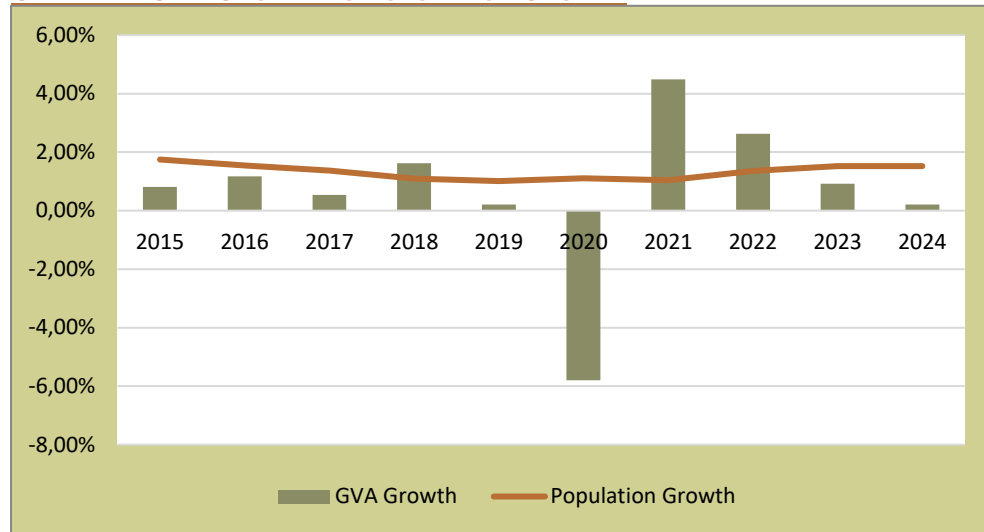


TABLE 1: CONTRIBUTION OF SUB-SECTORS TO GVA (CONSTANT 2015 PRICES)

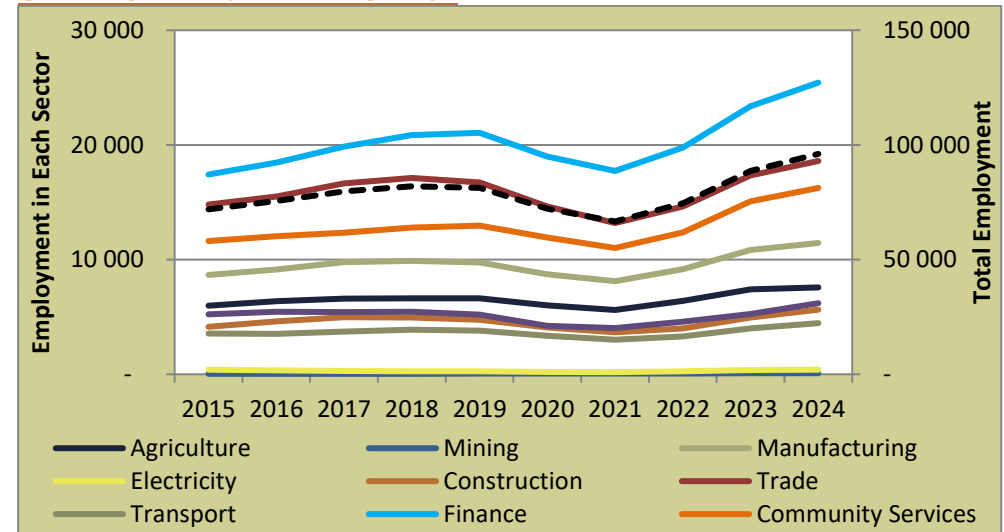
Subsector	2015	2024
Agriculture	2,8%	3,0%
Mining	0,1%	0,1%
Manufacturing	14,5%	14,9%
Electricity	2,9%	2,4%
Construction	9,1%	6,0%
Trade	17,1%	16,1%
Transport	10,8%	11,4%
Finance	22,9%	24,4%
Community Services	19,9%	21,8%

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.

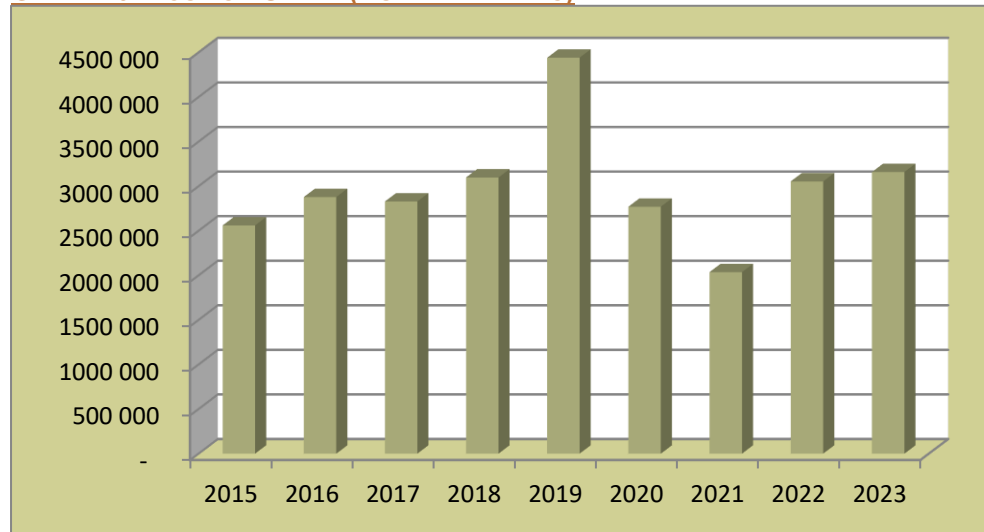
GRAPH 8: EMPLOYMENT BY SECTOR



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.

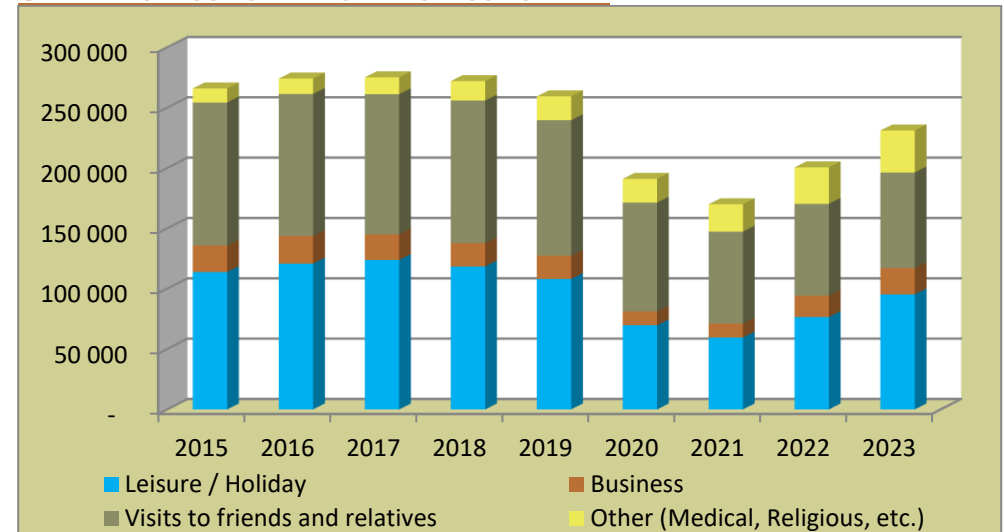
This is consistent with the decline in the unemployment rate discussed above. The Finance (26.5%), Trade (19.3%) and Community Services (16.9%), remain the predominant providers of employment within the region. These sectors not only reflect the economic strengths of the region but also highlight areas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

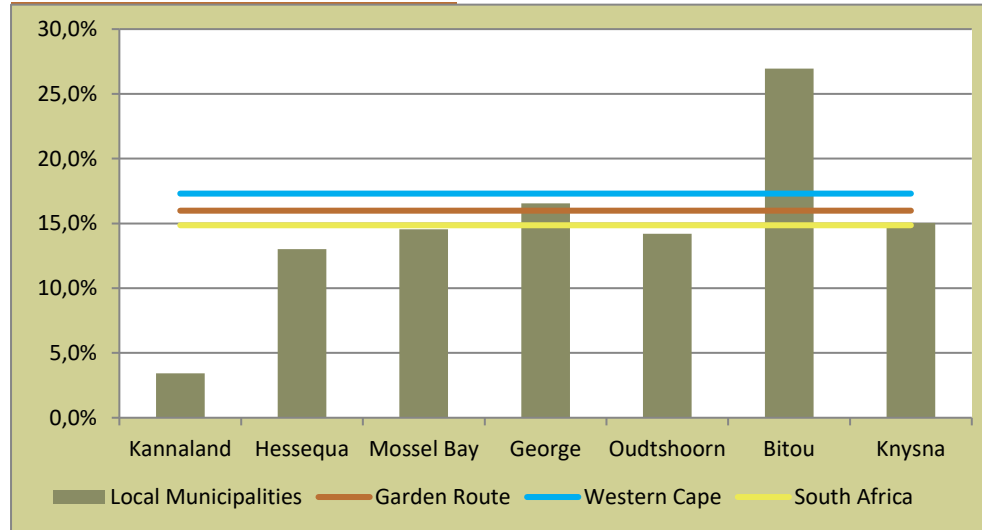


GRAPH 10 illustrates the number and purpose of trips within the municipality's tourism sector in 2023. The total number of trips increased by 15.2% during the year, reaching 231 187 trips. Leisure/Holiday has become the main reason for visitation in 2023 overtaking visitation of friends and relatives. 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

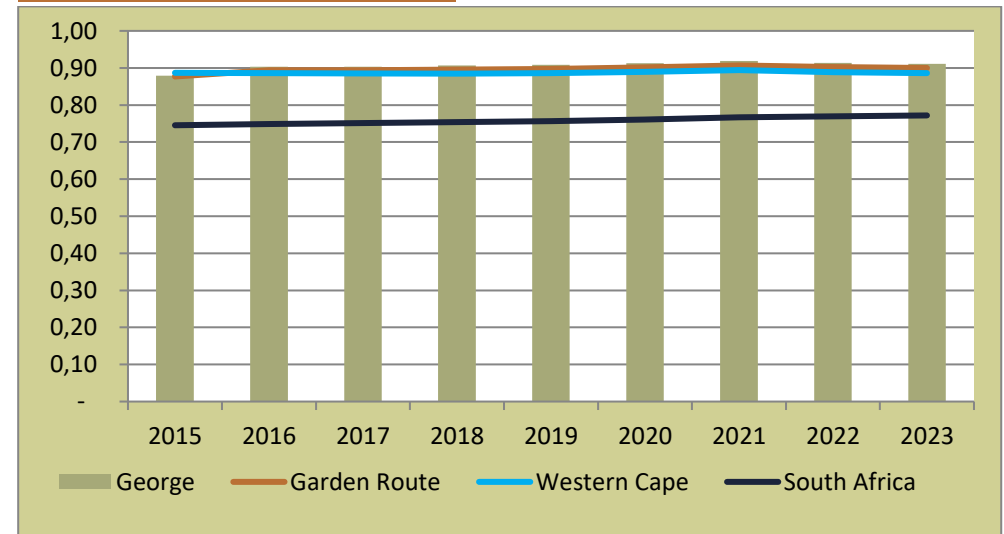


TABLE 2 below compares service backlogs between George and the Garden Route District. Over the review period, George has improved access to services across all categories while outperforming the district in the provision of all infrastructure services. Ongoing investment in infrastructure has enabled 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%
Total Number of Households	216 441	100,0%	72 117	100,0%



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

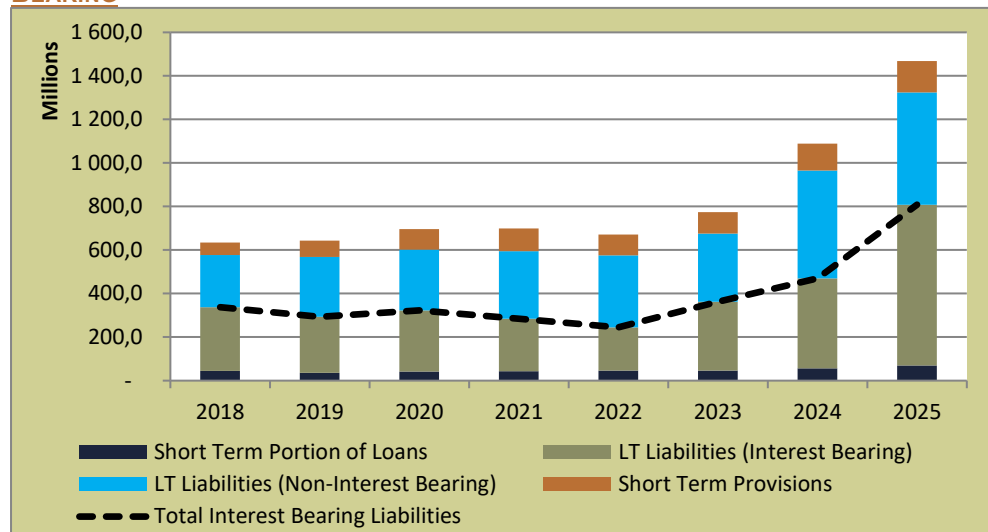
8 Ratio Analysis

9 Conclusions

UPDATED HISTORIC FINANCIAL ASSESSMENT

FINANCIAL POSITION

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



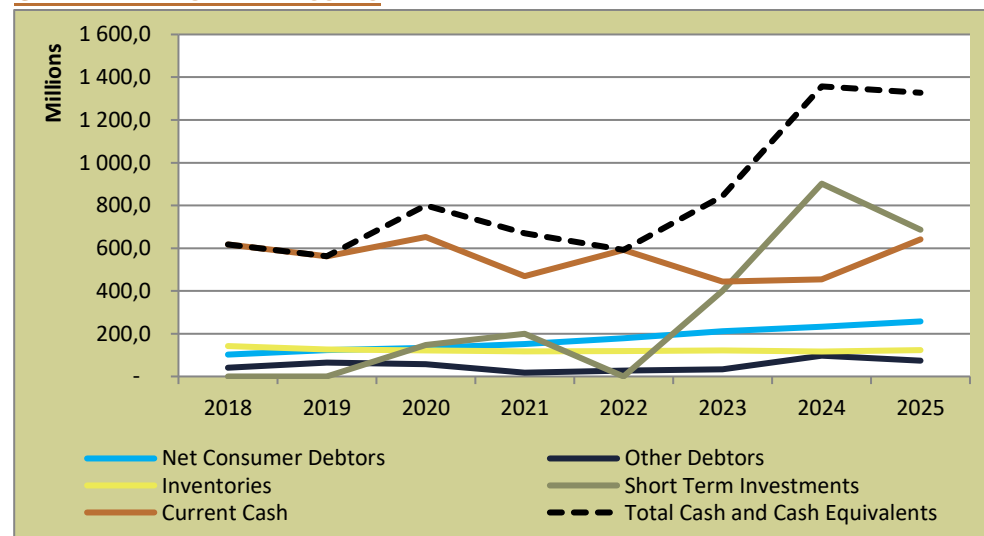
George LM's net fixed assets position improved considerably during FY2024/25, increasing by 23.0% to R5.84 billion as at FYE2024/25. This reflects notable capital investment in recent years, underpinned by the receipt of BFI grant funding and an accelerated borrowing programme. Healthy financial performance 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

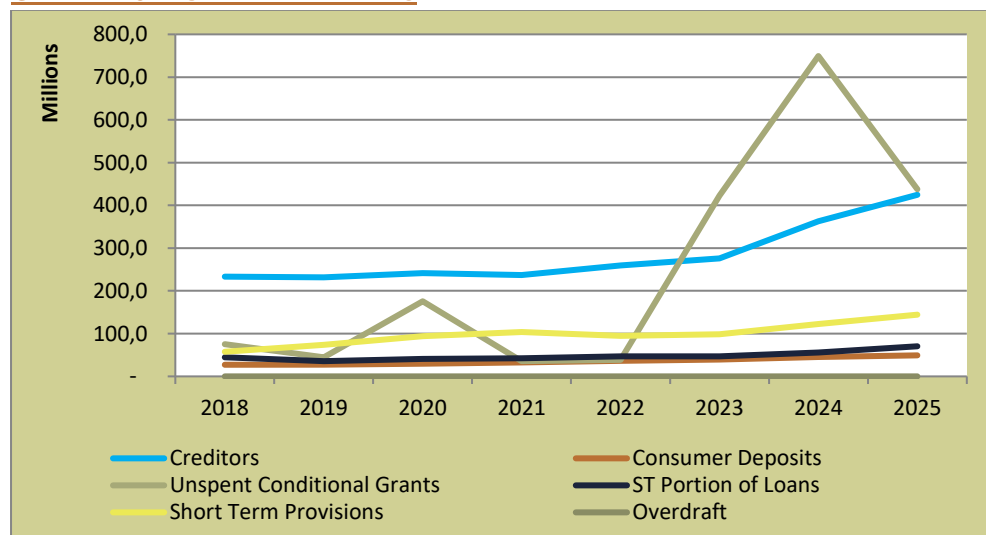


Current assets declined marginally during the year, falling to R1.78 billion from R1.80 billion at the prior year end. This was driven by reductions in cash and cash equivalents, which fell to R1.32 billion from R1.35 billion, as well as reduced other

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



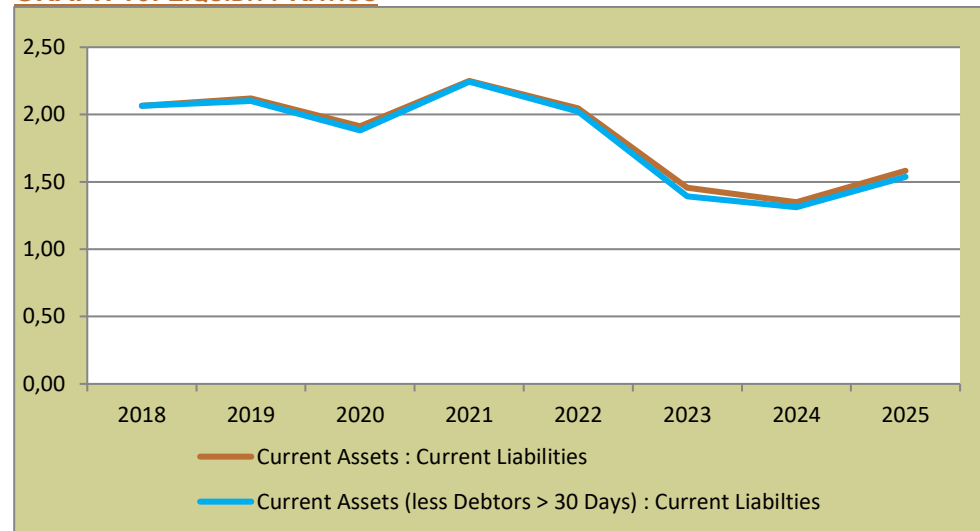
The movements in current assets and current liabilities resulted in a strengthening of the liquidity position, as evidenced in Table 2. The liquidity ratio improved to 1.58:1 from 1.35:1 at the prior year end. However, as stated in the previous update, the presence of notable unspent conditional grant 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

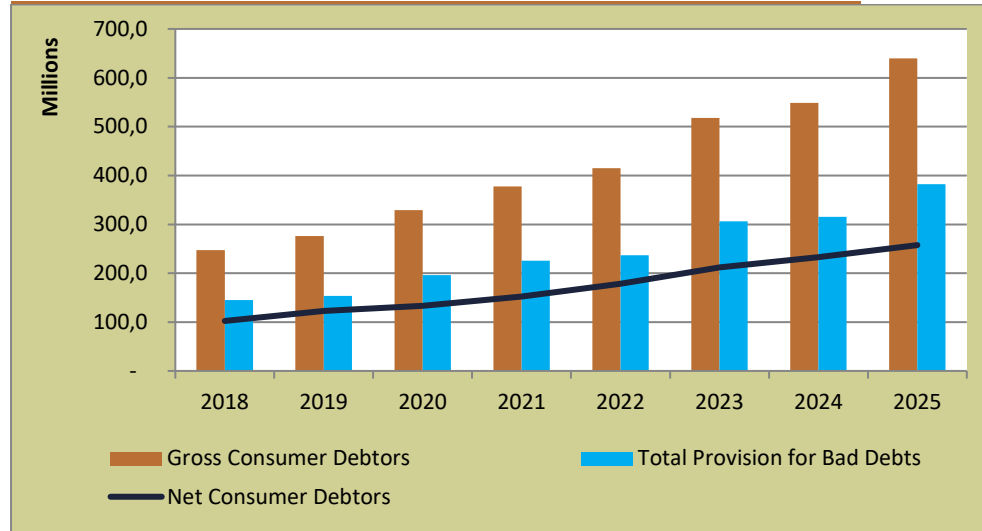
	2018	2019	2020	2021	2022	2023	2024	2025
Current Assets: Current Liabilities	2,07	2,12	1,91	2,25	2,05	1,46	1,35	1,58
Current Assets (less Debtors > 30 Days): Current Liabilities	2,07	2,10	1,88	2,24	2,02	1,39	1,31	1,54

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

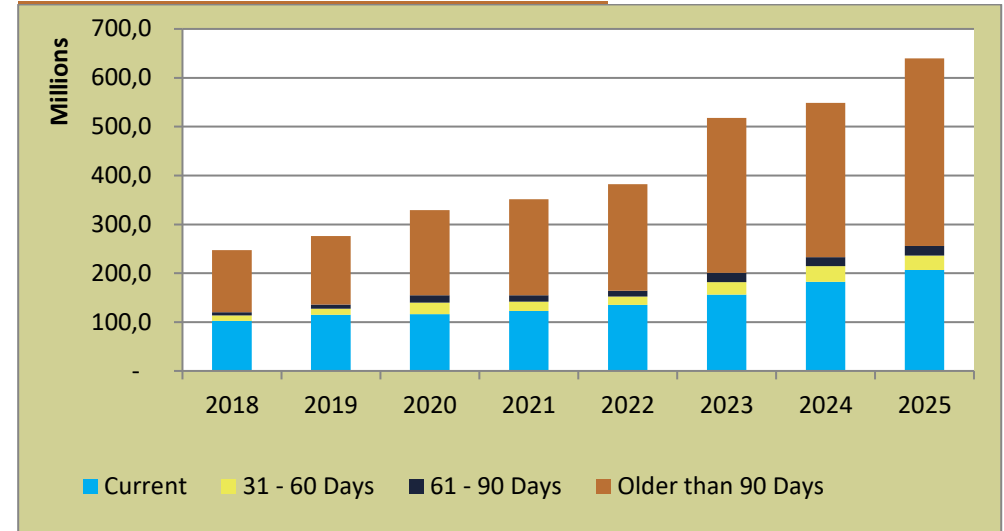


TABLE 3: DEBTORS RATIOS

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

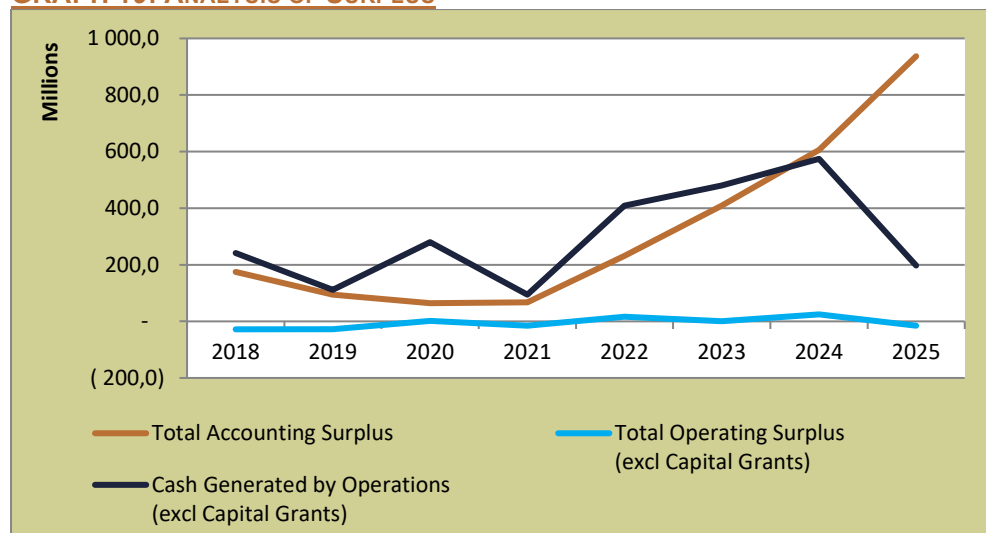


TABLE 4: ANALYSIS OF SURPLUS

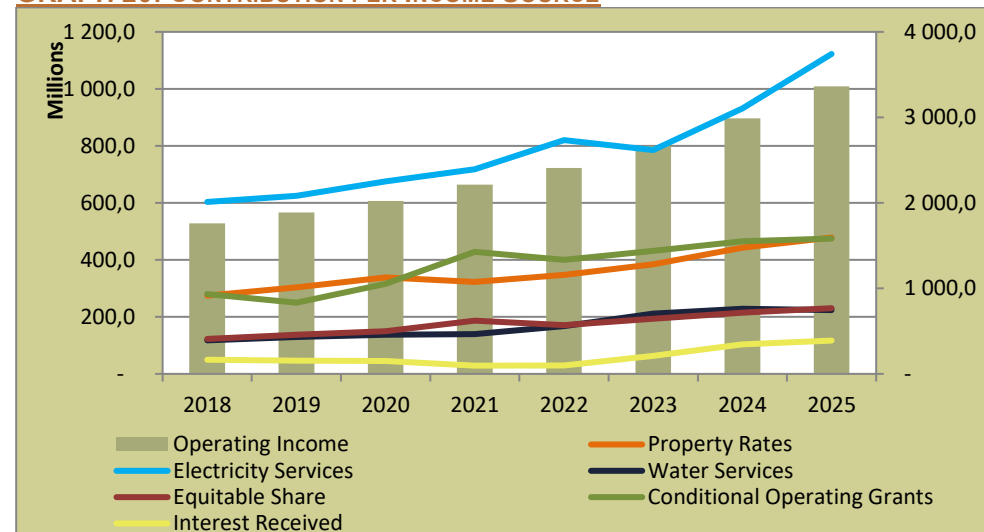
	2018	2019	2020	2021	2022	2023	2024	2025
Total Accounting Surplus	174,7	94,4	64,3	67,1	231,4	408,9	605,3	937,1
Total Operating Surplus (excl Capital Grants)	(28,1)	(27,8)	1,1	(15,9)	16,8	0,6	24,7	(15,6)
Cash Generated by Operations (excl Capital Grants)	241,6	111,6	280,1	94,3	408,6	480,2	574,4	197,5

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

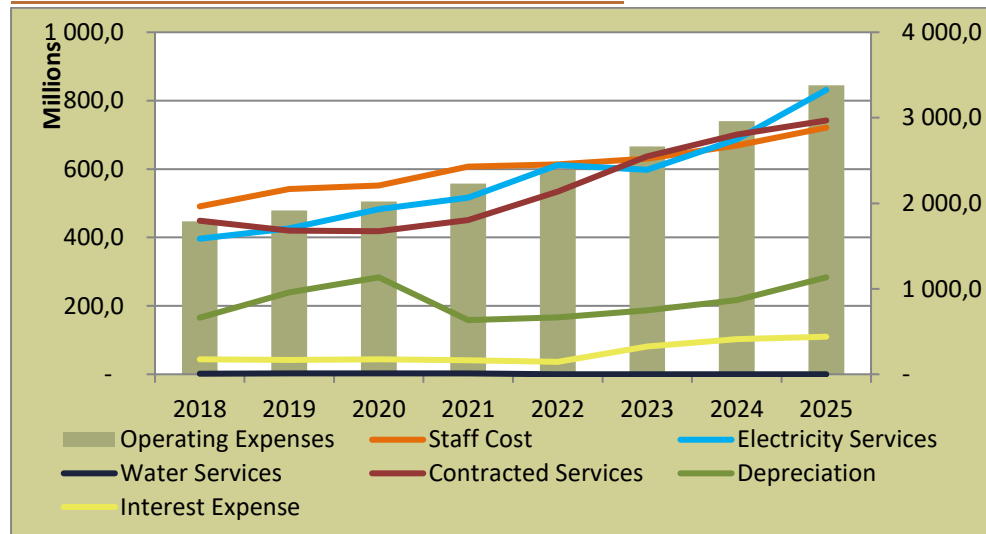


Electricity services remained the predominant revenue source for the municipality, accounting for R1.12 billion in revenue during FY2024/25. This equates to 33% of operating revenue. The municipality must be commended for maintaining low electricity distribution losses (9.73% during FY2024/25) and thus 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

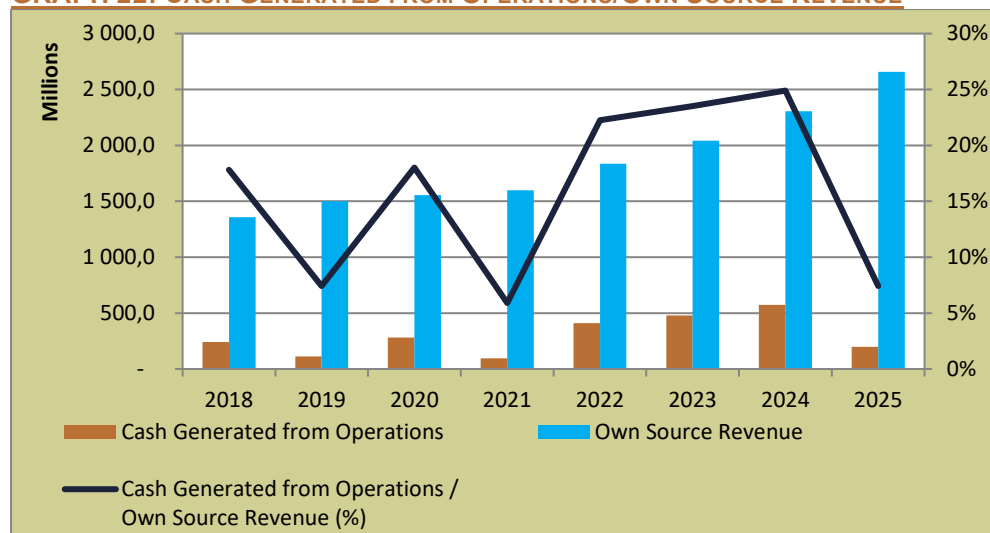
contractors. While the contribution of contracted services of 15.8% far exceeds NT's recommended maximum norm of 5% for this expenditure item, it is appreciated that this directly contributes to the low staff costs contribution of 15.3%. Additionally, the outsourcing of transport services related to 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.

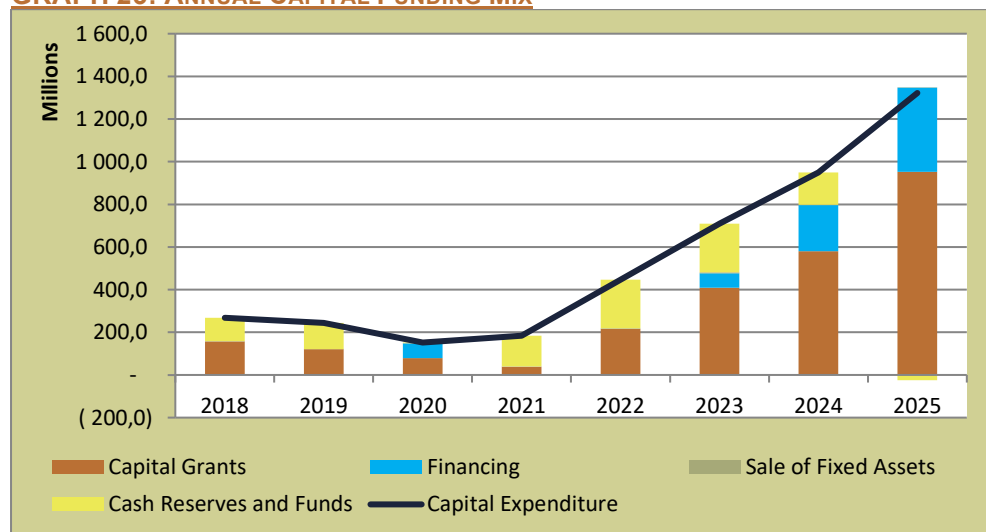
Operational expenditure incurred to repair and maintain the municipality's assets increased to R262.8 million during FY2024/25, up 17.5% from R223.7 million in the prior year. This equates to 4.5% of PPE & IP (FY2023/24: R4.7%). While this remains below the NT norm of 8%, this is to be expected given 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



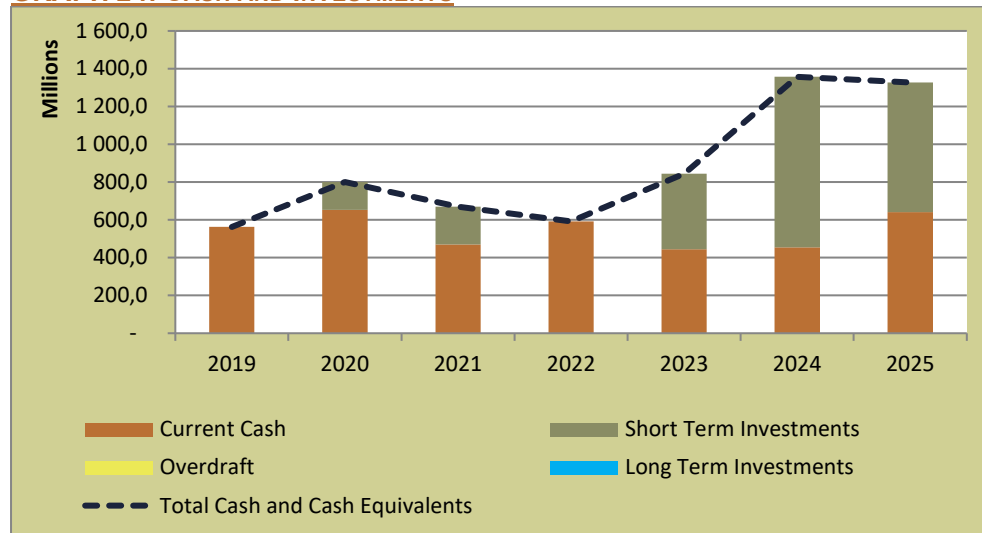
GRAPH 23: ANNUAL CAPITAL FUNDING MIX



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

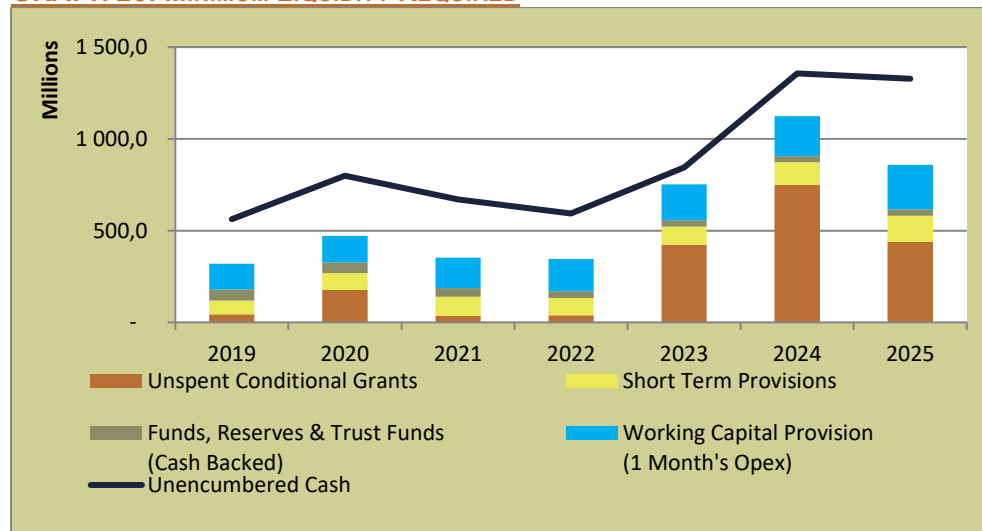


TABLE 5: MINIMUM LIQUIDITY REQUIREMENTS

	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
Total	195,6	180,2	327,3	187,8	168,9	557,0	905,9	615,8
Unencumbered Cash	617,8	562,6	799,5	669,6	592,5	843,9	1 357,0	1 327,6
Cash Coverage Ratio (excl Working Capital)	3,2	3,1	2,4	3,6	3,5	1,5	1,5	2,2
Working Capital Provision (1 Month's Opex)	125,9	139,7	144,7	164,4	177,3	195,1	217,5	242,0
Cash Coverage Ratio (incl Working Capital)	1,9	1,8	1,7	1,9	1,7	1,1	1,2	1,5
Minimum Liquidity Required	321,6	319,9	472,0	352,1	346,2	752,1	1 123,5	857,8
Cash Surplus/(Shortfall)	296,2	242,7	327,5	317,5	246,4	91,8	233,6	469,8

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

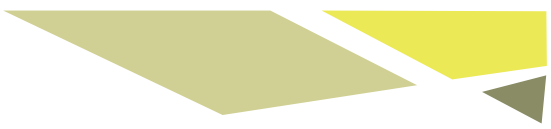
From the assessment it is evident that the socio-economic environment continues to be George's main impediment in achieving higher credit scores. This is mainly linked to a lack of economic growth in the region.

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

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LONG-TERM FINANCIAL MODEL OUTCOMES

MTREF CASE SCENARIO

The MTREF Case was developed using the unadjusted figures from the tabled budget for FY2026/27 to FY2028/29, together with the FY2024/25 audited financial results. The purpose of this scenario is to reflect the Long-Term Financial Model outcomes prior to incorporating any adjustments to the current MTREF. It is our view that George Local Municipality has adopted a reasonably conservative approach in its operational budget estimates, with operating deficits of R135.6 million, R68.9 million and R55.6 million projected over the MTREF period. This reflects a deterioration in financial performance compared to FY2024/25, where an operating deficit of R15.6 million was recorded. Accordingly, there is a reasonable expectation that the operating budget may be outperformed.

In compiling the MTREF Case, no adjustments were made to the operating or capital budgets. The collection rate was maintained at 96% throughout the planning period, consistent with the budgeted level. Interest rates on new debt were assumed at 7% above forecast CPI, with an average loan tenor of 10 years. Other key metrics, including repairs and maintenance expenditure, distribution losses and creditor days, were retained at their FY2024/25 levels.

The results of the MTREF Case, as presented in Table 8, indicate a deterioration in liquidity from the current level of 1.58. Financial performance is expected to weaken, with both accounting and operating deficits projected over the MTREF period. This is primarily driven by three factors, namely a substantial reduction in operational grants of 13.5% from FYE2025/26 to FYE2026/27, increased interest expenses of 20.4% associated with higher borrowing levels, and a sharp rise in depreciation of 18.7% due to significant capital investment in recent years. Collectively, these factors result in an outflow of R202.2 million.

However, based on the MTREF Case, George Local Municipality is forecast to recover by FYE2028/29, at which point the first accounting surplus is expected to be realised following the deficits recorded in the preceding years.

Despite the negative short-term outlook for financial performance, the municipality is expected to continue generating healthy cash from operations. A total of R5.1

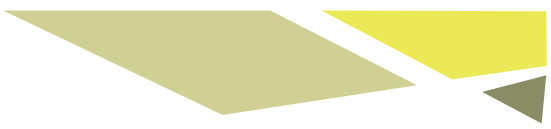
billion in cash is forecast to be generated over the planning period, excluding capital grants. This is supported by a strong budgeted collection rate of 96%. However, it should be noted that this represents a notable increase from the historical level of 93.3% as at FYE2024/25.

Furthermore, recent geopolitical tensions in the Middle East have contributed to rising fuel prices, which are expected to place upward pressure on inflation. In addition, electricity tariffs are budgeted to increase by 11.3%. These factors are likely to place strain on both households and businesses through higher living and operating costs. In particular, increased input costs may affect business profitability, with potential implications for employment levels.

Given that rising living costs and unemployment are typically associated with a higher risk of non-payment, there is a possibility that the targeted collection rate may not be achieved. Accordingly, this risk has been considered within the Scenario Analysis chapter, where a lower collection rate scenario has been assessed.

The cash position is expected to deteriorate significantly over the planning period, despite the relatively strong collection rate previously noted, with the minimum liquidity requirement of two months operating expenditure not being met at any point. This outcome is primarily driven by two factors, namely elevated capital expenditure and high levels of operational spending. Given the importance of capital investment in supporting economic growth and, in turn, long term financial sustainability, it would be prudent to prioritise the reduction of operating expenditure where feasible in order to improve the municipality's liquidity position.

Considering the deterioration in the financial position discussed above, it should be noted that the MTREF Case is considered unaffordable and financially unsustainable. Furthermore, debt indicators suggest that the budgeted borrowing programme is likely to lead to an overleveraged debt profile, particularly from a debt service perspective, which places additional strain on liquidity and further exacerbates the municipality's financial position. A last consideration that merits intervention is periodically increasing levels of trade and other payables. To ensure financial stability over the long term, George LM should seek to achieve a decreasing trajectory.



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 levels of capital spending.

Weaknesses:

- Forecast growth in creditors.
- Deteriorating liquidity position.
- Overleveraged debt profile.
- Inflated operating expenditure

BASE CASE SCENARIO

To develop a realistic Base Case model, the figures from the tabled budget for FY2026/27 to FY2028/29 were utilised, together with the FY2024/25 pre audited figures. As discussed within the MTREF section, the operating budget is considered reasonably conservative, with a decline in financial performance anticipated. However, given historical performance levels and the recent improving trend, such a decline is considered unlikely to fully materialise.

In addressing the key issues identified in the MTREF Case, the Base Case places emphasis on mitigating the risk of an overleveraged debt profile, containing elevated operating expenditure, and managing increasing levels of trade and other payables. In addition, further refinements have been incorporated, including measures to reduce electricity and water losses, the adoption of a more proactive asset management approach through moderately increased allocations to repairs and maintenance, and the reduction of finance cost pressures through the extension of loan tenors.

Key assumptions of the Base Case include:

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 Base Case mirrors the MTREF capital investment programme:
 - a. FY2025/26: R1.23 billion
 - b. FY2026/27: R767.7 million
 - c. FY2027/28: R636.9 million
 - d. FY2028/29: R677.1 millionAssumed 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
 - b. FY2026/27: R500.4 million
 - c. FY2027/28: R382.9 million
 - d. FY2028/29: R150.0 million
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%.

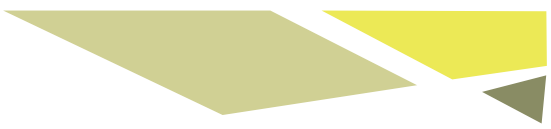
6. Repairs and maintenance expenditure as a % of PPE & IP was increased to 5.0% (from 4.5%) over 5 years and maintained at this level for the remainder of the planning period.
7. Electricity losses reduced to 7%, from 9.73% and while water distribution losses reduced to 20.00% from 24.60% over 5 years.
8. Tariff increases were included as put forward in the Tabled Budget Document for FY2026/27-FY2028/29.
9. Trade and other payables days were reduced from 82 to 45 days, achieved over 10 years, in order to mitigate the forecast rise in creditors in the MTREF Case.
10. A reduction of 2% in operating expenditure.

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.

However, financial performance is still expected to deteriorate over the MTREF period, albeit to a lesser extent than in the MTREF Case. From [GRAPHS 26 AND 28](#), while operating deficits were projected under the MTREF Case, the Base Case allows for the achievement of consistent operating surpluses, although these remain modest over the MTREF period (FY2026/27 to 2028/29) before increasing more substantially thereafter.

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. With the Base Case, a total of R6.9 billion in cash is forecast to be generated by operations over the planning period in comparison to R5.01 billion in the MTREF Case.

It is important to note that the municipality is forecast to experience year on year improvements in cash generation over the planning period, while maintaining creditor balances at a more stable level. This is achieved through the reduction in trade and other payables days assumed in the Base Case, decreasing from 82 to



45 days ([GRAPHS 34 AND 36](#)). As previously highlighted, the progressively increasing days payable represented a key weakness in the MTREF Case and contributed to the projected erosion of liquidity.

The net effect of this intervention is a trade and other payables balance of R450.8 million at the end of the planning period, compared to R834.1 million under the MTREF Case. This strengthens the liquidity position of the LM, resulting in a liquidity ratio of 2.2 at the end of the planning period, compared to 0.8 in the MTREF Case.

Shifting focus to capital investment and the capital funding mix and recognising the importance of capital investment to local economic activity and long-term financial sustainability, the Base Case does not adjust the budgeted capital expenditure programme. However, the capital funding mix requires intervention.

Under the MTREF Case, a borrowing strategy was incorporated that would have resulted in the debt service to total expenditure ratio increasing from 8.3% as at FYE2025/26 to 13.9% by the end of the planning period (FYE2034/35), which is well above the National Treasury benchmark of 8%.

Accordingly, the Base Case incorporates a reduction in borrowing within the final year of the MTREF period (FYE2028/29) and beyond, resulting in a cumulative decrease in borrowing of R1.96 billion over the planning horizon. This adjustment brings the debt service to total expenditure ratio down to 7.5% by the end of the planning period, thereby aligning it more closely with recommended benchmarks, as illustrated in [GRAPHS 52 AND 54](#) in the affordable future capital investment chapter.

Noting the recent capital investment undergone by the LM, the Base Case incorporates a prudent increase in spending allocated to repairs and maintained of assets. As per the Base case, graphically illustrated on [GRAPH 29](#), total spending to repairs and maintenance has been increased to reflect a repairs and maintenance expenditure to PPE & IP ratio of 5%, where previously 4.5% under the MTREF Case. The more pro-active asset management strategy is targeted complimenting service delivery within the LM's which in turn promotes growth.

Noting the increase in expenditure and the reduction in borrowing, the Base Case incorporates a 2% reduction in operating expenditure to offset the increased reliance

on cash reserves. These reductions are strategically targeted at areas such as contracted services, other expenses, and transfers and subsidies, while key cost drivers such as employee related costs and bulk purchases remain unaffected. However, the Base Case does assume a reduction in electricity and water losses to further reduce operating costs, as previously specified.

The net result of the previously mentioned adjustments is a position where the LM remains above the two-month liquidity requirement throughout the MTREF period and achieves a significant increase in cash reserves over the planning horizon. Cash reserves are projected to increase from R721.4 million as at FYE2025/26 to R1.6 billion by FYE2034/35. In contrast, under the MTREF Case, cash reserves would remain below the two-month minimum requirement and reach only R646 million by the end of the planning period.

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.

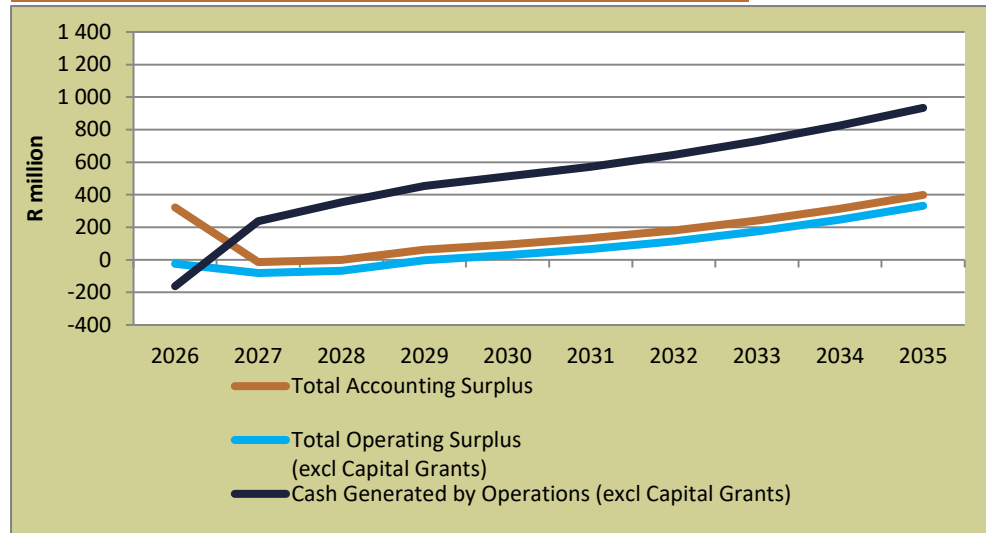
Weaknesses:

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

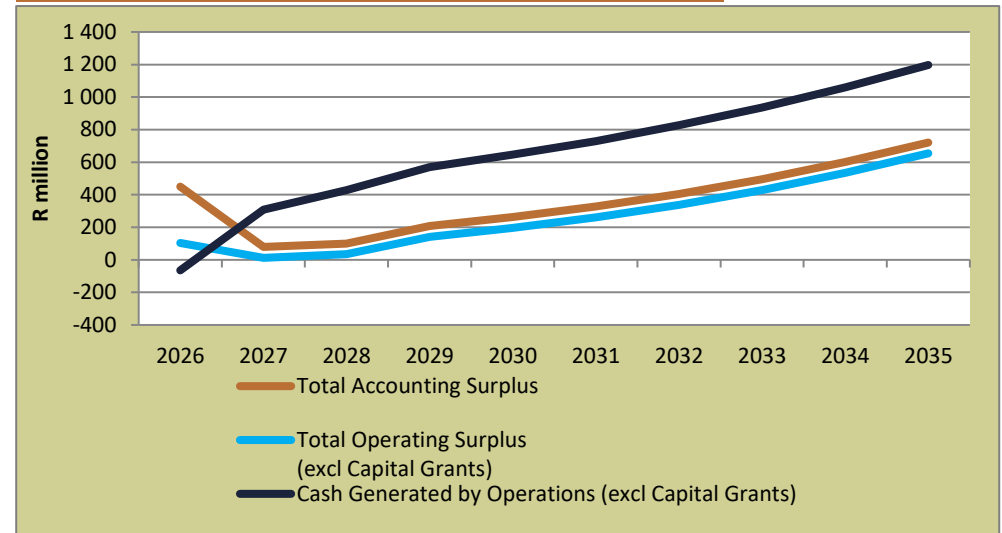
TABLE 8: MTREF CASE VS BASE CASE OUTCOMES

Outcome	MTREF Case	Base Case
Average annual % increase in Revenue	5,3%	5,4%
Average annual % increase in Expenditure	7,3%	6,9%
Accounting Surplus accumulated during Planning Period (Rm)	R 1 721	R 3 902
Operating Surplus accumulated during Planning Period (Rm)	R 777	R 2 957
Cash generated by Operations during Planning Period (Rm)	R 5 094	R 6 890
Average annual increase in Gross Consumer Debtors	11,2%	11,0%
Capital investment programme during Planning Period (Rm) (FY2026/27 – FY2035/36)	R 8 119	R 8 119
External Loan Financing during Planning Period (Rm) (FY2026/27 – FY2035/36)	R 4 553	R 2 266
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 646	R 1 595
No of Months Cash Cover at the end of the Planning Period (Rm)	1,3	3,4
Liquidity Ratio at the end of the Planning Period	0,8 : 1	2,2 : 1
Gearing at the end of the Planning Period	33,4%	21,4%
Debt Service to Total Expense Ratio at the end of the Planning Period	13,6%	7,6%

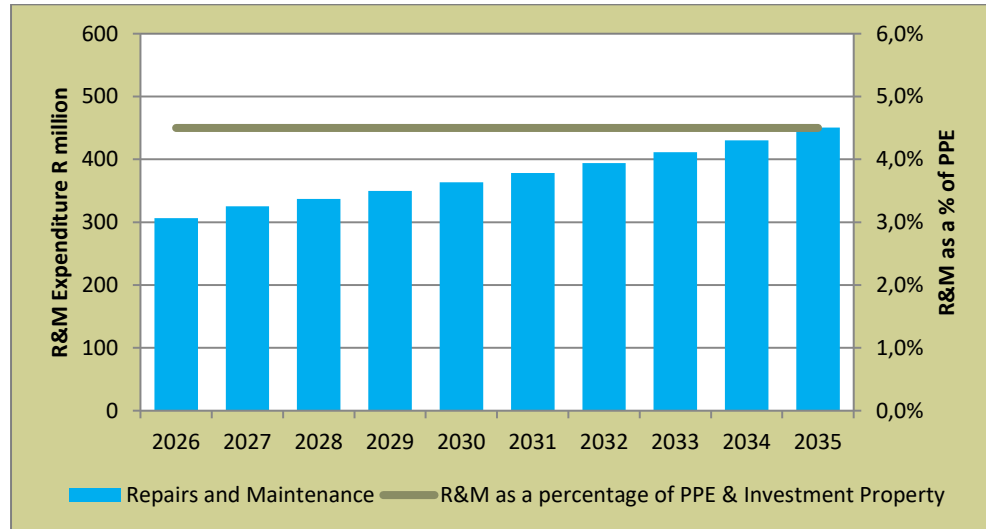
GRAPH 26: MTREF CASE SCENARIO: ANALYSIS OF SURPLUS



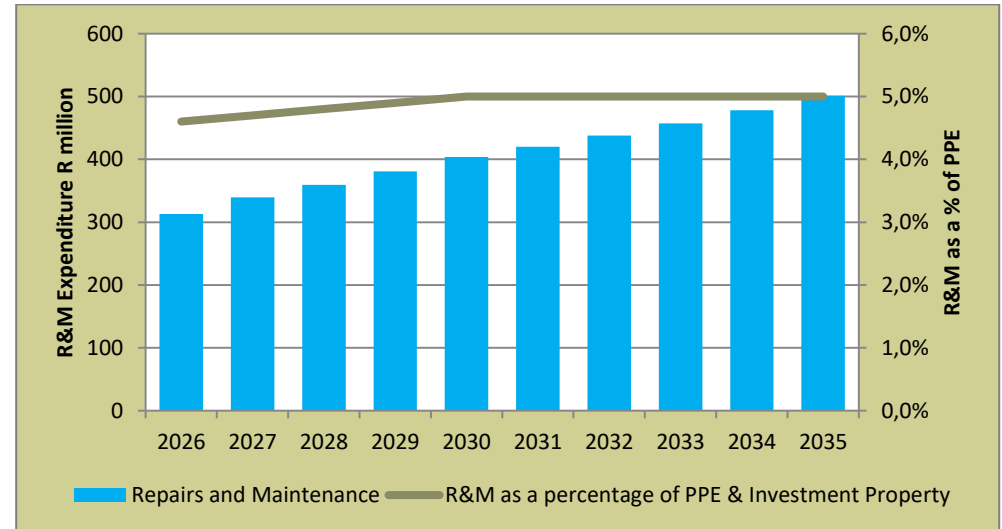
GRAPH 28: BASE CASE SCENARIO: ANALYSIS OF SURPLUS



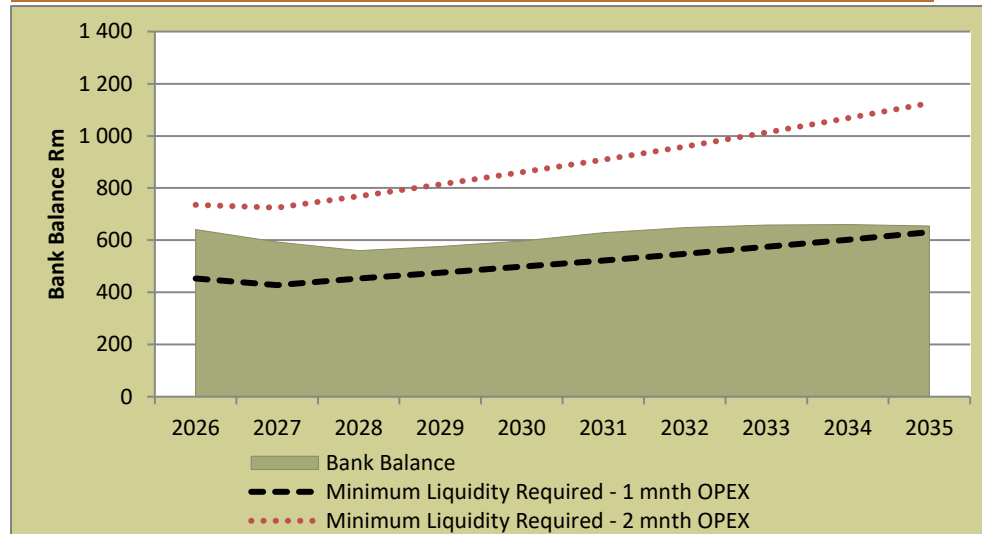
GRAPH 27: MTREF CASE SCENARIO: R&M EXPENDITURE TO PPE & IP



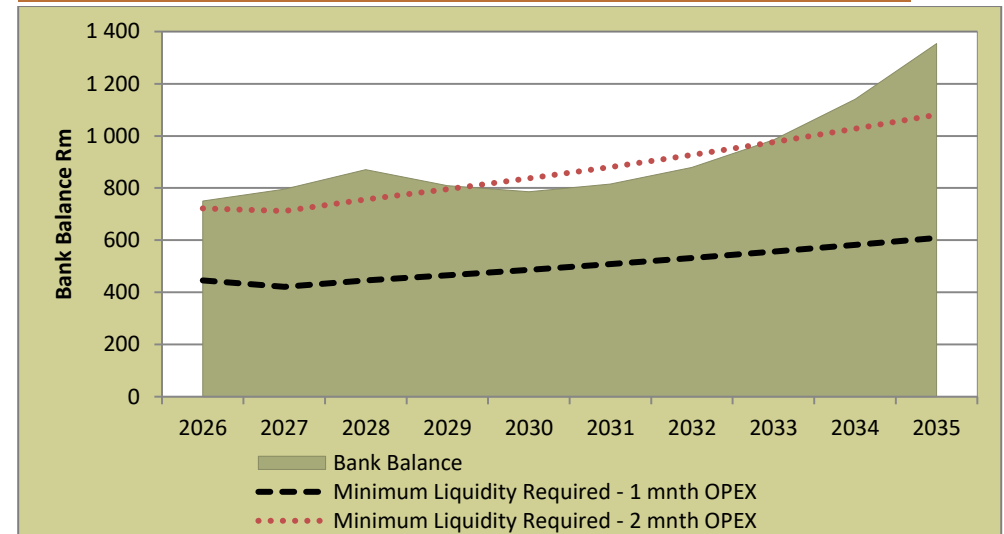
GRAPH 29: BASE CASE SCENARIO: R&M EXPENDITURE TO PPE & IP



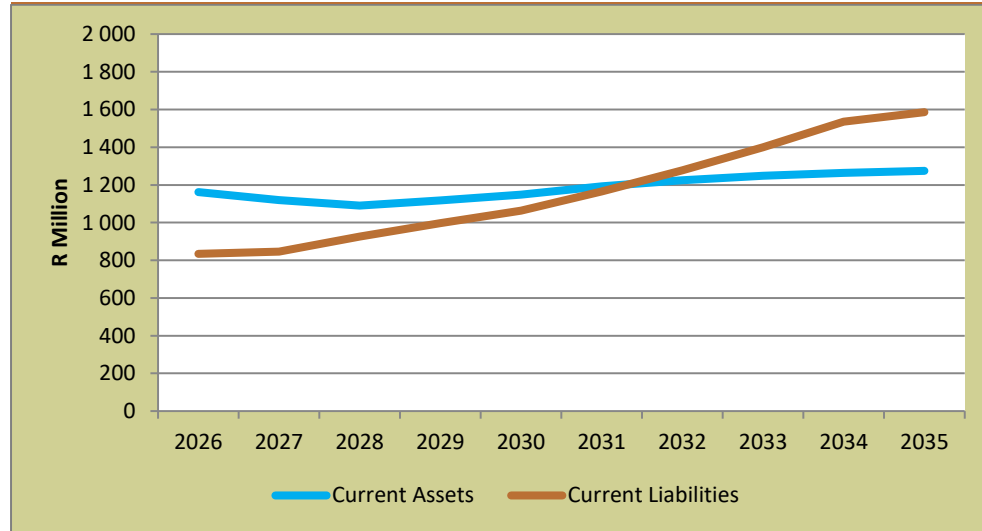
GRAPH 30: MTREF CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY



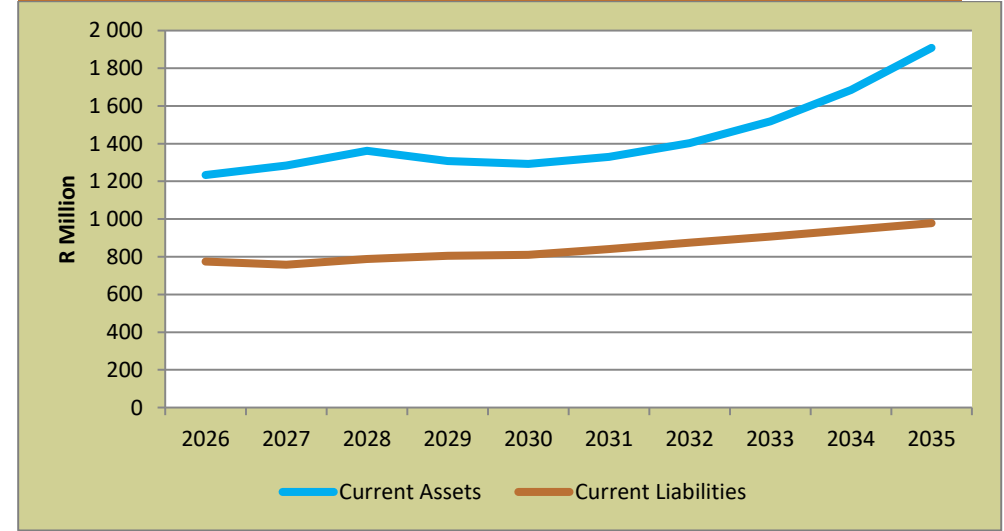
GRAPH 32: BASE CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY



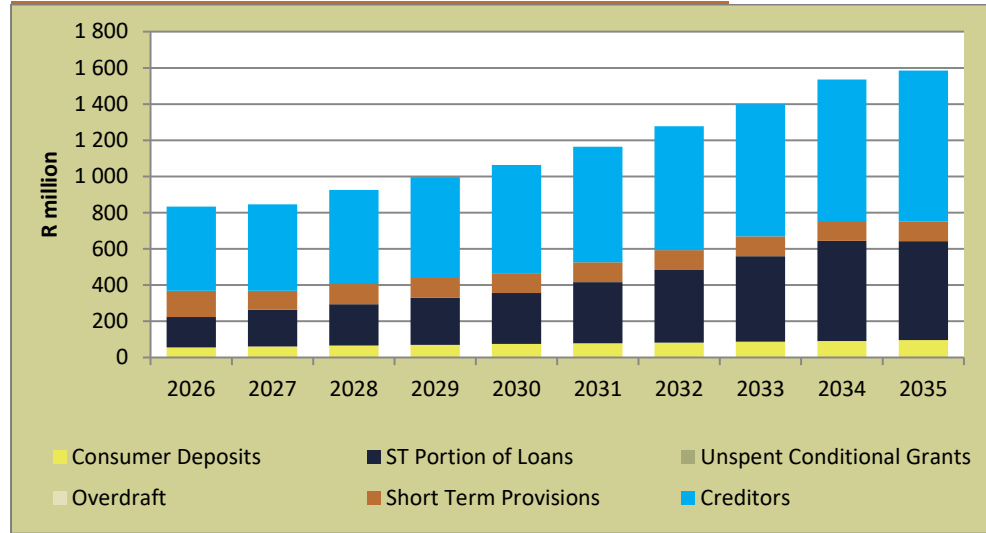
GRAPH 31: MTREF CASE SCENARIO: CURRENT ASSETS VS CURRENT LIABILITIES



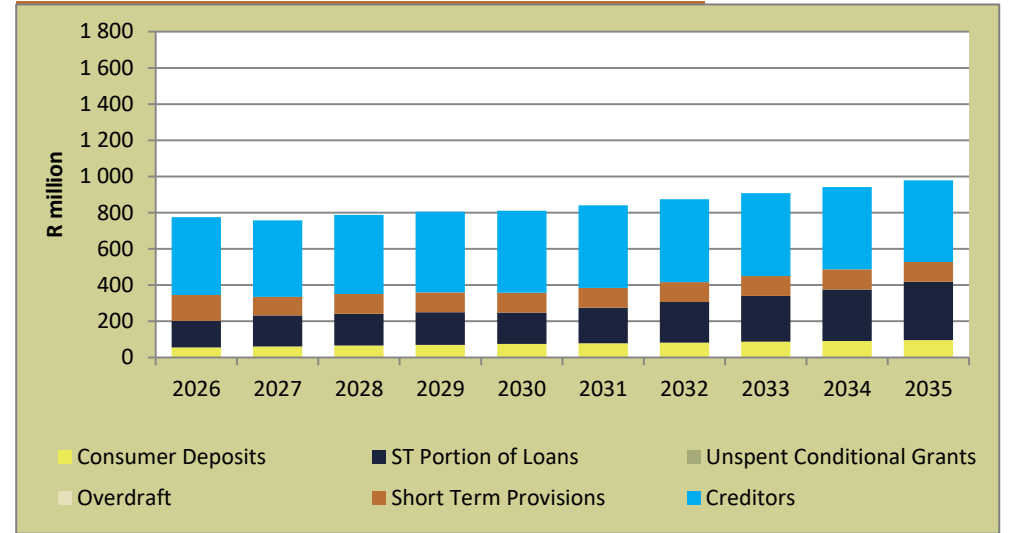
GRAPH 33: BASE CASE SCENARIO: CURRENT ASSETS VS CURRENT LIABILITIES



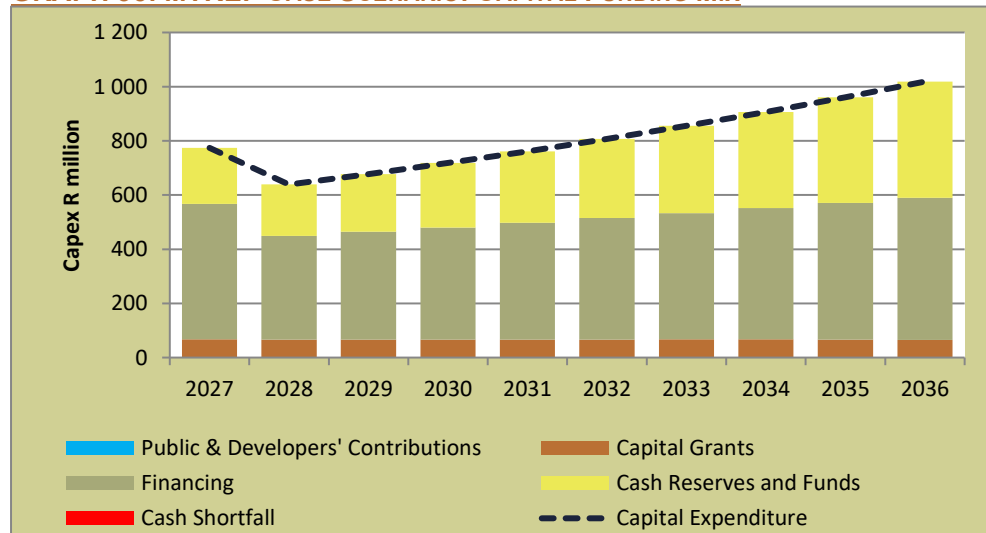
GRAPH 34: MTREF CASE SCENARIO: CURRENT LIABILITIES



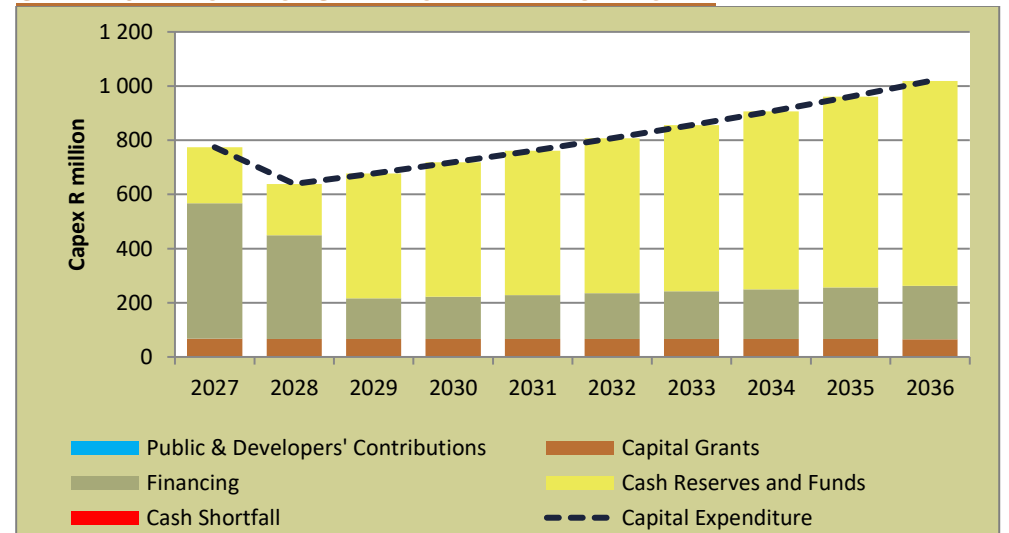
GRAPH 36: BASE CASE SCENARIO: CURRENT LIABILITIES

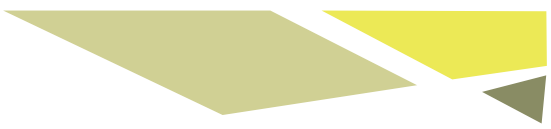


GRAPH 35: MTREF CASE SCENARIO: CAPITAL FUNDING MIX



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

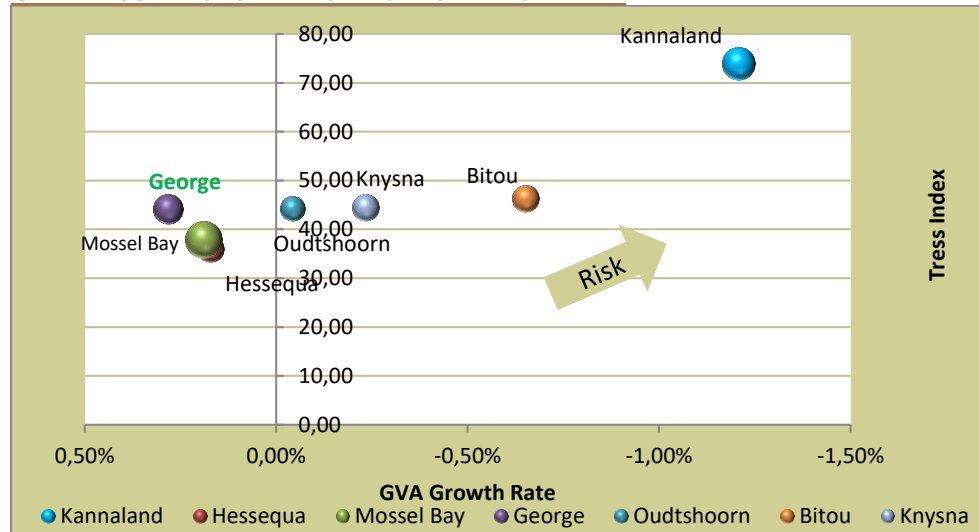
8 Ratio Analysis

9 Conclusions

FUTURE REVENUES

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

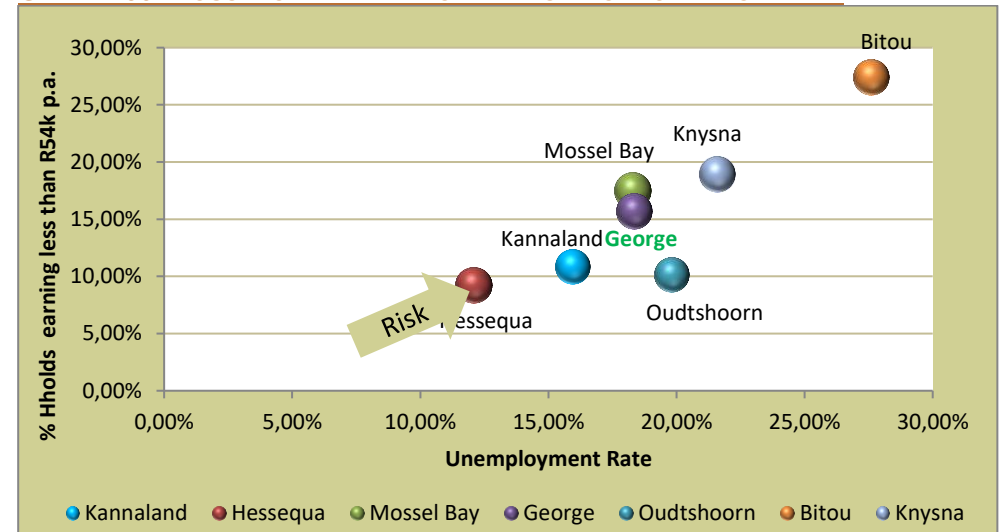
GRAPH 38: ECONOMIC RISK COMPONENT OF MRRI



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.

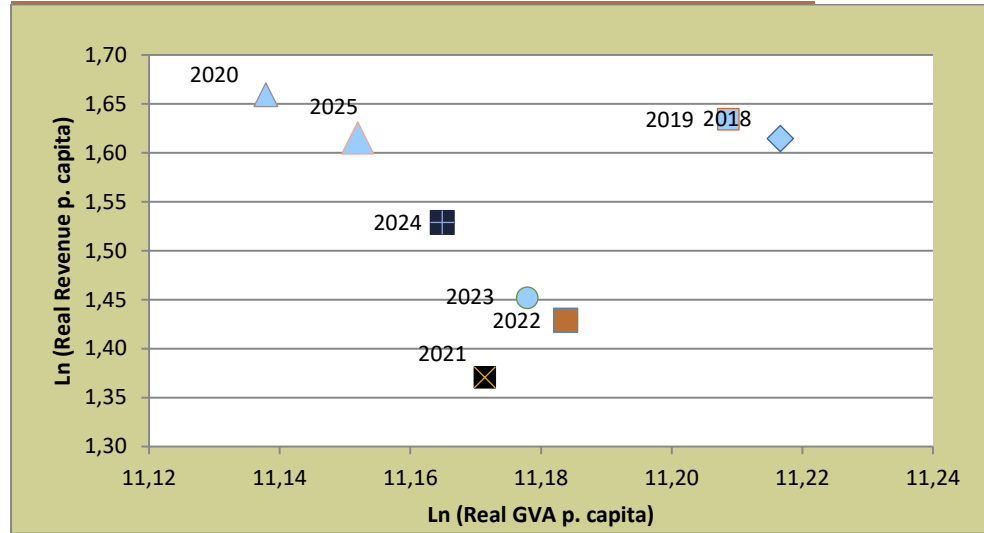
GRAPH 39: HOUSEHOLD ABILITY TO PAY RISK COMPONENT OF MRRI



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

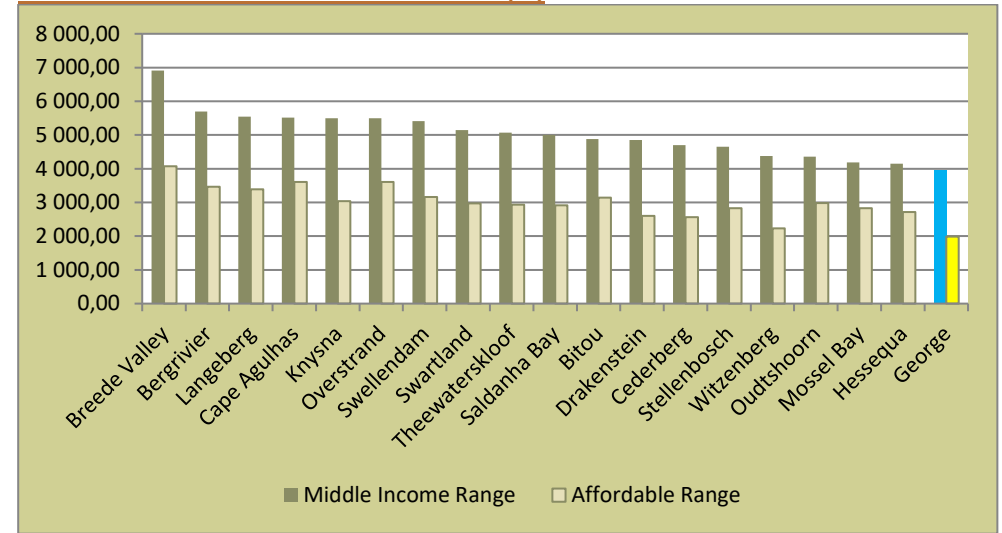


Real municipal revenue (excluding capital transfers) per capita reflected volatility over the review period, with a notable decline in 2021 from the review period peak in 2020. Thereafter, steady growth has been observed with year-on-year improvements noted with 2025 approaching the historic peak.

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.

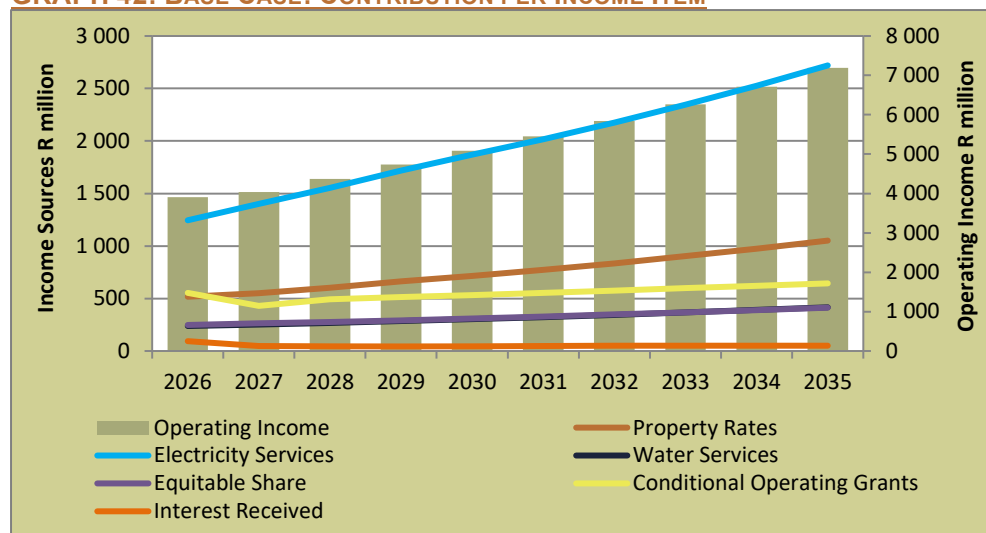
GRAPH 41: AVERAGE HOUSEHOLD BILL (R)



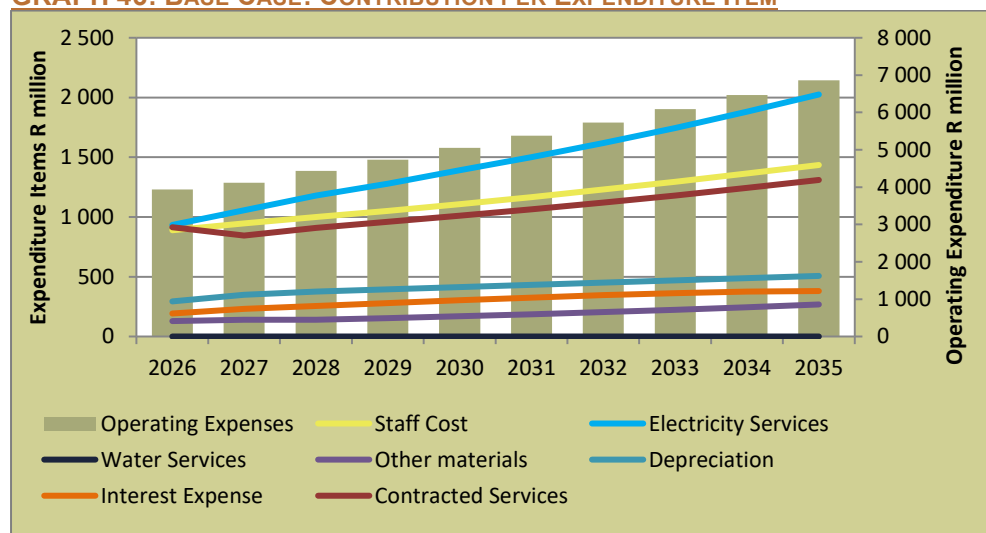
A comparison of the average household bill for the middle income and affordable income range of a selected number of municipalities in the Western Cape province (extracted from Budget Table: SA14) based on the 2025/26 tariffs, reveals that George LM features in the lower half of the range. Considering the level of service provided by George LM and the size of the municipality, the current household bill is 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

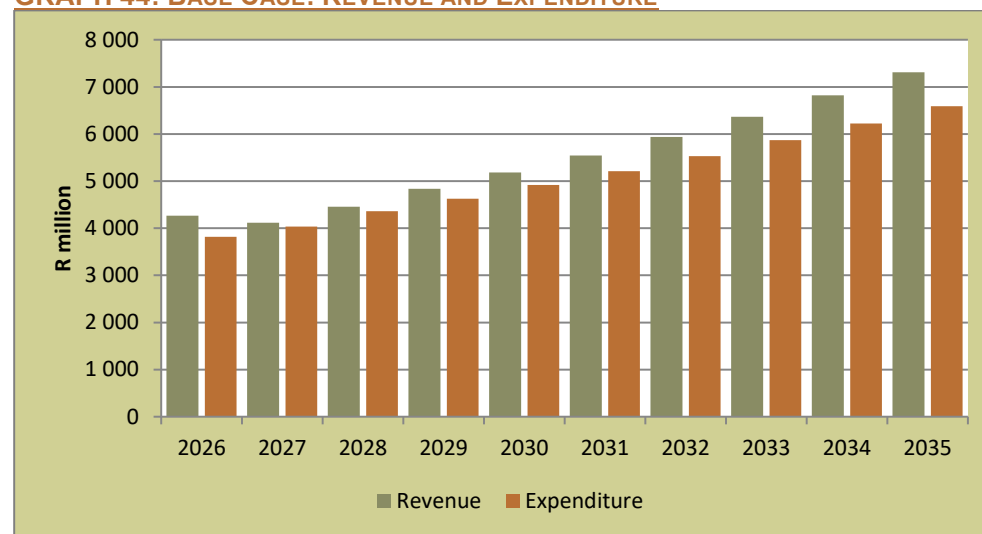
GRAPH 42: BASE CASE: CONTRIBUTION PER INCOME ITEM



GRAPH 43: BASE CASE: CONTRIBUTION PER EXPENDITURE ITEM



GRAPH 44: BASE CASE: REVENUE AND EXPENDITURE



Future nominal expenditure is projected to grow at an average rate of 6.9% over the same period. It should be noted that, relative to the MTREF Case, the Base Case reflects slightly higher revenue growth of 6.4% compared to 6.3%, together with lower expenditure growth of 6.9% compared to 7.3%.

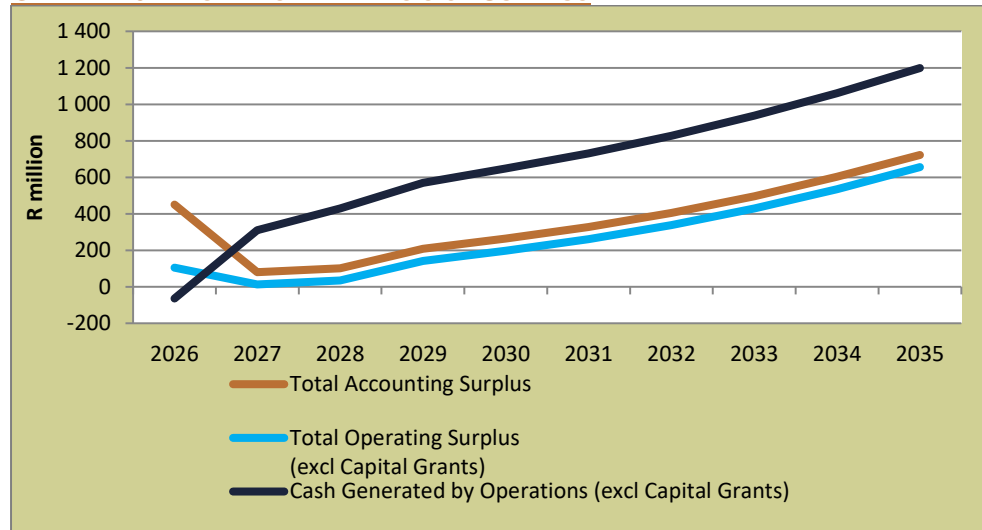
As at FYE2025/26, electricity services are forecast to remain the primary revenue source for the municipality, contributing 31.8% of total revenue. This is followed by conditional operating grants at 14.1%. Thereafter, property rates emerge as the second largest contributor, accounting for 13.2% of revenue from FYE2025/26 onwards.

On the expenditure side, electricity bulk purchases remain the largest cost component at 23.7%, followed closely by contracted services at 23.3%, and employee related costs at 22.6%. Although the level of spending on contracted services is elevated, significantly exceeding the National Treasury benchmark of 2% to 5%, it should be noted that of the total R742.1 million allocated to contracted services, R283.4 million, or 38.1%, is directly attributable to the GIPTN project facilitated by the LM.

However, even when excluding expenditure related to the GIPTN project, spending on contracted services remains above the recommended benchmark. Accordingly, there may be scope to review and rationalise expenditure within this category as part of efforts to reduce overall operating costs.

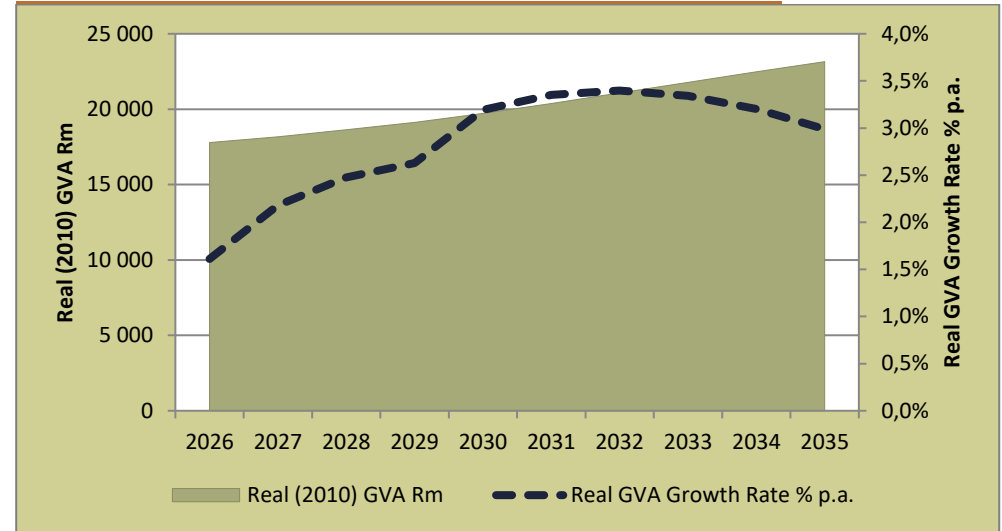
With the previously mention in mind, the analysis of Surplus (GRAPH 45) below indicates that George is forecasted to post operating surpluses throughout the planning period, with the exception of cash generated from operations as at FYE2025/26, which as previously discussed is attributed to a substantial unspent conditional grant.

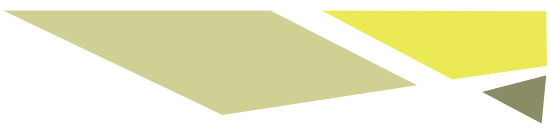
GRAPH 45: BASE CASE: ANALYSIS OF SURPLUS



Real GVA per capita is forecast to increase from 1.61% (2026) to 2.71% (2036) over the planning period, from R17 787 p.a. in 2026 to R23 780 in 2036. The growth of the local economy is crucial for the municipality, as it directly impacts its ability to generate revenue (MRR). 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 46: PROJECTED REAL GVA AND REVENUES PER CAPITA





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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8 Ratio Analysis

9 Conclusions

AFFORDABLE FUTURE CAPITAL INVESTMENT

CAPEX AFFORDABILITY AND FUNDING

The total affordable capital envelope was calculated at R8 12 billion 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 8.12 billion
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MTREF CAPITAL FUNDING MIX

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

R'm	Total	2026/27	2027/28	2028/29
Public & Developers Contributions	0	0	0	0
Capital Grants	200	67	66	66
Financing	1 033	500	383	150
Cash Reserves and Funds	857	206	190	461
Total	2 090	774	639	678

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

R'm	Total	2026/27	2027/28	2028/29
Public & Developers Contributions	0	0	0	0
Capital Grants	200	67	66	66
Financing	1 282	500	383	398
Cash Reserves and Funds	609	206	190	213
Total	2 090	774	639	678

10-YEAR CAPITAL FUNDING MIX

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

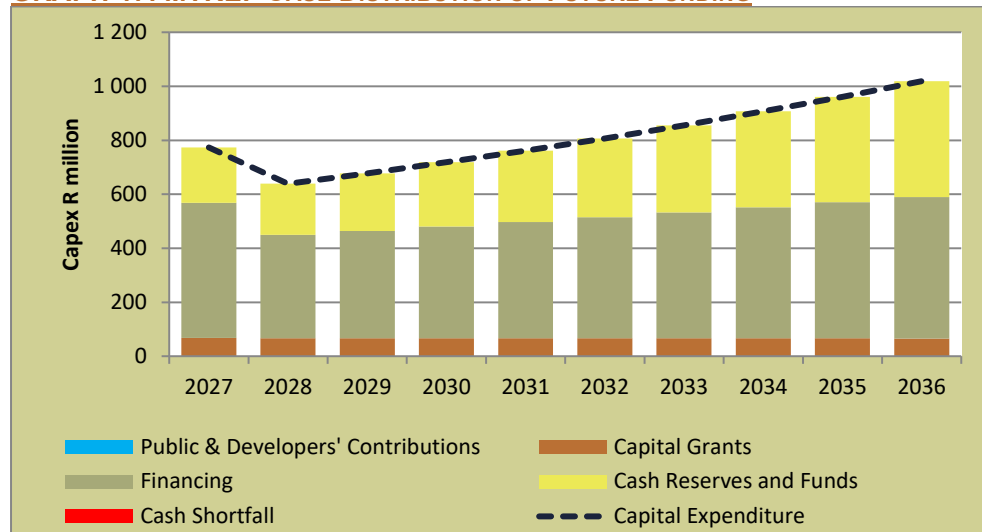
Source	Rm	%
Public & Developers' Contributions	0	0 %
Capital Grants	665	8.2 %
Financing	2 266	27.9 %
Cash Reserves and Funds	5 189	63.9 %
Cash Shortfall	0	0 %
Capital Expenditure	8 119	100 %

As per the recommendation provided by the Base Case to reduce the levels of borrowing over the planning horizon, as previously discussed, the Base Case reduced the level of borrowing within in the final year of the MTREF period and beyond, whilst still mirroring the capital spending plan proposed within the tabled budget. As per the table above, financing is recommended to account for 27.9% of the capital funding mix over the planning horizon, apposed to 56.1% under the MTREF Case.

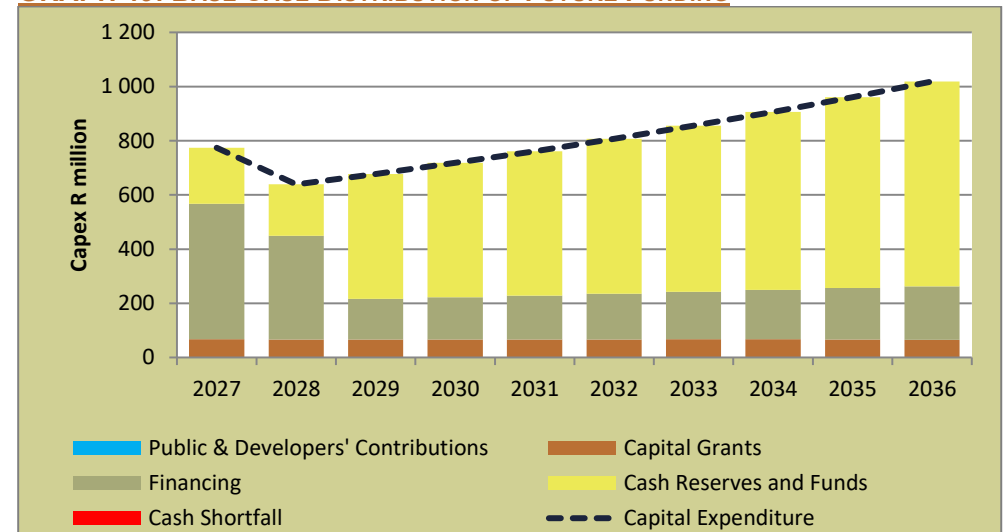
The recommendations outlined in the Base Case are visually presented in the proceeding [GRAPHS 47 AND 48](#), together with [TABLES 13 AND 14](#) that follow. These reflect identical levels of capital expenditure. However, within the Base Case, this is supported through a greater reliance on cash reserves and a reduced dependence on borrowings. From these illustrations, it should be noted that despite the increased use of cash reserves, which reduces overall cash balances, no cash shortfall is projected over the planning period.

Moreover, when considered alongside other interventions incorporated in the Base Case, such as a 2% reduction in operating expenditure and reduced electricity and water losses, the LM's cash reserves are projected to remain higher throughout the planning period compared to the MTREF Case. In practical terms, if the LM applies greater financial discipline in managing operating expenditure and reducing losses, sufficient cash reserves can be generated to fund the required capital expenditure while simultaneously strengthening the overall cash position.

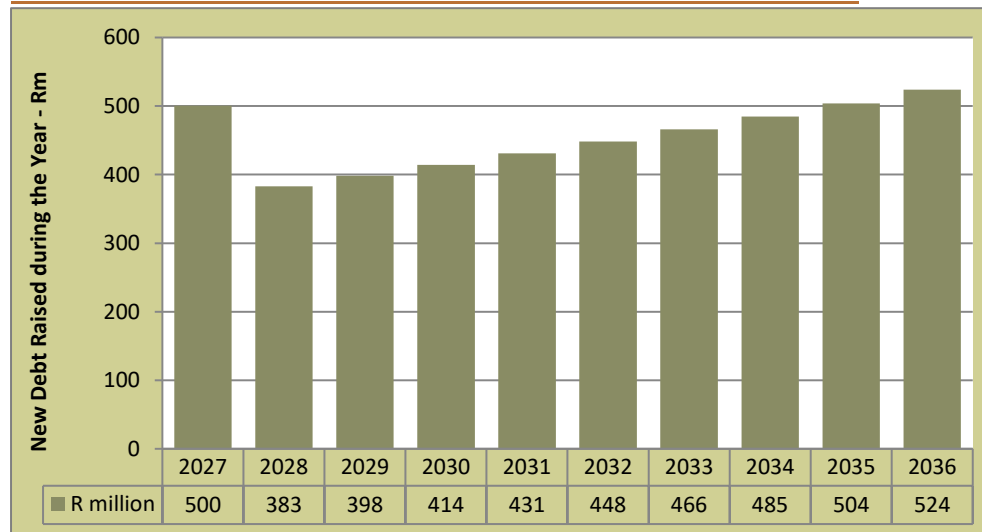
GRAPH 47: MTREF CASE DISTRIBUTION OF FUTURE FUNDING



GRAPH 49: BASE CASE DISTRIBUTION OF FUTURE FUNDING



GRAPH 48: MTREF CASE ESTIMATE OF FUTURE EXTERNAL FINANCING



GRAPH 50: BASE CASE ESTIMATE OF FUTURE EXTERNAL FINANCING

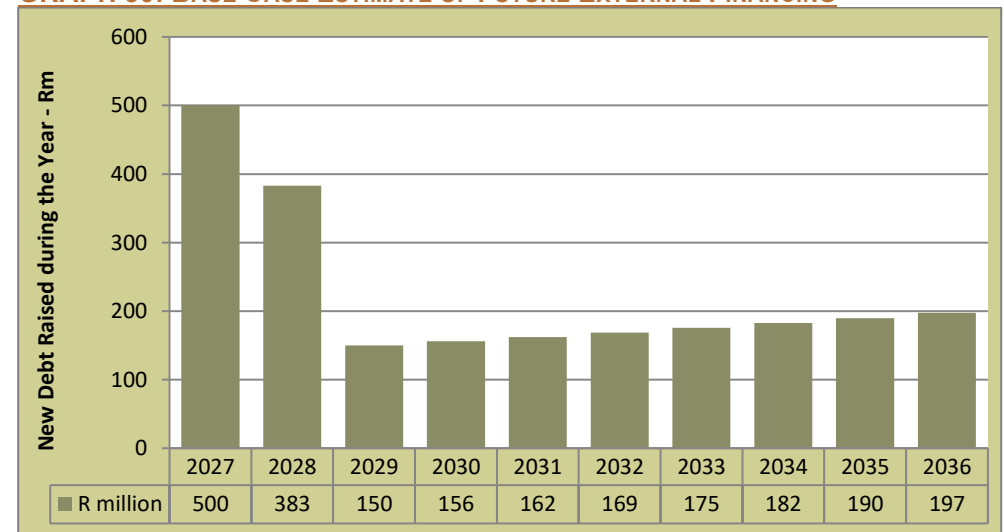


TABLE 13: MTREF CASE DISTRIBUTION OF FUTURE CAPITAL FUNDING (R'M)

R'm	Total	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Public & Developers' Contributions	0	0	0	0	0	0	0	0	0	0	0
Capital Grants	665	67	66	66	66	66	67	67	67	66	65
Financing	4 554	500	383	398	414	431	448	466	485	504	524
Cash Reserves and Funds	2 901	206	190	213	238	264	292	323	355	391	429
Cash Shortfall	0	0	0	0	0	0	0	0	0	0	0
Capital Expenditure	8 119	774	639	678	718	761	807	855	907	961	1 019

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

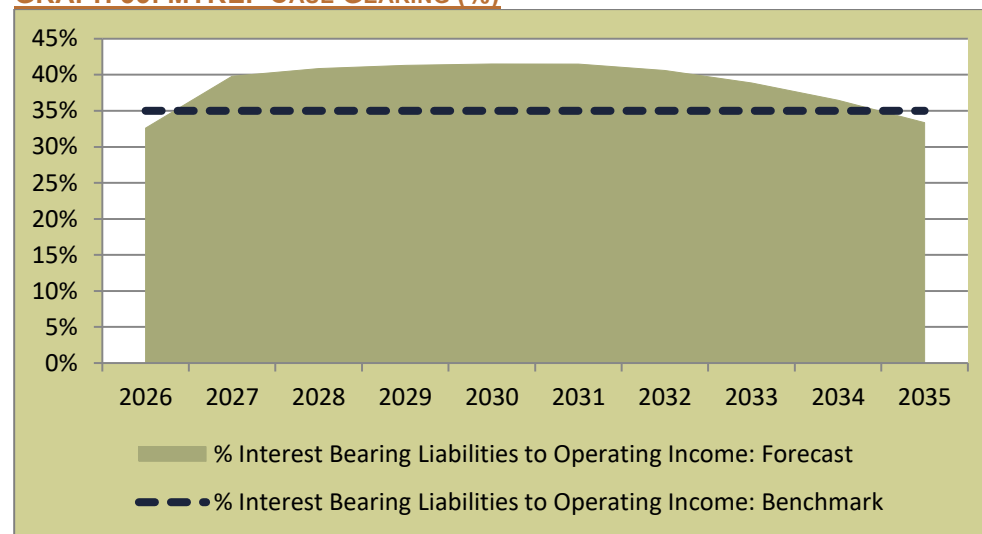
R'm	Total	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Public & Developers' Contributions	0	0	0	0	0	0	0	0	0	0	0
Capital Grants	665	67	66	66	66	66	67	67	67	66	65
Financing	2 266	500	383	150	156	162	169	175	182	190	197
Cash Reserves and Funds	5 189	206	190	461	496	533	572	613	657	705	756
Cash Shortfall	0	0	0	0	0	0	0	0	0	0	0
Capital Expenditure	8 119	774	639	678	718	761	807	855	907	961	1 019

GEARING

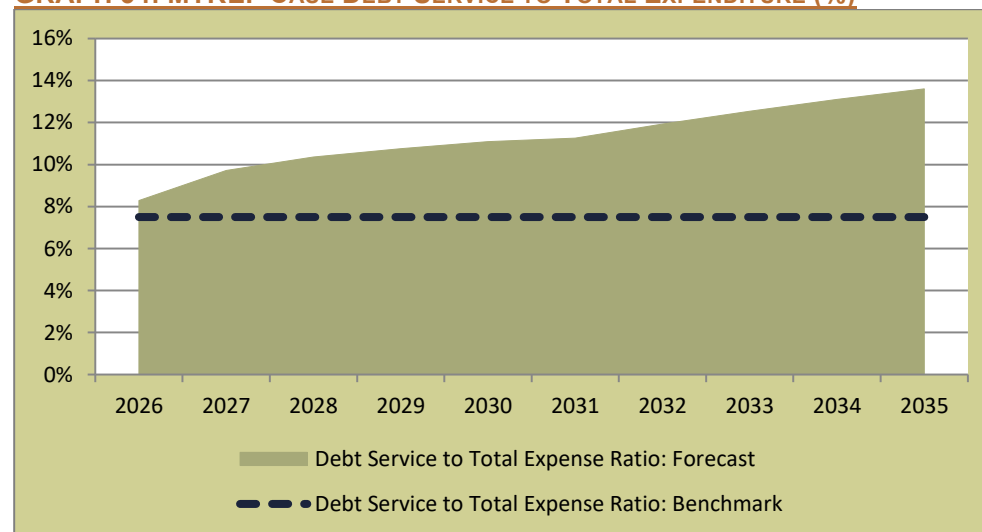
The primary reason for the Base Case recommendation to reduce borrowing is directly linked to the gearing ratio and the debt service to expenditure ratio observed under the MTREF Case. As illustrated in the graphs that follow, if borrowing is implemented as projected in the MTREF Case, the model forecasts the gearing ratio to exceed the recommended benchmark of 35% for the majority of the planning period.

Furthermore, the debt service to expenditure ratio is projected to increase periodically to levels well above the recommended benchmark of 7.5% over the planning horizon, thereby placing additional strain on the municipality's financial position.

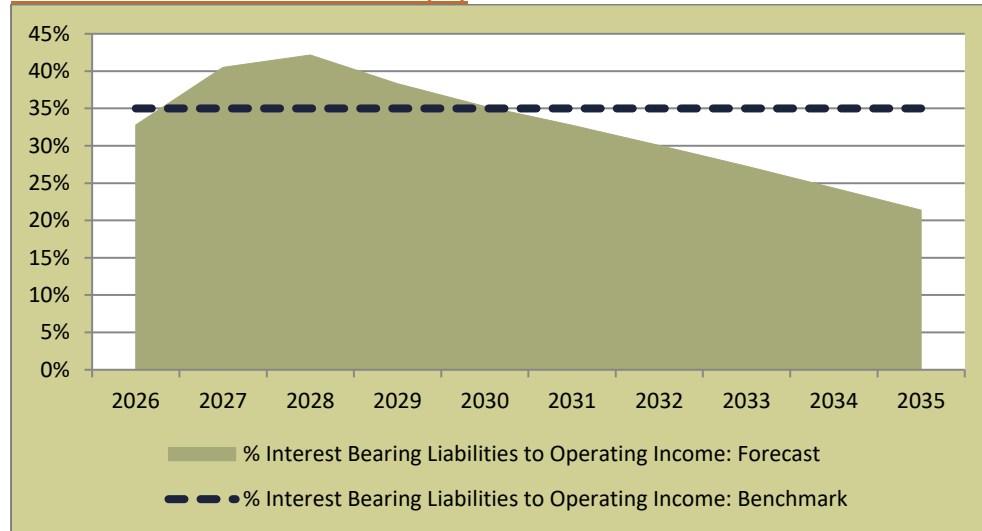
GRAPH 53: MTREF CASE GEARING (%)



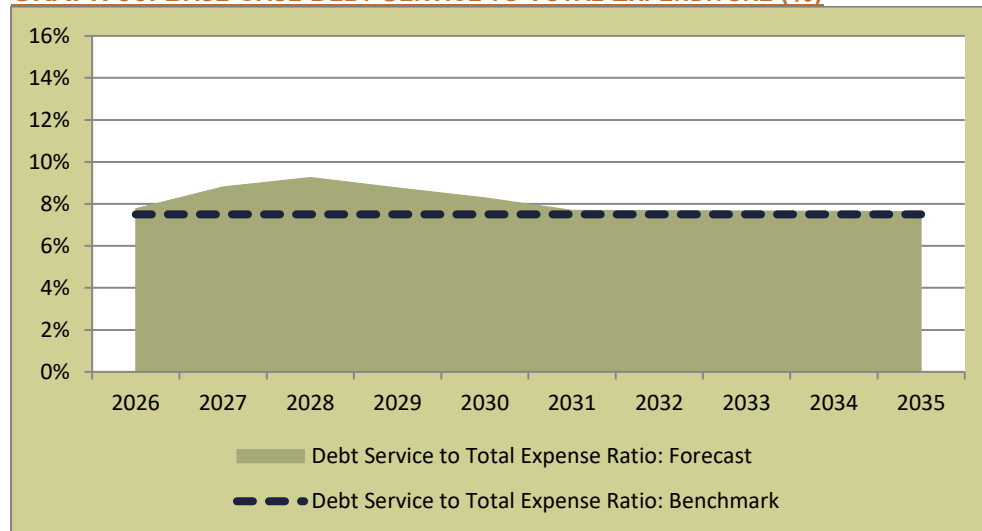
GRAPH 54: MTREF CASE DEBT SERVICE TO TOTAL EXPENDITURE (%)



GRAPH 55: BASE CASE GEARING (%)



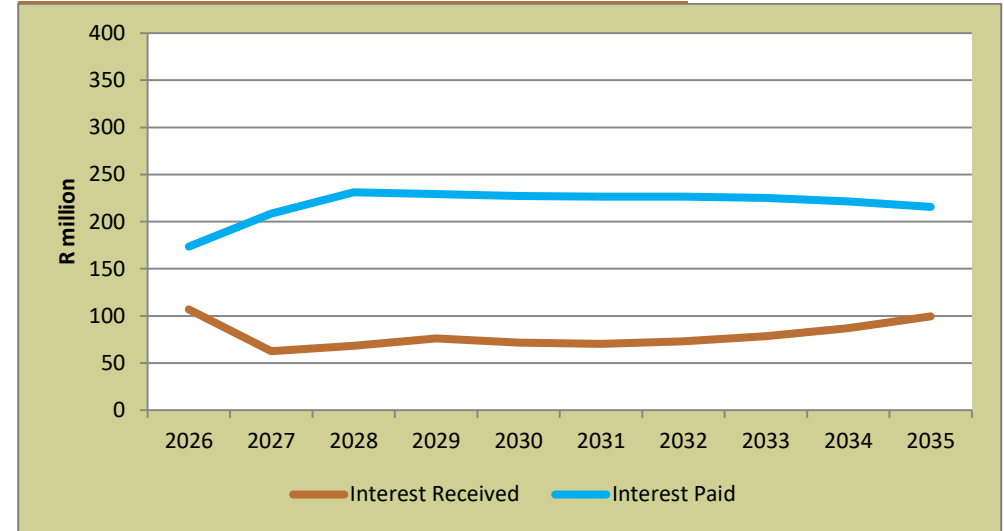
GRAPH 56: BASE CASE DEBT SERVICE TO TOTAL EXPENDITURE (%)



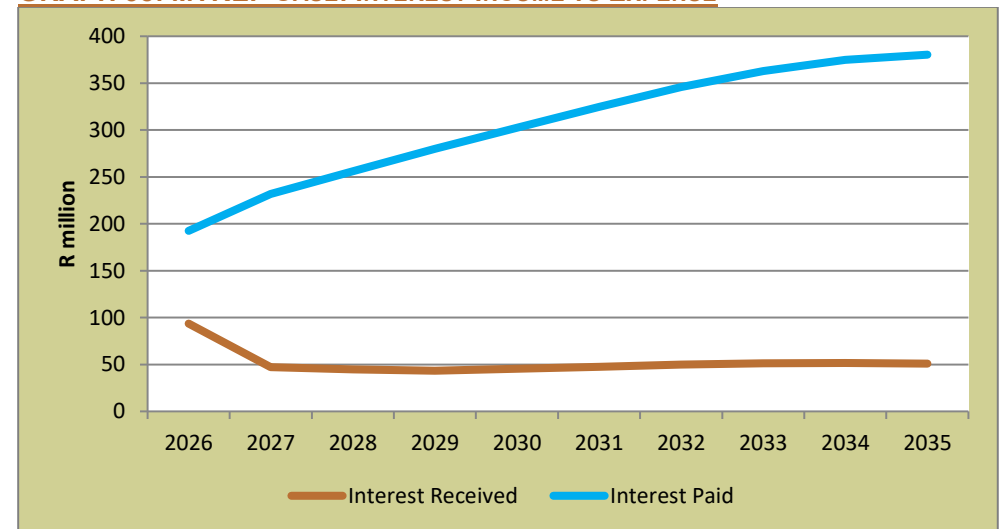
When considering the outcomes of the Base Case, as illustrated in Graphs 55 and 56, the impact of the reduced borrowing strategy is evident. The model forecasts the gearing ratio to decline progressively from FYE2028/29, falling below the recommended benchmark of 25% by FYE2029/30.

In addition, the debt service to total expenditure ratio stabilises at 7.5% by FYE2030/31. To provide further context, the following graphs present a comparison of interest income and interest expenditure between the Base Case and the MTREF Case.

GRAPH 57: BASE CASE: INTEREST INCOME VS EXPENSE



GRAPH 58: MTREF CASE: INTEREST INCOME VS EXPENSE

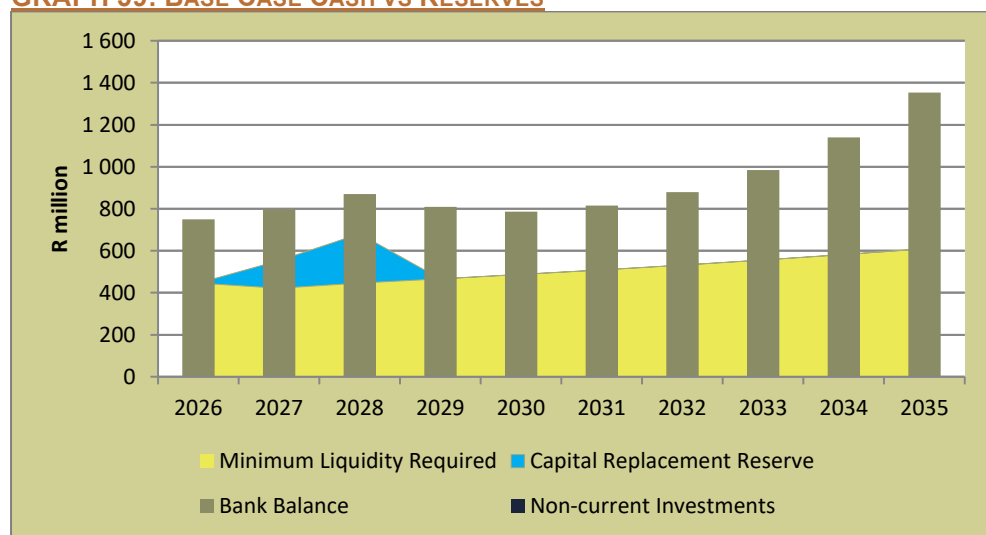


LIQUIDITY AND CAPITAL REPLACEMENT RESERVE

It is prudent for a local municipality to establish and maintain a Capital Replacement Reserve (CRR) to systematically fund infrastructure renewal and asset replacement over the long term.

Municipal assets such as roads, water networks, electricity infrastructure and community facilities deteriorate over time, and failure to plan for their replacement can lead to service disruptions, negatively affecting the local economy and the municipality's financial position. By accumulating funds annually in a dedicated reserve, the municipality enhances financial sustainability, reduces reliance on debt financing for unplanned expenditures or the replacement of assets, and in so doing, ensures reliable service delivery while maintaining a stronger cash position.

GRAPH 59: BASE CASE CASH VS RESERVES



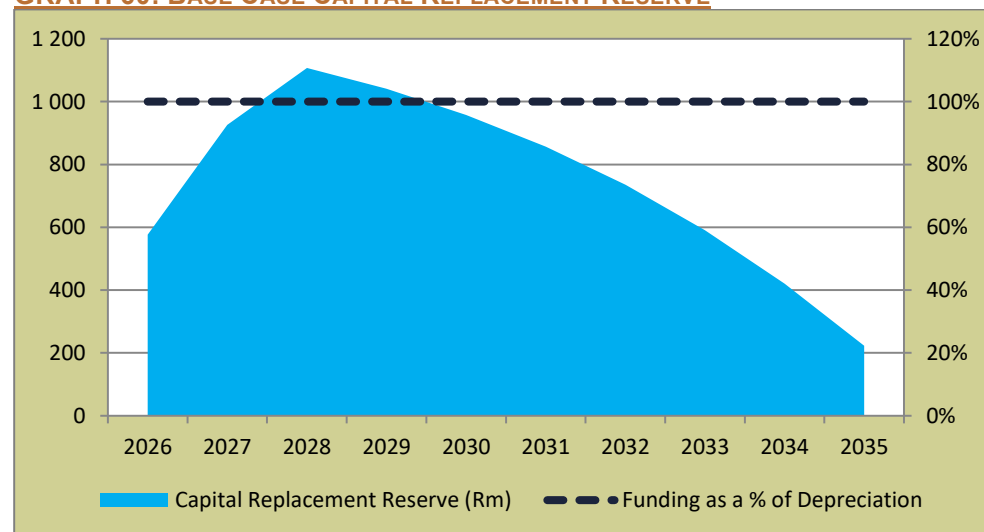
The first priority for a local municipality before considering the establishment of a Capital Replacement Reserve is to assess whether the current cash position is sufficient to meet the minimum liquidity requirements of the municipality, as indicated by the yellow bar in the graph above.

The minimum liquidity levels account for unspent conditional grants, cash-backed reserves, short-term provisions and one month's working capital (operating

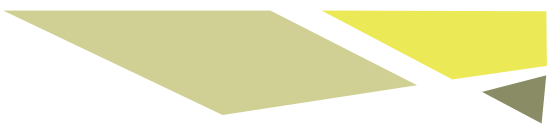
expenditure). As shown in the graph, the results of the Base Case indicate that the municipality's cash position, represented by the green bar, far exceeds the minimum liquidity requirement.

A prudent and logical approach to asset replacement would be to allocate funds to the reserve equivalent to the calculated depreciation, ensuring that sufficient funds are available to replace assets when they reach the end of their useful life.

GRAPH 60: BASE CASE CAPITAL REPLACEMENT RESERVE



The key observation from the graph above is the movement of the dotted line, which illustrates whether the municipality can afford to allocate 100 percent of its depreciation value to the CRR while first prioritising the minimum liquidity requirement. If the line deviates from the 100 percent mark, it indicates that in that financial year, the minimum liquidity requirement took precedence over the CRR allocation. As shown in the graph, based on the recommendations of the Base Case, George is expected to not be able to adequately fund a Capital Replacement Reserve while maintaining sufficient cash reserves to meet its minimum liquidity requirements.



1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

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SCENARIOS ANALYSIS

Considering our analysis of the Tabled Budget and the risks identified as part of this update, the following scenarios were run to indicate the potential outcomes. 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.

SCENARIO 1: REDUCED COLLECTION RATE (94%)

As previously noted, geopolitical tensions in the Middle East have contributed to recent increases in fuel prices, which are expected to place upward pressure on inflation. In addition, electricity tariffs are budgeted to increase by 11.3%, further compounding cost pressures within the economy. The combined effect of these developments is likely to place additional financial strain on both households and businesses through higher living and operating costs. For businesses in particular, increased input costs may place pressure on profitability, with potential implications for employment levels.

In this context, deteriorating affordability conditions and rising unemployment are typically associated with a higher risk of nonpayment. As a result, there is a reasonable likelihood that the municipality may not fully achieve its targeted collection rate. This risk is therefore assessed through a sensitivity scenario in which the collection rate is assumed to remain at 94% over the planning period.

The reduced collection rate is forecast to result in a deterioration in financial performance and cash generation. This is reflected in a lower accumulated operating surplus compared to the Base Case, as well as a reduction of R1 billion in cash generated from operations over the planning period. This translates into a notable decrease in the projected closing bank balance of R595 million, compared to R1.6 billion in the Base Case, thereby weakening the liquidity position to 1.2, as opposed to 2.2 in the Base Case. The extent of this decline is illustrated in the graphs below, with the minimum liquidity requirement of one-months operating expenditure not being met between FY2030/31 and FY2034/35. Further to this, cash shortfalls on the Base Case capital investment programme are forecast from FY2030/31 onwards. This would result in a minimum reduction of R803 million in the Base Case affordable capital envelope. In order to maintain adequate levels of liquidity, the required reduction of the affordable envelope is likely to be far higher.

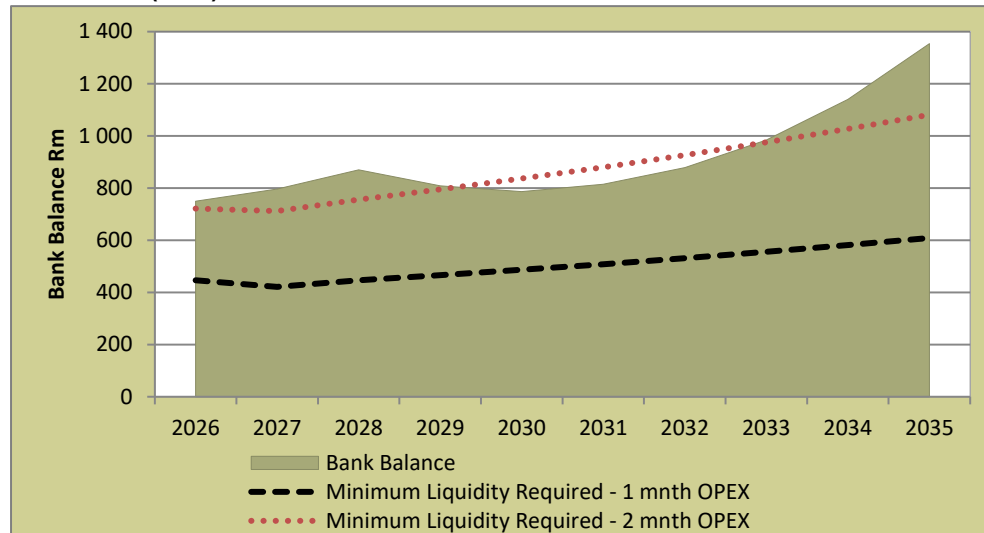
The outcomes of this scenario highlight the importance of achieving the targeted collection rate of 96%. While the budget reflects confidence in attaining this level, failure to do so would likely necessitate a more conservative approach to capital investment and borrowing or alternatively require the implementation of further operational cost containment measures.

TABLE 15: SCENARIO 1: REDUCED COLLECTION RATE

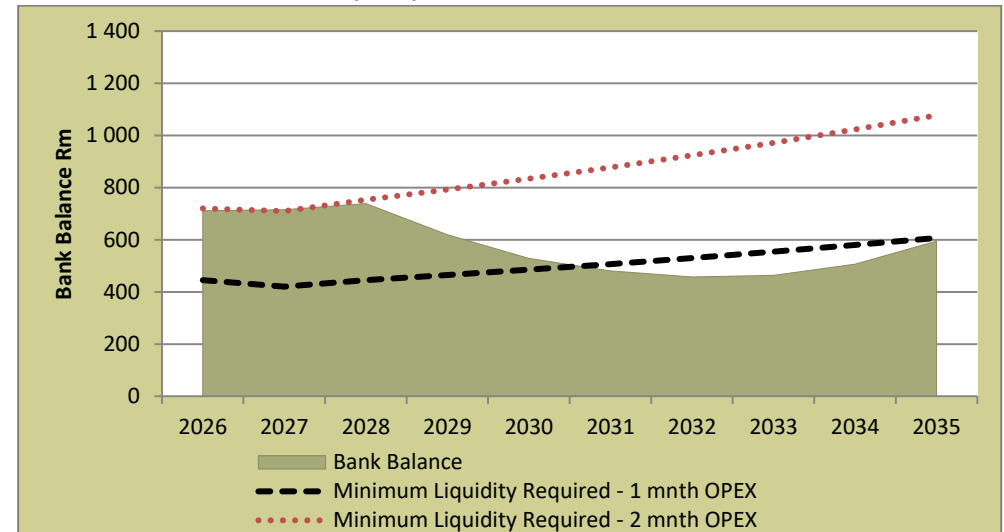
Outcome	Base Case (96%)	Collection Rate 94%
Average annual % increase in Revenue	5,4%	5,3%
Average annual % increase in Expenditure	6,9%	7,0%
Accounting Surplus accumulated during Planning Period (Rm)	R 3 902	R 2 902
Operating Surplus accumulated during Planning Period (Rm)	R 2 957	R 1 957
Cash generated by Operations during Planning Period (Rm)	R 6 890	R 5 890
Average annual increase in Gross Consumer Debtors	11,0%	14,4%
Capital investment programme during Planning Period (Rm) (FYE2026/27 – 2035/36)	R 8 119	R 8 119
External Loan Financing during Planning Period (Rm)	R 2 668	R 2 668
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 1 595	R 595
No of Months Cash Cover at the end of the Planning Period (Rm)	3,4	1,3
Liquidity Ratio at the end of the Planning Period	2,2 : 1	1,2 : 1
Gearing at the end of the Planning Period	21,4%	21,6%
Debt Service to Total Expense Ratio at the end of the Planning Period	7,6%	7,5%

SCENARIO 1: REDUCED COLLECTION RATE

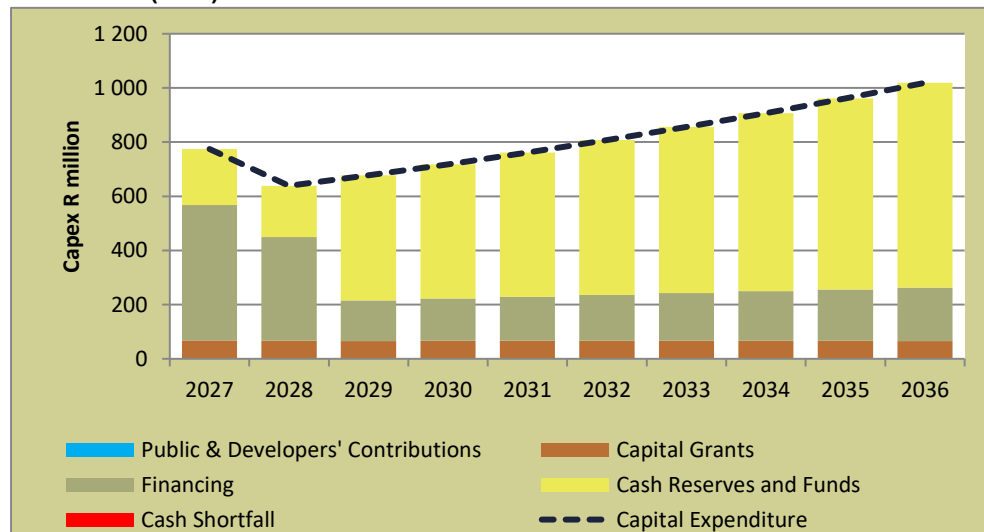
BASE CASE (96%): BANK BALANCE VS MINIMUM LIQUIDITY



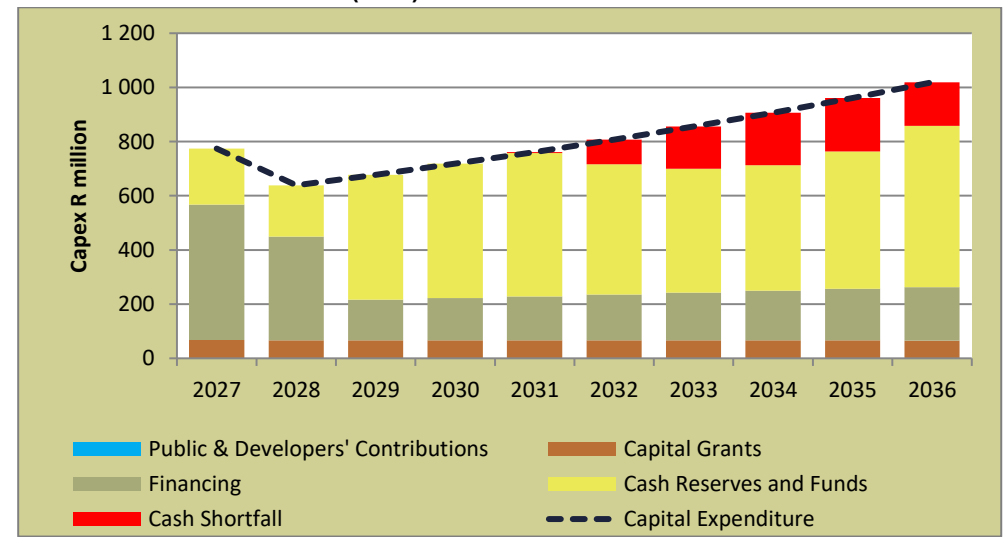
REDUCED COLLECTION RATE (94%): BANK BALANCE VS MINIMUM LIQUIDITY



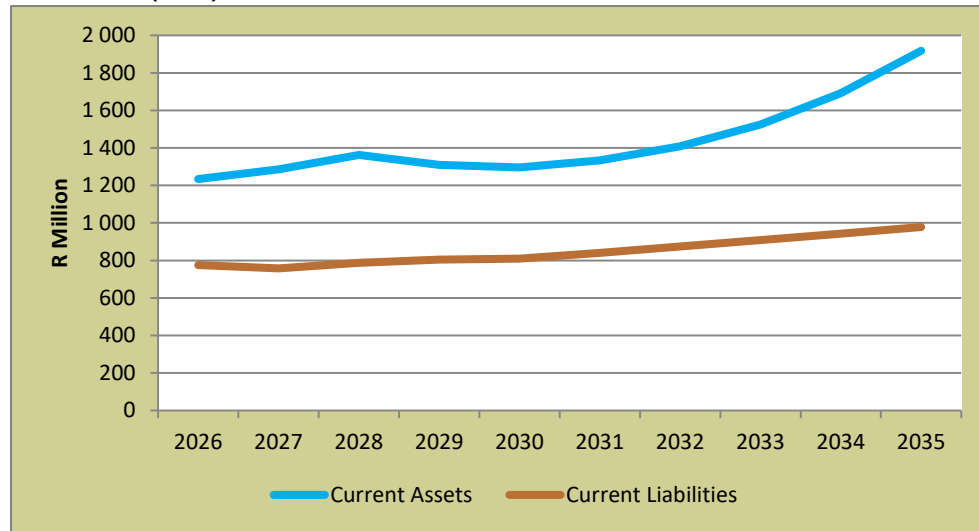
BASE CASE (96%): CAPITAL FUNDING MIX



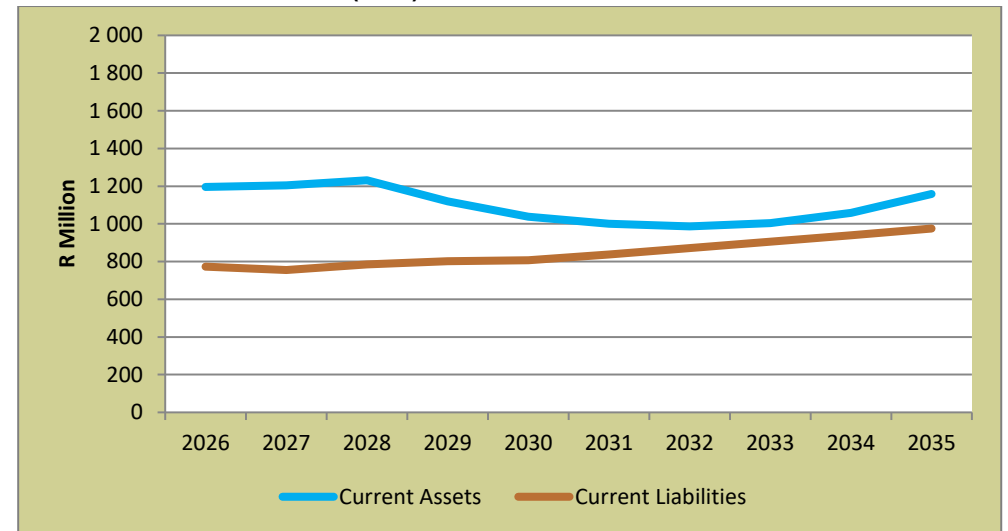
REDUCED COLLECTION RATE (94%): CAPITAL FUNDING MIX



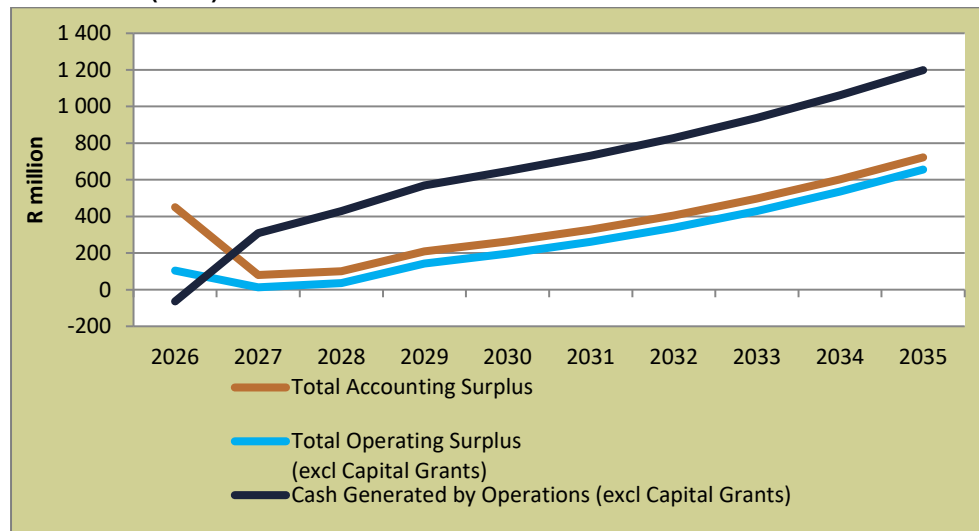
BASE CASE (96%): CURRENT ASSETS VS CURRENT LIABILITIES



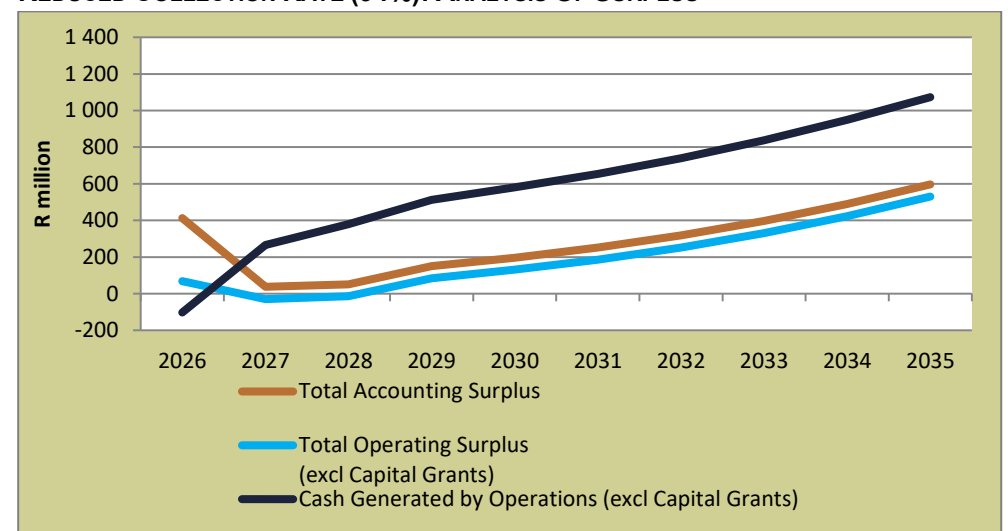
REDUCED COLLECTION RATE (94%): CURRENT ASSETS VS CURRENT LIABILITIES



BASE CASE (96%): ANALYSIS OF SURPLUS



REDUCED COLLECTION RATE (94%): ANALYSIS OF SURPLUS




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.</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>
FINANCIAL POSITION									
ASSET MANAGEMENT									
R29	Capital Expenditure / Total Expenditure	10% - 20%	24,8%	12,8%	12,7%	12,7%	12,7%	12,7%	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%	4,6%	4,8%	5,0%	5,0%	5,0%	5,0%	Repairs and maintenance as a percentage of PPE and IP will increase to 5.0% over 5 years.
DEBTORS MANAGEMENT									
R4	Gross Consumer Debtors Growth		12,9%	12,0%	11,2%	10,3%	9,6%	9,4%	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%	
LIQUIDITY MANAGEMENT									
R49	Cash Coverage Ratio (excl Working Capital)		4,4 : 1	6,4 : 1	5,8 : 1	6,4 : 1	8,4 : 1	9,9 : 1	The bank balance will meet the minimum liquidity requirement for the entire period. The liquidity ratio will rise to 2.2:1 by the end of the planning period.
R50	Cash Coverage Ratio (incl Working Capital)		1,7 : 1	1,9 : 1	1,6 : 1	1,6 : 1	1,9 : 1	2,2 : 1	
R51	Cash Surplus / Shortfall on Minimum Liquidity Requirements		R 296,4 m	R 419,5 m	R 294,4 m	R 342,2 m	R 552,2 m	R 738,6 m	
R1	Liquidity Ratio (Current Assets : Current Liabilities)	1:1.5 - 1:2.1	1,6 : 1	1,7 : 1	1,6 : 1	1,6 : 1	1,8 : 1	2,2 : 1	
LIABILITY MANAGEMENT									
R45	Debt Service as % of Total Operating Expenditure	6% - 8%	7,7%	9,2%	8,3%	7,6%	7,6%	7,6%	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%	32,8%	42,2%	35,3%	30,1%	24,4%	21,4%	
R7	Repayment Capacity Ratio		11,93	7,00	3,70	2,65	1,82	1,48	
R46	Debt Service Cover Ratio (Cash Generated by Operations / Debt Service)		1 : 1	1,2 : 1	1,8 : 1	2,1 : 1	2,4 : 1	2,5 : 1	

		<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>
SUSTAINABILITY									
	Net Financial Liabilities Ratio	< 60%	30,5%	36,9%	33,9%	28,8%	20,7%	15,6%	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.
	Operating Surplus Ratio	0% - 10%	2,7%	0,8%	3,9%	5,8%	7,9%	9,1%	
	Asset Sustainability Ratio	> 90%	75,1%	19,9%	20,4%	21,1%	21,8%	22,3%	
FINANCIAL PERFORMANCE									
EFFICIENCY									
R42	Net Operating Surplus / Total Operating Revenue	>= 0%	2,7%	0,8%	3,9%	5,8%	7,9%	9,1%	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	Electricity Surplus / Total Electricity Revenue		25,4%	25,2%	27,4%	27,4%	27,4%	27,4%	
R44	Water Surplus / Total Water Revenue		100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	
REVENUE MANAGEMENT									
R8	Increase in Billed Income p.a. (R'm)		R 197,2 m	R 240,9 m	R 238,4 m	R 259,4 m	R 295,2 m	R 312,6 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	% Increase in Billed Income p.a.	CPI	9,0%	9,2%	7,7%	7,2%	7,2%	7,1%	
R12	Operating Revenue Growth %	CPI	16,7%	8,5%	7,2%	7,2%	7,3%	7,2%	
R47	Cash Generated by Operations / Own Revenue		9,0%	13,7%	16,7%	18,1%	19,6%	20,4%	
R48	Cash Generated by Operations / Total Operating Revenue		7,2%	11,3%	14,0%	15,2%	16,7%	17,5%	

		<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>
EXPENDITURE MANAGEMENT									
	Creditors Payment Period	30	78	71	63	56	49	45	Creditors' payment period is higher than the NT benchmark but will reduce to 45 days by the end of the planning period. Staff costs as a percentage of total expenditure is forecast to remain within the recommended benchmark throughout the planning period. Contracted services to total expenditure, however, is forecast to exceed the recommended benchmark. The combined contribution will push the municipality to upper limits of affordability.
R30	Contribution per Expenditure Item: Staff Cost (Salaries, Wages and Allowances)	25% - 40%	17,5%	20,0%	19,5%	19,1%	18,6%	18,4%	
	Contribution per expenditure item: Contracted Services	2% - 5%	17,2%	17,6%	17,7%	17,5%	17,3%	17,3%	
GRANT DEPENDENCY									
R10	Total Grants / Total Revenue		26,8%	18,7%	17,5%	16,7%	15,8%	15,4%	The municipality can generate funds from its own sources and is not overly reliant on grants. This is positive to note, as the tightening of the national fiscus will result in a declining reliance on transfers from other spheres of government.
R11	Own Source Revenue to Total Operating Revenue		79,6%	82,5%	83,5%	84,3%	85,0%	85,4%	
	Capital Grants to Total Capital Expenditure		27,4%	10,4%	9,2%	8,3%	7,4%	6,9%	



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.

In addressing the key issues identified in the MTREF Case, the Base Case places emphasis on mitigating the risk of an overleveraged debt profile, containing elevated operating expenditure, and managing increasing levels of trade and other payables. In addition, further refinements have been incorporated, including measures to reduce electricity and water losses, the adoption of a more proactive asset management approach through moderately increased allocations to repairs and maintenance, and the reduction of finance cost pressures through the extension of loan tenors.

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

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 Tabled Budget.
3. The Base Case mirrors the MTREF capital investment programme:
 - a. FY2025/26: R1.23 billion
 - b. FY2026/27: R767.7 million
 - c. FY2027/28: R636.9 million
 - d. FY2028/29: R677.1 million

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
- b. FY2026/27: R500.4 million
- c. FY2027/28: R382.9 million
- d. FY2028/29: R150.0 million

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 5.0% (from 4.5%) over 5 years and maintained at this level for the remainder of the planning period.
7. Electricity losses reduced to 7%, from 9.73% and while water distribution losses reduced to 20.00% from 24.60% over 5 years.
8. Tariff increases were included as put forward in the Tabled Budget Document for FY2026/27-FY2028/29.
9. Trade and other payables days were reduced from 82 to 45 days, achieved over 10 years, in order to mitigate the forecast, rise in creditors in the MTREF Case.
10. A reduction of 2% in operating expenditure.

Outcome of the Base Case

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

SCENARIOS ANALYSIS

REDUCED COLLECTION RATE (94% FROM 96%)

- Reduction of R1 billion in cash generated from operations over the planning period.
- Liquidity ratio drops to 1.2:1 (from 2.2:1 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.



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 achieving the budget collection of 96%, reduce borrowing and continually improve financial performance through limiting expenditure. Achieving these goals will secure the municipality's long-term financial sustainability and resilience.

ANNEXURE 1: PROJECTED FINANCIAL STATEMENTS

Model year	1	2	3	4	5	6	7	8	9	10	11
Financial year (30 June)	<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>	<u>2036</u>
<i>R thousands</i>											
Non-current assets:	6 893 774	7 234 568	7 496 816	7 779 628	8 084 864	8 414 914	8 772 224	9 159 283	9 578 638	10 032 901	10 524 756
Property, plant and equipment	6 661 430	7 080 497	7 342 926	7 625 315	7 930 051	8 259 548	8 616 258	9 002 681	9 421 373	9 874 961	10 366 144
Intangible assets	360	6 528	6 528	6 951	7 451	8 004	8 604	9 241	9 903	10 579	11 251
Investment properties	143 413	143 246	143 064	143 064	143 064	143 064	143 064	143 064	143 064	143 064	143 064
Investments	-	-	-	-	-	-	-	-	-	-	-
Long-term receivables	84 335	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
Current assets:	1 233 967	1 285 394	1 362 863	1 309 621	1 295 826	1 334 419	1 408 455	1 524 924	1 692 116	1 917 873	2 246 307
Inventories	98 225	103 196	106 342	114 745	123 694	133 050	143 276	154 267	165 897	178 033	190 457
Trade and other receivables	386 008	386 008	386 008	386 008	386 008	386 008	386 008	386 008	386 008	386 008	386 008
Cash & Short term investments	749 734	796 190	870 513	808 868	786 124	815 361	879 171	984 650	1 140 211	1 353 832	1 669 841
TOTAL ASSETS	8 127 741	8 519 962	8 859 679	9 089 248	9 380 689	9 749 333	10 180 678	10 684 207	11 270 754	11 950 774	12 771 063
Municipal Funds:	5 696 378	5 776 497	5 877 856	6 086 149	6 349 905	6 677 924	7 083 334	7 580 021	8 182 299	8 904 584	9 760 117
Housing development fund & Other Cash Backed Reserves	26 589	26 589	26 589	26 589	26 589	26 589	26 589	26 589	26 589	26 589	26 589
Reserves (Not Cash Backed)	157 996	296 837	396 847	396 847	396 847	396 847	396 847	396 847	396 847	396 847	396 847
Accumulated surplus	5 511 793	5 453 071	5 454 420	5 662 713	5 926 469	6 254 488	6 659 898	7 156 585	7 758 863	8 481 148	9 336 681
Non-current liabilities:	1 656 150	1 985 671	2 193 788	2 198 280	2 220 877	2 230 424	2 223 200	2 196 308	2 146 209	2 067 992	1 957 380
Long-term liabilities (Interest Bearing)	1 140 150	1 469 671	1 677 788	1 648 837	1 631 931	1 597 742	1 543 123	1 465 902	1 363 432	1 231 855	1 068 095
Long-term trade payables: Eskom	-	-	-	-	-	-	-	-	-	-	-
Non-current provisions	516 000	516 000	516 000	549 443	588 946	632 682	680 077	730 406	782 777	836 137	889 286
Current liabilities:	775 213	757 794	788 035	804 820	809 907	840 985	874 144	907 878	942 246	978 197	1 053 565
Consumer deposits	55 982	60 767	65 798	70 577	74 571	78 532	82 665	86 957	91 449	96 254	101 423
Provisions	144 329	104 057	109 757	109 757	109 757	109 757	109 757	109 757	109 757	109 757	109 757
Trade payables	429 117	422 062	437 613	445 535	452 674	456 267	458 374	458 464	456 071	450 812	481 235
Current portion of long-term trade payables: Eskom	-	-	-	-	-	-	-	-	-	-	-
Unspent conditional grants	-	-	-	-	-	-	-	-	-	-	-
Bank overdraft	-	-	-	-	-	-	-	-	-	-	-
Current portion of interest bearing liabilities	145 785	170 909	174 868	178 951	172 906	196 429	223 349	252 699	284 969	321 374	361 151
TOTAL MUNICIPAL FUNDS AND LIABILITIES	8 127 741	8 519 962	8 859 679	9 089 248	9 380 689	9 749 333	10 180 678	10 684 207	11 270 754	11 950 773	12 771 063

Financial year (30 June)
R thousands

2026 **2027** **2028** **2029** **2030** **2031** **2032** **2033** **2034** **2035** **2036**

Revenue

Property rates	516 928	549 736	603 722	663 070	715 255	772 722	835 375	902 967	975 134	1 051 364	1 130 976
Service Charges	1 871 655	2 054 286	2 240 981	2 440 287	2 626 058	2 808 486	3 004 736	3 214 202	3 436 629	3 672 374	3 920 831
Service charges - electricity	1 244 897	1 401 042	1 553 694	1 717 858	1 869 675	2 016 442	2 174 973	2 344 958	2 526 365	2 719 692	2 924 655
Service charges - water	237 904	251 534	267 240	284 511	302 766	322 437	343 649	366 364	390 527	416 047	442 801
Service charges - waste water management	203 792	210 667	220 428	229 955	238 354	246 917	255 762	264 756	273 809	282 894	291 908
Service charges - waste management	185 062	191 043	199 620	207 962	215 263	222 690	230 351	238 125	245 929	253 740	261 467
Service charges - other	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Rental from fixed assets	5 680	5 935	6 202	6 674	7 137	7 626	8 149	8 701	9 283	9 894	10 531
Interest	106 894	62 553	68 284	76 193	71 779	70 297	73 049	78 477	87 097	99 412	115 719
Interest earned from receivables	36 760	24 536	25 763	35 656	38 867	41 946	45 054	48 146	51 171	54 084	56 822
Dividends	-	-	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits	98 276	102 489	107 101	115 257	123 237	131 693	140 715	150 260	160 302	170 848	181 856
Licences and permits	5 412	5 656	5 910	6 369	6 893	7 476	8 113	8 797	9 519	10 266	11 024
Agency services	21 653	22 628	23 646	25 446	27 208	29 075	31 067	33 174	35 391	37 720	40 150
Transfer and subsidies - Operational	800 856	692 750	769 021	805 298	842 771	882 247	923 711	966 781	1 011 088	1 056 315	1 101 529
Other revenue	212 189	278 859	290 016	312 099	333 708	356 606	381 039	406 886	434 077	462 634	492 441
Gains on disposal of Assets	247 394	249 868	252 367	283 505	321 360	366 351	418 777	478 702	545 844	619 471	698 307
Total revenue before Capital Grants	3 923 697	4 049 297	4 393 014	4 769 855	5 114 273	5 474 525	5 869 785	6 297 093	6 755 537	7 244 382	7 760 186
Transfers and subsidies - capital (monetary allocations)	345 386	67 301	66 147	66 075	66 155	66 431	66 766	66 975	66 899	66 421	65 357
Public & developers contributions	-	-	-	-	-	-	-	-	-	-	-
Total Revenue after Capital Grants	4 269 083	4 116 598	4 459 161	4 835 930	5 180 428	5 540 956	5 936 551	6 364 068	6 822 437	7 310 802	7 825 543

Operating expenditure

Employee related costs	856 382	911 473	963 256	1 009 036	1 058 217	1 110 516	1 165 587	1 223 007	1 282 268	1 342 774	1 403 837
Remuneration of councillors	32 676	34 309	36 025	37 377	38 825	40 355	41 953	43 600	45 277	46 961	48 626
Debt impairment	176 583	191 557	205 048	222 343	238 665	255 472	273 524	292 747	313 096	334 569	357 078
Depreciation and amortisation	293 740	348 664	376 347	394 713	412 992	431 295	449 729	468 403	487 423	506 894	526 928
Interest	173 482	208 555	231 132	229 208	227 223	226 413	226 593	225 097	221 531	215 593	206 930
Bulk purchases - electricity	928 999	1 044 918	1 162 560	1 253 680	1 357 544	1 464 109	1 579 215	1 702 639	1 834 356	1 974 728	2 123 549
Inventory Consumed	122 743	141 301	143 440	157 205	172 703	189 423	208 149	228 629	250 517	273 382	296 611
Contracted services	873 944	809 768	879 809	937 316	995 844	1 050 917	1 109 461	1 171 248	1 236 166	1 304 295	1 375 444
Transfers and subsidies	118 408	105 706	111 510	118 575	125 576	132 914	140 667	148 777	157 206	165 948	174 951
Other expenditure	191 749	189 107	197 042	210 180	223 335	236 570	250 586	265 295	280 644	296 634	313 187
Losses on disposal of Assets	50 615	51 121	51 632	58 003	65 747	74 952	85 678	97 938	111 675	126 738	142 867
Total Expenditure	3 819 321	4 036 479	4 357 801	4 627 637	4 916 671	5 212 937	5 531 141	5 867 381	6 220 159	6 588 517	6 970 009

Municipal Financial Model - George Local Municipality
Cash Flow Statement

Model year	1	2	3	4	5	6	7	8	9	10	11
Financial year (30 June)	<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>	<u>2036</u>
<i>R thousands</i>											
Cash flows from Operating Activities											
Suplus/Deficit for the year <i>including</i> Capital Grants	449 762	80 119	101 360	208 293	263 756	328 019	405 410	496 687	602 278	722 285	855 533
Suplus/Deficit for the year <i>excluding</i> Capital Grants & Contributions	104 376	12 818	35 213	142 218	197 601	261 588	338 644	429 712	535 379	655 864	790 176
Capital Grants & Contributions	345 386	67 301	66 147	66 075	66 155	66 431	66 766	66 975	66 899	66 421	65 357
Adjustments for non-cash items:											
Depreciation, amortisation and impairment loss	293 740	348 664	376 347	394 713	412 992	431 295	449 729	468 403	487 423	506 894	526 928
Revaluation on investment property (gain) / loss	-	-	-	-	-	-	-	-	-	-	-
Increase / (Release from) current provisions & non-interest bearing liabilities	0	(40 272)	5 700	-	-	-	-	-	-	-	-
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	53 149
(Increase) / Release from non-current interest bearing assets	-	-	-	-	-	-	-	-	-	-	-
Capitalised interest	-	-	-	-	-	-	-	-	-	-	-
Eskom Debt Relief (synthetic grant)	-	-	-	-	-	-	-	-	-	-	-
Operating surplus before working capital changes:	743 406	388 511	483 407	636 449	716 251	803 050	902 535	1 015 419	1 142 072	1 282 539	1 435 611
Change in W/C Investment	(462 167)	(12 026)	12 405	(481)	(1 810)	(5 763)	(8 120)	(10 900)	(14 023)	(17 395)	17 998
(Increase)/decrease in inventories	25 440	(4 971)	(3 147)	(8 403)	(8 949)	(9 356)	(10 226)	(10 991)	(11 630)	(12 136)	(12 425)
(Increase)/decrease accounts receivable	(16 610)	-	-	-	-	0	-	-	0	0	-
Increase/(decrease) in trade payables	(33 495)	(7 055)	15 551	7 922	7 139	3 593	2 106	91	(2 393)	(5 259)	30 423
Eskom Debt Relief (movement out of creditors)	-	-	-	-	-	-	-	-	-	-	-
Increase/(decrease) in unspent grants	(437 502)	-	-	-	-	-	-	-	-	-	-
Net cash flow from Operating activities	281 240	376 484	495 811	635 968	714 441	797 287	894 415	1 004 518	1 128 049	1 265 144	1 453 609
Cash flows from Investing Activities											
Capital expenditure	(1 259 307)	(773 899)	(638 776)	(677 525)	(718 228)	(761 345)	(807 039)	(855 462)	(906 778)	(961 157)	(1 018 783)
Decrease/(Increase) in non-current receivables	(84 335)	84 274	(0)	-	-	-	-	-	-	-	-
(Additions) / Disposals of investment property	170	167	181	-	-	-	-	-	-	-	-
Net cash flow from Investing activities	(1 343 472)	(689 458)	(638 595)	(677 525)	(718 228)	(761 345)	(807 039)	(855 462)	(906 778)	(961 157)	(1 018 783)
Cash flows from Financing Activities											
New loans raised	599 839	500 430	382 984	150 000	156 000	162 240	168 730	175 479	182 498	189 798	197 390
Loans repaid	(122 251)	(145 785)	(170 909)	(174 868)	(178 951)	(172 906)	(196 429)	(223 349)	(252 699)	(284 969)	(321 374)
(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	5 168
Net cash flow from Financing activities	484 410	359 430	217 106	(20 088)	(18 957)	(6 705)	(23 567)	(43 577)	(65 709)	(90 366)	(118 816)
Change in Cash	(577 822)	46 456	74 323	(61 646)	(22 744)	29 237	63 810	105 479	155 562	213 621	316 009
Cash/(Overdraft), Beginning	1 327 556	749 734	796 190	870 513	808 868	786 124	815 361	879 171	984 650	1 140 211	1 353 832
Cash/(Overdraft), Ending	749 734	796 190	870 513	808 868	786 124	815 361	879 171	984 650	1 140 211	1 353 832	1 669 841

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