INCA Portfolio Managers

OVERBERG DISTRICT MUNICIPALITY

Long-Term Financial Plan – ***Update 2024***

Prepared by
INCA Portfolio Managers
February 2024

REPORT OVERVIEW – INTRODUCTION AND BACKGROUND

The Overberg District Municipality appointed INCA Portfolio Managers (“IPM”) in 2016 to prepare a Long-Term Financial Plan. The report was entitled *Overberg District Municipality Long Term Financial Plan: 2015/16 – 2025/26*; June 2016. This report was updated in 2018 and 2022. This 2024 Update assesses the latest available information with the view of assessing the municipality’s financial performance and updating our financial predictions.

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

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

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

ABBREVIATIONS USED

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

CONTENTS

Key Findings and Conclusions drawn from the 2023 LTFP Update

Historic Financial Assessment

The historical analysis shows:

- The liquidity position deteriorated during FY2022/23, with the liquidity ratio dropping to 2.15:1. This remains healthy.
- Financial performance deteriorated during the year, with the operating surplus (excluding capital grants) deteriorating to R12.0 million in FY2022/23 (FY2021/22: R24.8 million).
- The collection rate came in at 99% for FY2022/23.
- Creditors increased from R4.9 million to R19.0 million at the current year end. R12 million of this increase consists of income received in advance relating to Road Maintenance Services. Thus, trade payables increased by R2.1 million during the year.
- Roads Maintenance Services remained the predominant revenue item during the year, accounting for 43% of revenue in FY2022/23.
- Staff costs accounted for 51% of operating expenditure in FY2022/23, remaining the main driver of expenditure.
- Cash generated from operations (excluding capital grants) improved to R42.7 million during FY2022/23, despite the decline in financial performance. This was driven by additional receipts for Roads Maintenance service compared to the prior year, as well as the delayed payment of creditors.
- The municipality’s unencumbered cash and cash equivalents of R87.9 million exceeded the NT and statutory minimum liquidity requirements of R41.0 million - resulting in a cash surplus of R46.9 million. Overberg has posted cash surpluses in each of the most recent 3 years.
- Gearing and debt-service to total operating expenditure ratios were 6% and 3%, respectively, indicating scope to accelerate borrowings.
- Repairs and maintenance expenditure as a percentage of PPE & IP came in at 11% in FY2022/23. This is reasonably high relative to the NT norm of 8%. This is positive to note.

LONG-TERM FINANCIAL PLAN UPDATE

A Base Case was developed with realistic, achievable assumptions that aim to guide the municipality towards maintaining long-term financial sustainability. To develop a realistic Base Case model, the figures from the February Adjustment Budget 2023/24 – 2025/26 were used. The following are the key assumptions:

1. A collection rate of 99% is assumed to be maintained throughout the planning period.
2. The model incorporated the increases in revenue and expenditure items as announced in the Adjustment Budget.
3. The MTREF capital investment programme was maintained for FY2023/24, thereafter the following amendments were made:
    - FY2024/25: R10.0 million
    - FY2025/26: R11.0 million

    Assumed growth beyond the MTREF period is 6% p.a.
4. The Adjustment Budget borrowing programme was incorporated unaltered over the MTREF period. No additional borrowing was included. The annual borrowing under this scenario was adjusted to an average of 10-year amortising loans at a fixed interest rate equal to 6% over forecast CPI.
5. Repairs and maintenance expenditure was reduced to 8% of PPE & IP over 10 years.
6. The disposal of investment properties in FY2024/25 was modelled.
7. The Base Case operates on the premise that the current creditors accounts will be serviced as and when they fall due.

The Base Case presents a sustainable outcome. The initial forecasts over the MTREF period are reasonably negative, however, this is a reflection of the Adjusted Operating Budget which expects operating deficits in the outer years of the MTREF period. Thereafter, financial performance is forecast to improve for the remainder of the planning period. Liquidity is forecast to be healthy, and an accelerated capital investment programme compared to the historic performance is considered affordable. Based on the results of the Long-Term Financial Model, ***it is recommended that*** Overberg:

1. Utilise the municipality's assets, specifically investment properties, in the most efficient manner possible to ensure potential revenue enhancement strategies are implemented.

2. Continue to bolster the liquidity position of the municipality to ensure a buffer is created to prepare for potential financial shocks that may be harmful to the municipality's ability to operate as a going concern. The output VAT on Road Maintenance Services being an example of this.

3. Should the output VAT on Road Maintenance Services need to be repaid, enter into negotiations to repay this amount in instalments.

4. 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. Institutionalisation of the long-term financial model to support strategic financial decision-making in the municipality will provide significant value.

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

Outcome	**10-Year Outcome**
Average annual % increase in Revenue	7,3%
Average annual % increase in Expenditure	7,5%
Accounting Surplus accumulated during Planning Period (Rm)	R 17
Operating Surplus accumulated during Planning Period (Rm)	R 9
Cash generated by Operations during Planning Period (Rm)	R 162
Average annual increase in Gross Consumer Debtors	0,4%
Capital investment programme during Planning Period (Rm)	R 94
External Loan Financing during Planning Period (Rm)	R 5
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 141
No of Months Cash Cover at the end of the Planning Period (Rm)	3,3
Liquidity Ratio at the end of the Planning Period	2,8 : 1
Gearing at the end of the Planning Period	0,2%
Debt Service to Total Expense Ratio at the end of the Planning Period	0,1%

DEMOGRAPHIC, ECONOMIC AND HOUSEHOLD INFRASTRUCTURE

- The economic recovery post-pandemic continued in 2022, with GVA growth of 2.0%. This followed growth of 5.1% in 2021 after the contraction of 4.8% in 2020. The economy has been stagnant over the last 5 years with annual growth of just 1.0%.

- The population growth rate came in at 1.32%; an increase from 1.19% in 2021. The 5-year average population growth rate was 1.46% p.a. The economically active population as a percentage of total population increased to 42.1% in 2022 from 39.6% in the prior year.

- Concerning to note, is the trend of population growth exceeding economic growth. This effectively results in the population becoming poorer.

- The official unemployment rate dropped marginally to 18.1% (2021: 18.7%). This is far lower than the provincial (24.3%) and national (33.7%) averages. 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.

- The Tress Index of 37.17 indicates a well-diversified economy underpinned by primarily 5 sectors: Agriculture (20.1%), Finance (17.3%) Community Services (16.6%) and Manufacturing (14.4%) and Trade (13.5%). Together these 5 subsectors constituted approximately 81.9% of economic output in 2022.

- Household formation saw moderate growth of 16.3% over the assessment period. Overberg has been able to maintain its infrastructure index of 0.89; indicative of its ability to keep up with the rate of household formation. This score is high relative to the national index of 0.77.

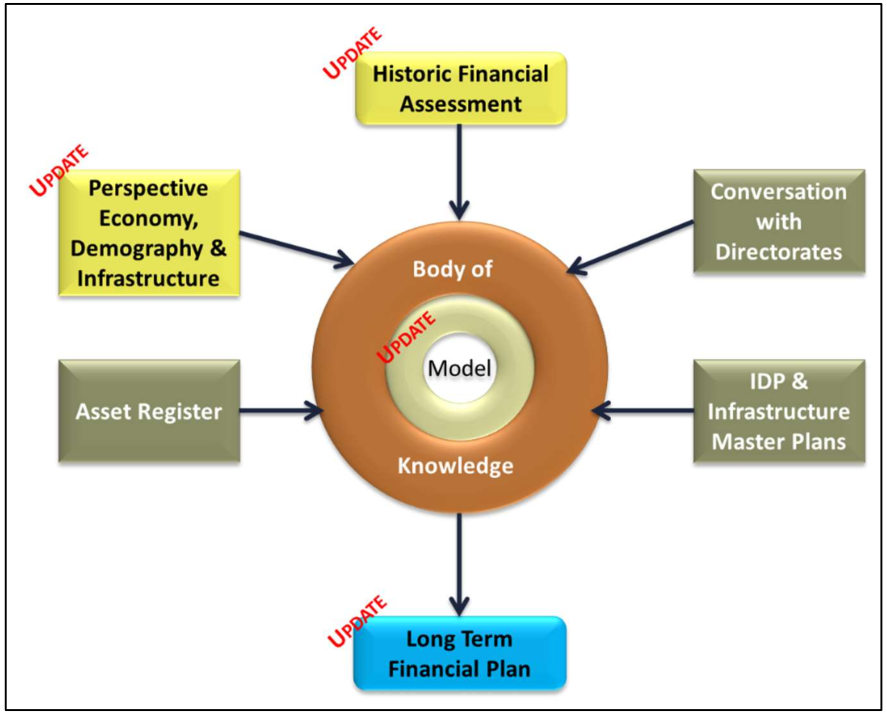
- Approximately 15.44% of households fall below the Equitable Share Bracket, an approximation of the number of indigent households within the municipality, while 89.5% of households receive a level of service above the RDP level of service.

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

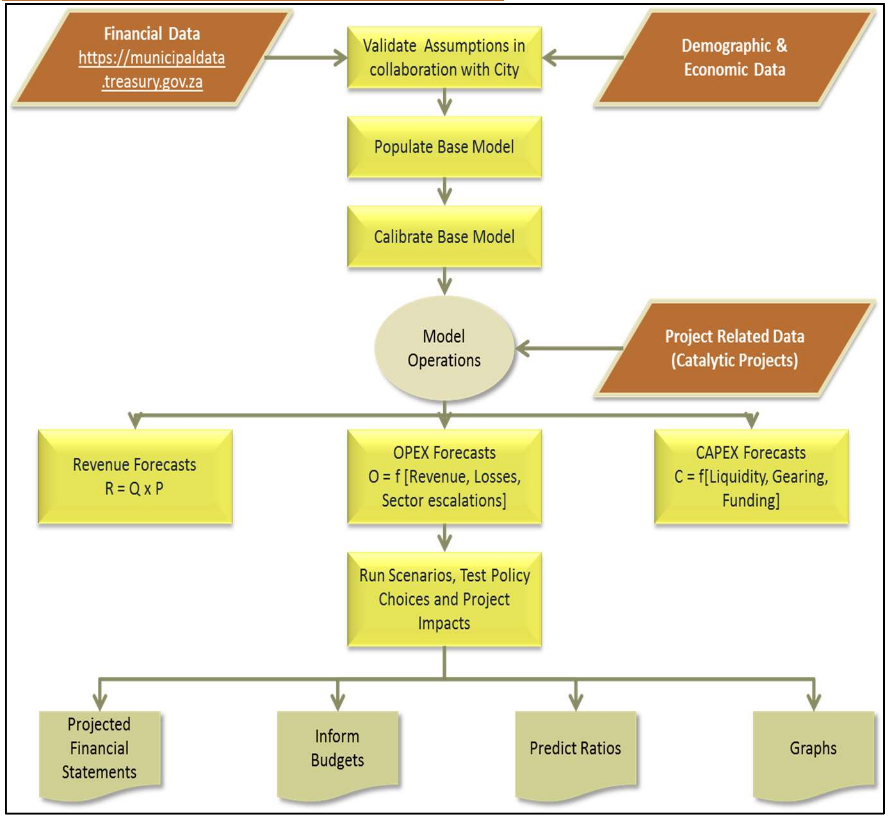
The diagram below illustrates the steps in the process that were followed in drafting the LTFP and the steps taken during this 2023 "LTFP Update":

Figure 1: Planning Process



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



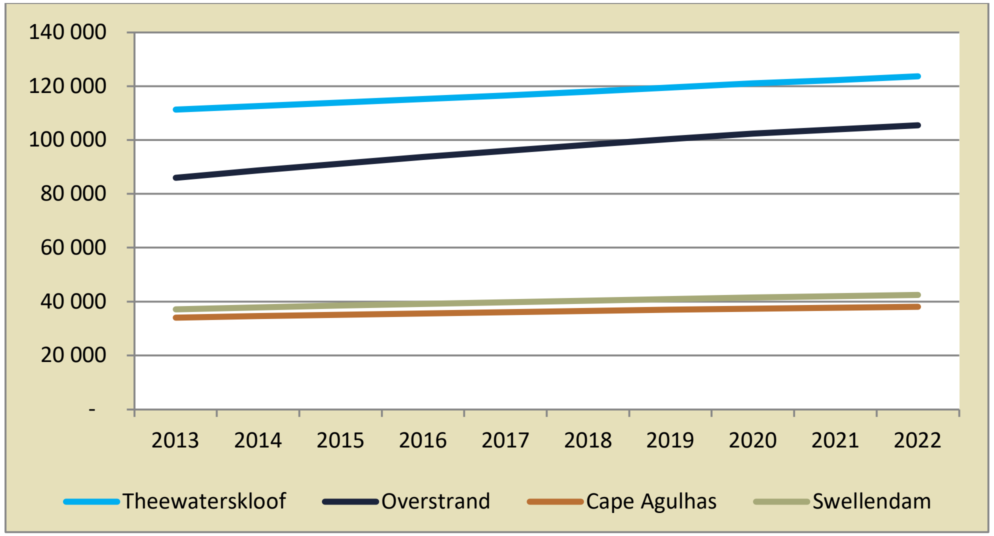
The model methodology remains the same and the capital budget as presented in the MTREF was utilised and forecasts of an affordable future capex were made.

UPDATED PERSPECTIVES (DEMOGRAPHIC, ECONOMIC, HOUSEHOLD INFRASTRUCTURE)

DEMOGRAPHY

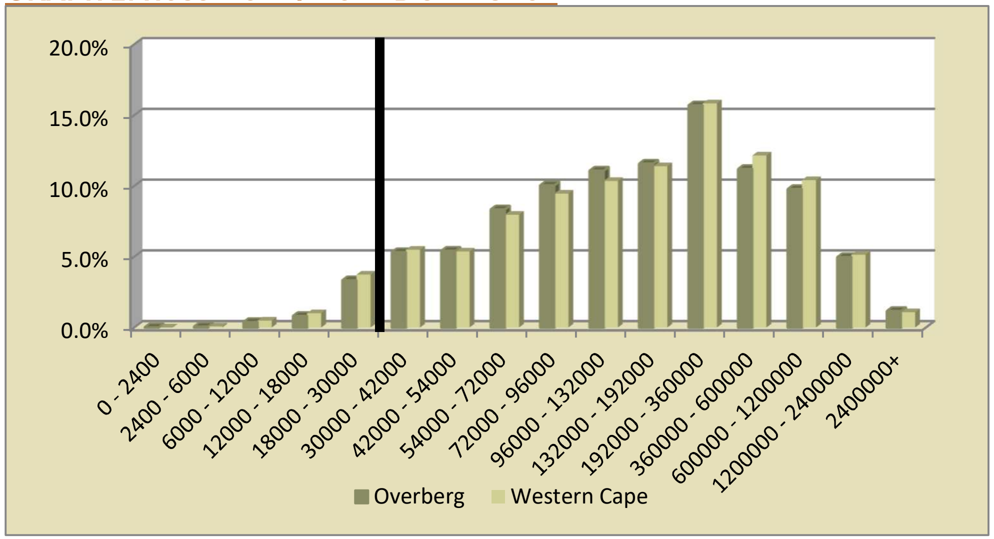
The Overberg District Municipality's total population grew at a rate of 1.32% during 2022, an increase from 1.19% recorded in the prior year. This increase notwithstanding, this remains relatively lower than the levels observed earlier in the review period. The 2022 population growth rate was on par with the national average (1.30%) but was exceeded by the provincial average (1.40%).

GRAPH 1: TOTAL POPULATION

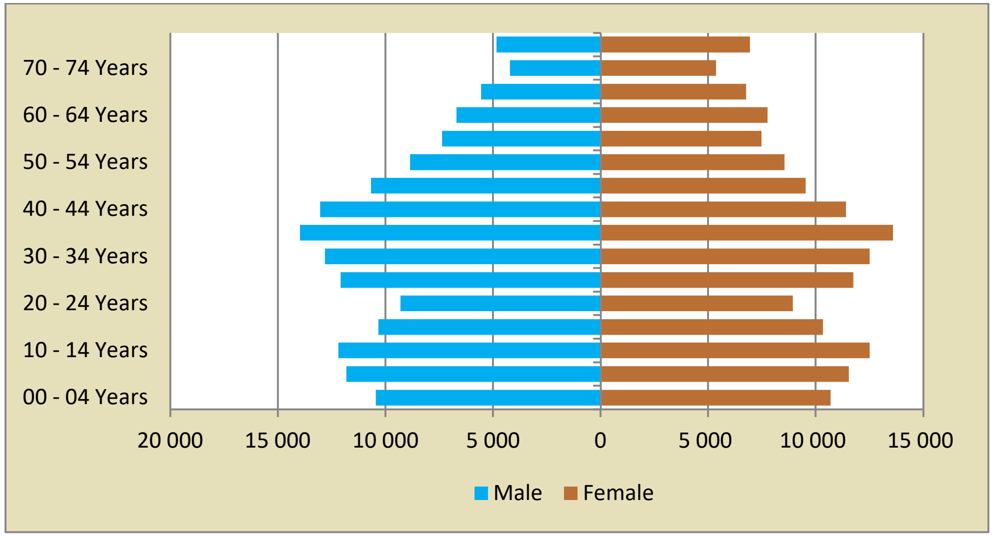


Average household income in Overberg increased by 5.2% during 2022, to a total of R361 062 p.a. While this exceeds the national average of R279 835 p.a., the Western Cape Provincial average of R369 989 p.a. is relatively higher. Approximately 15.4% of households in the Overberg District earn less than R54 000 p.a., placing them below the Equitable Share Bracket. The Equitable Share Bracket provides an indication of the number of indigent households in the municipal area and reflect those who qualify for and/or are largely reliant on government grants as a source of income. The provision of RDP level of basic services to these households is theoretically covered by the equitable share and should compensate the municipality for providing free basic services. Approximately 89.5% of households within Overberg receive a level of service above the RDP level of service.

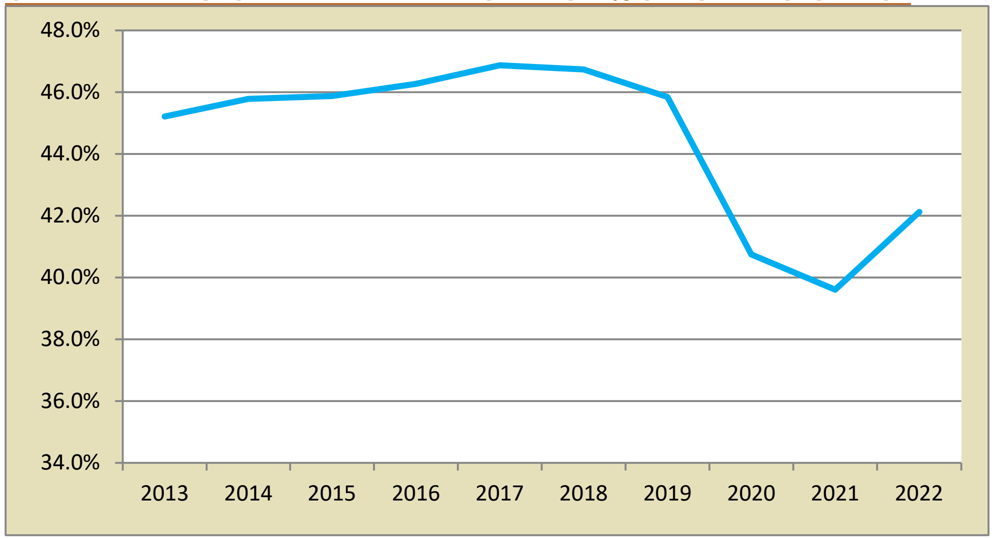
GRAPH 2: HOUSEHOLD INCOME DISTRIBUTION



GRAPH 3: AGE PROFILE



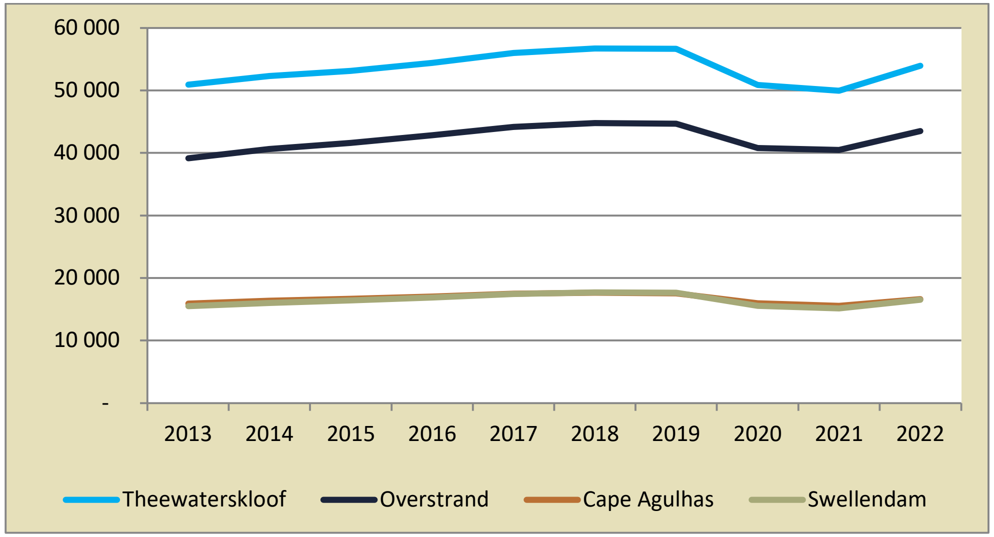
GRAPH 4A: ECONOMICALLY ACTIVE PEOPLE AS A % OF TOTAL POPULATION



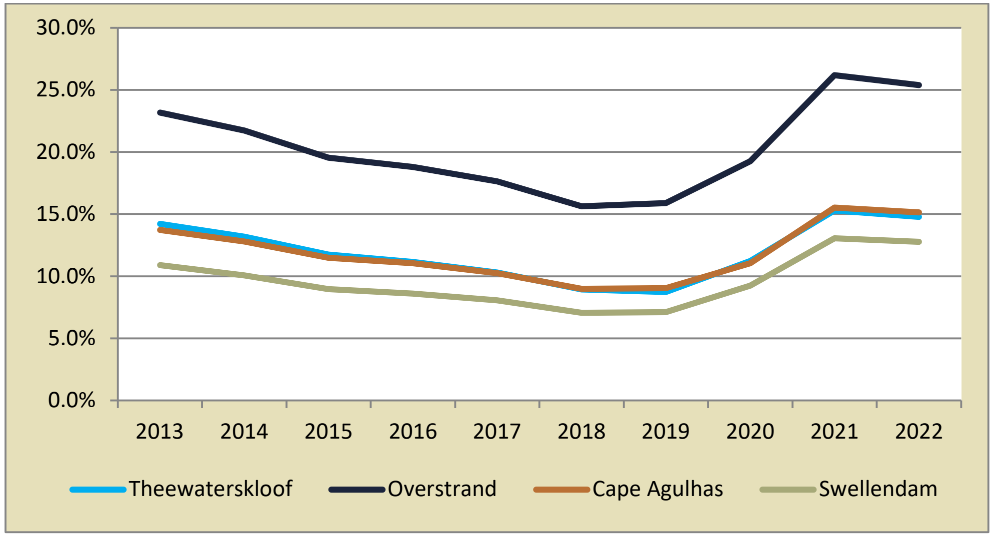
GRAPH 3 above illustrates the age profile of Overberg's population. A sizable proportion of the population is of working age. This would suggest that there is a perception of the district being a provider of employment opportunities. The smallest age cohort is between the ages of 70 & 74 years old.

The economically active population as a percentage of the total population exhibited growth for the first time since 2017, with this ratio increasing to 42.1% from 39.6% in the prior year. The total number of economically active people in the district came in at 130 503 people in 2022. Theewaterskloof and Overstrand make up the bulk of this population group.

GRAPH 4B: ECONOMICALLY ACTIVE POPULATION



GRAPH 5: OFFICIAL UNEMPLOYMENT RATE



Unemployment in Overberg declined during 2022 to 18.1% from 18.7% in the prior year. This remains well below the provincial and national rates of 24.3% and 33.7% respectively. The unemployment rates of the local municipalities which fall under Overberg's jurisdiction are as follows: Theewaterskloof 14.8%, Overstrand 25.4%, Cape Agulhas 15.1% and Swellendam 12.8%.

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

Economy

The Overberg District's economic output in 2022 came in at R30.54 billion (current prices). This represents approximately 3.7% of the Western Cape Province's economic output. The Overberg District economy is predominantly driven by the Theewaterskloof & Overstrand local municipalities. Economic growth of 2.0% was observed in 2022, lower than the provincial average of 2.6% for the same period. The 5-year annual average GVA growth rate came in at 1.0%. This was limited by the profound impact had by Covid-19 on economic activity.

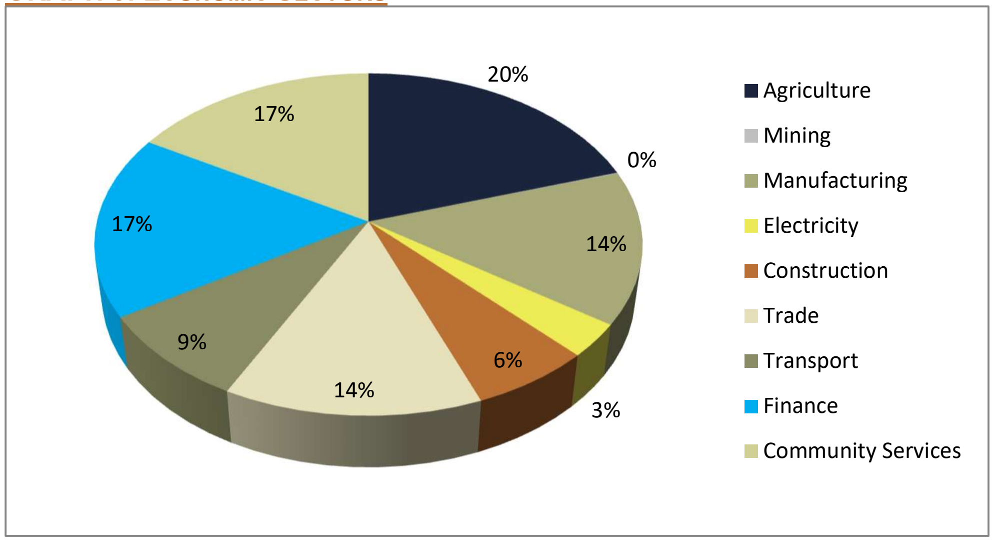
The Overberg District's economy is well diversified as indicated by a Tress Index of 37.17. The Tress Index is a measure of economic diversification, the higher the index, the lower the degree of diversification. A diversified economy provides a hedge against economic risk to the municipality through spreading the impact of negative economic events over a greater number of sectors. The predominant economic sectors in the district remain Agriculture, Finance and Community Services.

The Agriculture sector exhibited the most significant proportional growth over the review period, increasing its proportional contribution to 20.1%. The Finance and Community Services sectors were the only other sectors where proportional growth was exhibited. Secondary sector activities were the most heavily impacted over the review period, with each sector in this category experiencing varying degrees of proportional decline.

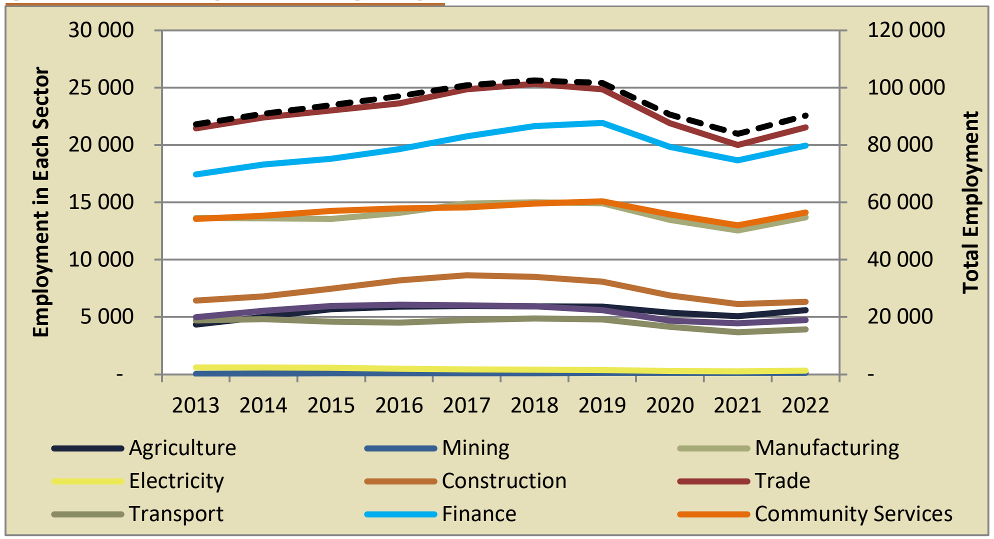
TABLE 1: Proportional Growth of Economic Sectors

Subsector	2013	2022
Agriculture	15,1%	20,1%
Mining	0,1%	0,1%
Manufacturing	15,2%	14,4%
Electricity	3,8%	3,2%
Construction	9,5%	6,3%
Trade	14,5%	13,5%
Transport	8,8%	8,5%
Finance	16,8%	17,3%
Community Services	16,1%	16,6%

GRAPH 6: Economic Sectors

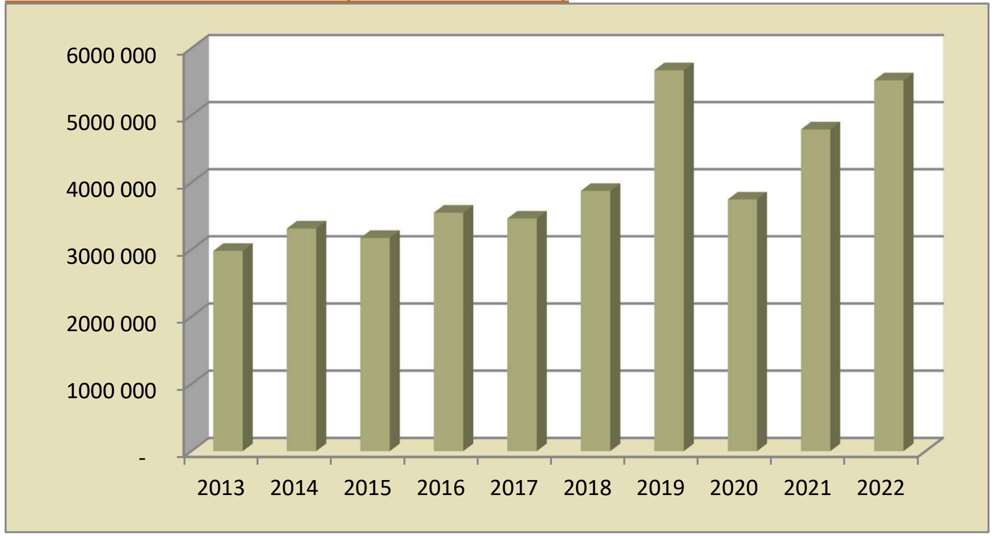


GRAPH 7: EMPLOYMENT BY SECTOR



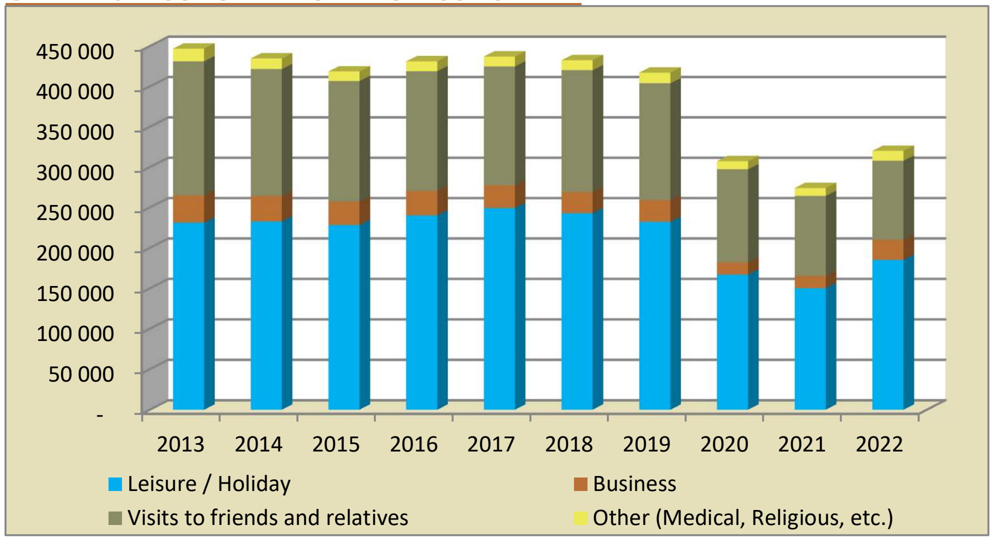
Scrutiny of the employment figures reveals that an additional 6 329 jobs were created during 2022, for a total increase of 7.5%. The total number of employment opportunities in 2022 amounted to 90 246 jobs. This is underpinned by the Trade (23.8%), Finance (22.1%) and Community Services (15.6%) sectors.

GRAPH 8: TOURISM SPEND (CURRENT PRICES)



Tourism spend increased during 2022 to R5.5 billion, up from R4.79 billion recorded in the prior year. This represents an increase of 15.2%. The Tourism sector represents a significant portion of the district economy, as evidenced by a contribution to GVA of 16.3% in 2022. It remains vital for the municipality to create an enabling environment for the Tourism sector to thrive.

GRAPH 9: TOURISM TRIPS BY PURPOSE OF TRIP

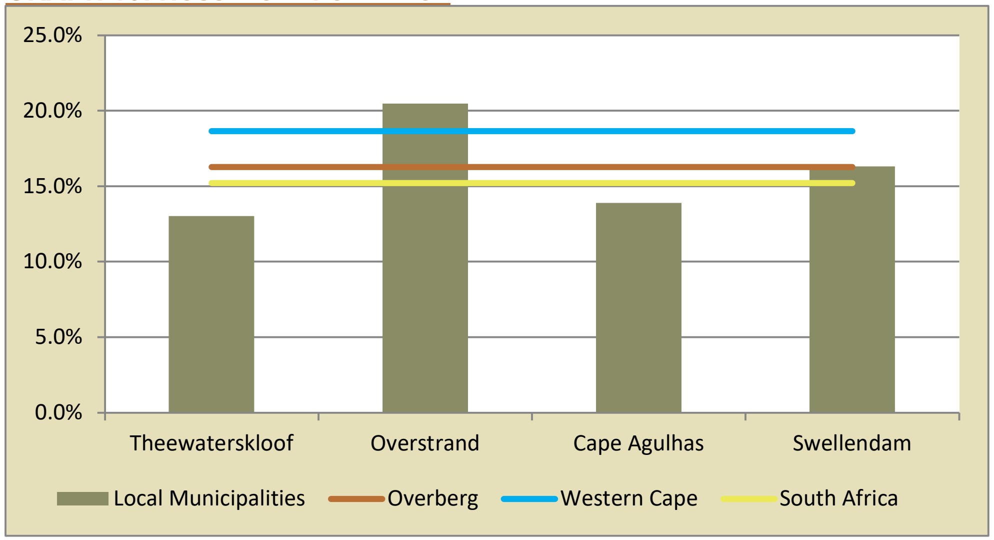


An analysis of the tourism sector would be incomplete without an analysis of the number of tourism trips and the purpose thereof. The total number of trips into the district increased by 46 083 trips during 2022, bringing the total number of trips up to 320 270 trips. It is important to note that the level of trips into the district lags pre-Covid totals. The perception of the district as an attractive tourist destination is corroborated by 57.8% of trips in 2022 being for leisure/holiday purposes.

HOUSEHOLD INFRASTRUCTURE

Household formation in Overberg since 2013 came in at 16.3%, or an additional 13 054 households in absolute terms. This rate of household formation is less than that of the Western Cape (18.6%) but exceeds the national average (15.2%). Overstrand (20.5%) experienced the highest rate of household formation of the municipalities within the Overberg District. Any increase in the number of households contributes to additional demand for municipal services.

GRAPH 10: HOUSEHOLD FORMATION



The Overberg District's Infrastructure Index remained stable over the review period, although a marginal decline was noted in 2022. The Infrastructure Index of 0.89 is on par with the Western Cape but is significantly higher than the national index of 0.77. It must be noted that the Infrastructure Index is a measure of access to services. As such, it does not necessarily provide an indication as to the quality of and security with which these services are provided.

GRAPH 11: INFRASTRUCTURE INDEX

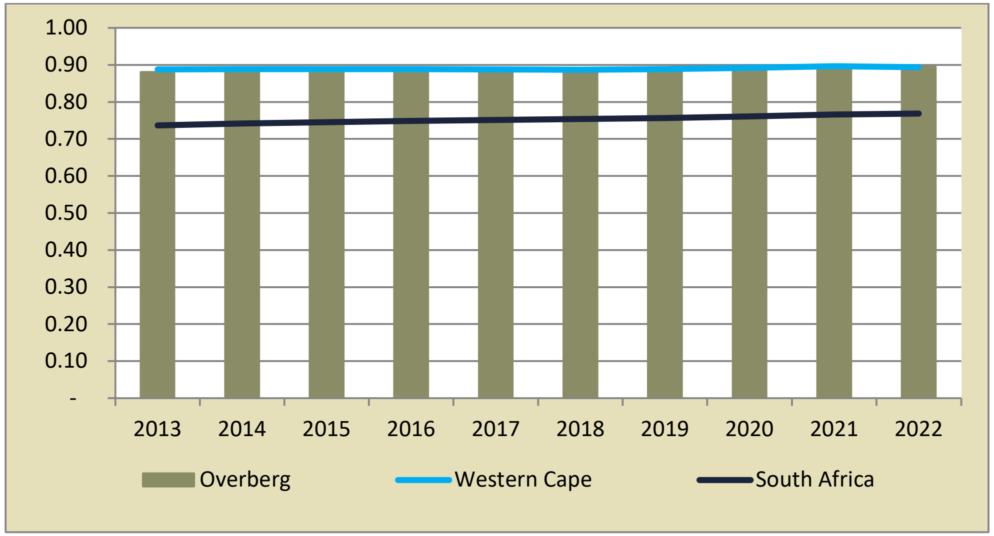


TABLE 2 below provides a comparison between the level of backlogs of the Overberg District and the Western Cape Province. The level of backlogs in the Overberg District in 2022 were reduced compared to the levels observed in 2013. This is positive to note. Furthermore, the District outperformed the Province in the provision of all service categories with the exception of electricity.

TABLE 2: HOUSEHOLD INFRASTRUCTURE PROVISION

Infrastructure	Western Cape		Overberg DM	
Above RDP Level				
Sanitation	1 940 029	96,5%	91 220	97,9%
Water	1 985 517	98,7%	92 114	98,8%
Electricity	1 969 009	97,9%	90 370	97,0%
Refuse Removal	1 797 362	89,4%	83 819	89,9%
Below RDP or None				
Sanitation	71 331	3,5%	1 992	2,1%
Water	25 843	1,3%	1 098	1,2%
Electricity	42 350	2,1%	2 841	3,0%
Refuse Removal	213 998	10,6%	9 393	10,1%
Total Number of Households	**2 011 360**	**100,0%**	**93 212**	**100,0%**

1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long-Term Financial Model Outcomes

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6 Affordable Future Capital Investment

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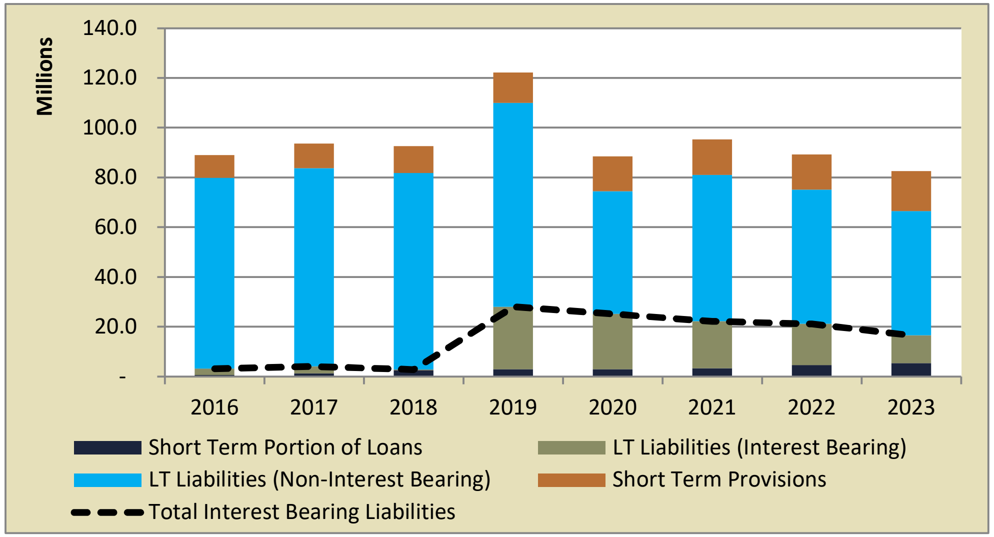
9 Conclusions

Updated Historic Financial Assessment

Financial Position

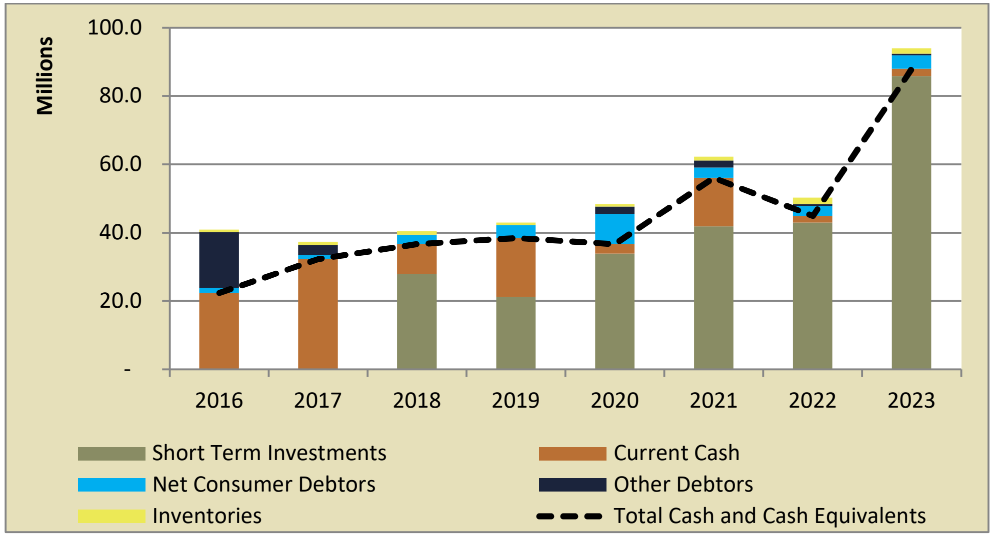
Graph 12: Long-Term Liabilities: Interest Bearing vs Non-Interest Bearing



Strong financial performance during FY2022/23 resulted in an improvement in the accumulated surplus to R100.1 million. Total interest-bearing liabilities declined during FY2022/23 to a total of R16.6 million. This is due to no borrowings being undertaken since FY2018/19. Non-interest-bearing liabilities declined to R49.8 million from R53.8 million in the prior year. This decline can be attributed to a reduction in employee benefits as compared to the prior year.

The lack of borrowing since FY2018/19 has resulted in a decline in the gearing ratio to 6.0% at the current year end. Additionally, the debt service to total expense ratio remained stable at 3.0%. This would suggest that the municipality has ample scope to undertake borrowings in future. It is our understanding that the municipality will is planning to undertake borrowings in the near future.

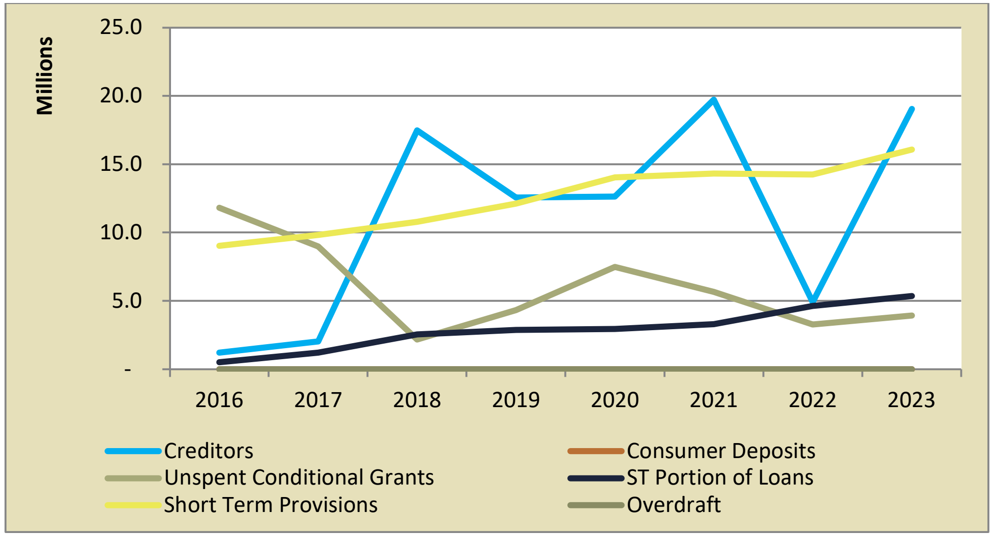
Graph 13: Current Assets



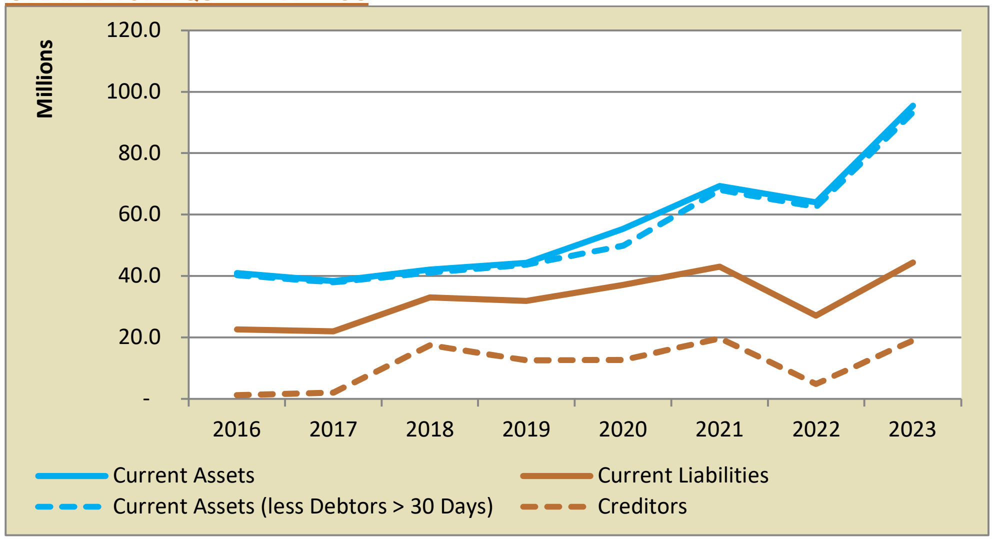
Current assets improved by 49.3% to a total of R95.5 million at the current year end. This was driven by a considerable increase in cash and cash equivalents. The municipality's cash position has improved significantly since FY2018/19.

Current liabilities increased by 64.1% during the year to a total of R44.4 million. This was driven by increases in short-term provisions (R1.9 million) and creditors (R14.1 million). It is noted that R12.0 million of this increase consists of income received in advance for Road Maintenance Services. As such, trade payables increased marginally by R2.1 million. The creditors balance stood at R19.0 million as at FYE2022/23.

GRAPH 14: CURRENT LIABILITIES



GRAPH 15: LIQUIDITY RATIOS

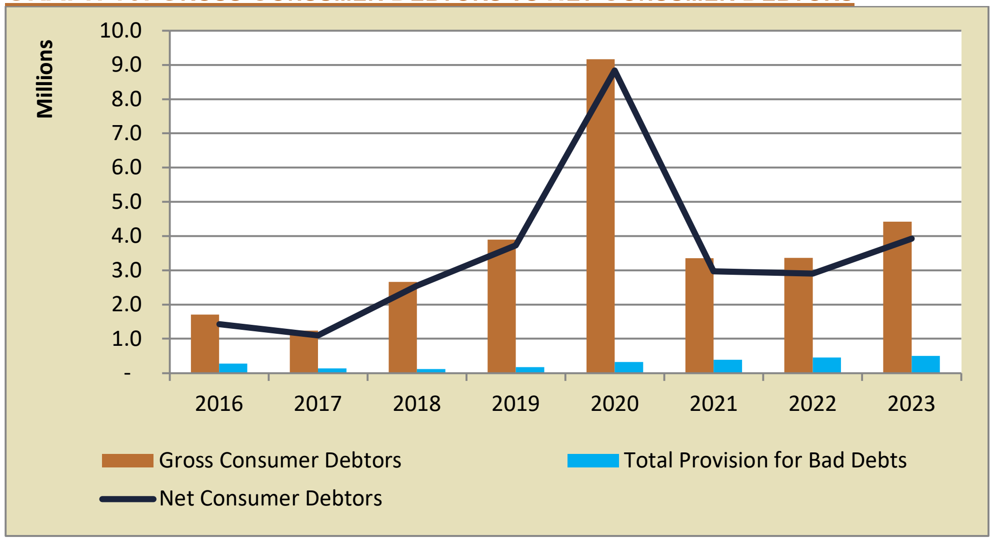


As reflected in TABLE 3, the movements in current assets and liabilities resulted in a deterioration of the liquidity position. The deterioration notwithstanding, the liquidity ratio of 2.15:1 remains healthy. This provides a healthy buffer in the event of potential financial shocks that may threaten the municipality's financial position.

TABLE 3: LIQUIDITY RATIOS

	2016	2017	2018	2019	2020	2021	2022	2023
Current Assets: Current Liabilities	1,81	1,74	1,28	1,39	1,49	1,61	2,36	2,15
Current Assets (less Debtors > 30 Days): Current Liabilities	1,78	1,72	1,25	1,37	1,35	1,58	2,31	2,10

GRAPH 16: GROSS CONSUMER DEBTORS VS NET CONSUMER DEBTORS

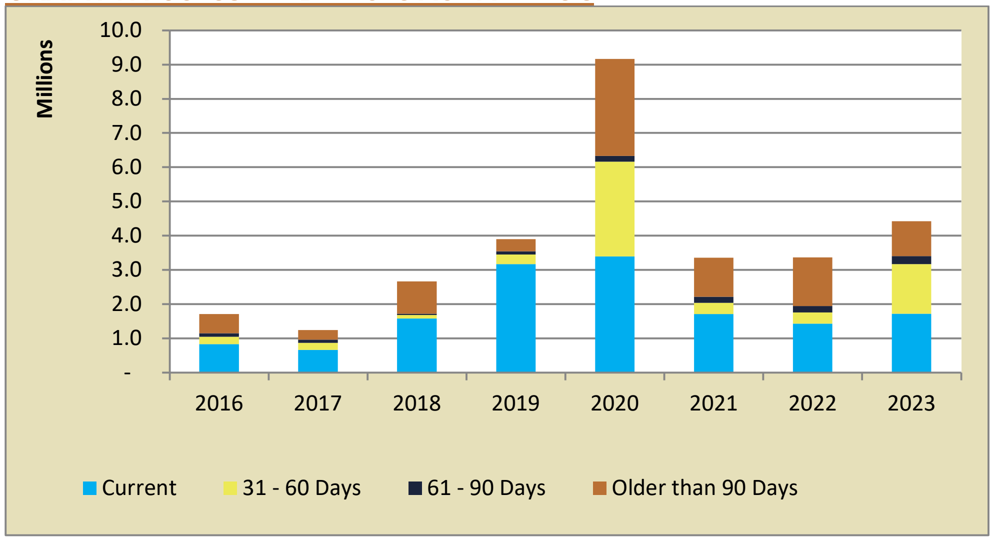


Gross consumer debtors increased to R4.4 million during the year, up from R3.4 million in the prior year. The provision for bad debts remained stable, resulting in an increase in net consumer debtors to R3.9 million. Gross debtors are mainly comprised of sundry debtors. The collection rate declined marginally but remained stable at 99% (FYE2021/22: 100%). The municipality has maintained an average collection rate of 100% p.a., this must be maintained.

TABLE 4: DEBTORS RATIOS

	2017	2018	2019	2020	2021	2022	2023
Increase in Billed Income p.a. (R'm)	(0,5)	82,9	14,0	9,7	30,2	(8,6)	2,4
% Increase in Billed Income p.a.	-3%	590%	14%	9%	25%	-6%	2%
Gross Consumer Debtors Growth	-28%	116%	46%	135%	-63%	0%	32%
Payment Ratio/Collection Rate (%)	**102%**	**99%**	**99%**	**96%**	**104%**	**100%**	**99%**

GRAPH 17: CONSUMER DEBTORS AGE ANALYSIS



Financial Performance

Graph 18: Analysis of Surplus

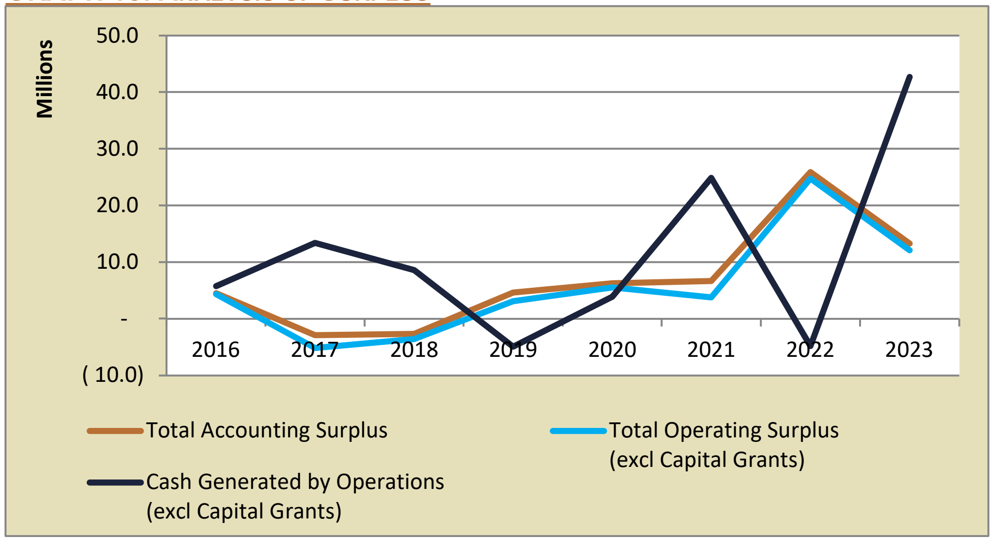


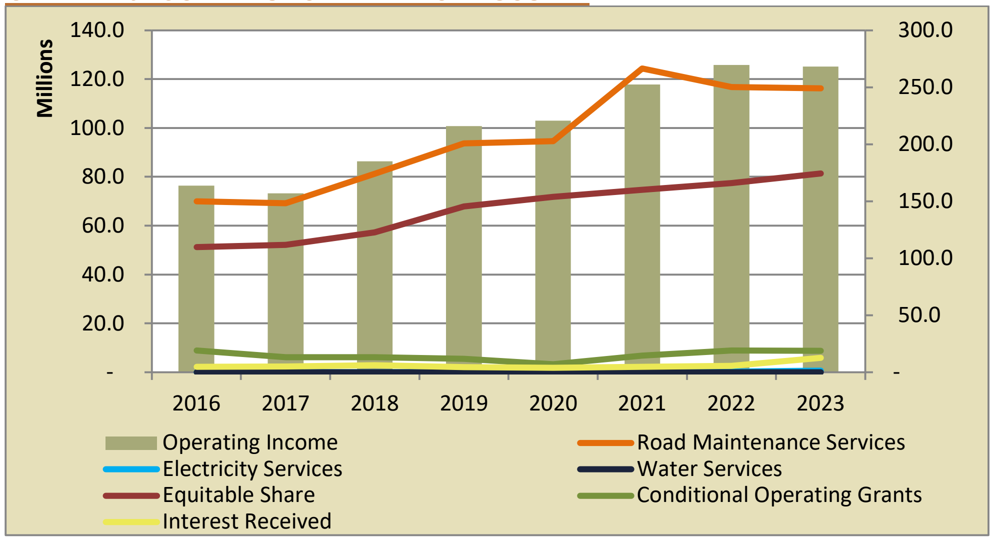
Table 5: Total Income vs Total Expenditure

	2016	2017	2018	2019	2020	2021	2022	2023
Total Income	164,0	159,3	186,0	217,3	221,5	255,2	270,5	269,4
Total Operating Expenditure	159,5	162,0	188,7	212,7	215,3	248,6	244,6	256,1
Operating Income (excl Cond Grants)	84,8	81,6	179,0	210,4	217,5	245,5	260,5	259,4

Overberg's total income declined marginally to R269.4 million from R270.5 million in the prior year. Operating expenditure on the other hand increased by R11.5 million (4.7%) to R256.1 million. These movements resulted in a decline in the accounting surplus to R13.3 million, down from R25.9 million in the prior year. Upon the exclusion of capital grants, an accounting surplus of R12.0 million was posted.

The municipality generated R42.7 million in cash from operations in FY2022/23, a high for the review period. Delays in payments of creditors contributed to this increase, along with a considerable increase in cash received from Roads Maintenance Services as compared to the previous year. The municipality must refrain from delaying payments to creditors as this is an unsustainable method of generating cash and creditors will need to be serviced at some point in time.

Graph 19: Contribution per Income Source

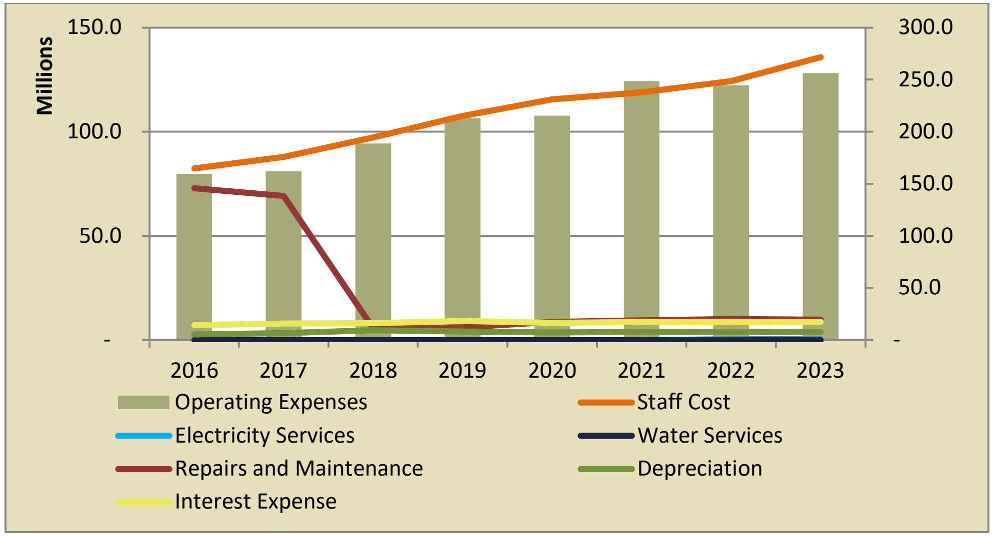


Analysis of the municipality's revenue items reveals that Road Maintenance Services remained the predominant revenue item, constituting 43% of revenue in FY2022/23. This is followed by equitable share with a contribution of 30%. Reduced gains from the disposal of PPE were the driving factor behind the reduction in income in FY2022/23. The municipality extracts reasonable revenue from Resorts with R16.0 million generated in FY2022/23.

A potential avenue through which Overberg DM can extract additional revenue is through its investment property. No rental revenue was earned from investment property during FY2022/23. One can not help but feel that the municipality is missing out on a potential revenue enhancer through not sweating its assets. It is recommended that the municipality considers potential avenues of extracting additional revenue from its investment property or alternatively, considers disposals.

Total grants received (including Roads Maintenance Services) of R207.7 million constituted 77% of total revenue in FY2022/23. This renders the municipality heavily reliant on grant funding.

GRAPH 20: CONTRIBUTION PER EXPENDITURE ITEM



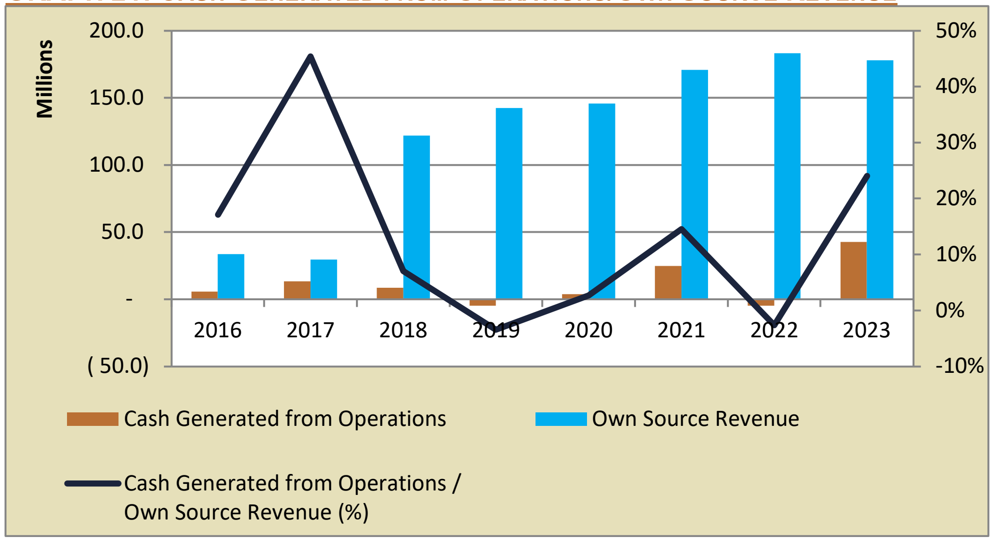
Staff costs remained the predominant expenditure item, constituting 51% of operating expenditure in FY2022/23. This is followed by other expenditure which accounted for approximately 32% of operating expenditure. Other expenditure is made up of many items, with the predominant items in FY2022/23 being fuel costs (R24.9 million) and materials (R24.4 million).

A concern for the municipality is that following a dispute with SARS, it has been determined that the municipality must repay the output VAT portion of the funds received relating to Roads Maintenance Services. Considering the hefty proportion of revenue generated from Roads Maintenance Services, this unforeseen expense has the potential to negatively impact the municipality's financial position. The VAT portion of the R116.2 million derived from Roads Maintenance Services would come to an approximate R17.4 million for FY2022/23. This alone would turn the accounting surplus of R12.0 million into an accounting deficit of R5.4 million. On a positive note, the municipality is able to claim input VAT on Road Maintenance Services and this contributed to the significant increase in cash generated by operations during the year.

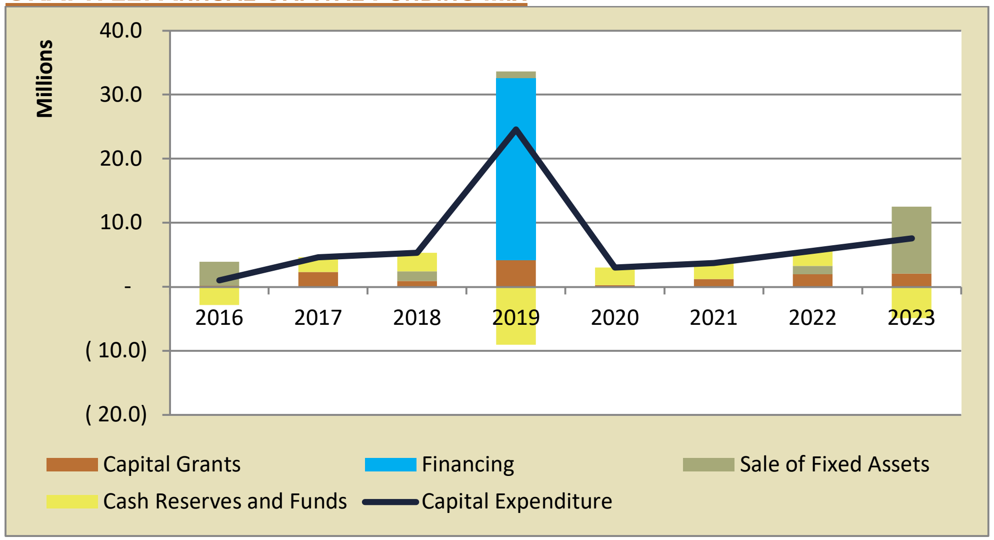
The municipality incurred R9.7 million in expenditure to repair and maintain its asset base in FY2022/23, a marginal decline from R10.0 million in the prior year. This translates to approximately 11% of PPE & IP. While this is higher than the NT recommendation of 8%, it is noted that this includes expenditure on Road Maintenance Services which are considered operational costs. It is nonetheless positive to note that the municipality is adequately maintaining its asset base.

Cash Flow

GRAPH 21: Cash Generated from Operations/Own Source Revenue



GRAPH 22: Annual Capital Funding Mix



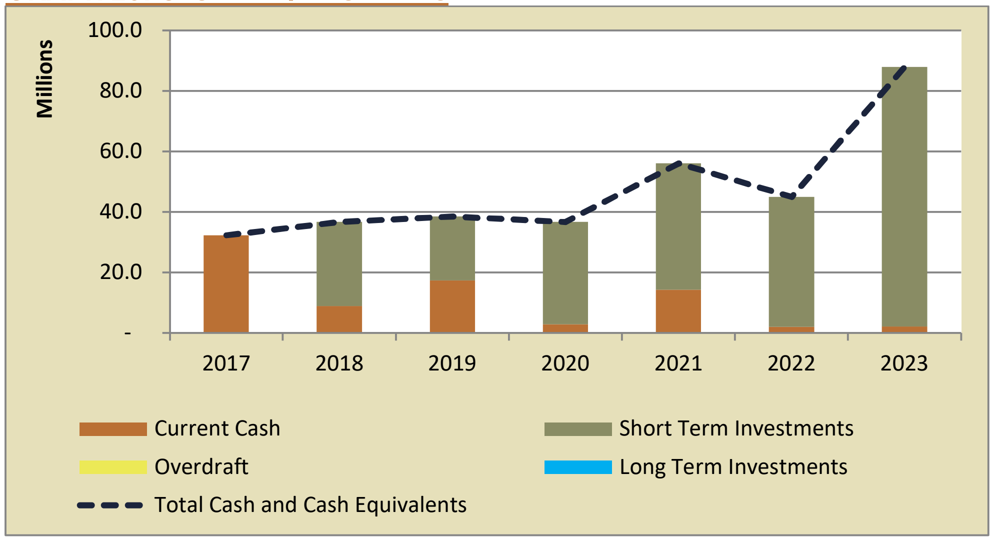
Cash generated from operations (excluding capital grants) increased significantly during FY2022/23, from cash utilised by operations of R4.8 million in the prior year to R42.7 million generated in the current year. This was driven by increases in receipts of Roads Maintenance Services funding, as well as an increase in operational transfers. Additionally, a decline in cash spent to pay suppliers and employees contributed to this increase. The municipality must be wary of delaying payments to creditors as this debt will need to be serviced at some point in time and the risk of incurring additional finance charges increases with time.

Capital expenditure in FY2022/23 amounted to R7.6 million. This was predominantly spent on specialised vehicles (R2.8 million), other vehicles (R1.1 million) and machinery and equipment (R1.3 million). This was primarily funded through the sale of properties and capital grant funding. The total capital outlay over the review period came in at R55.4 million.

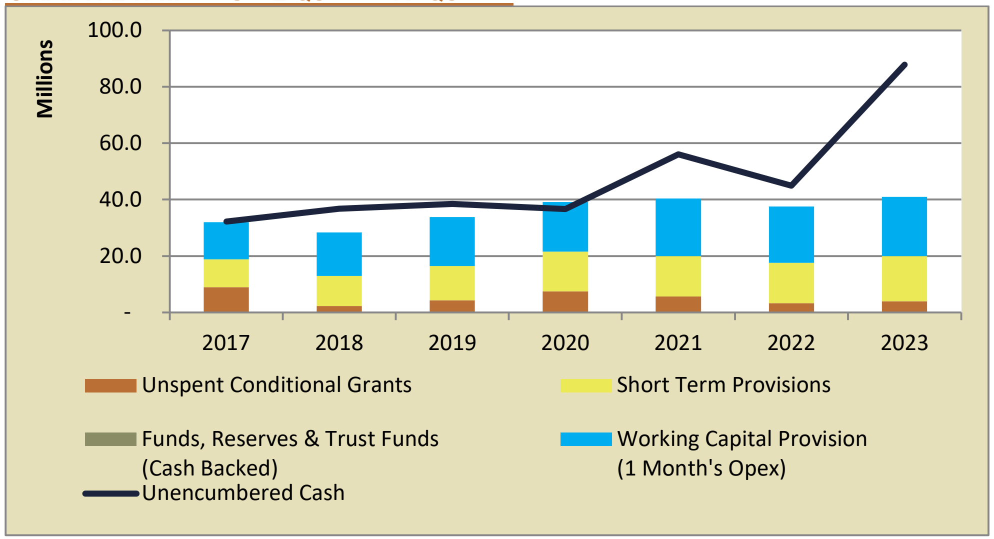
The municipality is considering undertaking a loan of around R50 million in FY2025/26 to fund a project relating to a 3rd cell of the landfill site. This will undoubtedly add additional leverage to Overberg's debt profile. While there is scope to undertake additional loans, even to this extent, the additional debt in this case will not materially impact the municipality's financial position. This is due to the fact that the municipality is expecting to recover the capital and interest payments of this loan from certain municipalities within the district who utilise this landfill site. As such, this will essentially result in an "in-and-out" transaction.

The municipality largely struggled to fully implement its capital budget over the review period, with the 5-year average capital budget implementation indicator of 67% evidence of this.

GRAPH 23: CASH AND INVESTMENTS



GRAPH 24: MINIMUM LIQUIDITY REQUIRED



The municipality's cash position has improved over the review period, with the cash and cash equivalents balance of R87.9 million as at FYE2022/23 representing a peak for the review period. The municipality increased its short-term investments by 99.5% (R42.8 million) during FY2022/23. This represents a healthy cash position and is a significant driver of the healthy liquidity position in which the municipality finds itself.

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. Overberg's cash and cash equivalents balance of R87.9 million was sufficient to cover the minimum liquidity requirement of R41.0 million, resulting in cash surplus of R46.9 million for the current year. Overberg has posted cash surpluses above the minimum liquidity requirements in 6/8 years under review, including the most recent 3 years. The cash coverage ratio increased to 2.1:1 from 1.2:1 in the prior year. This indicates that the municipality has a sufficient liquidity buffer in the event of potential financial shocks. The ability to consistently meet the minimum liquidity requirements is a key indicator of financial sustainability.

TABLE 6: MINIMUM LIQUIDITY REQUIREMENTS

	2016	2017	2018	2019	2020	2021	2022	2023
Unspent Conditional Grants	11,8	9,0	2,2	4,3	7,5	5,7	3,3	3,9
Short Term Provisions	9,0	9,8	10,8	12,1	14,0	14,3	14,2	16,1
Funds, Reserves & Trust Funds (Cash Backed)	-	-	-	-	-	-	-	-
Total	**20,9**	**18,8**	**13,0**	**16,5**	**21,5**	**20,0**	**17,5**	**20,0**
Unencumbered Cash	22,4	32,3	36,7	38,4	36,6	56,1	44,9	87,9
Cash Coverage Ratio (excl Working Capital)	1,1	1,7	2,8	2,3	1,7	2,8	2,6	4,4
Working Capital Provision (1 Month's Opex)	13,1	13,2	15,3	17,4	17,6	20,4	20,1	21,0
Cash Coverage Ratio (incl Working Capital)	0,7	1,0	1,3	1,1	0,9	1,4	1,2	2,1
Minimum Liquidity Required	33,9	32,0	28,3	33,8	39,1	40,4	37,6	41,0
Cash Surplus/(Shortfall)	**(11,5)**	**0,3**	**8,4**	**4,6**	**(2,5)**	**15,7**	**7,3**	**46,9**

IPM Shadow Credit Score

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

Based on the FY2022/23 performance of Overberg, the IPM credit model reflects a score of **6.4** which is comparable to an A+ on a national ratings scale. This credit score is relatively high compared to other municipalities in is considered to be Investment Grade. This means Overberg should be successful in obtaining competitive lending rates when borrowing.

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

TABLE 7: IPM CREDIT MODEL OUTCOMES

Modules	2023 (5)
Financial	3,1
Institutional	3,2
Socio-Economic	3,0
Infrastructure	3,7
Environmental	3,7

The municipality achieved a balanced outcome in the credit assessment, with reasonably high scores across the board. The financial module score was driven by the maintenance of a healthy liquidity position underpinned by a strong ability to generate cash from operations.

The socio-economic score, while the lowest of all modules, is by no means a poor score. This is driven by a reasonable economic growth rate over the past 5 years, predominantly driven by a growing local economy in Theewaterskloof.

The overall level of service provided in the district is reasonably high. This is the driving factor behind the healthy scores in the infrastructure and environmental modules. The municipality must continue to support the local municipalities in providing services to the communities within the district borders.

The achievement of a clean audit outcome contributed to the healthy score in the institutional module. This must be maintained in future.

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1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long-Term Financial Model Outcomes

5 Future Revenues

6 Affordable Future Capital Investment

7 Scenario Analysis

8 Ratio Analysis

9 Conclusions

Long-Term Financial Model Outcomes

Base Case Scenario

To develop a realistic Base Case model, the figures from the Adjusted Budget 2023/24 – 2025/26 were used. The historic analysis revealed that the municipality has improved its liquidity position over the review period, while financial performance has largely been stable. The objective of the model is to utilise realistic assumptions to support future financial sustainability. The key assumptions are listed below:

1. A collection rate of 99% is assumed to be maintained throughout the planning period.
2. The model incorporated the increases in revenue and expenditure items as announced in the Adjustment Budget.
3. The MTREF capital investment programme was maintained for FY2023/24, thereafter the following amendments were made:
   - FY2024/25: R10.0 million
   - FY2025/26: R11.0 million

   Assumed growth beyond the MTREF period is 6% p.a.
4. The Adjustment Budget borrowing programme was incorporated unaltered over the MTREF period. No additional borrowing was included. The annual borrowing under this scenario was adjusted to an average of 10-year amortising loans at a fixed interest rate equal to 6% over forecast CPI.
5. Repairs and maintenance expenditure was reduced to 8% of PPE & IP over 10 years.
6. The disposal of investment properties in FY2024/25 was modelled.
7. The Base Case operates on the premise that the current creditors accounts will be serviced as and when they fall due.

The outcomes of the Base Case are tabled below.

TABLE 8: BASE CASE OUTCOMES

Outcome	Base Case
Average annual % increase in Revenue	7,3%
Average annual % increase in Expenditure	7,5%
Accounting Surplus accumulated during Planning. Period (Rm)	R 17
Operating Surplus accumulated during Planning. Period (Rm)	R 9
Cash generated by Operations during Planning. Period (Rm)	R 162
Average annual increase in Gross Consumer Debtors	0,4%
Capital investment programme during Planning. Period (Rm)	R 94
External Loan Financing during Planning Period (Rm)	R 5
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 141
No of Months Cash Cover at the end of the Planning Period (Rm)	3,3
Liquidity Ratio at the end of the Planning Period	2,8 : 1
Gearing at the end of the Planning Period	0,2%
Debt Service to Total Expense Ratio at the end of the Planning Period	0,1%

The inclusion of the disposals of investment properties as part of the Base Case is responsible for the significant improvement in financial performance noted in FY2024/25. The Adjustment Budget reflects operating deficits in the outer years of the MTREF period, this is reflected in the downturn in financial performance in FY2025/26. A turnaround in financial performance is forecast in FY2027/28, as indicated in GRAPH 25 below. Thereafter, year-on-year improvements are forecast for the remainder of the planning period, with the municipality forecast to post operating surpluses in FY2028/29. Operating transfers are forecast to remain the predominant revenue item. This is inclusive of revenue received from the Provincial Government for Roads Maintenance Services. On the expenditure side, employee related costs are forecast to remain the predominant expenditure item throughout the forecast period.

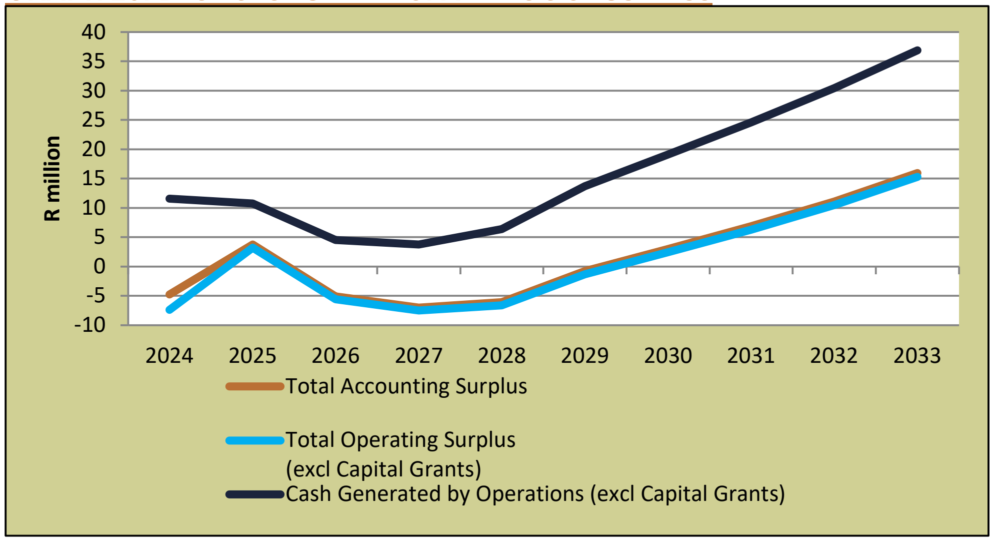
The forecast decline in financial performance notwithstanding, the municipality is forecast to generate cash from its operations throughout the planning period. Much like financial performance, a declining trend is forecast until FY2026/27, whereafter, year-on-year improvements are forecast for the remainder of the planning period. As illustrated in GRAPH 27 below, the municipality is forecast to meet the minimum liquidity requirement of 1-month's operating expenditure throughout the planning period. This is a key indicator of financial sustainability. GRAPH 29 below depicts the forecast movements in cash over the planning period. A significant upward trend is forecast from FY2026/27 onwards.

The capital funding mix employs a similar philosophy as the historic funding mix in that borrowing is kept to a minimum and the predominant funding source remains the municipality's own cash reserves. The municipality's healthy liquidity position caters for the assumed funding mix. The municipality undertook borrowings only once during the 8-year review period. As such, no borrowings have been included except for FY2023/24 as included in the Adjustment Budget. It is worth noting that this borrowing consists of the unspent portion of the previous loan undertaken in FY20218/19. The Base Case capital investment programme reflects an acceleration of the historic programme in which the annual average capital outlay amounted to R6.9 million.

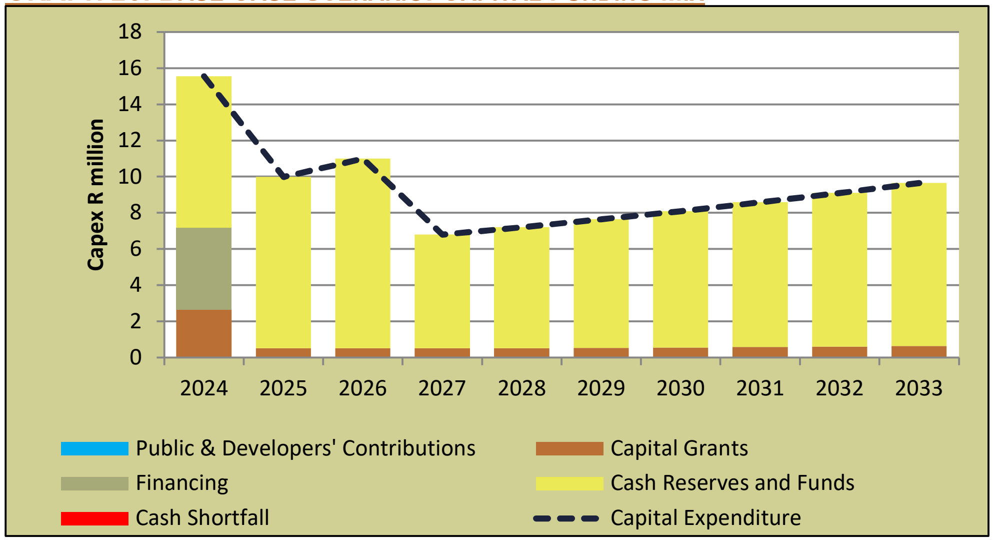
As depicted in GRAPH 28, the municipality's liquidity position is forecast to weaken over the first half of the planning period, whilst remaining reasonably healthy. This is evidenced by the narrowing of the gap between current assets and liabilities. As the planning period progresses, the improved financial performance is forecast to drive the strengthening of the liquidity position for the remainder of the planning period.

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

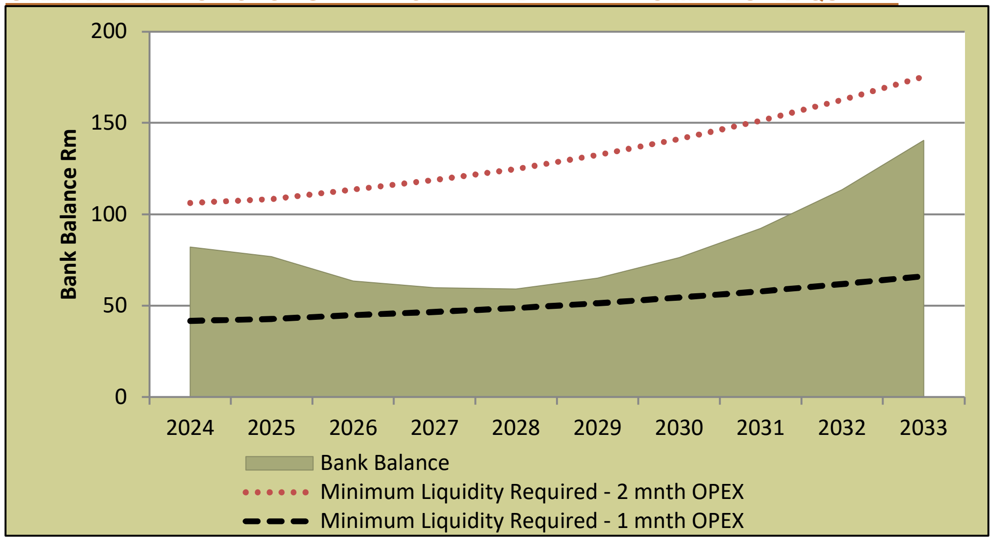
GRAPH 25: BASE CASE SCENARIO: ANALYSIS OF SURPLUS



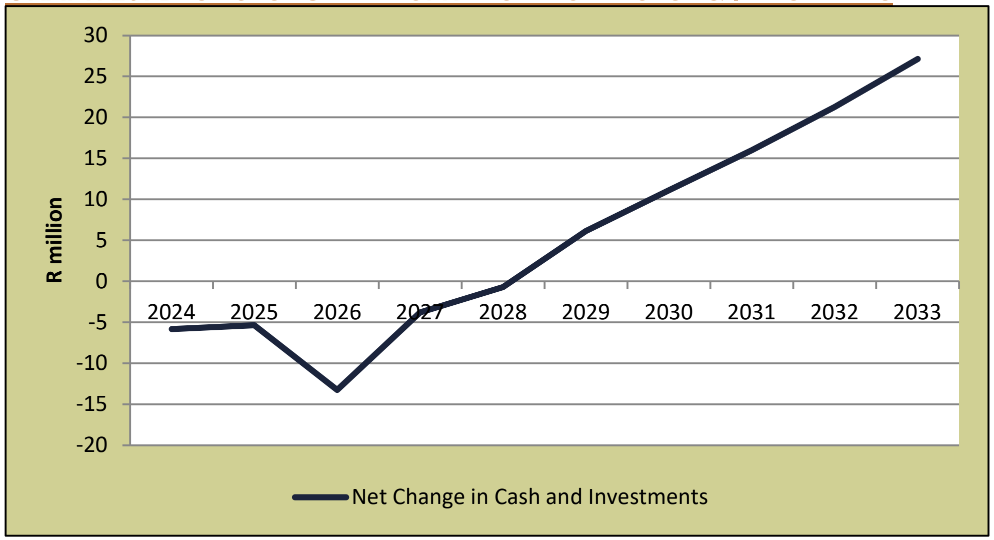
GRAPH 26: BASE CASE SCENARIO: CAPITAL FUNDING MIX



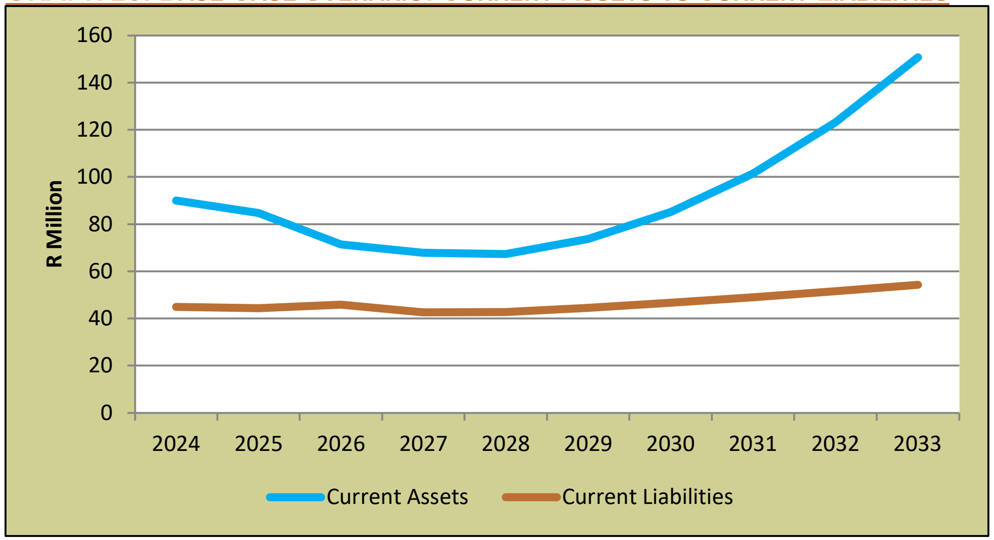
GRAPH 27: BASE CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY



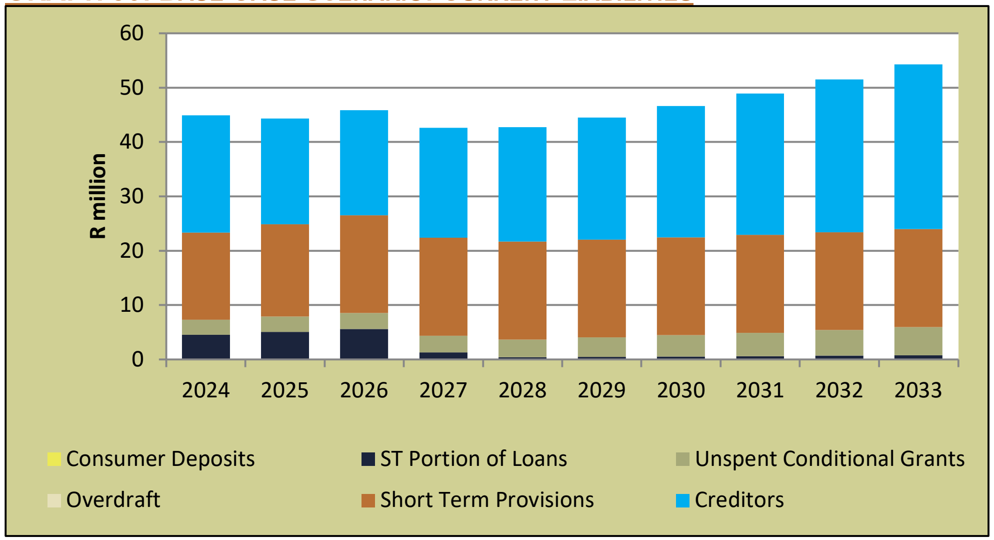
GRAPH 29: BASE CASE SCENARIO: NET CHANGE IN CASH & INVESTMENTS



GRAPH 28: BASE CASE SCENARIO: CURRENT ASSETS VS CURRENT LIABILITIES



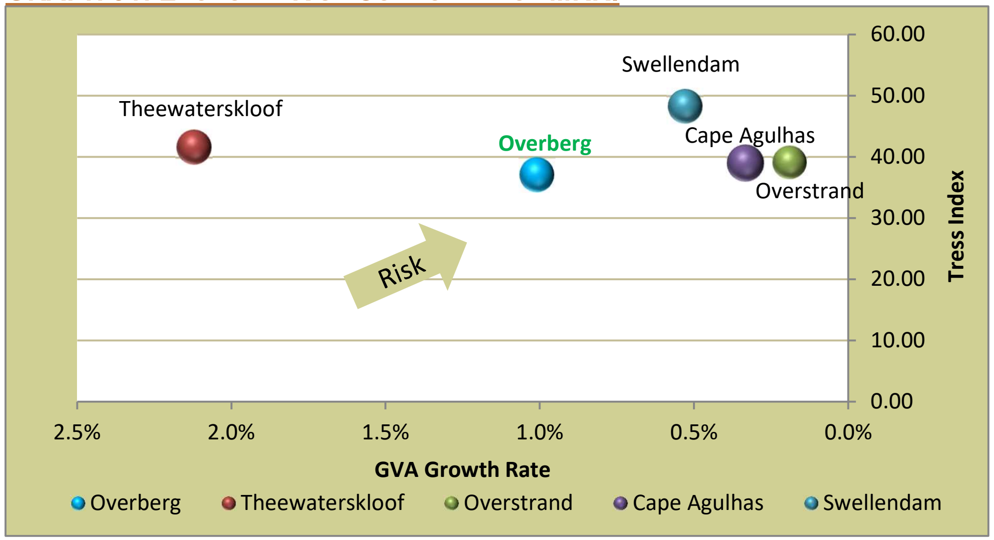
GRAPH 30: BASE CASE SCENARIO: CURRENT LIABILITIES



Future Revenues

Municipal Revenue Risk Indicator (MRRI) = "Medium to High"

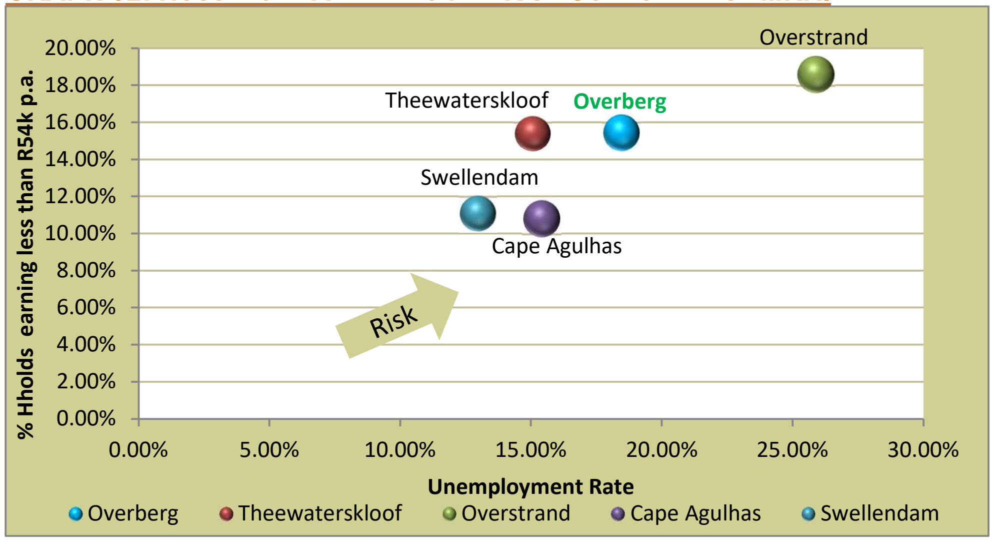
GRAPH 31: Economic Risk Component of MRRI



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).

Overberg DM's economy has exhibited reasonably sluggish growth in recent years, as evidenced by the 5-year annual average GVA growth rate of 1.01%. This is heavily driven by Theewaterskloof LM with a GVA growth rate of 2.12% p.a. over the same period. This is well exceeded by the population growth rate of 1.46% p.a. over the same period. GVA per capita of R69 574 in 2022, as well as the high degree of economic diversification contribute to the "**Medium to High**" rating on the economic risk component of the MRRI. This is predominantly attributable to the sluggish economy.

GRAPH 32: Household Ability to Pay Risk Component of MRRI

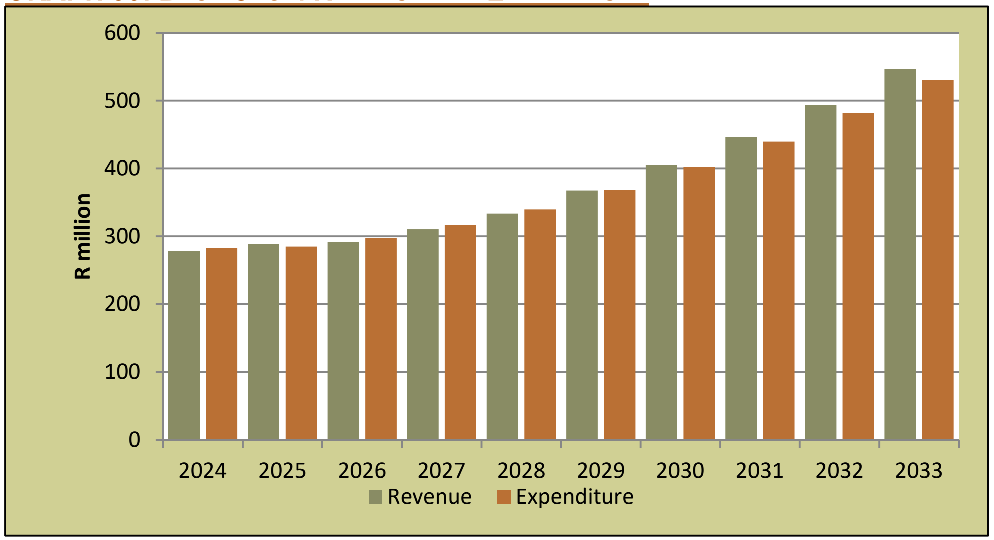


The percentage of indigent households reliant on support of 15.44%, the official unemployment rate of 18.46% and the human development index of 0.71 resulted in a **"Medium to High"** rating on the household ability to pay risk component of MRRI.

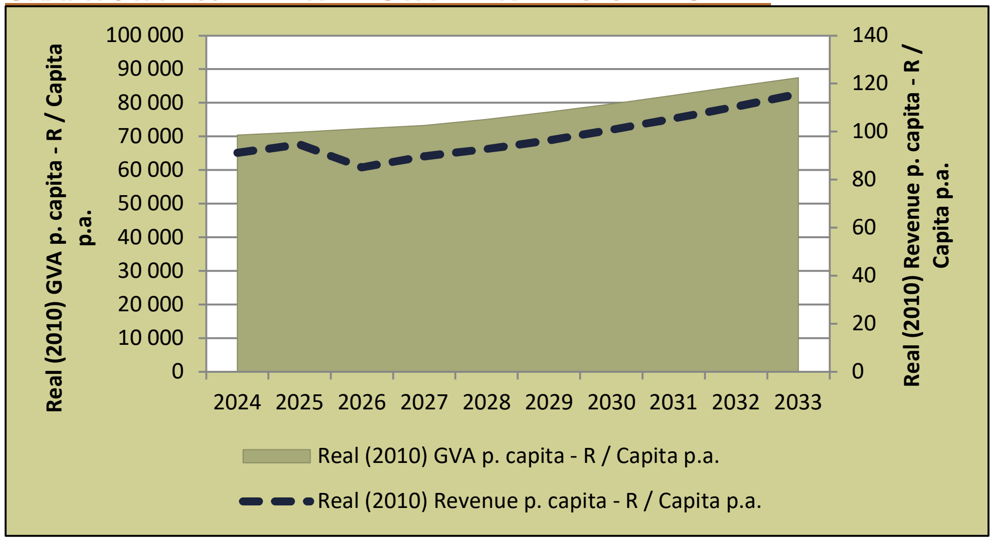
As a result, Overberg has a "**Medium to High**" risk rating on the MRRI indicator scale - i.e., there is a high risk that the municipality will not be able to generate the forecast cash revenue expected in future.

Municipal Revenues

GRAPH 33: Base Case: Revenue and Expenditure



GRAPH 34: Projected Real GVA and Revenues per Capita



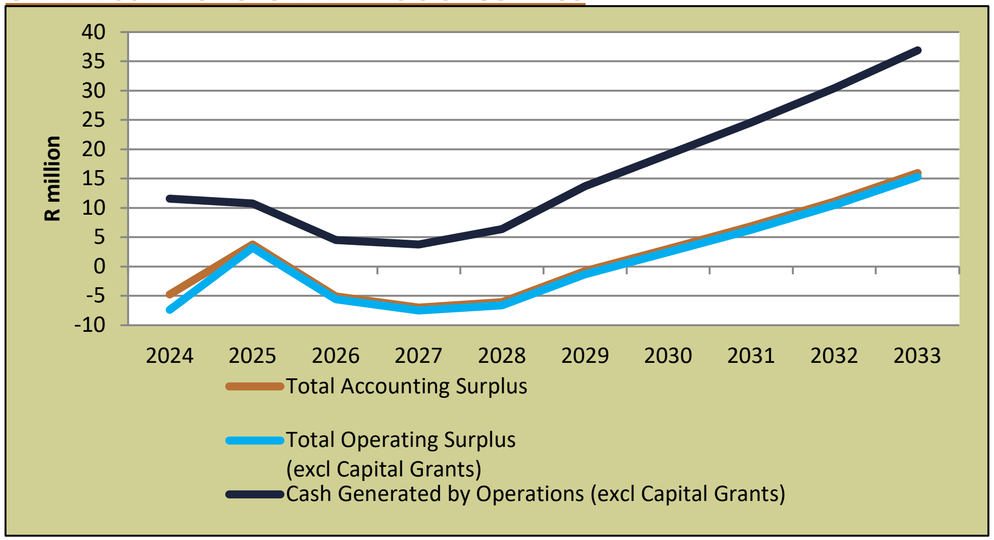
The Base Case estimates that, over the planning period, future nominal revenue (including capital grants) will grow at an average rate of 7.3% p.a. This growth in revenue includes: (i) tariff increases, (ii) increased sales and (iii) additional revenue sources. Future nominal expenditure is estimated to grow at a marginally higher rate of 7.5% over the same period.

Graph 35 below illustrates that Overberg is forecast to post operating deficits until FY2028/29. This is a product of the pessimistic operating budget. Graph 33 above indicates that in the latter half of the planning period, growth in revenue is forecast to outpace growth in expenditure. The margin thereof is forecast to grow year-on-year. Operating grants, inclusive of Roads Maintenance Services revenue, are forecast to form the vast majority of operating revenue over the planning period. A potentially fruitful avenue in revenue enhancement lies in the municipality's many investment properties which are currently underutilised. It is recommended that the municipality begins to "sweat" these assets, or alternatively considers their disposal. A scenario depicting the outcome of this was modelled and will be explored later in this report.

A marked improvement in economic growth is forecast in the Overberg District. The outcome of this is reflected in the forecast increase in Real GVA per capita over the planning period. Real GVA per capita is forecast to improve by 25.1% over the planning period, increasing from R69 890 in 2022 to R87 455 in 2033. This is driven by a forecast average annual GVA growth rate of 3.62% over the planning period. Real revenue per capita on the other hand is forecast to decline over the MTREF period, before year-on-year increases are forecast for the remainder of the planning period. Overall, a net increase of 12.8% is forecast with this metric expected to increase from R102 in 2023 to R115 in 2033.

Growth of the district economy is critical for the municipality to generate revenue as it has a direct impact on households' ability to pay for municipal services (MRRI). Economic growth translates into an expansion of the municipality's revenue base, which, in turn, will facilitate an acceleration of the capital investment programme. This is crucial for the municipality to keep up with the increasing population and associated demand for services.

GRAPH 35: BASE CASE: ANALYSIS OF SURPLUS



The municipality's is forecast to generate cash from its operations throughout the planning period. This is forecast to decline over the MTREF period, in line with the forecast financial performance. The municipality is forecast to generate a total of R162 million in cash from operations over the planning period.

AFFORDABLE FUTURE CAPITAL INVESTMENT

CAPEX AFFORDABILITY AND FUNDING

For the total CAPEX demand for Overberg DM to be determined, an extensive analysis of the municipality's asset base would need to be conducted. This has not been completed as part of the Update process. Furthermore, we believe that the municipality's financial capacity should be determined first and foremost and from there the municipality can determine how the demand can best be met. As such, CAPEX affordability is the focus of this report.

TABLE 9: CAPEX AFFORDABILITY

Total 10-year CAPEX **Affordability:**	=	R 94 million

MTREF CAPITAL FUNDING MIX

Overberg's Adjustment Budget FY2023/24 to FY2025/26 expects a capital budget amounting to R20.4 million, funded as follows:

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

R'm	Total	2023/24	2024/25	2025/26
Public & Developers Contributions	**0**	0	0	0
Capital Grants	**3.6**	2.6	0.5	0.5
Financing	**4.5**	4.5	0	0
Cash Reserves and Funds	**12.3**	8.4	1.1	2.8
Total	**20.4**	**15.5**	**1.6**	**3.3**

10-YEAR CAPITAL FUNDING MIX

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

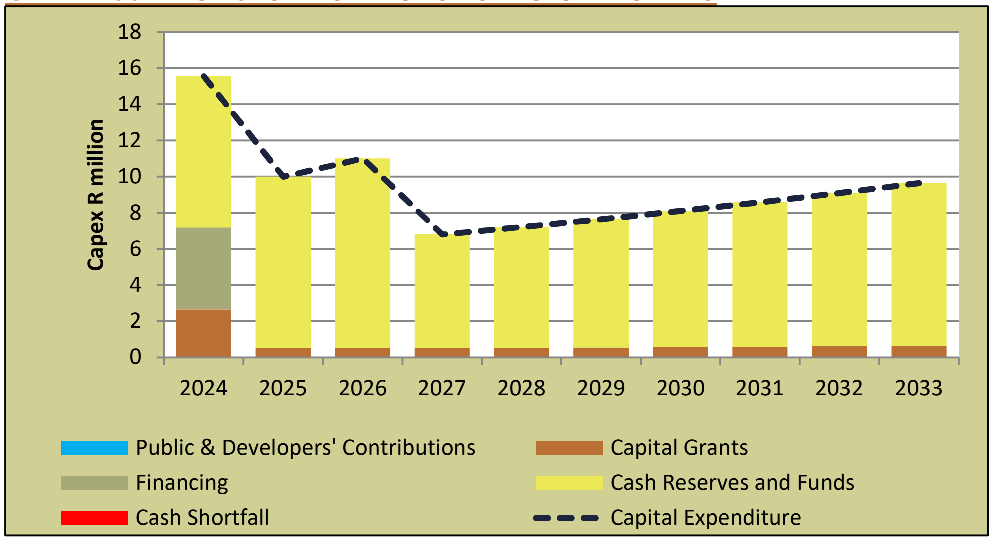
TABLE 11: BASE CASE 10-YEAR CAPITAL FUNDING MIX

Source	Rm	%
Public & Developers' Contributions	0	0 %
Capital Grants	7	8 %
Financing	5	5 %
Cash Reserves and Funds	82	87 %
Cash Shortfall	0	0 %
Capital Expenditure	**94**	**100 %**

Overberg's total capital outlay over the 8-year review period totalled R55.4 million, for an annual average of R6.9 million. The Base Case presents an accelerated capital investment programme compared to the historic performance, with an assumed annual average capital outlay of R9.4 million. This will primarily be funded through own cash. As highlighted earlier in this report, this will not be to the detriment of the municipality's liquidity position as the minimum liquidity requirement of 1-month's operating expenditure is forecast to be met throughout the planning period. Should the municipality wish to protect the liquidity position further, capacity remains to accelerate the borrowing programme.

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

GRAPH 36: BASE CASE DISTRIBUTION OF FUTURE FUNDING



GRAPH 37: BASE CASE ESTIMATE OF FUTURE EXTERNAL FINANCING

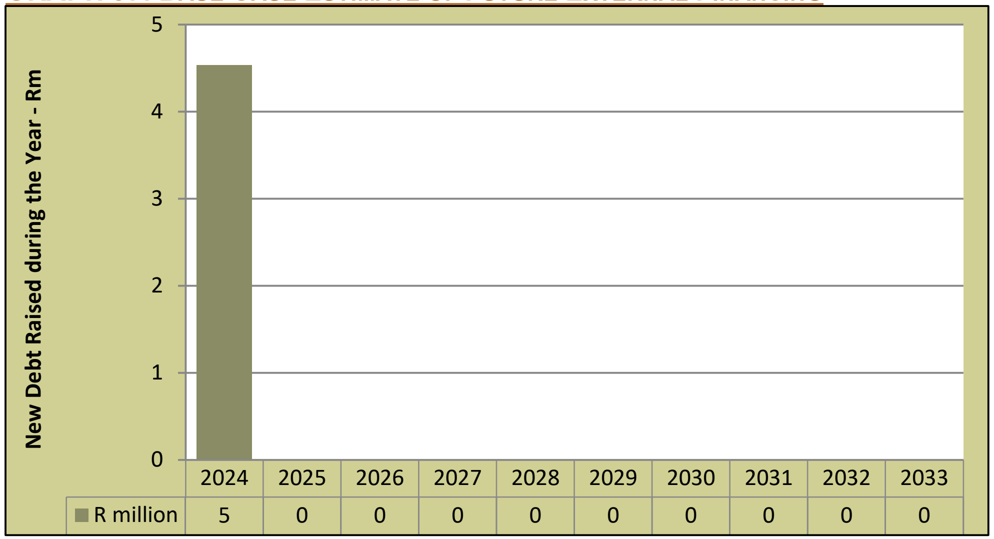


TABLE 12: BASE CASE DISTRIBUTION OF FUTURE CAPITAL FUNDING (R'M)

R'm	Total	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public & Developers' Contributions	**0**	0	0	0	0	0	0	0	0	0	0
Capital Grants	**7,5**	2,6	0,5	0,5	0,5	0,5	0,5	0,5	0,6	0,6	0,6
Financing	**4,5**	4,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Cash Reserves and Funds	**81,6**	8,4	9,5	10,5	6,3	6,7	7,1	7,6	8,0	8,5	9,0
Cash Shortfall	**0**	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Capital Expenditure	**93,6**	15,6	10,0	11,0	6,8	7,2	7,6	8,1	8,6	9,1	9,6

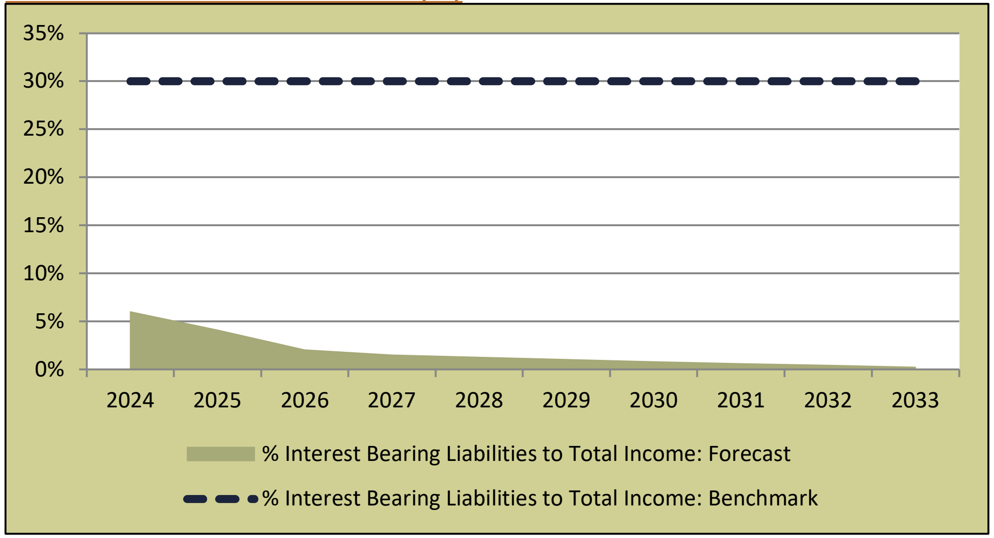
LIQUIDITY AND CAPITAL REPLACEMENT RESERVE

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

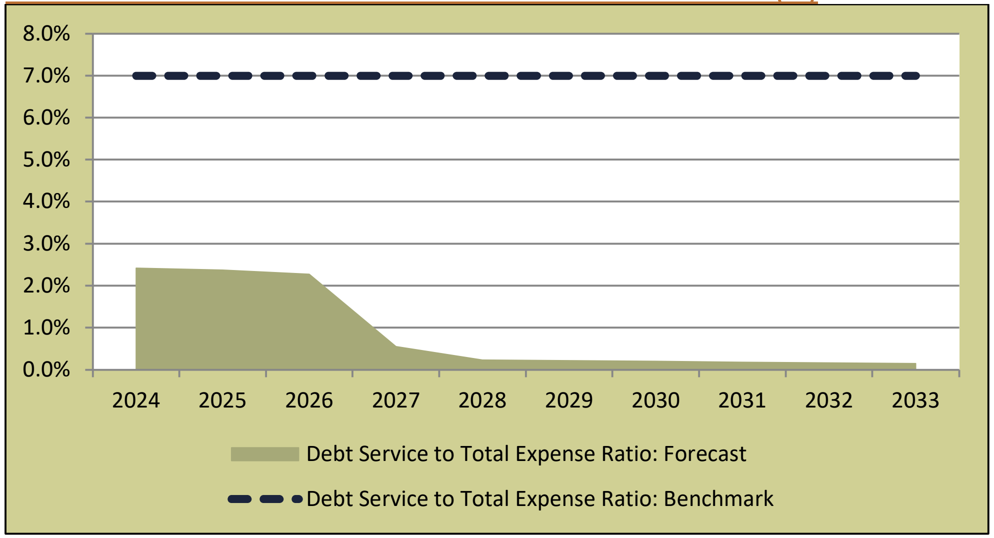
GEARING

The Base Case includes borrowing as per the Adjustment Budget in FY2023/24, thereafter no additional borrowing has been included. As such the debt indicators are forecast to decline over the planning period. The gearing ratio of 6.1% as at FYE2023/24, is forecast to decline to 0.2% by the end of the planning period. The debt service to total expense ratio is forecast to decline to 0.1% by FY2032/33 from 2.4% as at FYE2023/24. The Base Case debt profile provides scope to accelerate the borrowing programme if the municipality so wishes. This will likely unlock a further acceleration of capital investment.

GRAPH 38: BASE CASE GEARING (%)



GRAPH 39: BASE CASE DEBT SERVICE TO TOTAL EXPENDITURE (%)



SCENARIOS ANALYSIS

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

1. **To indicate the financial implications should the municipality have to repay the VAT relating to the Roads Maintenance Services revenue:**

    1.1. This scenario assesses the impact of the municipality repaying the accumulated VAT over the last 5 years on the Roads Maintenance Services revenue received from the Provincial Government. The total thereof is approximately R71 million. The municipality has already provided for approximately R26 million of this expense, as such, this scenario reflects the remaining R45 million being paid off in full in FY2024/25. All other input variables are assumed to be consistent with the Base Case.

    1.2. This scenario assesses the impact of the municipality repaying the remaining R45 million in increments over the planning period. All other input variables are assumed to be consistent with the Base Case.

2. **To indicate the impact of the municipality entering into long-term lease agreements for certain investment properties:**

    2.1. A scenario indicating the impact of the municipality entering into long-term lease agreements on its investment properties, the municipality has budgeted to receive approximately 10% of the market value in annual revenue from FY2025/26. This scenario indicates the impact of this being achieved. All other input variables are assumed to be consistent with the Base Case.

SCENARIO 1.1: REPAYMENT OF VAT – ONE-OFF PAYMENT

In light of the outcome of the court case contested between the Auditor General of South Africa and the Member of the Executive Council for Economic Opportunities, Western Cape, it has now been determined that the Overberg District Municipality is liable for the output VAT on the funds received in relation to Roads Maintenance Services. The accumulated amount due by the municipality over the last 5 years totals R71.7 million. The municipality has set aside an amount of R26.2 million in an ABSA Deposit Plus account to provide for this liability. This however leaves an amount of R45.5 million unprovided for. This scenario assesses the impact of the municipality settling the balance of this liability in a one-off payment of R45.5 million in FY2024/25.

As indicated in the outcomes in TABLE 13 below, the settlement of this liability will have a severe negative impact on the financial position of the municipality. Financial performance and cash generation are forecast to decline significantly, with the accumulated operating deficit deteriorating by R71 million over the planning period.

The graphs below highlight the severity of the forecast decline of the liquidity position. The municipality forecast to barely maintain enough cash to avoid moving into an overdraft position between FY2026/27 and FY2029/30. This is forecast to translate into a severely diminished liquidity ratio of 1.5:1 at the end of the planning period. The bank balance is forecast to recover to total R69 million at the end of the planning period.

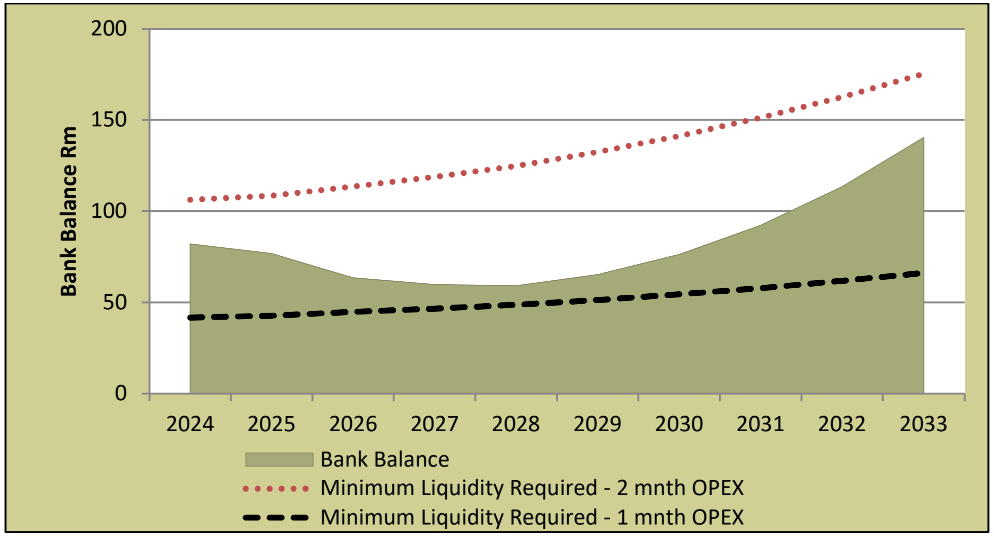
The outcome of the mentioned court case has the potential to have a severe impact on the financial standing of the municipality. Measures will need to be taken to protect the liquidity position should this liability need to be settled.

TABLE 13: SCENARIO 1.1: REPAYMENT OF VAT – ONE-OFF PAYMENT

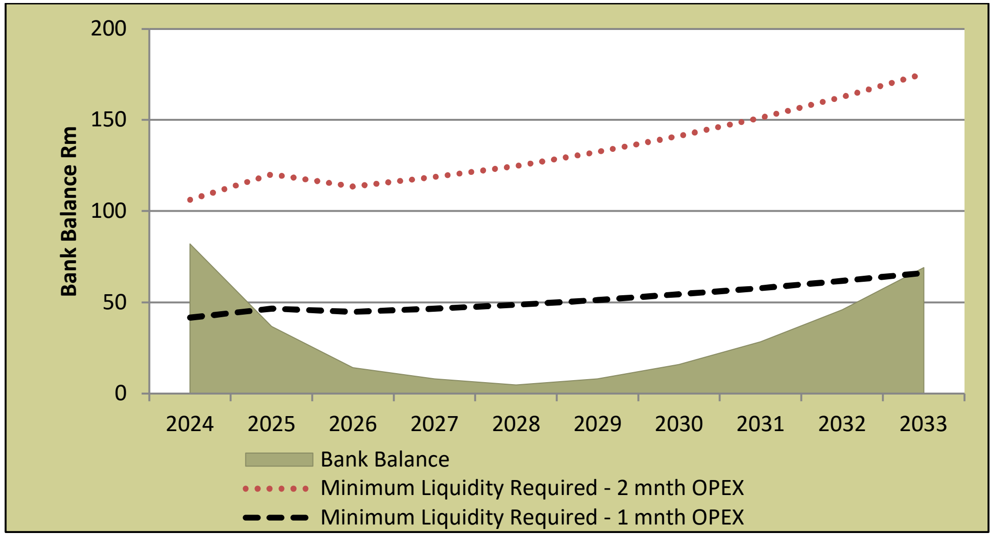
Outcome	Base Case	Repayment of VAT
Average annual % increase in Revenue	7,3%	7,2%
Average annual % increase in Expenditure	7,5%	7,5%
Accounting Surplus accumulated during Planning. Period (Rm)	R 17	-R 55
Operating Surplus accumulated during Planning. Period (Rm)	**R 9**	**-R 62**
Cash generated by Operations during Planning. Period (Rm)	**R 162**	**R 90**
Average annual increase in Gross Consumer Debtors	0,4%	0,4%
Capital investment programme during Planning. Period (Rm)	R 94	R 94
External Loan Financing during Planning Period (Rm)	R 5	R 5
Cash and Cash Equivalents at the end of the Planning Period (Rm)	**R 141**	**R 69**
No of Months Cash Cover at the end of the Planning Period (Rm)	**3,3**	**1,6**
Liquidity Ratio at the end of the Planning Period	**2,8 : 1**	**1,5 : 1**
Gearing at the end of the Planning Period	0,2%	0,3%
Debt Service to Total Expense Ratio at the end of the Planning Period	0,1%	0,1%

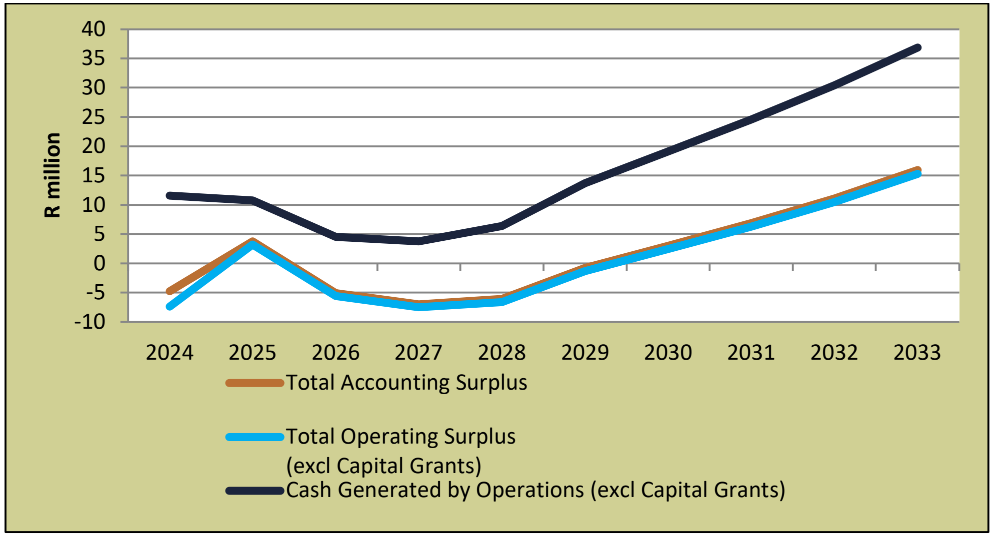
Scenario 1.1: Repayment of VAT – One-Off Payment

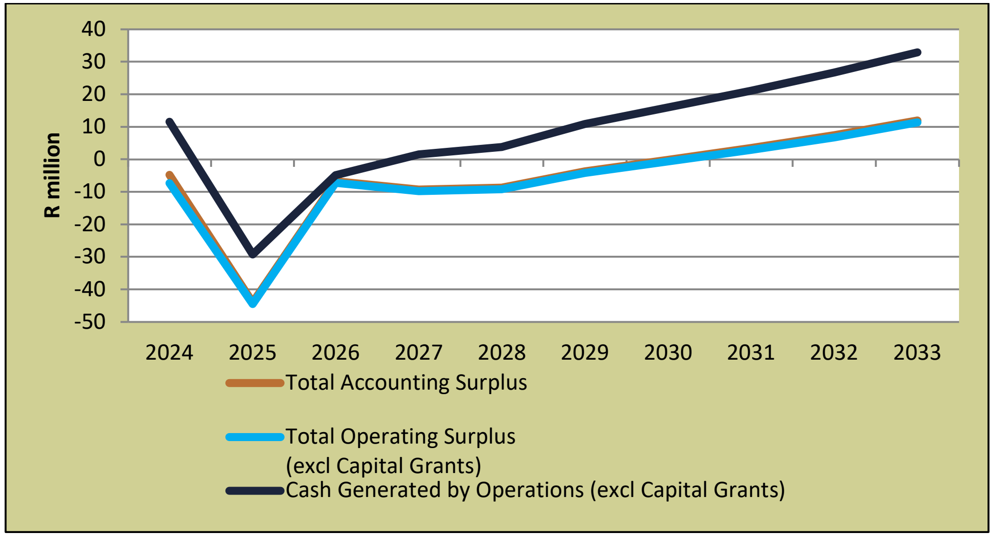
Base Case Scenario



Repayment of VAT – One-Off Payment







SCENARIO 1.2: REPAYMENT OF VAT- INCREMENTAL

This scenario follows on from Scenario 1.1 but deals with the settlement of the outstanding VAT liability with a different approach. This scenario assesses the impact of the VAT liability being paid off in annual increments over the planning period beginning in FY2024/25.

The outcomes of this scenario, while negative, are not as severe as the outcomes of Scenario 1.1. While financial performance and cash generation are forecast to deteriorate, the extent of this deterioration is not as severe. Additionally, the planning period end liquidity ratio of 1.6:1 is a marginal improvement from the above.

The planning period end outcomes of these scenarios are reasonably similar. The determining factor to this scenario being the preferred option lies in the graphs below. The incremental payments over the planning period will protect the cash position of the municipality. This is illustrated in the graph below whereby the bank balance is forecast to bottom out at R37.3 million in FY2028/29, as opposed to just R4.7 million in Scenario 1.1 at the same point in time.

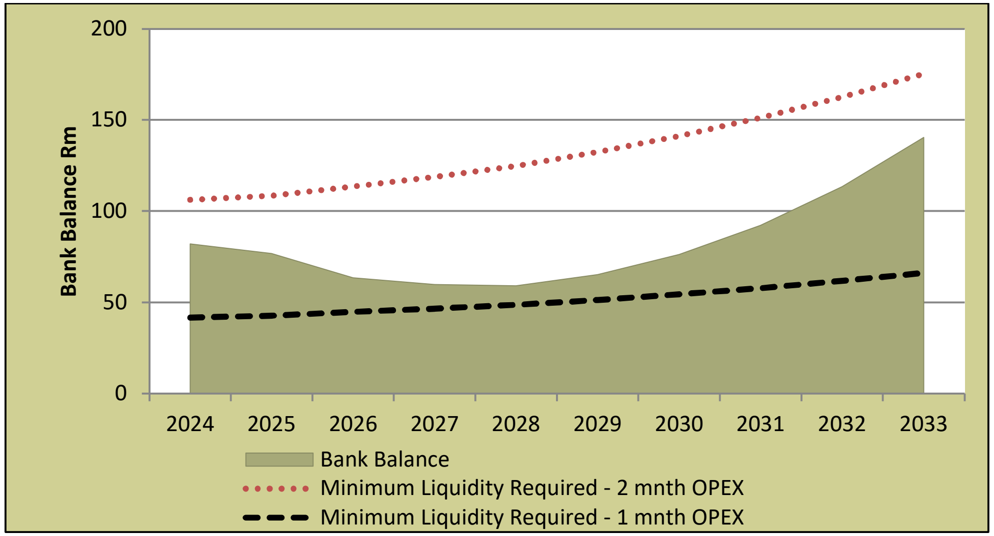
The outcomes of this scenario indicate that, if possible, the municipality should attempt to repay the VAT liability over a longer period of time. This will enable the municipality to continue to operate and execute on its mandate assisting the local municipalities and of delivering services to its communities.

TABLE 14: SCENARIO 1.2: REPAYMENT OF VAT- INCREMENTAL

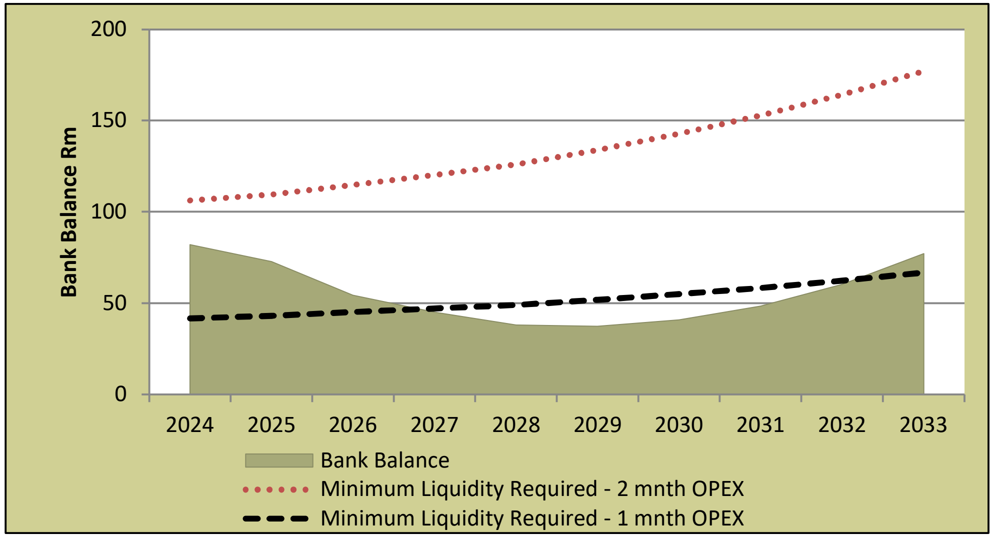
Outcome	Base Case	Repayment of VAT
Average annual % increase in Revenue	7,3%	7,3%
Average annual % increase in Expenditure	7,5%	7,7%
Accounting Surplus accumulated during Planning. Period (Rm)	R 17	-R 47
Operating Surplus accumulated during Planning. Period (Rm)	**R 9**	**-R 55**
Cash generated by Operations during Planning. Period (Rm)	**R 162**	**R 98**
Average annual increase in Gross Consumer Debtors	0,4%	0,4%
Capital investment programme during Planning. Period (Rm)	R 94	R 94
External Loan Financing during Planning Period (Rm)	R 5	R 5
Cash and Cash Equivalents at the end of the Planning Period (Rm)	**R 141**	**R 77**
No of Months Cash Cover at the end of the Planning Period (Rm)	**3,3**	**1,8**
Liquidity Ratio at the end of the Planning Period	**2,8 : 1**	**1,6 : 1**
Gearing at the end of the Planning Period	0,2%	0,3%
Debt Service to Total Expense Ratio at the end of the Planning Period	0,1%	0,1%

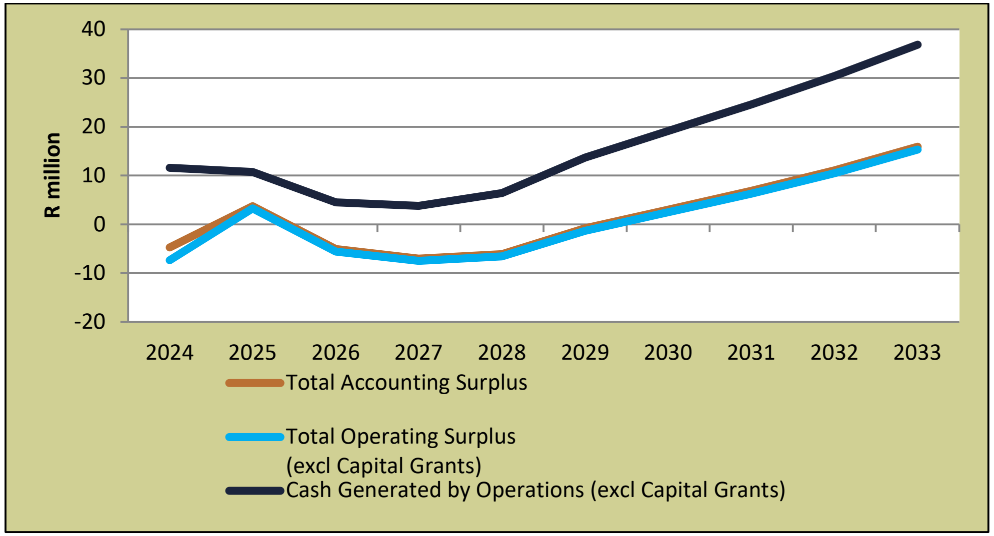
Scenario 1.2: Repayment of VAT - Incremental

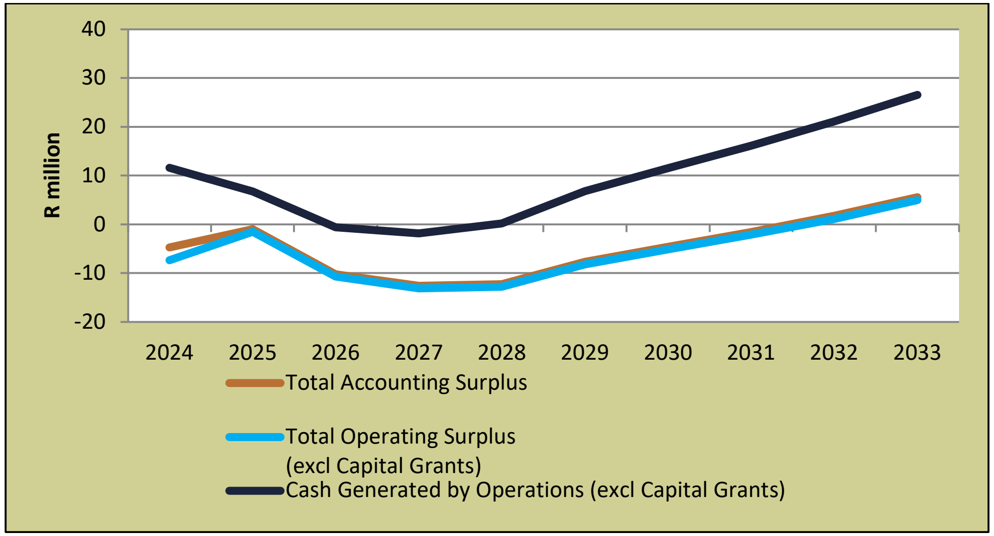
Base Case Scenario



Repayment of VAT - Incremental







Scenario 2: Investment Properties - Leased

Earlier in this report it was indicated that the municipality must attempt to "sweat" its investment properties. The municipality has 4 investment properties earmarked as potential revenue enhancers through long-term leases and/or PPP agreements. The market value thereof amounts to R104.5 million. The municipality expects to extract approximately 10% of the market value in revenue p.a. As such, this scenario assesses the impact of the municipality extracting approximately R10.5 million in additional revenue from rent of facilities and equipment from FY2025/26 onwards. The outcomes of this scenario are presented in Table 15 below.

The potential benefits that can be derived from effectively utilising the municipality's properties are vast. The additional rental income assumed to be received over the planning period are forecast to provide a significant boost to the municipality's financial position. Financial performance is forecast to experience a marked improvement, with the accumulated operating deficit in the Base Case moving to an accumulated operating surplus of R99 million over the planning period. Furthermore, the municipality is forecast to move into a surplus position in FY2024/25. This is forecast to be maintained over the remainder of the planning period.

The improved financial performance is forecast to translate into a substantial improvement in the ability to generate cash from operations, with R251 million forecast to be generated over the planning period. The additional cash generated is forecast to bolster the liquidity position, with the planning period end bank balance of R230 million a considerable improvement on the Base Case forecast. This is forecast to translate into an incredibly healthy liquidity position of 4.4:1 at the end of the planning period.

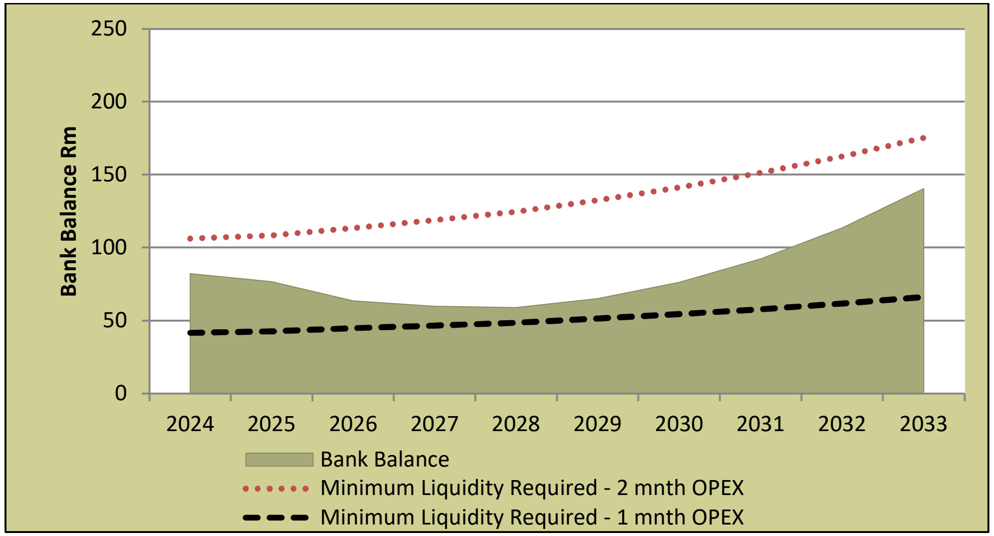
The outcomes of this scenario highlight the benefits that can be derived from utilising the municipality's investment property to its full extent. This must be explored by the municipality and plans put in place for this to materialise.

Table 15: Scenario 2: Investment Properties – Leased

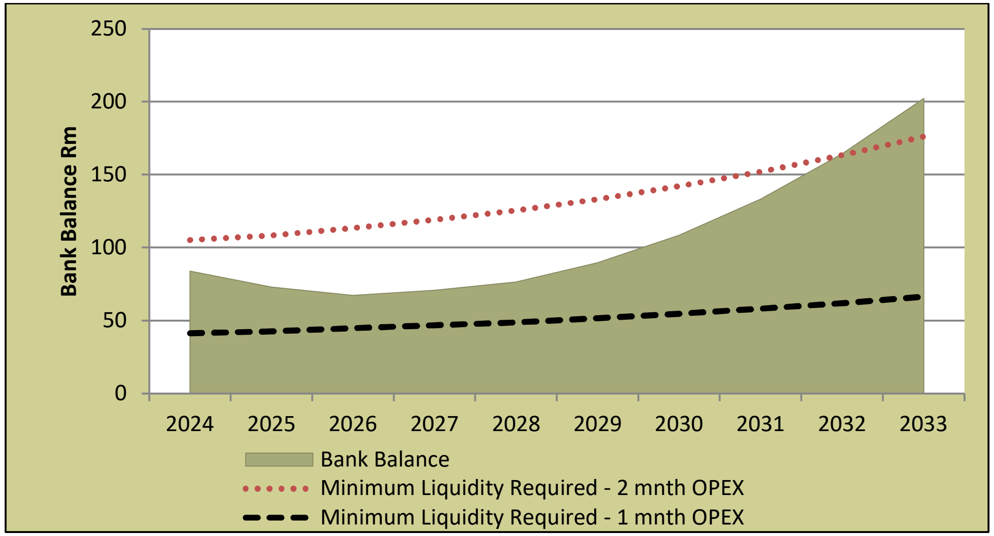
Outcome	Base Case	Lease of IP
Average annual % increase in Revenue	7,3%	7,6%
Average annual % increase in Expenditure	7,5%	7,6%
Accounting Surplus accumulated during Planning. Period (Rm)	R 17	R 107
Operating Surplus accumulated during Planning. Period (Rm)	**R 9**	**R 99**
Cash generated by Operations during Planning. Period (Rm)	**R 162**	**R 251**
Average annual increase in Gross Consumer Debtors	0,4%	0,4%
Capital investment programme during Planning. Period (Rm)	R 94	R 94
External Loan Financing during Planning Period (Rm)	R 5	R 5
Cash and Cash Equivalents at the end of the Planning Period (Rm)	**R 141**	**R 230**
No of Months Cash Cover at the end of the Planning Period (Rm)	**3,3**	**5,4**
Liquidity Ratio at the end of the Planning Period	**2,8 : 1**	**4,4 : 1**
Gearing at the end of the Planning Period	0,2%	0,2%
Debt Service to Total Expense Ratio at the end of the Planning Period	0,1%	0,1%

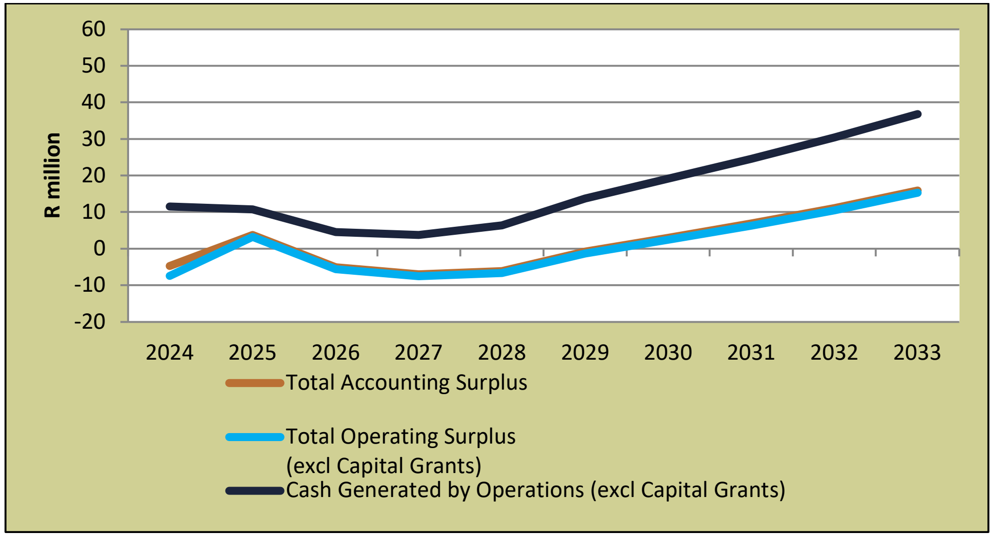
SCENARIO 2: INVESTMENT PROPERTIES - LEASED

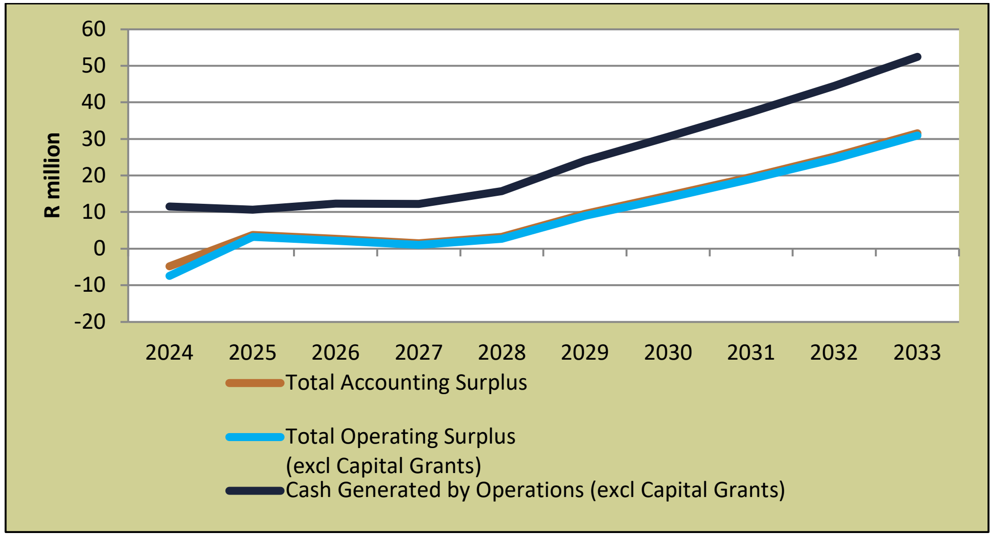
BASE CASE SCENARIO



INVESTMENT PROPERTIES - LEASED







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FORECAST RATIOS

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

		N.T. NORM	2024	2026	2028	2030	2032	2033	COMMENTS
FINANCIAL POSITION									
ASSET MANAGEMENT									
R29	Capital Expenditure / Total Expenditure	10% - 20%	5,2%	3,6%	2,1%	2,0%	1,9%	1,8%	CAPEX as a % of Total Expenditure will remain below the NT for the majority of the planning period.
R27	Repairs and Maintenance as % of PPE and Investment Property	8%	12,7%	10,8%	8,1%	8,1%	8,2%	8,2%	Repairs and maintenance as a percentage of PPE and IP will remain above the NT benchmark throughout the planning period.
DEBTORS MANAGEMENT									
R4	Gross Consumer Debtors Growth		-1,9%	-1,1%	-0,1%	1,1%	2,4%	3,1%	The Collection Rate is assumed remain at 99% throughout the planning period.
R5	Payment Ratio / Collection Rate	95%	99,5%	99,5%	99,5%	99,5%	99,5%	99,5%	
LIQUIDITY MANAGEMENT									
R49	Cash Coverage Ratio (excl Working Capital)		4,4 : 1	3 : 1	2,8 : 1	3,5 : 1	5 : 1	6,1 : 1	The bank balance will meet the minimum liquidity requirement throughout. The liquidity will reach 2.8:1 by the end of the planning period.
R50	Cash Coverage Ratio (incl Working Capital)		2 : 1	1,4 : 1	1,2 : 1	1,4 : 1	1,8 : 1	2,1 : 1	
R51	Cash Surplus / Shortfall on Minimum Liquidity Requirements		R 40,2 m	R 18,3 m	R 9,9 m	R 21,3 m	R 51,1 m	R 73,8 m	
R1	Liquidity Ratio (Current Assets: Current Liabilities)	1:1.5 - 1:2.1	2 : 1	1,6 : 1	1,6 : 1	1,8 : 1	2,4 : 1	2,8 : 1	
LIABILITY MANAGEMENT									
R45	Debt Service as % of Total Operating Expenditure	6% - 8%	2,4%	2,3%	0,2%	0,2%	0,2%	0,1%	The external financing programme is forecast to remain below the recommended benchmarks, due to no additional borrowing being included.
R6	Total Debt (Borrowings) / Operating Revenue	45%	6,0%	2,0%	1,3%	0,8%	0,4%	0,2%	
R7	Repayment Capacity Ratio		1,39	1,54	0,65	0,17	0,07	0,04	
R46	Debt Service Cover Ratio (Cash Generated by Operations / Debt Service)		2,1 : 1	0,7 : 1	8,7 : 1	24,8 : 1	39,1 : 1	47,3 : 1	

		N.T. NORM	2024	2026	2028	2030	2032	2033	COMMENTS
SUSTAINABILITY									
	Net Financial Liabilities Ratio	< 60%	10,2%	15,1%	18,1%	15,4%	10,1%	6,8%	Net Financial Liabilities are below the benchmark, but the Operating Surplus Ratio remains below the recommended lower benchmark for the majority of the planning period. Asset Sustainability is not calculated but entered as an assumption in the model. The municipality must ensure that a greater proportion of CAPEX is spent on asset replacement should it be required.
	Operating Surplus Ratio	0% - 10%	-2,7%	-1,9%	-2,0%	0,6%	2,1%	2,8%	
	Asset Sustainability Ratio	> 90%	68,3%	2,6%	2,6%	2,8%	3,0%	3,1%	
FINANCIAL PERFORMANCE									
EFFICIENCY									
R42	Net Operating Surplus / Total Operating Revenue	>= 0%	-2,7%	-1,9%	-2,0%	0,6%	2,1%	2,8%	The net operating surplus is forecast to fluctuate around 0% during the planning period, an indication that the municipality should endeavour to improve profitability by managing expenditure and maintaining the high-water surplus margins.
R43	Electricity Surplus / Total Electricity Revenue		29,0%	23,0%	23,3%	23,3%	23,3%	23,3%	
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 1,0 m	R 2,5 m	R 3,7 m	R 5,2 m	R 6,6 m	R 7,5 m	Billed Revenue and Operating Revenue Growth is, for the most part, above forecast CPI over the planning period. Cash generated from operations is expected to improve throughout the planning period.
R9	% Increase in Billed Income p.a.	CPI	-3,6%	8,6%	10,4%	11,7%	12,0%	12,1%	
R12	Operating Revenue Growth %	CPI	2,8%	1,2%	7,5%	10,1%	10,5%	10,7%	
R47	Cash Generated by Operations / Own Revenue		23,9%	8,1%	9,1%	20,9%	26,1%	28,0%	
R48	Cash Generated by Operations / Total Operating Revenue		5,1%	1,7%	2,1%	4,9%	6,3%	6,9%	

		N.T. NORM	2024	2026	2028	2030	2032	2033	COMMENTS
EXPENDITURE MANAGEMENT									
	Creditors Payment Period	30	54	51	49	46	42	41	Creditors' payment period is higher than the NT benchmark and forecast to reduce over the planning period. Staff costs as a percentage of total expenditure is forecast to remain within above recommended benchmark throughout the planning period. Contracted services to total expenditure is forecast to exceed the recommended benchmark.
R30	**Contribution per Expenditure Item: Staff Cost (Salaries, Wages and Allowances)**	25% - 40%	48,5%	53,2%	53,4%	51,5%	49,4%	48,3%	
	Contribution per expenditure item: Contracted Services	2% - 5%	11,5%	8,6%	7,6%	7,5%	7,4%	7,3%	
GRANT DEPENDENCY									
R10	**Total Grants / Total Revenue**		78,7%	78,8%	77,2%	76,7%	75,9%	75,5%	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**		21,5%	21,2%	22,8%	23,3%	24,1%	24,5%	
	Capital Grants to Total Capital Expenditure		17,0%	4,5%	7,1%	6,8%	6,6%	6,5%	

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Outcome of the Independent Financial Assessment

Overberg DM's total income declined marginally to R269.4 million from R270.5 million in the prior year. Operating expenditure increased by R11.5 million to R256.1 million in FY2022/23. This resulted in an operating surplus of R12.0 million, a marked reduction compared to the surplus of R24.8 million posted in the prior year. This reflects a decline in financial performance. The municipality's ability to generate cash from its operations improved dramatically during FY2022/23. The municipality generated R42.7 million in cash from its operations in FY2022/23 compared to R4.8 million in cash utilised from operations in the prior year. This was predominantly driven by delayed payments to creditors during the year as well as an increase in cash received relating to Roads Maintenance Services. Further underpinning the healthy cash generation is the maintenance of a healthy collection rate of 99% during FY2022/23.

Staff costs continued to form the bulk of the municipality's expenditure in FY2022/23, accounting for 51% of operating expenditure. Expenditure incurred to repair and maintain the municipality's asset base declined marginally in FY2022/23, dropping to R9.7 million from R10.1 million in the prior year. The decline notwithstanding, this level of expenditure remains healthy as indicated by the repairs and maintenance expenditure to PPE & IP ratio of 11%.

The decline in financial performance underpinned a weakening of the liquidity position. This is evidenced by the reduced liquidity ratio of 2.15:1 at the current year end, down from 2.36:1 recorded in the prior year. The decline notwithstanding, the municipality's liquidity remains healthy. Of concern, however, is the notable increase in creditors during FY2022/23. The creditors balance increased to R19.0 million from R4.9 million at the prior year end.

The municipality's healthy cash balance of R87.9 million was sufficient to meet the minimum liquidity requirement of R41.0 million resulting in a cash surplus of R46.9 million. This is a high for the review period.

The municipality had a total capital outlay of R55.4 million over the review period, for an annual average of R6.9 million. Overberg undertook a single loan of R28.4 million during the planning period, with this taking place in FY2018/19. This resulted in a gearing ratio of 6% and a debt service to total expense ratio of 3% at the current year end. This would suggest that there is capacity to borrow further in future.

Strengths

- Stable collection rate.
- Healthy liquidity position.
- Sufficient expenditure on repairs and maintenance.

Weaknesses

- Poor capital budget implementation.
- High reliance on single revenue item (Roads Maintenance Services).

Outcome of the Future Forecasts

A Base Case was developed with realistic, achievable assumptions that aim to guide the municipality towards long-term financial sustainability. The key assumptions are listed below.

1. A collection rate of 99% is assumed to be maintained throughout the planning period.
2. The model incorporated the increases in revenue and expenditure items as announced in the Adjustment Budget.
3. The MTREF capital investment programme was maintained for FY2023/24, thereafter the following amendments were made:
    - FY2024/25: R10.0 million
    - FY2025/26: R11.0 million

    Assumed growth beyond the MTREF period is 6% p.a.
4. The funding mix was altered to include accelerated external financing. FY2023/24 was left unaltered, no further borrowing was included.
5. The annual borrowing under this scenario was adjusted to an average of 10-year amortising loans at a fixed interest rate equal to 6% over forecast CPI.
6. Repairs and maintenance expenditure was reduced to 8% of PPE & IP over 10 years.
7. The disposal of investment properties in FY2024/25 was modelled.
8. The Base Case operates on the premise that the current creditors accounts will be serviced as and when they fall due.

The Base Case presents a sustainable outcome. The initial forecasts over the MTREF period are reasonably negative, however, this is a reflection of the Adjusted Operating Budget which expects operating deficits in the outer years of the MTREF period. Thereafter, financial performance is forecast to improve for the remainder of the planning period. Liquidity is forecast to be healthy, and an accelerated capital investment programme compared to the historic performance is considered affordable.

An additional 2 scenarios were run to indicate the impact on long-term sustainability of the repayment of output VAT relating to Roads Maintenance Services as well as engaging in long-term leases on investment properties. The outcomes of these scenario are summarised below.

Repayment of Output VAT on Roads Maintenance Services

This scenario assesses the impact of the municipality repaying the remaining R45.5 million in output VAT on the roads maintenance services that has not yet been provided for. This scenario is two-fold in that it assesses the financial implications of repaying the remaining balance in a single payment, or alternatively in increments over the planning period.

The option of repaying the remaining balance in a once-off payment is forecast to have a dire impact on the liquidity position. Additionally, the municipality is forecast to barely maintain sufficient cash to avoid moving into an overdraft position between FY2026/27 and FY2028/29. This threatens long-term sustainability. The option of repaying the outstanding balance in increments over the planning period is much more positive. The municipality will maintain a reasonably healthy bank balance throughout the planning period and the planning period end liquidity ratio of 1.6:1 is positive.

Repaying the output VAT in increments is undoubtedly the preferred option and it is recommended that the municipality enters into negotiations to make this a reality.

Investment Properties - Lease

This scenario assesses the impact of the municipality successfully engaging in long-term lease agreements for its investment properties earmarked for this purpose. The municipality is expecting revenue of 10% of market value of these properties, resulting in annual revenue of approximately R10.5 million.

The benefits derived from this scenario are extensive. The additional rental income will provide a significant boost to financial performance and the consistent nature of this income is of great benefit to the cash flow of the municipality. This is forecast to result in a marked improvement in liquidity by the end of the planning period.

Conclusion

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

ANNEXURE 1: PROJECTED FINANCIAL STATEMENTS

Municipal Financial Model - Overberg District Municipality
Statement of Financial Position

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
R thousands											
Non-current assets:	107 686	123 585	130 423	138 104	139 535	141 219	143 181	145 444	148 033	150 972	154 283
Property, plant and equipment	74 587	86 013	91 306	97 340	98 772	100 456	102 417	104 680	107 269	110 208	113 519
Intangible assets	5	3	1	0	0	0	0	0	0	0	0
Investment properties	12 797	12 769	12 755	12 741	12 741	12 741	12 741	12 741	12 741	12 741	12 741
Investments	–	–	–	–	–	–	–	–	–	–	–
Long-term receivables	20 297	24 800	26 362	28 023	28 023	28 023	28 023	28 023	28 023	28 023	28 023
Other non-current assets	–	–	–	–	–	–	–	–	–	–	–
Current assets:	97 929	89 952	84 625	71 435	67 821	67 327	73 714	85 110	101 457	123 163	150 811
Inventories	1 571	1 825	1 857	1 902	2 100	2 314	2 584	2 910	3 286	3 724	4 229
Trade and other receivables	8 422	6 033	6 033	6 033	6 033	6 033	6 033	6 033	6 033	6 033	6 033
Cash & Short term investments	87 936	82 094	76 734	63 499	59 688	58 980	65 097	76 167	92 138	113 406	140 549
TOTAL ASSETS	**205 615**	**213 537**	**215 048**	**209 538**	**207 356**	**208 547**	**216 894**	**230 555**	**249 490**	**274 135**	**305 094**
Municipal Funds:	100 131	95 378	99 110	94 023	87 043	80 946	80 145	83 147	90 007	101 075	117 021
Housing development fund & Other Cash Backed Reserves	–	–	–	–	–	–	–	–	–	–	–
Reserves (Not Cash Backed)	–	13 000	13 000	13 000	13 000	13 000	13 000	13 000	13 000	13 000	13 000
Accumulated surplus	100 131	82 378	86 110	81 023	74 043	67 946	67 145	70 147	77 007	88 075	104 021
Non-current liabilities:	61 074	73 228	71 617	69 643	77 707	84 859	92 227	100 785	110 561	121 565	133 777
Long-term liabilities (Interest Bearing)	11 225	12 060	6 511	342	3 345	3 830	3 326	2 763	2 134	1 432	648
Non-current provisions	49 849	61 168	65 105	69 301	74 362	81 029	88 901	98 022	108 427	120 132	133 129
Current liabilities:	44 410	44 931	44 322	45 872	42 606	42 741	44 523	46 623	48 922	51 495	54 296
Consumer deposits	8	10	12	15	19	23	28	33	39	45	52
Provisions	16 069	16 035	16 997	18 017	18 017	18 017	18 017	18 017	18 017	18 017	18 017
Trade and other payables	22 968	24 353	22 272	22 235	23 269	24 293	26 022	28 064	30 297	32 798	35 517
Bank overdraft	–	–	–	–	–	–	–	–	–	–	–
Current portion of interest bearing liabilities	5 365	4 533	5 041	5 605	1 301	408	456	509	569	636	710
TOTAL MUNICIPAL FUNDS AND LIABILTIES	**205 615**	**213 537**	**215 048**	**209 538**	**207 356**	**208 547**	**216 894**	**230 555**	**249 490**	**274 135**	**305 094**

Municipal Financial Model - Overberg District Municipality
Statement of Financial Performance

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
R thousands											
Revenue											
Service Charges	12 335	13 579	14 972	16 652	18 784	20 748	23 081	25 791	28 811	32 272	36 199
Service charges - bulk electricity	711	834	920	1 023	1 154	1 286	1 447	1 635	1 845	2 087	2 364
Service charges - bulk water	35	41	44	48	52	55	59	64	69	75	82
Service charges - waste water treatment	704	772	851	947	1 068	1 179	1 311	1 464	1 634	1 829	2 051
Service charges - solid waste	10 884	11 933	13 157	14 635	16 511	18 228	20 264	22 628	25 262	28 280	31 703
Airport fees	–	–	–	–	–	–	–	–	–	–	–
Market fees	–	–	–	–	–	–	–	–	–	–	–
Service charges - other	–	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Rental of facilities and equipment	16 117	13 844	14 355	15 185	17 131	18 913	21 025	23 479	26 212	29 343	32 895
Interest earned - external investments	5 904	5 012	3 858	3 270	2 961	2 988	3 122	3 596	4 343	5 371	6 698
Interest earned - outstanding debtors	–	270	55	60	146	171	199	230	265	302	342
Dividends received	–	–	–	–	–	–	–	–	–	–	–
Fines, penalties and forfeits	–	–	–	–	–	–	–	–	–	–	–
Licences and permits	746	700	1 000	1 000	1 097	1 207	1 337	1 488	1 661	1 858	2 078
Agency services	12 006	12 845	13 429	13 886	15 666	17 295	19 226	21 470	23 969	26 833	30 080
Transfers and subsidies (operating)	206 477	216 501	223 043	229 801	240 670	257 030	282 920	310 215	340 354	374 093	411 780
Other revenue	7 443	11 060	9 787	10 441	11 780	13 005	14 457	16 144	18 024	20 177	22 619
Gain on disposal of PPE	7 154	2 000	7 900	1 500	1 597	1 729	1 896	2 101	2 346	2 634	2 967
Revaluation of assets gain / (loss)	–	–	–	–	–	–	–	–	–	–	–
Total revenue before Capital Grants	268 182	275 812	288 400	291 796	309 832	333 086	367 262	404 513	445 985	492 882	545 660
Capital Grants	1 219	2 642	500	500	506	513	528	549	572	599	627
Public & developers contributions	–	–	–	–	–	–	–	–	–	–	–
Total Revenue after Capital Grants	269 401	278 454	288 900	292 296	310 338	333 599	367 791	405 062	446 557	493 481	546 288
Operating expenditure											
Employee related costs	129 583	138 659	148 699	156 976	166 471	177 303	189 346	202 646	217 241	233 163	250 431
Remuneration of councillors	6 195	6 340	6 746	7 164	7 498	7 873	8 290	8 748	9 247	9 786	10 364
Debt impairment	76	520	535	572	645	712	791	884	987	1 105	1 239
Depreciation and asset impairment	3 920	4 138	4 708	4 966	5 368	5 524	5 679	5 836	5 996	6 162	6 334
Finance charges	8 584	2 232	1 724	1 160	445	385	337	284	224	157	83
Bulk purchases	456	593	688	787	885	987	1 110	1 254	1 415	1 601	1 813
Inventory Consumed	–	60 457	64 863	66 280	73 210	80 952	91 018	103 387	117 831	134 887	154 627
Contracted services	23 526	34 373	25 215	26 560	26 491	26 259	28 301	30 660	33 271	36 239	39 580
Transfers and subsidies	1 159	1 200	–	–	–	–	–	–	–	–	–
Other expenditure	82 024	34 696	31 989	32 918	36 306	39 702	43 720	48 362	53 486	59 314	65 871
Loss on disposal of PPE	611	–	–	–	–	–	–	–	–	–	–
Total Expenditure	256 135	283 207	285 168	297 382	317 319	339 696	368 592	402 060	439 697	482 413	530 342
Suplus/ (Shortfall) for the year	**13 266**	**(4 753)**	**3 732**	**(5 086)**	**(6 981)**	**(6 097)**	**(801)**	**3 002**	**6 860**	**11 068**	**15 946**

Municipal Financial Model - Overberg District Municipality
Cash Flow Statement

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
R thousands											
Cash flows from Operating Activities											
Suplus/Deficit for the year *including* Capital Grants	13 266	(4 753)	3 732	(5 086)	(6 981)	(6 097)	(801)	3 002	6 860	11 068	15 946
Suplus/Deficit for the year *excluding* Capital Grants & Contributions		(7 395)	3 232	(5 586)	(7 487)	(6 610)	(1 329)	2 453	6 288	10 469	15 319
Capital Grants & Contributions		2 642	500	500	506	513	528	549	572	599	627
Adjustments for non-cash items:											
Depreciation, amortisation and impairment loss	3 920	4 138	4 708	4 966	5 368	5 524	5 679	5 836	5 996	6 162	6 334
Revaluation on investment property (gain) / loss	–	–	–	–	–	–	–	–	–	–	–
Increase / (Release from) current provisions & non-interest bearing liabilities	–	(34)	962	1 020	–	–	–	–	–	–	–
Increase / (Release from) other non-current provisions & non-interest bearing liabilities	–	11 319	3 937	4 196	5 061	6 667	7 872	9 121	10 405	11 706	12 997
(Increase) / Release from non-current interest bearing assets	–	–	–	–	–	–	–	–	–	–	–
Capitalised interest	–	–	–	–	–	–	–	–	–	–	–
Operating surplus before working capital changes:	17 186	10 670	13 338	5 096	3 448	6 095	12 750	17 958	23 261	28 935	35 277
Change in W/C Investment	–	3 521	(2 114)	(82)	836	810	1 459	1 715	1 858	2 062	2 215
(Increase)/decrease in inventories	–	(254)	(33)	(45)	(198)	(214)	(270)	(326)	(375)	(439)	(504)
(Increase)/decrease accounts receivable	–	2 389	–	–	–	–	–	–	–	–	–
Increase/(decrease) in trade payables	–	1 385	(2 081)	(37)	1 034	1 024	1 729	2 042	2 234	2 500	2 719
Net cash flow from Operating activities	17 186	14 190	11 224	5 014	4 285	6 905	14 208	19 674	25 119	30 997	37 492
Cash flows from Investing Activities											
Capital expenditure	–	(15 562)	(9 998)	(10 999)	(6 800)	(7 208)	(7 640)	(8 099)	(8 585)	(9 100)	(9 646)
Decrease/(Increase) in non-current receivables	–	(4 503)	(1 562)	(1 661)	–	–	–	–	–	–	–
(Additions) / Disposals of investment property	–	28	14	14	–	–	–	–	–	–	–
Net cash flow from Investing activities	–	(20 037)	(11 546)	(12 646)	(6 800)	(7 208)	(7 640)	(8 099)	(8 585)	(9 100)	(9 646)
Cash flows from Financing Activities											
New loans raised	–	4 536	–	–	–	–	–	–	–	–	–
Loans repaid	–	(4 533)	(5 041)	(5 605)	(1 301)	(408)	(456)	(509)	(569)	(636)	(710)
(Decrease) / Increase in consumer deposits	–	2	2	3	4	4	5	5	6	6	7
Net cash flow from Financing activities	–	5	(5 039)	(5 602)	(1 296)	(404)	(451)	(504)	(563)	(629)	(703)
Change in Cash	17 186	(5 842)	(5 360)	(13 235)	(3 812)	(707)	6 116	11 071	15 971	21 268	27 144
Cash/(Overdraft), Beginning		87 936	82 094	76 734	63 499	59 688	58 980	65 097	76 167	92 138	113 406
Cash/(Overdraft), Ending	**87 936**	**82 094**	**76 734**	**63 499**	**59 688**	**58 980**	**65 097**	**76 167**	**92 138**	**113 406**	**140 549**

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