INCA
Portfolio Managers

RUSTENBURG LOCAL MUNICIPALITY

Long Term Financial Plan – *Update 2023*

Rustenburg
Local Municipality

REPORT OVERVIEW – INTRODUCTION AND BACKGROUND

Rustenburg Local Municipality (Rustenburg) appointed INCA Portfolio Managers in 2022 to prepare a Long-Term Financial Plan (LTFP). The output of the assignment was a report entitled _Rustenburg Local Municipality Long-Term Financial Plan: 2022/23 – 2031/32_. This _2023 Update_ aims to update the LTFP based on the latest available information and report on the findings.

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

A summary of the demographic, economic and household infrastructure perspective was updated with the latest available information as published by S&P Global Insight (S&P). The historic financial analysis was updated with the information captured in the municipality's audited financial statements of 30 June 2023 and the approved operational & capital budgets for the FY 2023/24. IPM's Long-Term Financial Model (latest and updated version 21.2) was populated and run with this latest information, and the outcome thereof is reported herein. The model was re-calibrated against the municipality's MTREF for the 3 years from 2023/24 to 2025/26.

Unlike the original assignment, no renewed analysis of the Asset Register, review of municipal documents (viz. IDP, Master Plans, etc.) and conversations with management were undertaken. The conclusions reached in this report are complimentary to the recommendations made previously.

The contents of this report entail the following:

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

ABBREVIATIONS USED

AFS	Annual Financial Statements
CAPEX	Capital Expenditure
CRR	Capital Replacement Reserve
CPI	Consumer Price Index
DBSA	Developmental Bank of Southern Africa
FY	Financial Year
FYE	Financial Year Ended
GDP	Gross Domestic Product
GVA	Gross Value Added
IP	Investment Property
IPM	INCA Portfolio Managers
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
R'm	Rand x 1 000 000
SA	South Africa
Stats SA	Statistics South Africa
S&P	S&P Global Market Intelligence ReX v2404

EXECUTIVE SUMMARY: KEY FINDINGS AND CONCLUSIONS

DEMOGRAPHIC, ECONOMIC AND HOUSEHOLD INFRASTRUCTURE

- Rustenburg's population grew by 1.5% to 716 638 people (2022).
- Average household income of R 287 153 p.a. recorded in 2022 is the highest in the district.
- The EAP as a percentage of population marginally increased to 40.0% after consecutive slumps; the unemployment rate worsened to 59.7% in 2022.
- The GVA (local economy) contracted by 4.1% to R63.1 billion in current 2022 prices.
- The Mining sector produced 73% of Rustenburg's economic output resulting in a high Tress index of 87.7 due to the lack of economic diversification.
- Tourism spend contributed 3.7% of the GVA, more than five out of nine economic sectors.
- The Infrastructure Index remained stable at 0.79 despite the formation of 6 356 households in 2022.

HISTORIC FINANCIAL ASSESSMENT

- Interest-bearing liabilities continue their downtrend resulting in decreasing gearing and debt service to total operating expenditure ratios, standing at 4.0% and 1.1% of 5.5% in FY2023. Both are below the NT norms.
- The municipality's liquidity ratio improved to 0.72:1 but still remain below the NT norm of 1.5:1 and a matter of concern, indicating poor liquidity and cash flow.
- The municipality recorded a collection rate of 79% in FY2023. This is below the review period average of 83% and the NT norm of at least 95% and not sustainable.
- Financial performance improved as an accounting surplus of R146.8 million was posted in FY2023 following a deficit of R289,6 million in FY2022. Operating deficits continued albeit a lesser deficit. Rustenburg utilized its own cash to fund operations as cash generation issues persist.
- Water distribution losses for FY 2023 increased to 52% from 46% for FY2022.
- Repairs and maintenance as a percentage of PPE and IP was 2% in FY2023, falling well below the NT norm of 8% and not good in terms of sustainable asset care.
- Cash utilized by operations amounted to R209.2 million in FY2023, compared to a cash utilization of R35.3 million in FY2022.
- Capital expenditure amounted to R315.0 million in FY2023, solely funded by capital grants (R206.0 million for FY2022).
- The municipality held sufficient cash reserves for short term liabilities and at least 1 months' operating expenditure, resulting in a cash surplus of R139.7 million in FY2023.
- The municipality managed an IPM Credit rating of 3.5, which is not considered investment grade.

LONG-TERM FINANCIAL PLAN UPDATE

Modelling of the current MTREF scenario presents a financially unsustainable financial position , evidenced by declining financial performance, low liquidity levels and unaffordable capital expenditure. Necessary adjustments have been implemented to formulate the Base Case, which addresses the underlying issues contributing to this unsustainable outcome.

The following key assumptions are modelled in the Base Case, in order to achieve a more sustainable financial outcome:

- The collection rate is assumed to reach 85% after five years and maintained at this rate throughout the planning period.
- The load shedding impact was assessed and included – with the expectation that load shedding will continue for the next two year at an average level of stage 3. This results in an approximate reduction in electricity consumption of 19.3%. Furthermore, a permanent loss of electricity consumers of 2% was included.
- Expenditure on repairs and maintenance on PPE as a percentage of the value of PPE & IP is forecast to reach 4% by the end of the planning period.
- Electricity losses were maintained at 9%; water losses are set to decrease to 40% at the end of the planning period.
- Capital expenditure during the MTREF period is adjusted in order to safeguard cash reserves.
- The MTREF capital expenditure programme is adjusted as follows:
- 2024: MTREF R588.1 million, Base Case R588.1 million
- 2025: MTREF R640.2 million, Base Case R599.4 million
- 2026: MTREF R622.7 million, Base Case R620.0 million
- Capital expenditure is accelerated with a 6% annual growth for the years beyond the MTREF period.

TABLE 1: ASSUMPTIONS OF THE BASE CASE VARIABLES

Outcome	10-Year Outcome
Average annual % increase in Revenue	7.3%
Average annual % increase in Expenditure	6.2%
Accounting Surplus accumulated during Planning Period (Rm)	R 1,643
Operating Surplus accumulated during Planning Period (Rm)	-R 4,972
Cash generated by Operations during Planning Period (Rm)	R 3,693
Average annual increase in Gross Consumer Debtors	0.6%
Capital investment programme during Planning Period (Rm)	R 9,801
External Loan Financing during Planning Period (Rm)	R 866
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 991
No of Months Cash Cover at the end of the Planning Period (Rm)	1.5
Liquidity Ratio at the end of the Planning Period	1.8 : 1
Gearing at the end of the Planning Period	7.0%
Debt Service to Total Expense Ratio at the end of the Planning Period	1.6%

RECOMMENDATIONS:

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

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

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

3. Capital investment and repairs and maintenance decisions must be optimised to prioritize the curtailing of excessive distribution losses pertaining to water services. Continuous monitoring and inspection along transmission mains to allow a prompt address of leakages together with a prudent financial resource allocation towards investment in water infrastructure is recommended.

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

5. Maintain an average collection rate above 85% after five years. To prevent the decline of the collection rate, prioritize decisions and actions that sustain the high collection rate while safeguarding profitability/surpluses. This is influenced by efforts such as effectively implementing regular audits of the indigency register, adopting efficient and regularly updated methods for delivering pre-termination notices for significantly overdue bills, ongoing data cleansing, follow-up on zero consumption consumers, effective & timeous credit control actions and improving convenient payment methods.

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

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

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

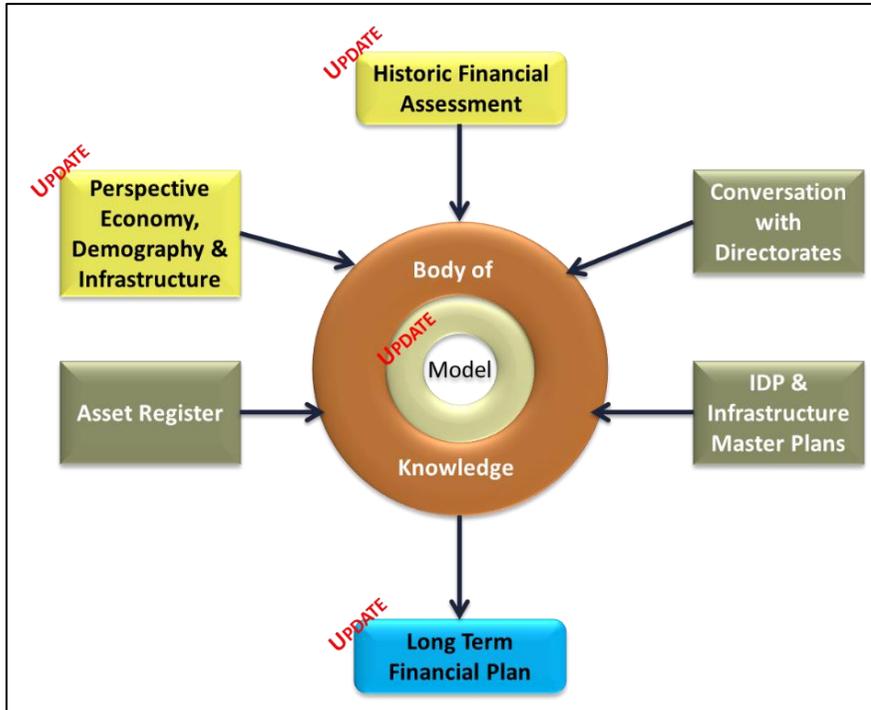|	
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PLANNING PROCESS

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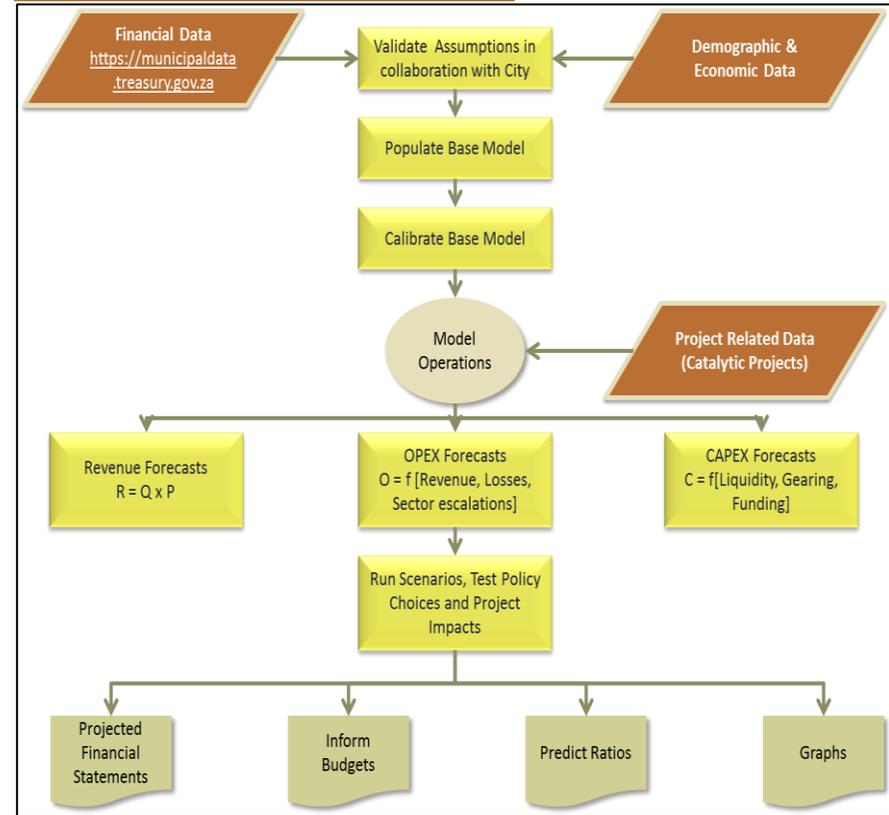
The model methodology remains the same and the capital budget as presented in the MTREF was utilised and forecasts of an affordable future capex were made.

1   Planning Process

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# UPDATED PERSPECTIVES (DEMOGRAPHIC, ECONOMIC, HOUSEHOLD INFRASTRUCTURE)

DEMOGRAPHY

Rustenburg has an approximate population of 716 638 people (2022), which represents 38% of people living in the Bojanala Platinum District. This ranks it as the most populous municipality in the district, with a high population density of 210 people per km^2.

Over the last five years, the population growth rate has averaged 1.8% p.a. and was the second highest in the district falling only behind Kgetlengrivier. This average growth rate proved to be higher than both the national and provincial rate, which both averaged 1.4% p.a. over the same period. The current population growth rate sits at 1.5% (2022).

The high population growth rate in Rustenburg continues to be driven by an influx of job seekers looking for employment opportunities in the mining sector. This influx of job seekers is evident in the shape of the population pyramid which will be explored in further detail below.

GRAPH 1: TOTAL POPULATION
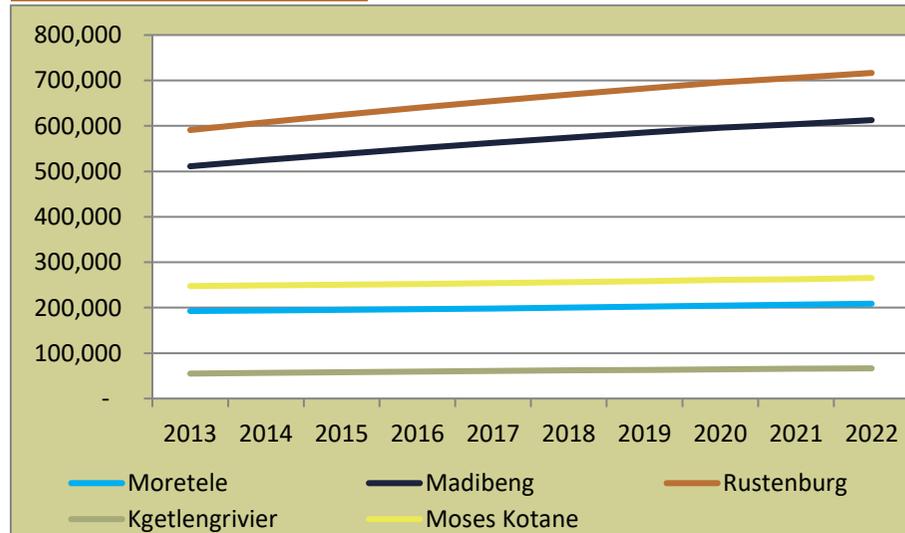
The age profile pyramid – GRAPH 2 – is unlike a typical population pyramid that is characterised by a larger percentage of the population in the younger age cohorts, usually with each age cohort smaller in size than the one below. Rustenburg's age profile however is more constrictive with young people (below the age of 14) constituting only 24% and a higher number of people – approximately 32% - falling between the ages of 25 and 39 years. The highest concentrated age group is between the age of 30 and 34 years as seen in the graph. Typical of an area with an active mining sector, the male population (54%) is higher than the female population (46%). The influx of job seekers is evident in the high concentration in the working age group (age 20 to 49) in the municipality.

GRAPH 2: POPULATION PYRAMID
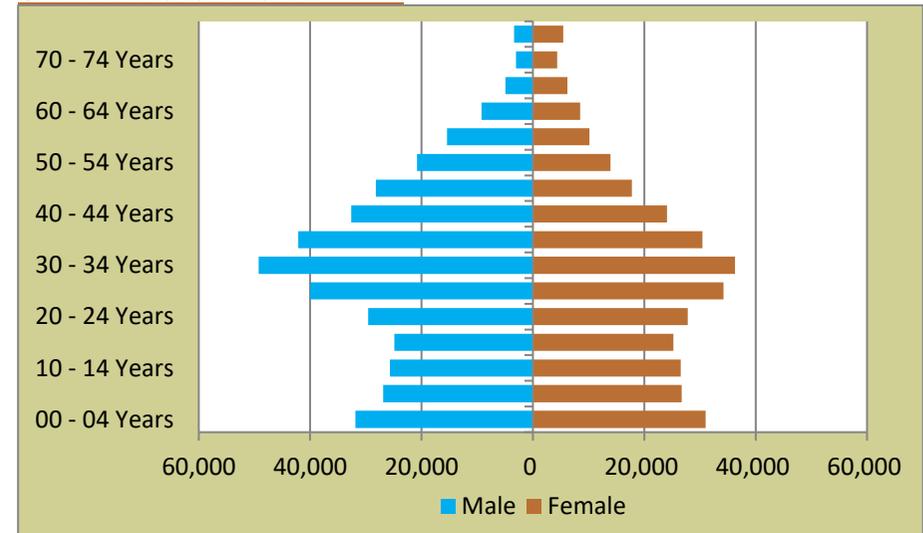
Rustenburg's household income in 2022 amounted to R287 153. This value increased by 6.8% from R268 894 recorded in 2021. In comparison to its municipal counterparts, this was the highest household income recorded in the district. A staggering 20.9% of households in Rustenburg earn less than R54 000 p.a. Households earning less than R54 000 p.a. are indicative of the number of indigent households in the municipal area and reflect those who qualify for and/or are largely reliant on government grants as a source of income. The 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.

Further analysis of the household income distribution indicates a society in which 47.3% of all households earn an income within the range R54 000 p.a. and R192 000 p.a. (R16 000 p.m.), i.e. below the average middle income (between R180 000 – R500 000 per annum). This income range is classified as the vulnerable middle class due its vulnerability and proximity to poverty. Considering the negative impact of rising fuel costs, higher food prices and interest rate hikes, the extent to which households can be levied in future needs to be closely monitored as these factors continue to strip away at household income. Rapid increases in municipal service costs will pose a serious challenge to Rustenburg's future cash revenue collection.

GRAPH 3: HOUSEHOLD INCOME DISTRIBUTION
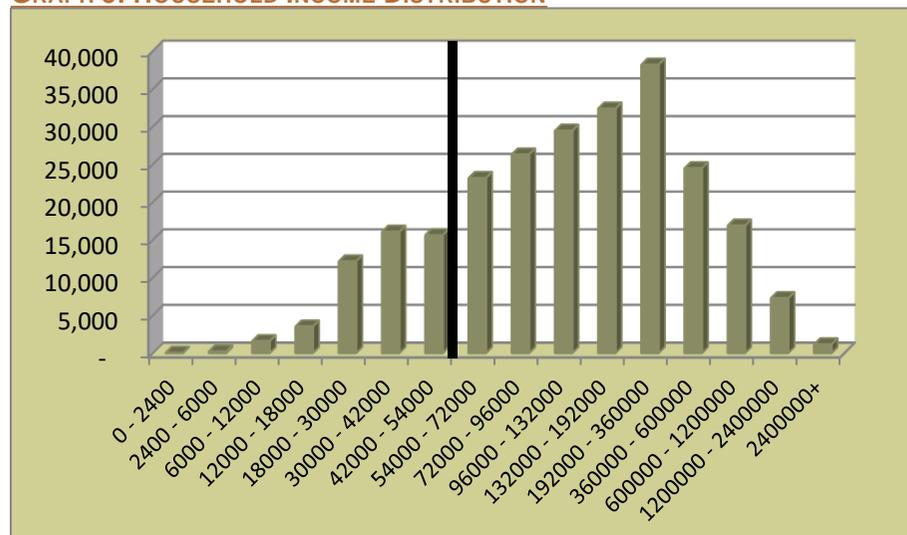
Rustenburg has the third highest annual per capita income in the district with an amount of R94 257 recorded in 2022. This is an 8.1% increase from the 2021 amount of R87 186, which is higher than the average inflation rate experienced over that period.

**GRAPH 4: ANNUAL PER CAPITA INCOME**
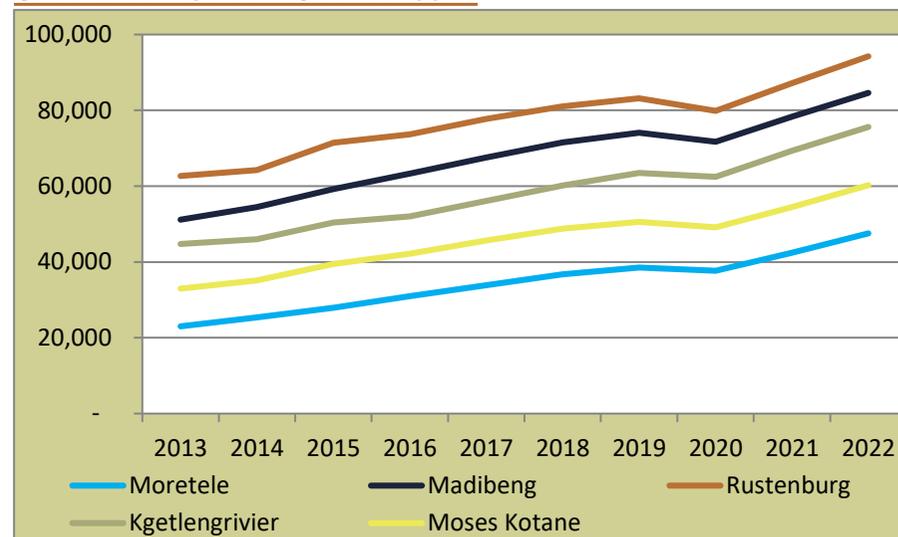
The economically active population as a percentage of population has shown signs of recovery after periods of decline and stagnation since 2015. The ratio marginally increased to 40.0% in 2022 from 39.4% in 2021. In absolute values, this is an approximate increase of 8 819 people who have either joined the workforce or are actively looking for work in the municipality.

Unemployment was highlighted in the previous LTFP as a crisis in the municipality and it continues to be so. The unemployment rate increased to 58.9% in 2022 (2021: 56.7%). This is the highest unemployment rate in the district, and it is substantially higher than the unemployment rates of the North West (36.3%) and South Africa (33.7%). This is a conservative rate as it does not factor in discouraged workers; the inclusion of which would lead to considerably higher rates. A rising unemployment rate would place more pressure on the municipality to provide free basic services to residents or households who cannot afford them.

**GRAPH 5: ECONOMICALLY ACTIVE PEOPLE AS A % OF TOTAL POPULATION**
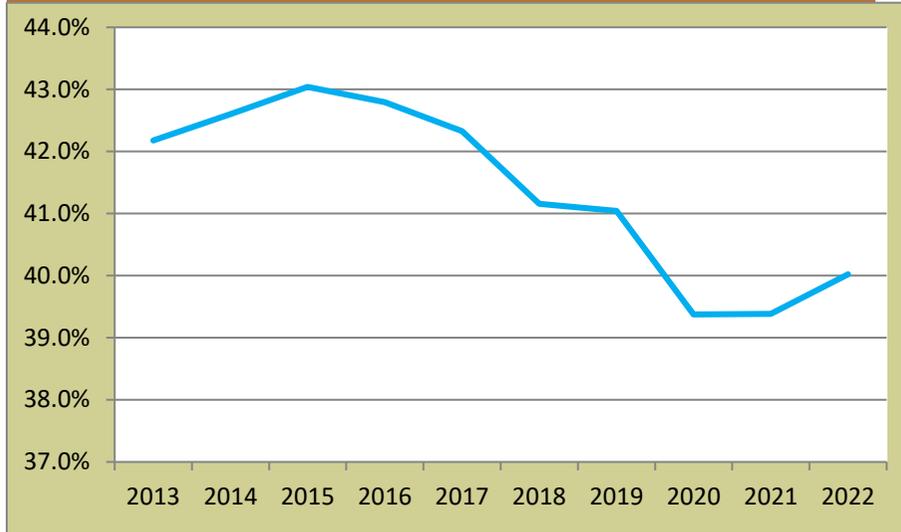
GRAPH 6: OFFICIAL UNEMPLOYMENT RATE

Legend: Moretele, Madibeng, Rustenburg, Kgetlengrivier, Moses Kotane
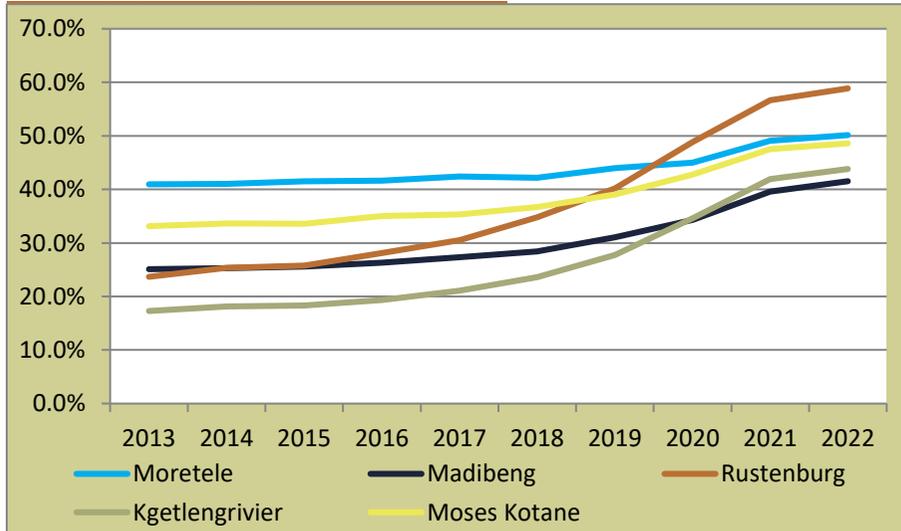
ECONOMY

Rustenburg's Gross Value Add (GVA) for 2022 amounted to be R63.1 billion in current prices, or R31.3 billion in 2015 constant prices. This has contracted by 4.1% from 2021 after a post-Covid rebound of 3.8%. This contraction is consistent with the economic woes experienced in the municipality over the review period as the economy had shrunk for four consecutive periods preceding the Covid-19 affected 2020. The Tress index[1] of 87.7 indicates a highly concentrated economy. This lack of diversity is further corroborated by a staggering 73% of the municipality's economic output being produced by the Mining sector in 2022. The other nine sectors cumulatively contribute the remaining 27%.

GRAPH 7: ECONOMIC SECTORS
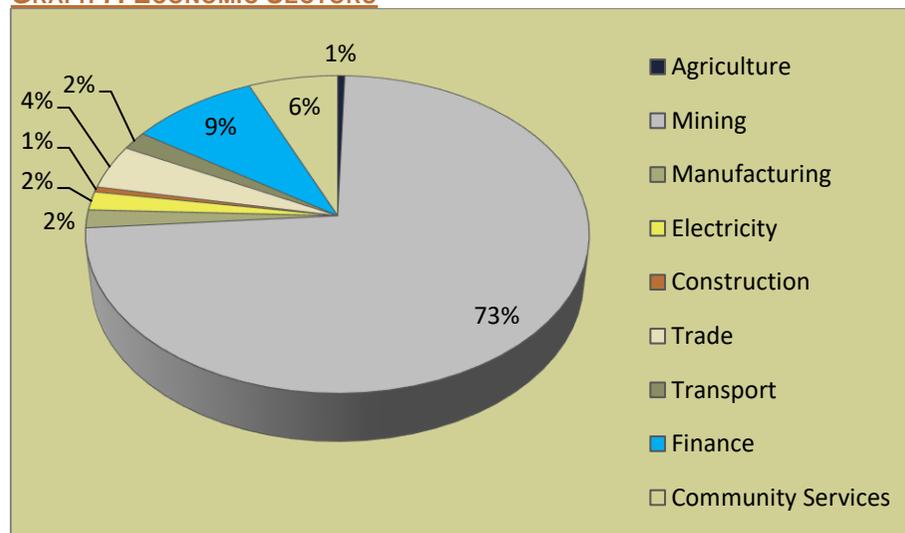
The Mining sector has asserted its dominance over economic sectors with a substantial proportionate growth of 9.9% over the last 10 years. The only other sector to experience growth over the same period, albeit marginally, was the Electricity sector with a 0.2% increase.

TABLE 2: PROPORTIONAL GROWTH OF ECONOMIC SECTORS (R'000)

| Subsector	2013	2022
Agriculture	335,796	159,016
Mining	28,105,429	22,915,687
Manufacturing	1,371,338	570,691
Electricity	758,129	588,630
Construction	533,865	165,080
Trade	3,288,722	1,409,752
Transport	1,266,156	592,038
Finance	4,432,794	2,872,785
Community Services	4,274,290	2,003,514

TABLE 3 below presents employment figures since the last LTFP update. There has been a decrease in employment opportunities by 2.8% in one calendar year or 3 318 jobs lost in absolute terms. The job market suffered losses across the board in Rustenburg, except the Mining sector which provided an additional 1 661 employment opportunities in 2022.

TABLE 3: EMPLOYMENT BY SECTOR

Subsector	2021	2022
Agriculture	2,363	2,074
Mining	59,779	61,439
Manufacturing	4,608	3,950
Electricity	584	531
Construction	3,826	3,650
Trade	11,545	10,453
Transport	855	737
Finance	7,871	7,047
Community Services	13,542	12,215
Households	12,532	12,090
Total	117,505	114,188

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

The total number of tourism trips is once again on the rise with a 17% increase in trips in 2022. This rise is expected to continue as the 392 692 trips in 2022 is substantially lower than the 5-year pre-Covid average of 592 856 trips p.a. (a difference of 200 164 trips). Rustenburg is no popular tourist destination therefore it comes as no surprise that the main purpose for trips is for visits to friends and relatives, comprising of 50.7% of the trips in 2022.

GRAPH 8: TOURISM TRIPS BY PURPOSE OF TRIP
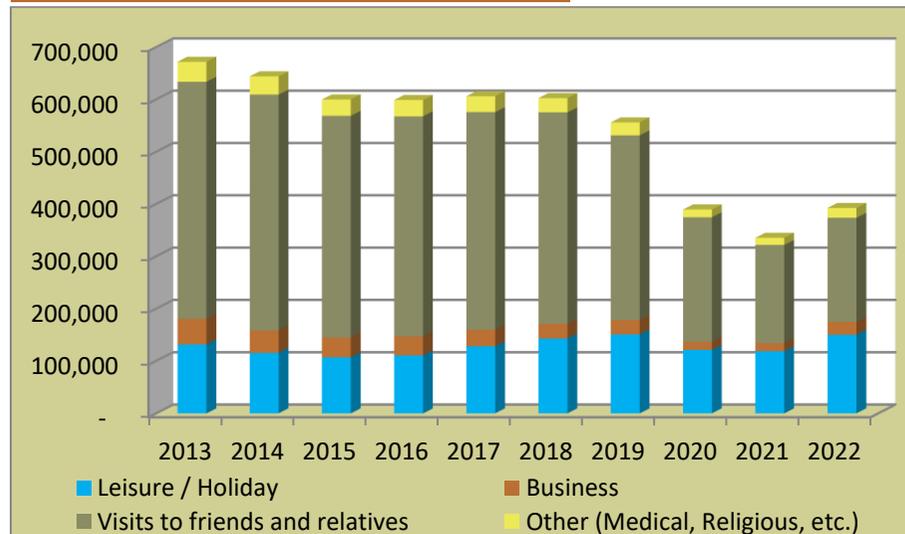
Tourism-spend increased to R2.3 billion in 2022 from R2.1 billion in 2021. This represents a 9% increase in one calendar year. The gross amount spent by tourists contributed 3.7% to the region's GDP in 2022. To put this into context, this is higher than the economic output produced by five of the nine economic sectors emphasizing that tourism is an integral part in the local economy.

GRAPH 9: TOURISM SPEND (CURRENT PRICES)
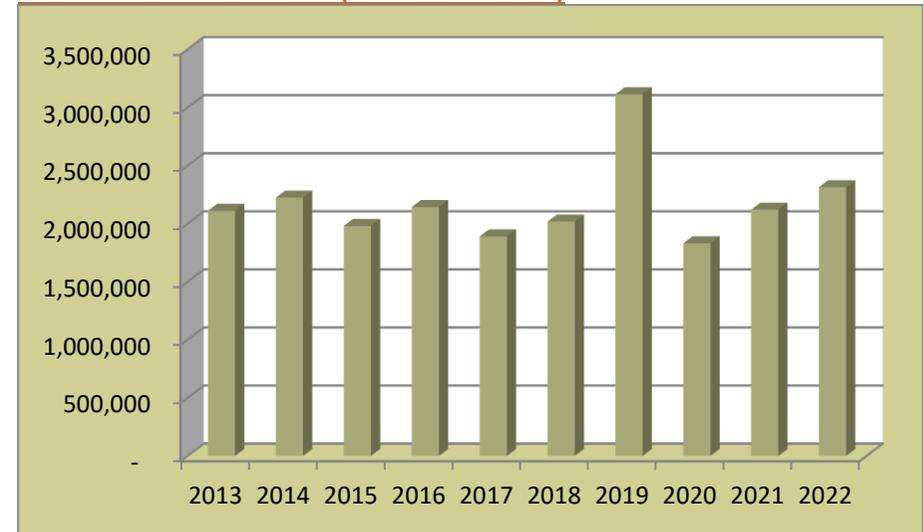
HOUSEHOLD INFRASTRUCTURE

The household formation in 2022 totalled 6 356 households, reflecting a 2.8% increase in households from 2021. The municipality maintained an *Infrastructure Index* of 0.76, which is the highest in the district and higher than that of the province (0.70). Although this infrastructure index is not as high as 0.90, Rustenburg must be commended for maintaining it (as opposed to it declining) considering the substantial number of new households in the municipality. The ability to maintain this index is indicative of ongoing investment in infrastructure, which enables the municipality to keep up with the rate of household formation. The maintenance of this index, or improvement thereof, in future will require this investment in infrastructure to continue as the high population growth rate will continue to increase demand for municipal services.
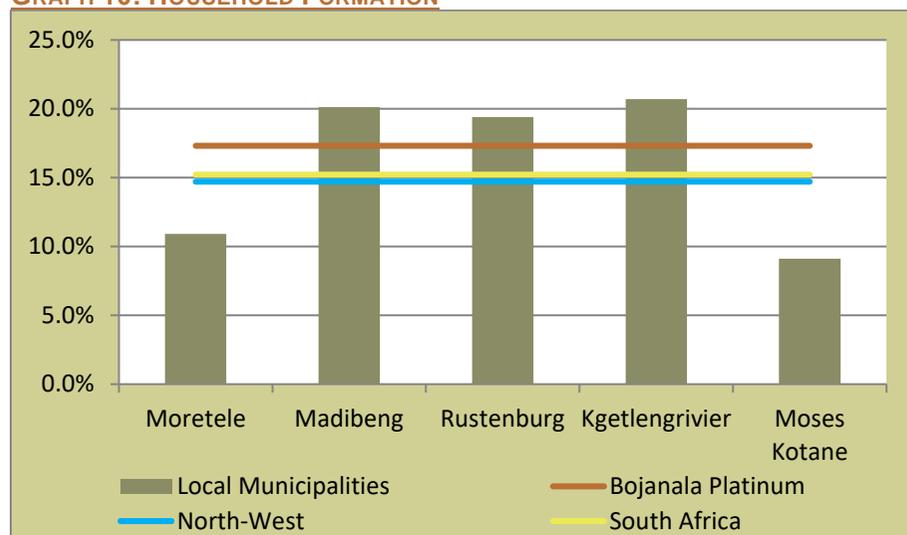
GRAPH 10: HOUSEHOLD FORMATION

TABLE 4: HOUSEHOLD INFRASTRUCTURE PROVISION

Infrastructure	Bojanala Platinum		Rustenburg	
Above RDP Level				
Sanitation	405,867	67.7%	187,331	79.6%
Water	538,440	89.8%	220,992	93.9%
Electricity	546,081	91.1%	209,458	89.0%
Refuse Removal	332,493	55.4%	180,436	76.7%
Below RDP or None				
Sanitation	193,825	32.3%	47,902	20.4%
Water	61,252	10.2%	14,241	6.1%
Electricity	53,611	8.9%	25,775	11.0%
Refuse Removal	267,198	44.6%	54,797	23.3%
Total Number of Households	599,692	100.0%	235,233	100.0%

TABLE 4 above compares the level of backlogs, of *sanitation, water, electricity, and refuse removal* of Rustenburg with that of the Bojanala Platinum District. Refuse removal continues to be the inferior area of service provision with a 23.3% backlog in 2022. This backlog has worsened since the last update (2021: 22.9%). In comparison to the District, Rustenburg lags behind in the provision of electricity services only; the municipality has superior provision in the other three services.

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UPDATED HISTORIC FINANCIAL ASSESSMENT

FINANCIAL POSITION

Rustenburg's Net Fixed Asset position regressed by 1.4% as at FYE2023, amounting to R8.9 billion at year end (2021: R9.1 billion). Accumulated surpluses, on the other hand, increased by 1.9% to R7.8 billion in FY2023.

Total liabilities marginally decreased by 1.2% in FY2023 attributable to declines in both current and non-current liabilities. Current liabilities decreased by R220.9 million as at FYE2023, aided by a significant decline in the creditors balance. GRAPH 11 indicates a declining trend in interest-bearing liabilities which continues in FY2023. This continuation can be attributed to a decline in financial liabilities, with Rustenburg repaying its long-term debt and not undertaking additional debt over that period. Long-term liabilities decreased by 9.9% as at FYE2023.

GRAPH 11: LONG TERM LIABILITIES: INTEREST BEARING VS NON-INTEREST BEARING
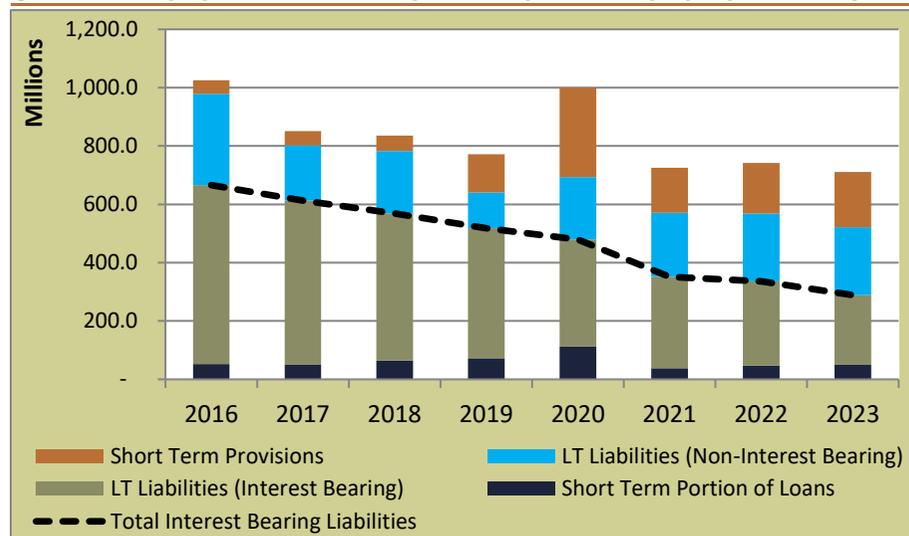
Consistent with the trend of declining interest-bearing liabilities, the gearing ratio continued to decrease reaching a review period low of 4% in FY2023. This deceased from 6% recorded in FY2022. This ratio remained below the NT maximum level of 45%. Similarly, the debt service to total expense ratio decreased to 1.1% in FY2023 from 1.3% in FY2022. This ratio also remained below the NT maximum of 8%.

Current assets marginally increased by 0.3% to R1.1 billion as at FYE2023. As evident in GRAPH 12, cash and cash equivalents is the largest component of current assets, constituting 72.8% of the current assets balance. This indicates the liquid nature of the municipality's current assets.

GRAPH 12: CURRENT ASSETS
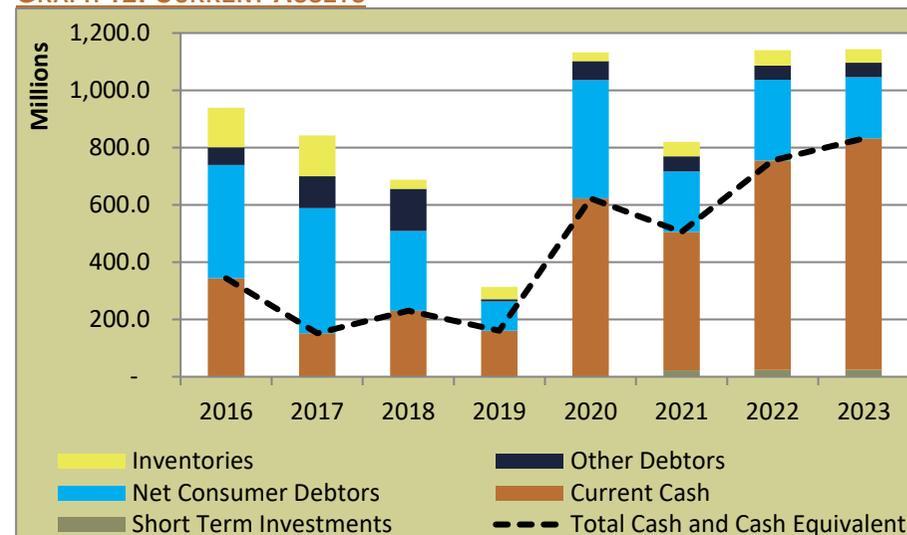
Current Liabilities have decreased by R220.9 million (12.2%) to a balance of R1.8 billion as at FYE2023. This was mainly driven by decreases in the creditors balance and unspent conditional grants which cumulatively amounted to R245.8 million.

GRAPH 13: CURRENT LIABILITIES
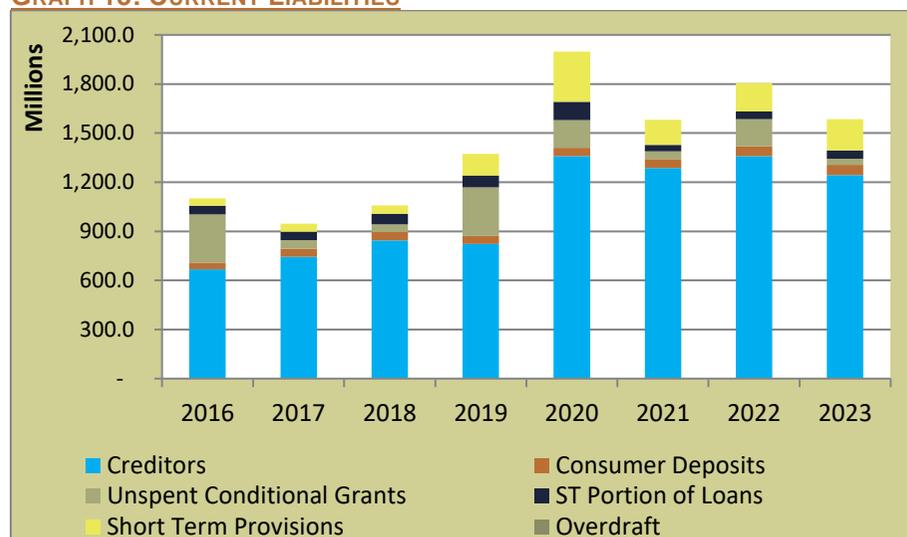
The combined effect of the movements in current assets and current liabilities is evident in the improvement of Rustenburg's liquidity ratio. The liquidity ratio improved from 0.63:1 as at FYE2022 to 0.72:1 as at FYE2023. This ratio remains far below the NT norm of at least 1.5:1, indicating the municipality's inability to pay its current/short term obligations. Should debtors older than 30 days be excluded from the calculation (i.e., least liquid debtors) the ratio remains the same at to 0.72:1. It remains the same due to the large component of cash and cash equivalents contributing to current assets.

TABLE 5: LIQUIDITY RATIOS

`	2016	2017	2018	2019	2020	2021	2022	2023
Current Assets : Current Liabilities	0.85	0.91	0.65	0.23	0.57	0.52	0.63	0.72
Current Assets (less Debtors > 30 Days) : Current Liabilities	0.78	0.82	0.65	0.23	0.51	0.52	0.63	0.72

Gross consumer debtors – displayed on GRAPH 14 - increased by 18.8% to R6.4 billion as at FYE2023 after declining the previous financial year. The balance is mainly consisting of water and other debtors. The provision for bad debts amounted to 97% of gross consumer debtors at year end. Additionally, the provision for bad debts of R6.2 billion more than sufficiently covers debtors older than 90 days of R5.7 billion. This met and exceeded the NT norm of 100%. It is imperative that these debtors are provided for as these debtors are largely considered a high risk of default.

GRAPH 14: GROSS CONSUMER DEBTORS VS NET CONSUMER DEBTORS
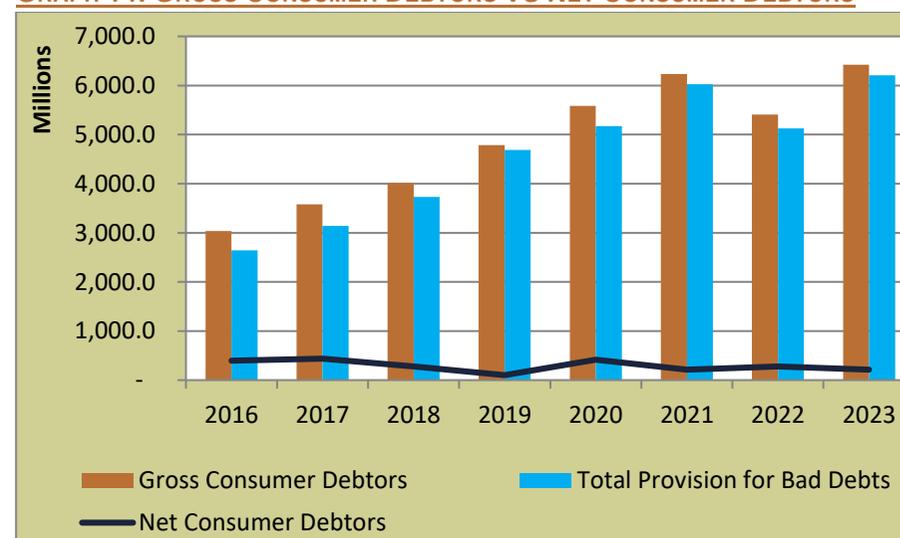
The age analysis of consumer debtors reflects dominance of debtors older than 90 days and an increasing trend. More recently, this increased from R959.3 million to R5.7 billion as at FYE2023. This balance constitutes 89% of gross consumer debtors as at FYE2023. It therefore comes as no surprise that 97% of gross debtors have been provided for.

Net Debtor Days improved to 16 days, which is within the NT prescribed maximum of 30 days. There is still a grave need for sustained debtor management and credit control as debtors older than 90 days are still a large component of gross debtors.

GRAPH 15: CONSUMER DEBTORS AGE ANALYSIS
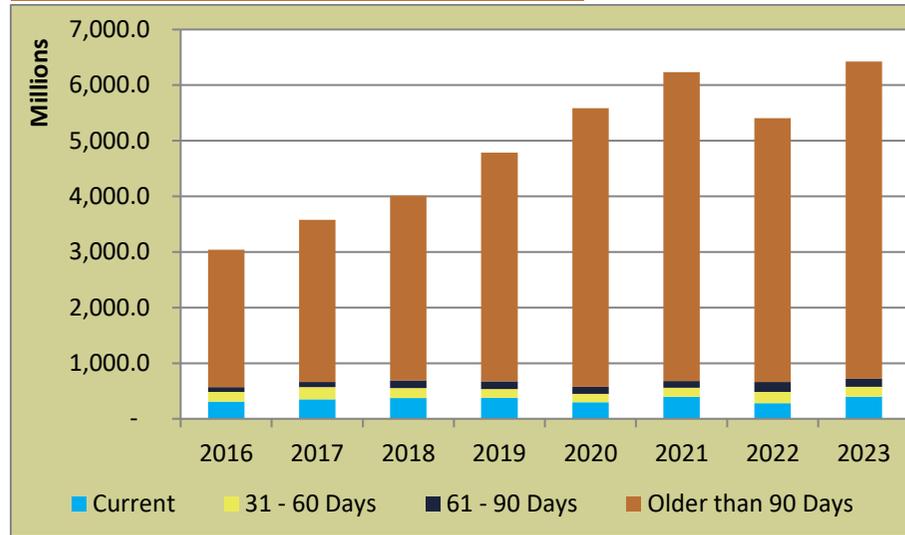
Electricity debtors remained the highest contributor to net debtors, comprising 48% of the net debtors' balance as at FYE2023. Water and rates debtors were the second and third highest contributors.

GRAPH 16: CONSUMER DEBTORS BY TYPE
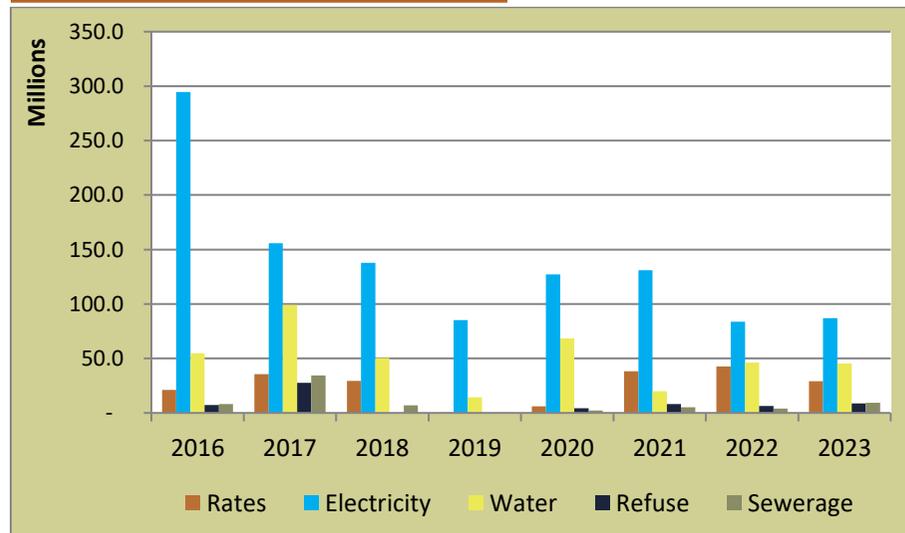
Billed revenue increased by 6% in FY2023. This figure is below the average inflation rate of 7% recorded during the financial year. The collection rate declined to 79% for FY2023, which is below the NT norm of at least 95%. This brought down the average collection rate over the review period to 83% p.a. The deteriorating collection rate emphasizes the need for improvement of Rustenburg's credit management policy.

TABLE 6: DEBTORS RATIOS

	2017	2018	2019	2020	2021	2022	2023
Increase in Billed Income p.a. (R'm)	420.0	31.4	309.8	(104.2)	329.8	1,065.2	291.7
% Increase in Billed Income p.a.	16%	1%	10%	-3%	10%	30%	6%
Gross Consumer Debtors Growth	18%	12%	19%	17%	12%	-13%	19%
Payment Ratio / Collection Rate	82%	86%	77%	75%	81%	100%	79%
Provision for bad debts as a % of consumer debtors greater than 90 days	108%	112%	114%	103%	108%	108%	109%
Net Debtor Days	54	34	11	47	22	22	16

FINANCIAL PERFORMANCE

GRAPH 17: ANALYSIS OF SURPLUS
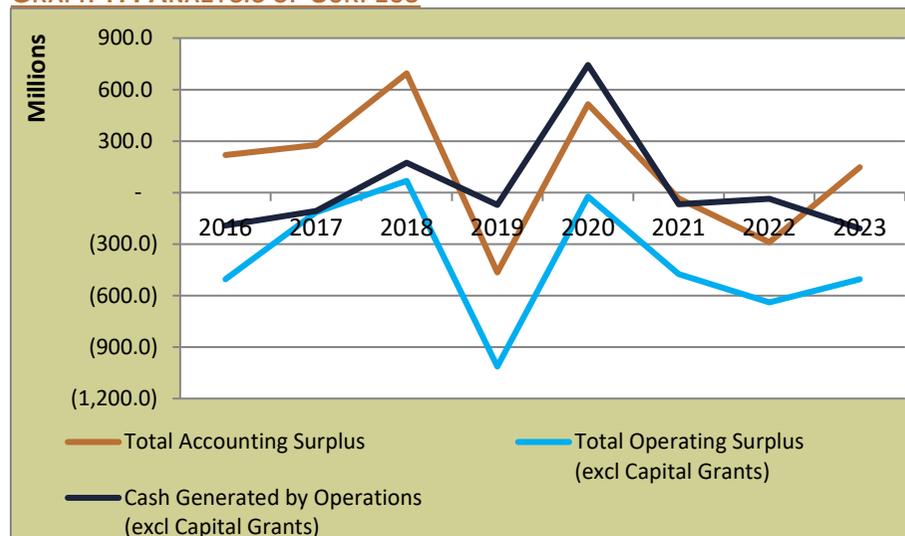
TABLE 7: TOTAL INCOME VS TOTAL EXPENDITURE

	2016	2017	2018	2019	2020	2021	2022	2023
Total Income	3,977	4,317	4,249	4,845	5,072	5,291	6,300	7,098
Total Operating Expenditure	3,758	4,040	3,554	5,310	4,558	5,325	6,589	6,951
Operating Income (excl Cond Grants)	458	460	1	896	451	793	923	961

In FY2023, total income has increase by 13% and operating income by 4%. Operating income increased marginally higher than operating expenditure (5%). This disparity is an improvement from FY2022 when expenditure growth exceeded income growth by 8 percentage points. This improvement aided in the upturn in financial performance during the period. Rustenburg posted an accounting surplus of R146.8 million in FY2023 after two posting deficits in two consecutive years. Operating deficits remain a problem in the municipality with a fifth consecutive operating deficit of R503.8 million posted in FY2023. This was an improvement of R136.2 million from the FY2022 deficit of R640.1 million. These operating deficits

indicate heavy reliance on capital grants for profitability. Cash generating deteriorated in the municipality.

This is evident in the cash utilisation of R209.2 million to fund operations. This was the third consecutive period in which Rustenburg did not manage to generate cash from operations. The disparity between the improved financial performance and a decline in cash generation can be traced to the repayment of creditors. The creditors balance decreased by R117.2 million as at FYE2023 and Rustenburg should continue to strive to repay creditors as will reduce its interest expense. Creditors days currently stand at 80 days, which falls outside the NT norm recommendation of 30 days.

GRAPH 18: CONTRIBUTION PER INCOME SOURCE
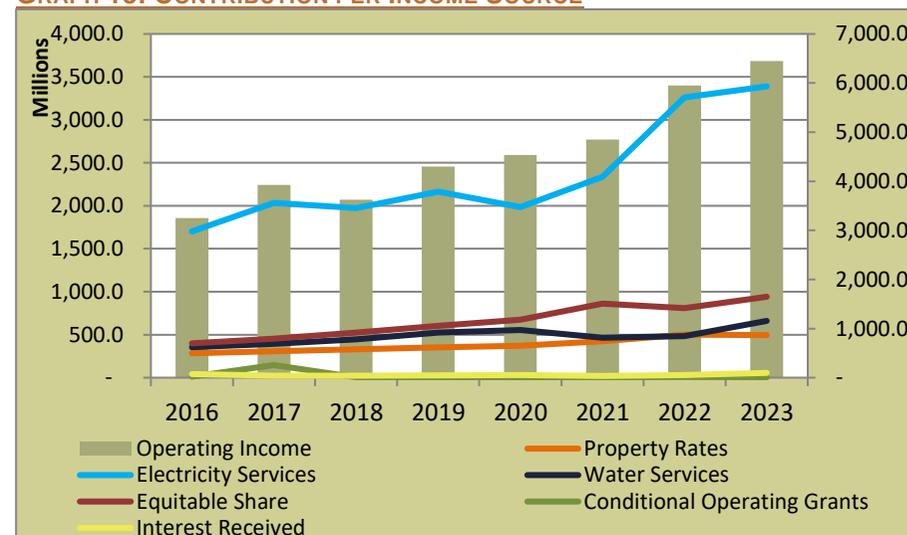
Electricity services revenue, with a 55% contribution, remained the main revenue source for the municipality. It only increased its revenue generation by 4% in FY2023. This fell below the average inflation rate of 7% during the financial period and far below the review period average increase of 13%. Marginal increases in electricity revenue generation, or declines in worst case scenarios, have been a prevalent theme in municipalities in FY2023 due to consistent loadshedding experience during the period. Electricity surplus margins remained at 7% for the

second consecutive period. Likewise, electricity losses remained at 9%, which is below the NT maximum of 10%. These margins are not sustainable and will influence the profitability & liquidity of the municipality going forward. A gross margin of 30-35% is necessary, depending on the overhead structure of the electrical department.

Equitable share, water services and property rates were the other main sources of operating income, contributing 15%, 10% and 8% respectively. Property rates revenue worryingly declined by 2% in FY2022.

Water services revenue increased by 37% in FY2023. Additionally, water surplus margins increased to 28% from 16%. On the downside, water distribution losses increased to 52% from 46%, which far exceeds the NT maximum of 30%.

**GRAPH 19: CONTRIBUTION PER EXPENDITURE ITEM**
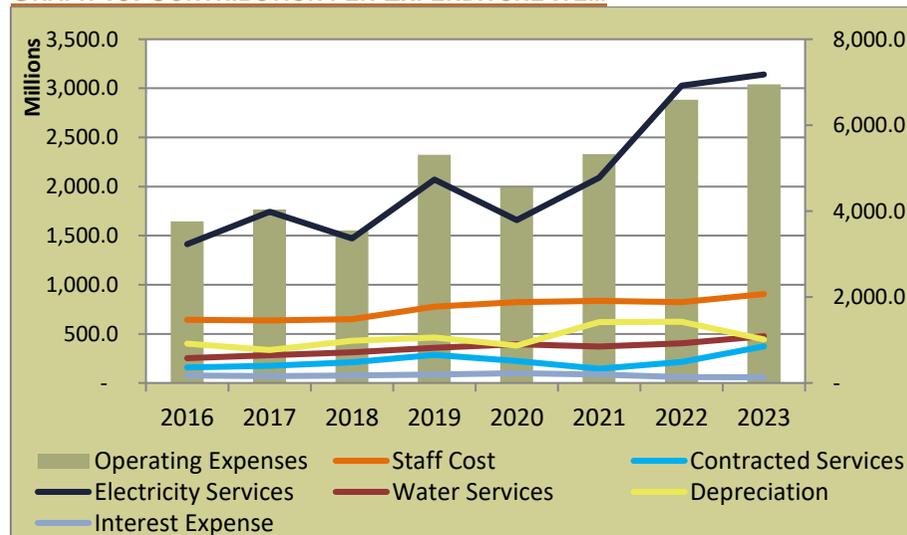
The main cost driver in the municipality is electricity bulk purchases, contributing 43% to total operating expenditure in FY2023. Staff costs only contributed to 12%, falling well below the NT norm of at least 25%. This low ratio raises the question of whether the municipality is capacitated enough to meet the demands of its duties. Contracted services, often used to supplement employees, contributed to 5%,

remaining within the NT maximum of 5%. Together, expenses incurred to capacitate the municipality amounted to 17% of total operating expenditure.

Expenditure incurred to repair and maintain capital assets marginally increased to 2% of PPE and IP for FY2023. This ratio is considered to be low when compared to the NT norm of 8%. **GRAPH 20** below demonstrates the distribution losses suffered over the review period and the increase in repairs and maintenance over the same period. There were three periods in which financial resources assigned to repairs and maintenance declined even though Rustenburg was well below the NT norm of 8%. This is a concerning prevalent occurrence as inadequate repairs and maintenance could lead to impairment, early obsolescence of assets and regular breakdowns. This needs to be addressed.

GRAPH 20: DISTRIBUTION LOSSES VS ANNUAL INCREASE IN EXPENDITURE: REPAIRS AND MAINTENANCE
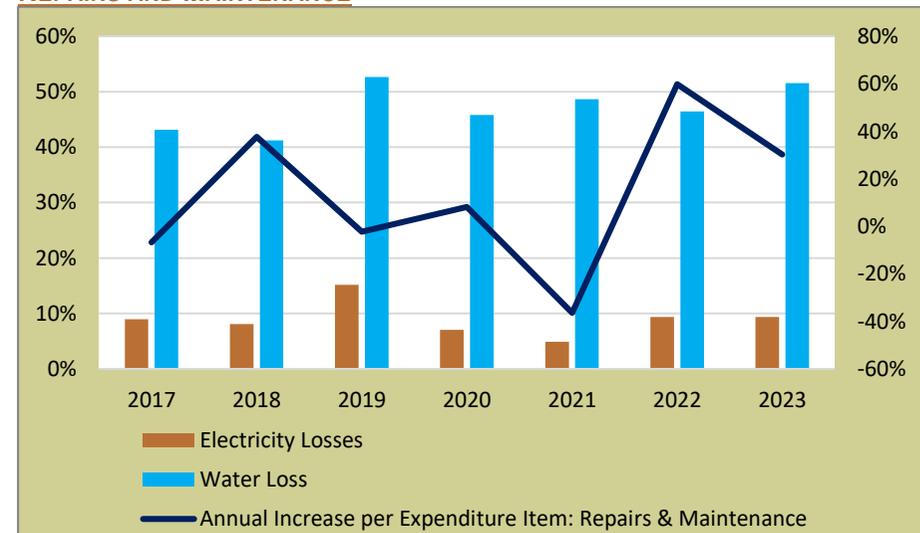
Cash Flow

Graph 21: Cash Generated from Operations/Own Source Revenue
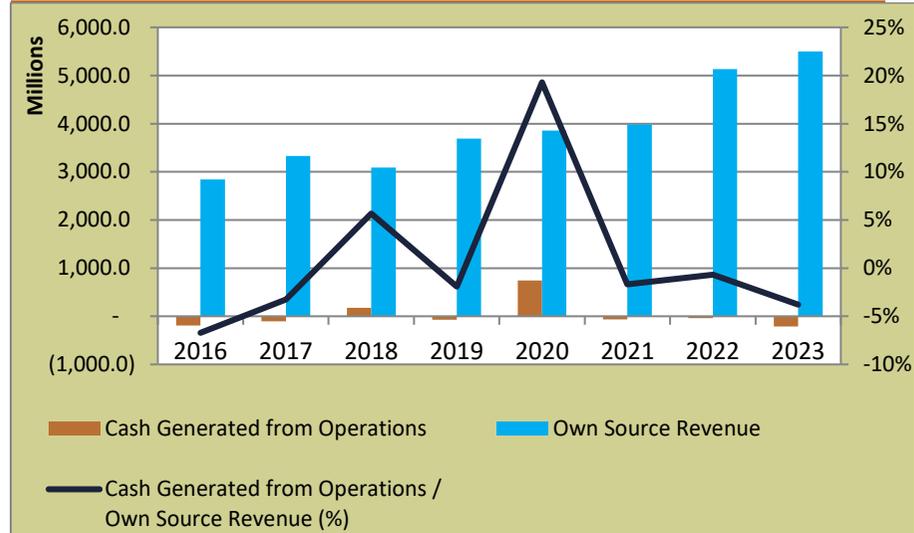
The low collection rate – averaging 85% over the 8-year period - has negatively impacted the city's ability to generate cash from its revenue. Graph 21 indicates that on average, the city's cash generated from operations over the 8-year period comprised a mere 1% p.a of own source revenue.

Rustenburg invested a cumulative R4.0 billion in the acquisition of capital assets over the past 8 years. This amount was primarily funded by capital grants. Capital expenditure was not supplemented by own cash reserves, and this was warranted as the municipality did not hold sufficient cash reserves for seven out of the eight years under review. Debt has not been a financing avenue since FY2016. The capital budget implementation indicator has remained an issue in the municipality with the indicator standing at 50% in FY2023.

Graph 23 shows signs of an uptrend after cash and cash equivalents declined as at FYE2021. The cash balance increased by R76.8 million to R832.0 million as at FYE2023. However, this cash balance and improvement thereof has not been attained in a financially sustainable manner: the creditors days are still above the NT norm of 30 days, the collection rate declined during the year and there were unspent conditional grants which will need to be repaid if these are not rolled over.

Graph 22: Annual Capital Funding Mix
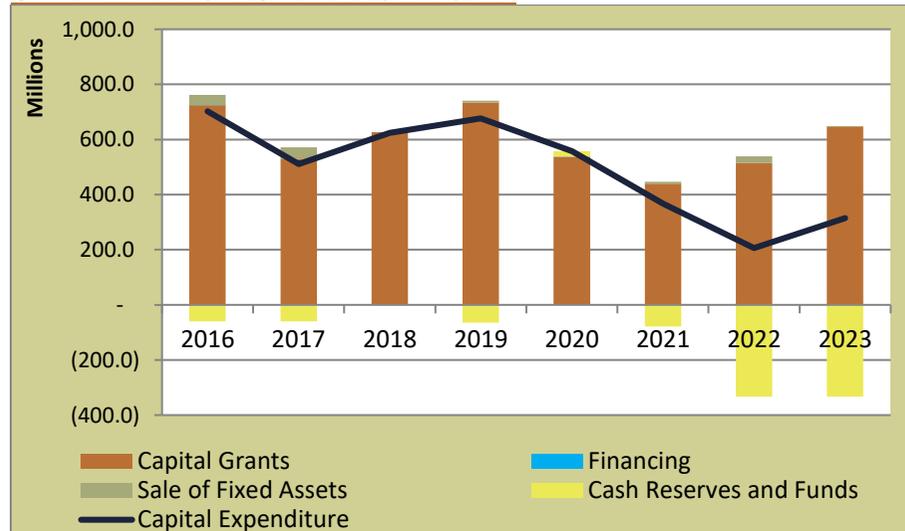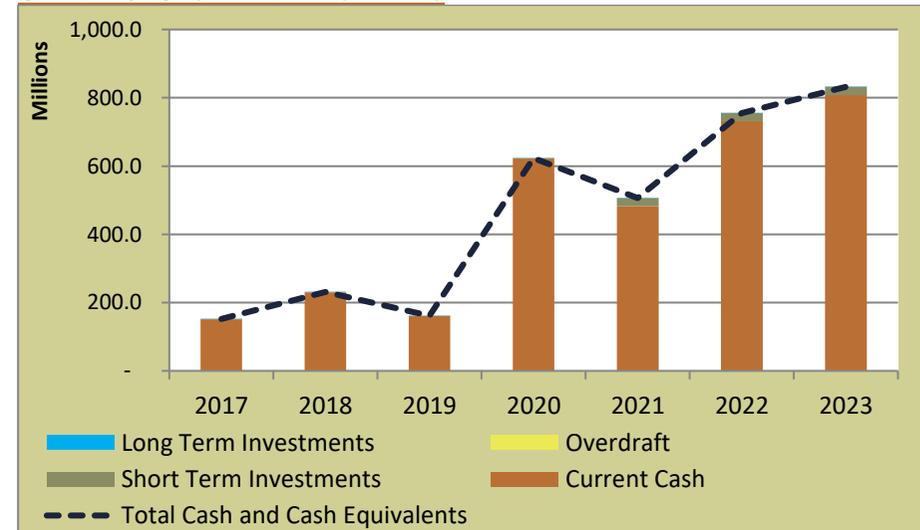

Graph 23: Cash and Investments

TABLE 8: MINIMUM LIQUIDITY LEVELS

	2016	2017	2018	2019	2020	2021	2022	2023
Unspent Conditional Grants	293.7	51.7	46.4	296.1	169.4	48.4	165.4	36.8
Short Term Provisions	45.6	49.5	52.1	131.2	306.2	154.5	173.5	189.7
Funds, Reserves & Trust Funds (Cash Backed)	92.3	98.5	-	-	-	-	-	-
Total	431.6	199.8	98.6	427.3	475.6	202.9	338.9	226.5
Unencumbered Cash	314.8	122.5	201.1	160.6	622.2	505.4	754.6	831.4
Cash Coverage Ratio (excl Working Capital)	0.7	0.6	2.0	0.4	1.3	2.5	2.2	3.7
Working Capital Provision (1 Month's Opex)	241.7	270.4	260.3	329.3	310.6	327.8	421.3	465.3
Cash Coverage Ratio (incl Working Capital)	0.5	0.3	0.6	0.2	0.8	1.0	1.0	1.2
Minimum Liquidity Required	673.3	470.2	358.9	756.5	786.2	530.7	760.2	691.7
Cash Surplus/(Shortfall)	(358.5)	(347.7)	(157.8)	(596.0)	(164.0)	(25.2)	(5.6)	139.7

GRAPH 24: MINIMUM LIQUIDITY REQUIRED

Presented in **TABLE 8** above, Rustenburg is required to maintain sufficient cash reserves to cover Unspent Conditional Grants (R36.8 million), Short-Term Provisions (R189.7 million) and Working Capital Provision (including 1 month's Opex) (R465.3 million). The municipality's unencumbered cash balance is more than sufficient to meet the required minimum liquidity levels of R691.7 million, resulting in a cash surplus of R139.7 million as at FYE2023. The cash coverage ratio (including working capital) improved to 1.2:1 for FY2023.

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

IPM SHADOW CREDIT SCORE

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

The IPM credit model reflects a score of **3.5**, which is comparable to a **BB+** on a national ratings scale. This credit score is high compared to other municipalities, which means that Rustenburg should be successful in accessing external borrowing at reasonably affordable rates.

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

TABLE 9: IPM CREDIT MODEL OUTCOMES

Modules	2023 (5)
Financial	1.1
Institutional	3.1
Socio-Economic	1.2
Infrastructure	1.7
Environmental	2.4

From the assessment it is evident that the financial, socio-economic and infrastructure environments are the main impediments in achieving higher credit scores. These are affected by factors such as poor cash generation, high unemployment, and rampant distribution losses amongst many others.

The strong performance by the other two modules were driven by factors such as the employment of experienced management, low staff turnover and favourable Blue Drop and Green Drop Scores to name a few.
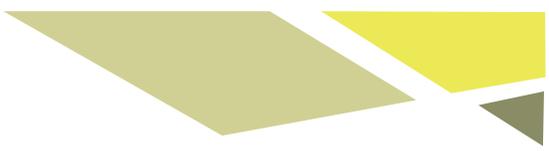
LONG TERM FINANCIAL MODEL OUTCOMES

MTREF Case Scenario

Future forecasts are based on the outcome of the LTFM. Financial data as well as economic and demographic data form part of the underlying data used within the model. In this MTREF scenario, key variables or inputs remained as they were projected in the 2023/24 adjusted budget or as they were reported in the 2022/23 audited financial statements in order to depict the projected financial situation if the municipality continues on its current course.

Here are some of the key variables or inputs which remained as is:

- The collection rate remained at 79% as recorded in FY2023;
- Distribution losses for water and electricity remained at 52% and 9% respectively as reported in the FY2023 audited financial statements;
- Repairs and maintenance remained at 2% of PPE and IP;
- All revenue items were calibrated against the budget to solely reflect the budget projections and;
- Budgeted CAPEX remained as is throughout the MTREF period and was escalated at 5.3% per annum (equivalent to the forecast inflation rate) for the financial periods beyond the MTREF.

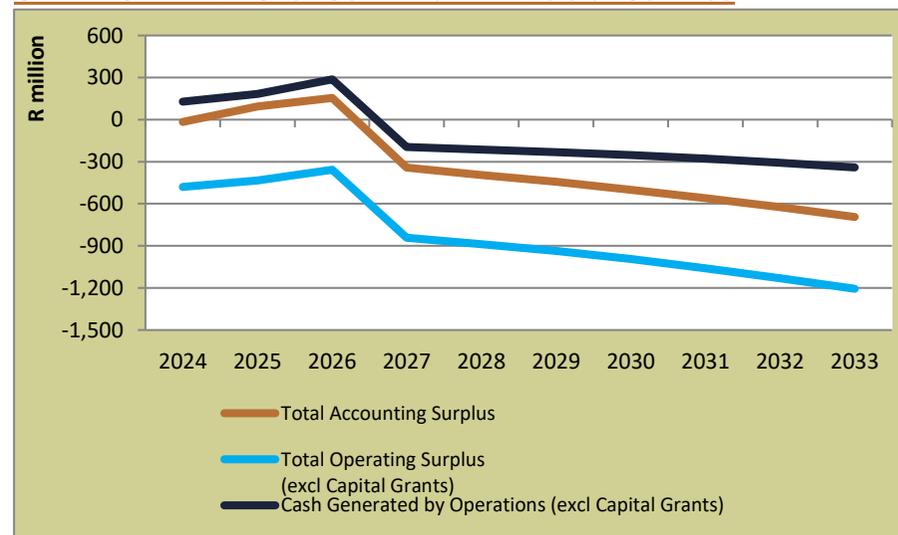### TABLE 10: ASSUMPTIONS OF MTREF CASE SCENARIO

Variable	Base Case Average for a 10-Year Planning Period
RSA consumer inflation rate (CPI)	5.3%
Population Growth Rate	1.5%
GVA Growth Rate	2.0%
Short term investment rate (Margin above CPI)	0.0%
Electricity Price Elasticity of Demand	-0.4
Water Price Elasticity of Demand	-0.2
Employee related cost escalation	6.8%
Bulk electricity cost escalation	9.4%
Collection Rate of customer billings	79.0%

TABLE 11: OUTCOMES OF MTREF CASE SCENARIO

| Outcome	10-Year Outcome
Average annual % increase in Revenue	8.5%
Average annual % increase in Expenditure	9.2%
Accounting Surplus / (Deficit) accumulated during Planning Period (Rm)	-R 3,329
Operating Surplus/ (Deficit) accumulated during Planning Period (Rm)	-R 8,330
Cash generated by Operations during Planning Period (Rm)	-R 1,219
Average annual increase in Gross Consumer Debtors	8.9%
Capital investment programme during Planning Period (Rm)	R 7,200
External Loan Financing during Planning Period (Rm)	R 0
Cash and Cash Equivalents at the end of the Planning Period (Rm)	-R 3,068
No of Months Cash Cover at the end of the Planning Period (Rm)	-2.8
Liquidity Ratio at the end of the Planning Period	0 : 1
Gearing at the end of the Planning Period	0.0%
Debt Service to Total Expense Ratio at the end of the Planning Period	1.1%

Rustenburg would post accounting and operating deficits at the end of the planning period. Cash generation would deteriorate due to the low collection rate of 79%.

GRAPH 25: MTREF CASE SCENARIO: ANALYSIS OF SURPLUS

Legend:
- Total Accounting Surplus
- Total Operating Surplus (excl Capital Grants)
- Cash Generated by Operations (excl Capital Grants)

The bank balance is set to decline as Rustenburg would be required to fund operations with its own cash due to the poor cash generation. The minimum liquidity requirements would not be met at any period over the 10-year planning period.

GRAPH 26: MTREF CASE SCENARIO: BANK BALANCE

GRAPH 27: BASE CASE SCENARIO: CAPITAL FUNDING MIX
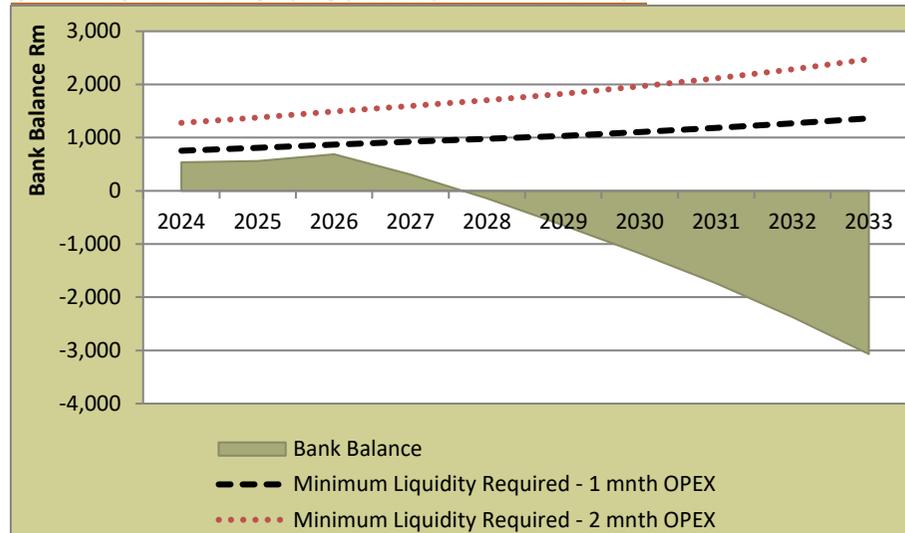
The decline of the cash balance negatively affects the capital expenditure programme. Under these circumstances, Rustenburg would not be able to accelerate its capital expenditure programme with own cash reserves from FY2029. With the deteriorating cash balance, the capital programme would suffer a cash shortfall of R1.5 billion.
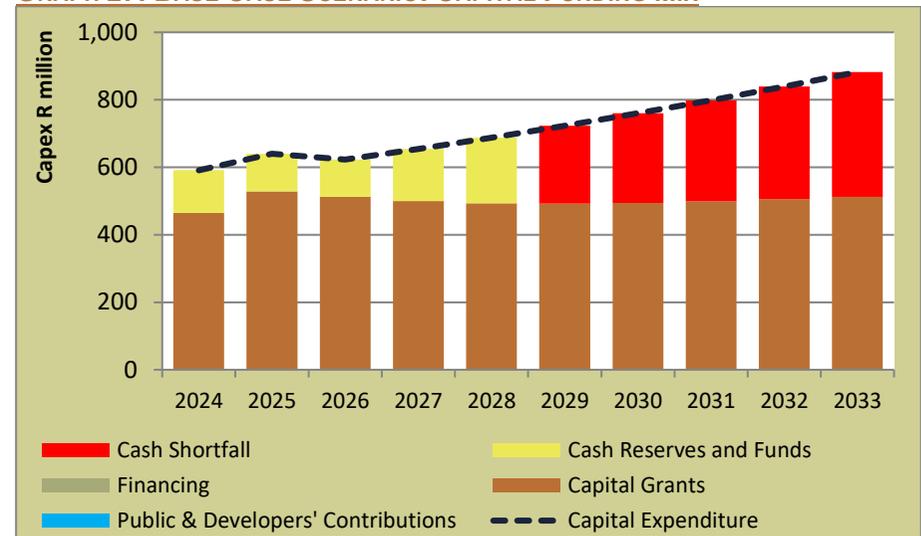
Based on these results, it can be deduced that the current MTREF is not financially sustainable. It is fundamental that the main objective becomes stabilisation of the current financial position to achieve healthy liquidity results and contribute to a cash backed capital replacement reserve with a view of accelerating the capital expenditure levels further for the advancement of service delivery.

It is imperative to adopt assumptions that will result in financial sustainability.

Base Case Scenario

Adjustments were made to certain financial metrics in the MTREF Case to arrive at the Base Case scenario. These adjustments serve as recommendations and Rustenburg is urged to implement these recommendations in order to achieve financial sustainability.

Key assumptions to note that were made in arriving at the base case:

- The collection rate is assumed to reach 85% after five years and maintained at this rate throughout the planning period.
- The load shedding impact was assessed and included – with the expectation that load shedding will continue for the next two year at an average level of stage 3. This results in an approximate reduction in electricity consumption of 19.3%. Furthermore, a permanent loss of electricity consumers of 2% was included.
- Expenditure on repairs and maintenance on PPE as a percentage of the value of PPE & IP is forecast to reach 4% by the end of the planning period.
- Electricity losses were maintained at 9%; water losses are set to decrease to 40% at the end of the planning period.
- Capital expenditure during the MTREF period is adjusted in order to safeguard cash reserves.
- The MTRET capital expenditure programme is adjusted as follows:
    - 2024: MTREF R588.1 million, Base Case R588.1 million
    - 2025: MTREF R640.2 million, Base Case R599.4 million
    - 2026: MTREF R622.7 million, Base Case R620.0 million
- Capital expenditure is accelerated with a 6% annual growth for the years beyond the MTREF period.

TABLE 12: ASSUMPTIONS OF THE BASE CASE VARIABLES

Variable	Base Case Average for a 10-Year Planning Period
RSA consumer inflation rate (CPI)	5.3%
Population Growth Rate	1.5%
GVA Growth Rate	2.0%
Short term investment rate (Margin above CPI)	0.0%
Electricity Price Elasticity of Demand	-0.4
Water Price Elasticity of Demand	-0.2
Employee related cost escalation	6.8%
Bulk electricity cost escalation	9.4%
Collection Rate of customer billings	83.8%

TABLE 13: ASSUMPTIONS OF THE BASE CASE VARIABLES

Outcome	10-Year Outcome
Average annual % increase in Revenue	6.0%
Average annual % increase in Expenditure	5.8%
Accounting Surplus accumulated during Planning Period (Rm)	R 3,058
Operating Surplus/ (Deficit)accumulated during Planning Period (Rm)	-R 1,943
Cash generated by Operations during Planning Period (Rm)	R 3,660
Average annual increase in Gross Consumer Debtors	4.5%
Capital investment programme during Planning Period (Rm)	R 7,184
External Loan Financing during Planning Period (Rm)	R 0
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 1,826
No of Months Cash Cover at the end of the Planning Period (Rm)	2.2
Liquidity Ratio at the end of the Planning Period	1.1: 1
Gearing at the end of the Planning Period	0.0%
Debt Service to Total Expense Ratio at the end of the Planning Period	0.0%

GRAPH 28: BASE CASE SCENARIO: ANALYSIS OF SURPLUS

Legend:
- Total Accounting Surplus
- Total Operating Surplus (excl Capital Grants)
- Cash Generated by Operations (excl Capital Grants)
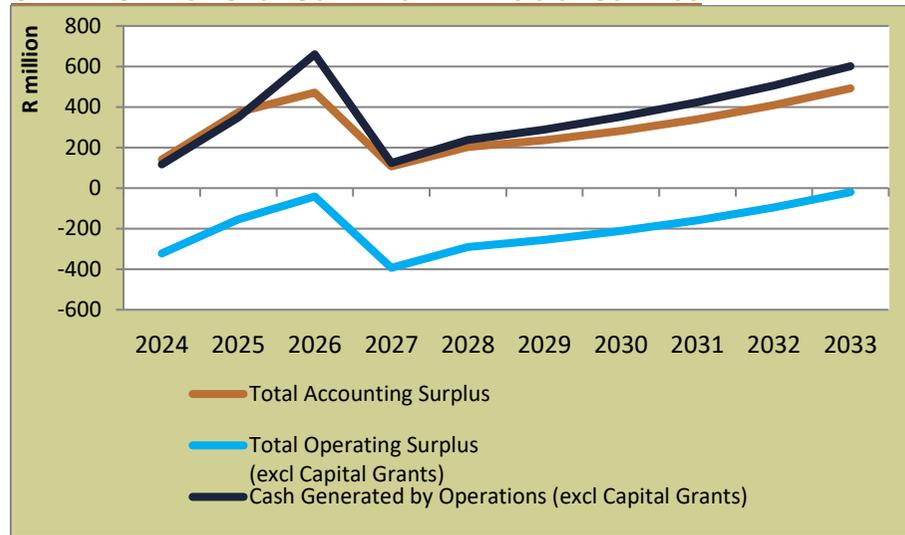
GRAPH 30: BASE CASE SCENARIO: CASH VS RESERVES

Legend:
- Minimum Liquidity Required
- Capital Replacement Reserve
- Bank Balance
- Non-current Investments
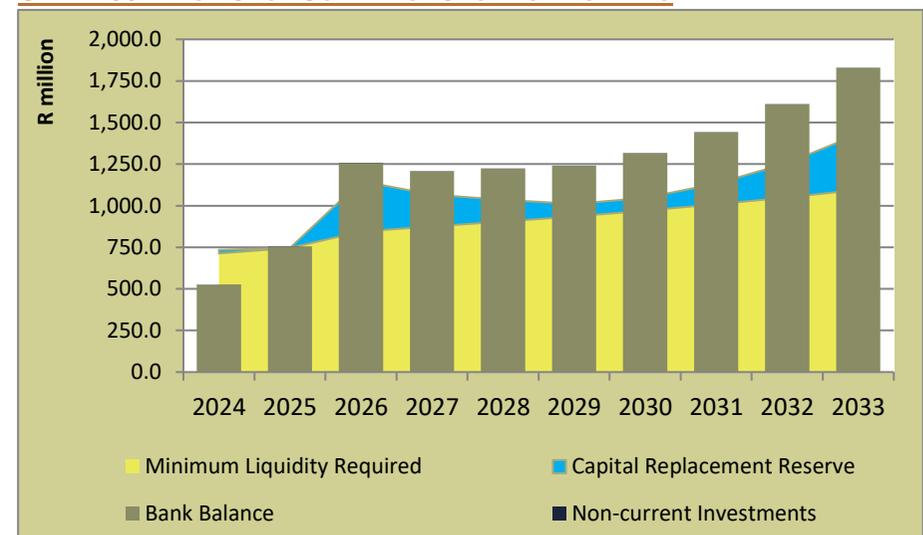
GRAPH 29: BASE CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY

Legend:
- Bank Balance
- Minimum Liquidity Required - 1 mnth OPEX
- Minimum Liquidity Required - 2 mnth OPEX
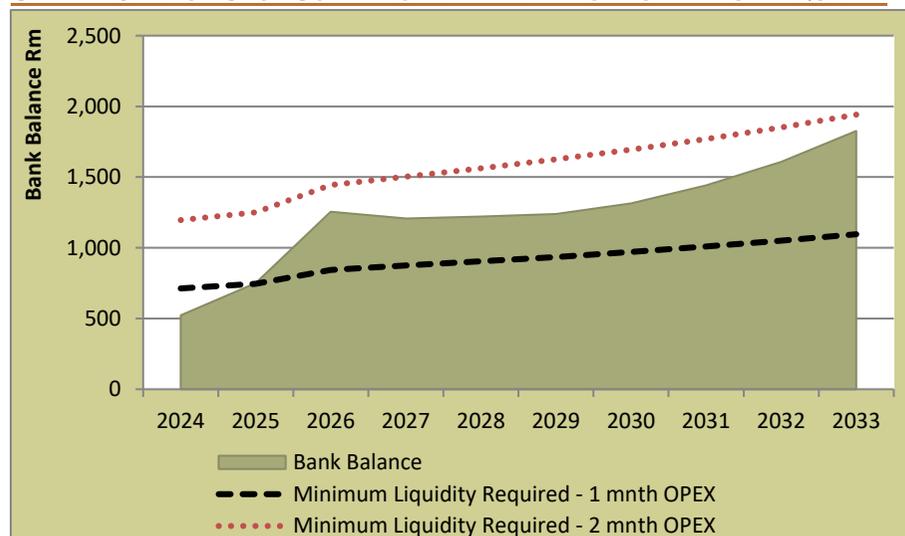
GRAPH 31: BASE CASE SCENARIO: CAPITAL FUNDING MIX

Legend:
- Cash Shortfall
- Cash Reserves and Funds
- Financing
- Capital Grants
- Public & Developers' Contributions
- Capital Expenditure
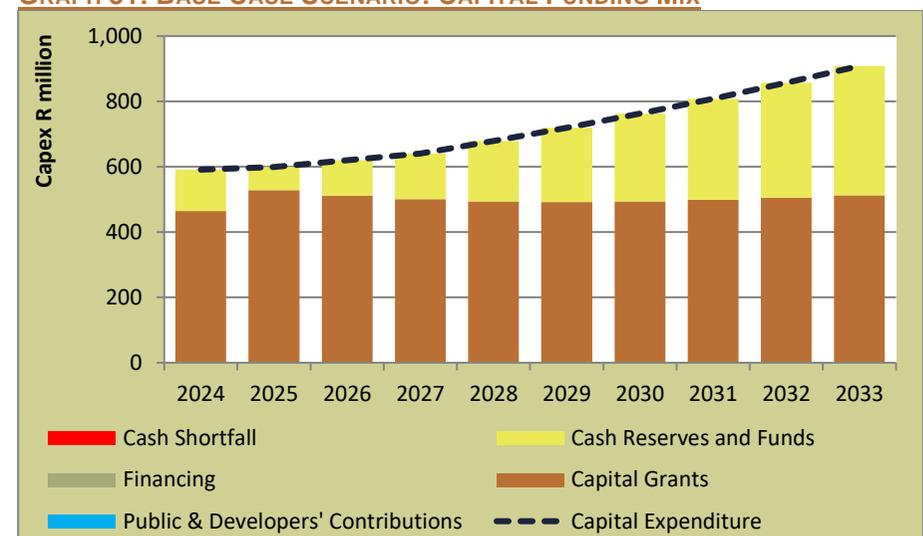
GRAPH 32: BASE CASE SCENARIO: GEARING

% Interest Bearing Liabilities to Operating Income: Forecast

% Interest Bearing Liabilities to Operating Income: Benchmark
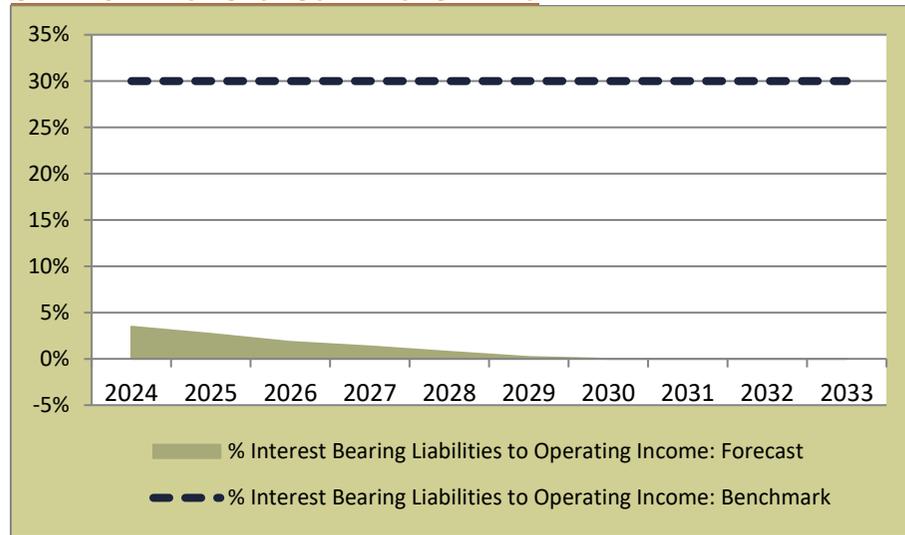
GRAPH 33: BASE CASE SCENARIO: DEBT SERVICE TO TOTAL EXPENSE RATIO

Debt Service to Total Expense Ratio: Forecast

Debt Service to Total Expense Ratio: Benchmark
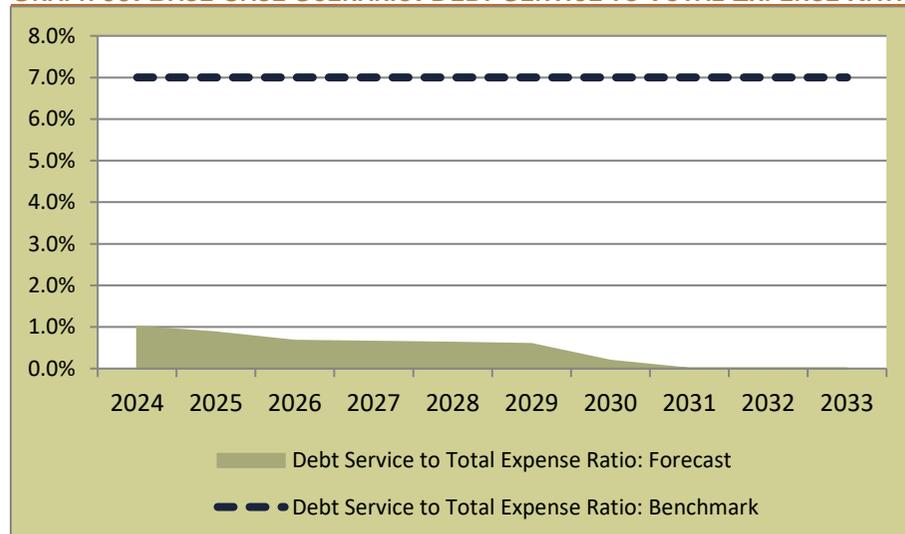
These adjustments serve Under the Base Case scenario, Rustenburg would post accounting surpluses and generate cash from operations throughout the review period. operating surpluses would not be posted throughout the 10-year planning period but there is a visible uptrend evident in **GRAPH 28** indicating consistent improvement. Operating surpluses are expected to be posted in the years beyond the planning period.

The consistent cash generation manifests itself in the healthy bank balance and the ability to now build up a capital replacement reserve seen in **GRAPH 30**. The minimum liquidity requirement is expected to be met as early as FY2025.

With a healthier bank balance, the municipality regains the ability to supplement capital grants with own cash reserves without encountering cash shortfalls. This allows a marginal acceleration in the capital expenditure programme by increasing expenditure at an average rate of 6% per annum opposed to 5.1%.

Without accessing the debt market, the gearing ratio and debt service ratio are expected to decrease to nil at the end of the planning period, as seen in **GRAPH 32** and **33**.

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

FUTURE REVENUES

MUNICIPAL REVENUE RISK INDICATOR (MRRI) = "HIGH"

GRAPH 34: ECONOMIC RISK COMPONENT OF MRRI

GRAPH 35: HOUSEHOLD ABILITY TO PAY RISK COMPONENT OF MRRI
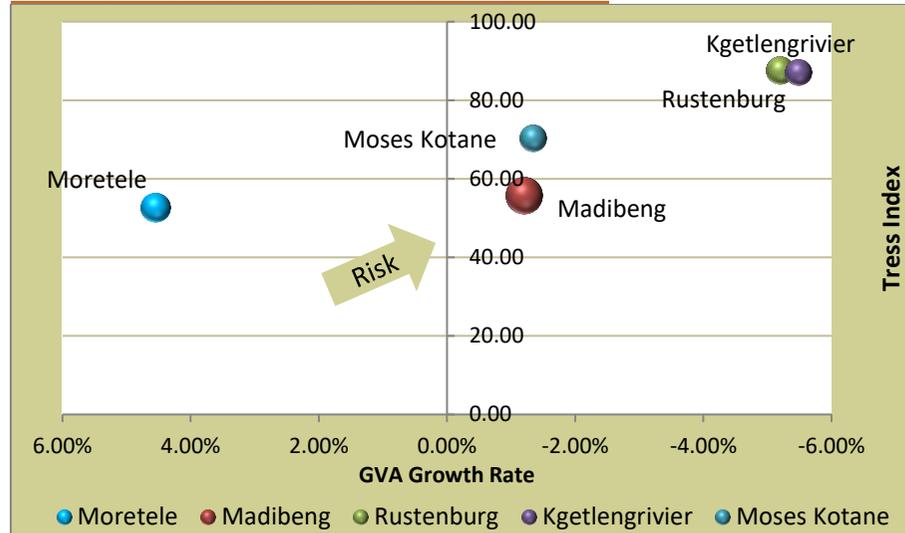
The Municipal Revenue Risk Indicator (MRRI) measures the risk of the municipality to generate its own revenues. This is a function of the economy (size of the economy as measured by GVA per capita, GVA growth rate and Tress Index); and the household ability to pay (measured by percentage of households with income below R54 000 p.a., unemployment rate and human development index).

The latest S&P Global Markt Intelligence update of Rustenburg's local economy reveals an economic output of approximately R63.1 billion (2022). The economy has contracted at an average rate of 5.2% p.a. during the past 5 years, which was lower than the average population growth rate of 1.8% p.a. over the same period. Consequently, the GVA per capita has decreased over the same period to R43 644. The municipality's local economy was assessed to be highly concentrated as indicated by a Tress Index of 87.66. This resulted in a "High" risk rating by the economic risk component of the MRRI, due to the low economic recession over the past five years and the lack of economic diversification.

The reasonably high percentage of households reliant on indigent support (19.1%), the high unemployment rate of 58.9% and the human development index of 0.67, cumulatively resulted in a "High" household ability to pay risk component of the MRRI.

Therefore, the overall rating on the MRRI is deemed to be "High". If population growth continues to outperform economic growth, unemployment will become more rampant and a reduction in household income will be experienced.
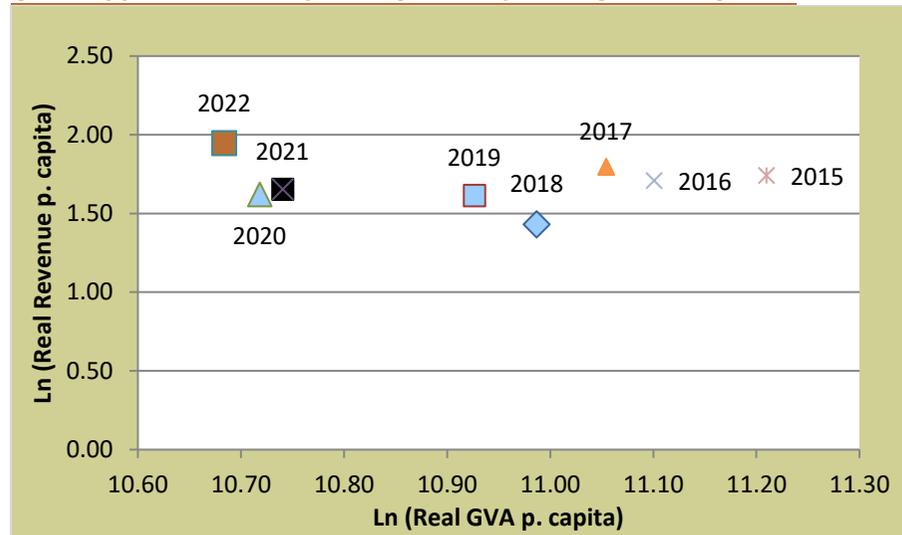
The GVA per capita has decreased over the past ten years, with a 5.5% decrease recorded in 2022. This decreased from R46 186 p.a in 2021 to R43 644 p.a in 2022. decrease in GVA per capita can be attributed to population growth rate exceeding the economic growth rate over the 10-year review period.

Real municipal revenue (excluding capital transfers) performed inconsistently, with increases and decreases evident throughout the review period. This indicates that revenue base has been unstable over the period. Sustained periods of low levels of GVA growth will negatively impact the municipality's ability to generate income from households.

A comparison of the average household bill for the middle income and affordable income range of a selected number of municipalities in North West(extracted from Budget Table SA14), based on the 2023/24 tariffs, reveals that Rustenburg features at the higher range. Considering the level of service provided by Rustenburg by comparison to its municipal counterparts, the current household bill is reasonable and justifiable. The scope of the tariff increases is, however, limited by household's ability to pay for services.

MUNICIPAL REVENUES

GRAPH 38: BASE CASE: REVENUE AND EXPENDITURE

GRAPH 39: PROJECTED REAL GVA AND REVENUES PER CAPITA
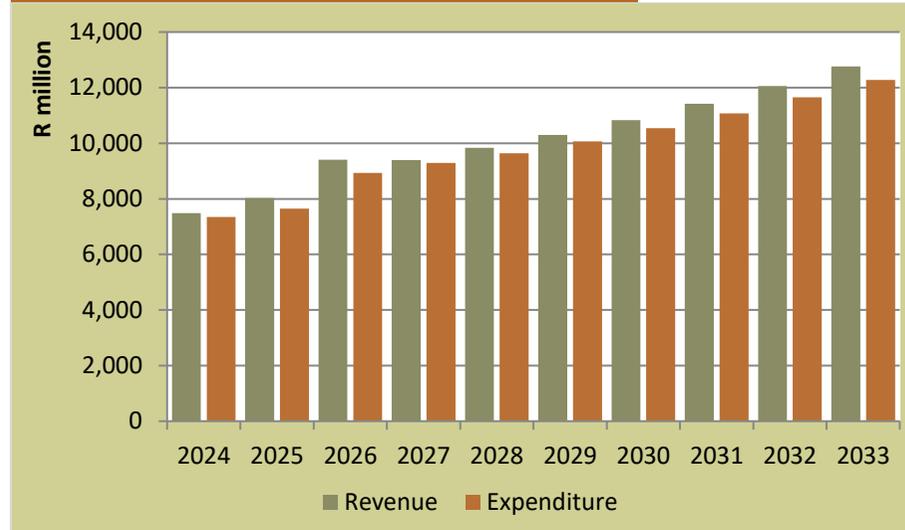
The Base Case estimates that, over the planning period, future nominal revenue (including capital grants) will grow at an average of 6.0% p.a. The revenue growth includes: (i) tariff increases, (ii) increased sales and (iii) additional revenue sources. Future nominal expenditure is estimated to grow at a marginally lower rate of 5.8% p.a., over the same period.

The Real GVA per capita is expected to decline in the first three years of the planning period then steadily improve in the years beyond 2027. The Real Revenue per capita is expected to decrease overall over the planning period. The local economic growth (GVA growth) is significant to the municipality as it affects the ability of the municipality to generate revenue (MRRI). Growth in GVA will result in an increase in the municipality's revenue base, which will improve profitability and ultimately accelerate investment in capital expenditure.

The municipality is forecast to generate cash from its operations; however, this is heavily reliant on achieving the recommended collection rate.

GRAPH 40: BASE CASE: ANALYSIS OF SURPLUS
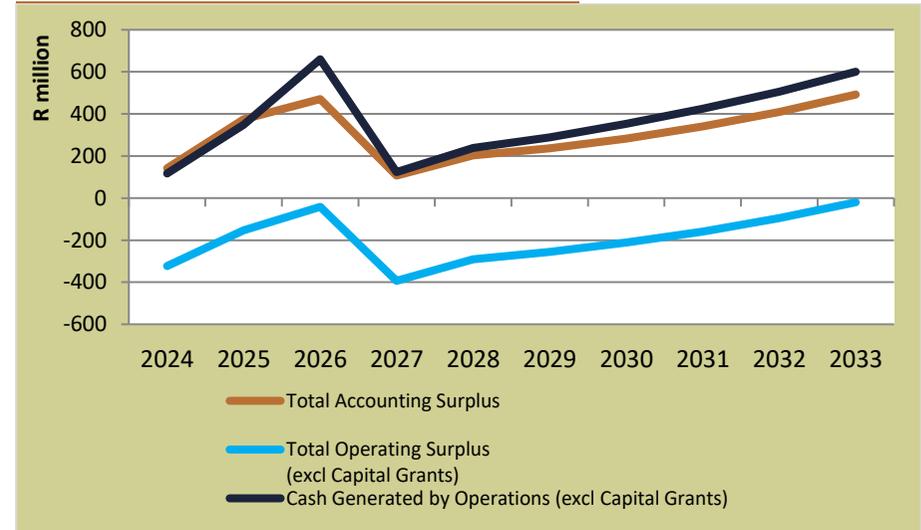
1   Planning Process

2   Updated Perspectives (Demographic, Economic, Household Infrastructure)

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4   Long Term Financial Model Outcomes

5   Future Revenues

6   **Affordable Future Capital Investment**

7   Scenario Analysis

8   Ratio Analysis

9   Conclusions

Affordable Future Capital Investment

Capex Affordability and Funding

The total CAPEX demand was determined during the preparation of the LTFP in 2018 but has changed since then. For purposes of this report, the estimated CAPEX demand in the previous update was adjusted for inflation.

Table 14: CAPEX Demand vs CAPEX Affordability

Total 10-year CAPEX **Demand:**	=	R4 120 million
Total 10-year CAPEX **Affordability:**	=	R7 184 million

Capex Demand far exceeds Capex Affordability. This disparity requires the municipality to prioritize capital projects it deems important. Alternatively, the municipality can pursue private sector participation or additional funding from developers or grants sources.

MTREF Capital Funding Mix

Rustenburg's adjusted MTREF Budget 2023/24 to 2025/26, expects a capital budget amounting to R246.4 million funded as follows:

Table 15: MTREF Funding Mix (R'm)

R'm	Total	2023/24	2024/25	2025/26
Public & Developers Contributions	0	0	0	0
Capital Grants	1 504	464	528	512
Financing	0	0	0	0
Cash Reserves and Funds	347	124	112	111
Total	**1 851**	**588**	**640**	**623**

The MTREF funding mix was adjusted in order to arrive at the Base Case, by marginally decreasing the utilisation of own cash reserves in FY2025 and FY2026 with the aim of securing minimum liquidity levels.

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

Table 16: Base Case Funding Mix (R'm)

R'm	Total	2023/24	2024/25	2025/26
Public & Developers Contributions	0	0	0	0
Capital Grants	1 504	464	528	512
Financing	0	0	0	0
Cash Reserves and Funds	306	127	71	108
Total	**1 810**	**591**	**599**	**620**

The Base Case capex budget reflects an optimal funding mix shared amongst capital grants (83%) and own cash reserves (17%).

10-year Capital Funding Mix

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

Table 17: 10-Year Capital Funding Mix

Source	Rm	%
Public & Developers' Contributions	0	0%
Capital Grants	5 001	70%
Financing	0	0%
Cash Reserves and Funds	2 183	30%
Cash Shortfall	0	0%
Capital Expenditure	**7 184**	**100%**

The proposed funding mix results in capital grants remaining as the main source of funding, at 70%; own cash reserves will fund 30%. No borrowing is expected. It is important to note that that, due to the prevailing national fiscus constraints, grant funding in future is expected to decline in real terms there less reliance should be placed on grants.

The Base Case's funding mix is presented below:

GRAPH 41: DISTRIBUTION OF FUTURE FUNDING
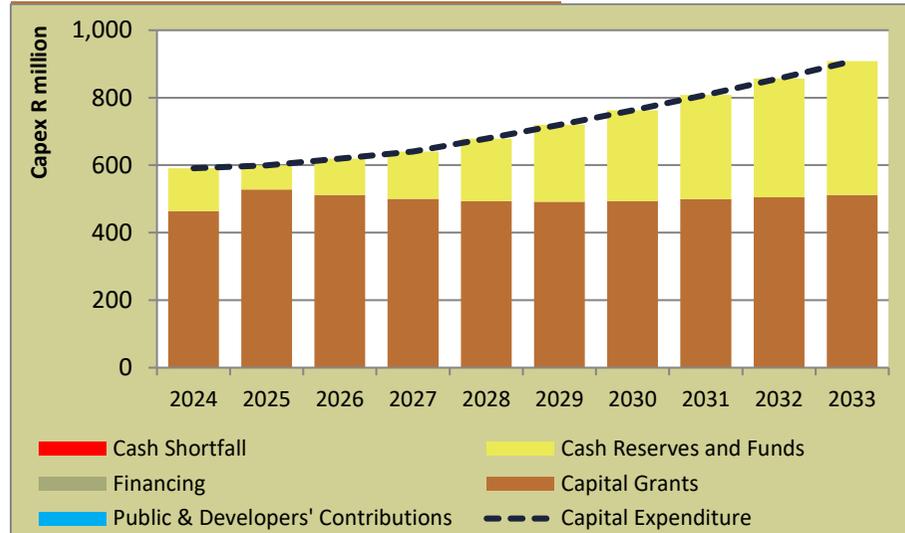
GRAPH 42: BANK BALANCE VS MINIMUM LIQUIDITY REQUIREMENTS
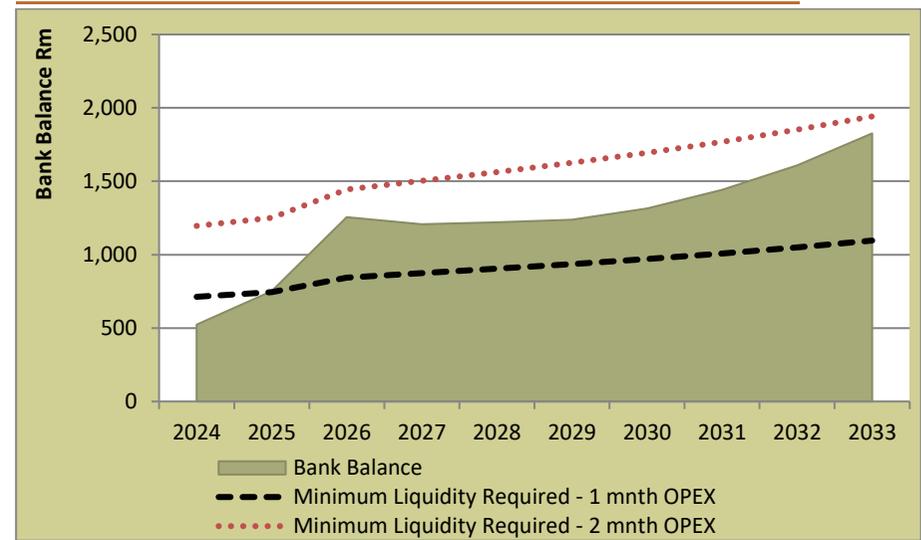
LIQUIDITY AND CAPITAL REPLACEMENT RESERVE

The minimum liquidity levels cater for unspent conditional grants, cash-backed reserves, short term provisions and 1-month's working capital (operating expenditure).

The municipality's liquidity ratio is set to improve to 1.1:1 at the end of the planning period and the cash balance of R1.8 billion shall meet the minimum liquidity requirements including 2 months operational expenditure. It is imperative that the municipality maintain the optimal funding mix indicated in the Base Case without over-extending the utilisation of own cash reserves. The most pivotal prerequisite to reaching these projected liquidity levels is achieving and maintaining a collection rate of at least 85% as proposed in the Base Case.

GRAPH 43: CAPITAL REPLACEMENT RESERVE
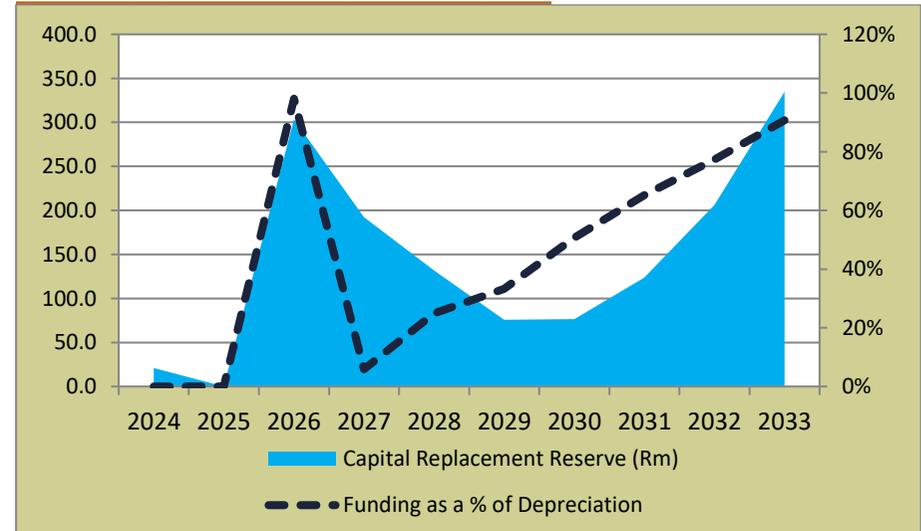
GEARING

In the Base Case, no borrowing is recommended. Therefore, the gearing ratio and debt service ratio are both expected to reach 0% at the end of the planning period.

GRAPH 44: GEARING (%)
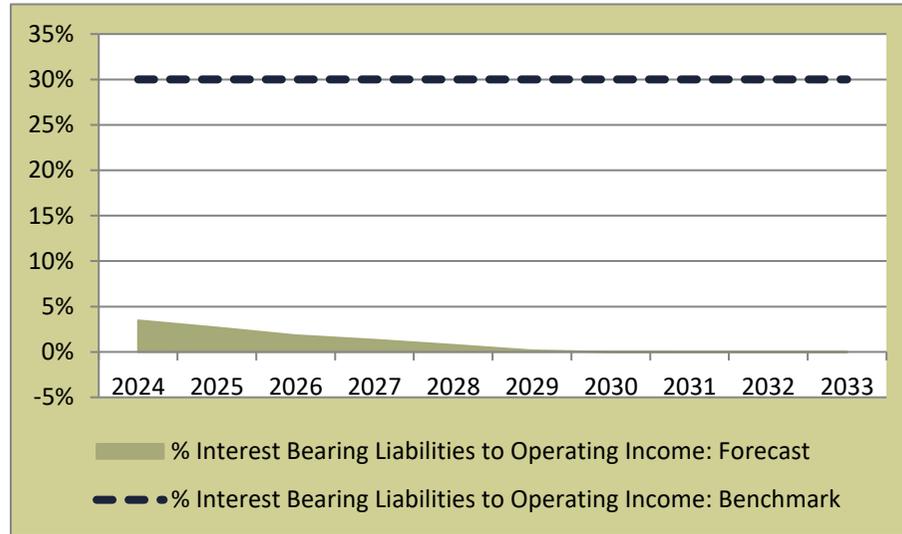
GRAPH 45: DEBT SERVICE TO TOTAL EXPENDITURE (%)
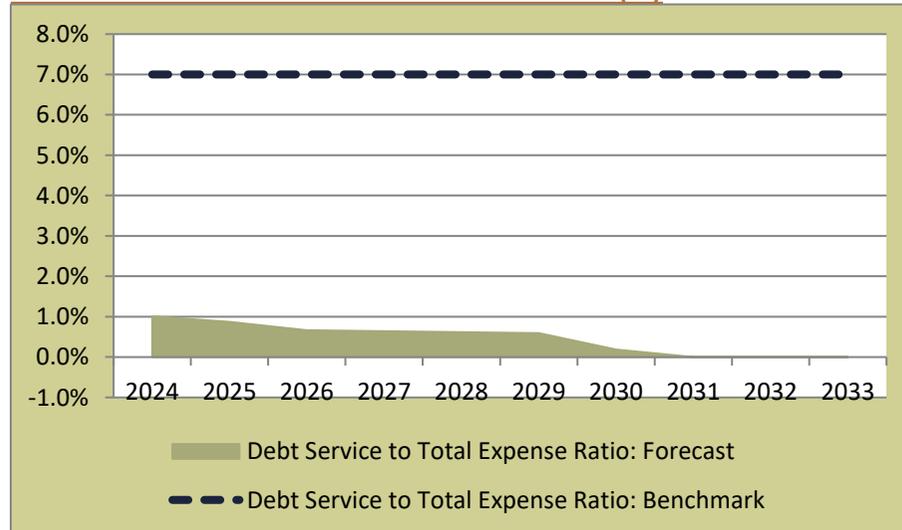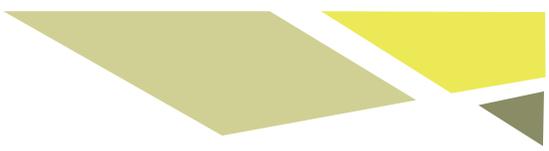
1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long Term Financial Model Outcomes

5 Future Revenues

6 Affordable Future Capital Investment

7 **Scenario Analysis**

8 Ratio Analysis

9 Conclusions

SCENARIOS ANALYSIS

Considering our analysis of the proposed MTREF 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 serve as an input to the tabled budget for FY2024:

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

   1.1. The collection rate has been decreased by 2% to 83%.
   1.2. A positive scenario depicting an improvement in the assumed collection rate by 2% to 87%.

2. **To indicate the importance of maintaining operating expenditure savings:**

   2.1. A negative scenario indicating the impact of an increase of 3% annually in operating expenditure annually over the planning period.

3. **The impact of water no changes to the distribution losses:**

   3.1. This scenario leaves the water distribution losses unchanged at 52% throughout the planning period.

SCENARIO 1: SENSITIVITY ANALYSIS ON THE COLLECTION RATE

Decrease collection rate by 2 percentage points.

With high interest rates, sluggish economic growth and rising cost of living, households have less disposable income in their hands, which leads to a high risk of default on their bills including municipal. Under these circumstances, there is a reasonable expectation that collection rate may not be attainable by Rustenburg. Therefore, the model was adjusted by assuming that the collection rate would remain at 83% (which is the 8-year review period average). All other input variables remain constant.

The results indicate a significant decrease, by R1.8 billion, in the cash balance at the end of the planning period. The liquidity ratio also deteriorates to 0.2:1 indicating that the municipality would be unable to meet its short-term obligations. There would be insufficient cash cover for Opex at the end of the planning period. Average annual nominal increase in expenditure (6.0%) is marginally higher than the average annual nominal increase in revenue (5.9%), which indicates a high risk of declining financial performance.

Increase Collection Rate by 2 percentage points.

To assess the positive financial impact of a further improvement in the collection rate over the planning, an optimistic scenario has been modelled whereby the collection rate would be adjusted to 87%. All other input variables remain constant.

The results indicate a 100% increase in the cash balance at the end of the planning period, to R3.7 billion. The additional R1.8 billion can be used to accelerate the capital expenditure programme to bridge that gap between capital demand and capital affordability This improved cash balance would drive the liquidity ratio up to 2.1:1, safely above the NT minimum of at least 1.5:1. Rustenburg would meet and exceed the liquidity requirements, with a cash cover of 4 months.

TABLE 18: OUTCOMES OF COLLECTION RATE SENSITIVITY ANALYSIS

Outcome	83%	BASE CASE – 85%	87%
Average annual % increase in Revenue	5.9%	6.0%	6.1%
Average annual % increase in Expenditure	6.0%	5.8%	5.6%
Accounting Surplus accumulated during Planning Period (Rm)	R 1,233	R 3,058	R 4,883
Operating Surplus accumulated during Planning Period (Rm)	-R 3,768	-R 1,943	-R 118
Cash generated by Operations during Planning Period (Rm)	R 1,834	R 3,660	R 5,485
Average annual increase in Gross Consumer Debtors	5.5%	4.5%	3.4%
Capital investment programme during Planning Period (Rm)	R 7,184	R 7,184	R 7,184
External Loan Financing during Planning Period (Rm)	R 0	R 0	R 0
Cash and Cash Equivalents at the end of the Planning Period (Rm)	**R 1**	**R 1,826**	**R 3,652**
No of Months Cash Cover at the end of the Planning Period (Rm)	0.0	2.2	4.3
Liquidity Ratio at the end of the Planning Period	**0.2 : 1**	**1.1 : 1**	**2.1 : 1**
Gearing at the end of the Planning Period	0.0%	0.0%	0.0%
Debt Service to Total Expense Ratio at the end of the Planning Period	0.0%	0.0%	0.0%

SCENARIO 1: SENSITIVITY ANALYSIS ON THE COLLECTION RATE

DECREASE COLLECTION RATE
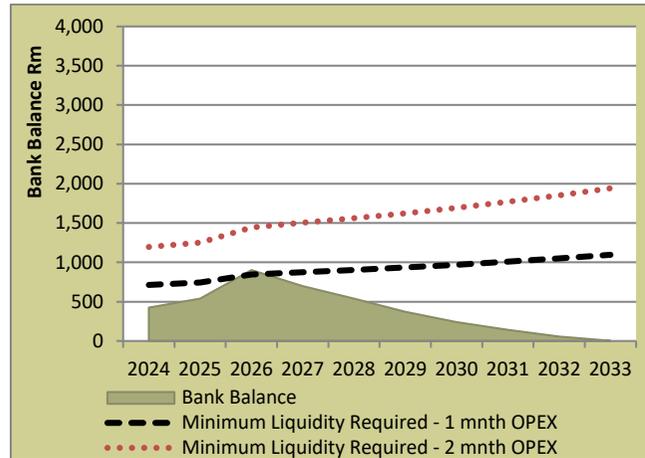
BASE CASE
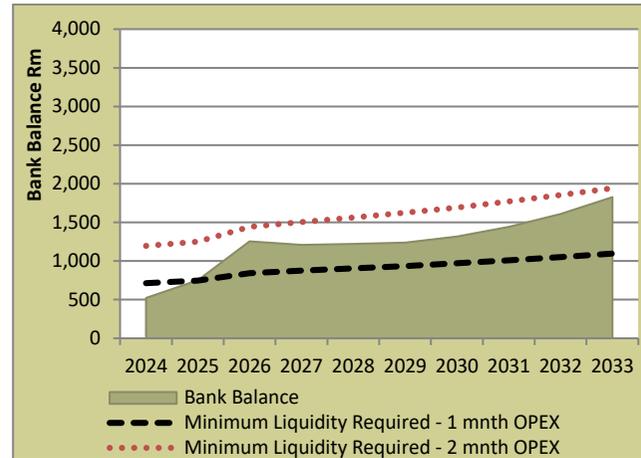
INCREASE COLLECTION RATE
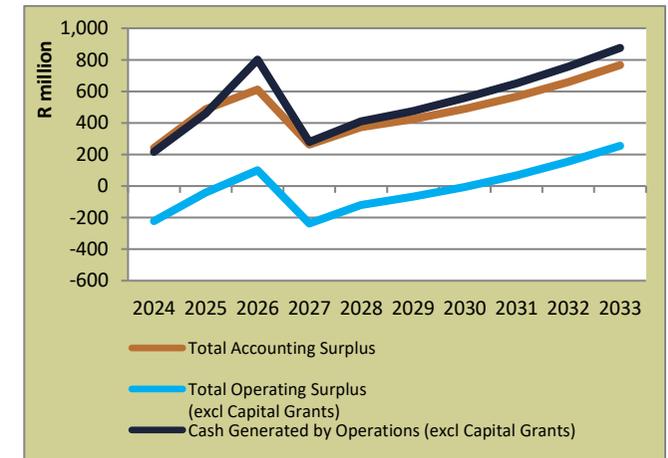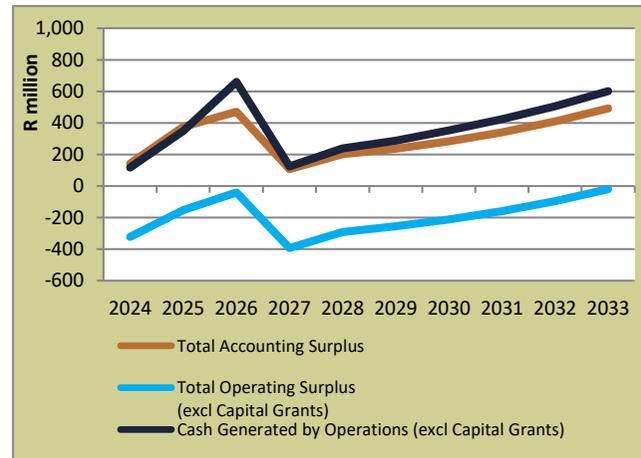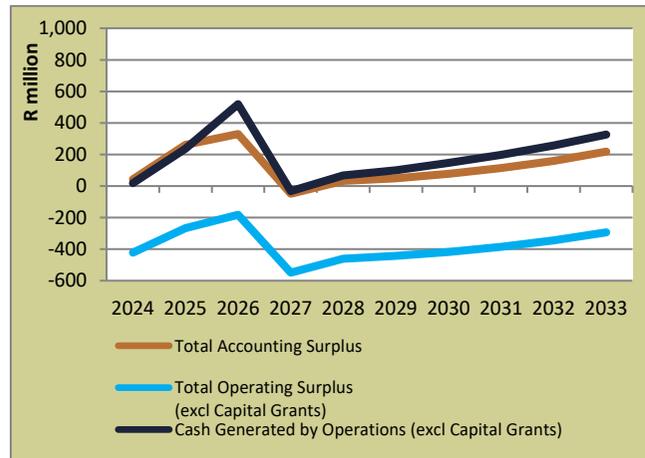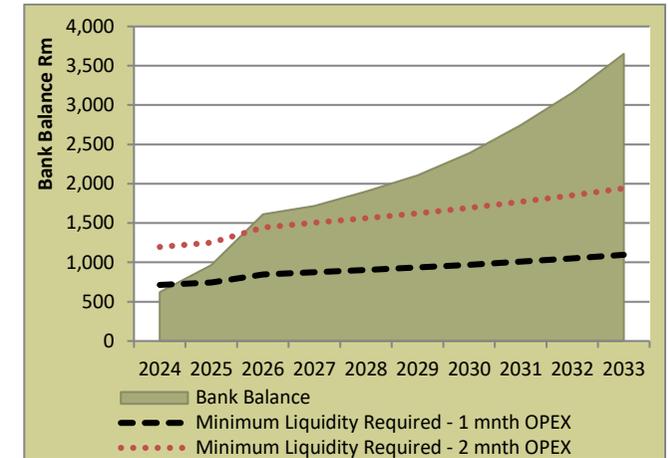
SCENARIO 2: OPEX INCREASE

Operating Expenditure 3% Higher than Base Case

In the previous LTFP, it was recommended that the municipality improve its profitability by decreasing operating expenditure. Evidently, Rustenburg has managed to follow through with the recommendation as the increase in operating expenditure in FY2023 came at a much improved 4% (16% in FY2022). The current economic conditions of high inflation, high interest rates and regular fuel price hikes are some of the factors to be considered in assessing operating expenditure. Consequently, operating expenditure was increased due to the reasonably high risk that the aforementioned factors would drive up input costs. To assess the impact that such adverse conditions will have on the finances of the municipality, the model was adjusted by assuming the municipality will spend an additional 2% annually over the planning period. All other input variables and assumptions remain constant.

The increased operating expenditure results in a deterioration of the liquidity ratio to 0.1:1 at the end of the planning period. The average increase in expenditure is marginally higher than the increase in revenue, which have the potential to deplete accumulated surpluses if they persist. The municipality is forecast to post growing operating deficits throughout the planning period, placing the municipality in a position in which it relies on capital grants despite warnings from NT that grant funding is expected to decline over the years. The bank balance is forecast to deteriorate to a R755 million overdraft at the end of the planning period, which is not permitted. Due to the lack of cash, the capital expenditure programme is set to suffer a cash shortfall of R1.4 billion.

This would place the municipality in an unsustainable position, and it highlights the significance of maintaining strict oversight over operational expenditure.

TABLE 19: OUTCOMES OF A OPEX SENSITIVITY ANALYSIS

Outcome	Base Case	Opex +3%
Average annual % increase in Revenue	6.0%	5.9%
Average annual % increase in Expenditure	**5.8%**	**6.0%**
Accounting Surplus accumulated during Planning Period (Rm)	R 3,058	R 423
Operating Surplus accumulated during Planning Period (Rm)	-R 1,943	-R 4,578
Cash generated by Operations during Planning Period (Rm)	R 3,660	R 1,058
Average annual increase in Gross Consumer Debtors	4.5%	4.5%
Capital investment programme during Planning Period (Rm)	R 7,184	R 7,184
External Loan Financing during Planning Period (Rm)	R 0	R 0
Cash and Cash Equivalents at the end of the Planning Period (Rm)	**R 1,826**	**-R 775**
No of Months Cash Cover at the end of the Planning Period (Rm)	2.2	-0.9
Liquidity Ratio at the end of the Planning Period	**1.1 : 1**	**0.1 : 1**
Gearing at the end of the Planning Period	0.0%	0.0%
Debt Service to Total Expense Ratio at the end of the Planning Period	0.0%	0.4%

SCENARIO 2: OPEX INCREASE

BASE CASE
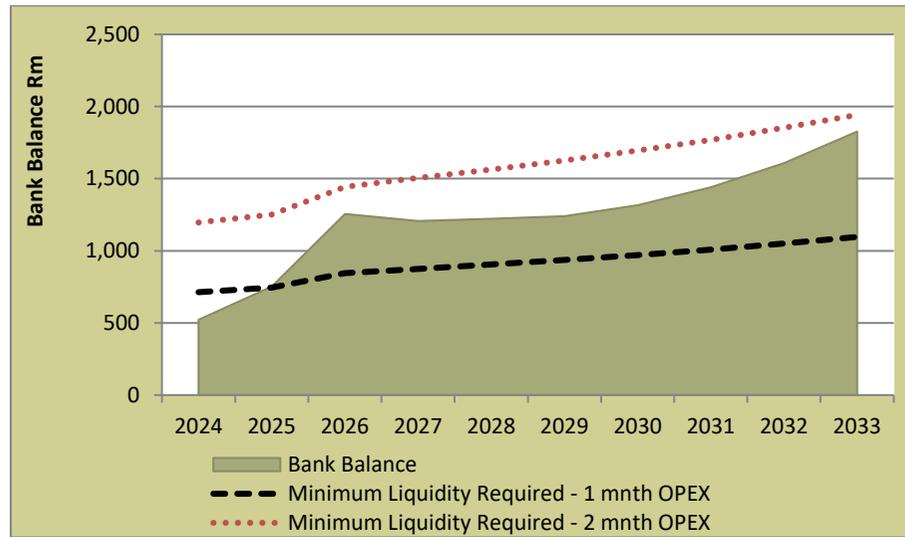
OPEX +3%
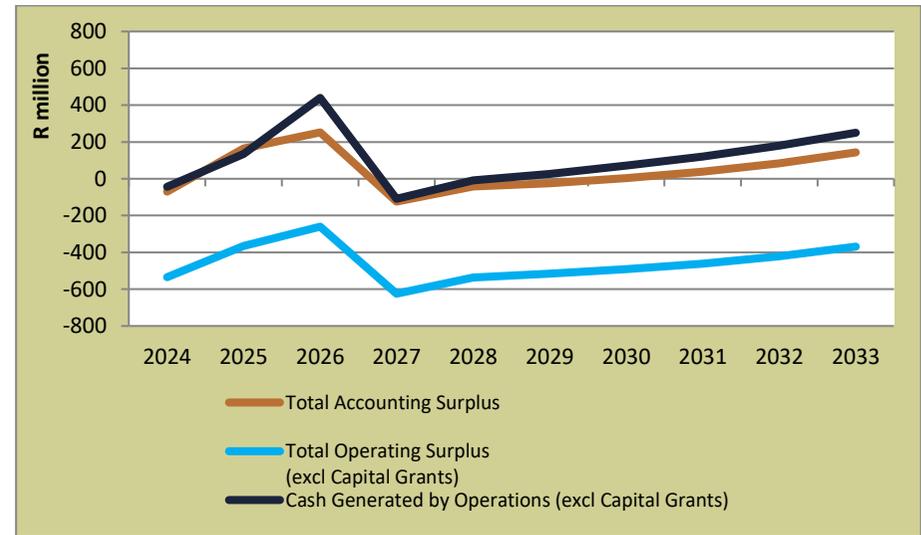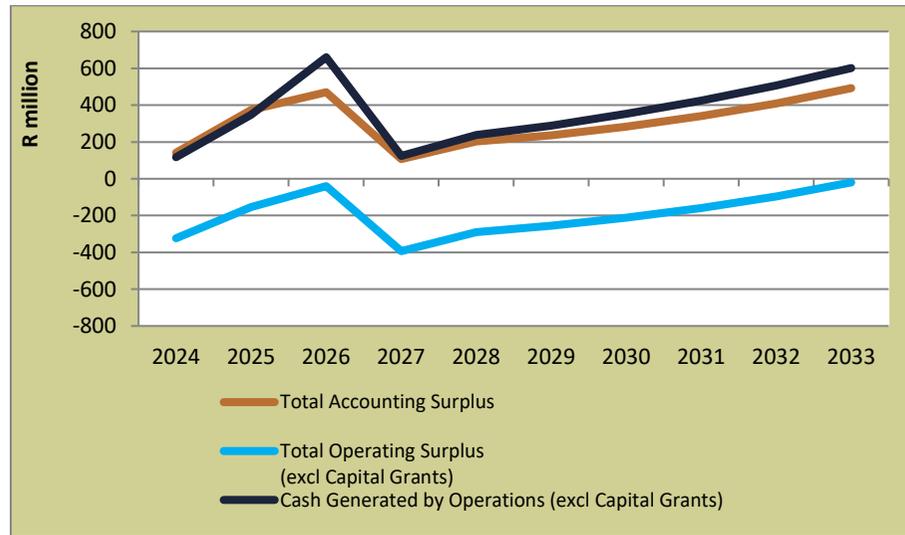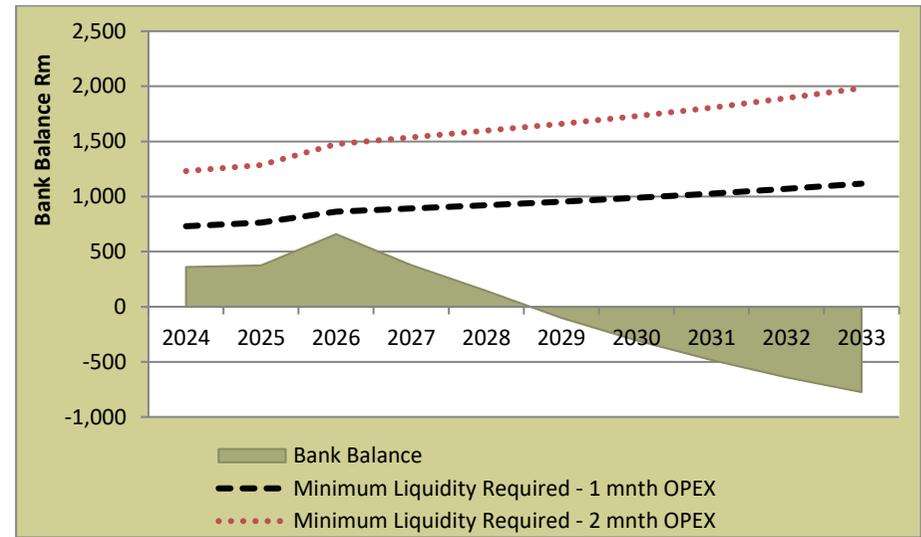
Scenario 3: Distribution Losses

Unchanged Distribution Losses

The Base Case assumes the water distribution losses decrease to 40% over the 10-year planning period; electricity losses remained unchanged at 9%. The water distribution losses reported in the audited 2022/23 AFS amounted to 52%. To illustrate the impact of not addressing the distributions losses, the water distribution losses were left unchanged at 52% for the entire planning period. All other input variables and assumptions remain constant.

The results are seemingly marginal, but it must be emphasized that this is the effect one expenditure item and one source of revenue. The most noteworthy deviation is a R269 million decrease in the cash balance at the end of planning period. The cash balance declines R1.5 billion, decreasing the cash cover to 1.8 months. The liquidity ratio decreases to 1:1. The capital investment programme would remain affordable at R7.2 billion, without any expected cash shortfalls.

TABLE 20: OUTCOMES OF UNCHANGED DISTRIBUTION LOSSES

Outcome	Base Case	Unchanged Distribution Losses
Average annual % increase in Revenue	6.0%	6.0%
Average annual % increase in Expenditure	5.8%	5.8%
Accounting Surplus accumulated during Planning Period (Rm)	R 3,058	R 2,782
Operating Surplus accumulated during Planning Period (Rm)	-R 1,943	-R 2,219
Cash generated by Operations during Planning Period (Rm)	R 3,660	R 3,391
Average annual increase in Gross Consumer Debtors	4.5%	4.5%
Capital investment programme during Planning Period (Rm)	R 7,184	R 7,184
External Loan Financing during Planning Period (Rm)	R 0	R 0
Cash and Cash Equivalents at the end of the Planning Period (Rm)	**R 1,826**	**R 1,557**
No of Months Cash Cover at the end of the Planning Period (Rm)	2.2	1.8
Liquidity Ratio at the end of the Planning Period	**1.1 : 1**	**1 : 1**
Gearing at the end of the Planning Period	0.0%	0.0%
Debt Service to Total Expense Ratio at the end of the Planning Period	0.0%	0.0%

Scenario 3: Water Restrictions

Base Case
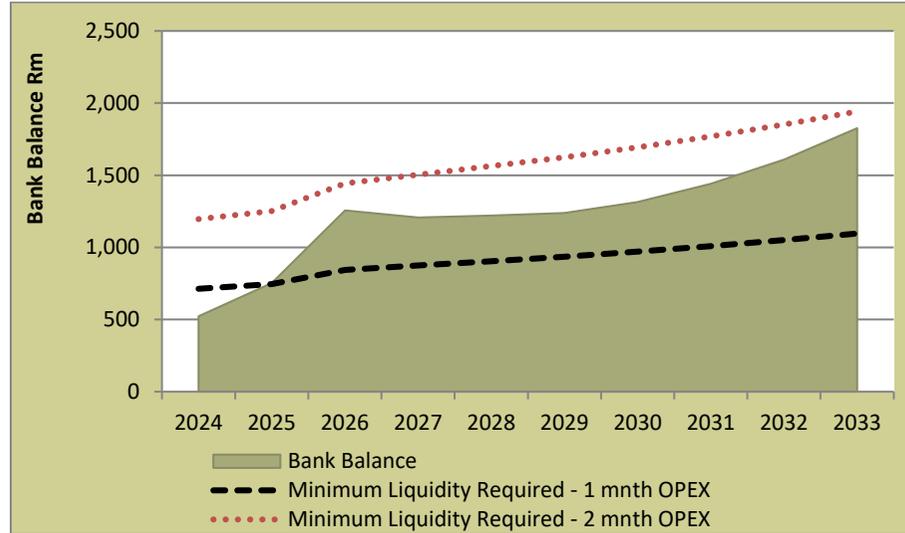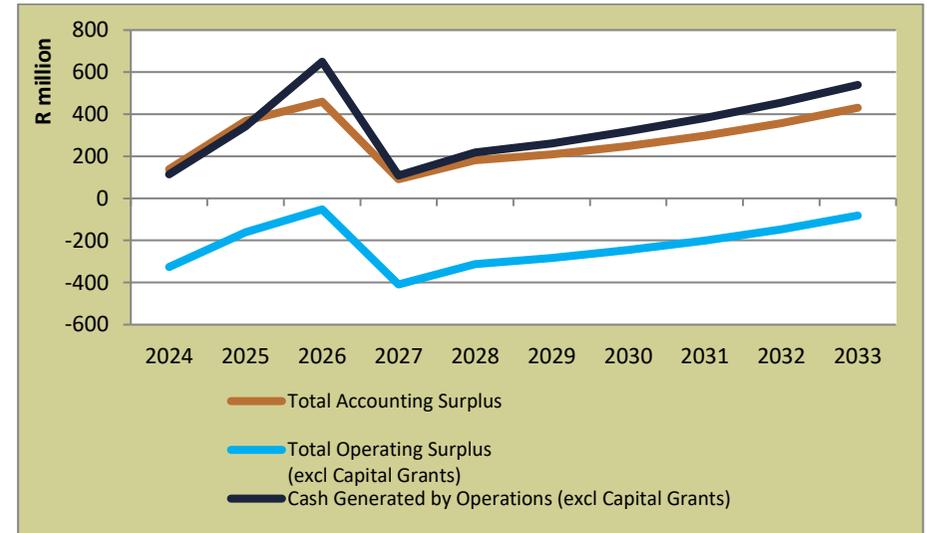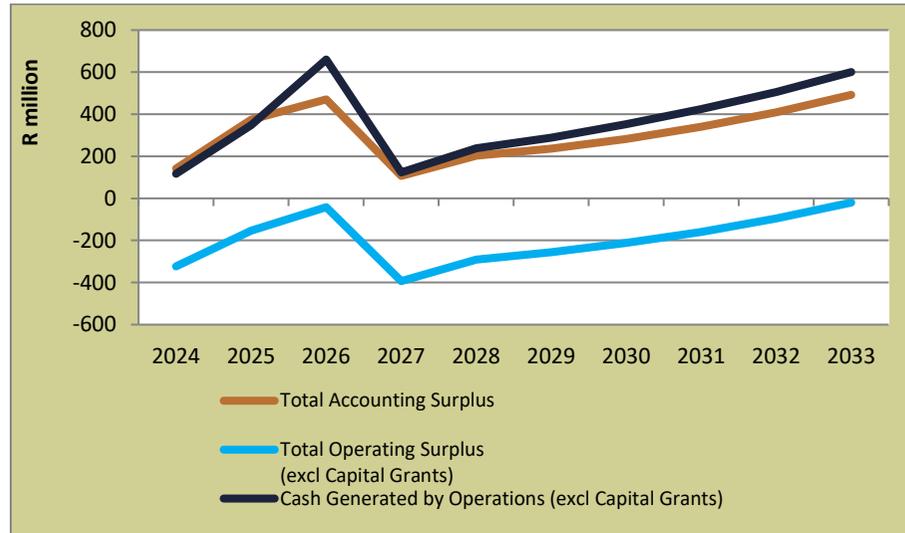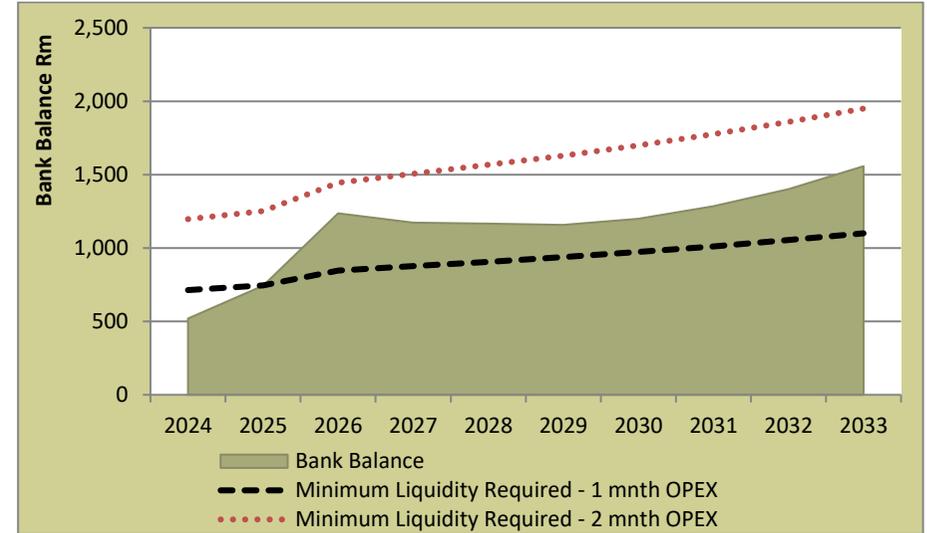
Unchanged Distribution Losses

FORECAST RATIOS

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

TABLE 21: OUTCOME OF FUTURE RATIO ANALYSIS

		N.T. NORM	2024	2026	2028	2030	2032	2033	Comments
FINANCIAL POSITION									
ASSET MANAGEMENT									
R29	**Capital Expenditure / Total Expenditure**	10% - 20%	7.4%	6.5%	6.6%	6.7%	6.8%	6.9%	Capex as a % of Total Expenditure is expected end at a low 6.9% as capex will remain predominantly funded by capital grants.
DEBTORS MANAGEMENT									
R4	**Gross Consumer Debtors Growth**		5.2%	6.1%	3.8%	3.9%	4.2%	4.3%	The target collection rate is assumed progressively reach 85% and maintain it at the very least.
R5	**Payment Ratio / Collection Rate**	95 %	80.4%	82.7%	85.0%	85.0%	85.0%	85.0%	
LIQUIDITY MANAGEMENT									
R49	**Cash Coverage Ratio (excl Working Capital)**		2.3: 1	5.1: 1	5: 1	5.3: 1	6.5: 1	7.3: 1	The bank balance is expected to meet the minimum liquidity requirements from FY2025. The liquidity ratio is expected to improve to 1.1:1 at the end of the planning period. Although this still falls below the NT norm of at least 1.5:1, it indicates the ability for Rustenburg to meet its short-term obligations.
R50	**Cash Coverage Ratio (incl Working Capital)**		0.7: 1	1.5: 1	1.3: 1	1.3: 1	1.5: 1	1.6: 1	
R51	**Cash Surplus / Shortfall on Minimum Liquidity Requirements**		-R 196.4 m	R 402.3 m	R 307.6 m	R 334.8 m	R 546.4 m	R 718.7 m	
R1	**Liquidity Ratio (Current Assets: Current Liabilities)**	1.5 - 2.0: 1	0.5: 1	0.9: 1	0.8: 1	0.9: 1	1: 1	1.1: 1	
LIABILITY MANAGEMENT									
R45	**Debt Service as % of Total Operating Expenditure**	6% - 8%	1.0%	0.7%	0.6%	0.2%	0.0%	0.0%	The gearing and debt service to operating expenditure ratios are projected to reach nil at the end of the planning period. This is a result of not accessing any external borrowings due to issues such as historically low liquidity and unfavorable audit opinions
R6	**Total Debt (Borrowings) / Operating Revenue**	45 %	3.5%	1.8%	0.8%	0.0%	0.0%	0.0%	
R7	**Repayment Capacity Ratio**		0.44	0.14	0.10	0.00	0.00	0.00	
R46	**Debt Service Cover Ratio (Cash Generated by Operations / Debt Service)**		7.9: 1	19.7: 1	12.3: 1	42.9: 1	0.00	0.00	
SUSTAINABILITY									
	Net Financial Liabilities Ratio	< 60%	16.5%	7.1%	7.0%	5.5%	3.3%	1.7%	

	Operating Surplus Ratio	0% - 10%	-4.6%	-0.5%	-3.1%	-2.0%	-0.8%	-0.2%	Operational deficits are posted throughout the planning period, but the deficits are continuously decreasing. 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.
	Asset Sustainability Ratio	> 90%	19.2%	16.6%	17.6%	18.6%	19.8%	20.4%	

FINANCIAL PERFORMANCE

EFFICIENCY

R42	Net Operating Surplus / Total Operating Revenue	>= 0%	-4.6%	-0.5%	-3.1%	-2.0%	-0.8%	-0.2%	The ratio Net Operating Surplus / Total Operating Revenue is negative throughout the planning period but is improving over time. Surplus margins on electricity sales are forecast to remain stable, though in reality might decline.
R43	Electricity Surplus / Total Electricity Revenue	0% - 15%	4.5%	3.9%	5.1%	5.2%	5.3%	5.3%	

REVENUE MANAGEMENT

R8	Increase in Billed Income p.a. (R'm)		R 89.7 m	R 1,196.2 m	R 294.7 m	R 339.5 m	R 409.9 m	R 446.1 m	Revenue growth is positive over the planning period due to an increase in quantities of services sold as well as moderate increase in tariffs. Deteriorating ability of households to pay rates and service charges may have an adverse effect on the cash generating ability of the municipality. Overall revenue management is set to be healthy, provided that the collection rate improves.
R9	% Increase in Billed Income p.a..	CPI	1.8%	22.1%	4.2%	4.5%	4.9%	5.1%	
R12	Operating Revenue Growth %	CPI	8.3%	18.6%	5.0%	5.3%	5.9%	6.1%	
R47	Cash Generated by Operations / Own Revenue		10.2%	16.0%	9.7%	10.3%	11.2%	11.7%	
R48	Cash Generated by Operations / Total Operating Revenue		8.3%	13.2%	7.8%	8.2%	8.8%	9.1%	

EXPENDITURE MANAGEMENT

	Creditors Payment Period	30	-	782	900	722	564	501	Creditors' payment period is higher than the NT benchmark of 30 days throughout the planning period. excess cash can be utilised to repay cash in order to improve the days. Employee related costs are well below the NT maximum. Contracted services exceed the NT norms, which is expected due to the RRT project
R30	Contribution per Expenditure Item: Staff Cost (Salaries, Wages and Allowances)	25% - 40%	12.6%	11.4%	12.0%	12.4%	12.9%	13.2%	
	Contribution per Expenditure Item: Contracted Services	2% - 5%	11.9%	9.2%	10.1%	10.9%	11.7%	12.1%	
R31	Contribution per Expenditure Item: Electricity Services		39.2%	47.0%	46.9%	45.6%	44.4%	43.8%	

GRANT DEPENDENCY

R10	Total Grants / Total Revenue		23.6%	22.0%	23.4%	24.1%	24.9%	25.3%	
R11	Own Source Revenue to Total Operating Revenue		81.4%	82.5%	80.7%	79.5%	78.4%	77.8%	The tightening of the national fiscus will require of municipalities to lower its dependence on transfers from other spheres of government.
	Capital Grants to Total Capital Expenditure		78.6%	82.6%	72.7%	64.8%	59.0%	56.4%	

1   Planning Process

2   Updated Perspectives (Demographic, Economic, Household Infrastructure)

3   Updated Historic Financial Assessment

4   Long Term Financial Model Outcomes

5   Future Revenues

6   Affordable Future Capital Investment

7   Scenario Analysis

8   Ratio Analysis

9   **Conclusions**

CONCLUSION

OUTCOME OF THE INDEPENDENT FINANCIAL ASSESSMENT

Rustenburg's financial performance improved in FY2023 as the municipality posted an accounting surplus of R146.8 million after posting accounting deficits in the two preceding financial years. Should capital grants be excluded from total revenue, this figure decreases to an operating deficit of R503.8 million. Although this is yet another operating deficit posted by the municipality, a positive takeaway is that it is an improvement from the operating deficit of R640.1 million posted in FY2022. These are welcome improvement as surpluses had been declining for two consecutive periods. It will take immense efforts from the municipality to post operating surpluses due to the current economic circumstances. Factors such rising fuel costs, steep inflation rate since Covid-19 and interest rate hikes are likely to drive up the municipality's input costs.

Cash utilised by operations increased from R35.3 million in FY2022 to R209.2 million in FY2023. This deterioration in cash generation can be attributed to the collection rate which declined to 79% in FY2023. The cash utilisation would be a worse picture if Rustenburg repaid its creditors. The creditors' payment period currently sits at 78 days – significantly higher than the NT benchmark of 30 days. It must be noted, though, that the repayment period has decreased for the third consecutive period.

Staff Costs as a percentage of total operating expenditure have consistently been below the NT maximum level of 40% over the past 8 years. Contracted services as a percentage of total operating expenditure currently sit at 5%, which is at the upper ends of the NT benchmark of 3% to 5%. This ratio is expected to increase further as more work will be outsourced to fill the operational needs of RRT.

The annual expenditure for repairs and maintenance amounted to 2% of property, plant and equipment and investment property. This has averaged just 1% over the review period, which is below the NT norm of 8%. This indicates insufficient money being spent on repairs and maintenance, which increases the assets' exposure to impairment.

CAPEX significantly increased by 53% in FY2023, to R315.0 million in FY2023. This was solely funded by capital grants consistent with the capital grants being the main source of funding over the review period. The municipality has not managed to implement its capital budget over the past 8 years, with the ratio of capital expenditure as a percentage of budgeted capital expenditure averaging 72%. This ratio stood at a low 50% in FY2023, below the NT recommended minimum of 95%. This low budget implementation together with the contracted services being on the upper limits of the recommended norm is indicative of capacity constraints in the municipality, rather than discrepancies in planning. Rustenburg's CAPEX amounted to 4% of total expenditure, which was below the NT norm of at least 10%.

The lack of borrowing over recent years has translated in decreases in the gearing ratio and debt to operating expense ratio, currently reported at 4.0% and 1.1% respectively. These were both below the NT minimum norms. The debt service cover ratio indicates a municipality without the capacity to undertake additional debt with a ratio of -2.65 in FY2023 due to poor cash generation.

The liquidity position as indicated by the ratio of current assets to current liabilities of 0.72:1, as at FYE2023, remains weak and well below the NT benchmark of 1.5:1. This ratio excluding the least liquid debtors – debtors greater than 30 days – remains at 0.72:1 as the predominant contributor to current assets is cash and cash equivalents. Both these ratios indicate that the municipality does not hold sufficient liquid assets to meet short-term financial obligations.

Net debtor days improved from 22 days as at FY2022 to 15 days as at FY2023. This remained below the NT norm of 30 days and suggests that the municipality has sound credit management. However, the discovery that debtors older than 90 days constitute 89% of gross debtors indicates otherwise. This, together with the low collection rate emphasizes the need to improve the management policy. Provision for bad debts as a percentage of debtors older than 90 days amounted to more than 100%. This provided sufficient cover for debtors who are largely considered at a high risk of defaulting.
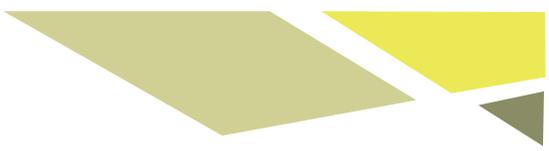
STRENGTHS

- Improved financial performance in FY2023.
- Decreasing creditor days.
- Low gearing and debt service ratio

WEAKNESSES

- Low collection rate
- Poor liquidity and cash generation
- Low implementation ratio of capital budget.
- Reduced spending on repair and maintenance of infrastructure.
- Low margins on main service (electricity)
- Increasing trend in water losses

OUTCOME OF THE FUTURE FORECASTS

The MTREF Case forecasts the financial outcome if the municipality continues its current trajectory. In this case, financial performance is expected to continuously decline as both accounting and operating deficits would be posted at the end of the planning period. With the low collection rate of 79%, cash generation would continue to be an issue. As a consequence of poor cash generation, the cash balance would decline, and the capital expenditure programme would suffer from cash shortfalls. The overall result is a financially unsustainable municipality at the end of the 10-year planning period.

To rectify this, a Base Case was modelled with assumptions that need to be implemented in order to achieve financial sustainability. The impact of Covid-19, subsequent sluggish economic recovery and implications of the country's response was included in the determination of the base case.

The Base Case presents a financially sustainable outcome. Profitability is forecast to improve as the average 6.0% p.a. increase in nominal revenue is higher than the average 5.8% p.a. increase in operating expenditure. Although no operating surplus is posted at any period over the 10 years, there is an evident uptrend in operating profitability which will result in an operating surplus in the years beyond the planning period. Cash generated by operations is expected to amount to R3.7 billion over the duration of the planning period. This is expected to translate into a planning period end bank balance of R1.8 billion, which contributes to a healthy liquidity position as evidenced by a liquidity ratio of 1.1:1 as at FYE2033. This liquidity position is not yet at the NT norm of at least 1.5:1 but it is an improvement from the 0.79:1 recorded as at FYE2023, and it indicates the municipality's ability to meet its short-term obligation. The healthy liquidity position as well as adjustments made to the capital funding mix, has unlocked an acceleration in the capital investment programme for a total capital outlay of R7.2 billion over the planning period.

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

Collection rate sensitivity to movements of 2%.
A decrease of 2% in the collection rate has a negative impact in the liquidity position of the municipality. The liquidity ratio decreases to 0.2:1 at the end of the planning period, with the bank balance not meeting minimum liquidity requirements in nine out of the ten planning periods. This decrease in the collection rate is forecast to decrease the bank balance at the end of the planning period by R1.8 billion, leaving Rustenburg with only R1 million in the bank account. With less cash to supplement capital expenditure, the capital expenditure programme is set to suffer a R618 million setback.

An improvement in the collection rate of 2% on the other hand has positive effects and the minimum liquidity requirements including 2 months' operating expenditure is forecast to be covered throughout the planning period. Additionally, the liquidity ratio is forecast to improve to 2.1:1, which is above the minimum NT norm. the cash balance at the end of the planning period increases by 100%. This excess cash can be utilized to further supplement capital expenditure, condensing the gap between capital demand and capital affordability.

This highlights directly proportional nature of the relationship between collection rate and cash generation.

Operating expenditure increase by 3%.
Increases in total operating expenditure of 3% annually has a widespread negative impact on the municipality. The average increases in operating expenditure (6.0%) are set to marginally exceed the average increases in operating income (5.9%), which will place immense pressure on the municipality's profitability. The liquidity ratio declines to 0.1:1 at the end of the planning period. The liquidity position deteriorates even further as the cash balance at the end of the period is R2.6 billion less than that of the Base Case, reflecting a cash overdraft of R775 million which is not permitted. The municipality is forecast to fail to meet minimum liquidity requirements including 1 months' operational expenditure as throughout the planning period. Due to the lack of cash, the capital programme suffers a R1.4 billion setback.

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

Unchanged Distribution Losses

The distribution losses were left unchanged to demonstrate the financial impact of not addressing these losses. The water losses were adjusted back to 52% as reported in the audited 2022/23 financial statements. This resulted in a marginal decline in the liquidity from 1.1:1 to 1:1. The cash balance at the end of planning period decreases by R269 million, compared to that of the Base Case. Throughout the planning period, the municipality is forecast to still meet minimum liquidity requirements including 1 months' Opex.

The impact is not as drastic as other scenarios explored but it does highlight that one major revenue item can have a sizable effect on the cash balance.

ANNEXURE 1: PROJECTED FINANCIAL STATEMENTS

Municipal Financial Model
Statement of Financial Position

Model year	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
R thousands										
Non-current assets:	9,329,118	9,477,150	9,644,389	9,799,088	9,977,148	10,180,941	10,412,791	10,674,989	10,969,817	11,299,561
Property, plant and equipment	8,955,649	9,088,585	9,237,579	9,392,139	9,570,018	9,773,594	10,005,196	10,267,114	10,561,629	10,891,032
Intangible assets	2,920	2,374	2,374	2,513	2,695	2,910	3,159	3,440	3,752	4,093
Investment properties	369,521	386,058	404,301	404,301	404,301	404,301	404,301	404,301	404,301	404,301
Investments	999	101	101	101	101	101	101	101	101	101
Long-term receivables	–	–	–	–	–	–	–	–	–	–
Other non-current assets	29	32	34	34	34	34	34	34	34	34
Current assets:	818,810	1,046,650	1,552,503	1,505,343	1,521,897	1,541,738	1,620,610	1,749,627	1,919,648	2,141,396
Inventories	37,816	37,247	38,571	40,451	42,517	44,830	47,416	50,277	53,416	56,846
Trade and other receivables	258,102	258,102	258,102	258,102	258,102	258,102	258,102	258,102	258,102	258,102
Cash & Short term investments	522,892	751,301	1,255,830	1,206,790	1,221,278	1,238,806	1,315,092	1,441,248	1,608,130	1,826,448
TOTAL ASSETS	10,147,927	10,523,800	11,196,892	11,304,431	11,499,045	11,722,679	12,033,401	12,424,616	12,889,465	13,440,957
Municipal Funds:	8,168,972	8,543,631	9,014,568	9,121,547	9,324,171	9,560,442	9,843,072	10,183,241	10,592,859	11,085,131
Housing development fund & Other Cash Backed Reserves	–	–	–	–	–	–	–	–	–	–
Reserves (Not Cash Backed)	204,588	885,909	1,375,950	1,375,950	1,375,950	1,375,950	1,375,950	1,375,950	1,375,950	1,375,950
Accumulated surplus	7,964,384	7,657,722	7,638,618	7,745,597	7,948,221	8,184,492	8,467,122	8,807,291	9,216,909	9,709,181
Non-current liabilities:	438,718	403,923	365,288	331,894	298,304	302,832	328,691	357,909	390,358	425,826
Long-term liabilities (Interest Bearing)	201,296	161,753	118,274	70,468	17,904	(0)	(0)	(0)	(0)	(0)
Non-current provisions	237,422	242,171	247,014	261,426	280,400	302,832	328,691	357,909	390,358	425,826
Current liabilities:	1,540,237	1,576,246	1,817,036	1,850,990	1,876,571	1,859,405	1,861,638	1,883,466	1,906,248	1,930,000
Consumer deposits	76,202	86,041	96,198	106,742	115,781	125,270	135,563	146,696	158,771	172,180
Provisions	190,862	198,497	206,437	206,437	206,437	206,437	206,437	206,437	206,437	206,437
Trade and other payables	1,230,935	1,252,165	1,470,922	1,490,005	1,501,789	1,509,794	1,519,638	1,530,334	1,541,040	1,551,384
Bank overdraft	–	–	–	–	–	–	–	–	–	–
Current portion of interest bearing liabilities	42,238	39,543	43,479	47,806	52,564	17,904	(0)	–	–	–
TOTAL MUNICIPAL FUNDS AND LIABILTIES	10,147,927	10,523,800	11,196,892	11,304,431	11,499,045	11,722,679	12,033,401	12,424,616	12,889,465	13,440,957

Municipal Financial Model

Statement of Financial Performance

Model year	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
R thousands										
Revenue										
Property rates	515,895	558,617	606,053	657,549	715,339	782,392	859,220	946,292	1,044,023	1,152,693
Service Charges	4,458,345	4,845,557	5,993,570	6,304,595	6,540,030	6,773,963	7,034,797	7,320,784	7,630,725	7,965,736
Service charges - electricity	3,258,510	3,581,885	4,670,985	4,920,609	5,093,925	5,258,735	5,442,659	5,644,021	5,861,588	6,096,172
Service charges - water	594,181	624,882	651,282	677,883	706,299	738,006	773,387	812,420	855,122	901,457
Service charges - sanitation	431,705	452,857	472,703	493,098	510,039	528,795	549,521	572,058	596,291	622,308
Service charges - refuse	173,949	185,933	198,600	213,005	229,767	248,427	269,229	292,284	317,724	345,799
Service charges - other	0	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Rental of facilities and equipment	14,021	16,589	17,352	18,540	19,998	21,623	23,433	25,440	27,654	30,098
Interest earned - external investments	41,648	26,207	32,394	59,158	60,966	65,171	68,950	75,514	84,558	95,560
Interest earned - outstanding debtors	527,919	498,477	534,681	20,432	22,383	24,261	26,147	28,031	29,899	31,741
Dividends received	–	–	–	–	–	–	–	–	–	–
Fines, penalties and forfeits	9,587	10,028	10,490	11,208	12,090	13,072	14,166	15,379	16,718	18,195
Licences and permits	12,130	12,681	13,265	14,024	15,185	16,555	18,139	19,938	21,951	24,172
Agency services	108,282	99,584	105,130	112,326	121,165	131,006	141,976	154,133	167,549	182,354
Transfers and subsidies (operating)	1,304,905	1,406,076	1,553,296	1,675,936	1,807,309	1,953,562	2,116,469	2,296,866	2,495,735	2,714,871
Other revenue	20,599	21,778	22,976	24,549	26,480	28,631	31,028	33,686	36,617	39,853
Gain on disposal of PPE	7,088	–	–	–	–	–	–	–	–	–
Revaluation of assets gain / (loss)	–	–	–	–	–	–	–	–	–	–
Total revenue before Capital Grants	7,020,419	7,495,596	8,889,207	8,898,317	9,340,945	9,810,236	10,334,325	10,916,064	11,555,430	12,255,273
Capital Grants	464,452	528,205	512,007	500,265	493,511	491,878	494,132	498,967	505,266	512,172
Public & developers contributions	–	–	–	–	–	–	–	–	–	–
Total Revenue after Capital Grants	7,484,871	8,023,801	9,401,214	9,398,582	9,834,457	10,302,115	10,828,457	11,415,031	12,060,696	12,767,445
Operating expenditure										
Employee related costs	929,095	969,531	1,013,220	1,076,138	1,146,632	1,225,005	1,311,545	1,406,510	1,510,108	1,622,474
Remuneration of councillors	71,890	74,855	77,954	81,625	85,748	90,323	95,349	100,822	106,736	113,077
Debt impairment	997,876	1,019,733	1,165,422	1,149,424	1,115,051	1,162,385	1,215,476	1,274,147	1,338,292	1,408,149
Depreciation and asset impairment	466,991	467,064	471,006	485,440	500,522	515,527	530,649	546,067	561,949	578,449
Finance charges	28,548	24,168	20,055	16,120	11,792	7,034	1,803	–	–	–
Bulk purchases	3,111,585	3,441,892	4,487,009	4,668,855	4,831,778	4,986,531	5,159,304	5,348,492	5,552,911	5,773,315
Inventory Consumed	456,714	453,439	466,309	481,232	498,677	518,480	540,862	565,754	593,107	622,844
Repairs and maintenance	–	–	–	–	–	–	–	–	–	–
Contracted services	940,211	866,706	883,282	962,677	1,046,181	1,137,012	1,236,134	1,344,053	1,461,369	1,589,086
Transfers and subsidies	21,164	22,088	23,104	24,711	26,405	28,280	30,361	32,652	35,162	37,911
Other expenditure	319,065	309,667	322,916	345,381	369,046	395,265	424,344	456,365	491,445	529,869
Loss on disposal of PPE	–	–	–	–	–	–	–	–	–	–
Total Expenditure	7,343,140	7,649,142	8,930,277	9,291,603	9,631,832	10,065,843	10,545,827	11,074,862	11,651,078	12,275,173
Suplus/ (Shortfall) for the year	**141,731**	**374,659**	**470,938**	**106,978**	**202,624**	**236,271**	**282,630**	**340,169**	**409,618**	**492,272**

Municipal Financial Model
Cash Flow Statement

Model year	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
R thousands										
Cash flows from Operating Activities										
Suplus/Deficit for the year including Capital Grants	141,731	374,659	470,938	106,978	202,624	236,271	282,630	340,169	409,618	492,272
Suplus/Deficit for the year excluding Capital Grants & Contributions	(322,721)	(153,546)	(41,069)	(393,287)	(290,887)	(255,607)	(211,502)	(158,798)	(95,648)	(19,900)
Capital Grants & Contributions	464,452	528,205	512,007	500,265	493,511	491,878	494,132	498,967	505,266	512,172
Adjustments for non-cash items:										
Depreciation, amortisation and impairment loss	466,991	467,064	471,006	485,440	500,522	515,527	530,649	546,067	561,949	578,449
Revaluation on investment property (gain) / loss	–	–	–	–	–	–	–	–	–	–
Increase / (Release from) current provisions & non-interest bearing liabilities	1,187	7,634	7,940	–	–	–	–	–	–	–
Increase / (Release from) other non-current provisions & non-interest bearing liabilities	4,655	4,748	4,843	14,412	18,974	22,432	25,858	29,218	32,449	35,468
(Increase) / Release from non-current interest bearing assets	(225)	898	–	–	–	–	–	–	–	–
Capitalised interest	–	–	–	–	–	–	–	–	–	–
Operating surplus before working capital changes:	614,340	855,004	954,727	606,830	722,120	774,230	839,138	915,454	1,004,016	1,106,189
Change in W/C Investment	(32,827)	21,799	217,432	17,204	9,717	5,693	7,258	7,836	7,567	6,913
(Increase)/decrease in inventories	9,393	570	(1,325)	(1,880)	(2,067)	(2,313)	(2,586)	(2,861)	(3,140)	(3,430)
(Increase)/decrease accounts receivable	6,012	(0)	0	0	(0)	(0)	0	0	(0)	(0)
Increase/(decrease) in trade payables	(48,232)	21,230	218,757	19,083	11,784	8,006	9,843	10,696	10,706	10,343
Net cash flow from Operating activities	581,512	876,803	1,172,159	624,034	731,837	779,923	846,396	923,290	1,011,583	1,113,102
Cash flows from Investing Activities										
Capital expenditure	(591,025)	(599,454)	(620,000)	(640,139)	(678,582)	(719,320)	(762,499)	(808,266)	(856,776)	(908,193)
Decrease/(Increase) in non-current receivables	1,345	(3)	(2)	–	–	–	–	–	–	–
(Additions) / Disposals of investment property	(267,692)	(16,537)	(18,243)	–	–	–	–	–	–	–
Net cash flow from Investing activities	(857,372)	(615,994)	(638,245)	(640,139)	(678,582)	(719,320)	(762,499)	(808,266)	(856,776)	(908,193)
Cash flows from Financing Activities										
New loans raised	–	–	–	–	–	–	–	–	–	–
Loans repaid	(45,421)	(42,238)	(39,543)	(43,479)	(47,806)	(52,564)	(17,904)	0	–	–
(Decrease) / Increase in consumer deposits	12,133	9,839	10,158	10,544	9,039	9,489	10,293	11,132	12,076	13,409
Net cash flow from Financing activities	(33,288)	(32,399)	(29,386)	(32,935)	(38,767)	(43,075)	(7,611)	11,132	12,076	13,409
Change in Cash	(309,147)	228,410	504,528	(49,039)	14,487	17,528	76,286	126,156	166,882	218,318
Cash/(Overdraft), Beginning	832,039	522,892	751,301	1,255,830	1,206,790	1,221,278	1,238,806	1,315,092	1,441,248	1,608,130
Cash/(Overdraft), Ending	**522,892**	**751,301**	**1,255,830**	**1,206,790**	**1,221,278**	**1,238,806**	**1,315,092**	**1,441,248**	**1,608,130**	**1,826,448**