INCA
Portfolio Managers

KNYSNA LOCAL MUNICIPALITY

Long-Term Financial Plan – *Update 2025*

KNYSNA
Municipality
Munisipaliteit
uMasipala

Prepared by
INCA Portfolio Managers
March 2025

REPORT OVERVIEW – INTRODUCTION AND BACKGROUND

The Knysna Municipality appointed INCA Portfolio Managers in 2017 to prepare a Long-Term Financial Plan. The deliverable of that assignment was a report entitled *Knysna; Long Term Financial Plan: 2016/17 – 2025/26*; November 2017. The report was updated annually from 2019-2024 with the latest information. This 2025 update aims to update the LTFP based on the latest available information and report on the findings.

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

A summary of the demographic-, economic- and household infrastructure perspective was updated with the latest available information as published by S&P Global Market Intelligence. The historic financial analysis was updated with the information captured in the municipality's audited financial statements of 30 June 2024. IPM's Long-Term Financial Model (latest and updated web-version) was populated and run with this latest information, and the outcome thereof is reflected in this report. In particular, the model was calibrated against the municipality's audited financial statements as well as the February Adjustment Budget for the 3 years from 2024/2025 to 2026/2027.

ABBREVIATIONS USED

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

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EXECUTIVE SUMMARY

KEY FINDINGS AND CONCLUSIONS DRAWN FROM THE 2025 LTFP UPDATE

HIGHLIGHTS FROM THE FY2023/24 FINANCIAL RESULTS

- Knysna's liquidity position remains unsustainable with a ratio of 0:75:1 as at FYE2023/24. A marginal improvement from a ratio of 0.66:1 in the prior year is positive to note, however.

- Financial performance improved during the year, with the operating deficit (excluding capital grants) improving to R25.9 million from R74.0 million in the prior year. The January 2025 YTD performance suggests that the improving trend in financial performance is set to continue.

- Cash generated from operations (excluding capital grants) increased to R46.2 million during FY2023/24, up from R11.1 million in the prior year.. This was underpinned by the improved collection rate of 87.8%, up from 80.2% in the prior year as well as improved financial performance.

- Electricity distribution losses improved to 11.58%, down from 12.15%% in the prior year. Water distribution losses increased to 33.68% from 13.73% in the prior year. The extent of this increase is of concern and must be promptly addressed.

- The municipality's unencumbered cash and cash equivalents of R23.6 million was exceeded by the NT and statutory minimum liquidity requirements of R128.5 million, resulting in a cash shortfall of R104.9 million. Knysna has posted cash shortfalls throughout the review period.

- Gearing and debt-service to total operating expenditure ratios were 30.4% and 4.7%, respectively, reflective of an adequately leveraged debt profile. Scope remains to undertake limited borrowings as part of an optimal financing strategy for productive infrastructure investment.

- Repairs and maintenance expenditure as a percentage of PPE & IP reduced to 3.1% during FY2023/24, down from 4.3% in the prior year. This is reasonably low relative to the NT form of 8%.

- The total capital outlay over the review period came in at R965.6 million, R90.2 million of which was expended in FY2023/24. The historic funding mix was comprised of capital grants (50%), borrowings (46%) and own cash reserves (4%).

LONG-TERM FINANCIAL PLAN UPDATE

Knysna has presented a reasonably optimistic operating budget in the Adjustment Budget. While this reflects a notable improvement on the historic performance (operating deficits posted in each of the last 5 years), the improved financial performance in FY2023/24 along with the January 2025 year-to-date performance suggests that the budgeted improvements may be achieved. An MTREF Case, which incorporates the unadjusted budget figures (operating & capital) whilst maintaining the FYE2023/24 performance for key metrics such as the collection rate, R&M expenditure etc. was developed. The overall outcome of this scenario, while sustainable, reflects certain areas of concern. These areas include growth in creditors & insufficient R&M expenditure. A Base Case, which aims to utilise realistic assumptions to achieve a sustainable long-term outcome, was developed. The underlying assumptions in the Base Case aim to address the areas of concern noted in the MTREF Case. This has been achieved. The Base Case promotes an affordable capital investment programme that promotes the stabilisation of the liquidity position. Furthermore, concerns such as insufficient R&M expenditure and growth in creditors have also been addressed.

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

1. A collection rate of 90% is assumed to be achieved within 3 years, whereafter it will remain at this level for the remainder of the planning period.
2. The model incorporated the increases in revenue and expenditure items as announced in the Adjustment Budget.
3. The MTREF capital investment programme was amended as follows:
    - FY2024/25: R90.0 million (Budget: R99.1 million)
    - FY2025/26: R105.0 million (Budget: R129.1 million)
    - FY2026/27: R110.0 million (Budget: R99.6 million)
    - FY2027/28: R117.5 million (Budget: N/A)

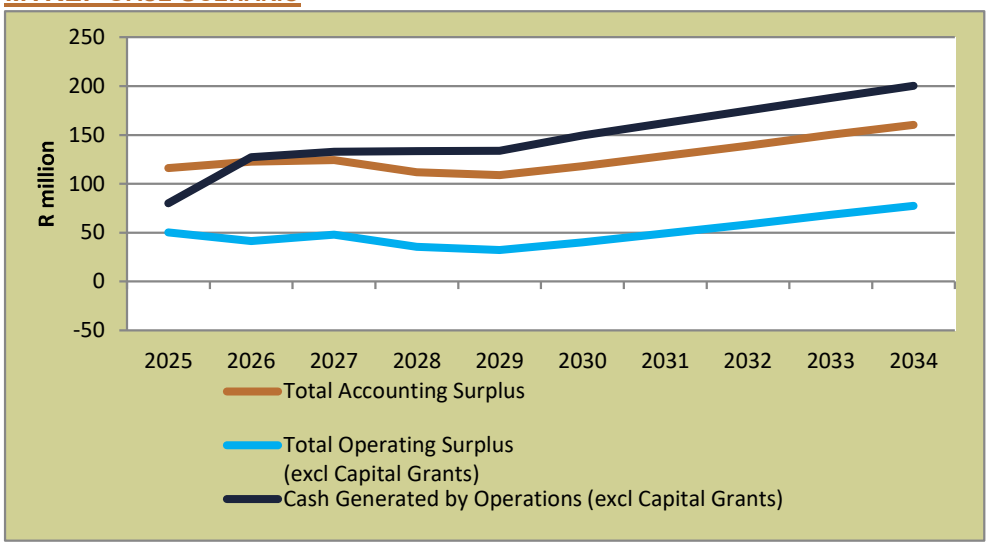
    Assumed growth beyond FY2027/28 is 8% p.a.
4. The following adjustments were made to the borrowing programme:
    - FY2024/25: R15.0 million (Budget: R3.6 million)
    - FY2025/26: R20.0 million (Budget: R37.7 million)
    - FY2026/27: R30.0 million (Budget: R16.0 million)
    - FY2027/28: R20.0 million (Budget: N/A)
5. The annual borrowing under this scenario was adjusted to an average of **13-year** amortising loans at a fixed interest rate equal to 8% over forecast CPI in any given year. Assumed annual growth in borrowing beyond FY2027/28 is 6%.
6. Repairs and maintenance expenditure was increased to 6.0% of PPE & IP from 3.1% over 5 years.
7. Electricity losses were maintained at 11.38%, while water distribution losses were reduced to 25.0% from 33.7% over 5 years.
8. Tariff increases were included as put forward in the Adjustment Budget Document for FY2024/25-FY2026/27.
9. Creditors days were reduced in order to mitigate the forecast rise in creditors in the MTREF Case.

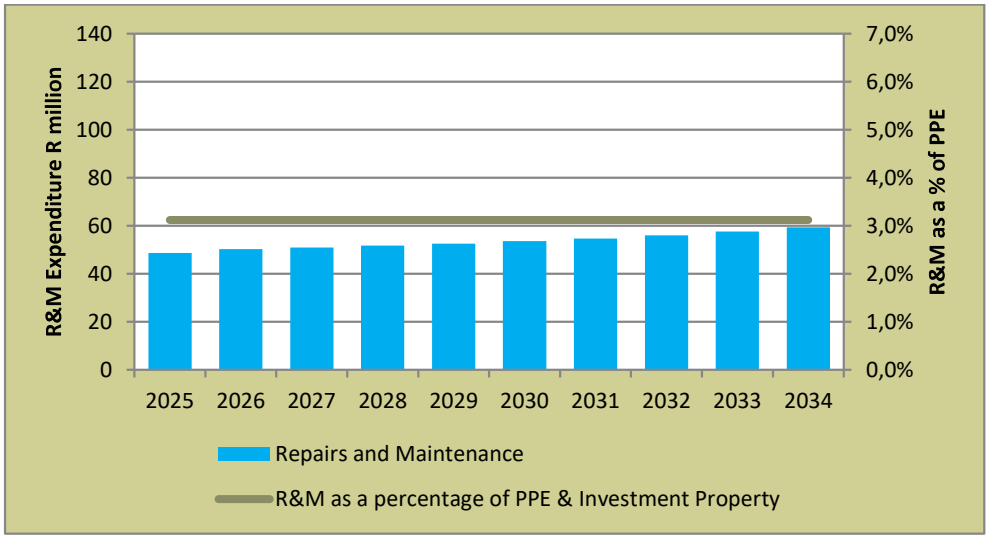
LONG-TERM FINANCIAL MODEL OUTCOMES

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

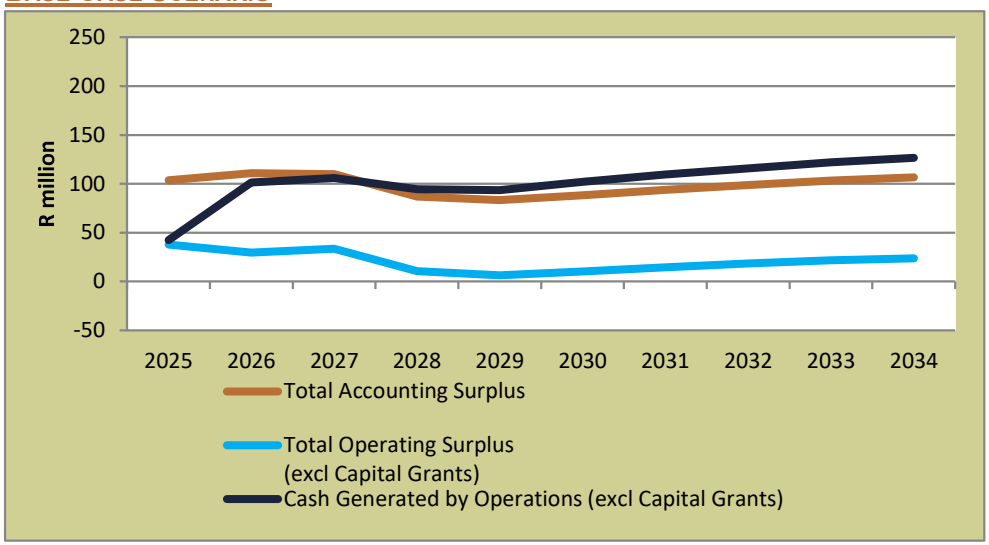
Outcome	MTREF Case	Base Case
Average annual % increase in Revenue	4,7%	4,7%
Average annual % increase in Expenditure	3,9%	4,3%
Accounting Surplus accumulated during Planning Period (Rm)	R 1 280	R 986
Operating Surplus accumulated during Planning Period (Rm)	R 501	R 207
Cash generated by Operations during Planning Period (Rm)	R 1 483	R 1 014
Average annual increase in Gross Consumer Debtors	9,0%	7,4%
Capital investment programme during Planning Period (Rm)	R 1 214	R 1 353
External Loan Financing during Planning Period (Rm)	R 189	R 233
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 839	R 299
No of Months Cash Cover at the end of the Planning Period (Rm)	7,3	2,5
Liquidity Ratio at the end of the Planning Period	2.6 : 1	2.4 : 1
Gearing at the end of the Planning Period	5,6%	9,2%
Debt Service to Total Expense Ratio at the end of the Planning Period	2,3%	2,2%

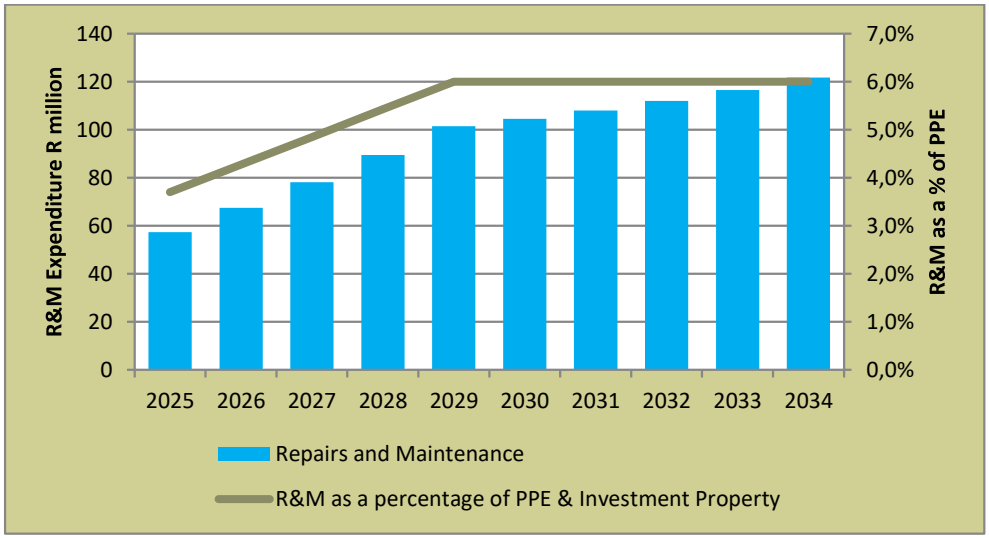
MTREF Case Scenario





Base Case Scenario





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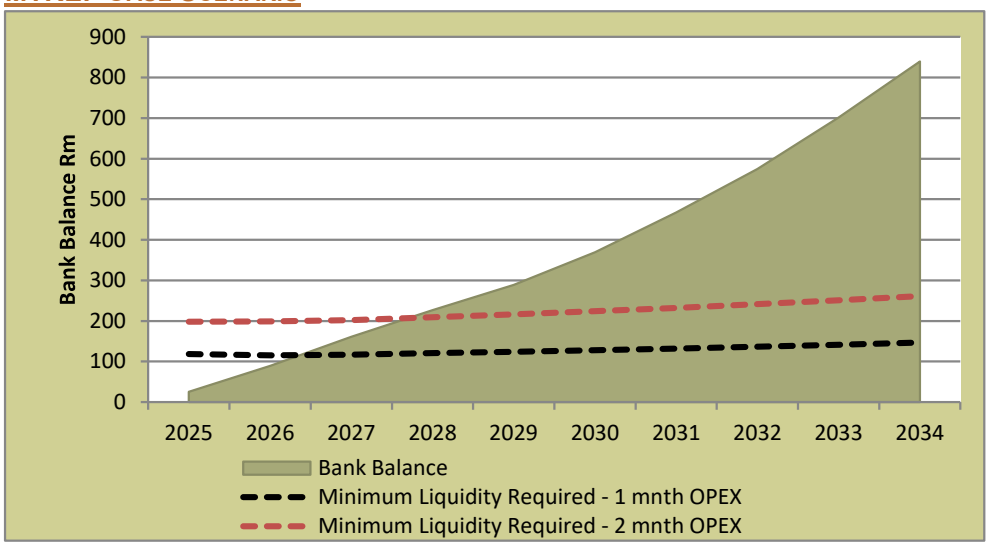

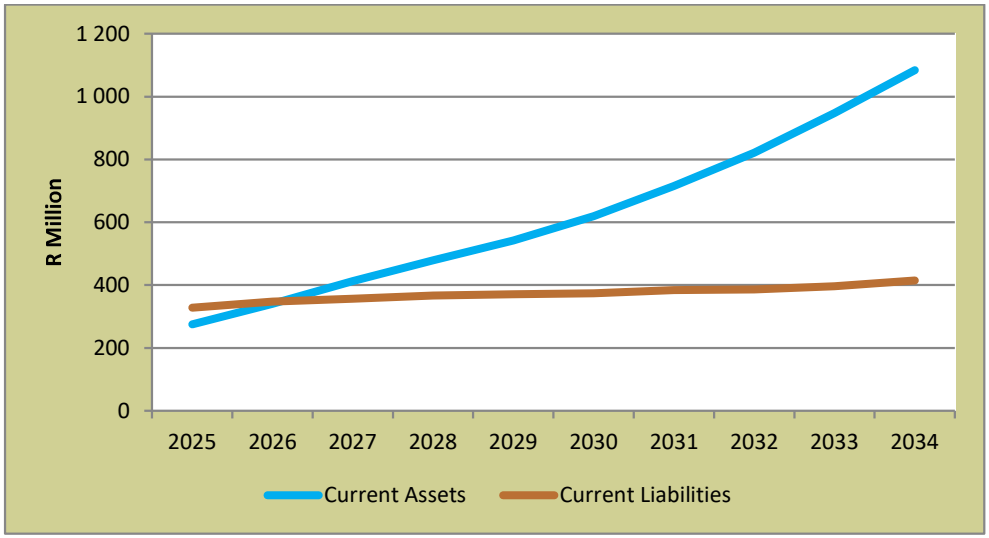

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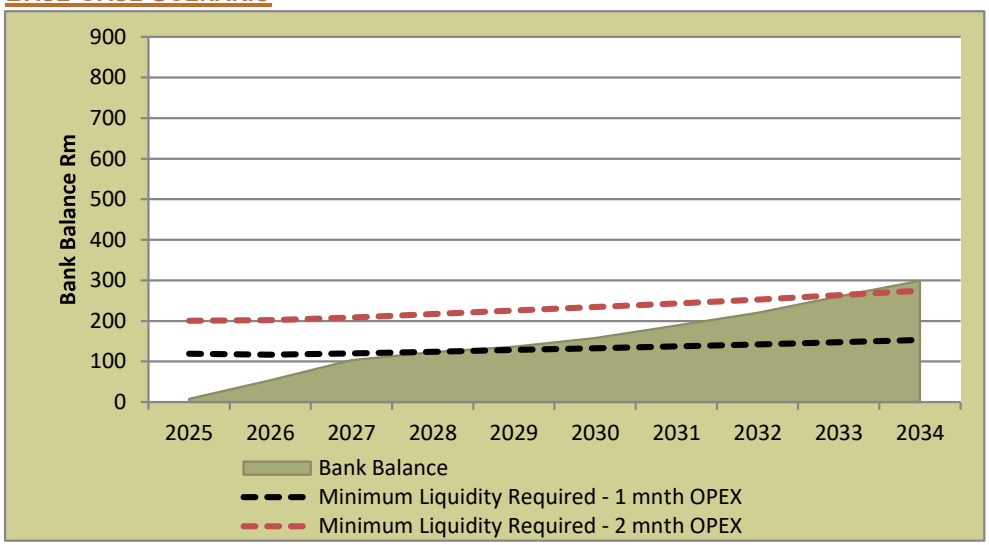

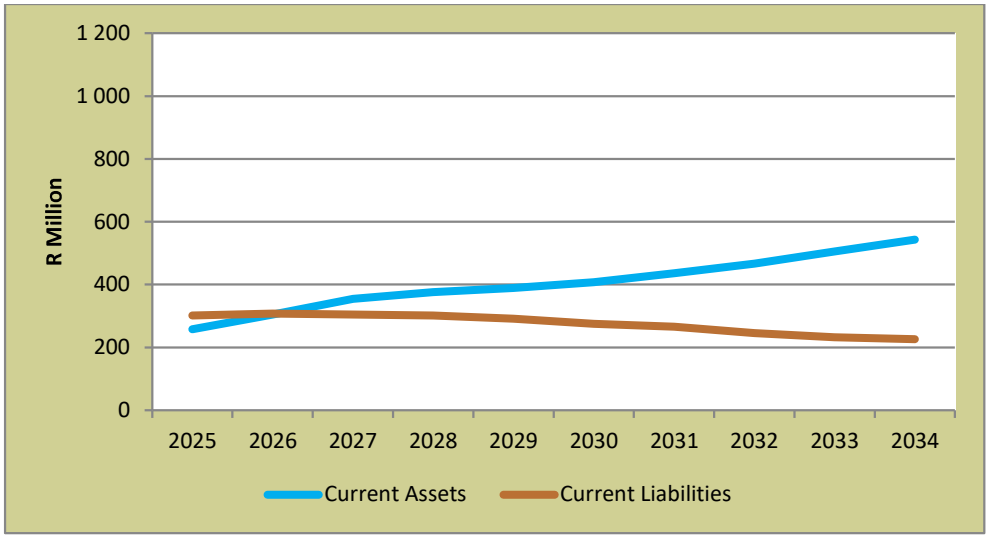

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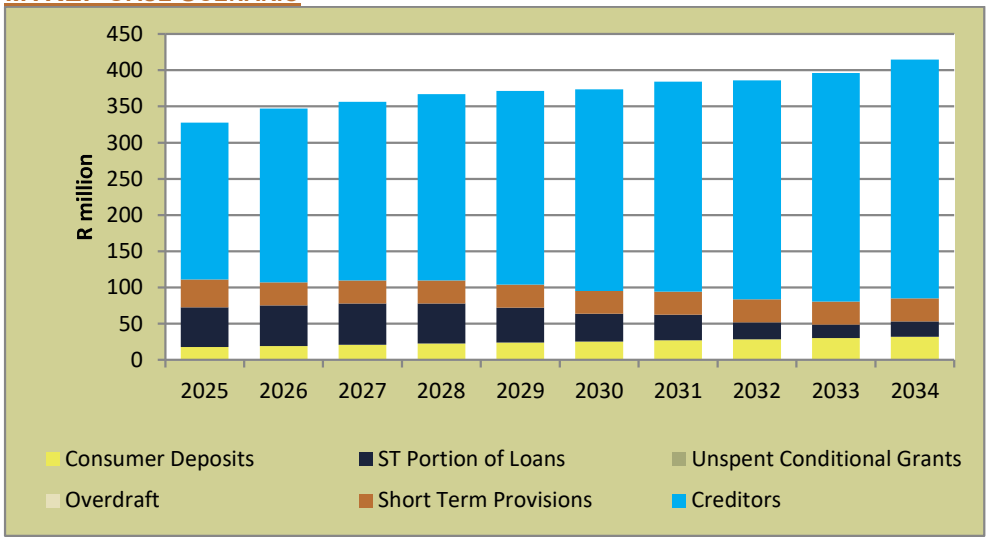

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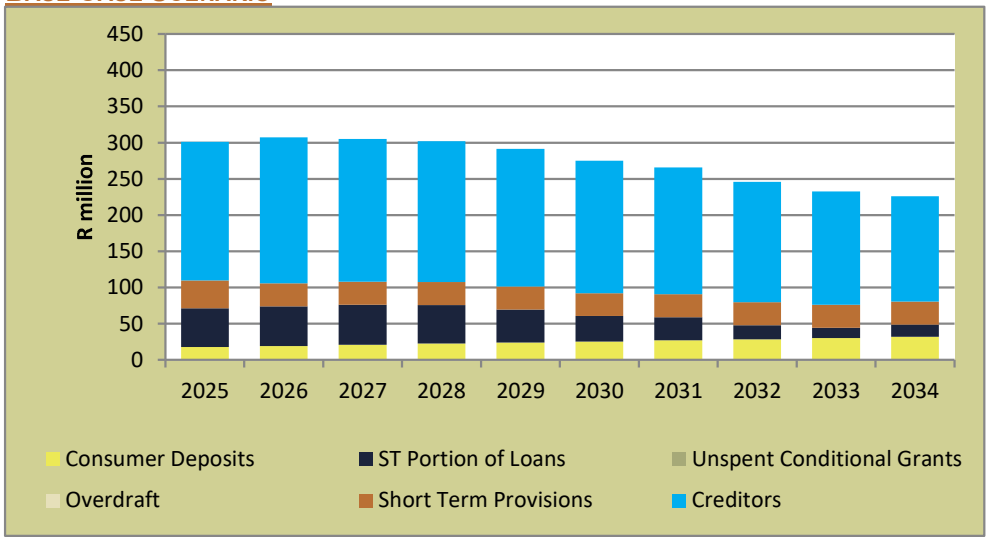
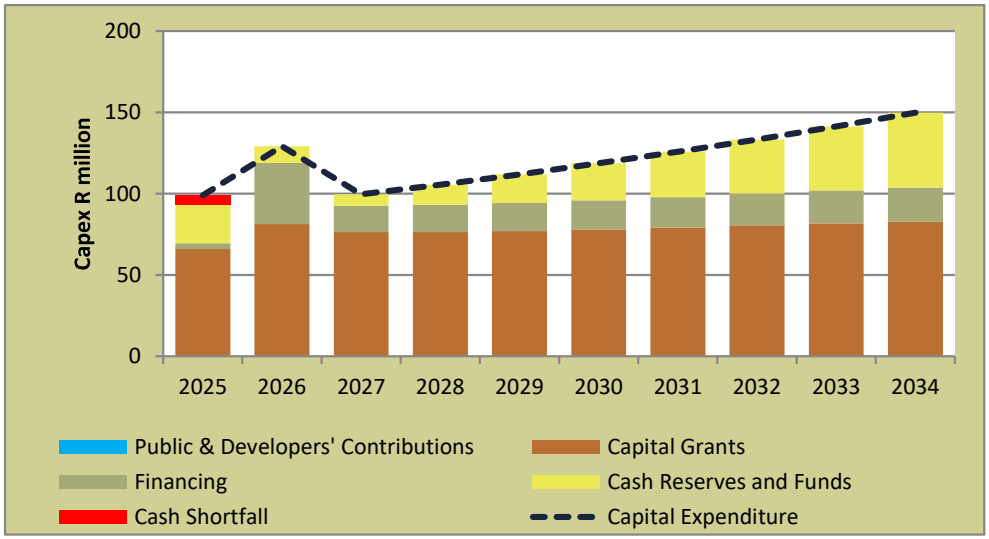
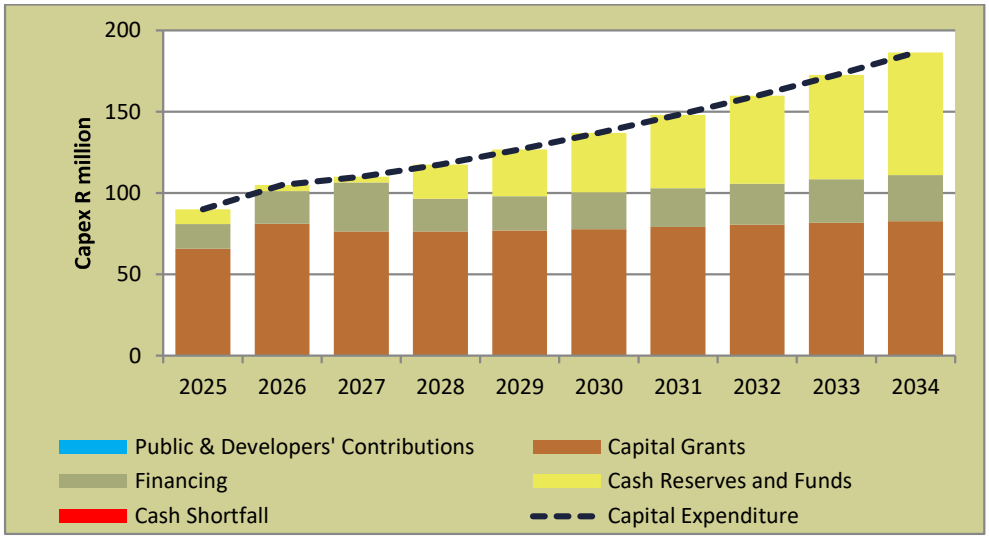






RECOMMENDATIONS

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

1. Maintain an optimised funding mix that strikes a balance between the utilisation of external borrowings and own cash as a supplement to capital grant funding. The municipality must utilise available scope to accelerate the borrowing programme in order to unlock accelerated capital investment. The Base Case borrowing programme provides an indication as to the municipality's affordable debt absorption capacity. An extended loan tenor should be considered.

2. Maintain a balanced approach for the long-term capital investment programme which prioritises investments that contribute to economic growth and revenue generation and prioritise timeous investment in bulk infrastructure. Capital projects aimed at reducing water distribution losses should be prioritised, along with addressing other pressing matters contributing to service delivery challenges.

3. Formalise a capital investment prioritisation and tracking system to optimise management's capital investment decisions and mitigate the risk of underspending on capital projects. The affordable envelope presented in this report reflects the available capacity for affordable capital investment. This should inform the capital prioritisation programme, the outcome of the which should be run through the LTFM.

4. Prevent deterioration in financial performance / surpluses to continue its ability to generate cash from operations and avoid deterioration of its liquidity, by ensuring that actual expenditure doesn't exceed budgeted expenditure. It is essential that the aggressive expenditure cuts in the operating budget are realised.

5. Prevent a deterioration of the collection rate through the implementation of measures such as strict credit control, debt collection procedures, etc. The Base Case collection rate of 90% must be achieved and maintained. The importance of meeting the Base Case collection rate cannot be over-emphasised. Failure to do so will likely require a reduction in the affordable envelope for capital investment.

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

7. Update the long-term financial plan annually with the most recent information to remain a relevant and valuable strategic tool that serves as input to the annual budgeting process. Institutionalisation of the long-term financial model to support strategic financial decision-making in the municipality will provide immense benefits to the municipality. Capacitating and training financial staff on the use of the LTFM will enable the municipality to be managed proactively and ensure long-term financial sustainability.

LTFP UPDATE REPORT 2025

INTRODUCTION

This report reflects the detailed observations having assessed the Demographic, Economic & Household Infrastructure changes, together with the municipality's financial performance as reflected in the 2023/24 audited financial statements and the updated LTFM utilising information contained in the February Adjustment Budget for the period 2024/25-2026/27.

DEMOGRAPHIC, ECONOMIC AND HOUSEHOLD INFRASTRUCTURE

- The economic recovery post-pandemic stagnated during 2023 with GVA growth of just 0.16%. The economy has been stagnant over the last 5 years with annual growth of -0.01%.

- The population growth rate came in at 1.48%; an increase from 1.41% in 2022. The 5-year average population growth rate was 1.42% p.a. The economically active population as a percentage of total population increased to 43.9% in 2023 from 41.3% in the prior year.

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

- The official unemployment rate dropped to 20.6% in 2023 (2022: 25.8%). This exceeds that of the district (18.4%) but remains below the provincial (24.3%) national (33.7%) rates. It must be noted that the current narrow definition of the unemployment rate excludes discouraged workers - thus it is reasonable to assume that the true figure, upon inclusion of discouraged workers, is far higher.

- The Tress Index of 44.62 indicates a reasonably diversified economy underpinned by primarily four sectors: Finance (22.1%), Trade (20.1%) Community Services (19.6%) and Manufacturing (14.3%). Together these four subsectors constituted approximately 76.1% of economic output in 2023.

- Household formation saw moderate growth of 16.1% between 2014-2023. Knysna has been able to maintain its infrastructure index of 0.88; indicative of its ability to keep up with the rate of household formation. This score is high relative to the national index of 0.77.

- Approximately 18.9% of households fall below the Equitable Share Bracket, while 87.7% of households receive a level of service above the RDP level of service.

1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long-Term Financial Model Outcomes

5 Future Revenues

6 Affordable Future Capital Investment

7 Scenario Analysis

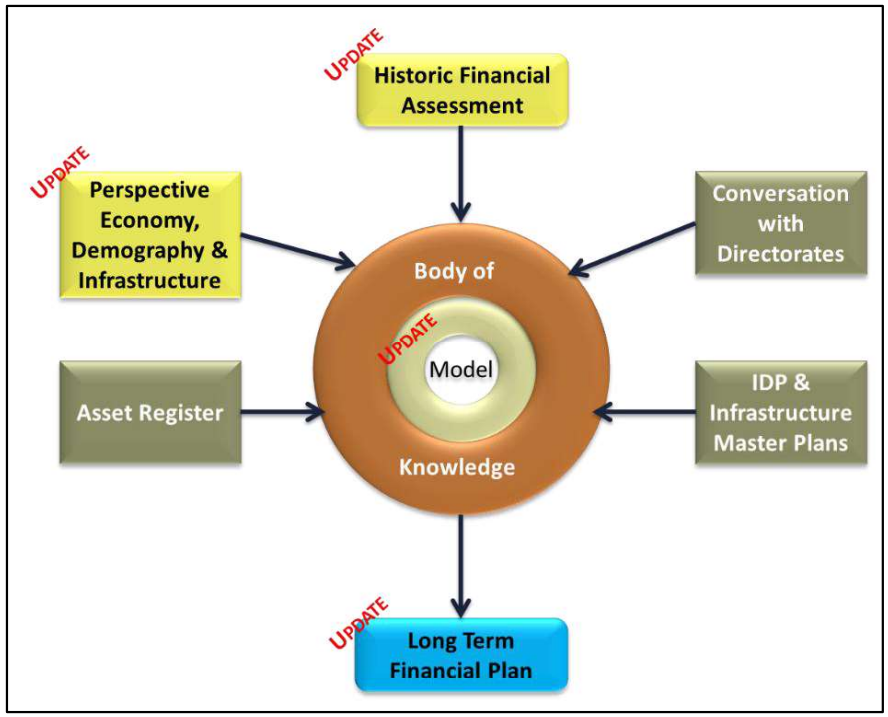
8 Ratio Analysis

9 Conclusions

PLANNING PROCESS

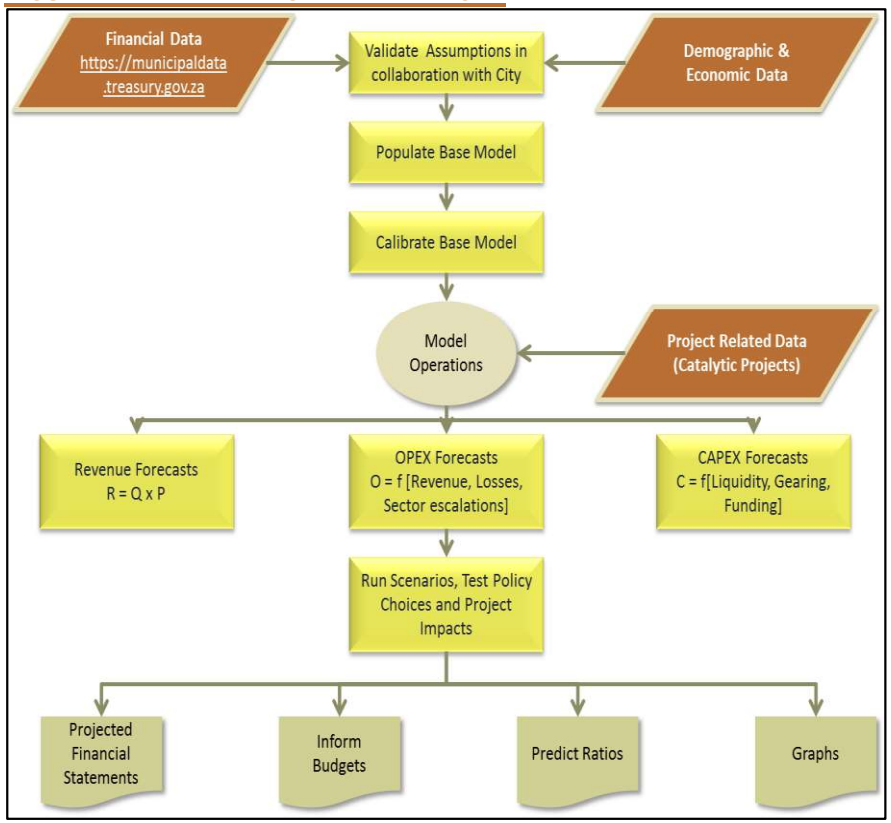
The diagram below illustrates the steps in the process that were followed in drafting the LTFP and the steps taken during this 2025 "LTFP Update":

FIGURE 1: PLANNING PROCESS



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

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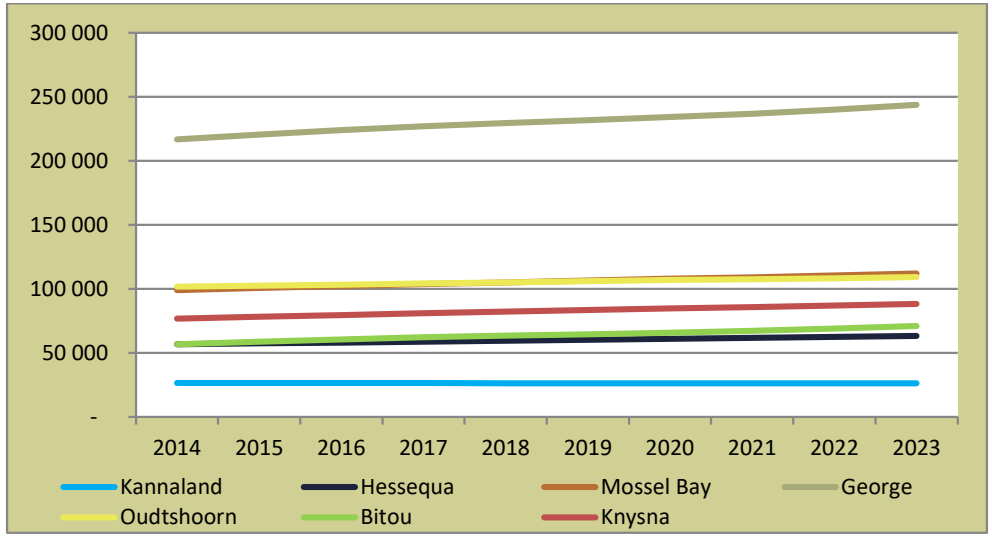
UPDATED PERSPECTIVES (DEMOGRAPHIC, ECONOMIC, HOUSEHOLD INFRASTRUCTURE)

DEMOGRAPHY

Knysna LM's total population saw growth of 1.48% during 2023, an increase from 1.41% in the prior year. This signifies a reversal of the declining trend in growth observed throughout the review period. The total population in 2023 amounted to 88 195 people. This translates to approximately 12.4% of the Garden Route District population of 713 346 people. The 5-year average population growth rate came in at 1.42% p.a., the second highest rate in the district over this period. Elevated rates of population growth tend to translate into additional pressure on the municipality to keep pace with the additional demand for infrastructure services. This is particularly the case should a notable proportion of the migrants be considered if indigent status.

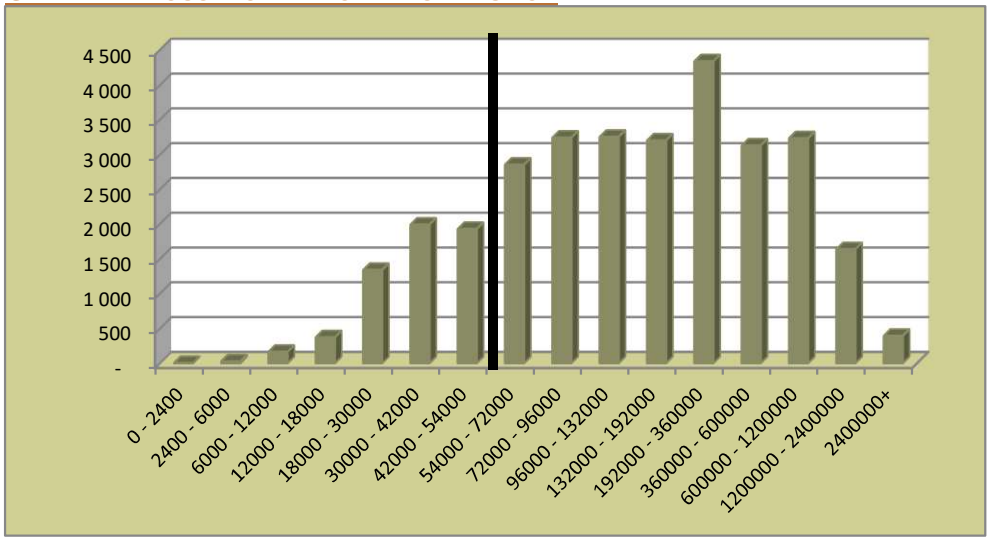
GRAPH 1: TOTAL POPULATION



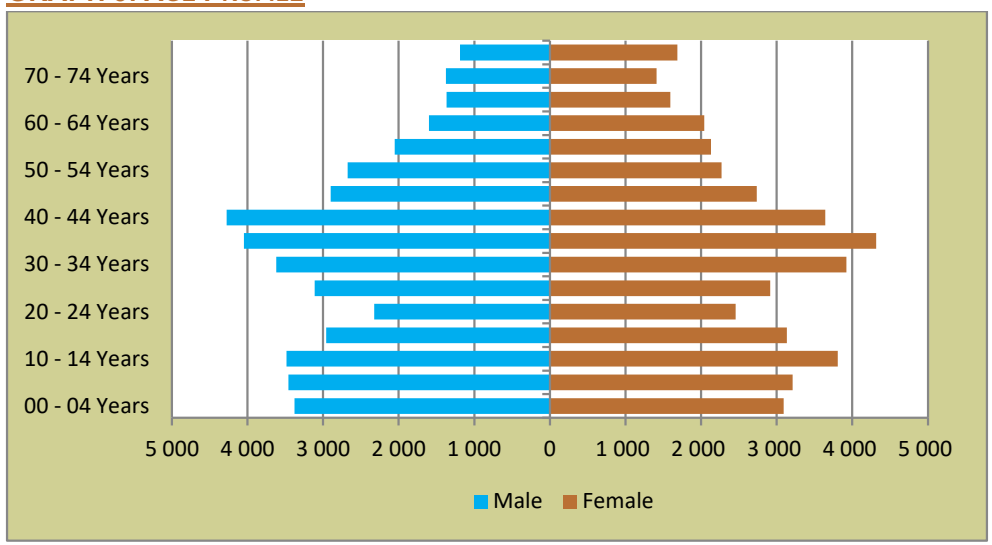
Households earning less than R54 000 p.a. are indicative of the number of indigent households in the municipal area and reflect those who qualify for and/or are largely reliant on government grants as a source of income. Approximately 81.1% of households within Knysna earn above the equitable share threshold, leaving the proportion of indigent households within the municipality at approximately 18.9%. 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. 87.7% of households in the municipality receive a level of service above the RDP level, comparatively lower than the Garden Route District figure of 89.9%.

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

GRAPH 2: HOUSEHOLD INCOME DISTRIBUTION



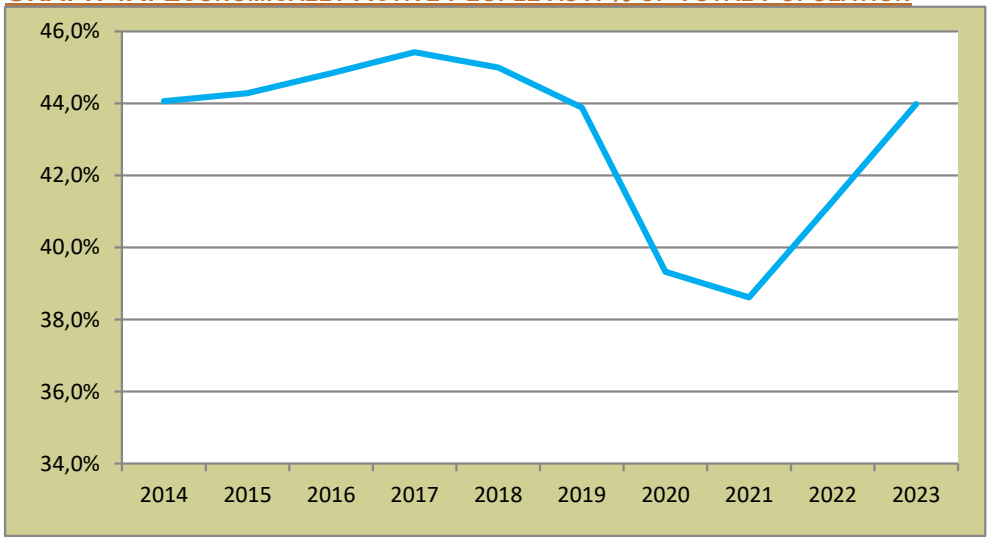
GRAPH 3: AGE PROFILE



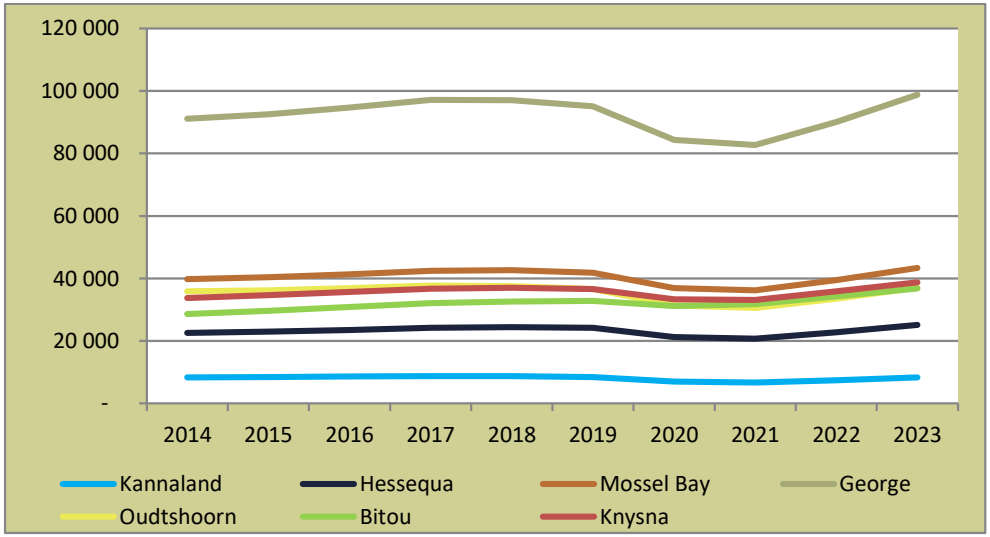
GRAPH 3 illustrates the age profile of Knysna's population. Approximately 54.7% of the population falls between the ages of 25 and 64 years, with the largest age cohort being between the ages of 35 and 39 years. This indicates that there is a perception of Knysna being a provider of employment opportunities. A reasonably low 9.8% of the population are above the age of 65 years, the third lowest proportion in the district. This suggests that other municipalities in the district are perceived to be more attractive destinations for retirees.

The economically active population as a percentage of the total population increased to 43.9% in 2023 from 41.3% in the prior year. It is positive to note that this is the second consecutive year of growth in this metric, following a prolonged period of decline. This bodes well for the municipality's future economic growth prospects as a larger proportion of the population are contributing to the economy. The total number of economically active people in Knysna LM increased by 8.1% to 38 791 people in 2023.

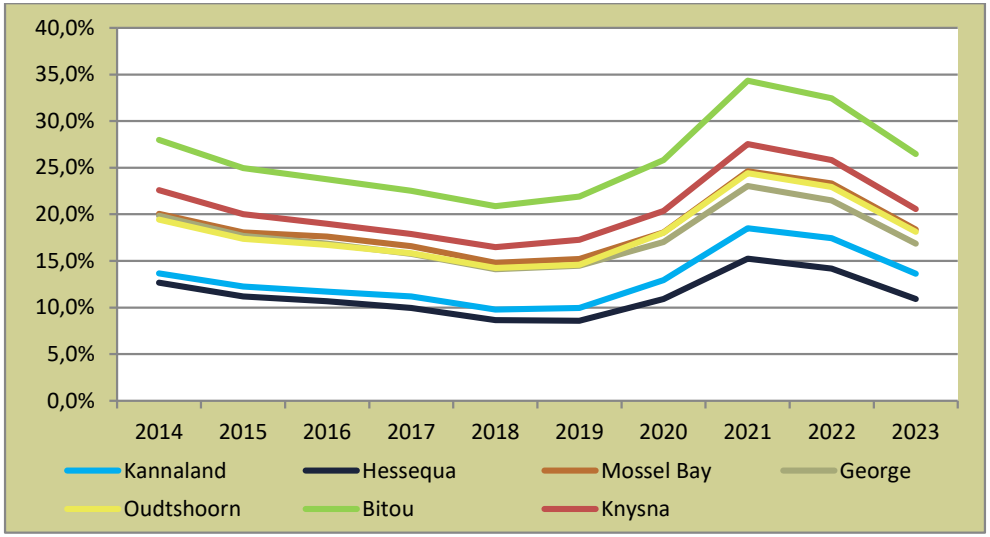
GRAPH 4A: ECONOMICALLY ACTIVE PEOPLE AS A % OF TOTAL POPULATION



GRAPH 4B: ECONOMICALLY ACTIVE POPULATION



GRAPH 5: OFFICIAL UNEMPLOYMENT RATE



The unemployment rate declined for the second consecutive year in 2023, reducing to 20.6% from 25.8% in the prior year. This is positive to note as levels of employment within Knysna are beginning to approach pre-covid levels (17.3% in 2019). Covid-19 had a stark impact on the local economy, with unemployment increasing by 7.1% in 2021 alone. The municipality must build on this momentum and foster an enabling environment for economic growth through ensuring that high standards of service delivery are upheld and that the perception of Knysna as an attractive destination for investment is created.

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

ECONOMY

Knysna LM's total economic output in 2023 amounted to R7.79 billion (current prices). This represents approximately 10.1% of the Garden Route District GVA. The pandemic had a considerable negative impact on Knysna's economy, as evidenced by the severe economic contraction of 6.65% recorded in 2020. A reasonable recovery was observed in 2021 & 2022 with the economy fully recovering from the contraction in 2020. It is, however, concerning to note that economic growth stagnated during 2023, with growth of just 0.16%. The stagnation of the economy is further reflected in the 5-year average economic growth rate of -0.01%. It must be stated that a trend of sluggish economic growth has been observed throughout the review period. These trends are particularly concerning when considered against the relatively higher population growth rates observed during the review period. The population growing at a faster rate than the economy effectively results in an impoverishment of the local population.

Knysna's economy is reasonably diversified as evidenced by a Tress Index of 44.62 in 2023. The Tress Index is a measure of economic diversification, the higher the index, the lower the degree of diversification. A diversified economy provides a hedge against economic risk to the municipality through spreading the impact of negative economic events over a greater number of sectors. Knysna's economy is heavily tertiary sector driven with approximately 70.9% of economic output emanating from tertiary sector activities. The local economy is underpinned by 4 main sub-sectors which together provided approximately 76.1% of economic output in 2023. These 4 sectors are Finance (22.1%), Trade (20.1%), Community Services (19.6%) and Manufacturing (14.3%).

The Finance and Community Services sectors exhibited proportional growth of 2.1% and 2.2% respectively over the review period. All sub-sectors that are considered to be a part of the secondary sector, barring manufacturing, exhibited contractions during the review period. The construction sector was the most heavily impacted with its 2023 proportional contribution down 3.9% compared to 2014.

GRAPH 6: ECONOMIC SECTORS

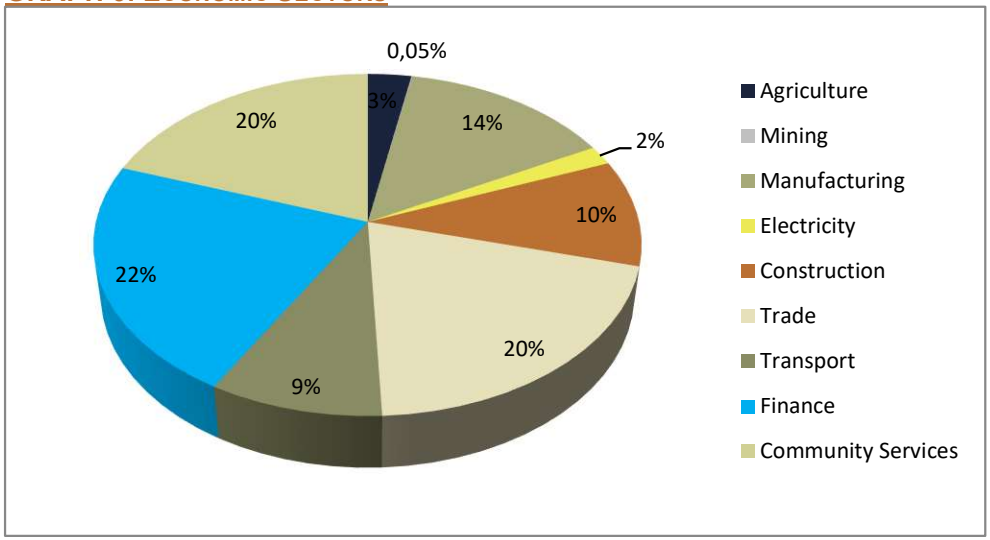
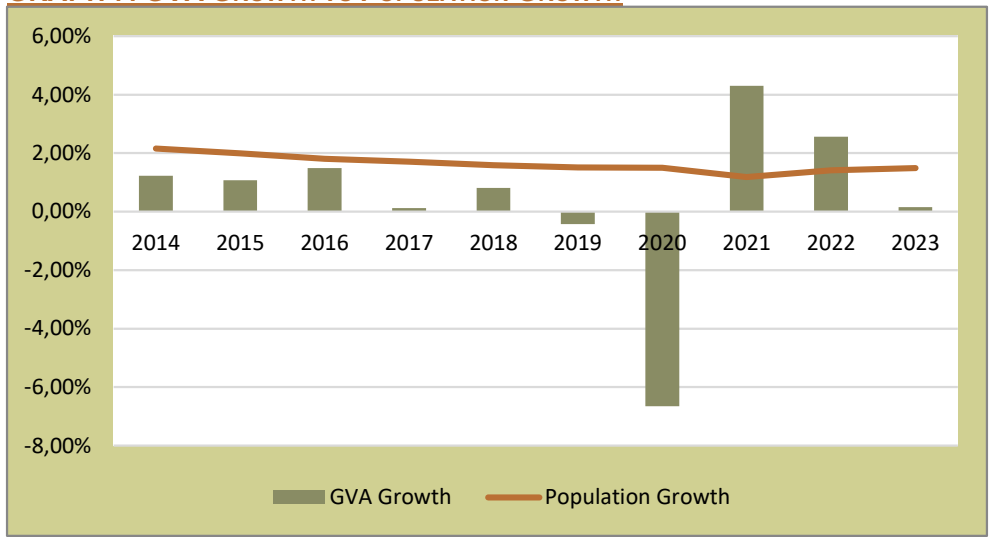


TABLE 1: CONTRIBUTION OF SUB-SECTORS TO GVA (CONSTANT 2015 PRICES)

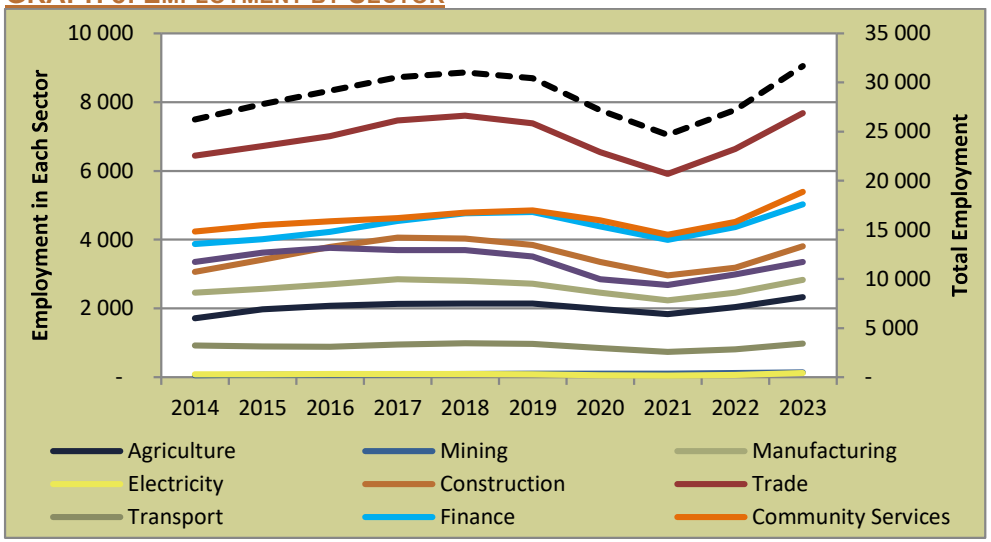
Subsector	2014	2023
Agriculture	2,8%	2,9%
Mining	0,1%	0,0%
Manufacturing	14,1%	14,3%
Electricity	2,3%	1,8%
Construction	14,0%	10,1%
Trade	20,9%	20,1%
Transport	8,5%	9,1%
Finance	20,0%	22,1%
Community Services	17,3%	19,6%

GRAPH 7: GVA GROWTH VS POPULATION GROWTH



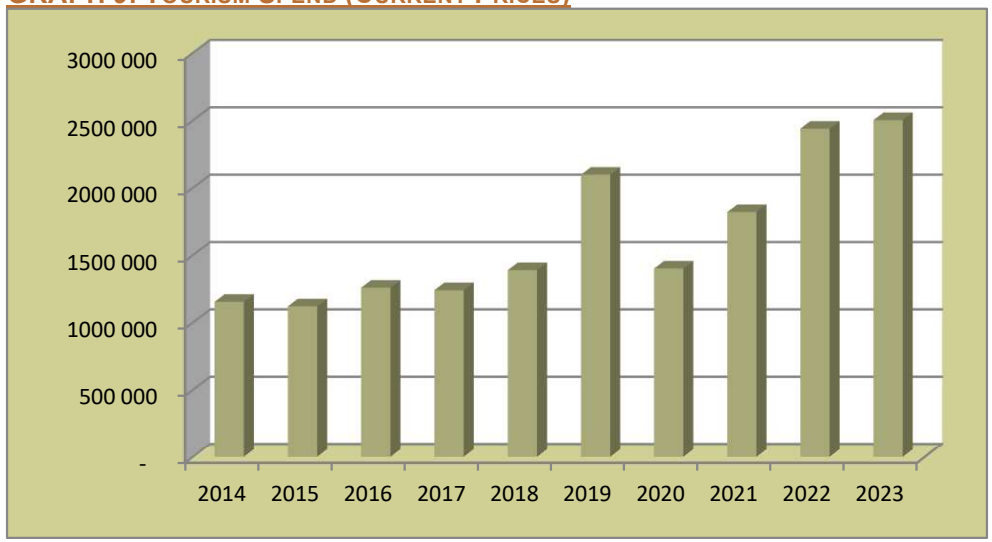
As mentioned above, the sluggish economic growth exhibited over the review period remains a cause for concern. This is particularly prevalent as economic growth has been dwarfed by population growth throughout the review period until 2021, as highlighted in GRAPH 7. It is evident that although the pandemic admittedly had a profound negative impact on the economy, the blame for the lack of economic growth cannot solely be placed at the feet of the pandemic. The municipality must invest in productive assets that aim to create an enabling environment for economic growth.

GRAPH 8: EMPLOYMENT BY SECTOR



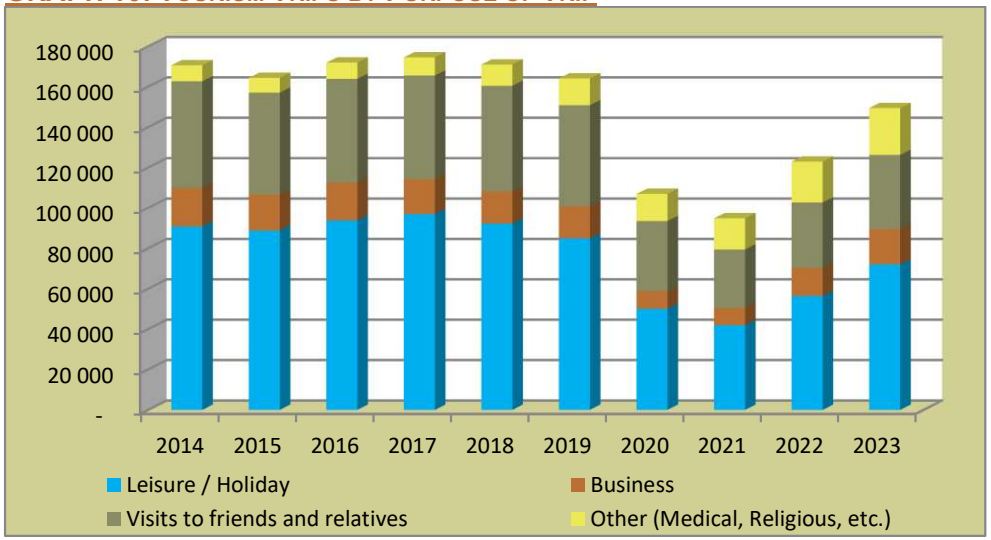
Scrutiny of the employment figures reveals that an additional 4 482 jobs were created during 2023, for a total increase of 16.5%. The total number of employment opportunities in 2023 amounted to 31 677 jobs, the first time since 2019 that over 30 000 job opportunities existed in Knysna. This is underpinned by the Trade (24.3%), Community Services (17.0%) and Finance (15.9%) sectors.

GRAPH 9: TOURISM SPEND (CURRENT PRICES)



Tourism spend increased by 2.6% during 2023 to a total of R2.50 billion, up from R2.43 billion recorded in the prior year. It must be stated that this relatively modest growth comes in at below average CPI for 2023. While tourism is not regarded as an economic sector per se, it remains a vital cog in Knysna's economy. This is evidenced by tourism's contribution to GVA in 2023 of 29.3%. This places tourism as the predominant contributor to Knysna's economy. The municipality is encouraged to create an enabling environment for those in the tourism industry to thrive through ensuring that the perception of Knysna as an attractive destination for tourism is safeguarded.

GRAPH 10: TOURISM TRIPS BY PURPOSE OF TRIP

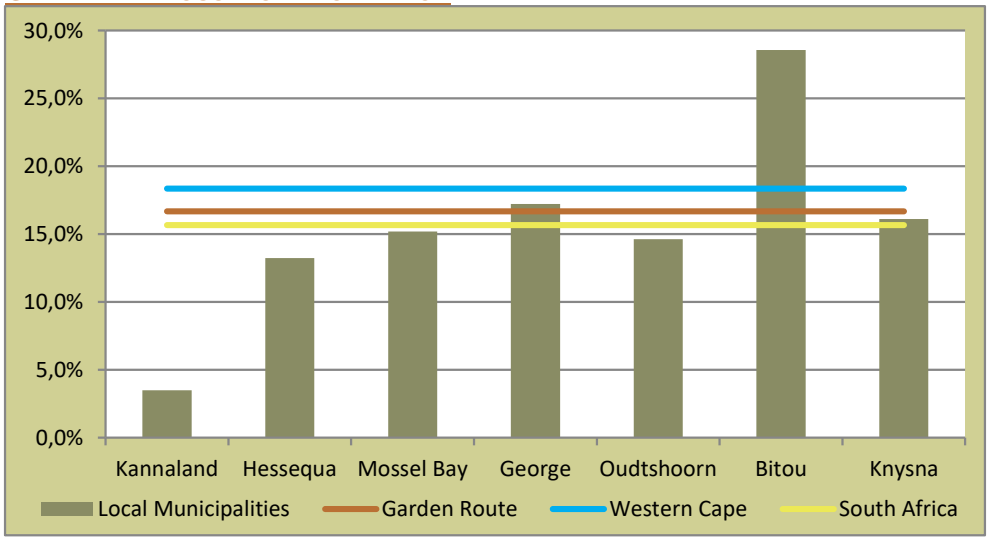


An analysis of the tourism sector would be incomplete without an analysis of the number of tourism trips and the purpose thereof. The total number of tourism trips into Knysna increased by a significant 21.6% in 2023 to a total of 149 436 trips. While the increasing trend observed since 2021 is positive, it is noted that the absolute number of tourism trips remains well below the levels exhibited pre-pandemic. This may be attributable to the challenging economic environment that has resulted in people cutting down on luxury items, including going away on vacation. Trips for leisure/holiday remain the predominant purpose for trips into Knysna, accounting for 48.2% of trips in 2023. This is followed by trips to visit friends and relatives (24.5%).

HOUSEHOLD INFRASTRUCTURE

Household formation in Knysna since 2014 came in at 16.1%. This translates to an additional 3 863 households over the review period. Knysna's rate of household formation is on par with the district (16.7%) and marginally below the province (18.4%). Growth in the number of households and population increases pressure on the municipality to keep pace with the additional demand for municipal services.

GRAPH 11: HOUSEHOLD FORMATION



Knysna has managed to improve its infrastructure index during the review period, improving the index from 0.83 in 2014 to 0.88 in 2023. The improvement of the index over the review period provides an indication as to the municipality's ability to keep pace with the rate of household formation. The infrastructure index provides an indication as to the extent of access to municipal services. It does not, however, assess the quality and security with which these services are provided. This is of particular importance in the case of Knysna which has experienced notable service delivery challenges in the recent past. The improving trend in the municipality's financial position, coupled with a period of political stability will provide an opportunity for the service delivery challenges to be overcome.

GRAPH 12: INFRASTRUCTURE INDEX

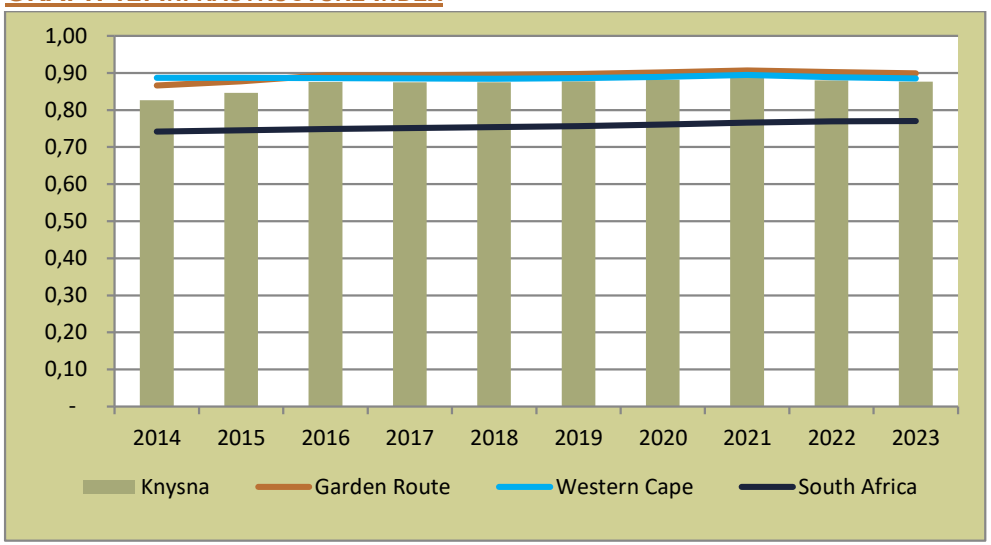


TABLE 2 below provides a comparison between the level of backlogs of Knysna and the Garden Route District. Knysna has managed to improve access to services in all service categories over the review period, barring refuse removal services. Knysna has been outperformed by the district in the provision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

TABLE 1: HOUSEHOLD INFRASTRUCTURE PROVISION

Infrastructure	Garden Route		Knysna	
Above RDP Level				
Sanitation	206 862	97,6%	27 141	97,6%
Water	209 537	98,9%	27 429	98,6%
Electricity	206 098	97,3%	27 021	97,1%
Refuse Removal	193 245	91,2%	26 569	95,5%
Below RDP or None				
Sanitation	5 023	2,4%	682	2,4%
Water	2 348	1,1%	394	1,4%
Electricity	5 787	2,7%	802	2,9%
Refuse Removal	18 640	8,8%	1 253	4,5%
Total Number of Households	**211 885**	**100,0%**	**27 822**	**100,0%**

1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long-Term Financial Model Outcomes

5 Future Revenues

6 Affordable Future Capital Investment

7 Scenario Analysis

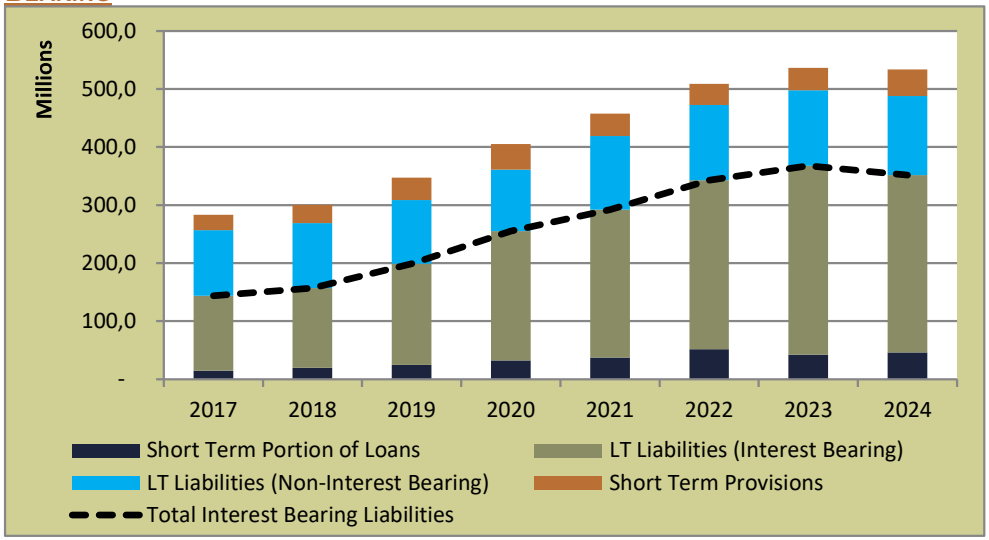
8 Ratio Analysis

9 Conclusions

UPDATED HISTORIC FINANCIAL ASSESSMENT

FINANCIAL POSITION

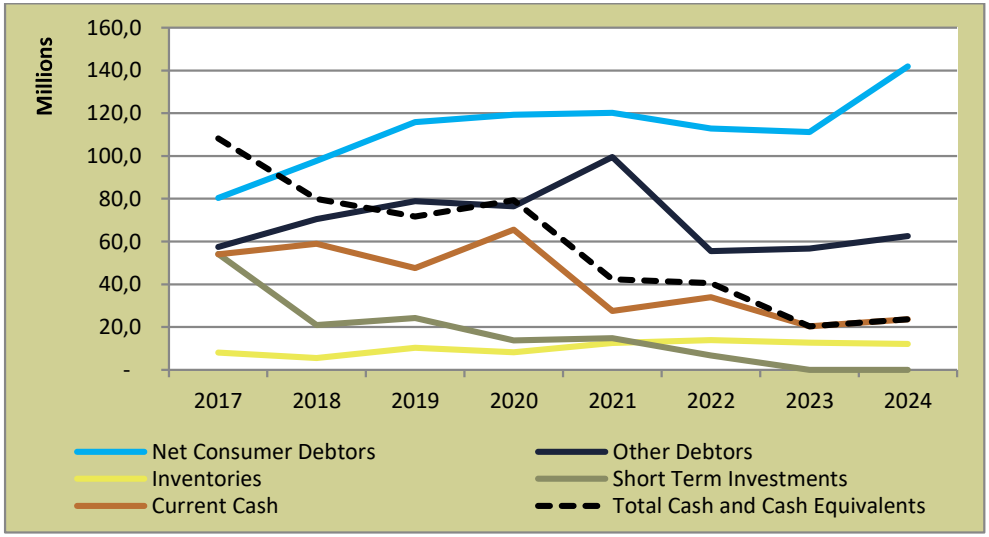
GRAPH 13: LONG-TERM LIABILITIES: INTEREST BEARING VS NON-INTEREST BEARING



Knysna LM's net fixed assets position improved marginally during the year, increasing by 0.7% to total R1.53 billion as at FYE2023/24. Improved financial performance resulted in an increase in the accumulated surplus, up to R1.03 billion from R986.0 million at the prior year end. This represents a total increase of 4.9% during the year. Interest-bearing long-term liabilities decreased to R305.4 million down from R325.7 million in the prior year. Non-interest-bearing liabilities increased by R6.2 million to total R136.0 million as at FYE2023/24. This was predominantly driven by increases in employee benefit obligations. The provision for the rehabilitation for landfill sites decreased to R17.8 million at the current year end. This provision covers 1 landfill site, the Old Place landfill site, which is due for rehabilitation in 2026. The municipality currently disposes of its waste at the Petro SA waste disposal site in Mossel Bay.

Additional loans to the value of R25.0 million were undertaken during the year. The addition of these loans further leveraged Knysna's debt profile. This is evidenced by the gearing and debt service to total expense ratios of 30.4% (FYE2022/23: 37.0%) and 4.7% (FYE2022/23: 7.0%). Growth of revenue of 18.0% during FY2023/24 contributed to the reduced gearing ratio, despite the undertaking of additional debt during the year. The debt profile remains adequately leveraged at this stage. It is recommended that the strategy of borrowing consistently is continued, whilst ensuring that the levels of leverage remain manageable and sustainable. The municipality must ensure that it continues to receive unqualified audit opinions for this strategy to remain feasible.

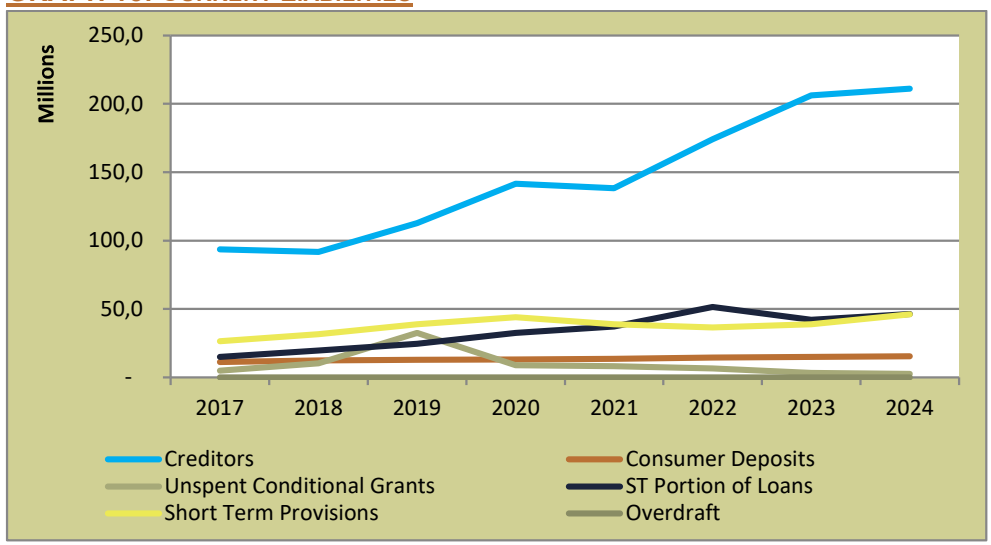
GRAPH 14: CURRENT ASSETS



Current assets saw an increase of 19.5% during FY2023/24, up to R240.2 million. This was predominantly driven by an increase in receivables from exchange and non-exchange transactions. Cash and cash equivalents saw an increase of R3.2 million (16.0%) up to R23.6 million as at FYE2023/24. The improvement of the cash position must be a priority for the municipality as the lack of a liquidity buffer leaves the municipality in a vulnerable position.

Current liabilities increased by 5.3% during the year, up to R321.8 million from R305.6 million in the prior year. This increase was predominantly driven by increases in the short-term portion of loans and creditors. Trade payables increased to R151.4 million, up from R138.6 million in the prior year. While the reduced growth in creditors is a step in the right direction, priority must be given to reducing the creditors balance as the cash position of the municipality begins to improve.

GRAPH 15: CURRENT LIABILITIES

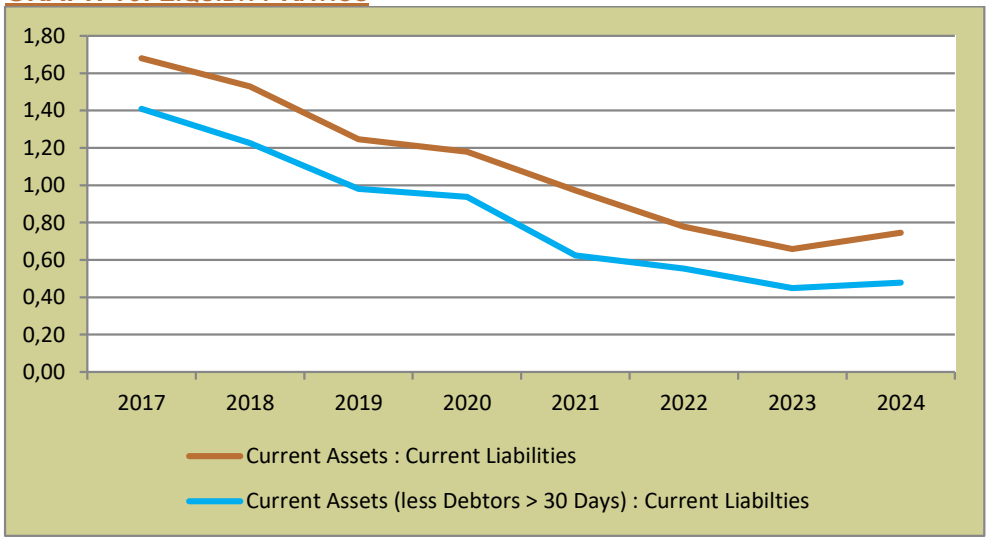


The combined impact of the movements in current assets and liabilities resulted in a slight improvement of the liquidity position. The liquidity ratio increased to 0.75:1 from 0.66:1 at the prior year end. This remains unsustainable as doubt is cast on the municipality's ability to meet its current obligations as and when they fall due. The movement into a positive liquidity position (liquidity ratio of at least 1:1) must be prioritised. A continuation of the improved financial performance observed during FY2023/24 would provide a significant boost to the liquidity position.

TABLE 2: LIQUIDITY RATIOS

	2017	2018	2019	2020	2021	2022	2023	2024
Current Assets: Current Liabilities	1,68	1,53	1,25	1,18	0,97	0,78	0,66	0,75
Current Assets (less Debtors > 30 Days): Current Liabilities	1,41	1,23	0,98	0,94	0,62	0,55	0,45	0,48

GRAPH 16: LIQUIDITY RATIOS



Gross consumer debtors increased by 22.8% during the year to total R443.7 million as at FYE2023/24. An increase of 20.6% in the provision for bad debts resulted in an increase of 27.6% in net consumer debtors which increased to R141.9 million as at FYE2023/24. The collection rate increased to 87.8%, up from 80.2% in the prior year. This is positive to note. The municipality must aim for further improvements in the coming years with the NT norm of 95% a healthy long-term target. Reduced inflation and the genesis of an interest rate cutting cycle will ease pressure on households to service their municipal bills. The municipality must take advantage of this and ensure it is well placed to improve and maintain a high collection rate.

Rates remained the largest pool of debtors, accounting for 52.1% of net consumer debtors. This is followed by electricity debtors (26.0%) and water debtors (13.2%). The provision for bad debts of R301.8 million fell just short of covering the debtors

older than 90 days balance of R351.5 million. While it is ideal for the provision for bad debts to fully provide for debtors older than 90 days, it is reasonable to say that the risk of non-payment was largely provided for during FY2023/24.

GRAPH 17: GROSS CONSUMER DEBTORS VS NET CONSUMER DEBTORS

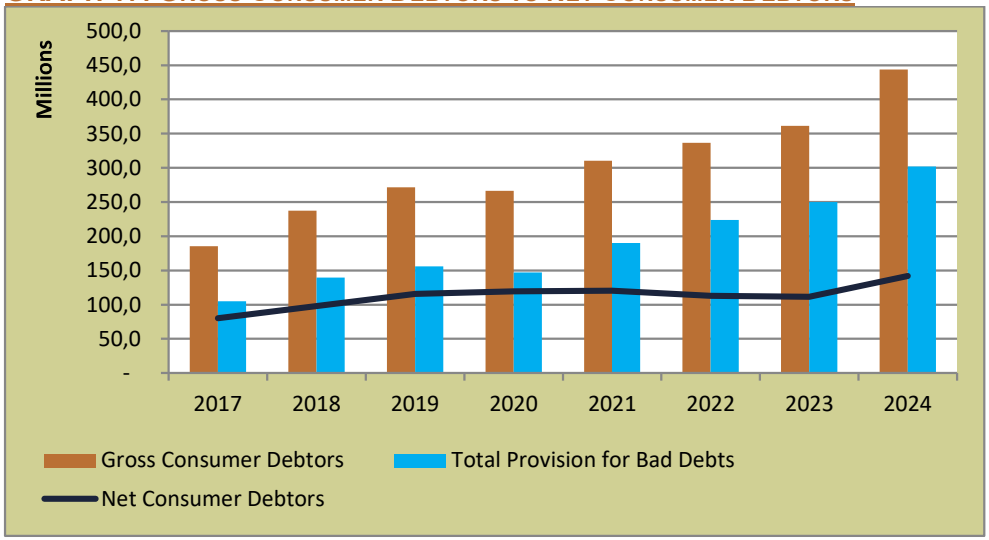
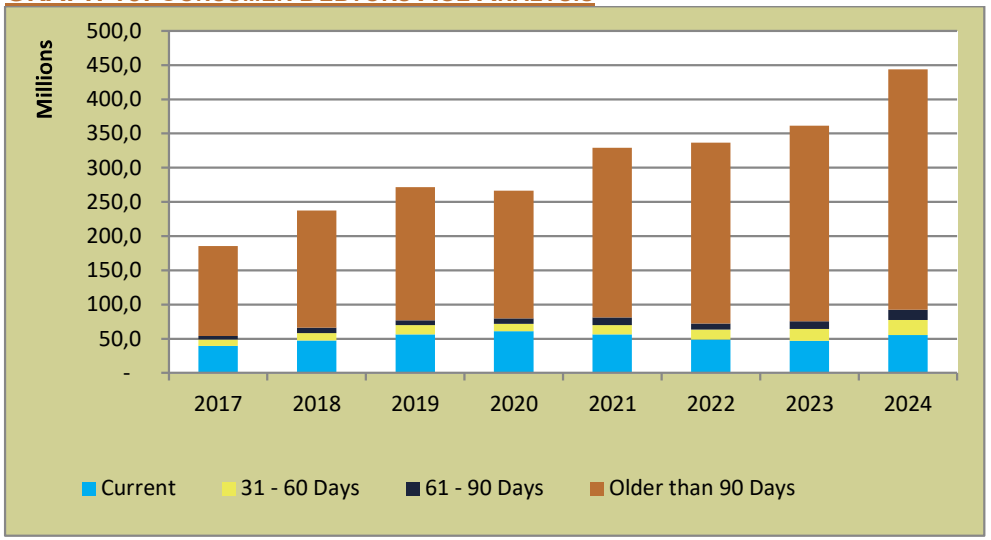


TABLE 3: DEBTORS RATIOS

	2018	2019	2020	2021	2022	2023	2024
Increase in Billed Income p.a. (R'm)	27,8	33,2	266,3	24,5	310,1	361,4	443,7
% Increase in Billed Income p.a.	5%	6%	-1%	4%	10%	2%	18%
Gross Consumer Debtors Growth	28%	14%	-2%	16%	9%	7%	23%
Payment Ratio/Collection Rate (%)	90,8%	94,3%	100,9%	92,7%	93,2%	80,2%	87,8%

GRAPH 18: CONSUMER DEBTORS AGE ANALYSIS



Further scrutiny of the debtors age analysis reveals that debtors older than 90 days form the largest pool of debtors, accounting for 79.2% of consumer debtors as at FYE2023/24. Current debtors accounted for just 12.5% of consumer debtors at the current year end. It would be beneficial for the municipality to attempt to collect as much of the aged debt as possible. It is appreciated that this is not an easy task, but the benefits that can be derived are significant.

Financial Performance

GRAPH 19: Analysis of Surplus

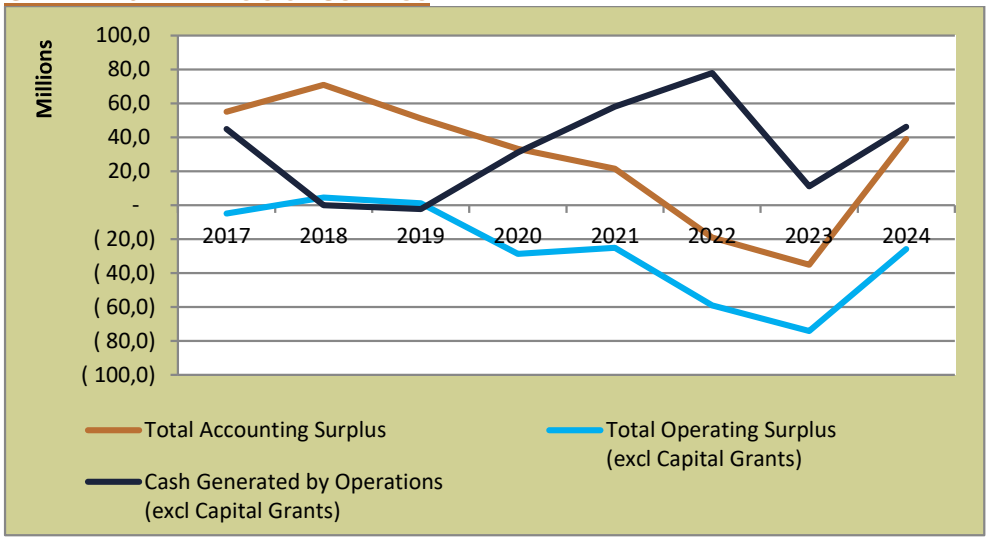


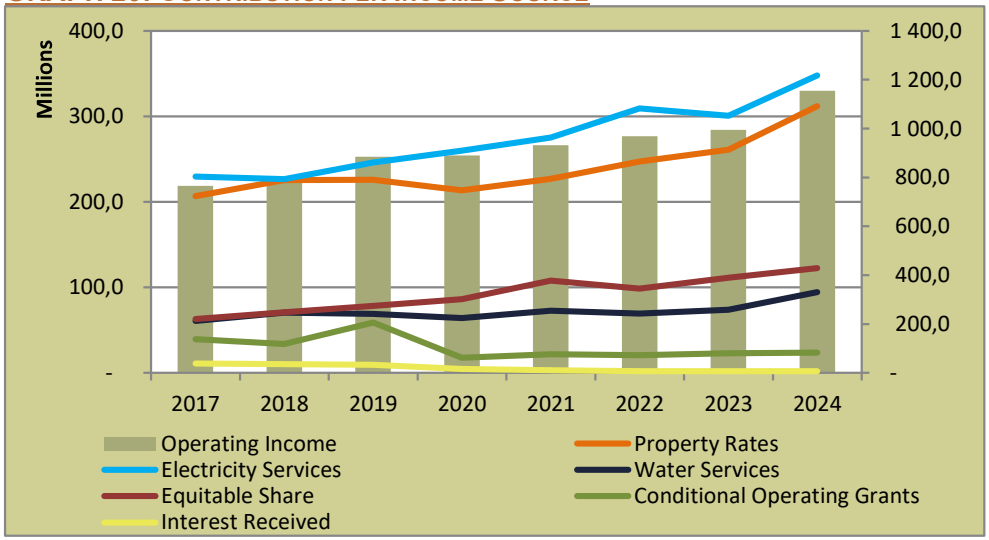
TABLE 4: Analysis of Surplus

	2017	2018	2019	2020	2021	2022	2023	2024
Total Accounting Surplus	55,1	71,0	51,0	33,3	21,4	(19,1)	(35,1)	39,0
Total Operating Surplus (excl Capital Grants)	(4,9)	4,6	1,2	(28,6)	(25,0)	(59,1)	(74,0)	(25,9)
Cash Generated by Operations (excl Capital Grants)	44,8	(0,1)	(2,4)	31,0	58,1	77,8	11,1	46,2

Total income (including capital grants) increased by 18.0% during FY2023/24, up to R1.22 billion. Operating expenditure increased by a relatively lower 10.5% to R1.18 billion during FY2023/24. This resulted in an improvement in the accounting surplus to R39.0 million during FY2023/24, up from a deficit of R35.1 million in the prior year. Upon the exclusion of capital grants, the municipality posted an operating deficit of R25.9 million, an improvement on the operating deficit of R74.0 million posted in the prior year. While this marks the fifth consecutive year in which an operating deficit has been posted, the upward trend in financial performance is a major positive point.

Knysna generated R46.2 million in cash from operations (excluding capital grants) during FY2023/24, up from R11.1 million in the prior year. This is a product of the improved financial performance and higher collection rate. It has been noted in previous updates that cash generation was predominantly driven by working capital management, specifically the non-payment of creditors. It is positive to note that the improved ability to generate cash from operations resulted from more sustainable sources of cash generation, namely improved financial performance and revenue collection. This must be maintained.

GRAPH 20: Contribution per Income Source

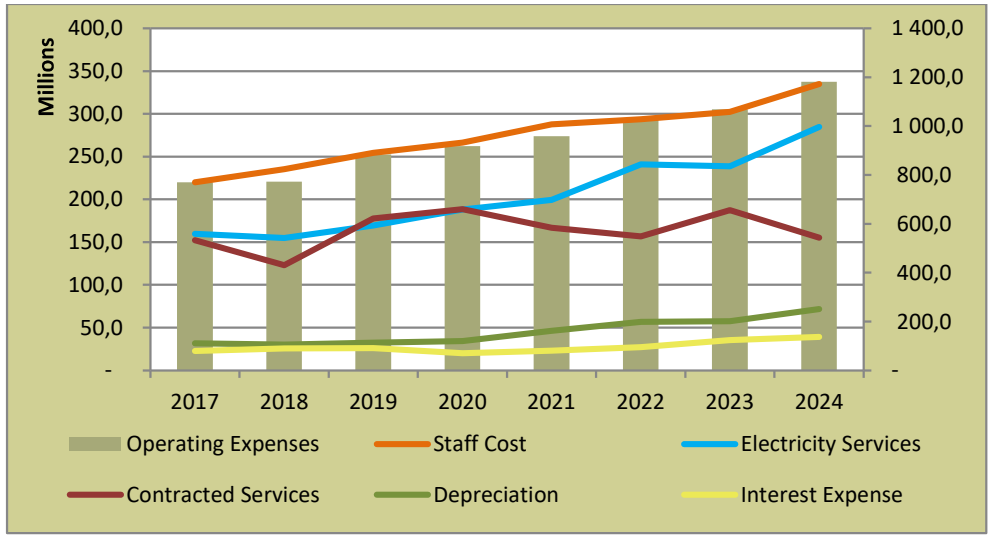


The strong growth in income was driven by growth in property rates (20%), water (28%) and electricity services revenue (16%). The growth in electricity services revenue is positive to note as this follows a decline in the previous year due to the energy crisis. Electricity revenue remained the predominant contributor to revenue, accounting for 30% of revenue in FY2023/24. Other notable contributors include property rates (27%) and equitable share (11%). Total grants received comprised

17% of total revenue during FY2023/24. This is indicative of Knysna being reasonably self-sufficient.

With electricity services remaining Knysna's main source of income, there remains a risk to the municipality's revenue prospects should persistent load shedding return. In order to mitigate this risk, the municipality must work towards maximising revenue from alternative sources and more importantly, maintain stringent management of operating expenditure, over which the municipality has an element of control. Cost-savings must be realised wherever possible. Furthermore, the need for tariff increases to reflect the true cost of supply remains critical. It is recommended that the municipality undergoes a detailed tariff assessment, underpinned by a sophisticated tariff model to assist in determining the true cost of supply of municipal services and that tariff increases are informed accordingly.

GRAPH 21: CONTRIBUTION PER EXPENDITURE ITEM



The 10.5% increase in total operating expenditure was underpinned by increases in staff costs (11%) and electricity bulk purchases (19%). Staff costs remained the predominant expenditure item in FY2023/24, accounting for 26% of expenditure. This is followed by electricity bulk purchases with a contribution of 22%.

While the contribution of staff costs remains below the maximum norm of 40% as prescribed by NT, we cannot look at this figure in isolation. Contracted services are often seen as an alternative to staff costs, with certain services outsourced to contractors. With this in mind, it is worth analysing the combined contribution of staff costs and contracted services to assess the affordability of the municipality's employee related expenditure profile. Contracted services saw a reduction of 17% during FY2023/24, down to R155.3 million. While the cost-containment measures are positive to note, a significant portion of this reduction is attributable to reduced expenditure to repair and maintain the municipality's assets. It is recommended that alternative avenues that do not compromise the integrity of the municipality's assets are explored for the desired cost cuts to be realised.

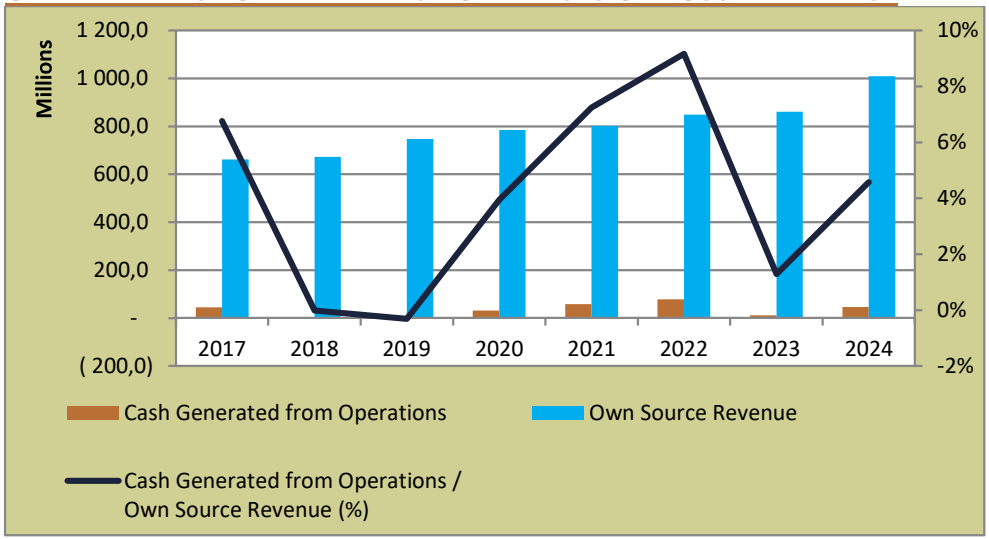
Despite the reductions, the contribution of contracted services remained high at 13% during FY2023/24. The combined contribution of contracted services and staff costs totals 39% of operating expenditure. This is right on the upper limit of 40% as prescribed by NT, thus rendering the long-term affordability of the municipality's employee related expenditure profile questionable. It may be worth exploring whether certain outsourced services could perhaps be brought back within the municipality, should this result in cost-savings.

Expenditure to repair and maintain the municipality's asset base declined during the year to R47.9 million, down from R65.6 million in the prior year. This resulted in repairs and maintenance expenditure as a percentage of PPE & IP declining to 3.1% from 4.3% in the prior year. Ideally, we would like to see this ratio increase closer to the NT norm of 8%. It is worth noting that a reasonable portion of the Capital Budget is allocated towards the upgrading of existing assets. The municipality must endeavour to increase the allocation of funds to repair and maintain the municipality's assets to avoid unnecessary impairment or early obsolescence of assets.

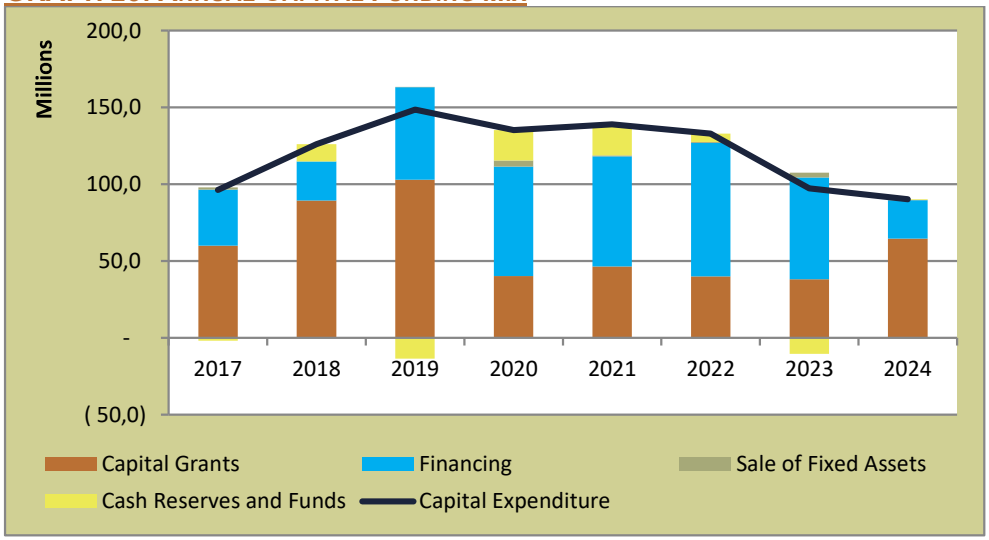
Electricity distribution losses improved from 12.15% to 11.58% during FY2023/24. While water distribution losses increased to 33.68%, up from 13.73% in the prior year. The extent of the increase in water losses is of concern and must be addressed by the municipality. The reasons for the extent of water losses be it infrastructure or billing related must be identified and addressed as matter of urgency.

CASH FLOW

GRAPH 22: CASH GENERATED FROM OPERATIONS/OWN SOURCE REVENUE



GRAPH 23: ANNUAL CAPITAL FUNDING MIX

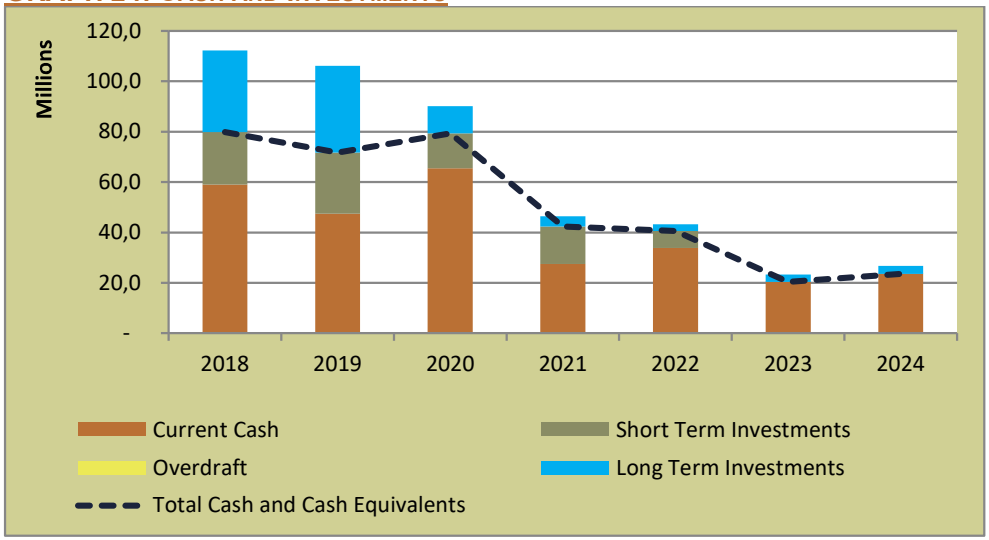


The total capital outlay over the review period amounted to R965.6 million at an annual average of R120.7 million. This was primarily funded through capital grants (50%) and borrowings (46%), with the remaining 4% funded through own cash reserves. The municipality has maintained limited utilisation of own cash reserves to fund capital expenditure. This is positive to note considering the strained liquidity position. It is recommended that the municipality continues this approach in funding its capital investment programme until such time that sufficient liquidity is available to firstly meet current obligations as and when they fall due.

The municipality has undertaken borrowings in each of the 8 years under review, with R25.0 million in loans undertaken during the current year. The consistent borrowing exhibited over the review period has resulted in an adequately leveraged debt profile. IPM recommends a maximum gearing and debt service to total expense ratios of 30% and 7% respectively for Knysna LM. The gearing ratio of 30.4% and debt service to total expense ratio of 4.7% indicate that the strategy of undertaken borrowings on a consistent basis can be maintained in future if carefully managed. For this to transpire in a sustainable manner, the upward trends in financial performance and liquidity will need to continue.

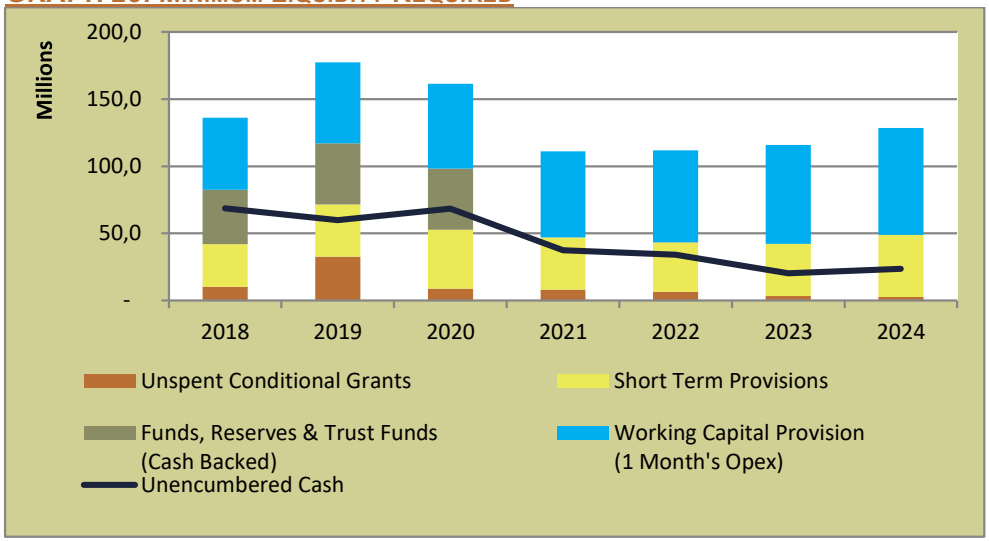
Considering the strained liquidity position, an affordable acceleration of the capital investment programme may prove challenging. Limited utilisation of own cash to fund capital expenditure is recommended due to liquidity constraints. This leaves borrowing the only viable funding mechanism through which an acceleration of capital investment can be achieved. The unqualified audit opinion received by Knysna in 2023/24 must be maintained for borrowing to remain an affordable funding option.

GRAPH 24: CASH AND INVESTMENTS



Knysna's cash position has been characterized by a notable deterioration in the review period however a slight increase has been observed in the current year. Cash and cash equivalents increased by 16% in FY2023/24, up from R20.3 million in the prior year to R23.6 million. An increase of 8.4% was observed in long-term investments, which increased from R2.9 million in the prior year to R3.1 million in FY2023/24. It is recommended that the municipality prioritises the improvement of the collection rate to above 95% as well as maintains limited utilisation of own cash to fund capital expenditure. This is of critical importance as the maintenance of a healthy liquidity position is a critical component of a financially sustainable municipality.

GRAPH 25: MINIMUM LIQUIDITY REQUIRED



As per **TABLE 6** below, the municipality is required to maintain sufficient cash reserves to cover the minimum liquidity requirements that include, unspent conditional grants, short-term provisions, funds, reserves and trust funds, as well as the working capital provision of one month's operating expenditure.

Knysna's unencumbered cash and cash equivalents of R23.6 million were insufficient to meet the minimum liquidity requirement of R128.5 million, resulting in a cash shortfall of R104.9 million. Knysna has posted cash shortfalls below the minimum liquidity requirement throughout the review period. The cash coverage ratio remained at an unsustainable 0.2:1 as at FYE2023/24. It is imperative that the municipality prioritises the improvement of the cash position through maintaining improved financial performance as well as through continuing to improve the collection rate.

TABLE 5: MINIMUM LIQUIDITY REQUIREMENTS

	2017	2018	2019	2020	2021	2022	2023	2024
Unspent Conditional Grants	4,9	10,3	32,6	8,8	8,2	6,5	3,3	2,7
Short Term Provisions	26,4	31,7	38,9	43,9	38,9	36,6	39,0	46,2
Funds, Reserves & Trust Funds (Cash Backed)	38,9	40,5	45,5	45,5	-	0,2	-	-
Total	**70,2**	**82,5**	**117,0**	**98,3**	**47,0**	**43,3**	**42,2**	**48,9**
Unencumbered Cash	97,8	68,8	59,9	68,5	37,4	34,0	20,4	23,6
Cash Coverage Ratio (excl Working Capital)	1,4	0,8	0,5	0,7	0,8	0,8	0,5	0,5
Working Capital Provision (1 Month's Opex)	52,1	53,6	60,4	63,0	64,2	68,6	73,6	79,7
Cash Coverage Ratio (incl Working Capital)	0,8	0,5	0,3	0,4	0,3	0,3	0,2	0,2
Minimum Liquidity Required	122,3	136,1	177,4	161,3	111,2	111,9	115,8	128,5
Cash Surplus/(Shortfall)	**(24,5)**	**(67,3)**	**(117,5)**	**(92,8)**	**(73,8)**	**(77,9)**	**(95,5)**	**(104,9)**

IPM Shadow Credit Score

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

Based on the FY2023/24 performance of Knysna, the IPM credit model reflects a score of **5.1** which is comparable to a BBB+ on a national ratings scale. This credit score is relatively low compared to other municipalities but is considered to be at **Investment Grade** level. This means the municipality should obtain competitive lending rates when approaching the market for financing.

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

TABLE 6: IPM Credit Model Outcomes

Modules	2024 (5)
Financial	1,8
Institutional	2,8
Socio-Economic	2,2
Infrastructure	3,7
Environmental	4,5

It is evident from the assessment that the financial module is the municipality's main impediment to achieving higher credit scores. Despite the improved financial performance, a lack of liquidity remains the main impediment to improving the score on this module. The municipality is encouraged to implement the recommendations included as part of this LTFP Update in order to build upon the improved financial performance noted during FY2023/24. This will enable the municipality to improve this score over time.

The municipality performed reasonably in the infrastructure module. This is linked to the maintenance of a reasonably high infrastructure index of 0.88, indicative of the ability to keep up with the rate of household formation. Additionally, reasonable levels of distribution losses contributed to this score, although the extent of the increase in water losses is of concern.

The unqualified audit opinion received during FY2023/24 assisted in improving the score received under the Institutional module. It is essential that the unqualified audit opinion is maintained going forward to avoid a deterioration in not only this module of the credit model but also the municipality's standing with financial institutions.

The relatively low score achieved under the socioeconomic module was predominantly driven by a lack of economic growth in the area. A compounding factor to this is that growth of the population has exceeded that of the economy in recent years, effectively resulting in an impoverishment of the local population.

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LONG-TERM FINANCIAL MODEL OUTCOMES

MTREF CASE SCENARIO

An MTREF Case was developed utilising the unadjusted figures from the February Adjustment Budget 2024/25-2026/27. The purpose of this scenario is to reflect the LTFM outcomes prior to making any adjustments to the current MTREF. In doing so, the collection rate was assumed to be 87.7% throughout the forecast period, as per the FY2023/24 AFS. While no adjustments were made to the capital investment programme or funding mix. Assumed growth beyond the MTREF period for both capital expenditure and borrowing is 6% & 4% p.a. respectively. Finally, distribution losses and repairs & maintenance expenditure to PPE & IP were maintained at their respective FY2023/24 levels.

The outcomes of this scenario as presented in TABLE 8 reflect a healthy forecast for financial performance, with operating surpluses forecast throughout the planning period. This is primarily driven by the improved outlook for financial performance included in the Adjustment Operating Budget. Analysis of the C-Schedule for January 2025 reflects a YTD surplus of R144.7 million. This suggests that the Adjustment Operating Budget, while reflecting a significant improvement on recent financial performance, is feasible. One concern to be noted is the reasonably low proportion of repairs and maintenance expenditure to the carrying value of PPE & IP. This must be increased from the current ratio of 3.1%. The strong forecast for financial performance is expected to translate into a healthy ability to generate cash from operations.

The liquidity position, while currently strained (liquidity ratio of 0.75:1 at FYE2023/24), is forecast to improve over the planning period. This is underpinned by the healthy forecast for financial performance and cash generation which drives strong growth in current assets which are primarily comprised of cash and cash equivalents. As evidenced in GRAPH 28 below, considerable year-on-year growth is forecast in cash and cash equivalents, with the planning period end balance forecast at R839 million. Current liabilities, primarily comprised of creditors, are forecast to grow year-on-year; however, this growth is forecast to be outpaced by growth in current assets. It is of slight concern that consistent growth in the creditors balance is forecast over the planning period. Nonetheless, the relative growth in current assets and liabilities will result in a healthy planning period end liquidity ratio of 2.6:1.

It is concerning that despite the forecast improvements in financial performance and liquidity, a cash shortfall on budgeted capital investment is forecast for FY2024/25. This is a product of the municipality's currently strained liquidity position and lack of cash and cash equivalents. For this to be avoided, either the budgeted level of capital investment for FY2024/25 will need to be reduced, or revenue collection will need to improve over the remainder of the year to cover the shortfall.

Overall, the MTREF Case scenario reflects strong financial performance and a sustainable long-term liquidity position. As discussed, the healthy forecast is dependent on the achievement of the level of financial performance as presented in the operating budget. The municipality is on its way to achieving this according to the YTD figures. This must be maintained for the remainder of the financial year.

A summary of the MTREF Case outcome is provided below:

Strengths:

- Strong forecast for financial performance.
- Strong ability to generate cash from operations.
- Healthy long-term liquidity position forecast.
- Scope to utilise combination of available liquidity & borrowing to optimise funding mix for productive infrastructure investment.

Weaknesses:

- Forecast growth in creditors.
- Reasonably low repairs and maintenance expenditure (3.1% of PPE).
- Cash shortfall on budgeted FY2024/25 capital investment.

BASE CASE SCENARIO

To develop a realistic Base Case model, the figures from the February Adjustment Budget 2024/25 – 2026/27 were used. The objective of the model is to utilise realistic assumptions to support future financial sustainability. The MTREF Case above reflects a sustainable long-term outcome. There are, however, areas that can be improved upon. These areas are addressed in the Base Case assumptions. The key assumptions are listed below:

1. A collection rate of 90% is assumed to be achieved within 3 years, whereafter it will remain at this level for the remainder of the planning period.
2. The model incorporated the increases in revenue and expenditure items as announced in the Adjustment Budget.
3. The MTREF capital investment programme was amended as follows:
    - FY2024/25: R90.0 million (Budget: R99.1 million)
    - FY2025/26: R105.0 million (Budget: R129.1 million)
    - FY2026/27: R110.0 million (Budget: R99.6 million)
    - FY2027/28: R117.5 million (Budget: N/A)

    Assumed growth beyond FY2027/28 is 8% p.a.
4. The following adjustments were made to the borrowing programme:
    - FY2024/25: R15.0 million (Budget: R3.6 million)
    - FY2025/26: R20.0 million (Budget: R37.7 million)
    - FY2026/27: R30.0 million (Budget: R16.0 million)
    - FY2027/28: R20.0 million (Budget: N/A)
5. The annual borrowing under this scenario was adjusted to an average of **13-year** amortising loans at a fixed interest rate equal to 8% over forecast CPI in any given year. Assumed annual growth in borrowing beyond FY2027/28 is 6%.
6. Repairs and maintenance expenditure was increased to 6.0% of PPE & IP from 3.1% over 5 years.
7. Electricity losses were maintained at 11.38%, while water distribution losses were reduced to 25.0% from 33.7% over 5 years.
8. Tariff increases were included as put forward in the Adjustment Budget Document for FY2024/25-FY2026/27.
9. Creditors days were reduced in order to mitigate the forecast rise in creditors in the MTREF Case.

In a similar vein to the MTREF Case, the forecast for financial performance is healthy and operating surpluses are forecast throughout the planning period. This is again influenced by the operating budget. As evidenced in **GRAPH 28** below, financial performance is forecast to decline over the MTREF period up to FY2028/29. The key drivers of this decline include the budgeted decline in financial performance over the MTREF period, as well as the increase in repairs & maintenance (R&M) expenditure. The increase in R&M expenditure to 6% of PPE & IP over the 5-year period is the predominant reason for the downward trend observed in **GRAPH 28**. The extent of this increase is evident in **GRAPHS 27 & 29** below. Relative to the MTREF Case, the Base Case includes an additional R421.6 million in R&M expenditure over the planning period, with R139.8 million additional expenditure being incurred over the first half of the planning period. Once the 6% ratio has been achieved by FYE2028/29, financial performance will begin to trend upwards for the remainder of the planning period. An increase in the level of R&M expenditure, coupled with maintaining capital investment at adequate levels is deemed critical given Knysna's well-documented service delivery struggles. Further to this, the additional expenditure will assist in reducing the municipality's high water losses.

Knysna is forecast to take advantage of the improved financial performance and generate substantial cash from operations over the planning period. A cumulative R1.01 billion in cash is forecast to be generated by operations over the planning period. This is underpinned by the improved financial performance as well as the improved collection rate. It is imperative that the municipality achieves and maintains a collection rate in excess of 90%, with further improvements targeted thereafter. A concern that was noted in previous LTFP Updates was that the municipality was generating cash from operations through working capital management, specifically non-payment of creditors. This is an unsustainable practice and as such, remains a key factor to be addressed. The forecast rise in creditors in the MTREF Case presented a red flag and thus necessitated a reduction of creditors days in the Base Case. Comparison of **GRAPHS 34 & 36** below indicate that the desired outcome has been achieved, with the Base Case creditors balance reflecting a substantial reduction from the MTREF Case. This has been achieved without hindering the municipality's ability to generate cash from operations. It must be noted that the importance of maintaining a collection rate of at least 90% cannot be over-emphasised. It is essential that the reduction of the municipality's creditors balance is prioritised.

The MTREF Case presents an incredibly healthy forecast for cash and cash equivalents, with a planning period end balance of R839 million forecast. This exceeds the Base Case forecast of R299 million by a considerable margin. While this may seemingly raise concerns over the desirability of implementing the Base Case, these concerns are easily alleviated once the reasoning for this disparity is understood. The MTREF Case, while presenting a sustainable long-term outcome, leaves a few critical items unaddressed, namely the lack of R&M expenditure as well as insufficient payment of creditors. These factors have been addressed in the Base Case. While growth in current assets in the MTREF Case is expected to outpace that of the Base Case, the same is true for current liabilities. As evidenced in **GRAPHS 31 & 34**, current liabilities will see consistent growth over the planning period. When looking at the Base Case (**GRAPHS 33 & 36**), we note that the forecast growth in current liabilities is curtailed to such an extent that we are able to in fact achieve a reduction in current liabilities by the end of the planning period. This results in reasonably similar planning period end liquidity ratios of 2.6:1 & 2.4:1 in the MTREF & Base Cases respectively. It is our view that the Base Case presents a more sustainable liquidity position, albeit with a lower liquidity ratio, due to the notable reduction in current liabilities. In addition, other factors such as accelerated capital investment as well as increased R&M expenditure will leave the municipality in a healthier situation when viewed through a holistic lens.

The Base Case presents a reduced capital investment programme compared to the Adjustment Budget. This has been done in order to limit the utilisation of own cash to fund capital investment with the aim of stabilising the liquidity position over the short-term. Once the liquidity position improves, the extent of own cash reserves included in the funding mix can be accelerated. The Base Case capital programme and funding mix will be discussed in more detail in Section 6 of this report.

The Base Case aims utilise realistic and achievable assumptions in order to promote the long-term sustainability of the municipality. The strengths of the MTREF Case have largely been maintained, while the weaknesses identified have been addressed to a large extent. It must be emphasised that the credibility of the Base Case outcome is dependent on the municipality successfully implementing the Base Case assumptions. Analysis of the YTD financial performance suggests that the Base Case financial performance targets are achievable. It is critical that this remains so, while an improvement in the collection rate to 90% must similarly be achieved. Failure to do so will likely necessitate a reduction in the borrowing and capital investment programmes, or alternatively a reduction in R&M expenditure.

Strengths:

- Strong forecast for financial performance.
- Healthy repairs and maintenance expenditure.
- Strong ability to generate cash from operations.
- Reduction of current liabilities over long-term.
- Healthy liquidity position forecast.
- Sustainable acceleration of capital investment relative to MTREF Case & historic performance.
- Adequately leveraged & sustainable debt profile.

Weaknesses:

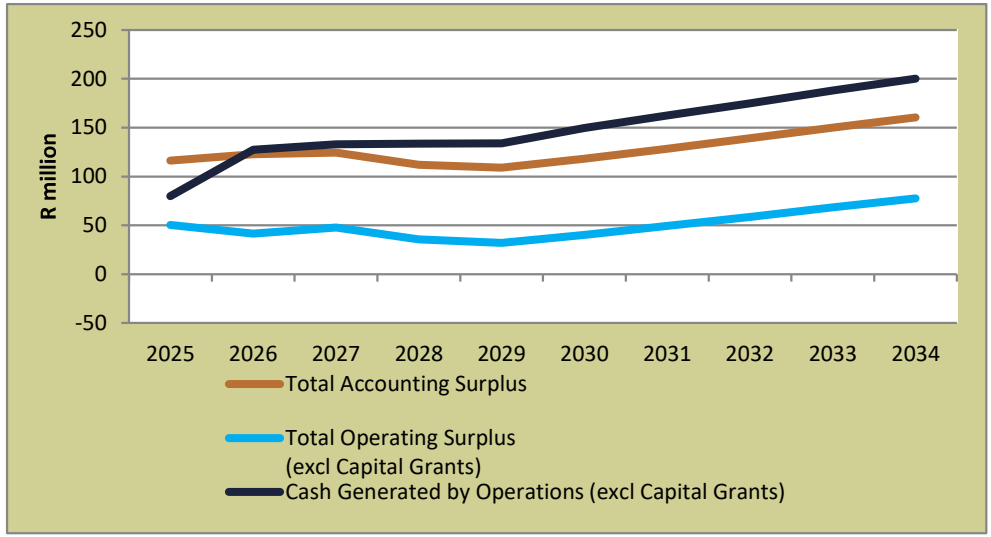
- Reduced ability to generate cash from operations relative to MTREF Case.
- Reduced cash position relative to MTREF Case.
- Higher average growth in expenditure relative to MTREF Case.

It must be noted that the weaknesses of the Base Case outcome relative to the MTREF Case are driven by the very factors that strengthen the sustainability of the municipality's financial position and asset base. These factors include the increased repairs and maintenance expenditure and importantly, consistent payment of creditors which enables a reduction of current liabilities over the long term. With this in mind, IPM is of the view that the Base Case presents a more sustainable outcome when the multitude of factors that characterise a healthy and sustainable municipality are considered.

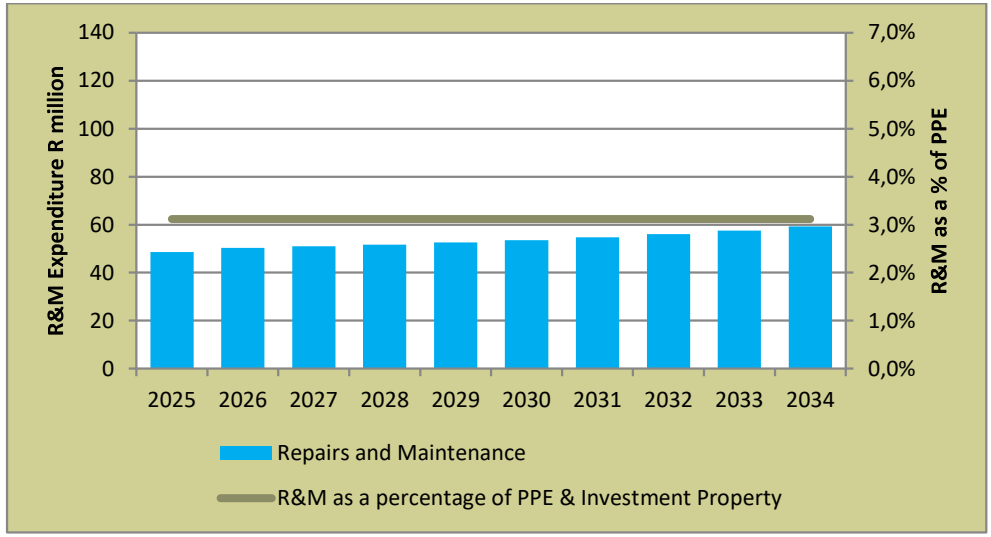
TABLE 8: MTREF CASE VS BASE CASE OUTCOMES

Outcome	MTREF Case	Base Case
Average annual % increase in Revenue	4,7%	4,7%
Average annual % increase in Expenditure	3,9%	4,3%
Accounting Surplus accumulated during Planning Period (Rm)	R 1 280	R 986
Operating Surplus accumulated during Planning Period (Rm)	R 501	R 207
Cash generated by Operations during Planning Period (Rm)	R 1 483	R 1 014
Average annual increase in Gross Consumer Debtors	9,0%	7,4%
Capital investment programme during Planning Period (Rm)	R 1 214	R 1 353
External Loan Financing during Planning Period (Rm)	R 189	R 233
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 839	R 299
No of Months Cash Cover at the end of the Planning Period (Rm)	7,3	2,5
Liquidity Ratio at the end of the Planning Period	2.6 : 1	2.4 : 1
Gearing at the end of the Planning Period	5,6%	9,2%
Debt Service to Total Expense Ratio at the end of the Planning Period	2,3%	2,2%

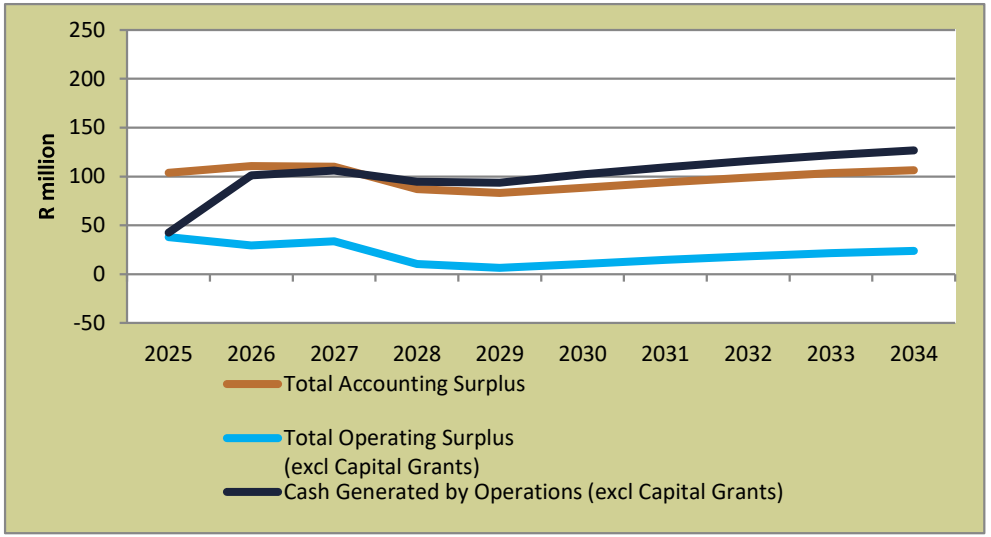
GRAPH 26: MTREF CASE SCENARIO: ANALYSIS OF SURPLUS



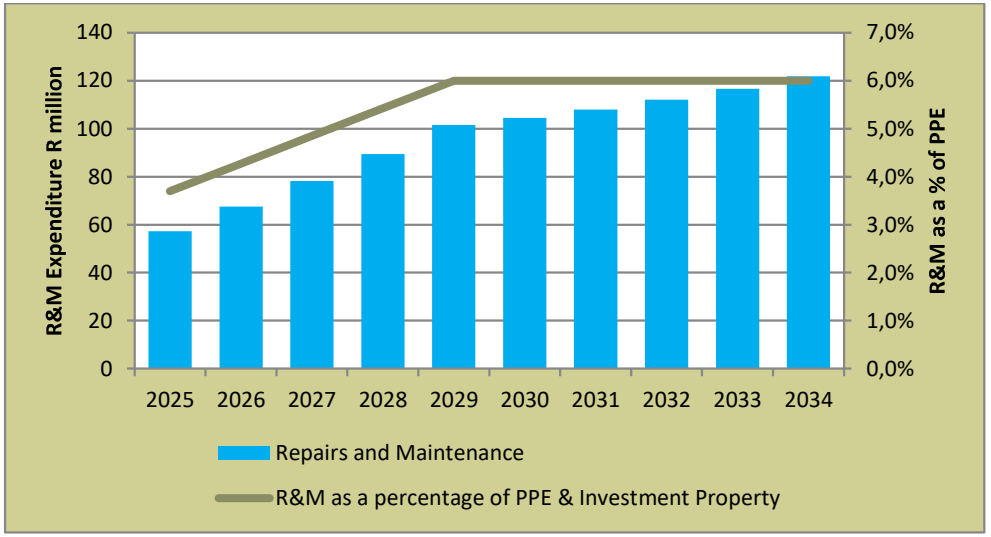
GRAPH 27: MTREF CASE SCENARIO: R&M EXPENDITURE TO PPE & IP



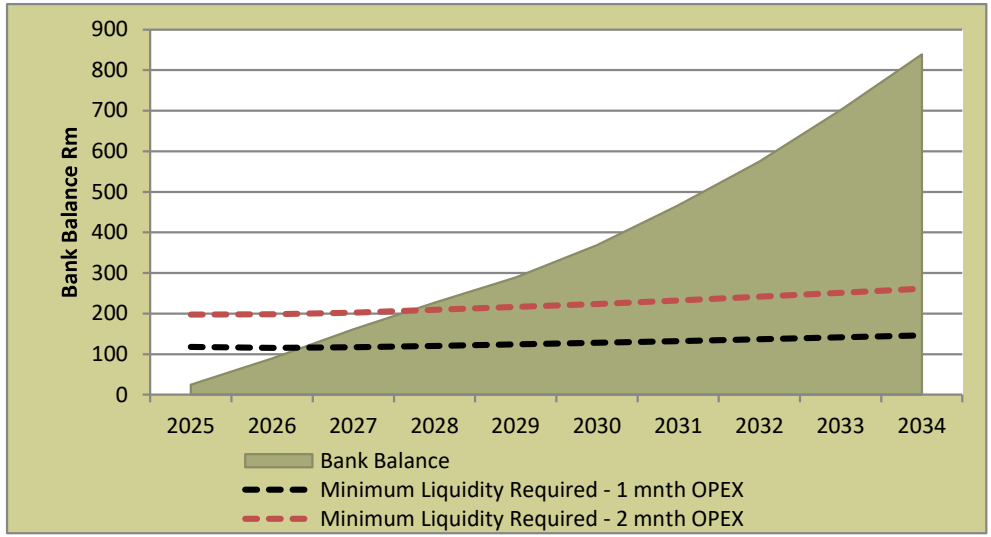
GRAPH 28: BASE CASE SCENARIO: ANALYSIS OF SURPLUS



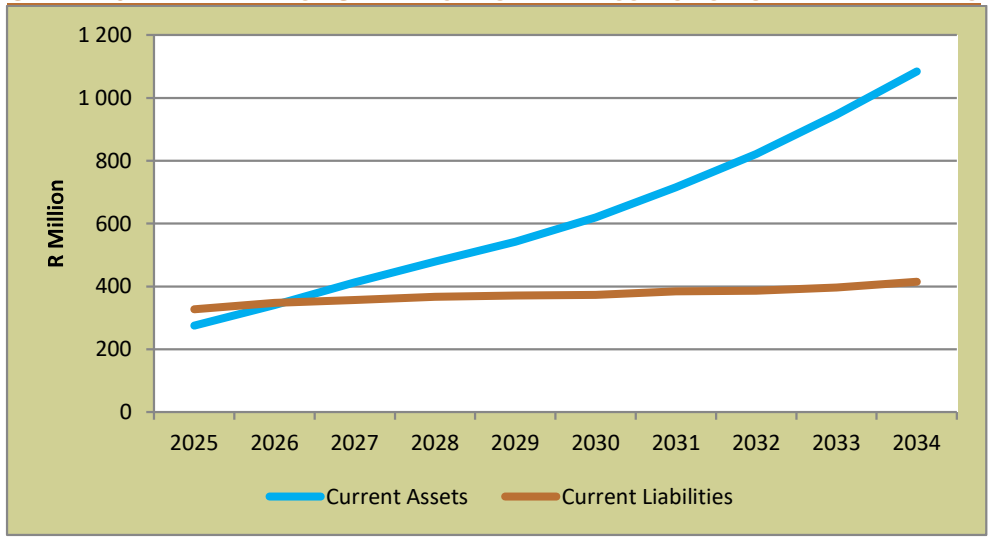
GRAPH 29: BASE CASE SCENARIO: R&M EXPENDITURE TO PPE & IP



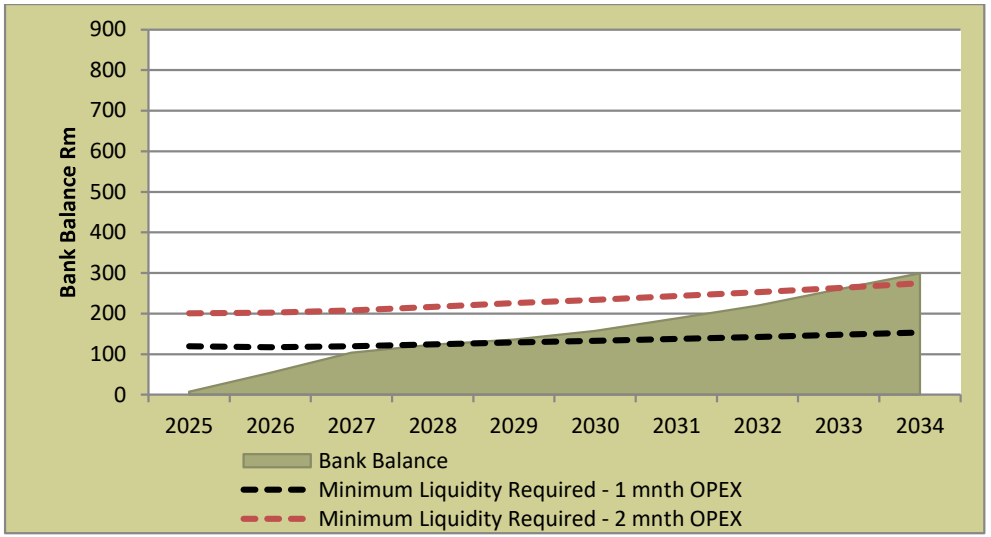
GRAPH 30: MTREF CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY



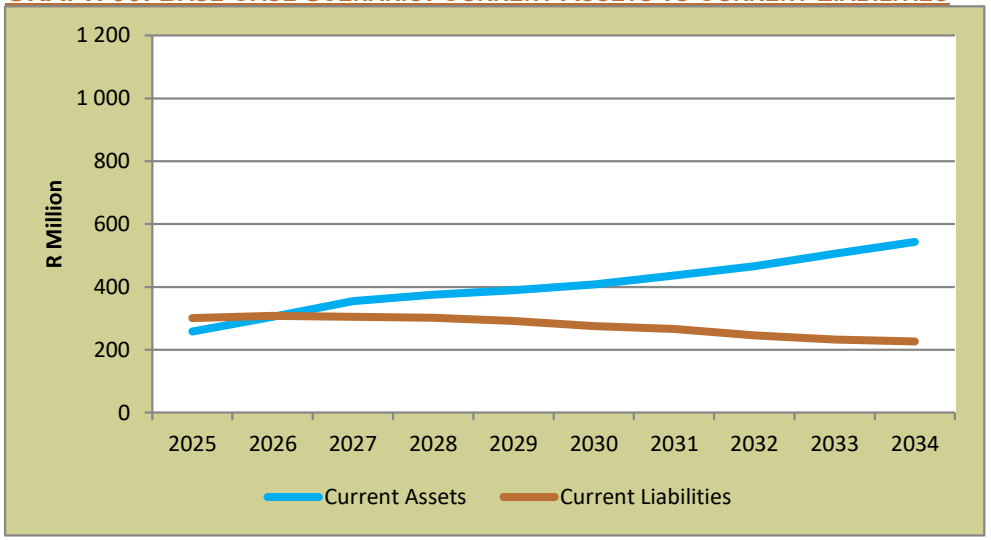
GRAPH 31: MTREF CASE SCENARIO: CURRENT ASSETS VS CURRENT LIABILITIES



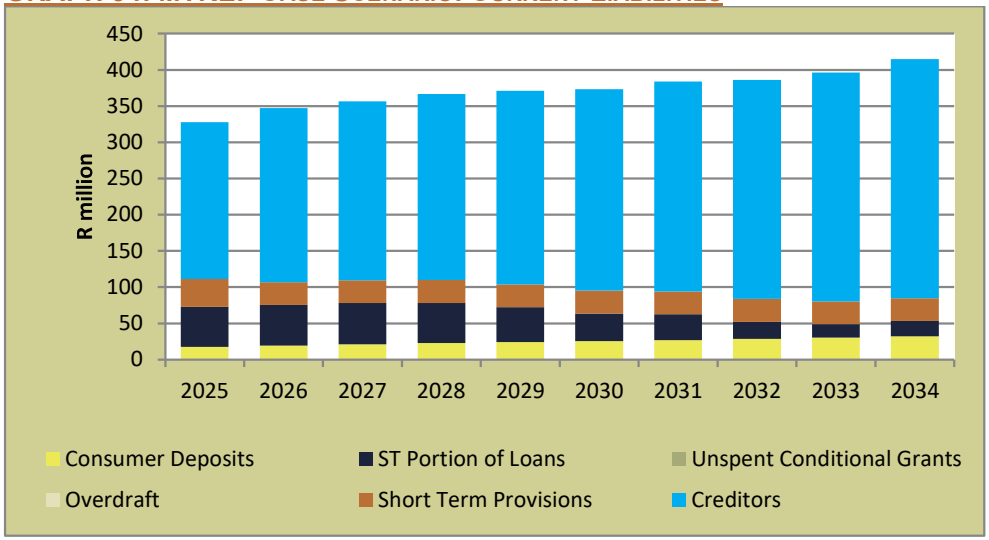
GRAPH 32: BASE CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY



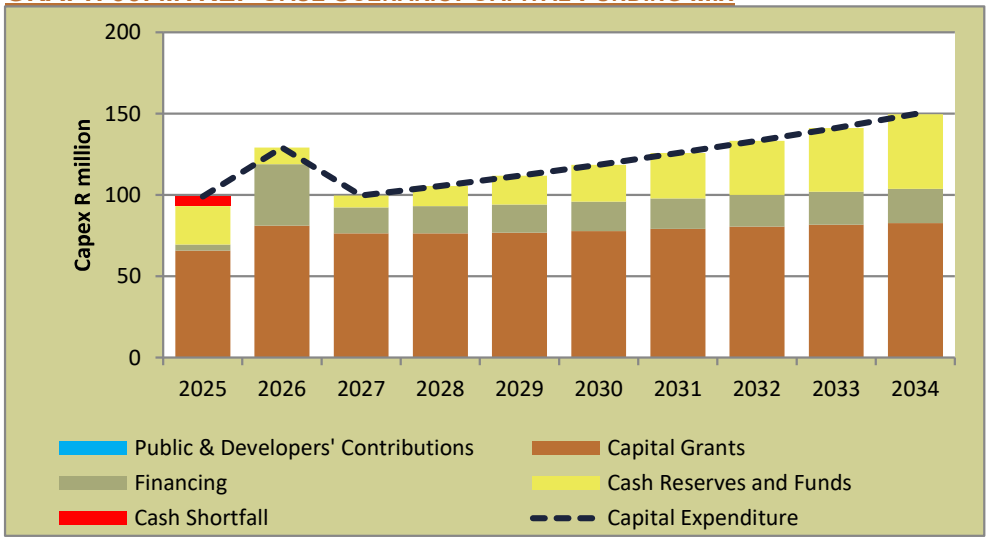
GRAPH 33: BASE CASE SCENARIO: CURRENT ASSETS VS CURRENT LIABILITIES



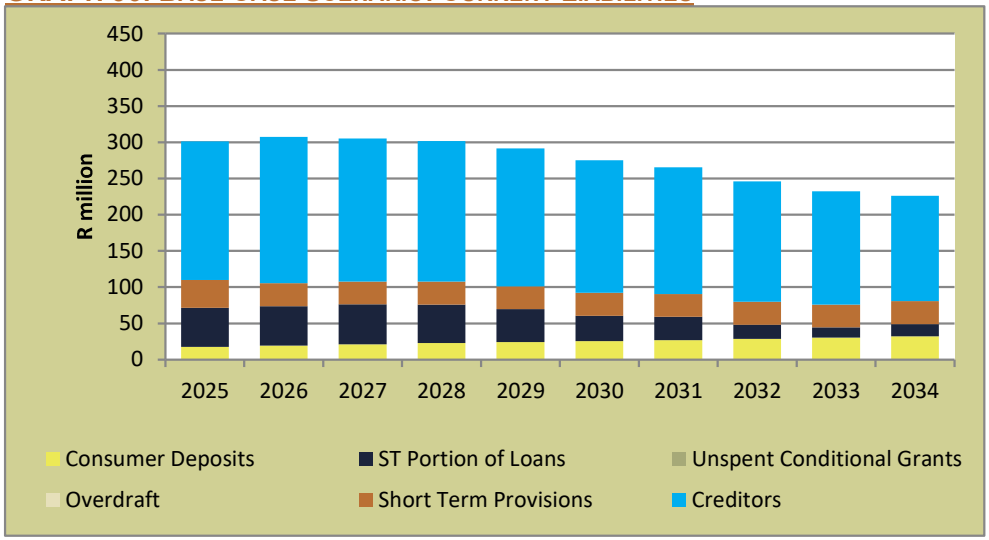
GRAPH 34: MTREF CASE SCENARIO: CURRENT LIABILITIES



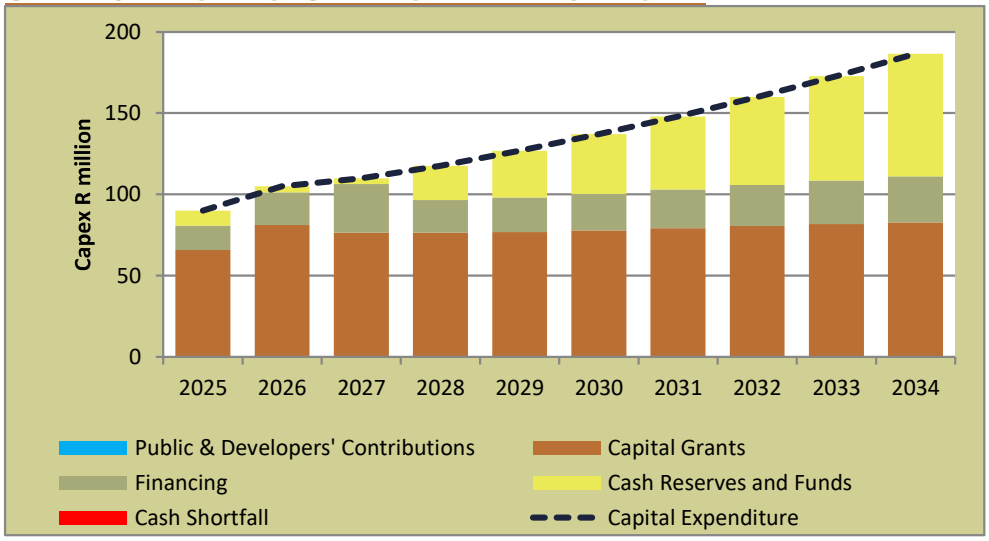
GRAPH 35: MTREF CASE SCENARIO: CAPITAL FUNDING MIX



GRAPH 36: BASE CASE SCENARIO: CURRENT LIABILITIES



GRAPH 37: BASE CASE SCENARIO: CAPITAL FUNDING MIX



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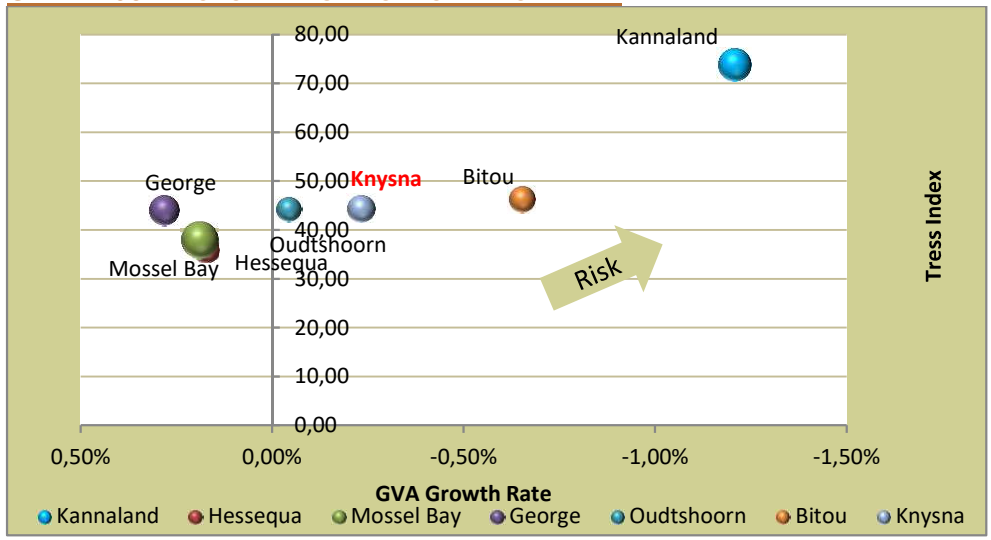
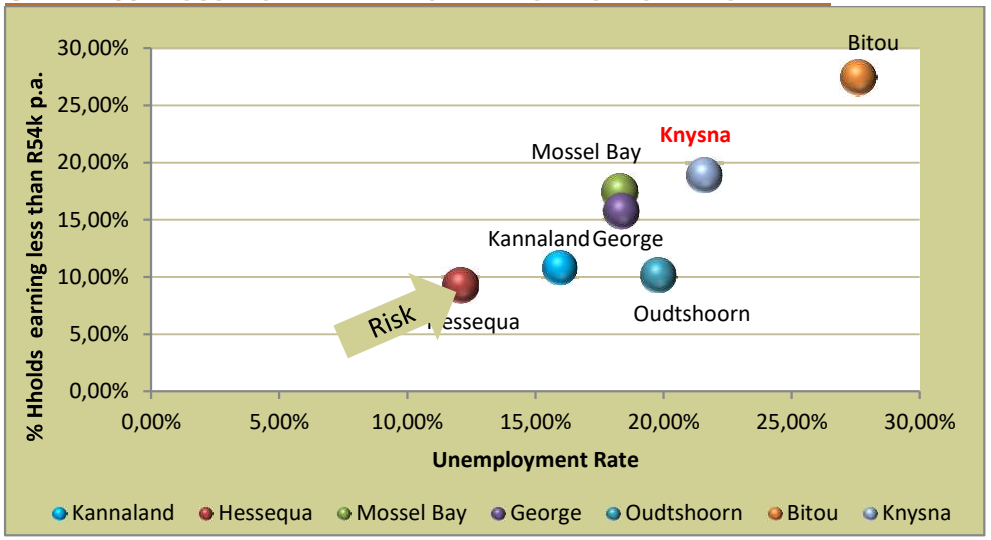
FUTURE REVENUES

MUNICIPAL REVENUE RISK INDICATOR (MRRI) = "HIGH"

GRAPH 38: ECONOMIC RISK COMPONENT OF MRRI



GRAPH 39: HOUSEHOLD ABILITY TO PAY RISK COMPONENT OF MRRI



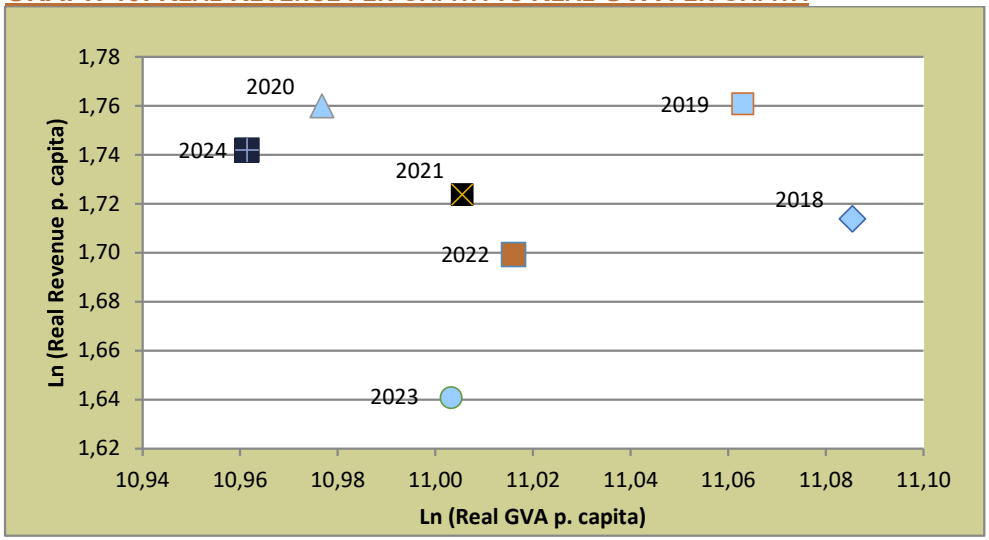
The Municipal Revenue Risk Indicator (MRRI) measures the risk of the municipality's ability to generate its own revenues. This is a function of the economy (size of the economy as measured by GVA per capita, GVA growth rate and Tress Index); and the household ability to pay (measured by percentage of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

Knysna's economy has been stagnant in recent years, as evidenced by the 5-year annual average GVA growth rate of -0.06%. This is well exceeded by the population growth rate of 1.42% p.a. over the same period. GVA per capita of R58 919 in 2023, but despite the reasonably high degree of economic diversification contribute to the "**Medium to High**" rating on the economic risk component of the MRRI. This is predominantly attributable to a lack of economic growth.

The percentage of indigent households reliant on support of 18.94%, the official unemployment rate of 21.58% and the human development index of 0.73 resulted in a **"High"** rating on the household ability to pay risk component of MRRI. The driving force behind this rating is the high rate of unemployment. Knysna is in the on the higher end of risk in relation to some of the other municipalities in the district.

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

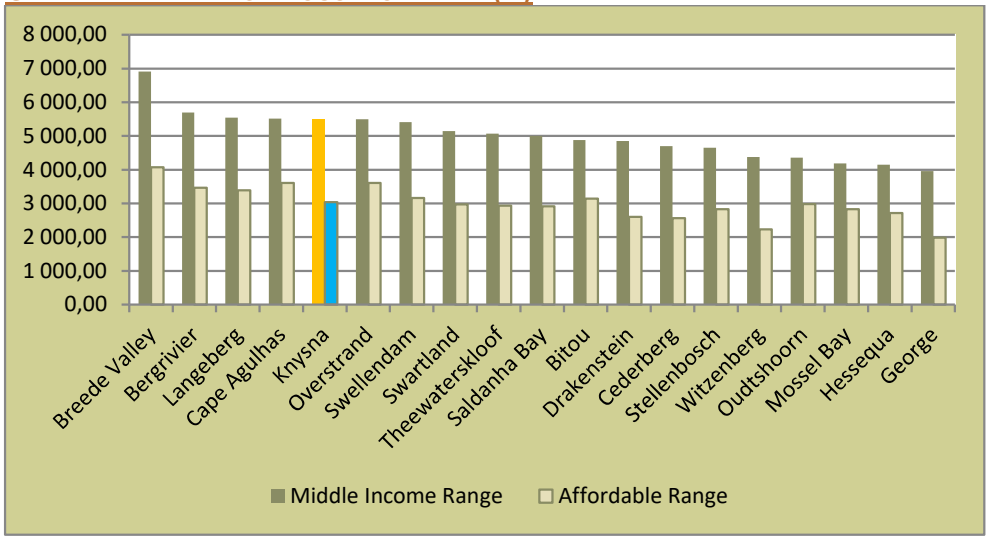
GRAPH 40: REAL REVENUE PER CAPITA VS REAL GVA PER CAPITA



Real municipal revenue (excluding capital transfers) per capita reflects a declining trend from the high point in 2020 until 2023. This was reflected in the deterioration of financial performance over this period. A notable improvement was observed during 2024 as financial performance improved. GVA per capita has steadily declined over the review period, with minor improvements noted in 2021 & 2022 following the severe contraction pursuant to Covid-19. The improvements in 2021 & 2022 are more representative of the extent of decline observed in 2020 than actual economic growth. This is further reflected in the subsequent declines in 2023 & 2024.

It is imperative that the municipality begins to foster and enabling environment for economic growth within the municipal area. The stagnant economy requires stimulation which can be achieved through investment in productive assets. Improvements to service delivery will assist in manifesting a perception of the municipality being an attractive destination for capital to be invested. This must be a priority for the municipality as the ripple effects of economic growth can be exponential.

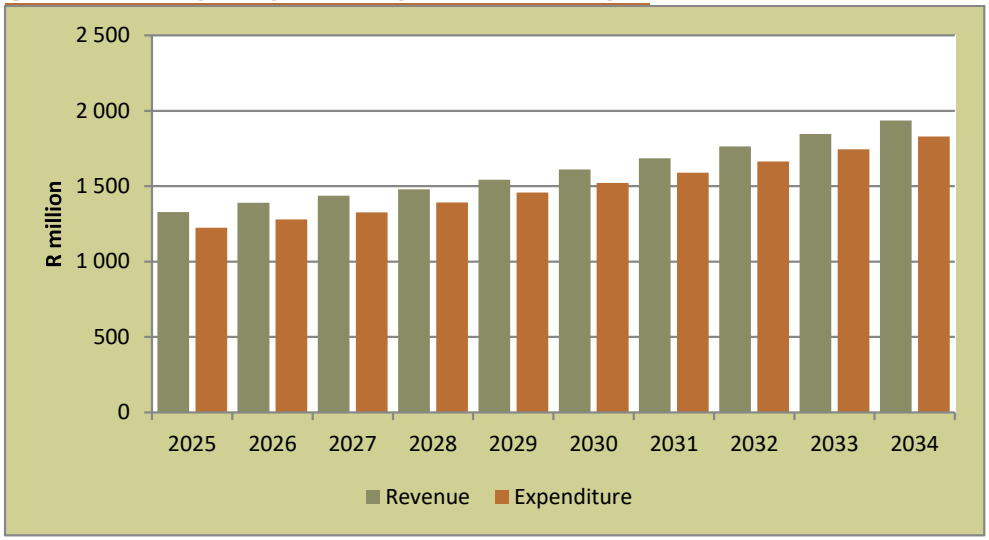
GRAPH 41: AVERAGE HOUSEHOLD BILL (R)



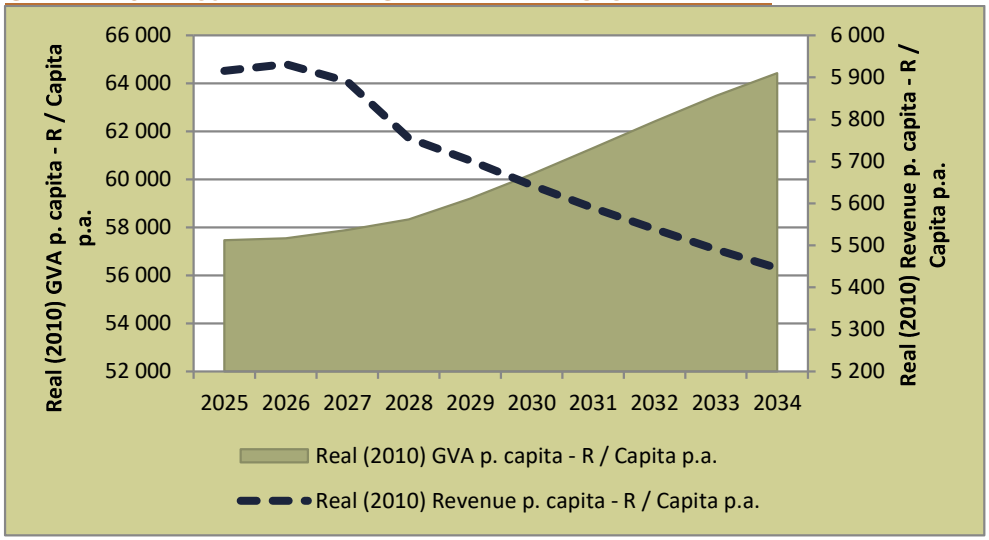
A comparison of the average household bill for the middle income and affordable income range of a selected number of municipalities in the Western Cape province (extracted from Budget Table: SA14) based on the 2023/24 tariffs, reveals that Knysna LM features in the top half of the range. Considering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

MUNICIPAL REVENUES

GRAPH 42: BASE CASE: REVENUE AND EXPENDITURE



GRAPH 43: PROJECTED REAL GVA AND REVENUES PER CAPITA



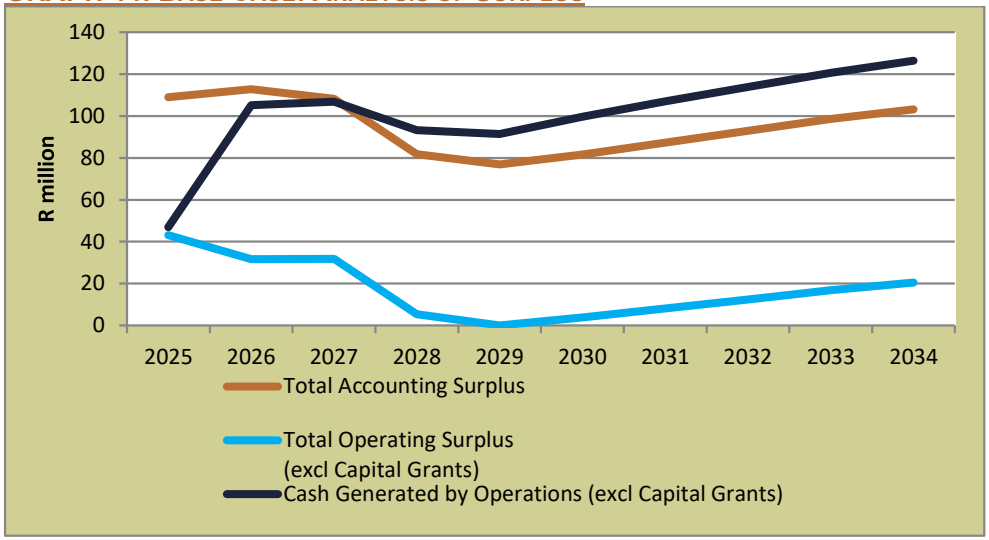
The Base Case estimates that, over the planning period, future nominal revenue (including capital grants) will grow at an average rate of 4.7% p.a. This growth in revenue includes: (i) tariff increases, (ii) increased sales and (iii) additional revenue sources. Future nominal expenditure is estimated to grow at a marginally lower rate of 4.3% over the same period.

GRAPH 44 below indicates that Knysna is forecast to post operating surpluses throughout the planning period. While this is contrary to the historic performance and underpinned by an aggressive operating budget, analysis of the YTD figures suggest that these levels of financial performance are feasible. A decline in financial performance is forecast over the MTREF period, largely due to an increase in repairs and maintenance expenditure, however, year-on-year improvements are forecast from FY2028/29 onwards. Electricity services are forecast to remain the predominant revenue item, followed by property rates. Looking at expenditure, staff costs are forecast to remain the predominant expenditure item, followed by electricity bulk purchases.

Real GVA per capita is forecast to increase significantly over the planning period, with this figure forecast to rise from R57 608 in 2024 to R64 424 in 2034 for a total increase of 11.8%. Real revenue per capita is forecast to decline over the planning period from R5 709 in 2024 to R5 446 in 2034, for a total decline of 4.6%. This is concerning to note.

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

GRAPH 44: BASE CASE: ANALYSIS OF SURPLUS



The municipality is forecast to generate cash from operations throughout the planning period. Year-on-year growth is forecast from FY2028/29 onwards. A cumulative R1.01 billion in cash is forecast to be generated by operations over the planning period. This is underpinned by the improved collection rate, healthy forecast financial performance and despite the modelling of consistent payment of current and historic creditors and additional debt service charges underpinning accelerated capital investment. It is essential that the municipality combines revenue growth with stringent management of operating expenditure. The cost containment measures implemented during FY2023/24 must be built upon and maintained going forward in order for the municipality to sustain improved financial performance. This will allow the municipality to build its liquidity reserves, which must be the main priority for the municipality.

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AFFORDABLE FUTURE CAPITAL INVESTMENT

CAPEX AFFORDABILITY AND FUNDING

The total affordable capital envelope was calculated at R1 353 million for the period FY2024/25-FY2033/34. This figure was arrived at after employing an optimised funding mix that underpins the capital investment programme. The acceleration of capital investment has been balanced with the municipality's long-term sustainability.

TABLE 9: CAPEX AFFORDABILITY

Total 10-year CAPEX **Affordability:**	=	R 1 353 million

MTREF CAPITAL FUNDING MIX

Knysna's Adjustment Budget FY2024/25 to FY2026/27 expects a capital budget amounting to R328 million, funded as follows:

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

R'm	Total	2024/25	2025/26	2026/27
Public & Developers Contributions	**0**	0	0	0
Capital Grants	**224**	66	81	76
Financing	**58**	4	38	16
Cash Reserves and Funds	**41**	24	10	7
Total	**328**	**99**	**129**	**100**

10-YEAR CAPITAL FUNDING MIX

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

TABLE 11: BASE CASE 10-YEAR CAPITAL FUNDING MIX

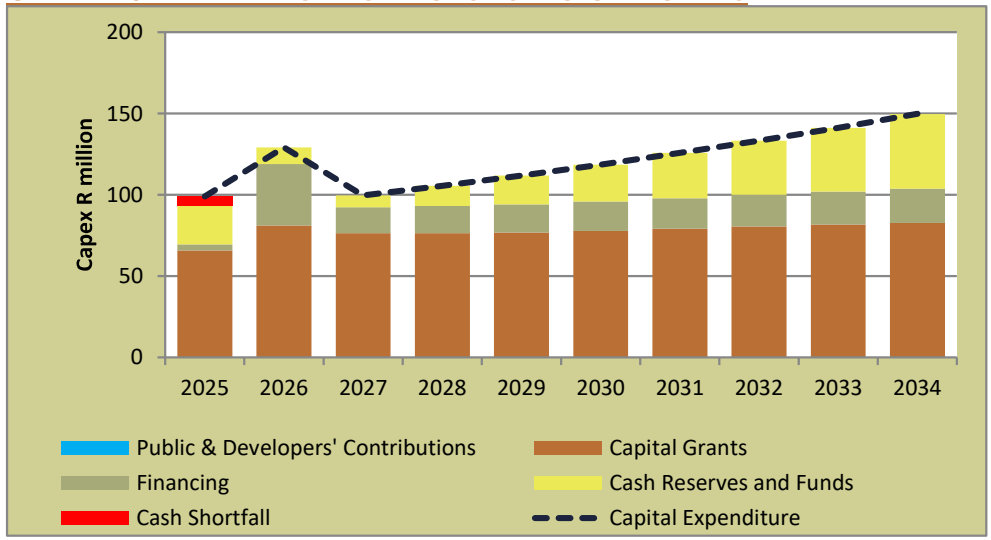
Source	Rm	%
Public & Developers' Contributions	0	0%
Capital Grants	779	58%
Financing	233	17%
Cash Reserves and Funds	342	25%
Cash Shortfall	0	0%
Capital Expenditure	**1 353**	**100%**

Knysna has historically employed an optimised funding mix. Capital grants accounted for 50% of historic capital funding, followed by 43% from borrowings and the remaining 7% emanating from cash reserves. This is considered optimal as it incorporates consistent, affordable borrowings to support capital grant funding and ultimately limit the extent of own cash reserves utilised to fund capital expenditure. This is a particularly optimal strategy given the current and historic liquidity constraints that has plagued Knysna. The qualified audit opinion received during FY2022/23 precluded borrowing as a funding source, resulting in an increase in the extent of own cash utilised to fund capital investment. However, the return to an unqualified audit opinion once again opens the door to incorporate borrowings into the funding mix. This, if balanced with affordable utilisation of own cash, will enable an accelerated capital investment programme to be implemented whilst simultaneously allowing the liquidity position to stabilise.

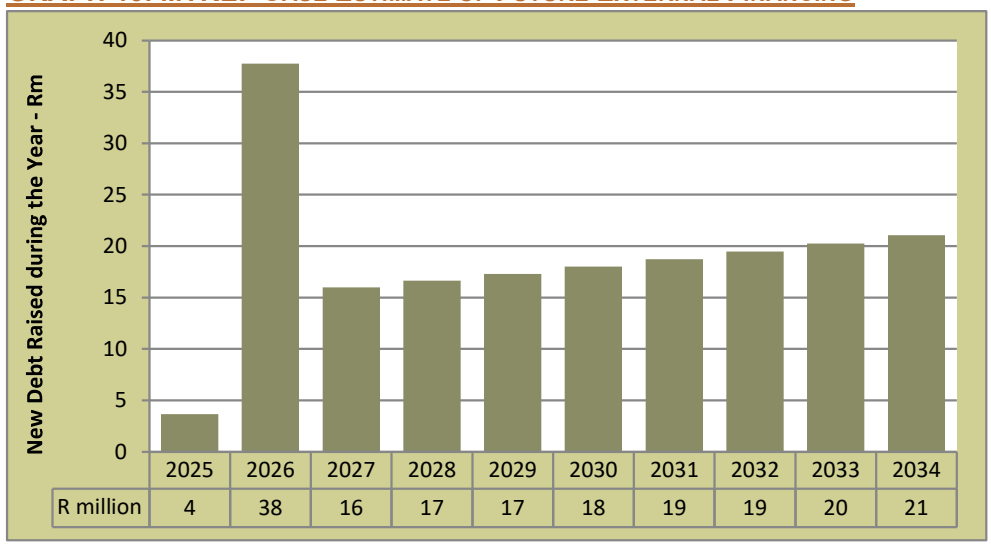
The MTREF Case presents the Adjustment Capital Budget as put forward. GRAPH 45 below suggests that the current lack of liquidity will render the FY2024/25 budgeted capital investment unaffordable. The municipality will need to either reduce the level of capital investment or include additional borrowings to cover this shortfall. The Base Case presents an accelerated borrowing programme that will enable this shortfall to be covered, whilst prioritising the stabilisation of the liquidity position. This must be prioritised.

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

GRAPH 45: MTREF CASE DISTRIBUTION OF FUTURE FUNDING



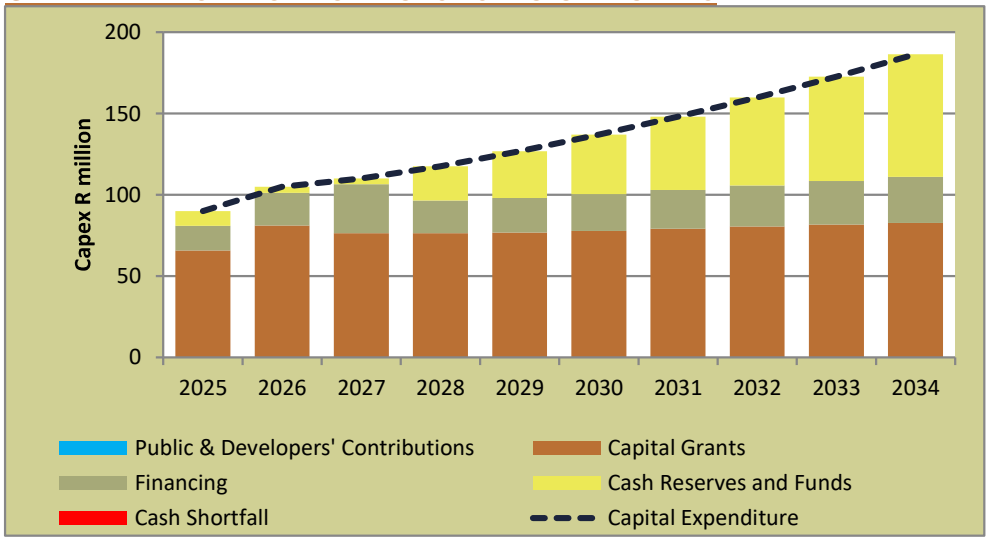
GRAPH 46: MTREF CASE ESTIMATE OF FUTURE EXTERNAL FINANCING



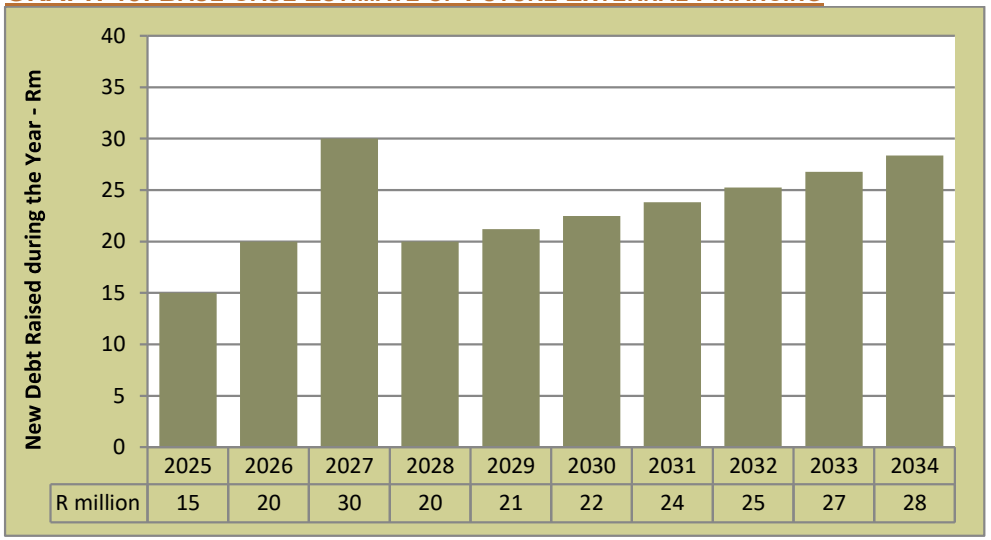
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
R million	4	38	16	17	17	18	19	19	20	21

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

GRAPH 47: BASE CASE DISTRIBUTION OF FUTURE FUNDING



GRAPH 48: BASE CASE ESTIMATE OF FUTURE EXTERNAL FINANCING



	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
R million	15	20	30	20	21	22	24	25	27	28

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

R'm	Total	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public & Developers' Contributions	**0**	0	0	0	0	0	0	0	0	0	0
Capital Grants	**779**	66	81	76	76	77	78	79	81	82	83
Financing	**189**	4	38	16	17	17	18	19	19	20	21
Cash Reserves and Funds	**240**	24	10	7	12	18	23	28	33	39	46
Cash Shortfall	6	6	0	0	0	0	0	0	0	0	0
Capital Expenditure	**1 214**	**100**	**129**	**100**	**106**	**112**	**119**	**126**	**133**	**141**	**150**

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

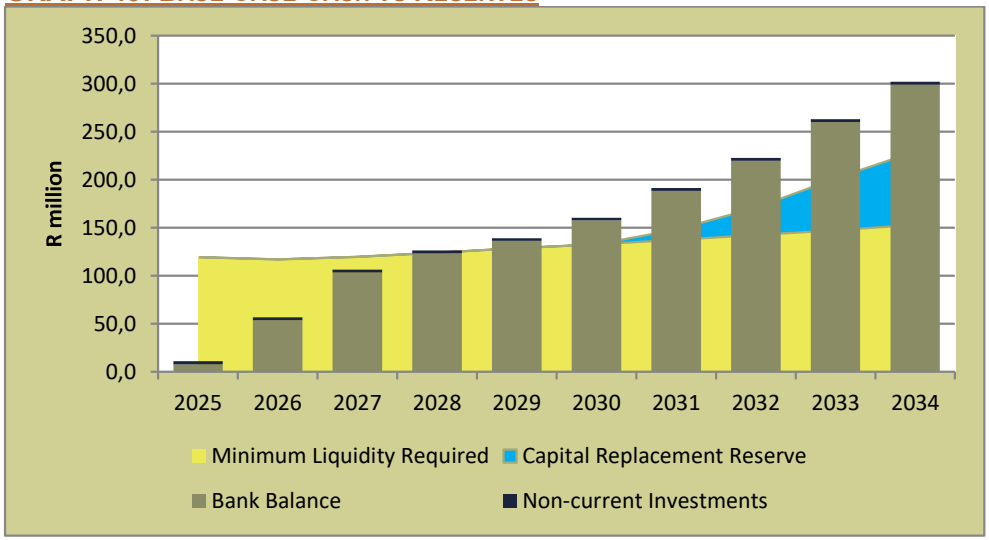
R'm	Total	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public & Developers' Contributions	**0**	0	0	0	0	0	0	0	0	0	0
Capital Grants	**779**	66	81	76	76	77	78	79	81	82	83
Financing	**233**	**15**	**20**	**30**	**20**	**21**	**22**	**24**	**25**	**27**	**28**
Cash Reserves and Funds	**342**	**9**	**4**	**4**	**21**	**29**	**37**	**45**	**54**	**64**	**75**
Cash Shortfall	**0**	**0**	0	0	0	0	0	0	0	0	0
Capital Expenditure	**1 353**	**90**	**105**	**110**	**118**	**127**	**137**	**148**	**160**	**173**	**186**

LIQUIDITY AND CAPITAL REPLACEMENT RESERVE

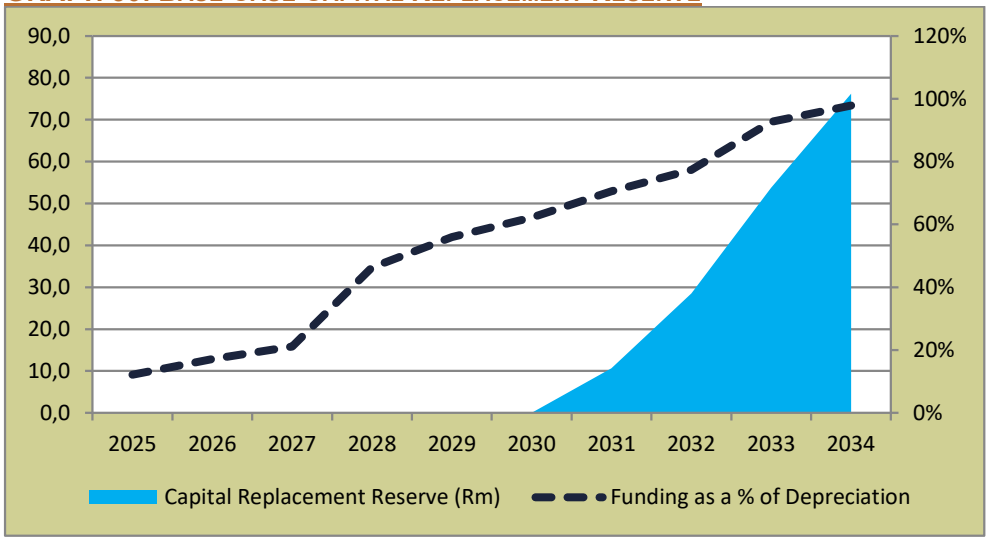
The minimum liquidity levels cater for unspent conditional grants, cash-backed reserves, short-term provisions and 1-month's working capital (operating expenditure). Liquidity is forecast to be sufficient to cover 1-month's operating expenditure from FY2027/28 onwards. Year-on-year growth in cash and cash equivalents is forecast throughout the planning period. This is facilitated through reducing the extent of own cash utilised to fund capital investment over the short-term. As evidenced in TABLE 13, limited own cash (R17 million) is included in the capital funding mix during the MTREF period. This is a key factor in the Base Case strategy that prioritises the stabilisation of the liquidity position over the short-term. The borrowing programme further underpins this through enabling capital investment to remain at reasonable levels, whilst limiting the need for own cash to be utilised. Priority must be given to stabilising the liquidity position through a combination of building up cash reserves as well as curtailing growth and ultimately reducing current liabilities.

It would be prudent for the municipality to service a capital replacement reserve to prepare for the future capital projects. However, servicing a CRR is only feasible once liquidity has reached a sustainable level whereby current obligations can be met. This is depicted in GRAPH 49. Although the minimum liquidity requirement of 1-month's opex will be met from FY2027/28 onwards, Knysna will only be able to begin servicing the CRR from FY2030/31 onwards. It is recommended that the annual depreciation charge it utilised as a guideline as to the annual contribution to the CRR. However, the extent of Knysna's liquidity is forecast to prove insufficient to contribute the full depreciation charge to the CRR. Nonetheless, a total contribution of R169.1 million between FY2031/32-FY2033/34 is deemed affordable.

GRAPH 49: BASE CASE CASH VS RESERVES



GRAPH 50: BASE CASE CAPITAL REPLACEMENT RESERVE



GEARING

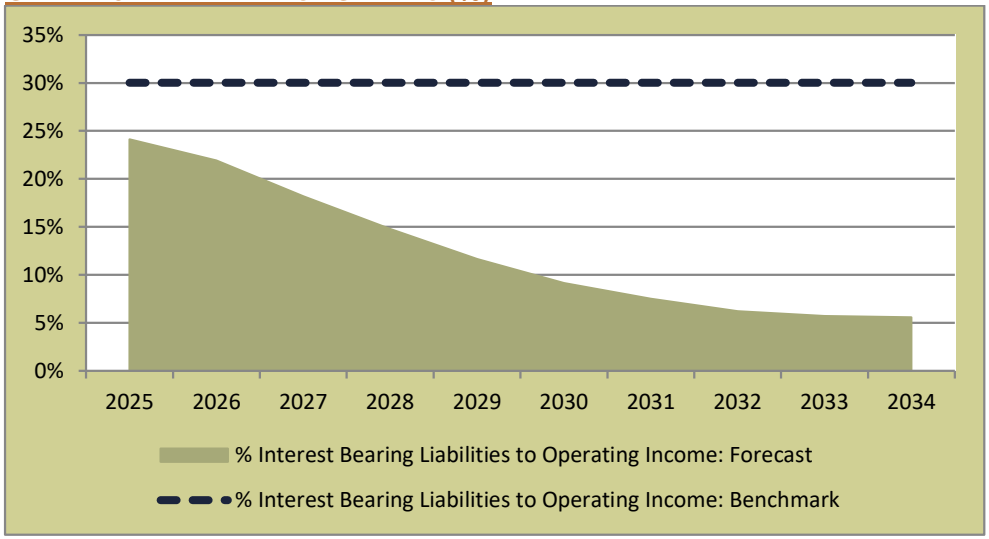
The MTREF Case assumes the borrowing programme as presented in the Adjustment Budget will be implemented over the MTREF period, with annual growth thereafter at 4%. The interest rate on new debt is assumed to be 8% above forecast CPI in any given year, while the average loan tenor on new debt is assumed to be 10 years. The reasonably modest borrowings over the MTREF period, compared to historical standards, are forecast to result in a deleveraging of the debt profile over the planning period. The gearing and debt service to total expense ratios are forecast to reduce from their current levels of 30.4% & 4.7% respectively to 7.0% & 2.3% by the end of the planning period. IPM recommends maximum levels for the gearing and debt service to total expense ratio of 30% and 7% respectively. As evidenced by these figures and **GRAPHS 51 & 52** below, the debt profile is forecast to remain sustainable. However, scope remains to accelerate borrowings from the MTREF Case level in a sustainable manner. This is particularly so given the positive forecast for the liquidity position, which will render the municipality able to absorb the additional debt service charges. This has informed the strategy underlying the Base Case capital funding mix.

The Base Case presents a reduced capital investment programme over the MTREF period. The strategy behind this decision is to promote the stabilisation of the liquidity position through limiting the extent of own cash incorporated into the funding mix. The Base Case presents a reasonably modest borrowing programme that has been developed with the aim of allowing capital investment to remain at adequate levels without overburdening the liquidity position with extensive debt service charges. The levels of borrowing over the MTREF aim to cover the shortfall provided by the reduction of own cash reserves included in the capital funding mix.

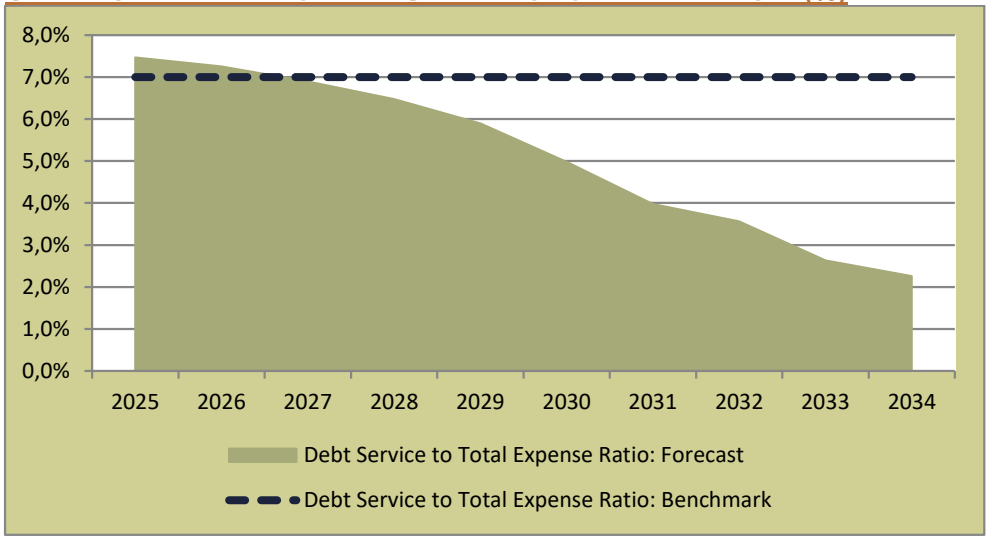
The MTREF Case interest rate of 8% above forecast CPI has been maintained. An additional change from the MTREF Case is the incorporation of an average loan tenor of 13 years. This has been adjusted to reflect the need for long-term bulk infrastructure to be financed over a longer period due to the extended useful lives. A byproduct of this is reduced annual debt service charges which in turn provides liquidity benefits. An additional R44 million in borrowings has been included from the MTREF Case. Despite the additional borrowings, the debt profile is forecast to remain sustainable. This is evidenced by the planning period end gearing and debt service to total expense ratios of 9.2% & 2.2% respectively. This is representative of a sustainable debt profile.

The Base Case presents a total affordable envelope of R1.35 billion over the 10-year planning period. This equates to an average capital outlay of R135 million p.a. This exceeds the historic average capital outlay of R121 million p.a. by a reasonable margin. This is underpinned by the Base Case borrowing programme. Furthermore, it must be stated that the viability of the Base Case capital investment programme is dependent on the achievement of the Base Case assumptions and level of financial performance. The Base Case capital investment programme in conjunction with the increased expenditure on repairs and maintenance is likely to result in an improvement in the integrity of the municipality's asset base and consequently, allow the municipality to improve the level of service delivery within the municipality. It is recommended that a capital prioritisation exercise is conducted to ensure that the allocation of the funds within the affordable capital envelope are directed towards areas that require urgent attention as well as to revenue generating capital projects.

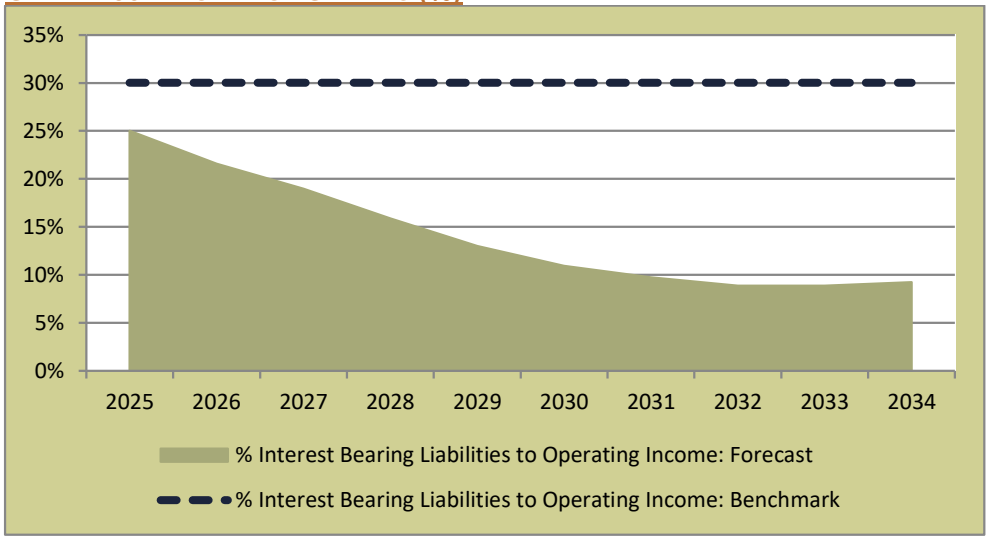
GRAPH 51: MTREF CASE GEARING (%)



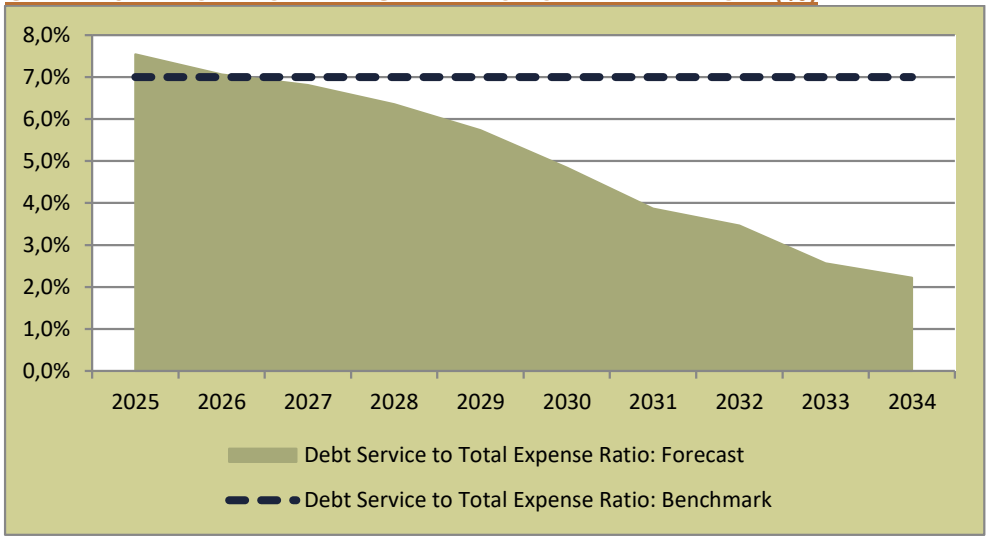
GRAPH 52: MTREF CASE DEBT SERVICE TO TOTAL EXPENDITURE (%)



GRAPH 53: BASE CASE GEARING (%)



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



1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long-Term Financial Model Outcomes

5 Future Revenues

6 Affordable Future Capital Investment

7 Scenario Analysis

8 Ratio Analysis

9 Conclusions

SCENARIOS ANALYSIS

Considering our analysis of the Adjustment Budget and the risks identified as part of this update, the following scenarios were run to indicate the potential outcomes. The main purpose of these scenarios is to assist the municipality in its strategic decision making and to serve as an input to the budget for FY2025/26.

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

    1.1. A scenario indicating the impact of a negative movement of 2% from the Base Case collection rate. All other input variables are assumed to be consistent with the Base Case.

2. **To assess the impact of a reduction in operating expenditure on long-term financial sustainability:**

    2.1. A scenario indicating the impact of a reduction of operating expenditure of 1% from the Base Case. All other input variables are assumed to be consistent with the Base Case.

SCENARIO 1: SENSITIVITY ANALYSIS ON THE COLLECTION RATE

While we have entered into an interest rate cutting cycle with a lower inflationary environment, the cost of living remains extremely high. This is unlikely to change over the short to medium term, with the likelihood of this challenge worsening high after the national budget proposal of a VAT increase. This will place further pressure on an already heavily burdened population. This may impact the municipality through more consumers being unable to service their municipal bills. This renders the possibility of a reduction in the collection rate feasible. This scenario aims to assess the impact of this on the municipality's long-term financial sustainability. In doing so, this scenario models a reduction of 2% from the Base Case collection rate.

The impact of a deterioration of 2% in the collection rate is laid bare in TABLE 14. Cash generated by operations over the planning period is forecast to decline by 26.7%. This is forecast to have a negative impact on the liquidity position as evidenced by the significantly reduced planning period end liquidity ratio of 1.2:1. Of grave concern is the lack forecast lack of cash, with the planning period end bank balance forecast at a measly R29.0 million. The forecast lack of liquidity casts doubt over the municipality's ability to take on the modelled level of debt, as well as to sustain the Base Case capital investment programme. The LTFM indicates that a cash shortfall of R158.0 million will materialise, thus reducing the Base Case affordable envelope to R1.19 billion.

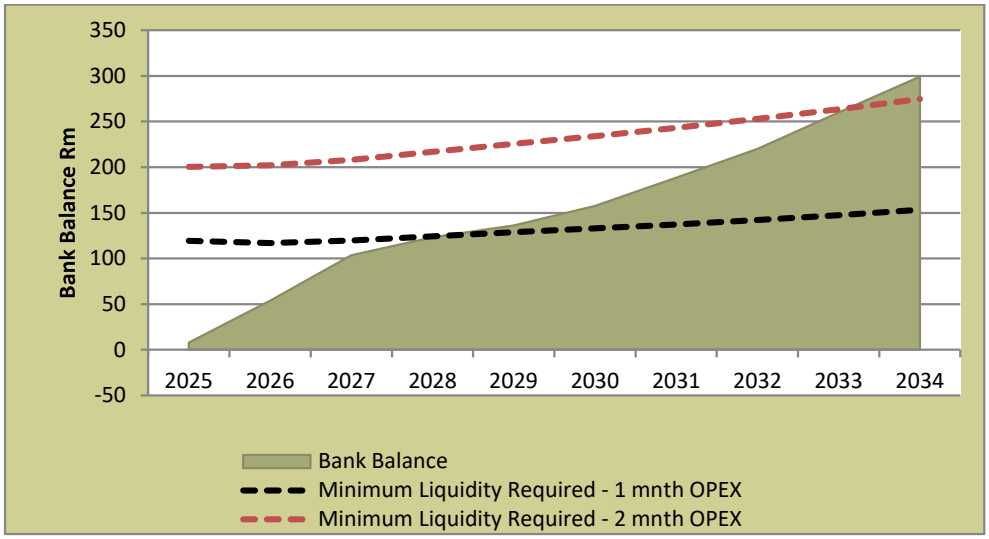
In order to maintain a sustainable liquidity position, significant improvements will need to be made in terms of the curtailing of operating expenditure. Further to this, the Base Case borrowing and capital investment programmes will need to be reduced, along with expenditure to repair and maintain the municipality's assets. This is likely to have a notable impact on the integrity of the municipality's asset base and will severely hinder the municipality's quest to improve the level of service delivery.

TABLE 14: SCENARIO 1: SENSITIVITY ANALYSIS ON THE COLLECTION RATE

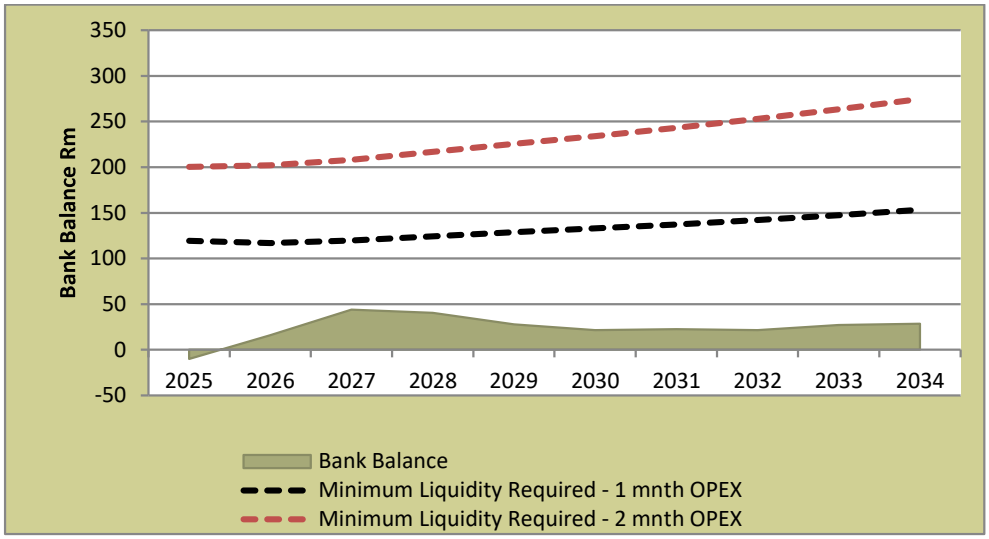
Outcome	Base Case	Collection Rate -2%
Average annual % increase in Revenue	4,7%	4,7%
Average annual % increase in Expenditure	4,3%	4,4%
Accounting Surplus accumulated during Planning Period (Rm)	R 986	R 715
Operating Surplus accumulated during Planning Period (Rm)	R 207	-R 64
Cash generated by Operations during Planning Period (Rm)	R 1 014	R 743
Average annual increase in Gross Consumer Debtors	7,4%	9,0%
Capital investment programme during Planning Period (Rm)	R 1 353	R 1 353
External Loan Financing during Planning Period (Rm)	R 233	R 233
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 299	R 29
No of Months Cash Cover at the end of the Planning Period (Rm)	2,5	0,2
Liquidity Ratio at the end of the Planning Period	2.4 : 1	1.2 : 1
Gearing at the end of the Planning Period	9,2%	9,3%
Debt Service to Total Expense Ratio at the end of the Planning Period	2,2%	2,2%

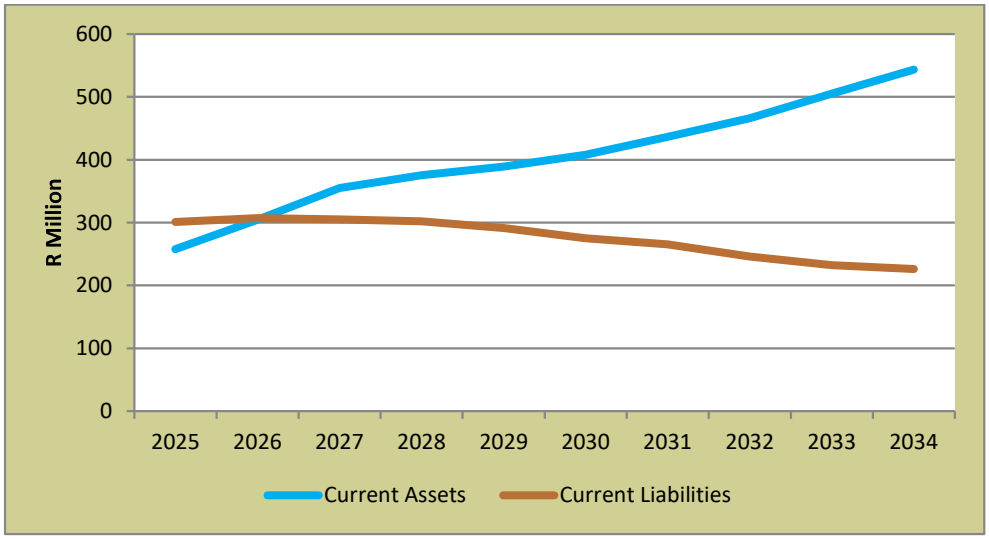
SCENARIO 1: SENSITIVITY ON THE COLLECTION RATE

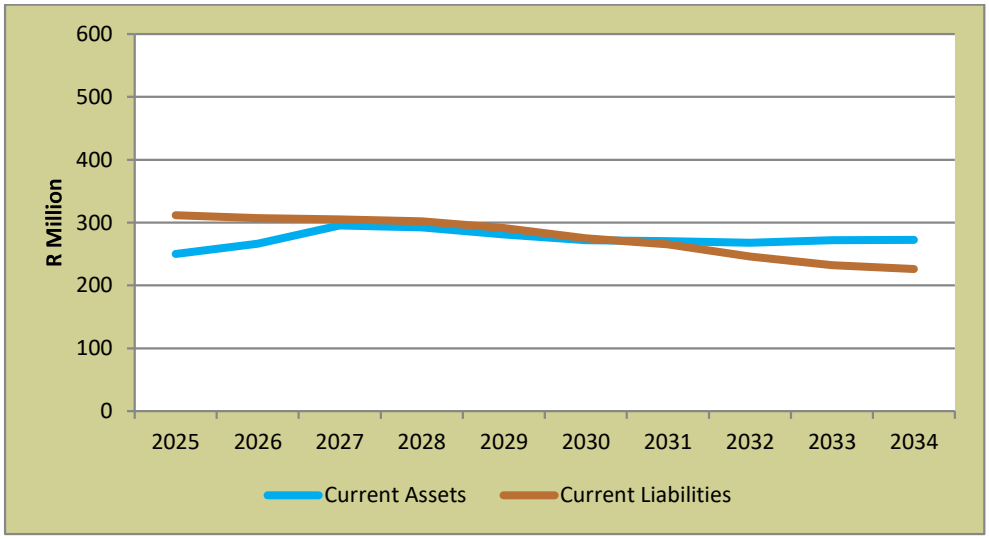
BASE CASE SCENARIO



REDUCE COLLECTION RATE BY 2%







SCENARIO 2: REDUCED OPERATING EXPENDITURE SCENARIO

As discussed earlier in this report, the municipality must be commended for the successful implementation of cost-containment measures which limited growth in expenditure during FY2023/24. This in combination with substantial revenue growth resulted in a marked improvement in financial performance during FY2023/24. Analysis of the Adjustment Operating Budget revealed that the municipality is targeting further improvements in financial performance. The YTD figures from January reveal that the municipality is currently on course to achieve this. This scenario aims to assess the impact of the municipality exceeding expectations and achieving a further cut of 1% of operating expenditure.

The impact of an additional cut of 1% of operating expenditure is significant, as indicated in Table 15. Financial performance is set to improve, with the accumulated operating surplus increasing to R344 million, up from R207 million in the Base Case. This facilitates an improved ability to generate cash from operations, with a 13.4% increase forecast over the planning period. This is set to translate into a notable improvement in available cash and liquidity, with the planning period end liquidity ratio rising to a sustainable 3:1. The additional cash on hand will allow a healthy liquidity buffer to be built up, a key factor in a financially sustainable municipality.

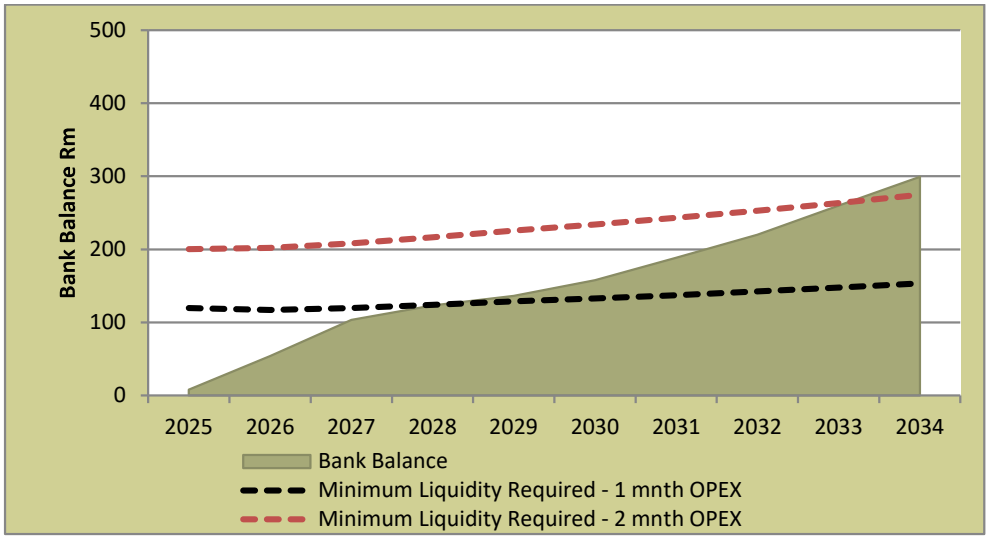
The outcomes of this scenario reflect the extent of the impact that a further cut of just 1% of operating expenditure. The municipality must be commended for the successful implementation of cost-containment measures in recent years but cannot afford to rest on its laurels. The municipality is encouraged to employ stringent management over its operating expenditure, with cost-savings realised wherever possible. This will provide immense benefits to the municipality and enable the stabilisation of the liquidity position to materialise more quickly. Once this has been achieved, the focus can shift towards accelerating capital investment to promote further growth and development within the municipality.

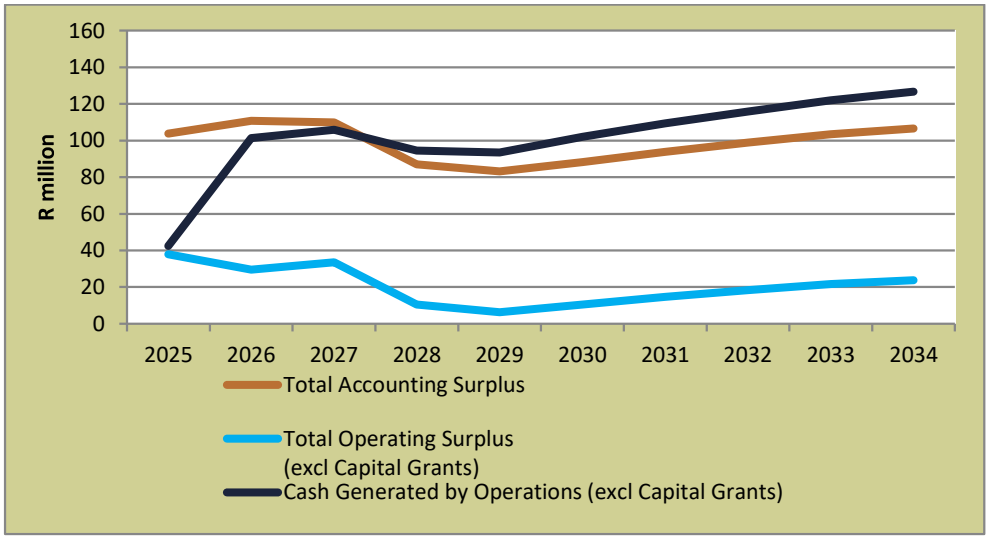
TABLE 15: SCENARIO 2: REDUCED OPERATING EXPENDITURE SCENARIO

Outcome	Base Case	Opex -1%
Average annual % increase in Revenue	4,7%	4,8%
Average annual % increase in Expenditure	4,3%	4,2%
Accounting Surplus accumulated during Planning Period (Rm)	R 986	R 1 123
Operating Surplus accumulated during Planning Period (Rm)	R 207	R 344
Cash generated by Operations during Planning Period (Rm)	R 1 014	R 1 149
Average annual increase in Gross Consumer Debtors	7,4%	7,4%
Capital investment programme during Planning Period (Rm)	R 1 353	R 1 353
External Loan Financing during Planning Period (Rm)	R 233	R 233
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 299	R 435
No of Months Cash Cover at the end of the Planning Period (Rm)	2,5	3,6
Liquidity Ratio at the end of the Planning Period	2.4 : 1	3 : 1
Gearing at the end of the Planning Period	9,2%	9,2%
Debt Service to Total Expense Ratio at the end of the Planning Period	2,2%	2,2%

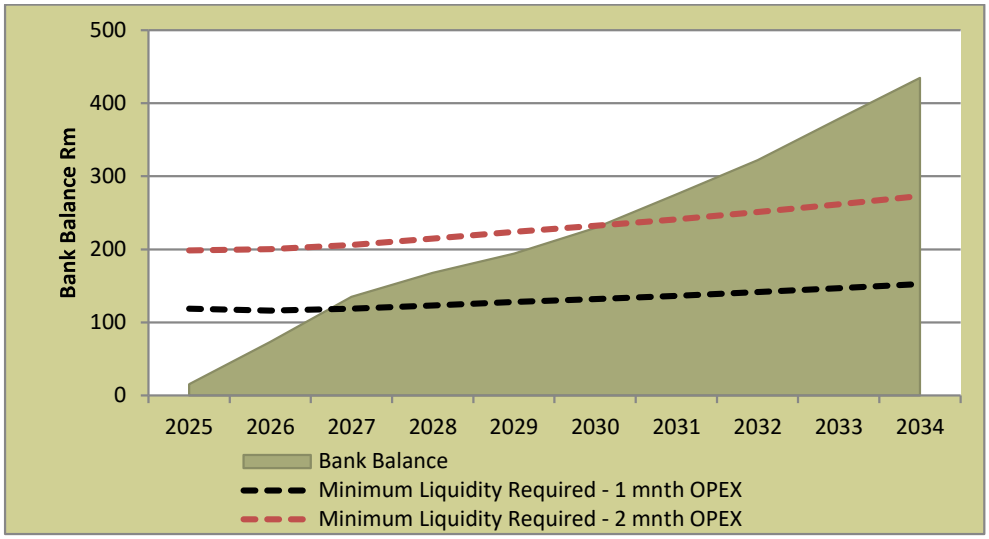
SCENARIO 2: REDUCED OPERATING EXPENDITURE SCENARIO

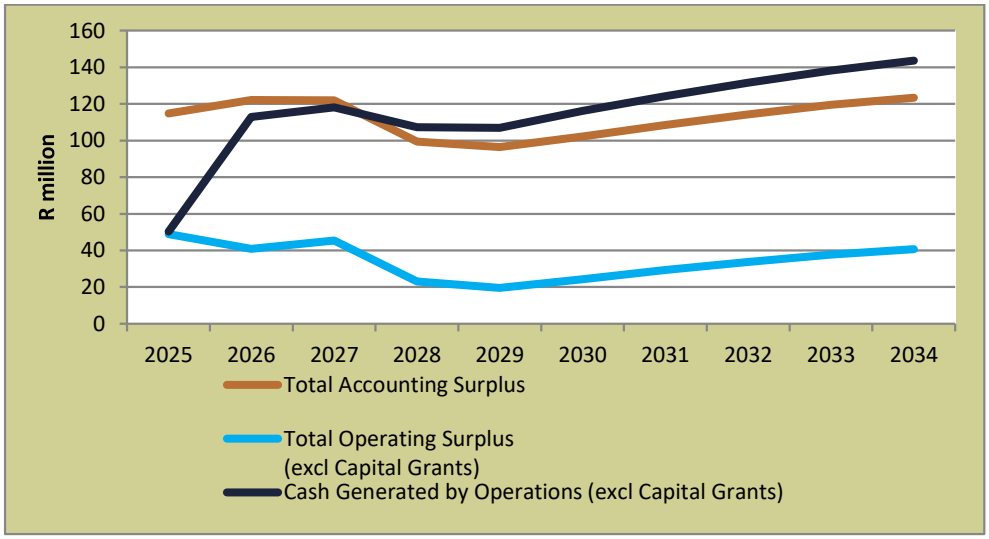
BASE CASE SCENARIO





REDUCE OPEX BY 1%





FORECAST RATIOS

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

		N.T. NORM	2025	2027	2029	2031	2033	2034	COMMENTS
FINANCIAL POSITION									
ASSET MANAGEMENT									
R29	**Capital Expenditure / Total Expenditure**	10% - 20%	6,8%	7,7%	8,0%	8,5%	9,0%	9,3%	CAPEX as a % of Total Expenditure will remain below the recommended range throughout the planning period.
R27	**Repairs and Maintenance as % of PPE and Investment Property**	8%	3,7%	4,8%	6,0%	6,0%	6,0%	6,0%	Repairs and maintenance as a percentage of PPE and IP will increase to 6% of PPE & IP over 5 years.
DEBTORS MANAGEMENT									
R4	**Gross Consumer Debtors Growth**		13,2%	8,0%	6,7%	5,9%	5,4%	5,2%	The Collection Rate is assumed to improve to 90% over 3 years.
R5	**Payment Ratio / Collection Rate**	95%	88,6%	90,1%	90,1%	90,1%	90,1%	90,1%	
LIQUIDITY MANAGEMENT									
R49	**Cash Coverage Ratio (excl Working Capital)**		0,2 : 1	3,3 : 1	4,3 : 1	5,9 : 1	8,2 : 1	9,4 : 1	The bank balance will meet the minimum liquidity requirement from FY2027/28 onwards. The liquidity ratio will rise to 2.4:1 by the end of the planning period.
R50	**Cash Coverage Ratio (incl Working Capital)**		0,1 : 1	0,9 : 1	1 : 1	1,4 : 1	1,7 : 1	1,9 : 1	
R51	**Cash Surplus / Shortfall on Minimum Liquidity Requirements**		-R 112,8 m	-R 17,6 m	R 6,3 m	R 49,7 m	R 111,0 m	R 144,4 m	
R1	**Liquidity Ratio (Current Assets: Current Liabilities)**	1:1.5 - 1:2.1	0,9 : 1	1,2 : 1	1,3 : 1	1,6 : 1	2,2 : 1	2,4 : 1	
LIABILITY MANAGEMENT									
R45	**Debt Service as % of Total Operating Expenditure**	6% - 8%	7,5%	6,8%	5,7%	3,9%	2,6%	2,2%	The external financing programme is forecast to remain within the recommended benchmarks from FY2027/28 onwards, whilst taking advantage of scope to sufficiently leverage the debt profile.
R6	**Total Debt (Borrowings) / Operating Revenue**	45%	25,0%	19,0%	13,0%	9,7%	8,9%	9,2%	
R7	**Repayment Capacity Ratio**		4,68	1,76	1,36	0,96	0,88	0,94	
R46	**Debt Service Cover Ratio (Cash Generated by Operations / Debt Service)**		1,2 : 1	2 : 1	2 : 1	3,1 : 1	4,6 : 1	5,2 : 1	

		N.T. NORM	2025	2027	2029	2031	2033	2034	COMMENTS
SUSTAINABILITY									
	Net Financial Liabilities Ratio	< 60%	34,3%	20,1%	12,5%	6,8%	2,9%	1,6%	Net Financial Liabilities are below the benchmark, while the Operating Surplus Ratio will exceed the lower benchmark from FY2029/30 onwards. Asset Sustainability is not calculated but entered as an assumption in the model. The municipality must ensure that a greater proportion of CAPEX is spent on asset replacement should it be required.
	Operating Surplus Ratio	0% - 10%	3,0%	2,5%	0,4%	0,9%	1,2%	1,3%	
	Asset Sustainability Ratio	> 90%	33,8%	28,7%	31,2%	34,0%	36,9%	38,4%	
FINANCIAL PERFORMANCE									
EFFICIENCY									
R42	**Net Operating Surplus / Total Operating Revenue**	>= 0%	3,0%	2,5%	0,4%	0,9%	1,2%	1,3%	The net operating surplus positive throughout the planning period improves to 1.3% by 2034, an indication that the municipality should endeavour to improve profitability by managing expenditure and improving surplus margins on electricity services and maintaining the high-water surplus margin.
R43	**Electricity Surplus / Total Electricity Revenue**		27,9%	26,5%	26,8%	26,8%	26,8%	26,8%	
R44	**Water Surplus / Total Water Revenue**		42,2%	44,0%	45,5%	45,5%	45,5%	45,5%	
REVENUE MANAGEMENT									
R8	**Increase in Billed Income p.a. (R'm)**		R 85,0 m	R 44,9 m	R 38,5 m	R 44,7 m	R 50,7 m	R 53,5 m	Billed Revenue and Operating Revenue Growth is, for the most part, close to the forecast CPI range over the planning period. Cash generated from operations is expected improve throughout the planning period.
R9	**% Increase in Billed Income p.a.**	CPI	10,4%	4,7%	3,7%	4,0%	4,2%	4,2%	
R12	**Operating Revenue Growth %**	CPI	9,3%	3,8%	4,5%	4,8%	4,9%	4,9%	
R47	**Cash Generated by Operations / Own Revenue**		9,9%	15,4%	13,4%	13,7%	13,5%	13,2%	
R48	**Cash Generated by Operations / Total Operating Revenue**		8,6%	13,4%	11,6%	11,8%	11,5%	11,3%	

		N.T. NORM	2025	2027	2029	2031	2033	2034	COMMENTS
EXPENDITURE MANAGEMENT									
	Creditors Payment Period	30	127	112	97	82	67	60	Creditors' payment period is higher than the NT benchmark but will reduce to 60 days over the planning period. Staff costs as a percentage of total expenditure is forecast to remain within the recommended benchmark throughout the planning period. Contracted services to total expenditure, however, is forecast to exceed the recommended benchmark. The combined contribution will push the upper limits of affordability.
R30	**Contribution per Expenditure Item: Staff Cost (Salaries, Wages and Allowances)**	25% - 40%	25,8%	25,2%	25,2%	25,5%	25,7%	25,7%	
	Contribution per expenditure item: Contracted Services	2% - 5%	11,9%	13,3%	14,4%	14,3%	14,3%	14,3%	
GRANT DEPENDENCY									
R10	**Total Grants / Total Revenue**		17,5%	17,3%	17,7%	18,0%	18,2%	18,3%	The municipality can generate funds from its own sources and is not overly reliant on grants. This is positive to note, as the tightening of the national fiscus will result in a declining reliance on transfers from other spheres of government.
R11	**Own Source Revenue to Total Operating Revenue**		86,8%	87,3%	86,6%	86,1%	85,5%	85,3%	
	Capital Grants to Total Capital Expenditure		73,2%	69,5%	60,6%	53,5%	47,4%	44,4%	

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

Knysna's financial performance improved during the year, with an accounting surplus being posted for the first time since FY2020/21. The operating deficit (excluding capital grants) improved to R25.9 million from R74.0 million in the prior year. Cash to the value of R46.2 million was generated by operations (excluding capital grants) during FY2023/24, an increase from R11.1 million in the prior year. This was a product of improved financial performance as well as an improvement in the collection rate which improved to 87.8% from 80.2% in the prior year. Electricity services remained the predominant revenue item, followed by property rates and equitable share.

Staff costs remained the predominant expenditure item, accounting for 26% of operating expenditure in FY2023/24. Expenditure on contracted services declined by a notable 17% during the year to R155.3 million. This accounted for 13% of operating expenditure during FY2023/24, far exceeding the recommended norm range as per NT of 2%-5%. This resulted in a combined contribution of 39% of operating expenditure. This is approaching the recommended upper limit of 40% as prescribed by NT, indicating that further cost cuts may be necessary. Expenditure incurred to repair and maintain the municipality's asset base declined to R47.9 million from R65.6 million in the prior year. This resulted in a reduced R&M expenditure to PPE & IP ratio of 3.1%, down from 4.3% in the prior year.

Capital expenditure totalled R90.2 million during FY2023/24. The total capital outlay over the review period came in at R965.6 million, for an annual average capital outlay of R120.7 million. This was primarily funded through capital grants (50%), followed by borrowings (46%) with the remaining 4% being funded through own cash reserves. Borrowings have been undertaken with regularity over the review period. This has resulted in an adequately leveraged debt profile, evidenced by the gearing ratio of 30.4% and debt service to total expense ratio of 4.7% as at FYE2023/24. While the gearing ratio is at the upper recommended limit of 30% by IPM, should the financial position continue to improve, the strategy of undertaking borrowings on a regular basis can be maintained in a sustainable manner.

STRENGTHS

- Improved collection rate of 87.8% (FYE2022/23: 80.2%).
- Reasonable low reliance on grant funding.
- Improved financial performance.
- Balanced funding mix with limited own cash utilisation.

WEAKNESSES

- Unsustainable liquidity position (liquidity ratio of 0.75:1 as at FYE2023/24).
- Inability to meet minimum liquidity requirements.
- Moderately leveraged debt profile.
- Insufficient repairs and maintenance expenditure (3.1% of PPE & IP).

Outcome of the Future Forecasts

An MTREF Case was developed utilising the unadjusted figures from the February Adjustment Budget 2024/25-2026/27. The purpose of this scenario is to reflect the LTFM outcomes prior to making any adjustments to the current MTREF. Overall, the MTREF Case scenario reflects strong financial performance and a sustainable long-term liquidity position. The healthy forecast is dependent on the achievement of the level of financial performance as presented in the operating budget. The municipality is on its way to achieving this according to the YTD figures. This must be maintained for the remainder of the financial year. A Base Case was developed with realistic, achievable assumptions that aim to guide the municipality towards long-term financial sustainability. The key assumptions are listed below.

1. A collection rate of 90% is assumed to be achieved within 3 years, whereafter it will remain at this level for the remainder of the planning period.
2. The model incorporated the increases in revenue and expenditure items as announced in the Adjustment Budget.
3. The MTREF capital investment programme was amended as follows:
    - FY2024/25: R90.0 million (Budget: R99.1 million)
    - FY2025/26: R105.0 million (Budget: R129.1 million)
    - FY2026/27: R110.0 million (Budget: R99.6 million)
    - FY2027/28: R117.5 million (Budget: N/A)

    Assumed growth beyond FY2027/28 is 8% p.a.
4. The following adjustments were made to the borrowing programme:
    - FY2024/25: R15.0 million (Budget: R3.6 million)
    - FY2025/26: R20.0 million (Budget: R37.7 million)
    - FY2026/27: R30.0 million (Budget: R16.0 million)
    - FY2027/28: R20.0 million (Budget: N/A)
5. The annual borrowing under this scenario was adjusted to an average of **13-year** amortising loans at a fixed interest rate equal to 8% over forecast CPI in any given year. Assumed annual growth in borrowing beyond FY2027/28 is 6%.
6. Repairs and maintenance expenditure was increased to 6.0% of PPE & IP from 3.1% over 5 years.
7. Electricity losses were maintained at 11.38%, while water distribution losses were reduced to 25.0% from 33.7% over 5 years.
8. Tariff increases were included as put forward in the Adjustment Budget Document for FY2024/25-FY2026/27.
9. Creditors days were reduced in order to mitigate the forecast rise in creditors in the MTREF Case.

The Base Case aims utilise realistic and achievable assumptions in order to promote the long-term sustainability of the municipality. The strengths of the MTREF Case have largely been maintained, while the weaknesses identified have been addressed to a large extent. It must be emphasised that the credibility of the Base Case outcome is dependent on the municipality successfully implementing the Base Case assumptions. Analysis of the YTD financial performance suggests that the Base Case financial performance targets are achievable. It is critical that this remains so, while an improvement in the collection rate to 90% must similarly be achieved. Failure to do so will likely necessitate a reduction in the borrowing and capital investment programmes, or alternatively a reduction in R&M expenditure.

2 additional scenarios were run to highlight the impact of adjustments to certain assumptions, whilst holding all other variables constant with the Base Case. The outcomes of these scenarios are summarised below.

Sensitivity Analysis on the Collection Rate

This scenario assesses the impact of a negative movement of 2% in the collection rate from the Base Case collection rate of 90%. The outcome of the negative scenario reflects a notable reduction in the ability to generate cash from operations, which translates into a marked reduction in the liquidity position. This scenario results in an unsustainable liquidity position and thus highlights the critical nature of maintaining a collection rate of at least 90%. Failure to do so will result in the need for concessions in the extent of capital investment being necessary.

Reduced Operating Expenditure

This scenario assesses the impact of the municipality further improving upon recently implemented cost-containment measures and achieving a cut of operating expenditure of 1%. The scenario outcomes reflect improved financial performance and cash generation. This translates into a marked improvement in available cash and liquidity, with the planning period end liquidity ratio forecast at 3:1.

CONCLUSION

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

ANNEXURE 1: PROJECTED FINANCIAL STATEMENTS

Municipal Financial Model - Knysna Local Municipality
Statement of Financial Position

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**
R thousands											
Non-current assets:	1 557 461	1 571 912	1 600 727	1 632 511	1 669 145	1 712 326	1 762 723	1 821 022	1 887 933	1 964 200	2 050 603
Property, plant and equipment	1 468 425	1 483 023	1 512 695	1 544 712	1 581 344	1 624 521	1 674 914	1 733 209	1 800 116	1 876 377	1 962 775
Intangible assets	48	49	49	49	52	55	59	64	68	73	78
Investment properties	67 525	67 380	67 365	67 208	67 208	67 208	67 208	67 208	67 208	67 208	67 208
Investments	3 178	3 176	2 929	2 929	2 929	2 929	2 929	2 929	2 929	2 929	2 929
Long-term receivables	–	–	–	–	–	–	–	–	–	–	–
Other non-current assets	18 285	18 285	17 689	17 613	17 613	17 613	17 613	17 613	17 613	17 613	17 613
Current assets:	240 176	257 586	304 438	354 743	375 577	389 379	408 065	436 625	466 337	505 174	543 357
Inventories	12 045	10 955	11 668	12 325	13 181	14 078	15 145	16 315	17 591	18 976	20 476
Trade and other receivables	204 522	238 962	238 962	238 962	238 962	238 962	235 244	231 797	228 737	226 027	223 636
Cash & Short term investments	23 609	7 669	53 809	103 457	123 434	136 339	157 676	188 513	220 009	260 171	299 245
TOTAL ASSETS	**1 797 637**	**1 829 498**	**1 905 165**	**1 987 254**	**2 044 723**	**2 101 705**	**2 170 788**	**2 257 647**	**2 354 270**	**2 469 374**	**2 593 960**
Municipal Funds:	1 034 446	1 143 404	1 256 257	1 364 470	1 446 212	1 523 170	1 604 866	1 692 172	1 785 071	1 883 624	1 986 895
Housing development fund & Other Cash Backed Reserves	–	–	–	–	–	–	–	–	–	–	–
Reserves (Not Cash Backed)	–	–	–	–	–	–	–	–	–	–	–
Accumulated surplus	1 034 446	1 138 239	1 248 985	1 358 954	1 445 978	1 529 215	1 617 514	1 711 344	1 810 227	1 913 701	2 020 252
Non-current liabilities:	441 368	390 064	348 890	323 221	296 918	281 122	278 175	280 754	298 239	323 249	347 621
Long-term liabilities (Interest Bearing)	305 355	262 448	227 845	202 581	169 400	145 073	132 449	124 319	130 204	142 908	154 488
Non-current provisions	136 013	127 616	121 044	120 640	127 519	136 049	145 726	156 436	168 035	180 341	193 133
Current liabilities:	321 823	301 195	307 291	305 079	301 826	291 368	275 099	265 548	245 805	232 424	226 087
Consumer deposits	15 538	17 626	19 238	20 875	22 626	24 046	25 493	27 017	28 617	30 299	32 112
Provisions	46 239	38 502	31 783	31 685	31 685	31 685	31 685	31 685	31 685	31 685	31 685
Trade payables	223 053	191 469	201 667	197 254	194 334	190 110	182 824	174 895	166 138	156 380	145 499
Unspent conditional grants	(10 233)	–	–	–	–	–	–	–	–	–	–
Bank overdraft	–	–	–	–	–	–	–	–	–	–	–
Current portion of interest bearing liabilities	47 226	53 598	54 603	55 265	53 181	45 526	35 096	31 951	19 364	14 060	16 791
TOTAL MUNICIPAL FUNDS AND LIABILTIES	**1 797 637**	**1 834 663**	**1 912 438**	**1 992 769**	**2 044 957**	**2 095 660**	**2 158 140**	**2 238 475**	**2 329 115**	**2 439 297**	**2 560 604**

Municipal Financial Model - Knysna Local Municipality
Statement of Financial Performance

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**
R thousands											
Revenue											
Property rates	311 886	341 340	349 884	358 606	367 837	376 920	387 006	397 899	409 386	421 255	433 275
Service Charges	499 886	554 730	602 634	638 465	668 906	697 703	728 163	761 303	796 981	835 069	875 684
Service charges - electricity	347 884	404 347	438 764	460 203	474 884	486 841	498 615	511 085	524 008	537 154	550 510
Service charges - water	94 438	85 961	94 655	103 963	114 249	125 858	138 919	153 534	169 824	187 912	207 913
Service charges - waste water management	28 885	31 569	33 917	36 408	39 091	41 654	44 411	47 377	50 545	53 904	57 461
Service charges - waste management	28 679	32 854	35 298	37 890	40 682	43 350	46 218	49 306	52 603	56 098	59 800
Service charges - other	–	–	–	–	–	–	–	–	–	–	–
Rental from fixed assets	7 390	8 119	8 102	8 475	9 099	9 696	10 338	11 028	11 766	12 548	13 376
Interest	2 131	1 337	516	2 550	4 969	6 123	6 924	8 093	9 671	11 181	12 969
Interest earned from receivables	26 965	41 595	33 333	34 866	11 863	12 525	13 231	13 890	14 490	15 019	15 466
Dividends	–	–	–	–	–	–	–	–	–	–	–
Fines, penalties and forfeits	107 066	98 669	103 182	107 928	115 881	123 481	131 652	140 446	149 838	159 793	170 339
Licences and permits	1 534	1 761	1 701	1 779	1 906	2 053	2 221	2 407	2 610	2 828	3 058
Agency services	3 988	3 860	4 589	4 800	5 154	5 492	5 855	6 247	6 664	7 107	7 576
Transfer and subsidies - Operational	146 071	167 159	166 171	172 050	184 049	196 337	209 567	223 807	239 015	255 137	272 197
Other revenue	48 388	28 041	39 302	29 984	32 403	34 689	37 147	39 797	42 634	45 647	48 850
Gains on disposal of Assets	–	16 516	–	–	–	–	–	–	–	–	–
Total revenue before Capital Grants	1 155 306	1 263 128	1 309 414	1 359 504	1 402 067	1 465 019	1 532 103	1 604 918	1 683 055	1 765 585	1 852 791
Transfers and subsidies - capital (monetary allocations)	64 894	65 857	81 217	76 453	76 457	76 907	77 878	79 169	80 547	81 794	82 734
Public & developers contributions	–	–	–	–	–	–	–	–	–	–	–
Total Revenue after Capital Grants	1 220 200	1 328 985	1 390 631	1 435 956	1 478 524	1 541 926	1 609 981	1 684 086	1 763 602	1 847 379	1 935 525
Operating expenditure											
Employee related costs	325 240	328 497	334 010	349 389	367 125	386 409	407 175	429 334	452 772	477 340	502 856
Remuneration of councillors	9 821	10 585	11 510	12 039	12 470	12 938	13 439	13 968	14 522	15 092	15 672
Debt impairment	153 548	172 399	175 088	175 707	185 276	194 418	204 229	214 827	226 160	238 169	250 862
Depreciation and amortisation	71 867	75 402	75 328	77 982	80 868	83 723	86 659	89 721	92 950	96 384	100 060
Interest	39 285	40 802	36 728	35 678	33 103	30 470	28 122	26 335	25 698	25 356	26 499
Bulk purchases - electricity	251 608	291 674	324 269	338 060	347 450	356 198	364 813	373 937	383 392	393 010	402 782
Inventory Consumed	111 343	49 710	53 787	58 201	63 140	68 603	75 722	83 689	92 568	102 427	113 330
Contracted services	155 307	156 929	184 690	191 118	209 062	227 772	237 867	248 917	260 920	273 875	287 838
Transfers and subsidies	1 118	12 224	884	896	949	1 002	1 058	1 118	1 182	1 248	1 318
Other expenditure	84 365	79 277	83 591	86 917	92 056	97 157	102 598	108 409	114 556	121 003	127 758
Losses on disposal of Assets	369	7 694	–	–	–	–	–	–	–	–	–
Total Expenditure	1 203 872	1 225 192	1 279 885	1 325 987	1 391 501	1 458 689	1 521 682	1 590 256	1 664 719	1 743 905	1 828 973
Suplus/ (Shortfall) for the year	**16 328**	**103 793**	**110 746**	**109 969**	**87 024**	**83 237**	**88 299**	**93 831**	**98 883**	**103 474**	**106 551**

Municipal Financial Model - Knysna Local Municipality
Cash Flow Statement

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**
R thousands											
Cash flows from Operating Activities											
Suplus/Deficit for the year *including* Capital Grants	16 328	103 793	110 746	109 969	87 024	83 237	88 299	93 831	98 883	103 474	106 551
Suplus/Deficit for the year *excluding* Capital Grants & Contributions		37 936	29 529	33 516	10 566	6 330	10 421	14 662	18 335	21 680	23 817
Capital Grants & Contributions		65 857	81 217	76 453	76 457	76 907	77 878	79 169	80 547	81 794	82 734
Adjustments for non-cash items:											
Depreciation, amortisation and impairment loss	71 867	75 402	75 328	77 982	80 868	83 723	86 659	89 721	92 950	96 384	100 060
Revaluation on investment property (gain) / loss	–	–	–	–	–	–	–	–	–	–	–
Increase / (Release from) current provisions & non-interest bearing liabilities	–	(7 737)	(6 719)	(98)	–	–	–	–	–	–	–
Increase / (Release from) other non-current provisions & non-interest bearing liabilities	–	(8 397)	(6 571)	(404)	6 878	8 530	9 677	10 710	11 599	12 306	12 792
(Increase) / Release from non-current interest bearing assets	–	2	246	–	–	–	–	–	–	–	–
Capitalised interest	–	–	–	–	–	–	–	–	–	–	–
Operating surplus before working capital changes:	88 195	163 064	173 030	187 450	174 770	175 490	184 635	194 262	203 432	212 165	219 403
Change in W/C Investment	–	(54 700)	9 485	(5 070)	(3 776)	(5 121)	(4 635)	(5 652)	(6 973)	(8 433)	(9 989)
(Increase)/decrease in inventories	–	1 090	(713)	(657)	(856)	(897)	(1 067)	(1 170)	(1 276)	(1 385)	(1 500)
(Increase)/decrease accounts receivable	–	(34 440)	–	–	–	–	3 718	3 447	3 060	2 710	2 391
Increase/(decrease) in trade payables	–	(31 584)	10 198	(4 413)	(2 920)	(4 224)	(7 286)	(7 929)	(8 757)	(9 758)	(10 881)
Increase/(decrease) in unspent grants	–	10 233	–	–	–	–	–	–	–	–	–
Net cash flow from Operating activities	88 195	108 363	182 515	182 380	170 994	170 369	180 001	188 610	196 459	203 731	209 414
Cash flows from Investing Activities											
Capital expenditure	–	(90 001)	(105 000)	(110 000)	(117 503)	(126 903)	(137 056)	(148 021)	(159 862)	(172 651)	(186 463)
Decrease/(Increase) in non-current receivables	–	–	596	77	–	–	–	–	–	–	–
(Additions) / Disposals of investment property	–	145	15	157	–	–	–	–	–	–	–
Net cash flow from Investing activities	–	(89 856)	(104 389)	(109 766)	(117 503)	(126 903)	(137 056)	(148 021)	(159 862)	(172 651)	(186 463)
Cash flows from Financing Activities											
New loans raised	–	15 000	20 000	30 000	20 000	21 200	22 472	23 820	25 250	26 765	28 370
Loans repaid	–	(51 535)	(53 598)	(54 603)	(55 265)	(53 181)	(45 526)	(35 096)	(31 951)	(19 364)	(14 060)
(Decrease) / Increase in consumer deposits	–	2 088	1 611	1 637	1 751	1 420	1 447	1 524	1 600	1 681	1 813
Net cash flow from Financing activities	–	(34 447)	(31 986)	(22 966)	(33 513)	(30 561)	(21 607)	(9 752)	(5 101)	9 082	16 123
Change in Cash	88 195	(15 940)	46 140	49 648	19 978	12 904	21 337	30 837	31 496	40 162	39 074
Cash/(Overdraft), Beginning		23 609	7 669	53 809	103 457	123 434	136 339	157 676	188 513	220 009	260 171
Cash/(Overdraft), Ending	**23 609**	**7 669**	**53 809**	**103 457**	**123 434**	**136 339**	**157 676**	**188 513**	**220 009**	**260 171**	**299 245**

Prepared by INCA Portfolio Managers

Tel: +27 [0]11 202 2210
Fax: +27 [0]11 202 2231

Unit F14, Pinewood Square
Pinewood Office Park
33 Riley Road
Woodmead