Annexure J

Long Term Financial Plan

2026/27

Final

Medium Term

Revenue and Expenditure

Framework (MTREF)

INCA
Portfolio Managers

Knysna Local Municipality

Long-Term Financial Plan – ***Update 2026***

KNYSNA
Municipality Munisipaliteit uMasipala

Prepared by
INCA Portfolio Managers
May 2026

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 2019-2025 with the latest information. This 2026 update aims to update the LTFP based on the latest available information and report on the findings

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

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

A summary of the demographic, economic and household infrastructure perspective was updated with the latest available information as published by S&P Global Market Intelligence. The historic financial analysis was updated with the information captured in the municipality's audited financial statements of 30 June 2025 along with the Approved Budget for FY2026/27-FY2028/29.

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 v2646

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LTFP Update Report 2026
Executive Summary

Introduction

This report reflects the detailed observations having assessed the Demographic, Economic & Household Infrastructure changes, together with the municipality's financial performance as reflected in the 2024/25 audited financial statements and the updated LTFM utilising information contained in the Approved Budget for the period 2026/27-2028/29.

Demographic, Economic and Household Infrastructure Perspective

- The municipality's total gross value added (GVA), which measures economic output, amounted to R2.72 billion (constant 2015 prices) in 2025. This represents 5.7% of the district's total GVA of R47.89 billion (constant prices). The economy rebounded well in 2021, with an economic expansion of 5.1% Economic growth has slowed somewhat in the most recent 2 years with growth of just 1.3% and 1.7% in 2024 & 2025 respectively.

- Knysna had a total population of 78 870 people in 2025. This represents approximately 11.6% of the district's total population of 681 386 people. This marks Knysna as the 4th populous municipality in the district. The population grew at a rate of 0.96% in 2025. Over the past 5 years the average population growth was 0.63% p.a.

- The unemployment rate declined further during the year, falling to 18.7% in 2025 from 20.9% in the prior year. A closer analysis of Knysna's employment data reveals a notable improvement in 2025, with the creation of 1 573 new jobs representing an 1.5% increase in comparison to the prior year. This brought the total number of employment opportunities in the municipality to 103 467, the highest over the entire review period. The Finance (27.32%), Trade (20.03%) and Community Services (17.32%), remain the predominant providers of employment within the region.

- The Tress Index of 44.77 indicates a reasonably diversified economy underpinned by primarily four sectors: Finance (25.3%), Community Services (18.3) and Trade (18.7%) are the largest economic sectors within Knysna LM, closely followed by manufacturing (13%).

- Household formation in Knysna since 2016 came in at 8.2%. This translates to an additional 27 258 households in absolute terms in 2025. Knysna's rate of household formation exceeded the district (7.4%) and below national (12.3%) and the provincial rate (16%).

- Approximately 90% of the households in the municipality earn an income above the Equitable share bracket of R54 000 p.a.

HIGHLIGHTS FROM THE FY2024/25 FINANCIAL RESULTS

FINANCIAL PERFORMANCE & CASH GENERATION:

- An operating surplus (excluding capital grants) of R94.6 million was posted during FY2024/25 (FY2023/24: R27.4 million deficit).
- Cash generated by operations (excluding capital grants) totalled R151.0 million (FY2023/24: R44.9 million).
- Operating revenue (excluding capital grants) saw growth of 8.9% during FY2024/25, up from the 8-yr average of 8.3%.
- Operating expenditure saw a decline of 1.9% during FY2024/25. An improvement on the 8-yr average growth of 6.4%.
- The collection rate improved to 93.7% during FY2024/25 from 87.9% in the prior year. NT norm: 95%.
- Repairs and maintenance expenditure totalled 2.6% of PPE & IP during FY2024/25 (FY2023/24: 3.1%). NT norm: 8%.
- Electricity losses totalled 10.46% (FY2023/24: 11.58%) & water losses totalled 47.98% (FY2023/24: 33.68%). NT max. norms: electricity 10%, water 30%.

LIQUIDITY:

- Liquidity ratio has improved but remains weak 0.99:1 as at FYE2024/25 (FYE2023/24: 0.76:1). NT norm: 1.5:1.
- Cash and cash equivalents increased to R106.0 million as at FYE2024/25 (FYE2023/24: R23.6 million).
- Creditors decreased by 17% to R190.6 million as at FYE2024/25 (FYE2023/24: R229.1 million).
- 80.5% of consumer debtors are older than 90 days.
- The provision for bad debts covers 87% of debtors older than 90 days.
- The minimum liquidity requirements were not met, with a cash shortfall of R47.8 million posted as at FYE2024/25 (FYE2023/24: R105.0 million).

CAPITAL INVESTMENT AND GEARING:

- Capital investment decreased by 28% to R63.5 million during FY2024/25 (FY2023/24: R88.8 million).
- This was underpinned by capital grants to the value of R52.4 million during FY2024/25.
- No borrowings were taken in the current year. The unqualified audit outcomes received over the last 2 financial years renders borrowing a viable funding option for capital investment.
- This resulted in the gearing ratio declining to 23.5% (FYE2023/24: 30.3%), while the debt service to total expense ratio increased to 7.86% (FYE2023/24: 6.74%). NT max norms: gearing 45% & debt service to total expense ratio: 8%.
- The cash coverage ratio (including working capital) improved to 0.7x as at FYE2024/25 (FYE2023/24: 0.2x).

Credit Rating:

- Knysna LM received a credit rating of **6.0** on IPM's credit model. This is equivalent to an **A+ to A-** on a national credit ratings scale. It is **investment grade**.
- This was underpinned by the municipality receiving unqualified audit in the prior as well as in the current year. This should be maintained.

Budget:

- The 2026/27-2028/29 Approved Operating Budget was deemed conservative, with a notable decline in financial performance expected over the first 2 years of the MTREF period before a marked improvement is expected in FY2028/29.
- An operating surplus of R94.6 million was posted during FY2024/25; we do not anticipate a further decline in financial performance and as such, expect the operating budget for FY2026/27 to be outperformed.
- Knysna has budgeted for a collection rate of 90% for service charges and rates revenue.
- The Approved Capital Budget reflects a reasonably aggressive capital programme, with significant amounts of own cash incorporated into the funding mix.
- The LTFM will be utilised to assess the affordability and long-term impact of the operating and capital budgets as well as suggest suitable and realistic adjustments to promote long-term financial sustainability, as required.

LONG-TERM FINANCIAL PLAN UPDATE

To develop a realistic Base Case model, the figures from the Approved Budget 2026/27 – 2028/29 and FY2024/25 audited financial statements were used. An MTREF Case was developed utilising the unadjusted operating and capital budget figures, whilst also maintaining the FY2024/25 performance for key financial indicators such as the collection rate, repairs and maintenance expenditure, creditors days, etc. whilst modelling growth rates of 6% and 4% for capex and borrowings respectively, beyond FY2028/29. Additionally, the average population growth rate is set at 1.2%, while the proportion of indigent households is assumed at a conservative 35%.

The purpose of the MTREF Case is to analyse the long-term forecast produced by the LTFM should the budget be implemented as presented and the status quo be maintained. The LTFM forecasts severe short-term liquidity pressures characterised by the maintenance of an overdraft position for the majority of the planning period. This is primarily driven by overly aggressive own cash utilisation to fund capex over the MTREF period as well as reasonably poor financial performance over the short-term. The conservative budget impacts upon the LTFM forecast financial performance.

The Base Case aims to address these key weaknesses with a particular focus on addressing short-term liquidity pressures, long-term growth in creditors, insufficient repairs and maintenance expenditure and excessive water losses. The key drivers of the undesirable outcome presented in the MTREF Case were addressed through the Base Case assumptions below.

BASE CASE ASSUMPTIONS:

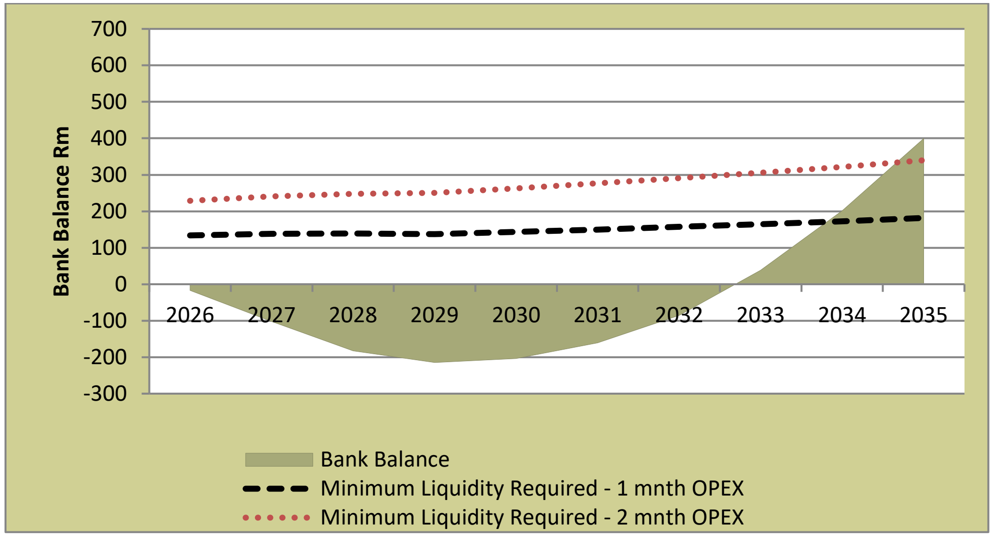
1. A collection rate of 90% is maintained throughout the planning period.
2. The MTREF capital investment programme was adjusted as follows:
   a. FY2025/26: **R100.0 million** (Budget: R137.0 million)
   b. FY2026/27: **R153.8 million** (Budget: R249.3 million)
   c. FY2027/28: **R140.0 million** (Budget: R174.6 million)
   d. FY2028/29: **R145.0 million** (Budget: R163.7 million)
   Assumed growth beyond FY2028/29 is 6% p.a.
2. The borrowing programme was included as follows:
   a. FY2025/26: R0.0 million (Budget: R0.0 million)
   b. FY2026/27: R99.4 million (Budget: R99.4 million)
   c. FY2027/28: **R80.0 million** (Budget: R45.8 million)
   d. FY2028/29: **R60.0 million** (Budget: R35.9 million)
3. The annual borrowing under this scenario was adjusted to an average of 10-year amortising loans at a fixed interest rate equal to 7% over forecast CPI (average 3.7%) in any given year. Assumed annual growth in borrowing beyond FY2028/29 is 4%.
4. Operating expenditure was cut by 1%.
5. Repairs and maintenance expenditure as a % of PPE & IP was increased to 4% (from 2.6%) over 5 years and then maintained at this level for the remainder of the planning period.
6. Electricity losses were maintained at 10.46% whilst water losses were reduced to 30.00% from 47.98% over a period of 5 years.
7. Tariff increases were included as put forward in the Approved Budget Document for FY2026/27-FY2028/29.
8. Creditors days were reduced to 70 days from 115 days over 10 years.

Long-Term Financial Model Outcomes

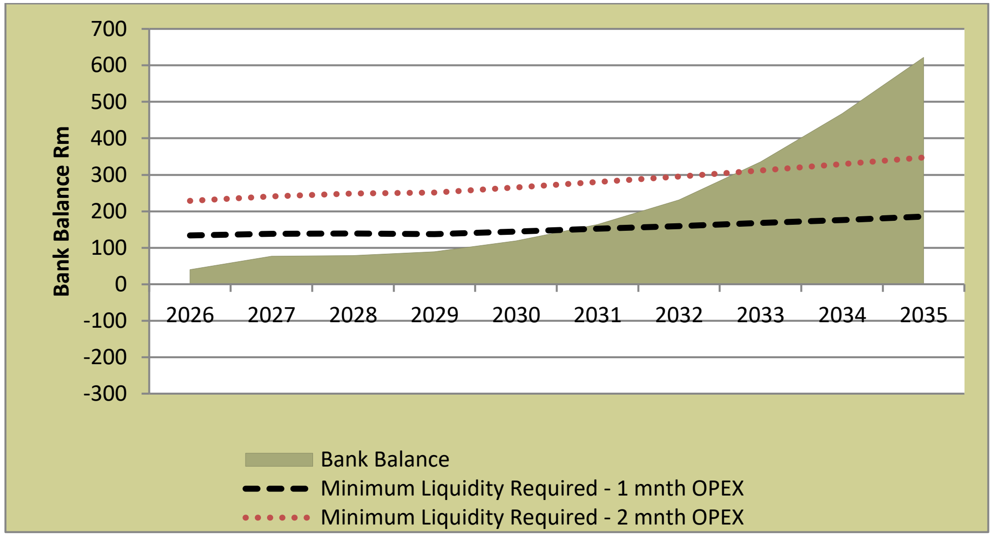
Based on these assumptions, key outcomes for the 10-year planning period are as follows:

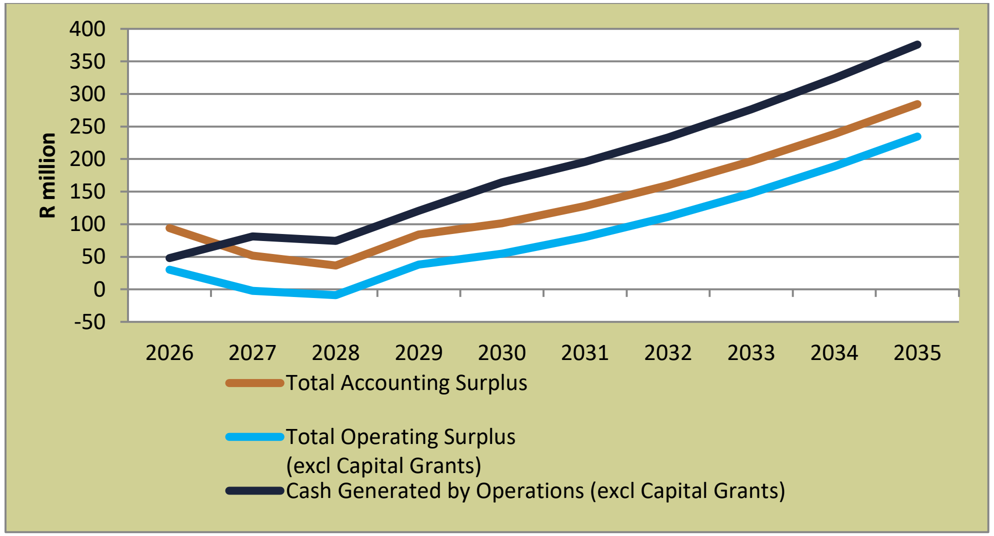
Outcome	MTREF Case	Base Case
Average annual % increase in Revenue	7,2%	7,1%
Average annual % increase in Expenditure	7,2%	7,3%
Accounting Surplus accumulated during Planning Period (Rm)	R 1 376	R 1 342
Operating Surplus accumulated during Planning Period (Rm)	R 874	R 840
Cash generated by Operations during Planning Period (Rm)	R 1 893	R 1 645
Average annual increase in Creditors	12,1%	11,7%
Capital investment programme during Planning Period (Rm)	R 1 936	R 1 611
External Loan Financing during Planning Period (Rm)	R 429	R 653
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 399	R 622
No of Months Cash Cover at the end of the Planning Period (Rm)	2,5	3,8
Liquidity Ratio at the end of the Planning Period	1,4 : 1	2,5 : 1
Gearing at the end of the Planning Period	5,7%	11,4%
Debt Service to Total Expense Ratio at the end of the Planning Period	3,2%	4,7%

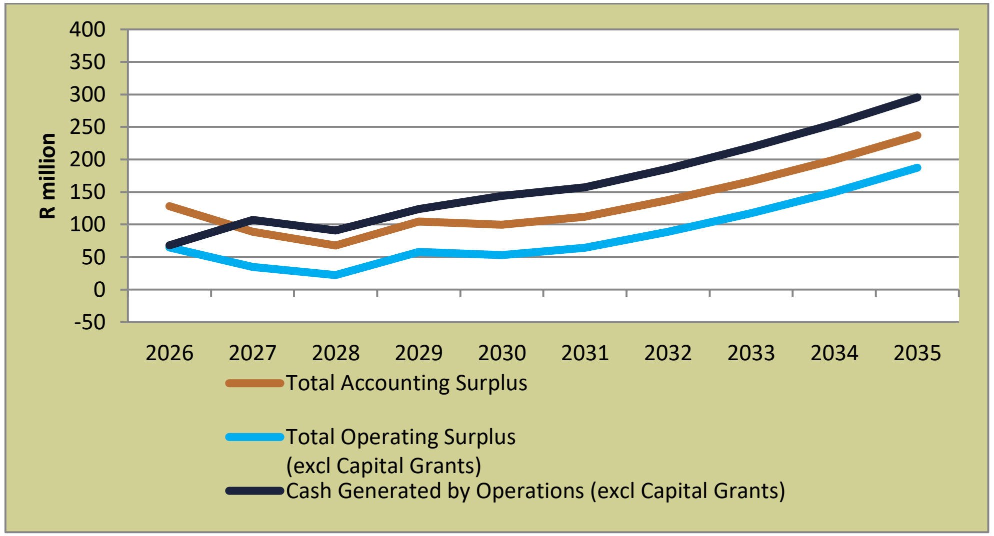
MTREF Case Scenario



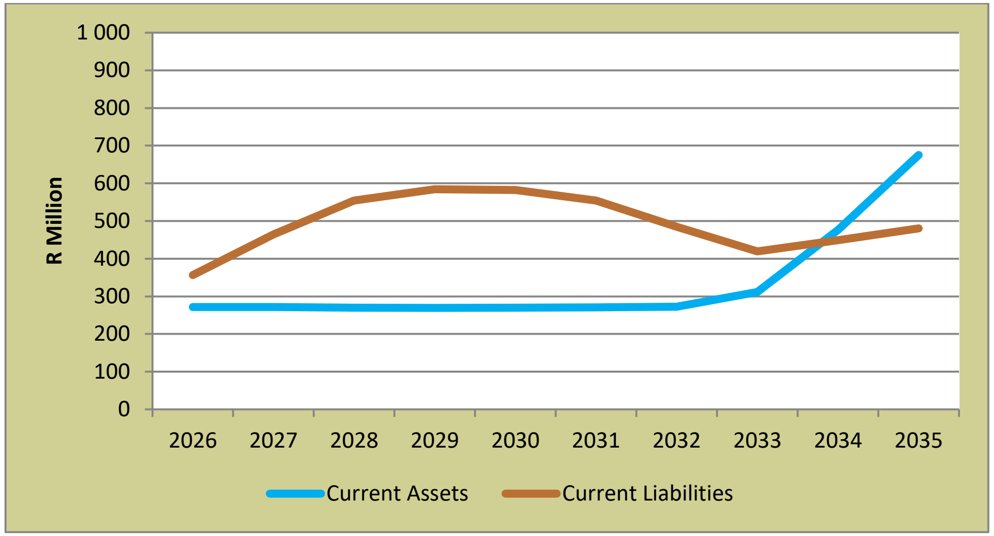
Base Case Scenario



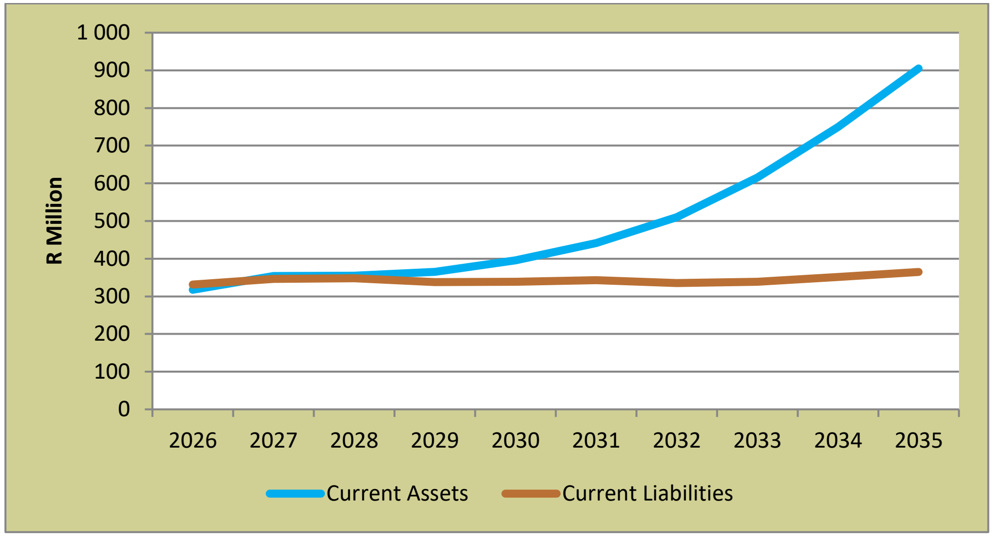


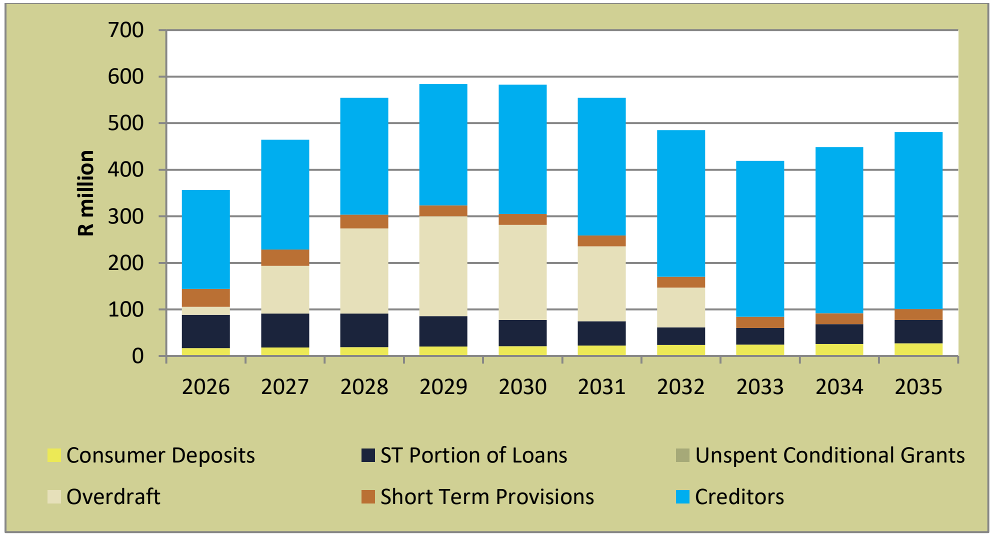


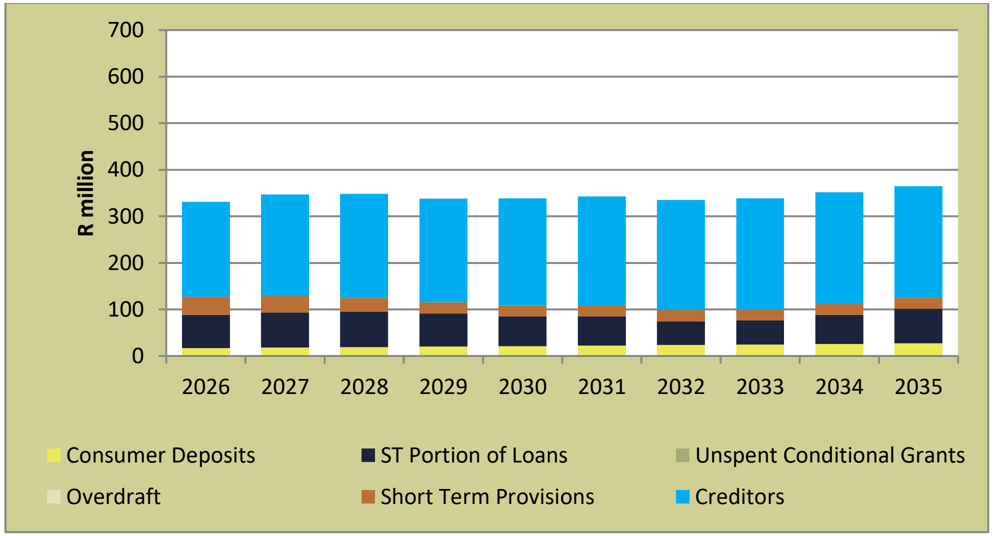
MTREF CASE SCENARIO



BASE CASE SCENARIO







Capex Affordability & Funding Mix

Base Case 10-Year Capital Funding Mix

Source	Rm	%
Public & Developers' Contributions	0	0 %
Capital Grants	502	31 %
Financing	653	41 %
Cash Reserves and Funds	456	28 %
Cash Shortfall	0	0 %
Capital Expenditure	**1 611**	**100 %**

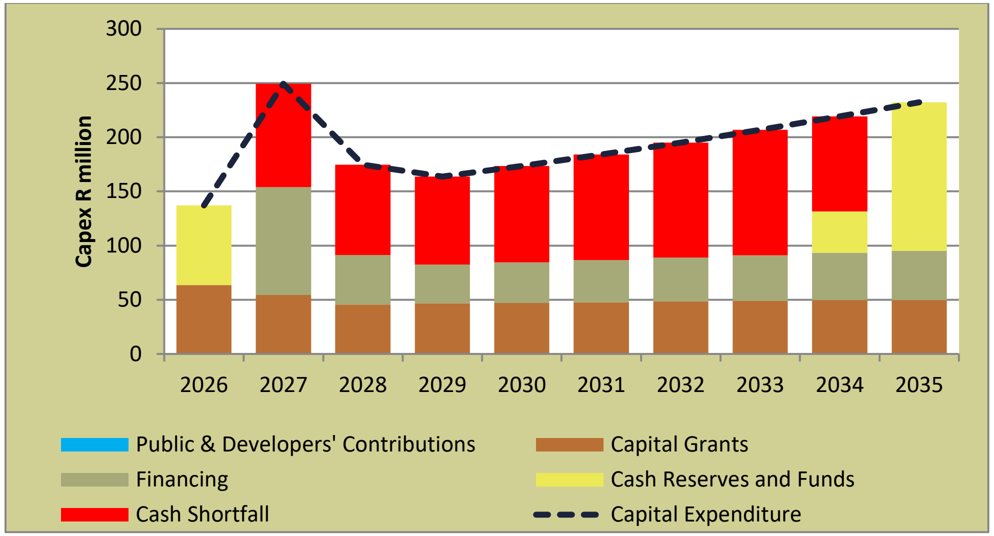
Base Case Distribution of Future Capital Funding (R'm)

R'm	Total	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Public & Developers' Contributions	**0**	0	0	0	0	0	0	0	0	0	0
Capital Grants	**502**	64	54	45	47	47	48	48	49	50	50
Financing	**653**	0	99	80	60	62	65	67	70	73	76
Cash Reserves and Funds	**456**	36	0	15	38	44	50	57	64	71	80
Cash Shortfall	**0**	0	0	0	0	0	0	0	0	0	0
Capital Expenditure	**1 611**	**100**	**154**	**140**	**145**	**154**	**163**	**173**	**183**	**194**	**206**

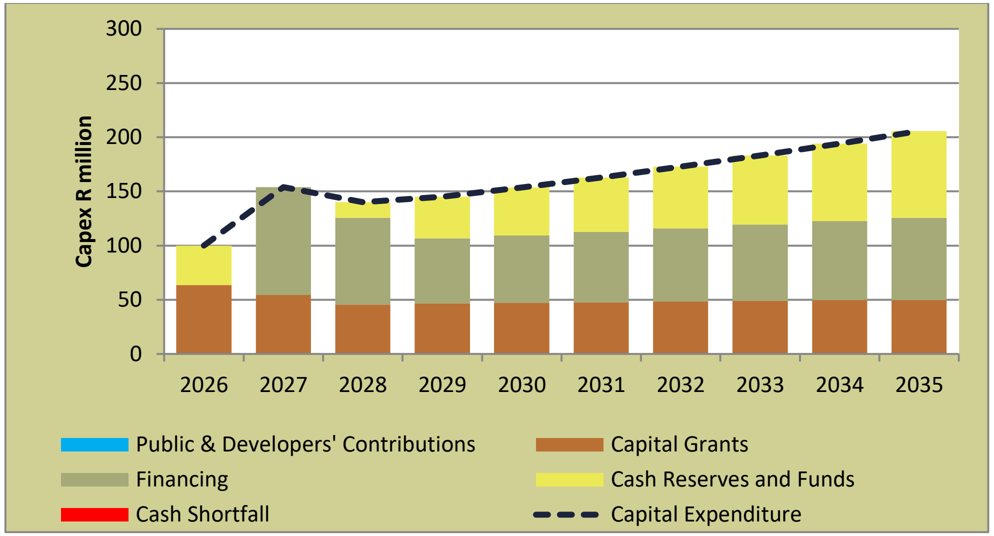
Key Takeaways

- The Base Case capital funding mix was developed with the aim of maintaining long-term financial sustainability. The MTREF Case capital investment programme is expected to prove unaffordable with to the extent of internally generated funds included in the funding mix expected to drain the municipality's liquidity.
- This necessitated a reduction in capital investment from the budget. Borrowings were accelerated in an attempt to mitigate the required reduction in capital investment due to the forecast liquidity constraints. Internally generated funds must be limited to allow the liquidity position to stabilise.

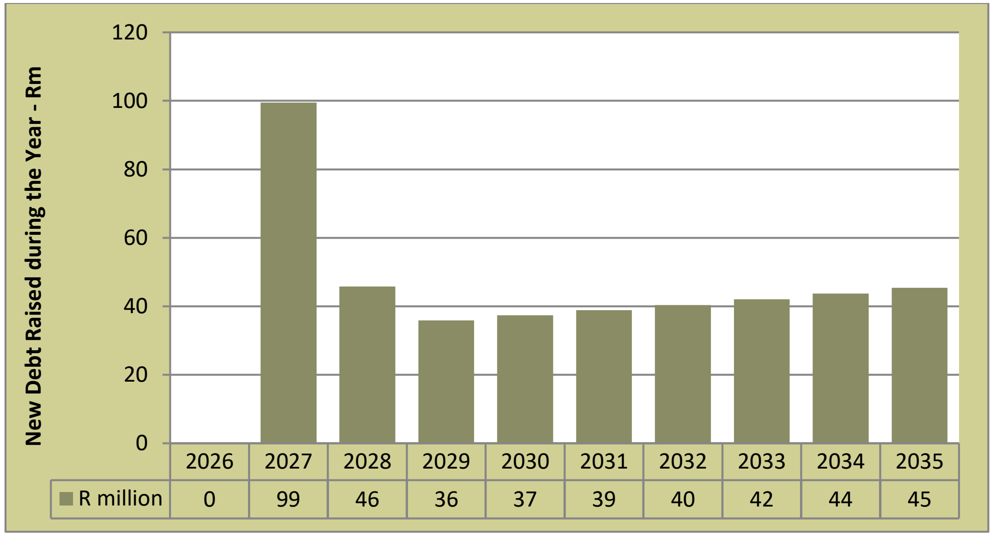
MTREF Case Capital Funding Mix



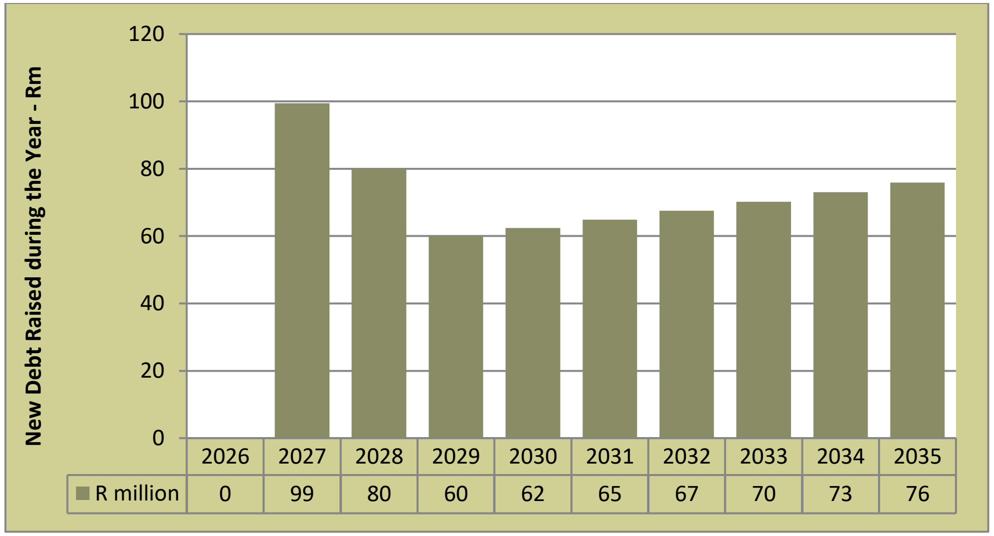
Base Case Capital Funding Mix



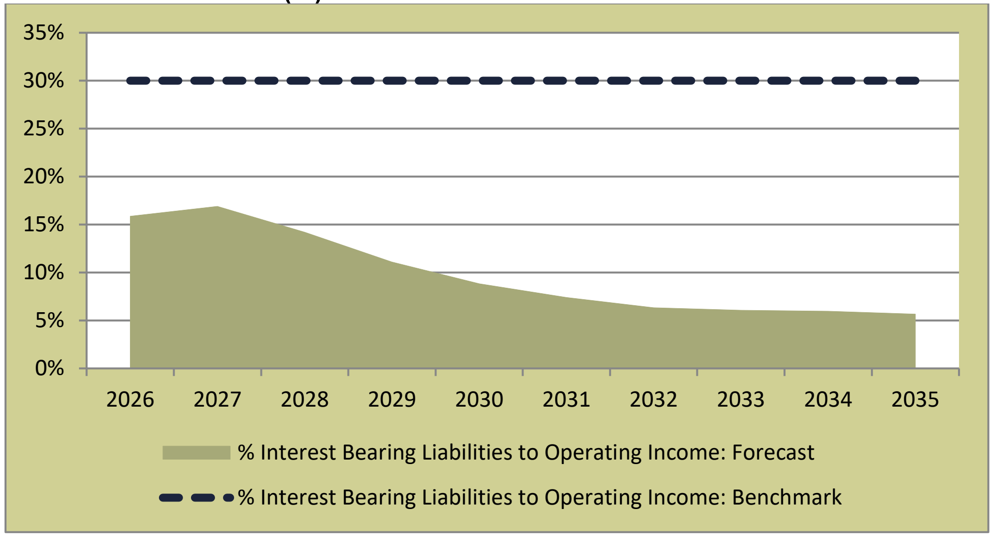
MTREF Case New Debt Raised



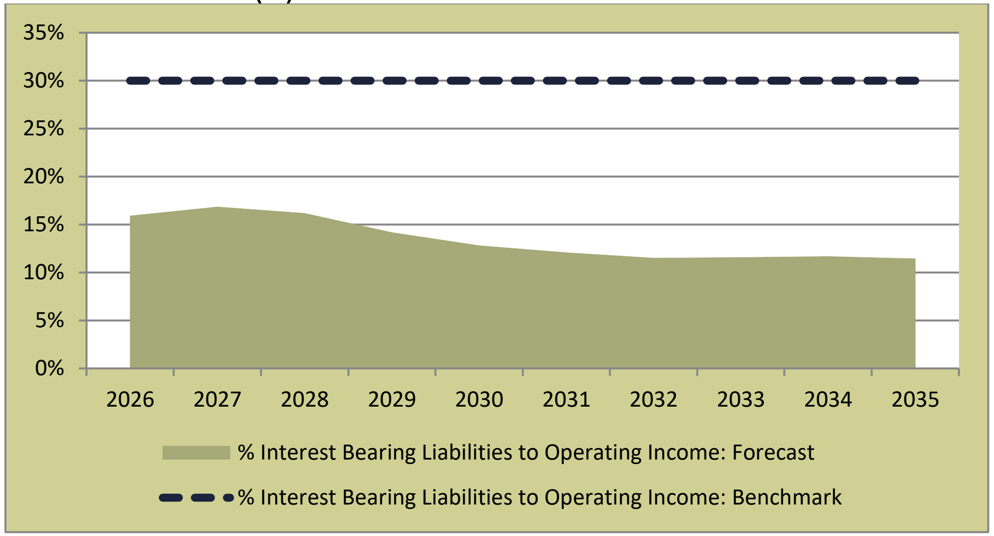
Base Case New Debt Raised



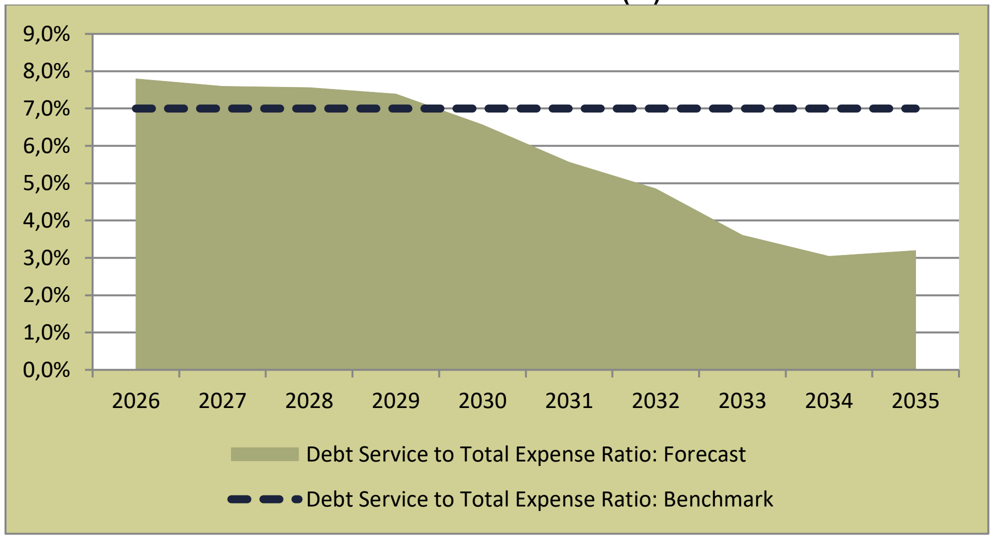
MTREF Case Gearing (%)



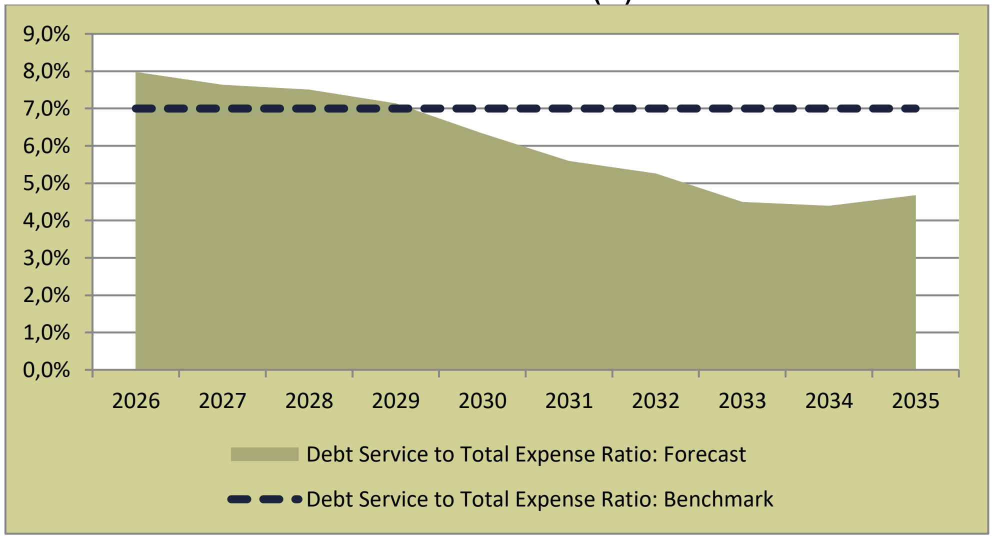
Base Case Gearing (%)



MTREF Case Debt Service to Total Expenditure (%)



Base Case Debt Service to Total Expenditure (%)



SCENARIO ANALYSIS

In addition to the MTREF & Base Case, two alternative scenarios were run:

Scenario 1.1:

1.1 This scenario assesses the impact of **accelerating borrowings to R157.0 million** in FY2026/27 and then maintaining the budgeted amounts in the outer years of the MTREF period.
1.2 Capital investment was accelerated to R211.4 million in FY2026/27 as a result.
1.3 Severe short-term liquidity pressures are forecast.
1.4 Cash shortfalls on capital investment are forecast between FY2028/29-FY2032/33.
1.5 This will render a reduction in capital investment necessary during this period.
1.6 The long-term liquidity position, while sustainable, is reduced from the Base Case.

Scenario 1.2:

1.1 This scenario assesses the impact of **accelerating borrowings to R133.0 million** in FY2026/27, while increasing borrowings to R57.7 million in FY2027/28 & R48.3 million in FY2028/29. Capital investment was accelerated to R187.4 million in FY2026/27 as a result.
1.2 Capital investment was accelerated to R187.4 million in FY2026/27 as a result.
1.3 Short-term liquidity pressures are forecast, though not as severe as in Scenario 1.1.
1.4 Cash shortfalls on capital investment are forecast between FY2028/29-FY2030/31.
1.5 This will render a reduction in capital investment or acceleration of borrowings necessary.
1.6 The long-term liquidity position remains sustainable though reduced from the Base Case.

Recommendations

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

1. **Maintain a collection rate of at least 90%** - essential to generate sufficient operational cash flows to fund operating and capital activities.

2. **Reduce operating expenditure where possible** – the Base Case assumes a 1% operating expenditure cut. This should be easily achievable given the conservative operating budget.

3. **Limit the use of internally generated funds utilised to fund capital investment** – this will alleviate short-term liquidity pressures and promote the stabilisation of the liquidity position.

4. **Accelerate borrowings over MTREF period** – this will limit the impact of the necessary reduction of internally generated funds, resulting in maintaining elevated levels of capital investment.

5. **Accelerate operational repairs and maintenance expenditure with a target of 4% of PPE & IP over 5 years** – promotes proactive asset management, limits future reactive costs and enhances service delivery.

6. **Reduce the creditors payment period to 70 days from the current level of 115 days** – improves liquidity through limiting growth in current liabilities as well as improves the municipality's reputational standing with suppliers.

7. **Implement measures to tackle excessive water losses with a targeted reduction to 30% over 5 years** – improves service provision reliability as well as limits losses and wastage on the operational budget.

8. **Include expected future revenues pursuant to the sewer projects & waste revenue in future budgets** – allows the budget to reflect the returns on current capital projects and thus provide value from a planning perspective.

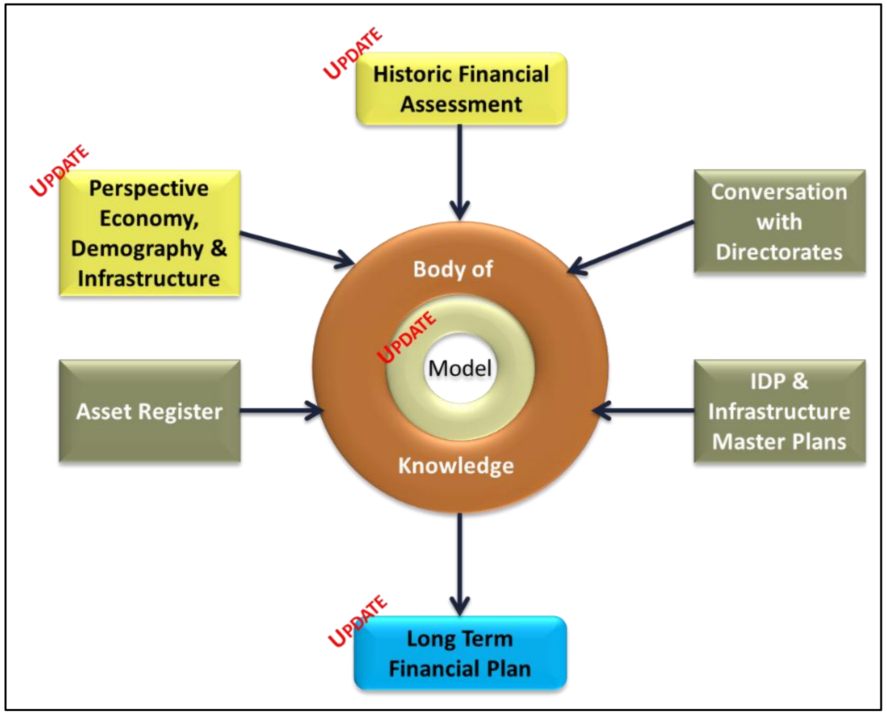
9. **Institutionalise the utilisation of a sophisticated tariff model** - ensures that tariffs reflect the true cost of delivering the service, on an organisation-wide approach (also taking into account property rates and organisational overheads).

10. **Update the long-term financial plan annually** – allows the LTFP to remain a relevant and valuable strategic tool that serves as input to the annual budgeting process.

Planning Process

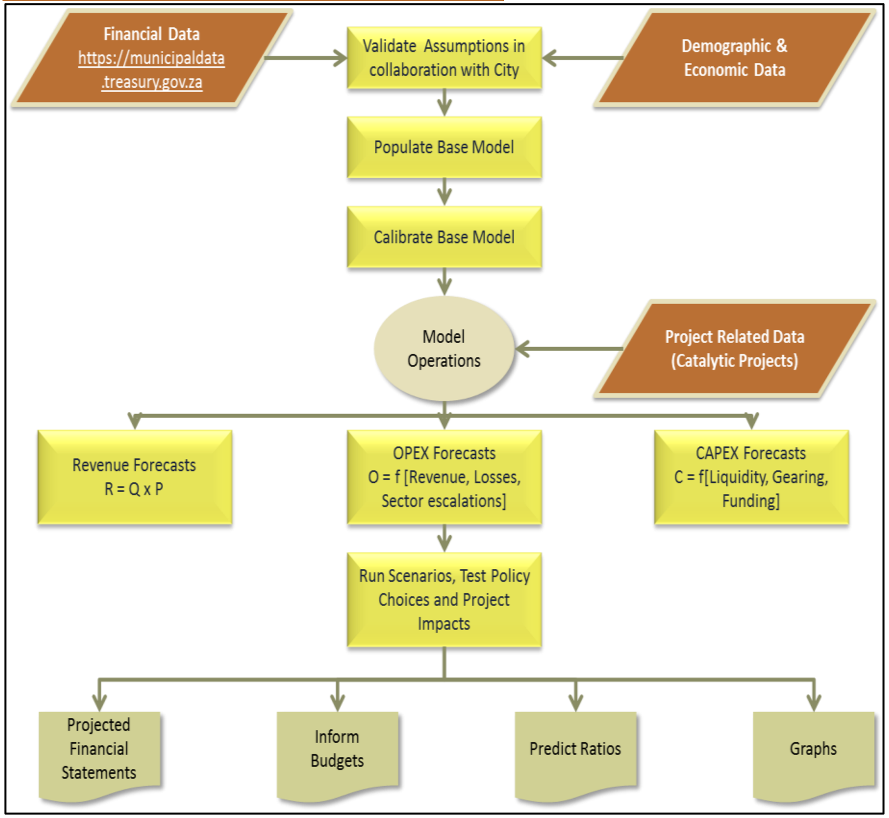
The diagram below illustrates the steps in the process that were followed in drafting the LTFP and the steps taken during this 2026 "LTFP Update":

Figure 1: Planning Process



The long-term financial model was populated with the latest information of Knysna LM and used to make a base case financial forecast of the future financial performance, financial position, and cash flow of the municipality. The diagram below illustrates the outline of the model.

Figure 2: Financial Model Framework



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

1 Planning Process

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

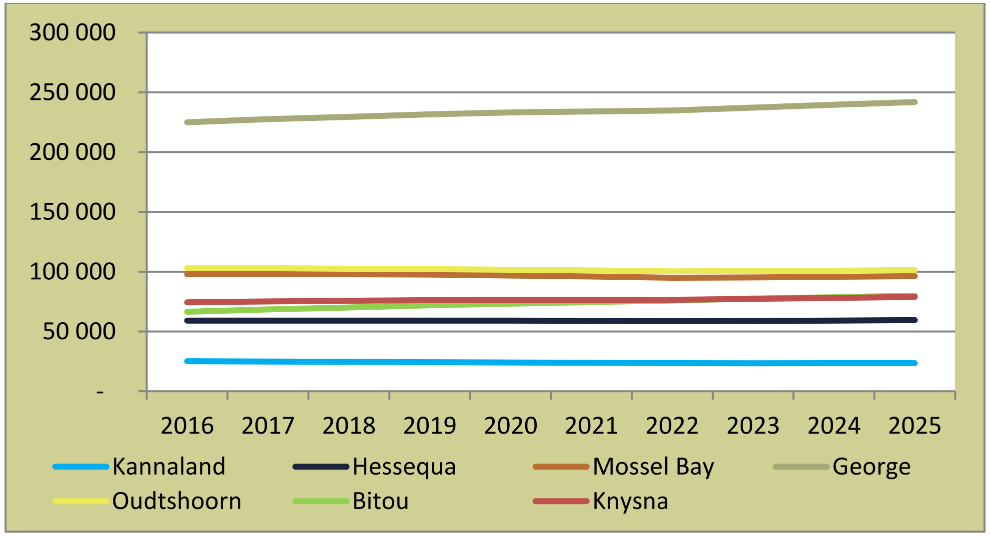
9 Conclusions

UPDATED PERSPECTIVES (DEMOGRAPHIC, ECONOMIC, HOUSEHOLD INFRASTRUCTURE)

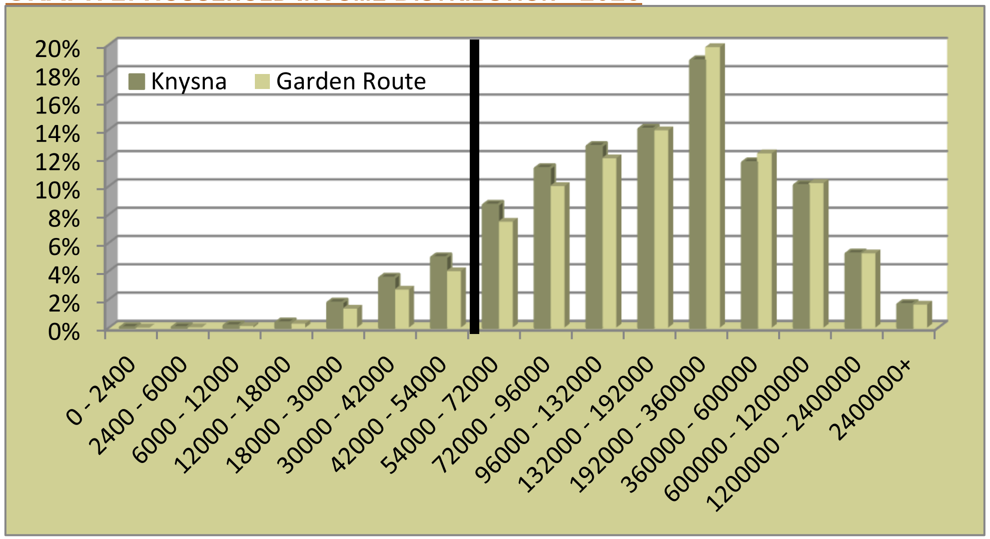
DEMOGRAPHY

Knysna had a total population of 78 870 people in 2025. This represents approximately 11.6% of the district's total population of 681 386 people. This marks Knysna as the 4th populous municipality in the district. The population grew at a rate of 0.96% in 2025. Over the past 5 years the average population growth was 0.63% p.a. This rate is below the national, and provincial averages of 1.01% and 1.18% respectively. Additionally, Knysna is the second most densely populated municipality in the district, with population density of 71.1 people per km^2. The reasonably low population growth rate, in theory, provides stability and alleviates pressure on service delivery. It may, however, also imply that the low growth within the area may result in lower expectations of future revenue growth within the municipality.

GRAPH 1: TOTAL POPULATION

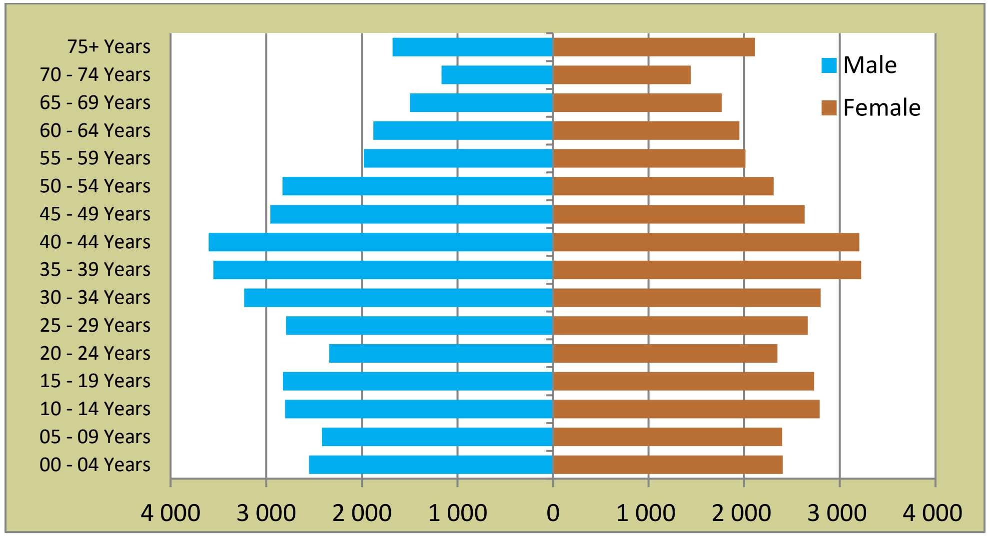


GRAPH 2: HOUSEHOLD INCOME DISTRIBUTION - 2025



GRAPH 2 above illustrates a comparison of the household income distribution of Knysna LM. Approximately 90% of the households in the municipality earn an income above the Equitable share bracket of R54 000 p.a. Theoretically, households earning less than R54 000 p.a. are indicative of the number of indigent households in the municipal area and reflect those who qualify for and/or are largely reliant on government grants as a source of income. The provision of RDP-level of basic services to these households is theoretically covered by the equitable share and this should compensate the municipality for providing free basic services.

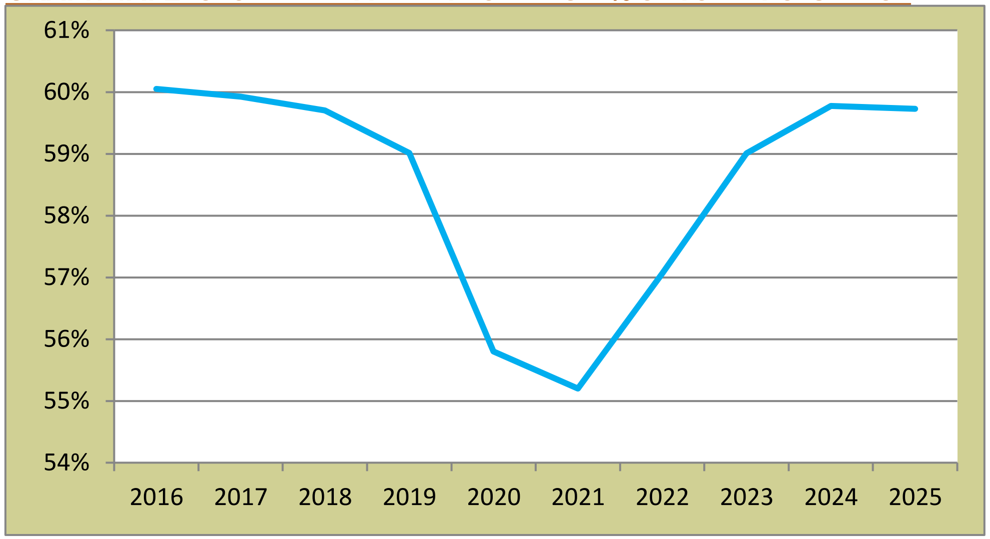
GRAPH 3: AGE PROFILE – 2025



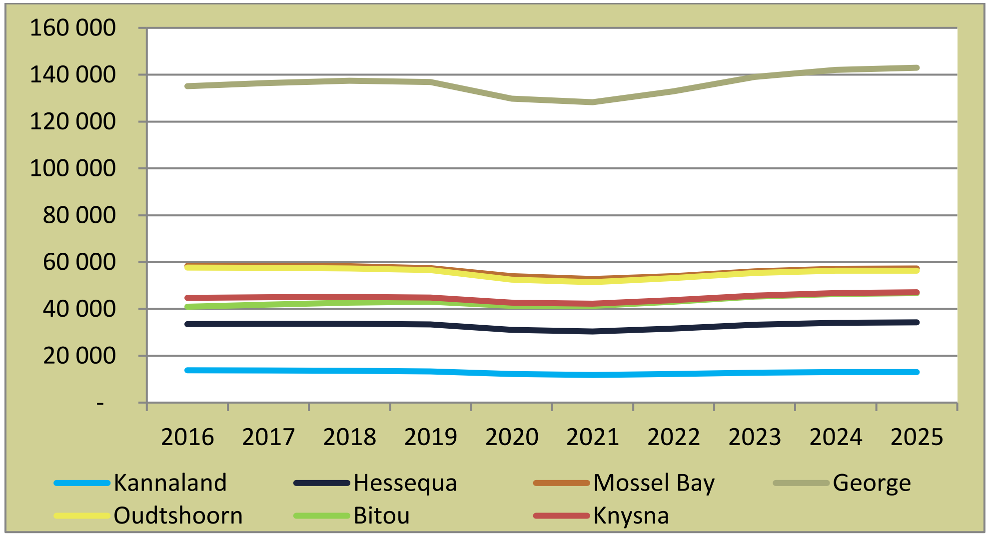
GRAPH 3 presents the demographic composition of Knysna Local Municipality, highlighting both gender and age distribution. The age profile of Knysna reflects a large number of working age people, with 61% of the population between the ages of 16-64 years. The bulk of the population being considered economically active is favourable for the municipality's long-term revenue generation as these age cohorts are traditionally the main consumers of municipal services as well as the drivers of economic activity within the region.

The economically active population as a percentage of the total population decreased slightly to 59.7% in 2025 from 59.8% in the prior year. Regardless of the slight drop, it is positive to note that the municipality has recovering well since Covid-19. 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 amount to 47 106 people in 2025.

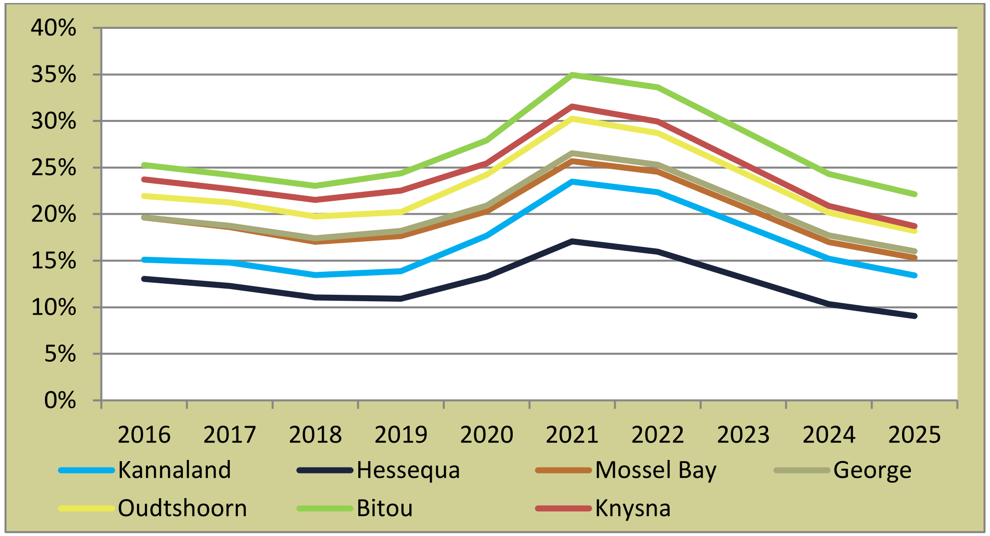
GRAPH 4A: ECONOMICALLY ACTIVE PEOPLE AS A % OF TOTAL POPULATION



GRAPH 4B: ECONOMICALLY ACTIVE POPULATION



GRAPH 5: OFFICIAL UNEMPLOYMENT RATE



The unemployment rate declined further during the year, falling to 18.7% in 2025 from 20.9% in the prior year. This represents a continuation of the declining trend in unemployment observed since 2021. The impact of Covid-19 is evident in the sharp rise in unemployment in 2021 & 2022 post covid, as depicted in GRAPH 5. Reduced unemployment rates as well as growth in household income are indicative of a reasonably healthy and growing economy within Knysna LM. This bodes well for the municipality's future revenue prospects as an expanding economy coupled with higher levels of employment indicate an expansion of the municipality's rates and revenue base.

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

ECONOMY

The municipality's total gross value added (GVA), which measures economic output, amounted to R2.72 billion (constant 2015 prices) in 2025. This represents 5.7% of the district's total GVA of R47.89 billion (constant 2015 prices). The municipality's economy was significantly impacted by the pandemic, as evidenced by an economic contraction of 5.9% in 2020. The economy rebounded well in 2021, with an economic expansion of 5.1%. Economic growth has slowed somewhat in the most recent 2 years with growth of just 1.3% and 1.7% in 2024 & 2025 respectively. However, although stronger growth would always be welcomed, these growth figures are broadly in line with expectations, as the economy has largely recovered to its pre-pandemic levels. During the recovery phase, elevated growth rates were anticipated due to the rebound effect following the contraction experienced during the pandemic period.

Knysna's local economy remains reasonably diversified, as reflected by a Tress Index of 44.77. A Tress Index of zero indicates a fully diversified economy, while a higher index (closer to 100) signifies greater economic concentration. Greater economic diversification reduces risk by spreading the impact of adverse economic conditions across multiple sectors, mitigating potential downturns. Finance, Community Services and Trade are the largest economic sectors within Knysna LM, closely followed by manufacturing. The local economy is heavily driven by the tertiary sector, with approximately 70.8% of economic output in 2025 stemming from these activities.

Since 2016, the tertiary sector has been growing at an average annual rate of 1.2%. The primary sector has shown even more substantial growth, achieving an average annual growth of 2.8% since 2016. However, in terms of the secondary sector, involving manufacturing, electricity and construction, an annual average contraction of 1% has been experienced.

GRAPH 6: ECONOMIC SECTORS

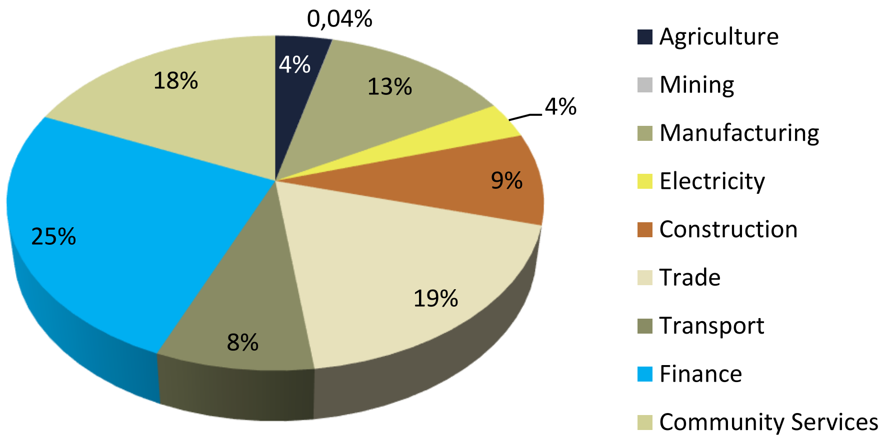
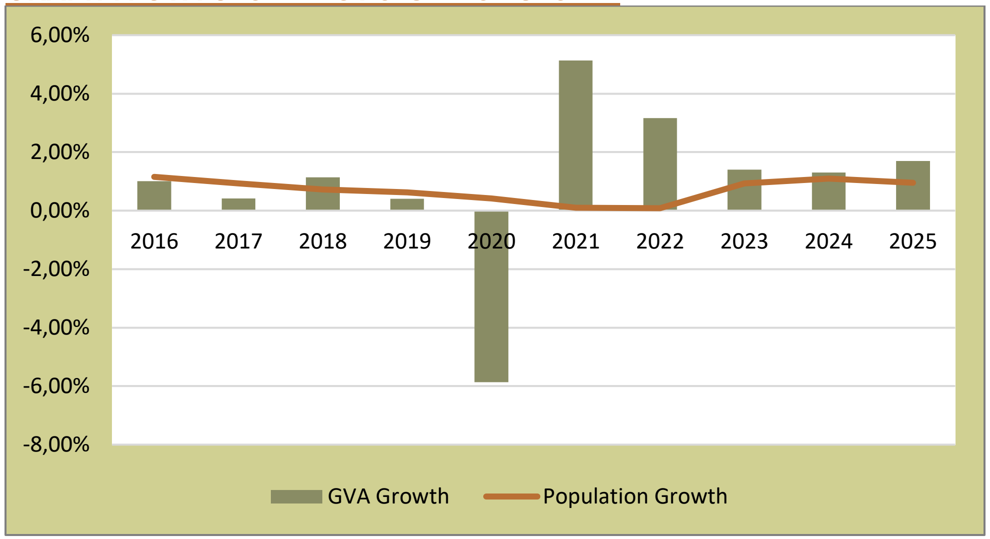


TABLE 1: CONTRIBUTION OF SUB-SECTORS TO GVA (CONSTANT 2015 PRICES)

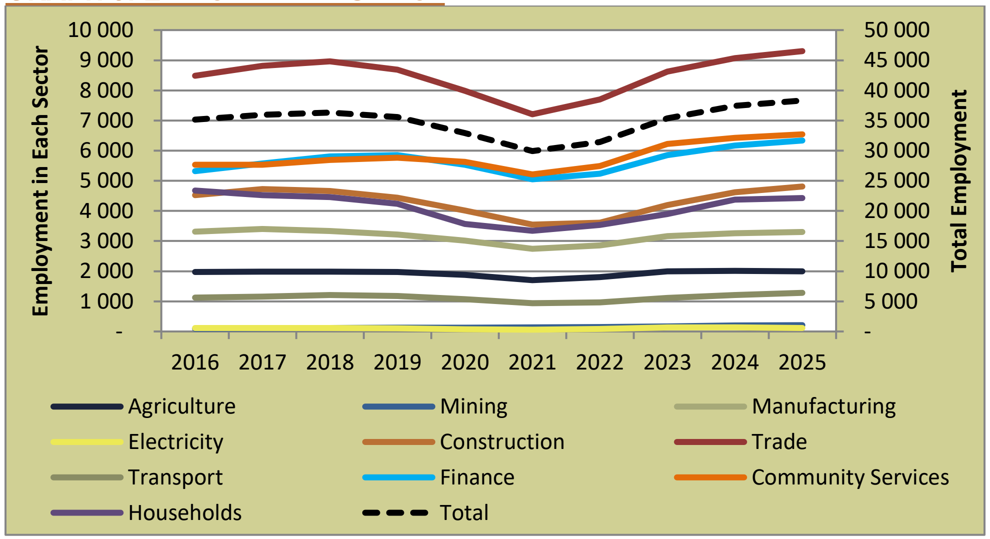
Subsector	2016	2025
Agriculture	3,2%	3,9%
Mining	0,1%	0,0%
Manufacturing	12,3%	13,0%
Electricity	4,2%	3,5%
Construction	13,3%	8,8%
Trade	19,1%	18,7%
Transport	7,6%	8,4%
Finance	24,5%	25,3%
Community Services	15,6%	18,3%

GRAPH 7: GVA GROWTH VS POPULATION GROWTH



As mentioned above, higher economic growth rates will always be preferred, as it allows for greater employment opportunities to be created for a growing population.

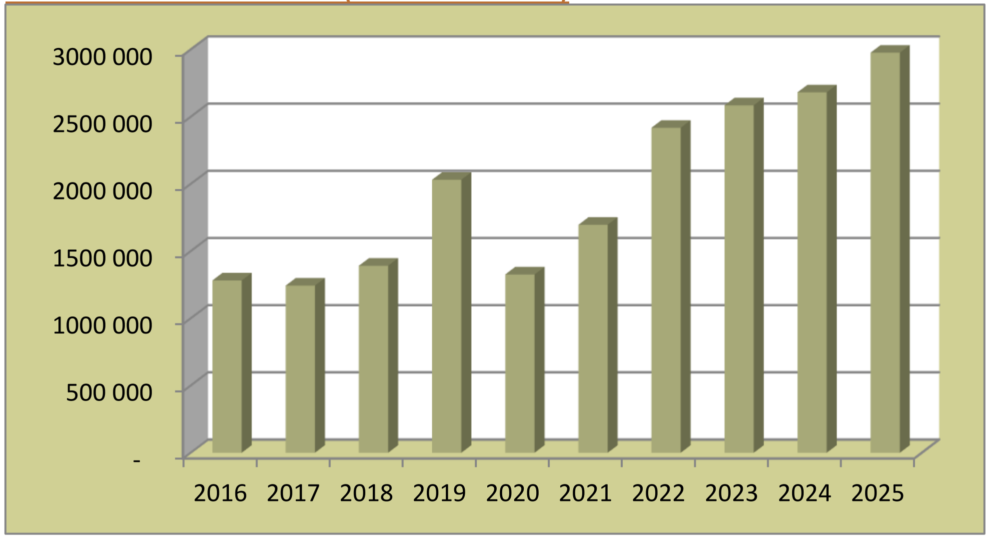
GRAPH 8: EMPLOYMENT BY SECTOR



A closer analysis of Knysna's employment data reveals a notable improvement in 2025, with the creation of 1 573 new jobs representing an 1.5% increase in comparison to the prior year. This brought the total number of employment opportunities in the municipality to 103 467, the highest over the entire review period.

The Finance (27.32%), Trade (20.03%) and Community Services (17.32%), remain the predominant providers of employment within the region. These sectors not only reflect the economic strengths of the region but also highlight areas with strong potential for further expansion and investment.

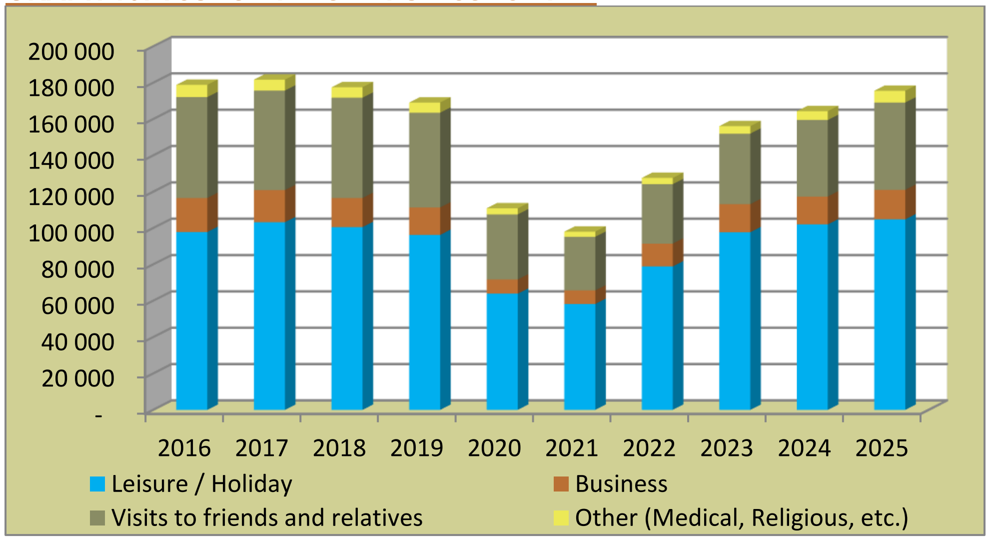
GRAPH 9: TOURISM SPEND (CURRENT PRICES)



GRAPHS 9 AND 10 (following page) collectively illustrate the historical and current state of tourism within Knysna Local Municipality, depicting tourism visits and tourist expenditure, respectively. From GRAPH 10, it is evident that tourism visits have not yet returned to pre-pandemic levels. However, GRAPH 9 shows that, despite the lower number of visits, tourist spending has exceeded pre-pandemic levels, with the exception of 2019, which appears as an outlier—likely due to travel restrictions preventing tourists from returning to their places of origin, thus resulting in heightened spending.

Such economic growth may, in turn, contribute to population growth through the creation of new employment opportunities that attract residents to the municipality, and through improved household incomes that support natural population increases.

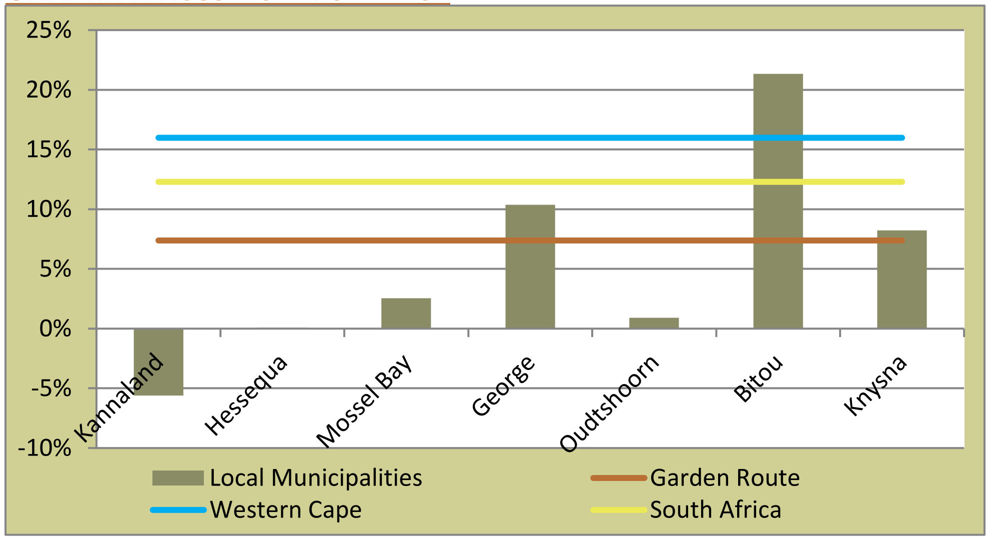
GRAPH 10: TOURISM TRIPS BY PURPOSE OF TRIP



HOUSEHOLD INFRASTRUCTURE

Household formation in Knysna since 2016 came in at 8.2%. This translates to an additional 27 258 households in absolute terms in 2025. Knysna's rate of household formation exceeded the district (7.4%) but remained below national (12.3%) and the provincial rates (16%). Any growth in the number of households places additional pressure on the municipality to keep up with the increase in the demand for infrastructure services, as more households form within the municipality. Given the moderate rate of household formation within Knysna over the review period, one would expect that the municipality should be able to keep pace with the new demand for services. This will be assessed through trend analysis of the infrastructure index.

GRAPH 11: HOUSEHOLD FORMATION



Knysna has managed to improve access to municipal services over the review period, as measured by the infrastructure index which improved from 0.85 in 2015 to 0.88 in 2024. This is lower than the district and provincial indices of 0.90, 0.89 respectively, but above the national index of 0.77. The maintenance and improvement of this index is indicative of the municipality's ability to keep up with the rate of household formation and growing population. It must be stated that the infrastructure index is a measure of access to municipal services and does not necessarily give an indication as to the quality as well as the security with which these services are provided.

GRAPH 12: INFRASTRUCTURE INDEX

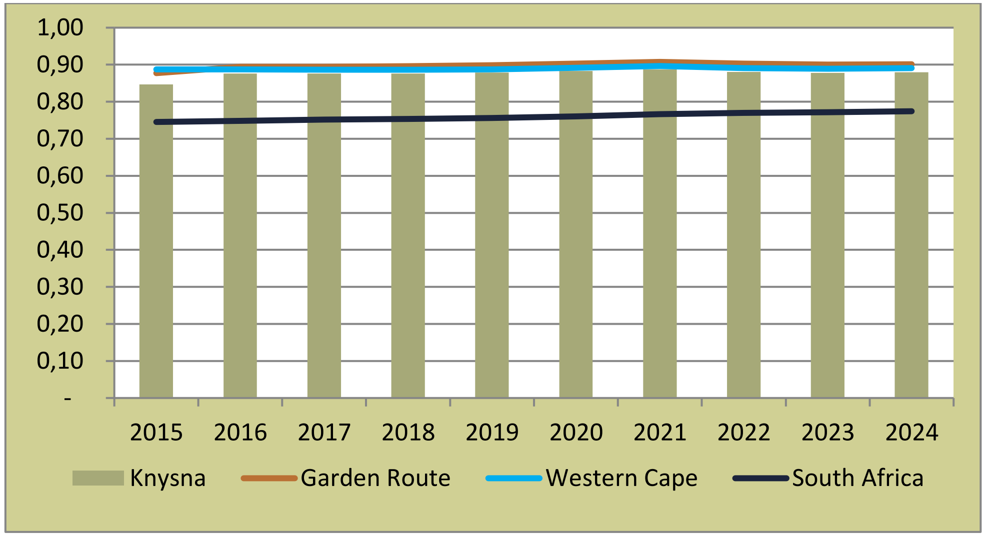


TABLE 2 below compares service backlogs between Knysna and the Garden Route District. Over the review period, Knysna has been outperformed by the district to services across all categories except for refuse removal. While this may seemingly be a cause for concern, the level of backlogs for services in Knysna remains reasonably low. However, there have been well-documented service delivery challenges within Knysna which may not necessarily be reflected in this data. Challenges with water infrastructure have left the very real threat of "Day Zero" within the municipality. This indicates the dire need for improved maintenance of infrastructure as well as for strict prioritisation of capital projects to ensure that these infrastructure shortcomings are dealt with.

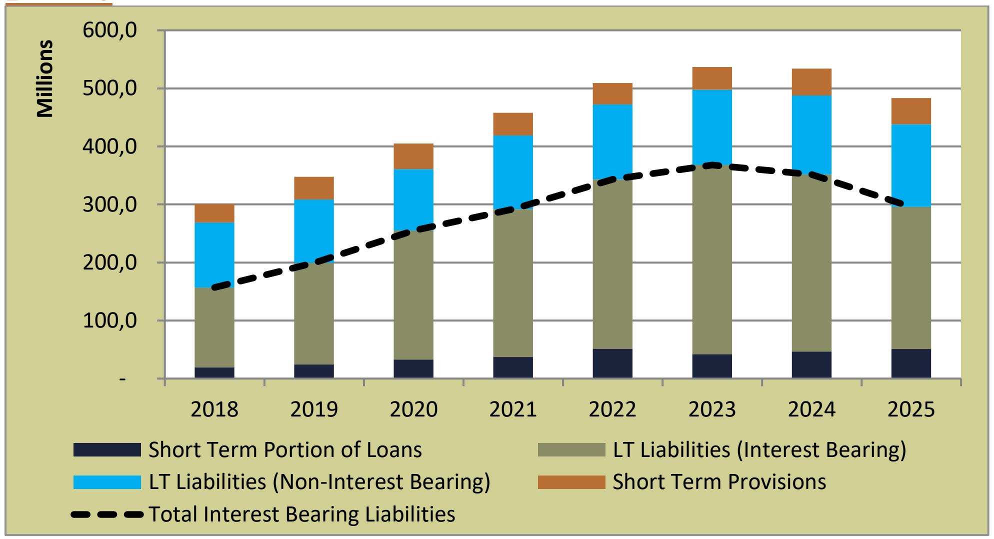
TABLE 1: HOUSEHOLD INFRASTRUCTURE PROVISION

Infrastructure	Garden Route		Knysna	
Above RDP Level				
Sanitation	189 490	94,7%	23 132	91,8%
Water	195 523	97,7%	24 594	97,6%
Electricity	193 179	96,5%	24 126	95,8%
Refuse Removal	181 838	90,8%	24 007	95,3%
Below RDP or None				
Sanitation	10 706	5,3%	2 056	8,2%
Water	4 673	2,3%	595	2,4%
Electricity	7 017	3,5%	1 062	4,2%
Refuse Removal	18 358	9,2%	1 181	4,7%
Total Number of Households	200 196	100,0%	25 188	100,0%

UPDATED HISTORIC FINANCIAL ASSESSMENT

FINANCIAL POSITION

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

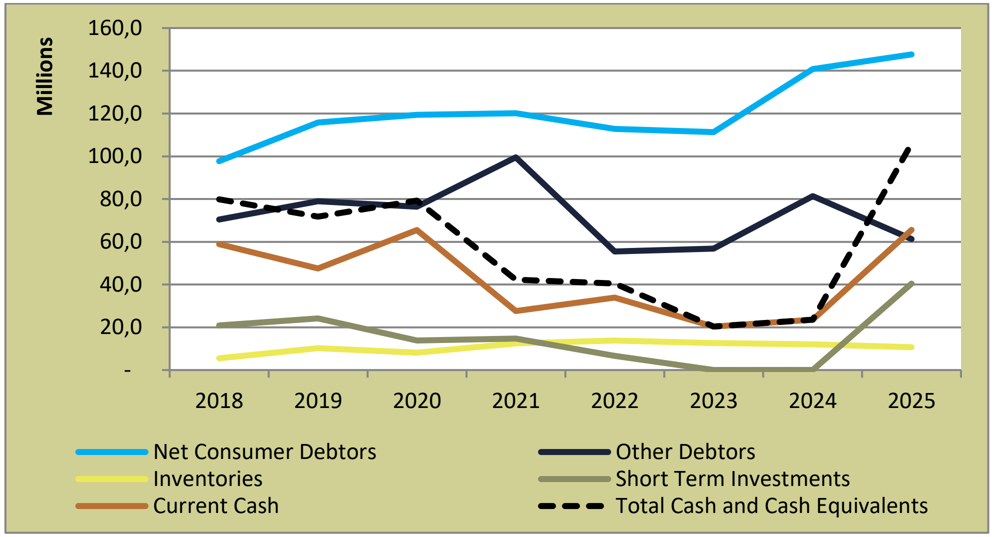


Knysna LM's net fixed assets position improved during FY2024/25, increasing by 0.5% to R1.5 billion as at FYE2024/25. Healthy financial performance contributed to an increase of 13.7% in the accumulated surplus which totalled R1.17 billion as at FYE2024/25. The accumulated surplus fluctuated throughout the review period with a declining trend observed between 2021 and 2023. However, growth was observed since 2023, highlighting the compounding impact of sustained healthy financial performance.

Knysna LM's total interest-bearing liabilities decreased by 19.8%, from R305.4 million at FYE2023/24 to R 244.8 million at FYE2024/25. There were no additional borrowings that took place during FY2024/25. This resulted in a decrease in the gearing ratio (total debt to total revenue) down to 23.5% from 30.3% at the prior year end. The debt service to total expense ratio increased marginally to 7.86% from 6.74% at the prior year end. The increase in the debt service to total expense ratio despite a reduction in interest-bearing liabilities, can be explained by the decline in operating expenditure of 1.9% during FY2024/25. This reduces the divisor in the debt service to total expense ratio thus resulting in an increase in this ratio.

Non-interest-bearing liabilities, mainly consisting of provisions for the rehabilitation of landfill sites, finance lease and employee benefit obligations, increased by 4.5% during the year. The increase in the provision for the rehabilitation of landfill sites was driven by additions to the provision of R15.9 million as well as a change in the discount factor which increased the provision by R21.2 million.

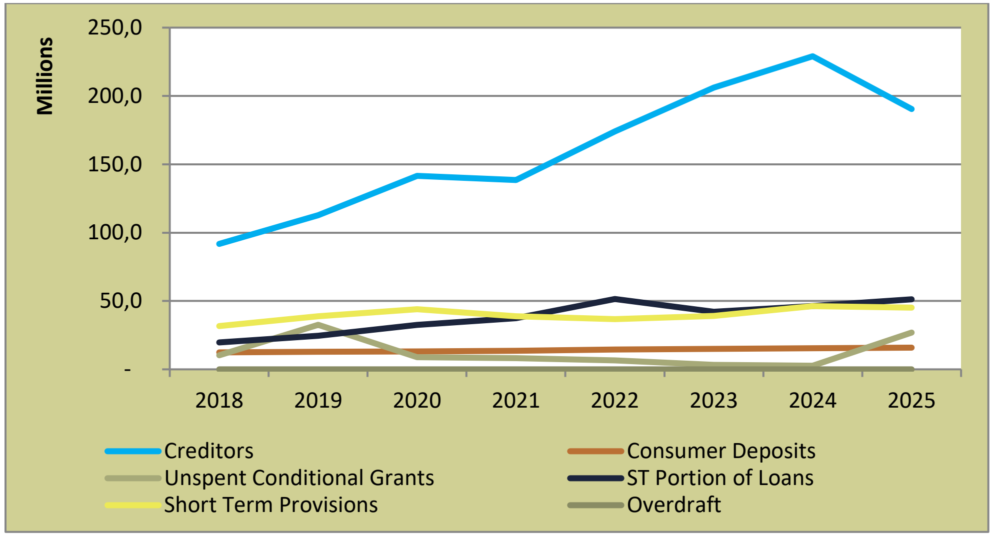
GRAPH 14: CURRENT ASSETS



Current assets increased by 26.3% during the year to R325 million from R257.8 million at the prior year end. This was mainly driven by a notable increase in cash and cash equivalents, up to R106 million from R23.6 million, as well as an increase in receivables from non-exchange transactions which increased from R103.4 million in the prior year to R111.2 million in the current year.

Current liabilities reflected a decline of 3.0% during the year, down to R329.6 million as at FYE2024/25 from R339.8 million at the prior year end. This decline was primarily ascribed to a reduction in creditors of 16% to R190.6 million in the current year (FYE2023/24: R229.1 million). The decrease in creditors was primarily driven by decreases in VAT payable as well as trade payables. The municipality must continue to limit growth in or reduce their creditors as it leads to an improved liquidity position.

GRAPH 15: CURRENT LIABILITIES

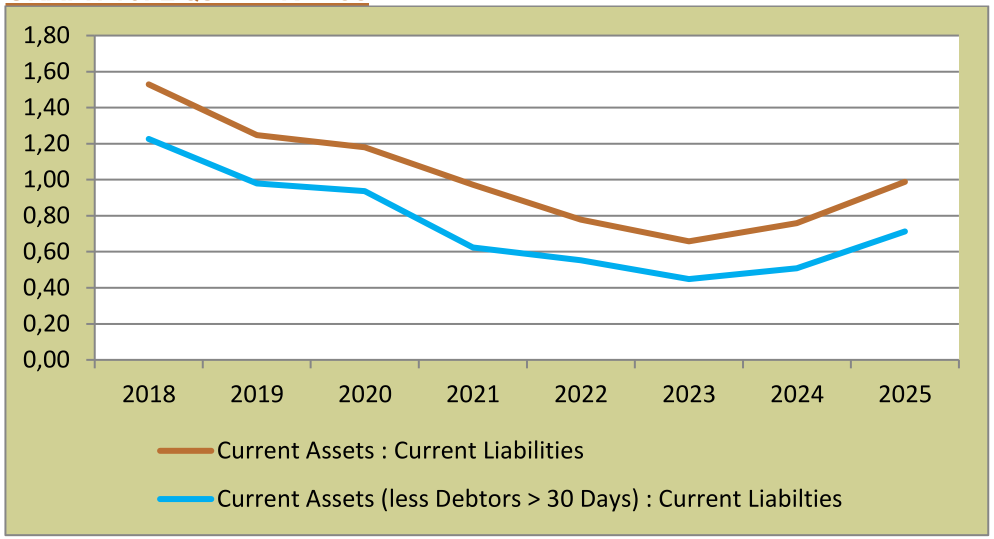


The movements in current assets and current liabilities resulted in an improved liquidity position, with the liquidity ratio increasing to 0.99:1, from 0.76:1 at the prior year end. This was underpinned by a significant increase in the cash and cash equivalents while creditors decreased by 16% in the current year. It must be stated that while the improvement is a positive step towards longer-term sustainability, the liquidity position remains reasonably weak. Further improvements must be targeted.

TABLE 2: LIQUIDITY RATIOS

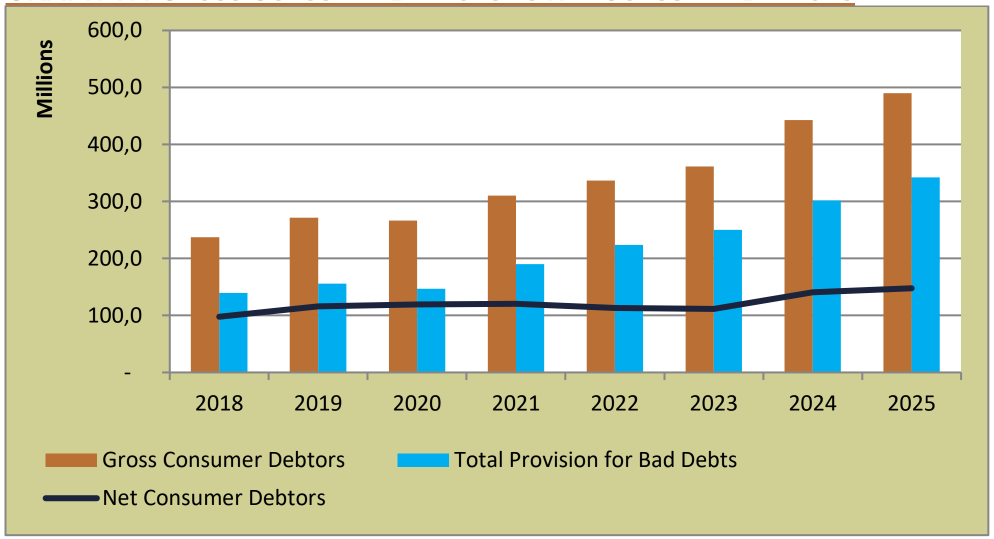
	2018	2019	2020	2021	2022	2023	2024	2025
Current Assets: Current Liabilities	1,53	1,25	1,18	0,97	0,78	0,66	0,76	0,99
Current Assets (less Debtors > 30 Days): Current Liabilities	1,23	0,98	0,94	0,62	0,55	0,45	0,51	0,71

GRAPH 16: LIQUIDITY RATIOS



Gross consumer debtors increased by 10.7% up to R490.0 million as at FYE2024/25. A proportionally higher increase in the provision for bad debts of 13.4% was recorded during the year. Despite this, net consumer debtors increased by 4.9% up to R147.7 million as at FYE2024/25. The provision for bad debts essentially covered all debtors older than 90 days (87% as at FYE202/25) thus mitigating the risk associated with non-payment.

GRAPH 17: GROSS CONSUMER DEBTORS VS NET CONSUMER DEBTORS



GRAPH 18: CONSUMER DEBTORS AGE ANALYSIS

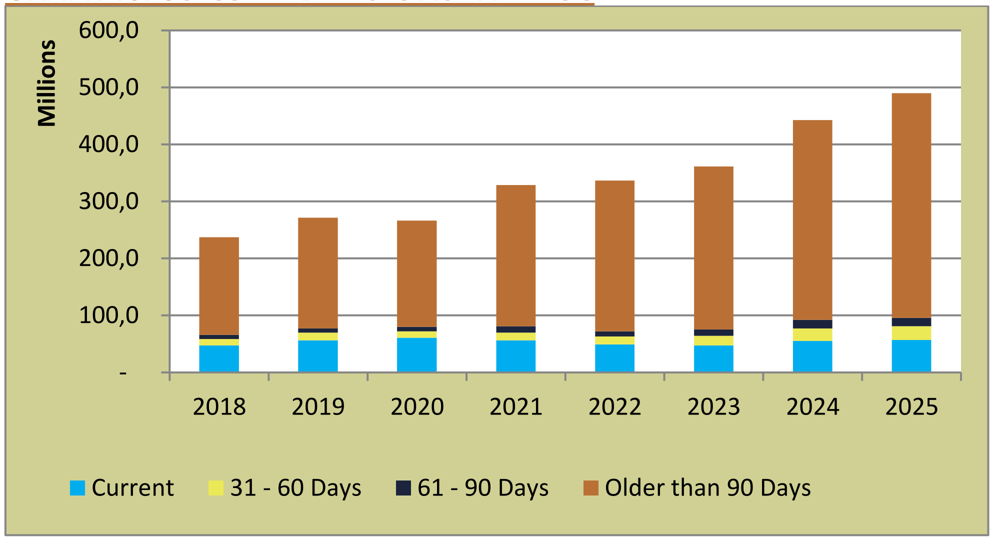


TABLE 3: DEBTORS RATIOS

	2019	2020	2021	2022	2023	2024	2025
Increase in Billed Income p.a. (R'm)	33,2	(5,2)	22,7	64,0	16,5	121,7	91,5
% Increase in Billed Income p.a.	6%	-1%	4%	10%	2%	17%	11%
Gross Consumer Debtors Growth	14%	-2%	16%	9%	7%	22%	11%
Payment Ratio / Collection Rate	94,3%	100,9%	92,7%	93,2%	80,2%	87,9%	93,7%

The collection rate was calculated at 93.7% as at FYE2024/25. This reflects an increase from 87.9% calculated in the prior year. IPM's calculation of the collection rate utilises the same formula as included in NT's Circular 71. Knysna LM must be commended for implementing measures that have provided returns with respect to the collection rate. It is positive to note a return above the 90% collection mark.

The debtors age analysis reveals that the majority of debtors are older than 90 days (80.5%), while just 11.7% of debtors are current. While the bulk of debtors being older than 90 days poses a concern, the municipality has managed this risk well through adequately providing for bad debts. The provision for bad debts essentially covered the majority of debtors older than 90 days (87% as at FYE2024/25) thus largely mitigating the risk associated with non-payment. It is recommended that the municipality aims to fully provide for debtors older than 90 days to fully cover the risk of non-payment of these debtors.

Financial Performance

GRAPH 19: Analysis of Surplus

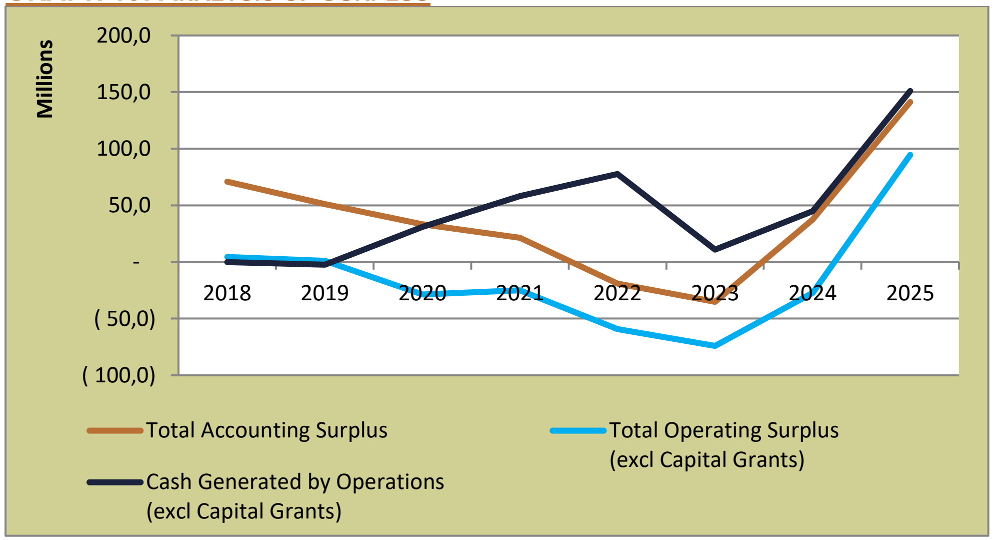


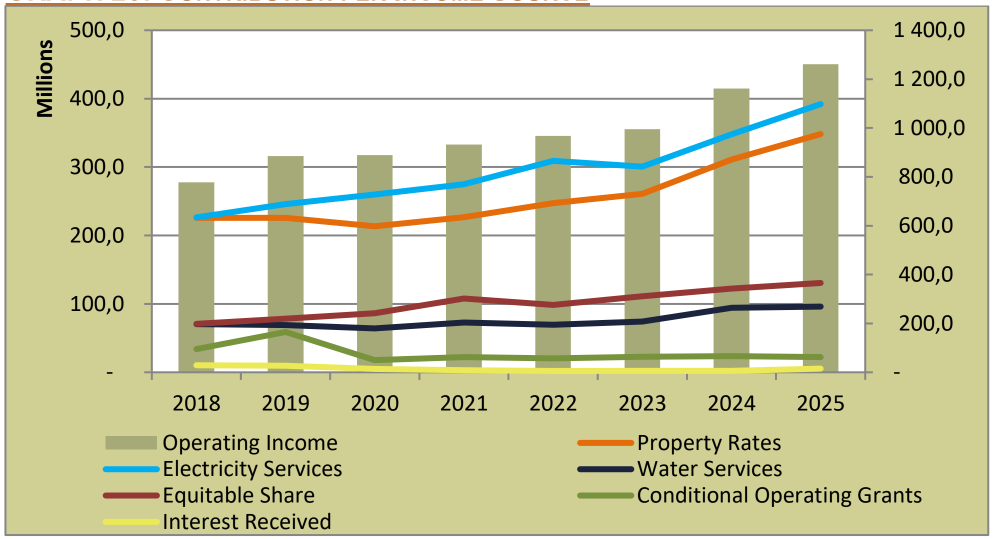
TABLE 4: Analysis of Surplus

	2018	2019	2020	2021	2022	2023	2024	2025
Total Accounting Surplus	71,0	51,0	33,3	21,4	(19,1)	(35,1)	37,5	141,3
Total Operating Surplus (excl Capital Grants)	4,6	1,2	(28,6)	(25,0)	(59,1)	(74,0)	(27,4)	94,6
Cash Generated by Operations (excl Capital Grants)	(0,1)	(2,4)	31,0	58,1	77,8	11,1	44,9	151,0

During FY2024/25, total income increased to R1.30 billion from R1.22 billion in the prior year (6.6%). During the same period, total expenditure decreased to R1.16 billion from R1.18 billion (1.9%). These movements are reflected in the increased accounting surplus of R141.3 million (FY2023/24: R37.5 million). Upon the exclusion of **capital** grants, an operating surplus of R94.6 million was posted (FY2023/24: deficit of R27.4 million). This is positive to note and is the first operating surplus posted since FY2018/19.

Cash generated from operations (excluding capital grants) improved to R151.0 million during FY2024/25, from R44.9 million in the prior year. Knysna LM generated cash from operations 6/8 years under review. This was mainly underpinned by an improved collection rate and financial performance in the current year. Additionally, this was achieved whilst reducing creditor balances. Working capital management, specifically non-payment of creditors, has been a source of cash generation in the past.

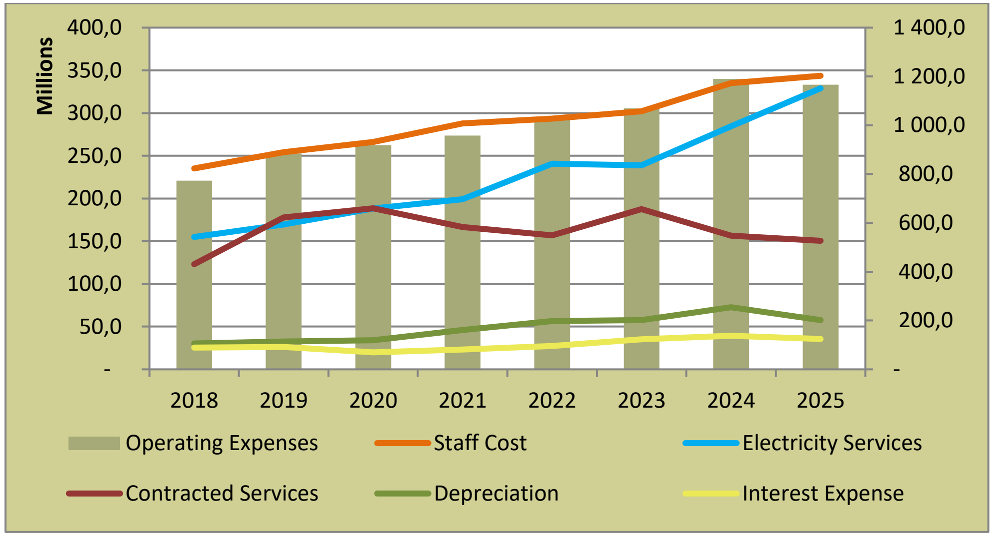
GRAPH 20: Contribution per Income Source



Electricity services remained the predominant revenue source for the municipality, accounting for R392.0 million in revenue during FY2024/25. This equates to 31.1% of operating revenue. The municipality's electricity distribution losses were 10.46% during FY2024/25, a reduction from 11.58% in the prior year. Water loses remained high in the current year and increased from 33.68% in the prior year to 47.98% in the current year. The municipality must continue to strive to reduce distribution losses to within the recommended norm range of 7-10%.

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

GRAPH 21: CONTRIBUTION PER EXPENDITURE ITEM



There was a slight decrease in operating expenditure of 1.9% to R1.16 billion in the current year from R1.18 billion during FY2023/24. The main drivers of operating expenditure during FY2024/25 were electricity bulk purchases (27%), staff costs (27.9%) and contracted services (12%).

In order to properly assess the affordability of the municipality's employee related expenditure profile, it is worth assessing the combined contribution of staff costs and contracted services. It is worthwhile including contracted services in this assessment as they represent an alternative to staff costs as certain services are outsourced to contractors. The contribution of contracted services of 12% exceeds NT's recommended maximum norm of 5%. The combined contribution of staff costs and contracted services totalled 40% during FY2024/25. This places Knysna's employee related expenditure profile at the very limits of affordability, given NT's maximum recommended norm of 40%. Necessary cuts are required to support long-term sustainability. Alternatively, cuts in other areas of expenditure may be required if the municipality is unable to further reduce this line item.

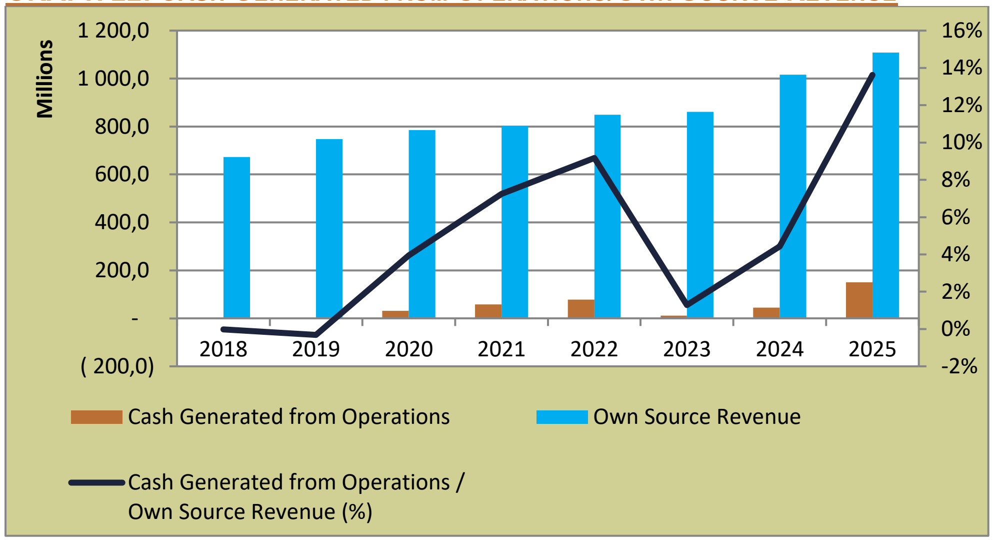
A key driver of the improved financial performance observed during FY2024/25 was the reduction of debt impairment expenditure. This is a direct result of the improvement in the collection rate observed during the year. This highlights the significant benefits derived from improvements in the collection rate. This does not only impact upon the municipality's ability to generate cash from operations but also directly supports financial performance.

The total grants to total revenue ratio was calculated at 15% during FY2024/25. This would suggest that the municipality is not heavily reliant on grants to generate revenue but rather that they have strong sources of revenue which included service charges, rates and other sources of revenue. This is a healthy indicator of self-reliance.

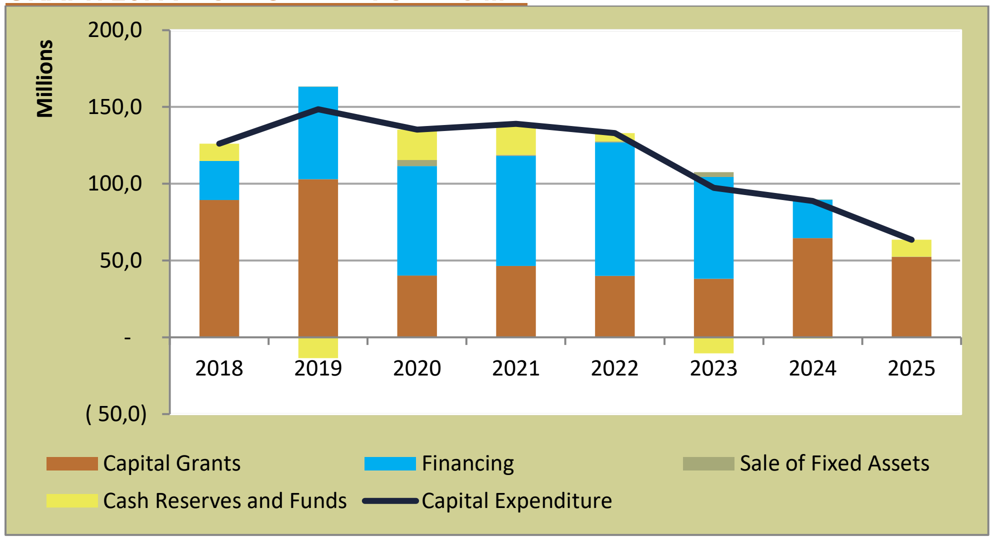
Operational expenditure incurred to repair and maintain the municipality's assets dropped to R40.7 million during FY2024/25, down 14% from R47.9 million in the prior year. This equates to 2.6% of PPE & IP (FY2023/24: 3.1%). This remains low relative to NT's norm of 8% and must ideally be increased in future. This is particularly important given the infrastructure challenges the municipality is experiencing.

Cash Flow

GRAPH 22: Cash Generated from Operations/Own Source Revenue



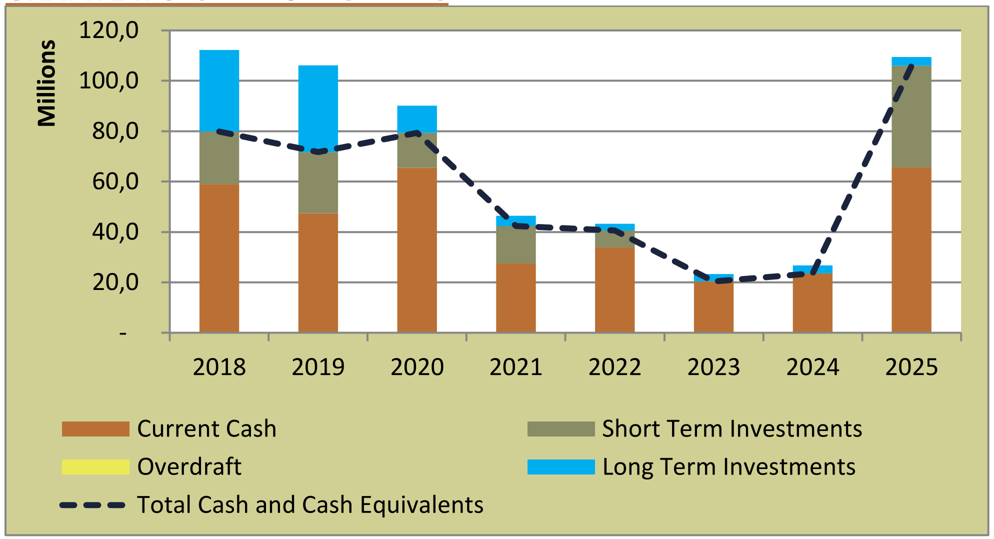
GRAPH 23: Annual Capital Funding Mix



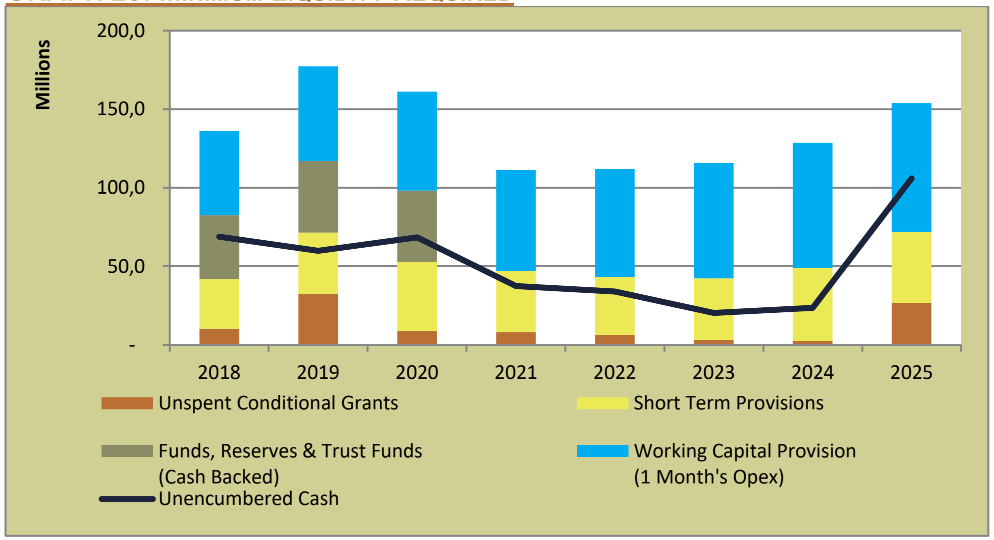
Knysna LM's ability to generate cash from operations was underpinned by an increase in the collection rate to 93.7% during FY2024/25. While this is positive to note, further improvements closer to NT's recommended 95% must be targeted. Graph 24 below illustrates the movements in cash and cash equivalents over the review period. Knysna's cash balances fluctuated throughout the review period. This has been underpinned by the fluctuations in the collection rate. Cash from operations represents 14% of the municipality's own-source revenue in FY2024/25, an improvement from the prior year.

The total capital outlay over the review period amounted to R931.5 million at an annual average of R116.4 million. As evidenced in Graph 23, there has been a decline of capital investment since FY2020/21. Capital investment is mainly made up of capital grants (51%), financing (44%) and own cash reserves (5%). There were no borrowings taken in the current year, resulting in the capital investment programme being funded entirely through capital grants (83%) and cash reserves (17%). This resulted in the gearing ratio declining to 23.5% in the current year from 30.3% in the prior year. This reflects a more sustainable debt profile, with IPM recommending a maximum gearing ratio of 30% for Knysna. The debt service to total expenditure ratio increased from 6.74% in the prior year to 7.8% in the current year. This is approaching the NT maximum norm of 8% and exceeds IPM's recommended maximum of 7%. This would suggest that the municipality must carefully manage its levels of debt over the MTREF period. Longer loan tenors should also be explored. The LTFM must be utilised to quantify affordable borrowing limits given the municipality's debt absorption capacity. This has formed a key part of the modelling of the Base Case to be discussed later in the report.

GRAPH 24: CASH AND INVESTMENTS



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. The minimum liquidity requirement of R153.8 million exceeded Knysna's cash and cash equivalents balance of R106.0 million, resulting in a cash shortfall of R47.8 million in FY2024/25 (shortfall of R105.0 million in the prior year). Knysna has posted cash shortfalls below the minimum liquidity requirements throughout the review period. The cash coverage ratio (including working capital) during the year was 0.7x (FYE2023/24: 0.2x). While clear improvements have been noted, it is evident that further work needs to be done for Knysna to move into a financially sustainable situation.

TABLE 5: MINIMUM LIQUIDITY REQUIREMENTS

	2018	2019	2020	2021	2022	2023	2024	2025
Unspent Conditional Grants	10,3	32,6	8,8	8,2	6,5	3,3	2,7	26,9
Short Term Provisions	31,7	38,9	43,9	38,9	36,6	39,0	46,2	45,1
Funds, Reserves & Trust Funds (Cash Backed)	40,5	45,5	45,5	-	0,2	-	-	-
Total	**82,5**	**117,0**	**98,3**	**47,0**	**43,3**	**42,2**	**48,9**	**72,0**
Unencumbered Cash	68,8	59,9	68,5	37,4	34,0	20,4	23,6	106,0
Cash Coverage Ratio (excl Working Capital)	0,8	0,5	0,7	0,8	0,8	0,5	0,5	1,5
Working Capital Provision (1 Month's Opex)	53,6	60,4	63,0	64,2	68,6	73,6	79,7	81,8
Cash Coverage Ratio (incl Working Capital)	0,5	0,3	0,4	0,3	0,3	0,2	0,2	0,7
Minimum Liquidity Required	136,1	177,4	161,3	111,2	111,9	115,8	128,6	153,8
Cash Surplus/(Shortfall)	**(67,3)**	**(117,5)**	**(92,8)**	**(73,8)**	**(77,9)**	**(95,5)**	**(105,0)**	**(47,8)**

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 FY2024/25 performance of Knysna, the IPM credit model reflects a score of 6.0 which is comparable to a Lower **A+ to A-** on a national ratings scale. This credit score is relatively low compared to other municipalities but is considered to be at **Investment Grade** level. This means the municipality should obtain competitive lending rates when approaching the market for financing.

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

TABLE 6: IPM Credit Model Outcomes

Modules	2025 (5)
Financial	3.0
Institutional	2.8
Socio-Economic	2.5
Infrastructure	3.7
Environmental	4.5

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

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

The score achieved on the financial module is driven by the high collection rate and healthy liquidity position. By implementing the recommendations of the LTFP update report, maintaining financial discipline and prudent financial management, Knysna should be able to maintain and improve this score over time.

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

1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long-Term Financial Model Outcomes

5 Future Revenues

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Long-Term Financial Model Outcomes

MTREF Case Scenario

The starting point for our modelling exercise is to develop the MTREF Case. This entails utilising unadjusted figures from the Approved Budget for 2026/27-2028/29 along with the 2024/25 AFS. The purpose of the MTREF Case is to assess the LTFM's long-term forecast should the budget be implemented as is and the status quo be maintained. Essentially, this allows us to see if the budget will "hold", given the municipality's current situation. Part of this process includes an analysis of the operating and capital budgets. Beginning with the operating budget, it is our view that Knysna has been reasonably conservative in its compilation. This view is informed through comparing the budget estimates with the recent historic levels of financial performance. This reveals that the municipality has budgeted for a noteworthy decline in financial performance from levels seen in the FY2024/25 AFS. For context, an operating surplus (excluding capital grants) of R94.6 million was posted during FY2024/25. The Approved Budget reflects operating deficits of R11.4 million, R35.3 million and then an improvement to a surplus of R61.4 million over the MTREF period. With this in mind, we determine that there is high probability that the operating budget will be outperformed, particularly in FY2026/27 & FY2027/28.

In arriving at the MTREF Case, no adjustments were made to the Approved Operating and Capital Budgets. The collection rate was maintained at 90% throughout the planning period, interest rates on new long-term debt were set at 7% above forecast CPI, with average loan tenors set at 10 years. Other key metrics such as repairs and maintenance expenditure (2.65% of PPE), distribution losses (electricity at 10.46% & water at 47.98%) and creditors days (115 days) were maintained at their respective FY2024/25 levels. Additionally, refuse removal revenue was calibrated to the budget estimates, while sanitation revenue was not.

Beginning with financial performance, a notable downturn is expected over the MTREF period with minor operating deficits expected. This is expected to exceed the budget estimates but remains well below the performance observed in FY2024/25. Revenue growth remains healthy at an average of 6.3% over the MTREF period, with an increasing trend expected. Conversely, operating expenditure is forecast to increase at decreasing rates, while maintaining the same average growth rate of 6.3% over the MTREF period. The impact of this is evident in the improving trend in financial performance as illustrated in Graph 26 below.

The municipality is expected to continue to generate healthy cash from operations. A total of R1.89 billion in cash is forecast to be generated over the planning period, excluding capital grants. This is underpinned by the healthy collection rate of 90%. A further factor underpinning the ability to generate cash from operations is the forecast growth in creditors. Creditors are expected to increase by a considerable 79% over the planning period. While this supports operational cash flows, it begins to result in a deterioration of liquidity.

A big concern with the MTREF Case outcome is the forecast depletion of cash reserves. As depicted in Graph 30 below, the municipality is forecast to move into an overdraft position immediately. The main driver of this is the extent of internally generated funds included in the funding mix over the MTREF period. R73 million has been included in FY2025/26 with a further R95 million; R83 million & R81 million between FY2026/27-FY2028/29. This is forecast to prove unaffordable and result in an unsustainable liquidity position, with an overdraft position forecast until FY2032/33. This is entirely unsustainable.

A summary of the MTREF Case outcome is provided below:

Strengths:

- Ability to generate cash from operations.
- Accounting and Operating surpluses expected over the majority of the planning period

Weaknesses:

- Forecast growth in creditors.
- Cash shortfalls on budgeted capital investment.
- Overdraft position forecast for majority of the planning period.

Base Case Scenario

With the MTREF Case outcomes analysed and key strengths and weaknesses identified, we now arrive at the sustainable Base Case. The MTREF Case and historic financial assessment discussed in the previous section of this report, inform the Base Case through allowing key strengths and weaknesses to be identified which, in turn, are addressed in the Base Case. Realistic and achievable assumptions are incorporated to ensure that Knysna remains financially sustainable over the long-term and that the key strengths and weaknesses identified in the MTREF Case are addressed. In doing so, the Base Case utilises the same data sources as the MTREF Case, being the 2026/27 Approved Budget and 2024/25 AFS. Similarly with the MTREF Case, the conservative operating budget impacts upon the Base Case outcome.

The key focus areas identified in the MTREF Case outcome that the Base Case will aim to address are short-term liquidity pressures, long-term growth in creditors, insufficient repairs and maintenance expenditure and excessive water losses. The key assumptions made in arriving at the Base Case are listed below:

1. A collection rate of 90% is maintained throughout the planning period.
2. The MTREF capital investment programme was adjusted as follows:
    a. FY2025/26: **R100.0 million** (Budget: R137.0 million)
    b. FY2026/27: **R153.8 million** (Budget: R249.3 million)
    c. FY2027/28: **R140.0 million** (Budget: R174.6 million)
    d. FY2028/29: **R145.0 million** (Budget: R163.7 million)
    Assumed growth beyond FY2028/29 is 6% p.a.
3. The borrowing programme was included as follows:
    a. FY2025/26: R0.0 million (Budget: R0.0 million)
    b. FY2026/27: R99.4 million (Budget: R99.4 million)
    c. FY2027/28: **R80.0 million** (Budget: R45.8 million)
    d. FY2028/29: **R60.0 million** (Budget: R35.9 million)
4. The annual borrowing under this scenario was adjusted to an average of 10-year amortising loans at a fixed interest rate equal to 7% over forecast CPI (average 3.7%) in any given year. Assumed annual growth in borrowing beyond FY2028/29 is 4%.
5. Operating expenditure was cut by 1%.
6. Repairs and maintenance expenditure as a % of PPE & IP was increased to 4% (from 2.6%) over 5 years and then maintained at this level for the remainder of the planning period.
7. Electricity losses were maintained at 10.46% whilst water losses were reduced to 30.00% from 47.98% over a period of 5 years.
8. Tariff increases were included as put forward in the Approved Budget Document for FY2026/27-FY2028/29.
9. Creditors days were reduced to 70 days from 115 days over 10 years.

The Base Case scenario presents a sustainable long-term outcome, with the key focus areas identified in the MTREF Case addressed. This is characterised by improved financial performance, a stable liquidity position and an affordable capital investment programme. This has been achieved predominantly through implementing necessary cuts to the capital programme, particularly cutting the portion of internally generated funds. This allows the liquidity position to stabilise.

Financial performance is expected to improve over the MTREF period, with accounting and operating surpluses expected throughout the planning period. The extent of these surpluses, while below FY2024/25 levels, will exceed the MTREF Case. This is partly underpinned by the 1% opex cut modelled under the Base Case. Given the conservative operating budget, we believe that the 1% opex cut will be easily achievable.

The increase in repairs and maintenance expenditure is expected to remain affordable. A total of R739 million is expected to be spent on operational repairs and maintenance during this period, an additional R176 million from the MTREF Case total of R563 million. By keeping assets in good working order and investing in their renewal and upgrading, this spending will help ensure the municipality's infrastructure remains reliable and in good condition.

Knysna LM is forecast to generate cash from operations throughout the planning period. The healthy forecast cash generation is underpinned by the healthy collection rate as well as strong financial performance beyond the MTREF period. A total of R1.65 billion in cash is forecast to be generated by operations over the planning period. This remains below the MTREF Case forecast of R1.89 billion due to the reduction of creditors days modelled under the Base Case. Creditors were forecast to rise by a considerable 79% over the planning period under the MTREF Case, whereas this growth has been limited to 17% under the Base Case. This contributes to the strengthening of the liquidity position over the long-term through limiting growth in current liabilities.

The Base Case prioritises the stabilisation of the liquidity position. While liquidity pressures are expected to be maintained over the MTREF period, the municipality is expected to maintain the ability to meet its current obligations. Over the longer-term, the liquidity position is expected to continually improve over the planning period, ending with a liquidity ratio of 2.5:1 at FYE2034/35. This is underpinned by the maintenance of a healthy collection rate and strong long-term forecast financial performance. It must be noted that the reduced capital programme is an essential part of the liquidity position reaching a position of stability. Internally generated funds must be limited over the short-term to allow the liquidity position to stabilise.

The key concern arising from the MTREF Case outcome is the forecast depletion of cash reserves (GRAPH 30). This has necessitated the adjustments made in arriving at the Base Case, with a particular focus on limiting internally generated funds to fund capex over the short-term. Analysis of GRAPH 32 reveals that these amendments have had the desired effect as the Base Case presents a stable outlook from a cash perspective. While the minimum liquidity requirement of 1-months operating expenditure will not be met until FY2030/31, consistent growth in cash and cash equivalents is expected. The Base Case has tried to strike a balance between improving the cash and liquidity position whilst not hindering the municipality's capital investment requirements. It is appreciated that court directives have forced the municipality's hand in terms of capital spending as well as repairs and maintenance efforts. However, the municipality cannot jeopardise its long-term financial sustainability through employing excessive cash reserves to meet these directives. It is recommended that alternative funding sources, be it sustainable borrowings or, ideally, additional grant funding are explored in an attempt to satisfy the directives whilst also prioritising the long-term financial sustainability of the municipality.

The Base Case has significantly reduced the internally generated funds portion of the funding mix which has necessitated the reduction of total capital investment over the MTREF period. In an attempt to limit the required reduction of capital investment, borrowings have been accelerated over the MTREF period. This is a firm recommendation as it will allow higher levels of capital investment to be undertaken, whilst simultaneously allowing the cash and liquidity position to stabilise.

The Base Case presents a sustainable long-term outcome characterised by healthy financial performance and cash generation, which underpins a stable cash and liquidity position. It is strongly recommended that the budgeted capital investment programme is revised downwards with the utilisation of internally generated funds limited over the short-term. Additional borrowings and/or grant funding should be explored.

Strengths:

- Strong forecast for financial performance over long-term.
- Healthy collection rate.
- Strong ability to generate cash from operations.
- Limited growth of current liabilities over long-term.
- Healthy liquidity position forecast.
- Sustainable capital investment programme.
- Positive debt profile.

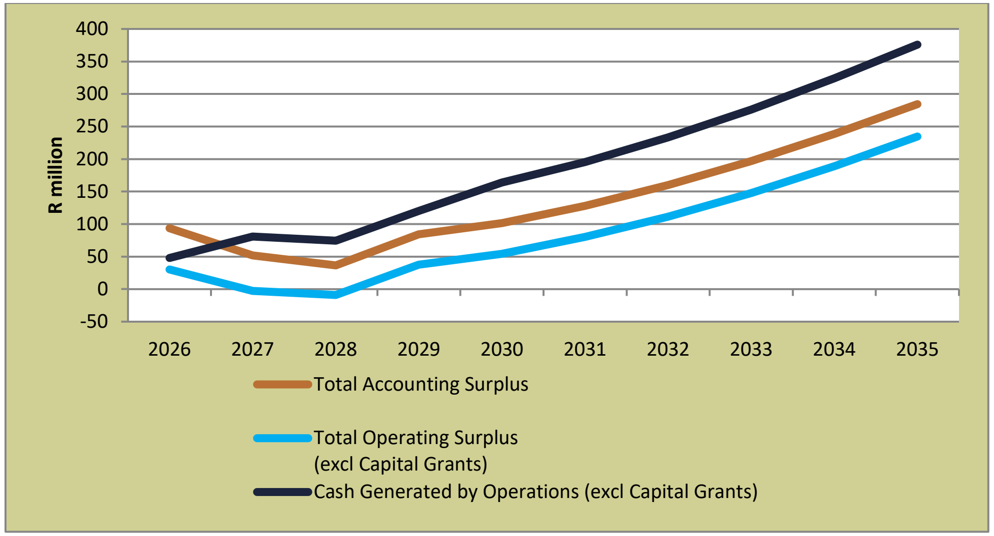
Weaknesses:

- Repairs and maintenance ratio is at 4%. NT recommends 8%

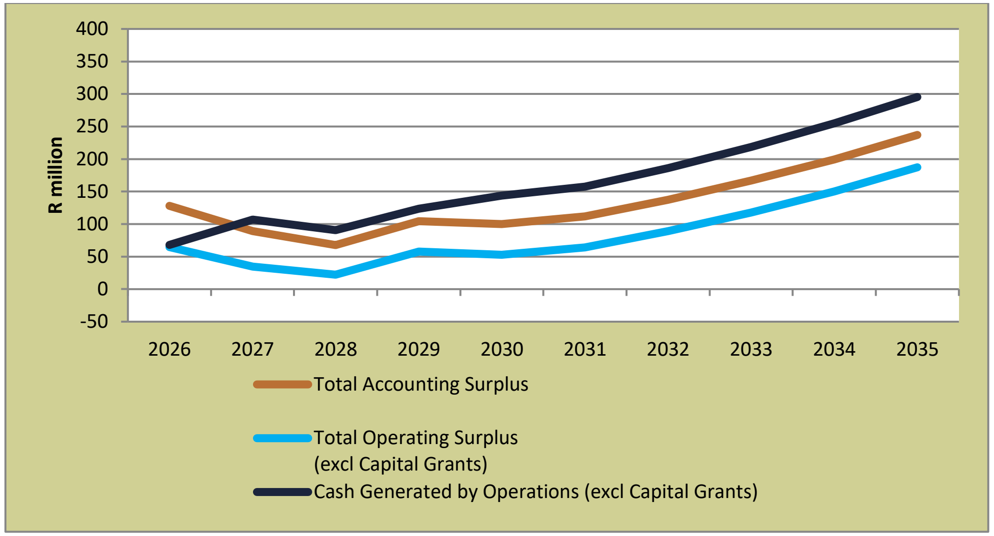
TABLE 8: MTREF CASE VS BASE CASE OUTCOMES

Outcome	MTREF Case	Base Case
Average annual % increase in Revenue	7,2%	7,1%
Average annual % increase in Expenditure	7,2%	7,3%
Accounting Surplus accumulated during Planning Period (Rm)	R 1 376	R 1 342
Operating Surplus accumulated during Planning Period (Rm)	R 874	R 840
Cash generated by Operations during Planning Period (Rm)	R 1 893	R 1 645
Average annual increase in Gross Consumer Debtors	12,1%	11,7%
Capital investment programme during Planning Period (Rm)	R 1 936	R 1 611
External Loan Financing during Planning Period (Rm)	R 429	R 653
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 399	R 622
No of Months Cash Cover at the end of the Planning Period (Rm)	2,5	3,8
Liquidity Ratio at the end of the Planning Period	1,4 : 1	2,5 : 1
Gearing at the end of the Planning Period	5,7%	11,4%
Debt Service to Total Expense Ratio at the end of the Planning Period	3,2%	4,7%

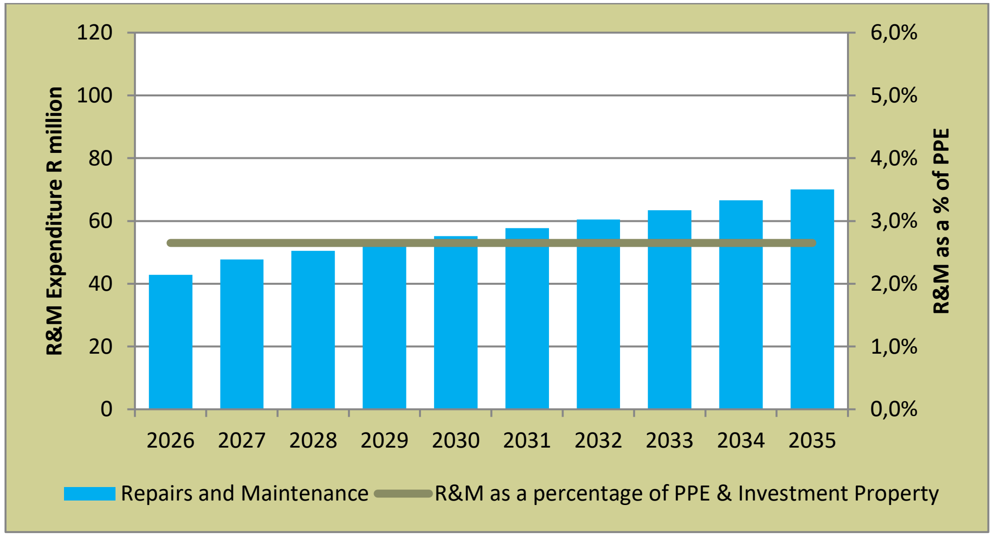
GRAPH 26: MTREF CASE SCENARIO: ANALYSIS OF SURPLUS



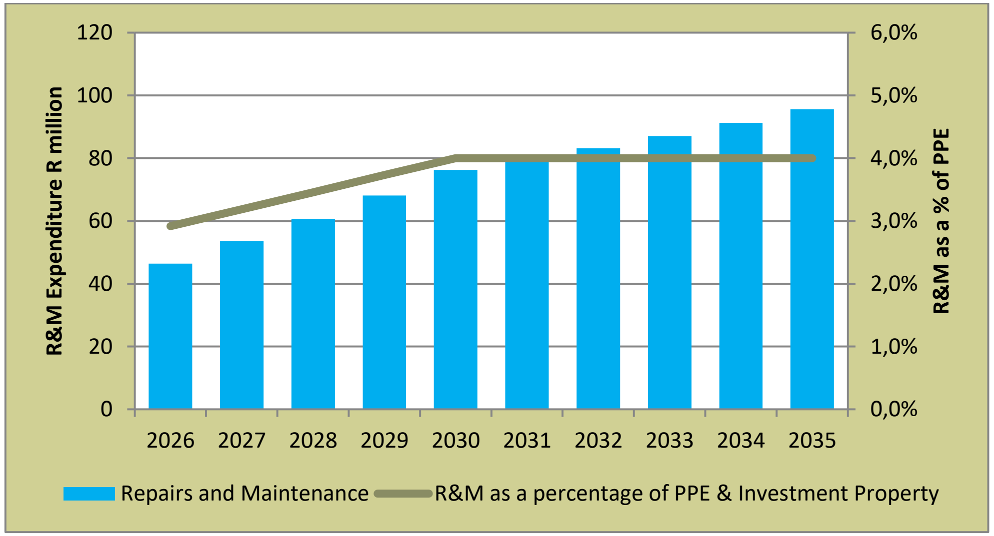
GRAPH 28: BASE CASE SCENARIO: ANALYSIS OF SURPLUS



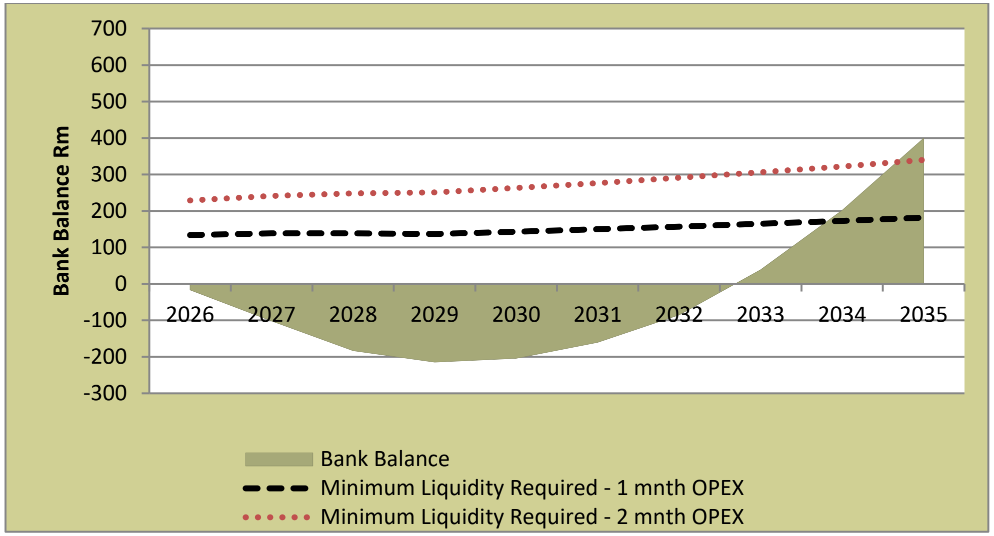
GRAPH 27: MTREF CASE SCENARIO: R&M EXPENDITURE TO PPE & IP



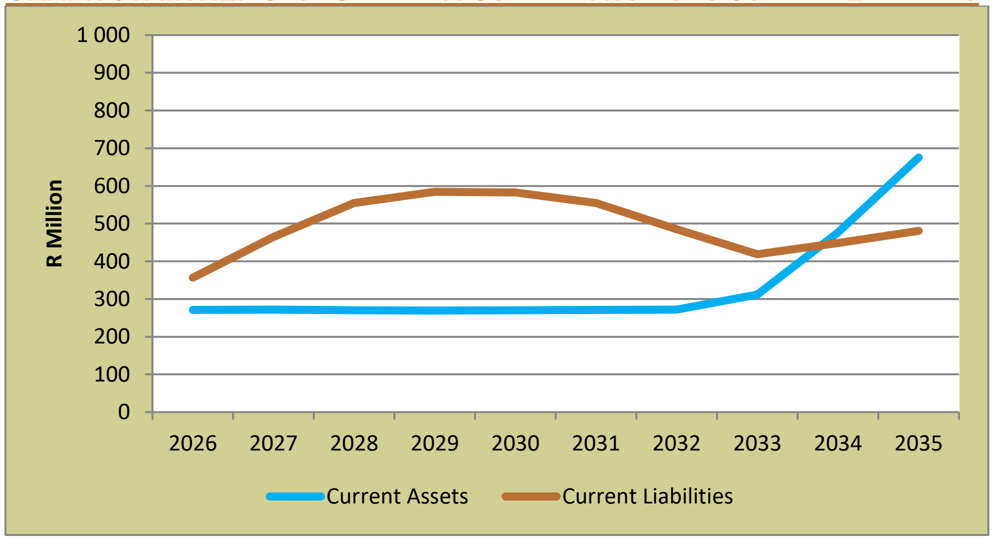
GRAPH 29: BASE CASE SCENARIO: R&M EXPENDITURE TO PPE & IP



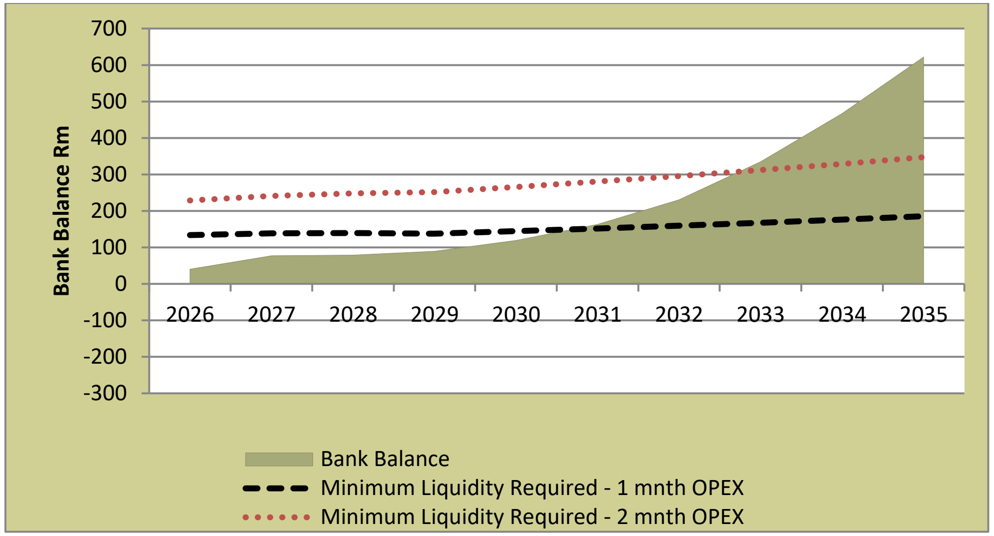
GRAPH 30: MTREF CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY



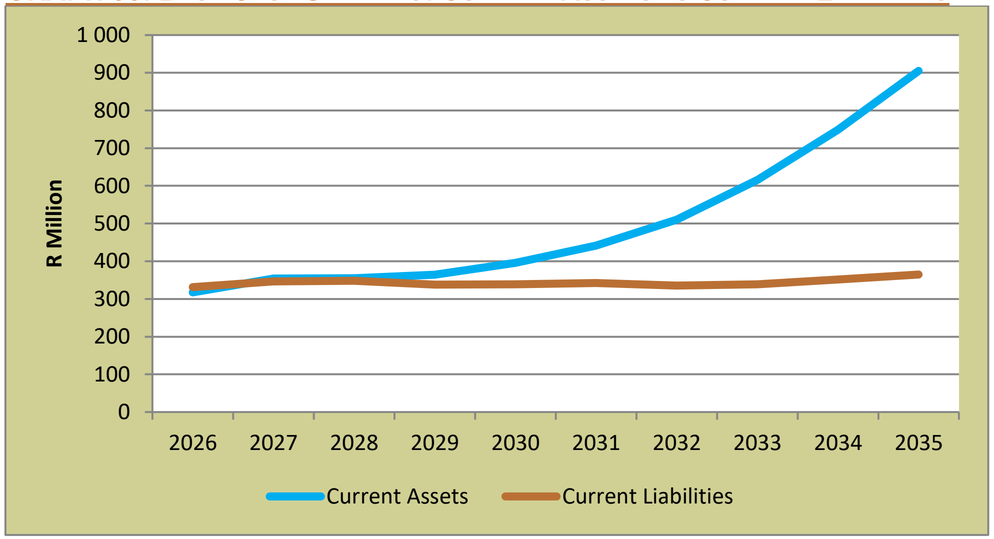
GRAPH 31: MTREF CASE SCENARIO: CURRENT ASSETS VS CURRENT LIABILITIES



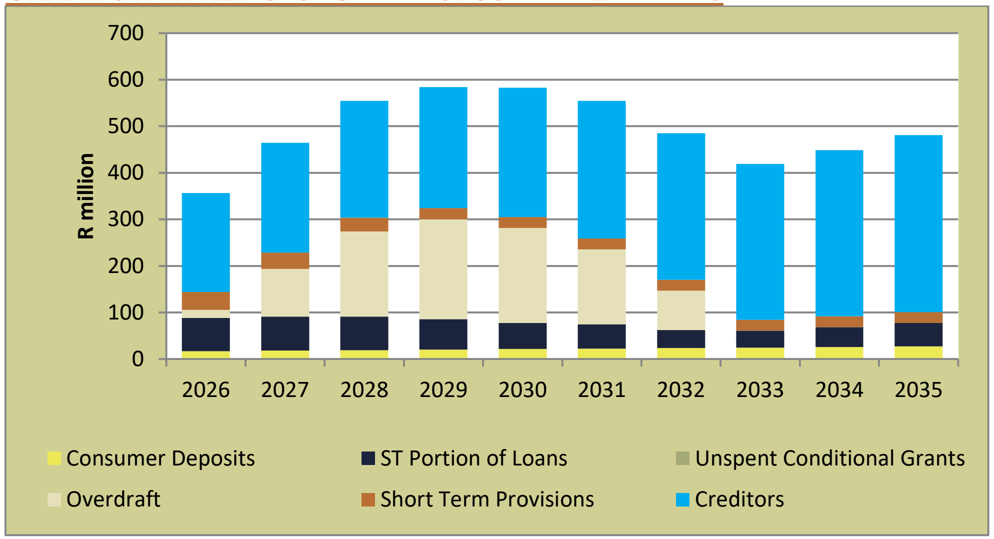
GRAPH 32: BASE CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY



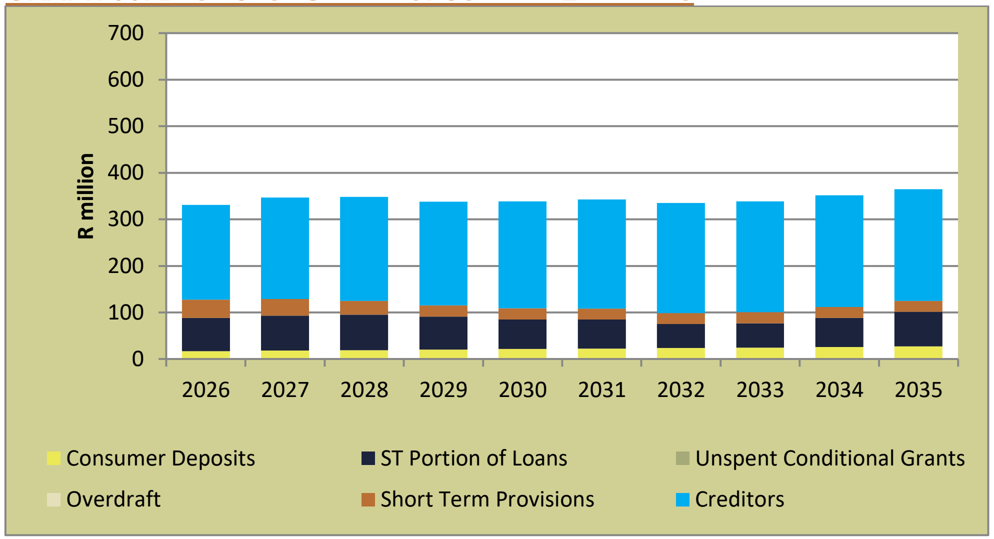
GRAPH 33: BASE CASE SCENARIO: CURRENT ASSETS VS CURRENT LIABILITIES



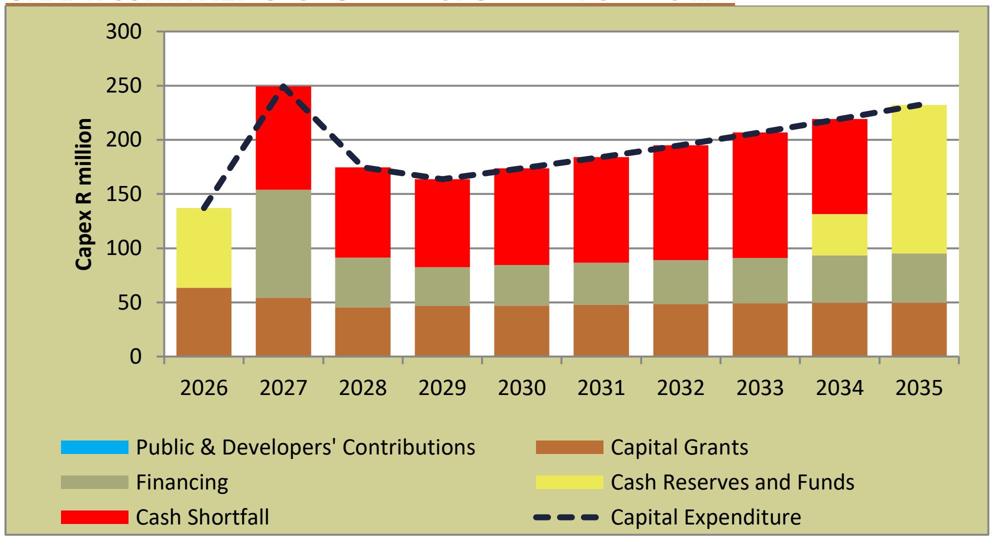
GRAPH 34: MTREF CASE SCENARIO: CURRENT LIABILITIES



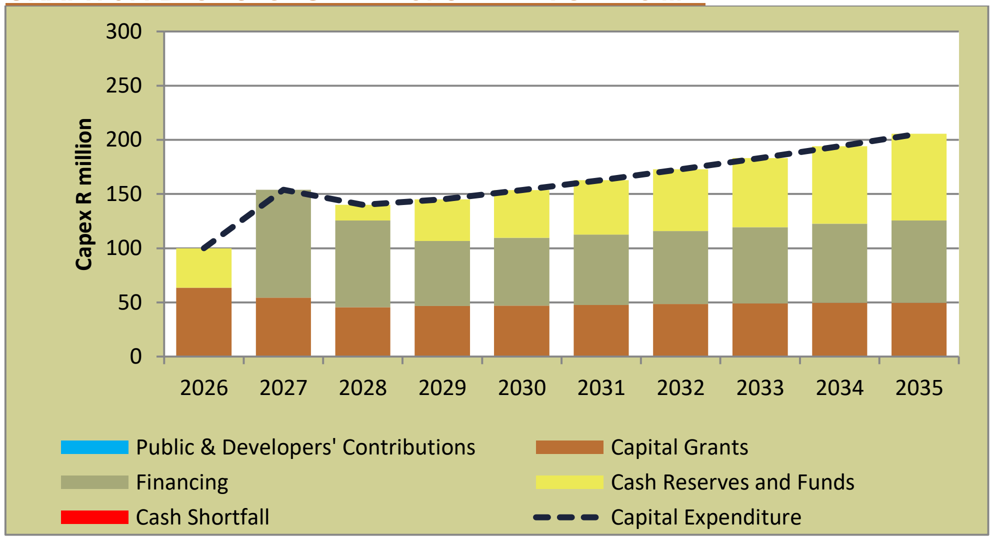
GRAPH 36: BASE CASE SCENARIO: CURRENT LIABILITIES



GRAPH 35: MTREF CASE SCENARIO: CAPITAL FUNDING MIX



GRAPH 37: BASE CASE SCENARIO: CAPITAL FUNDING MIX



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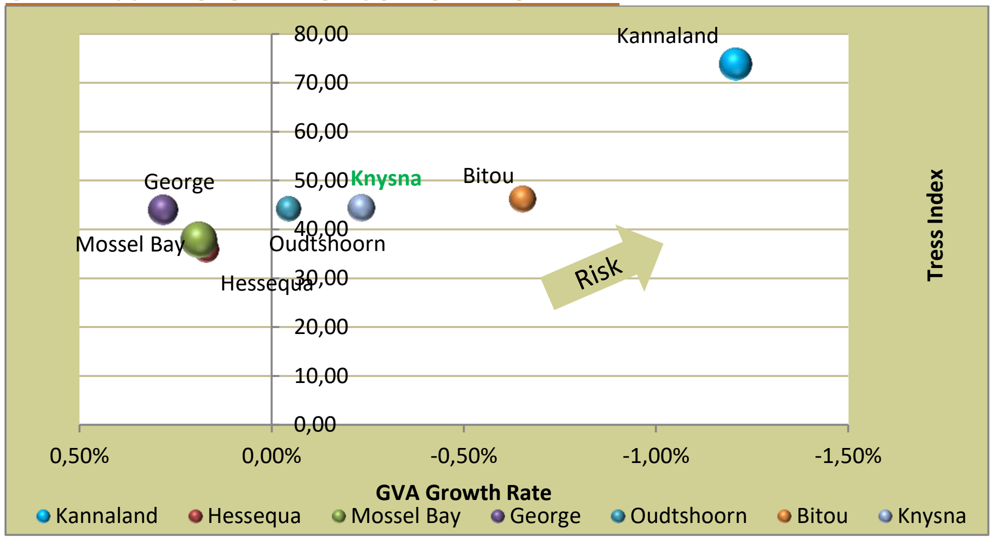
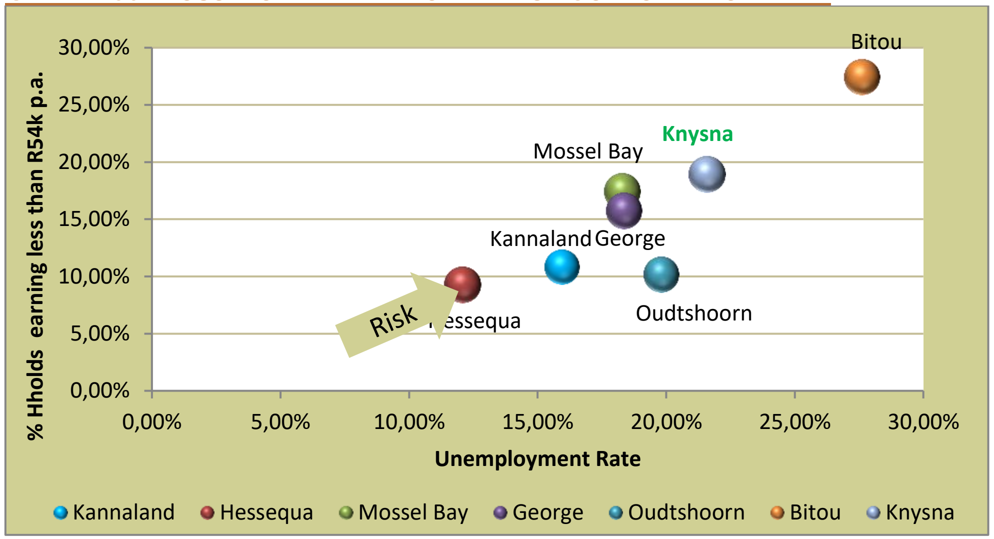
Future Revenues

Municipal Revenue Risk Indicator (MRRI) = "Medium"

GRAPH 38: ECONOMIC RISK COMPONENT OF MRRI



GRAPH 39: HOUSEHOLD ABILITY TO PAY RISK COMPONENT OF MRRI



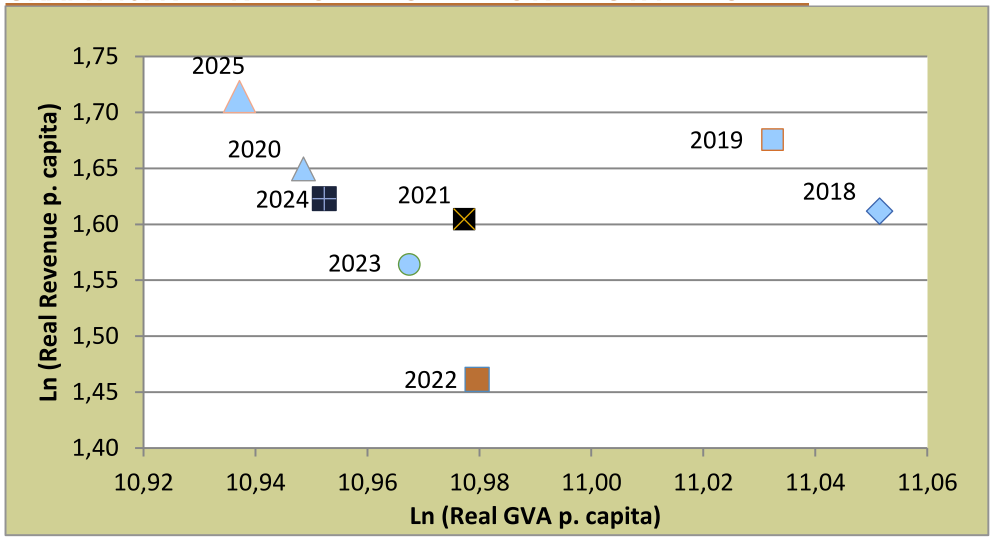
The Municipal Revenue Risk Indicator (MRRI) measures the risk of the municipality's ability to generate its own revenues. This is a function of the economy (size of the economy as measured by GVA per capita, GVA growth rate and Tress Index); and the household ability to pay (measured by percentage of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

Knysna experienced sluggish economic growth in recent years, with a 5-year annual average Gross Value Added (GVA) growth rate of 1.53%. This GVA growth significantly outpaced the town's annual population growth rate, which averaged 0.63% over the same period. In 2025, the GVA per capita stood at R34 486. The economy is well diversified, as reflected by a Tress Index of 40.77. The municipality scored 1.93/5 which resulted in **"Medium-to-Low"** rating on the economic risk component of the Municipal Risk Rating Index (MRRI).

The percentage of indigent households reliant on support of 10.22%, the official unemployment rate of 18.71% and the human development index of 0.78 resulted in a score of 3.8/5 which is **"Medium-to-High"** rating on the household ability to pay risk component of MRRI.

As a result, Knysna has scored 2.9/5 which is a **"Medium"** risk rating on the MRRI indicator scale - i.e., there is a medium 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

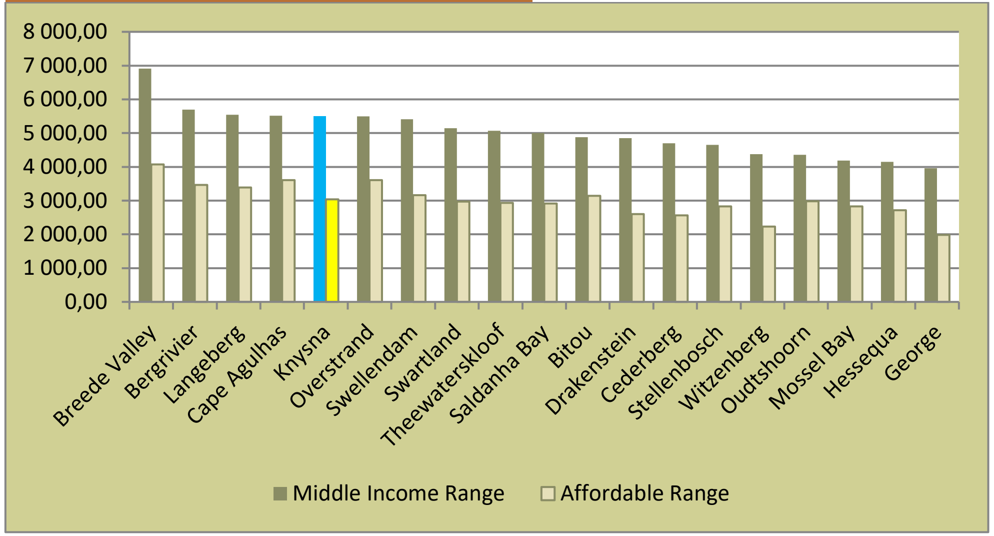


Real municipal revenue (excluding capital transfers) per capita fluctuated over the review period, with a notable decline in 2022 from the review period peak in 2019. Thereafter, steady growth has been observed with year-on-year improvements noted with 2025 approaching the historic peak.

GVA per capita has declined over the review period, with minor improvements noted in 2021 & 2022 following the severe contraction pursuant to Covid-19 in 2020, thereafter decreased to 10.94 as at FY2024/25 which is the lowest in this period.

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

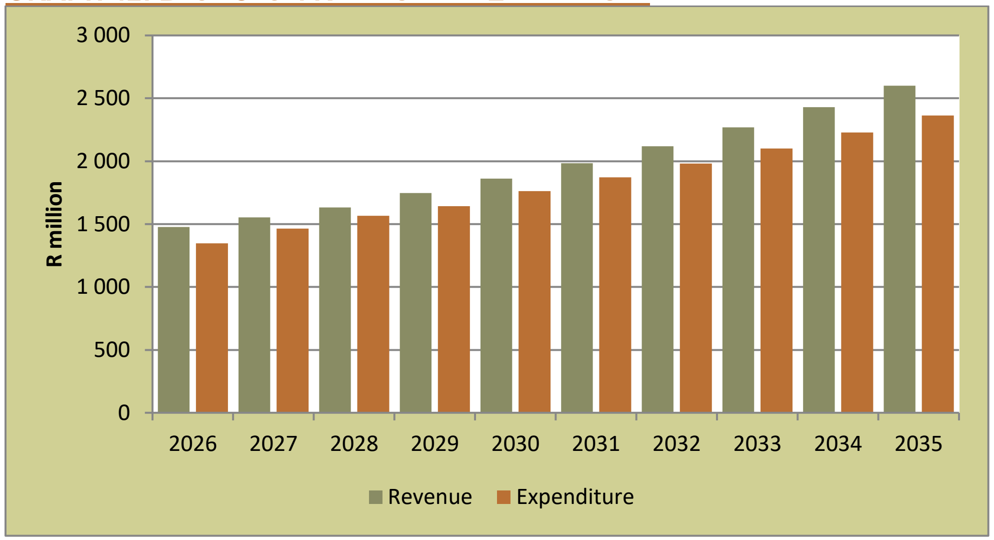
GRAPH 41: AVERAGE HOUSEHOLD BILL (R)



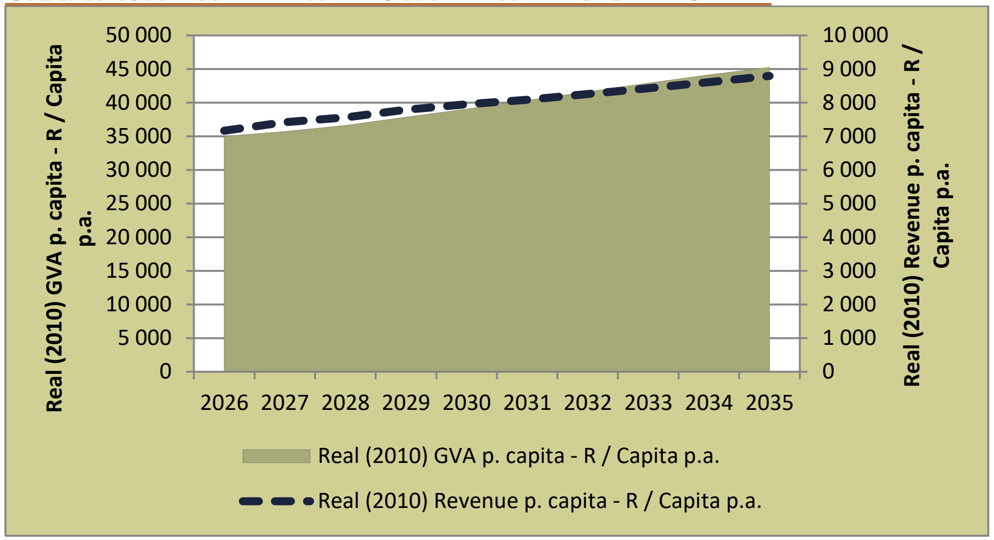
A comparison of the average household bill for the middle income and affordable income range of a selected number of municipalities in the Western Cape province (extracted from Budget Table: SA14) based on the 2025/26 tariffs, reveals that Knysna LM features in the higher half of the range. Considering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

Municipal Revenues

GRAPH 42: BASE CASE: REVENUE AND EXPENDITURE



GRAPH 43: PROJECTED REAL GVA AND REVENUES PER CAPITA

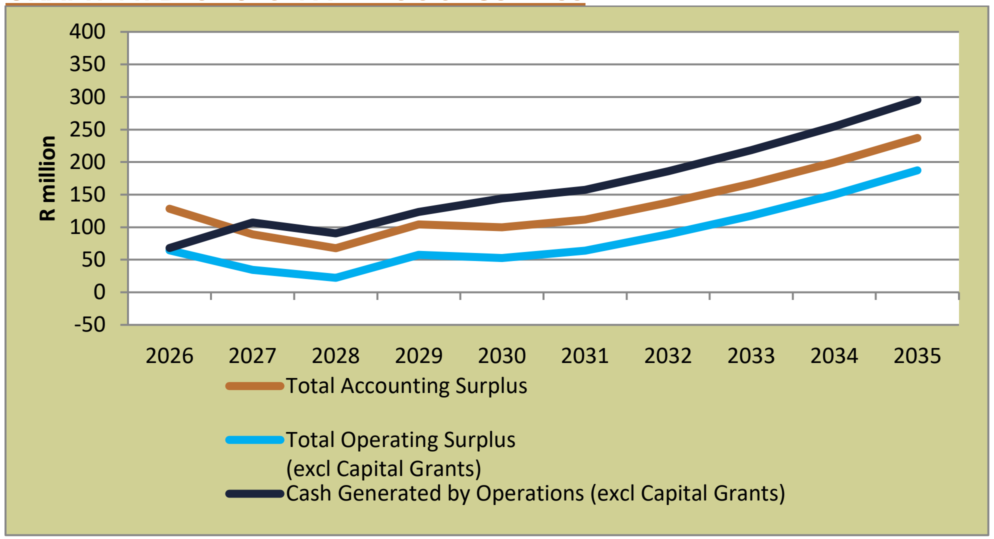


The Base Case estimates that, over the planning period, future nominal revenue (including capital grants) will grow at an average rate of 7.1% p.a. This growth in revenue includes: (i) tariff increases, (ii) increased sales and (iii) additional revenue sources. Future nominal expenditure is estimated to grow at a marginally higher rate of 7.3% over the same period.

GRAPH 44 below indicates that Knysna is forecast to post operating surpluses throughout the planning period. Electricity services are forecast to remain the main revenue generator for the municipality with an annual average contribution of 35.6%. This is followed by property rates with an annual average contribution of 27.1%. On the expenditure side, electricity bulk purchases are forecast to remain the main expenditure item with an annual average contribution of 28.1%. Employee related expenditure is forecast to contribute a combined 24.8% p.a. on average over the planning period. Concerningly, contracted services are expected to contribute an average of 13.5%, far exceeding NT's norm range of 2-5%. This brings the combined contribution of staff costs and contracted services to 38.3%. This is approaching the top end of NT's norm range of 40%. This must be closely monitored.

Real GVA per capita is forecast to increase by 31% over the planning period, from R34 486 p.a. in 2025 to R45 246 in 2035. Real revenue per capita is forecast to increase by 31% from R6 678 p.a. in 2025 to R8 795 p.a. in 2035. The growth of the local economy is crucial for the municipality, as it directly impacts its ability to generate revenue (MRRI). A stronger local economy will expand the municipality's revenue base, supporting the growth and acceleration of the capital investment program. This is especially important to meet the needs of a growing population and the increasing demand for municipal services.

GRAPH 44: BASE CASE: ANALYSIS OF SURPLUS



The municipality is forecast to generate cash from operations throughout the planning period. A cumulative R1.65 billion in cash is forecast to be generated by operations over the planning period. This is underpinned by the improved collection rate, healthy forecast financial performance and despite the modelling of consistent payment of current and historic creditors. It is essential that the municipality combines revenue growth with stringent management of operating expenditure.

Affordable Future Capital Investment

Capex Affordability and Funding

The total affordable capital envelope was calculated at R1 611 million for the planning period. This figure was arrived at after employing an optimised funding mix that underpins capital investment programme. The forecast capital investment programme has been balanced with the municipality's long-term sustainability.

Table 9: CAPEX Affordability

Total 10-year CAPEX **Affordability:**	=	R 1 611 million

MTREF Capital Funding Mix

Knysna's Approved Budget FY2026/27 to FY2028/29 includes a capital budget amounting to R586.0 million over the MTREF period. This is expected to prove unaffordable and has thus necessitated the adjustments made in arriving at the Base Case, which presents a reduced but affordable capital programme of R439.0 million.

Table 10: MTREF Case 3-year MTREF Funding Mix R'm

R'm	Total	2026/27	2027/28	2028/29
Public & Developers Contributions	**0**	0	0	0
Capital Grants	**146**	54	45	47
Financing	**181**	99	46	36
Cash Reserves and Funds	**259**	95	83	81
Total	**586**	**249**	**174**	**164**

Table 11: Base Case 3-year MTREF Funding Mix R'm

R'm	Total	2026/27	2027/28	2028/29
Public & Developers Contributions	**0**	0	0	0
Capital Grants	**146**	54	45	47
Financing	**239**	99	80	60
Cash Reserves and Funds	**53**	0	15	38
Total	**439**	**154**	**140**	**145**

10-Year Capital Funding Mix

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

Table 12: Base Case 10-Year Capital Funding Mix

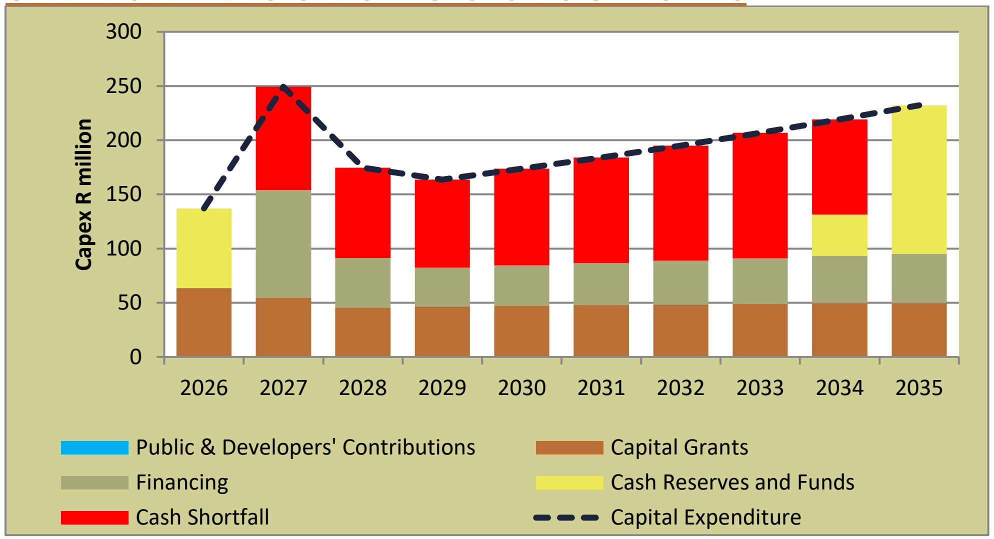
Source	Rm	%
Public & Developers' Contributions	0	0 %
Capital Grants	502	31 %
Financing	653	41 %
Cash Reserves and Funds	456	28 %
Cash Shortfall	0	0 %
Capital Expenditure	**1 611**	**100 %**

Knysna has historically placed heavy reliance on capital grants and borrowing to fund the capital expenditure programme, with 51% and 44% of funding respectively the remaining 5% 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.

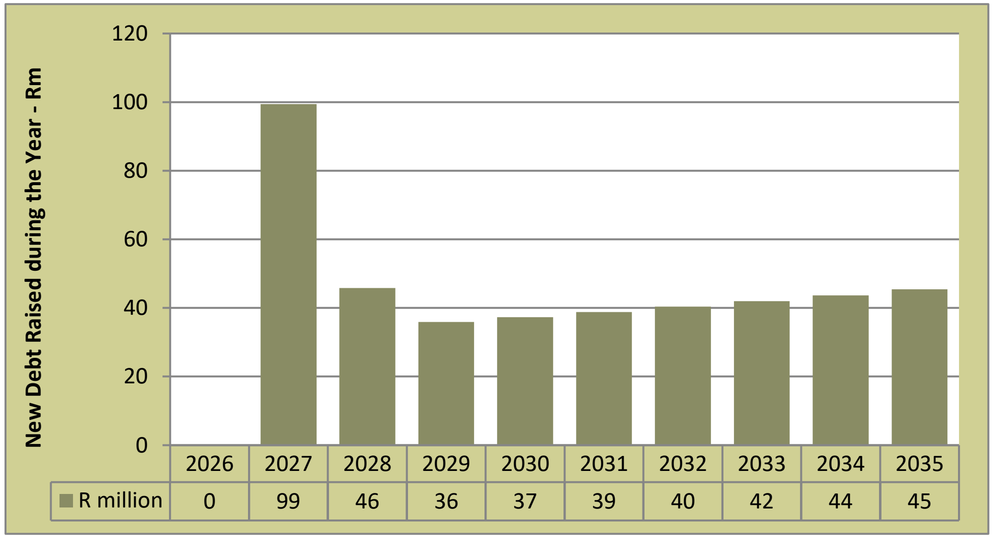
The MTREF Case presents the Approved Capital Budget as put forward. As discussed in the Long-Term Financial Model Outcomes chapter of this report, the extent of internally generated funds included in the budgeted funding mix is expected to result in a depletion of the municipality's cash reserves, and consequently, an unsustainable liquidity position. As illustrated in Graph 45 below, the budgeted capital programme is expected to prove unaffordable. This outcome has necessitated the amendments made in arriving at the Base Case capital programme over the MTREF period. These amendments are presented in Table 11. Own cash reserves and funds have been significantly reduced, down from the budgeted R259 million to R53 million over the MTREF period. This is crucial as this enables the liquidity position to stabilise, which must be the main priority for Knysna. In an attempt to maintain reasonable levels of capital investment, borrowings have been accelerated to R239 million from R181 million over the MTREF period. This is deemed affordable.

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

GRAPH 45: MTREF CASE DISTRIBUTION OF FUTURE FUNDING

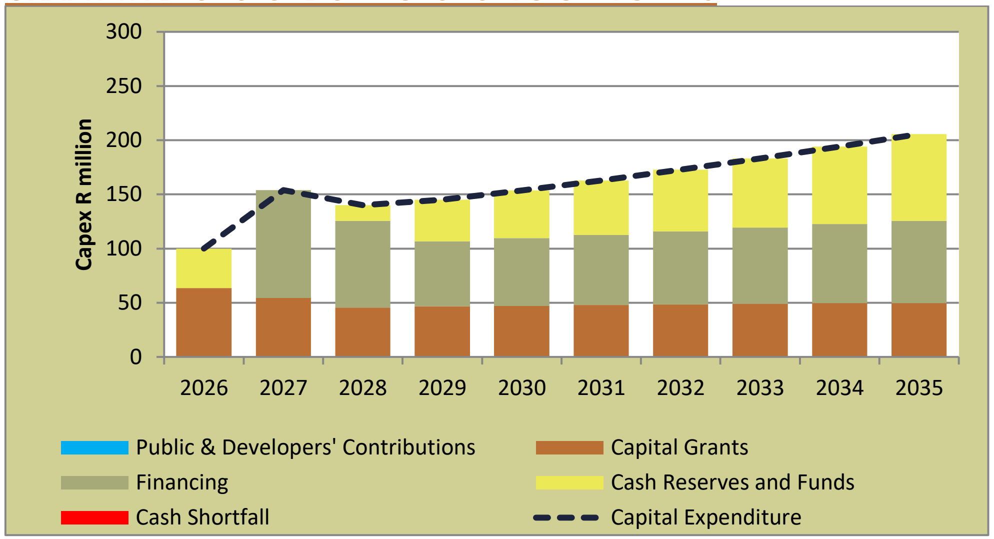


GRAPH 46: MTREF CASE ESTIMATE OF FUTURE EXTERNAL FINANCING



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

GRAPH 47: BASE CASE DISTRIBUTION OF FUTURE FUNDING



GRAPH 48: BASE CASE ESTIMATE OF FUTURE EXTERNAL FINANCING

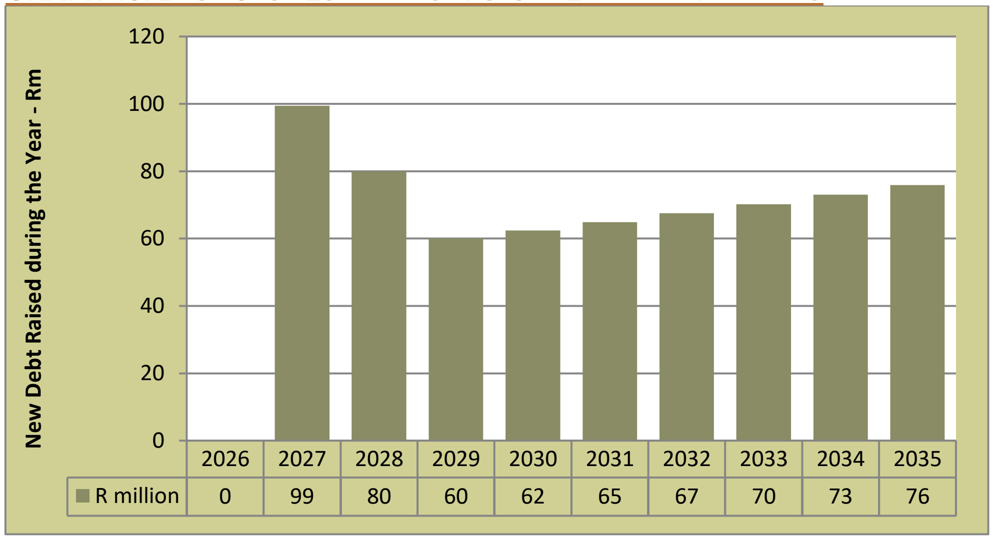


TABLE 13: MTREF CASE DISTRIBUTION OF FUTURE CAPITAL FUNDING (R'M)

R'm	Total	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Public & Developers' Contributions	**0**	0	0	0	0	0	0	0	0	0	0
Capital Grants	**502**	64	54	45	47	47	48	48	49	50	50
Financing	**429**	0	99	46	36	37	39	40	42	44	45
Cash Reserves and Funds	**249**	73	0	0	0	0	0	0	0	38	137
Cash Shortfall	**756**	0	95	83	81	89	97	106	116	88	0
Capital Expenditure	**1 611**	**137**	**249**	**175**	**164**	**174**	**184**	**195**	**207**	**219**	**232**

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

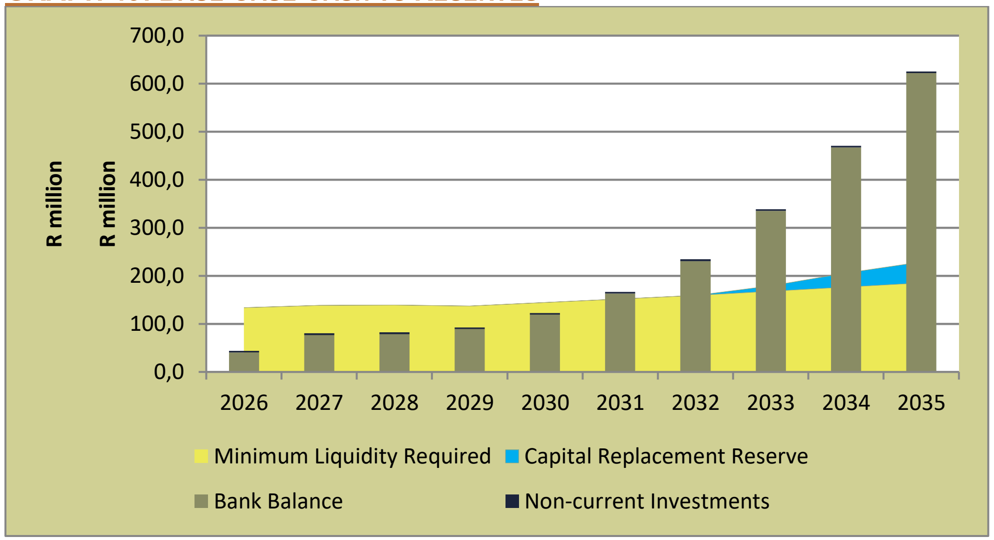
R'm	Total	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Public & Developers' Contributions	**0**	0	0	0	0	0	0	0	0	0	0
Capital Grants	**502**	64	54	45	47	47	48	48	49	50	50
Financing	**653**	0	99	80	60	62	65	67	70	73	76
Cash Reserves and Funds	**456**	36	0	15	38	44	50	57	64	71	80
Cash Shortfall	**0**	0	0	0	0	0	0	0	0	0	0
Capital Expenditure	**1 611**	**100**	**154**	**140**	**145**	**154**	**163**	**173**	**183**	**194**	**206**

LIQUIDITY AND CAPITAL REPLACEMENT RESERVE

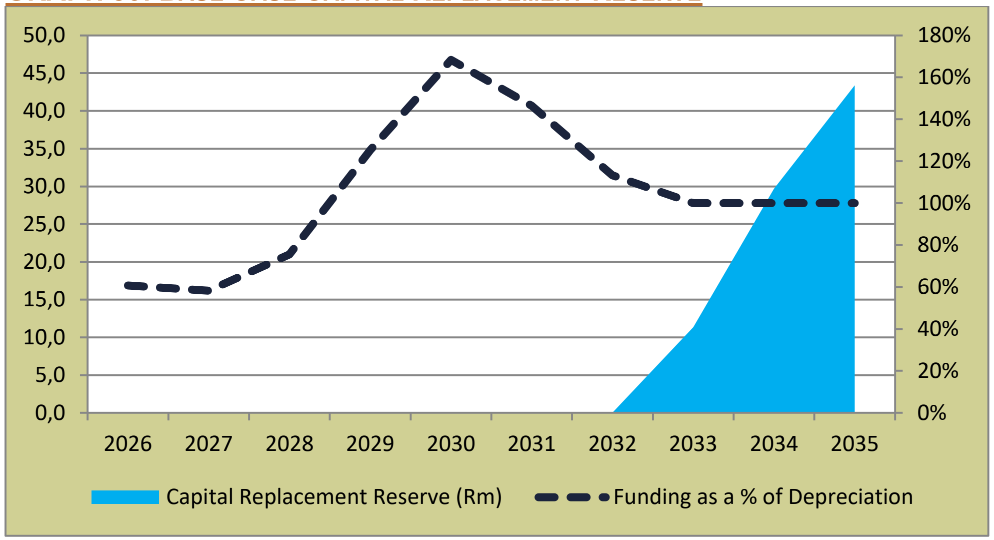
The minimum liquidity levels cater for unspent conditional grants, cash-backed reserves, short-term provisions and 1-month's working capital (operating expenditure). Liquidity is forecast to be sufficient to cover 1-month's operating expenditure from FY2030/31 onwards. Year-on-year growth in cash and cash equivalents is forecast throughout the planning period. This is achieved through reducing the extent of own cash utilised to fund capital investment over the short-term. The accelerated borrowing programme further underpins this. 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 funding of 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. Once the minimum liquidity requirement is met in FY2030/31, we are then able to begin servicing the CRR from FY2032/33 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 R84.4 million between FY2032/33-FY2034/35 is deemed affordable.

GRAPH 49: BASE CASE CASH VS RESERVES



GRAPH 50: BASE CASE CAPITAL REPLACEMENT RESERVE



GEARING

Knysna's current debt profile is reasonably highly leveraged, particularly from a debt service perspective. The FYE2024/25 gearing and debt service to total expense ratios were calculated at 23.5% & 7.9% respectively. IPM recommends maximum ratios of 30% & 7% for Knysna. As such, future borrowings must be carefully managed. It is noted that a noteworthy portion of outstanding loans will be redeemed by the end of the MTREF period, thus creating scope for additional borrowing to be undertaken in a sustainable manner.

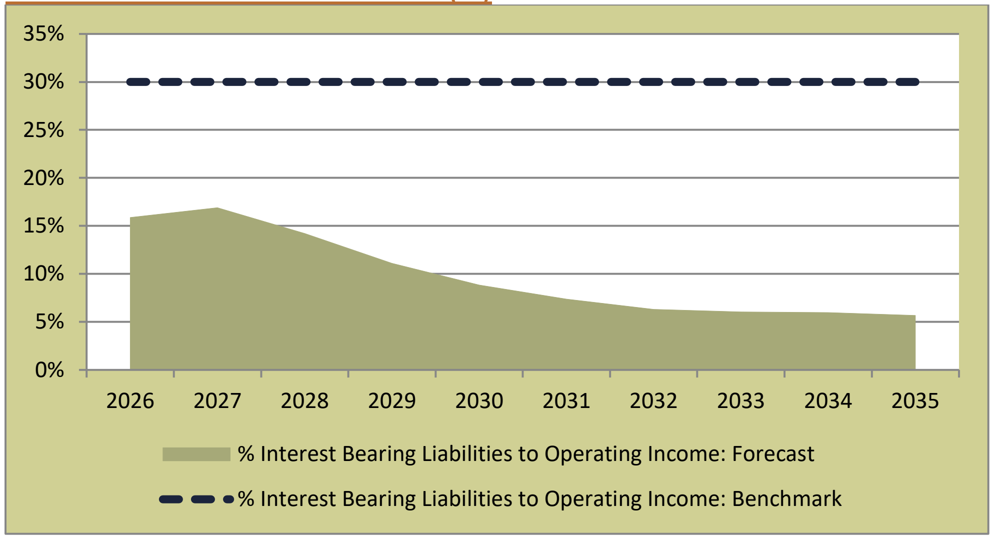
The MTREF Case assumes the borrowing programme as presented in the Approved Budget will be implemented over the MTREF period, with annual growth thereafter at 4%. The interest rate on new debt is assumed to be 7% above forecast CPI in any given year, while the average loan tenor on new debt is assumed to be 10 years. The borrowings undertaken in the MTREF Case are forecast to result in a sustainable long-term debt profile, with the gearing and debt service to total expense ratios forecast to decline to 5.3% & 3.2% respectively, by the end of the planning period. It must be noted that the overall capital programme under the MTREF Case is forecast to prove unaffordable due to severe short-term liquidity constraints. This would likely hinder the municipality's ability to access affordable borrowings due to the elevated credit risk profile the lack of liquidity would present.

The Base Case presents a reduced capital investment programme from the capital budget, with the portion of internally generated funds limited. This is aimed at allowing the liquidity position to stabilise and to avoid the depletion of cash reserves forecast in the MTREF Case. With this in mind, borrowings have been accelerated in an attempt to maintain reasonably elevated levels of capital investment over the MTREF period.

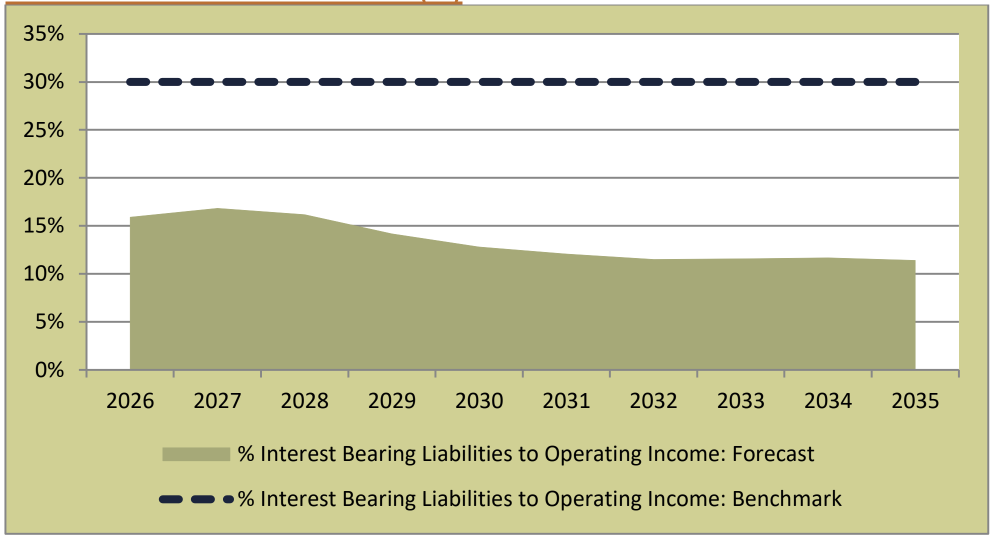
Despite the accelerated borrowing programme, the municipality's debt profile is expected to remain sustainable. The gearing ratio is expected to peak at 17% in FY2026/27 before gradually falling to 11% by the end of the planning period. From a debt service perspective, the short-term forecast indicates that the maximum recommended level of 7% will be exceeded over the MTREF period. Given the Base Case outcome in totality, this is not concerning as the municipality is expected to be able to absorb this impact of the elevated debt service levels. Furthermore, the debt service to total expense ratio is forecast to gradually decline before reaching 4.7% by the end of the planning period. This highlights the affordability of the Base Case borrowing programme.

The total affordable capital envelope under the Base Case is calculated at R1.61 billion for the 10-year planning period. This remains affordable predominantly due to the reduction of internally generated funds utilised to fund capex over the short-term. It must be emphasised that financial and capital investment decisions must be made with the stabilisation of the liquidity position in mind. It is appreciated that court directives have forced the municipality's hand in terms of capital investment needs, however, the long-term sustainability of the municipality must be prioritised. As such, it is recommended that the municipality explores alternative funding sources, particularly additional grant funding to satisfy the court directives as well as for Knysna to remain financially sustainable over the long-term.

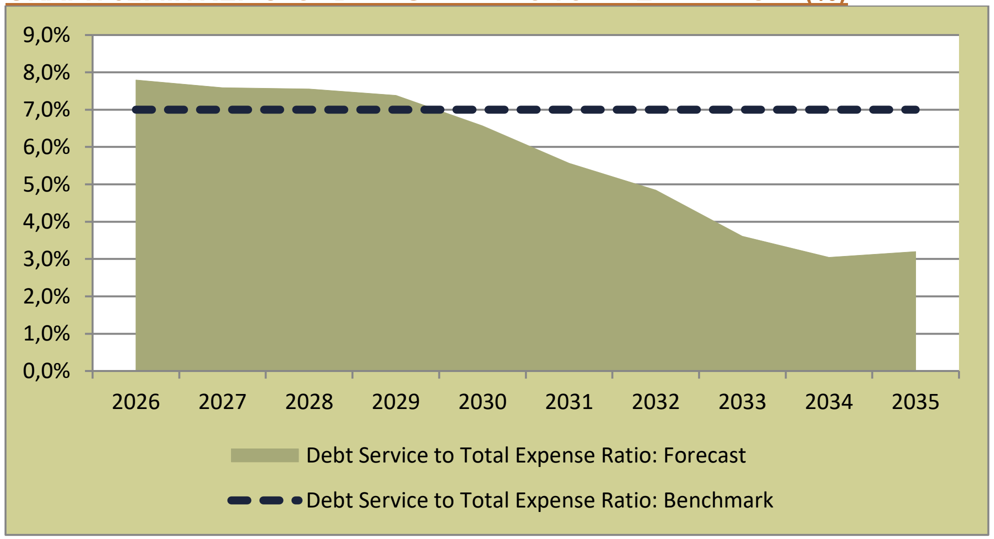
GRAPH 51: MTREF CASE GEARING (%)



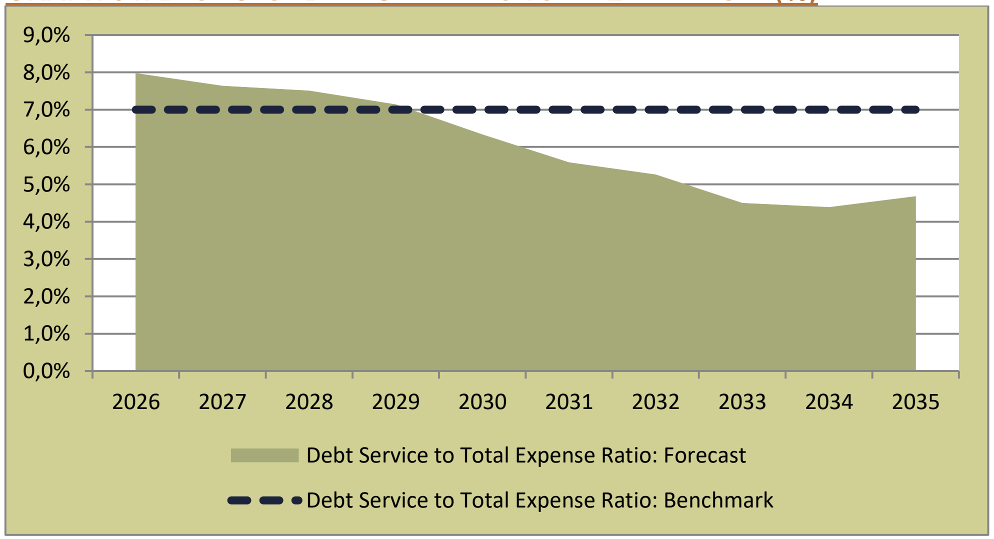
GRAPH 53: BASE CASE GEARING (%)



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



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



SCENARIOS ANALYSIS

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

1.To assess the impact of reallocating borrowings over the MTREF period, whilst maintaining the Base Case borrowing programme of R239 million:

1.1 This scenario assesses the impact of accelerating borrowings to R157.0 million in FY2026/27 and then maintaining the budgeted amounts in the outer years of the MTREF period. Capital investment was accelerated to R211.4 million in FY2026/27 as a result.

1.2 This scenario assesses the impact of accelerating borrowings to R133.0 million in FY2026/27, while increasing borrowings to R57.7 million in FY2027/28 & R48.3 million in FY2028/29. Capital investment was accelerated to R187.4 million in FY2026/27 as a result.

Scenario 1.1: Restructuring of Base Case Borrowing Programme

This scenario presents an alternative funding mix, whilst maintaining the Base Case borrowing programme of R239 million over the MTREF period. Borrowings have been accelerated to R157 million in FY2026/27, with borrowings in FY2027/28 & FY2028/29 reverting to the budgeted amounts of R45.8 million & R35.9 million respectively. As the LTFM does not allow the sum of capital grants and borrowings to exceed actual capital investment in a particular year, capital investment was accordingly accelerated to R211.4 million in FY2026/27. The Base Case amounts of R140 million & R145 million in the outer years of the MTREF period were maintained.

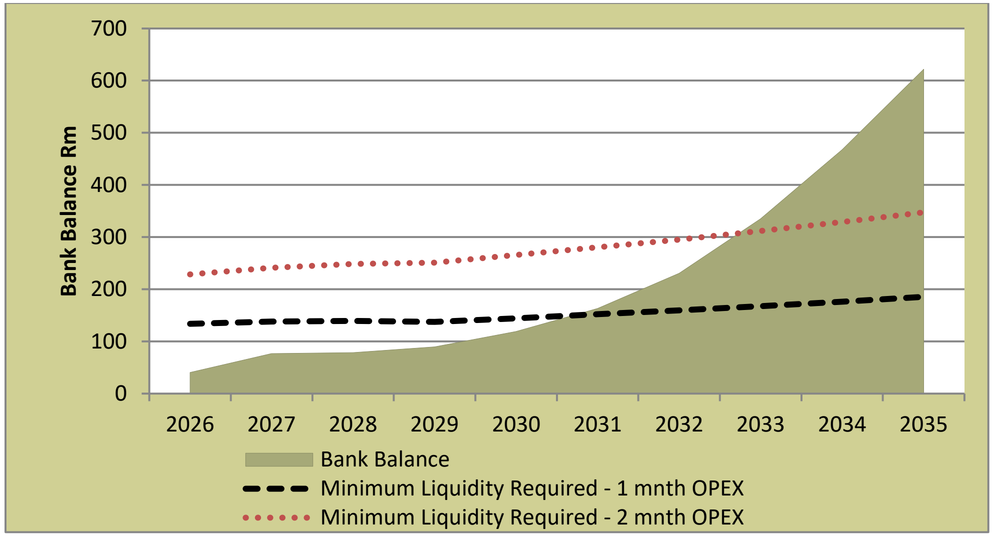
The long-term outlook reflects a decline in liquidity relative to the Base Case, with a reduction of R210 million in cash and cash equivalents, as well as a reduced liquidity ratio of 2:1. More pertinently, the additional internally generated funds required to maintain the Base Case level of capital investment in FY2027/28 & FY2028/29 are expected to result in severe liquidity constraints, as evidenced in the graph below. Furthermore, the capital investment programme is forecast to prove unaffordable between FY2028/29 & FY2032/33. This will render reductions in capital investment necessary during this period.

TABLE 15: SCENARIO 1.1: RESTRUCTURED BORROWING PROGRAMME

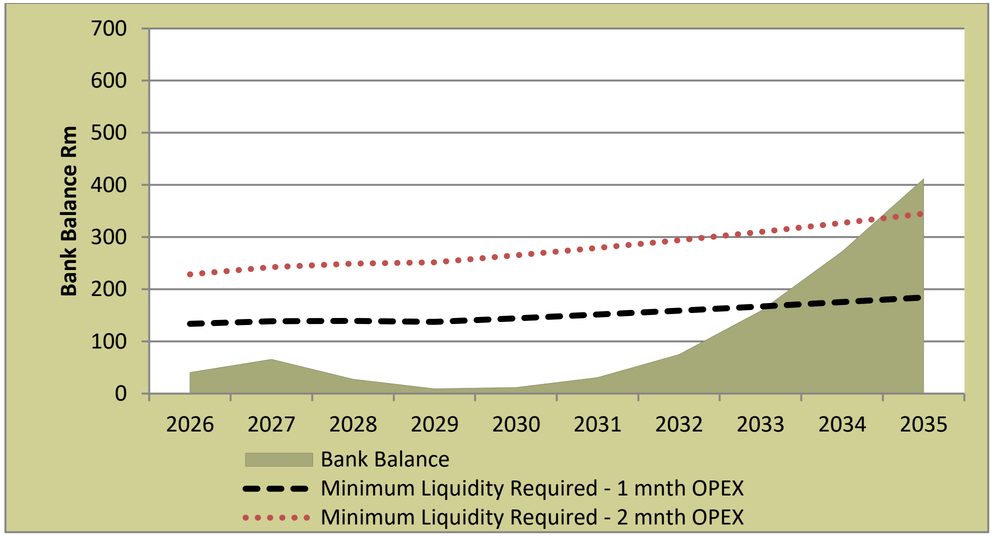
Outcome	Base Case	Accelerated Borrowings FY2026/27
Average annual % increase in Revenue	7,1%	7,1%
Average annual % increase in Expenditure	7,3%	7,3%
Accounting Surplus accumulated during Planning Period (Rm)	R 1 342	R 1 308
Operating Surplus accumulated during Planning Period (Rm)	R 840	R 807
Cash generated by Operations during Planning Period (Rm)	R 1 645	R 1 629
Average annual increase in Gross Consumer Debtors	11,7%	11,7%
Capital investment programme during Planning Period (Rm)	R 1 611	R 1 669
External Loan Financing during Planning Period (Rm)	R 653	R 486
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 622	R 412
No of Months Cash Cover at the end of the Planning Period (Rm)	3,8	2,6
Liquidity Ratio at the end of the Planning Period	2,5 : 1	2 : 1
Gearing at the end of the Planning Period	11,4%	6,1%
Debt Service to Total Expense Ratio at the end of the Planning Period	4,7%	3,5%

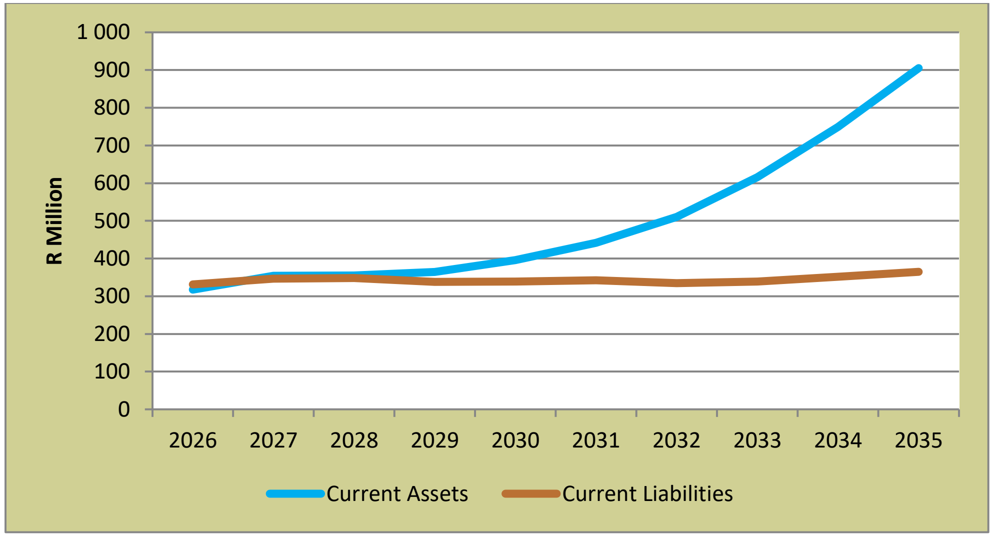
SCENARIO 1.1: RESTRUCTURING OF BASE CASE BORROWING PROGRAMME

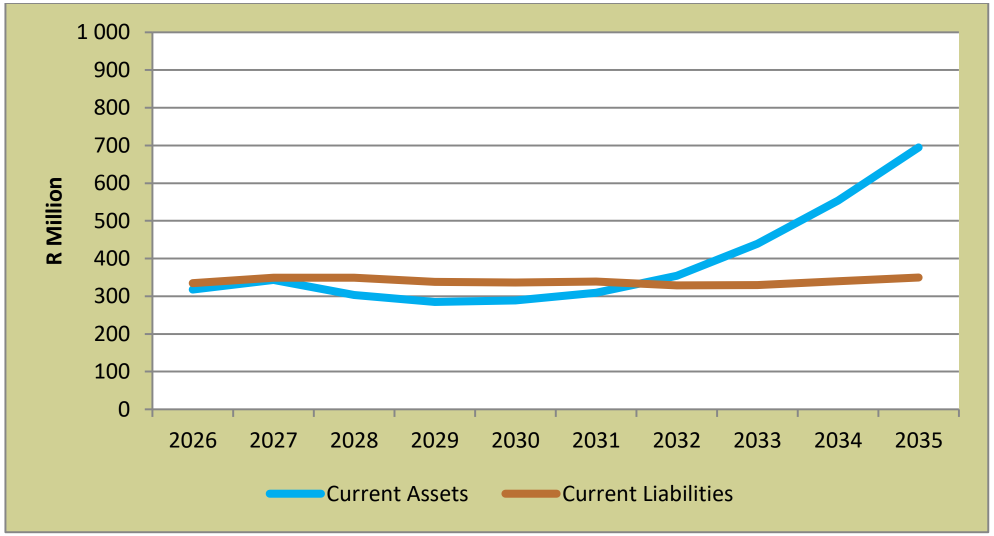
BASE CASE



ACC. BORROWINGS IN FY2026/27

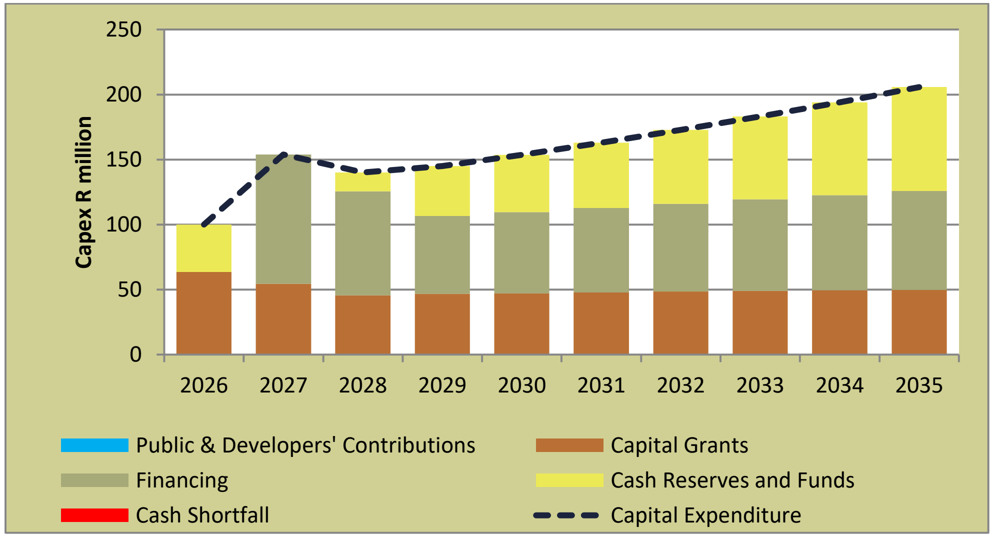




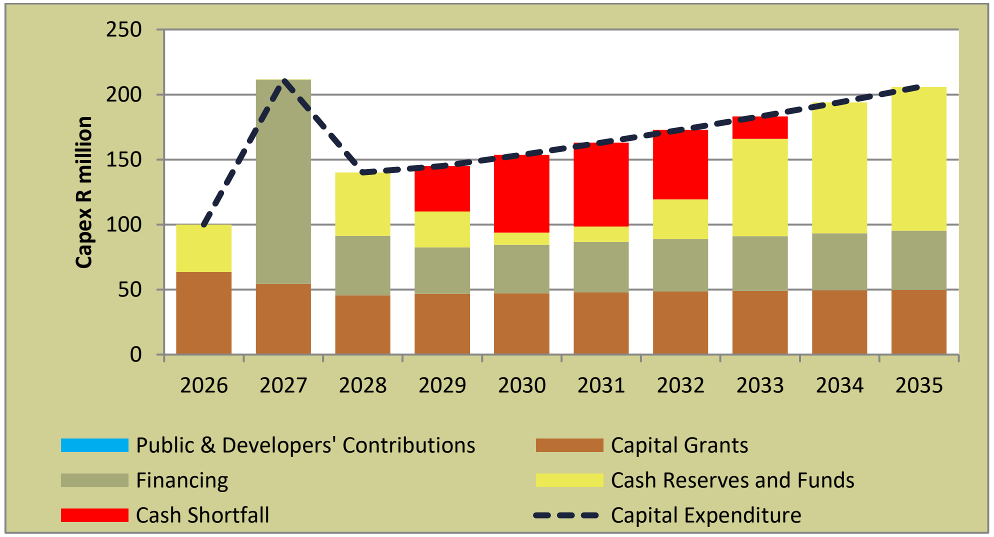


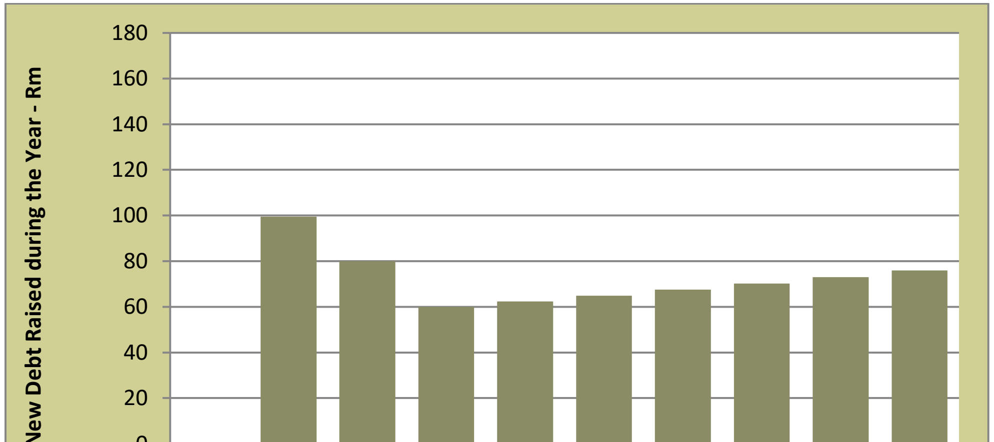
SCENARIO 1.1: RESTRUCTURING OF BASE CASE BORROWING PROGRAMME

BASE CASE

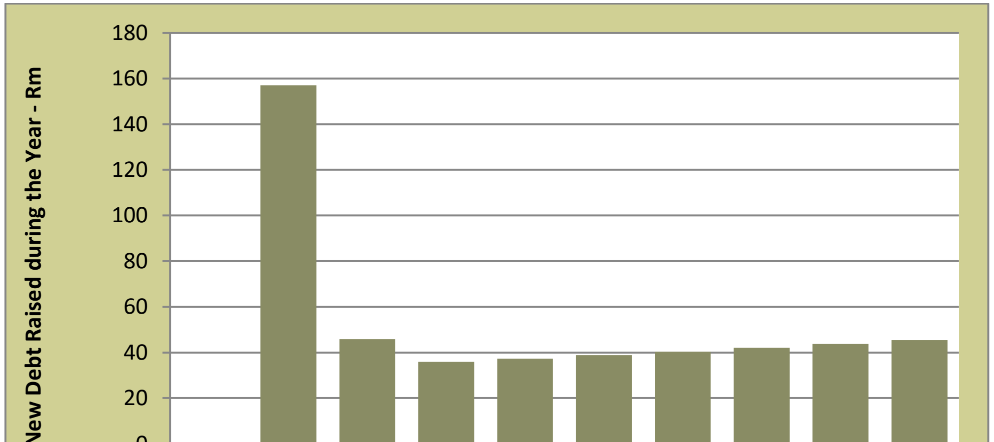


ACC. BORROWINGS IN FY2026/27





	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
R million	0	99	80	60	62	65	67	70	73	76



	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
R million	0	157	46	36	37	39	40	42	44	45

Scenario 1.2: Restructuring of Base Case Borrowing Programme

This scenario presents an alternative funding mix, whilst maintaining the Base Case borrowing programme of R239 million over the MTREF period. Borrowings have been accelerated to R133 million in FY2026/27, with borrowings in FY2027/28 & FY2028/29 of R57.7 million & R48.3 million respectively. As the LTFM does not allow the sum of capital grants and borrowings to exceed actual capital investment in a particular year, capital investment was accordingly accelerated to R187.4 million in FY2026/27. The Base Case amounts of R140 million & R145 million in the outer years of the MTREF period were maintained.

This scenario presents a more favourable outcome relative to Scenario 1.1 above, both over the short & long-term. While liquidity and cash are reduced from the Base Case, these levels reflect a notable improvement on Scenario 1.1. Liquidity pressures are expected over the short-term, though not quite as severe as in the previous scenario. Cash shortfalls on capital investment are expected between FY2028/29 & FY2030/31. This will render further cuts in capital investment or an increase in borrowings during this period to cover the expected shortfalls.

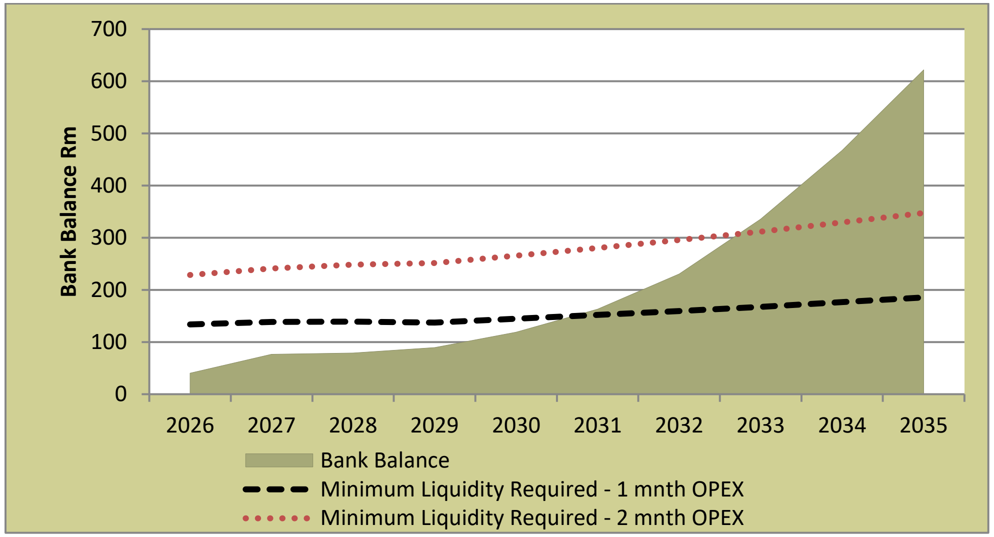
The scenario outcomes indicate that spreading these borrowings out over the MTREF period appears to provide a more favourable outcome. The important point to note is that no matter how the borrowings are structured over the MTREF period, the amount of internally generated funds utilised must remain limited. The liquidity position must be allowed to stabilise before notable internally generated funds can be utilised.

Table 16: Scenario 1.2: Restructured Borrowing Programme

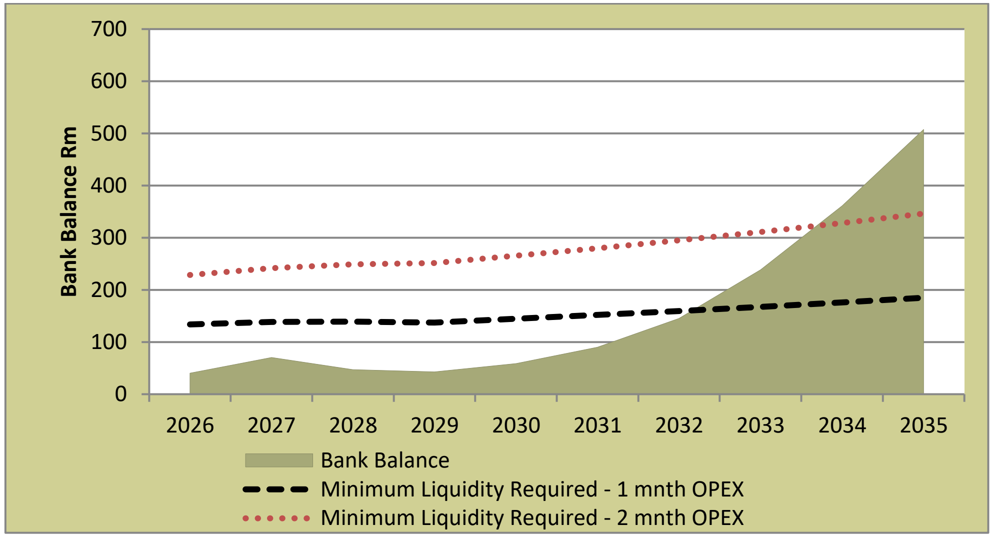
Outcome	Base Case	Accelerated Borrowings FY2026/27
Average annual % increase in Revenue	7,1%	7,1%
Average annual % increase in Expenditure	7,3%	7,3%
Accounting Surplus accumulated during Planning Period (Rm)	R 1 342	R 1 318
Operating Surplus accumulated during Planning Period (Rm)	R 840	R 817
Cash generated by Operations during Planning Period (Rm)	R 1 645	R 1 632
Average annual increase in Gross Consumer Debtors	11,7%	11,7%
Capital investment programme during Planning Period (Rm)	R 1 611	R 1 645
External Loan Financing during Planning Period (Rm)	R 653	R 572
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 622	R 508
No of Months Cash Cover at the end of the Planning Period (Rm)	3,8	3,1
Liquidity Ratio at the end of the Planning Period	2,5 : 1	2,2 : 1
Gearing at the end of the Planning Period	11,4%	8,8%
Debt Service to Total Expense Ratio at the end of the Planning Period	4,7%	4,1%

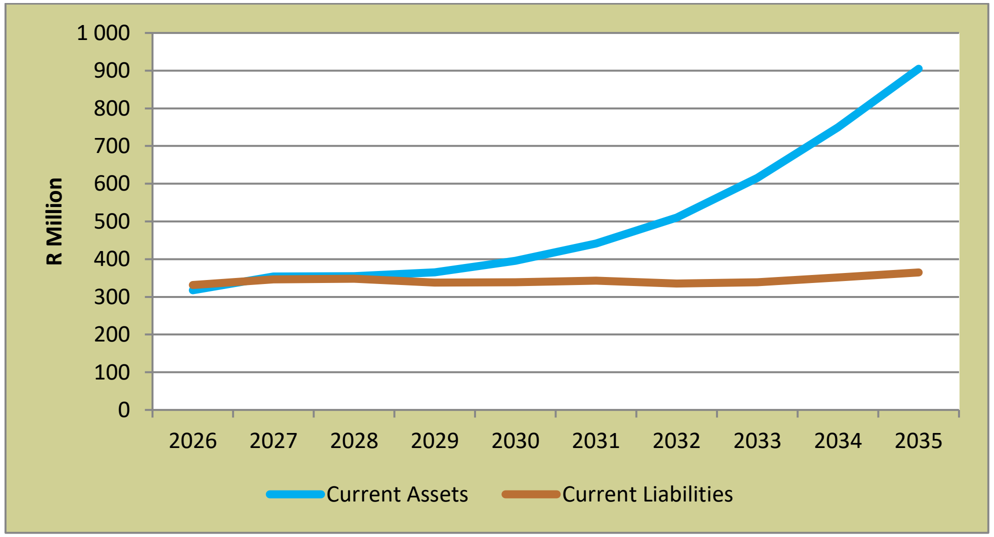
SCENARIO 1.2: RESTRUCTURING OF BASE CASE BORROWING PROGRAMME

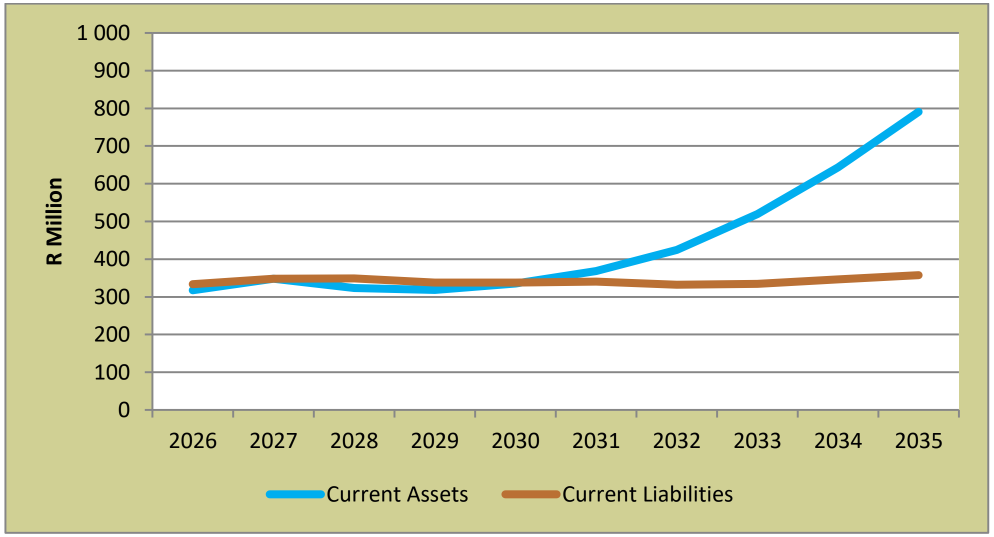
BASE CASE



ACCELERATED BORROWING

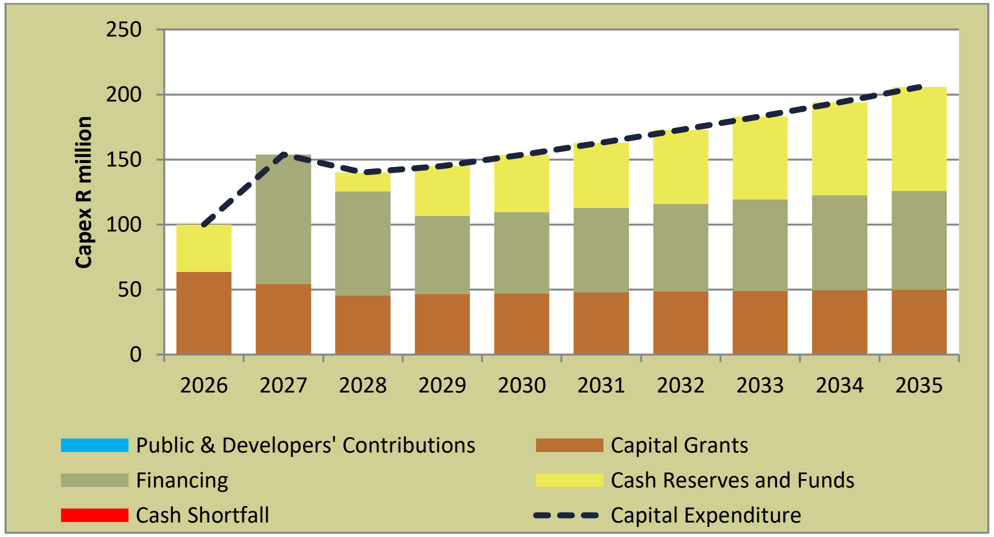




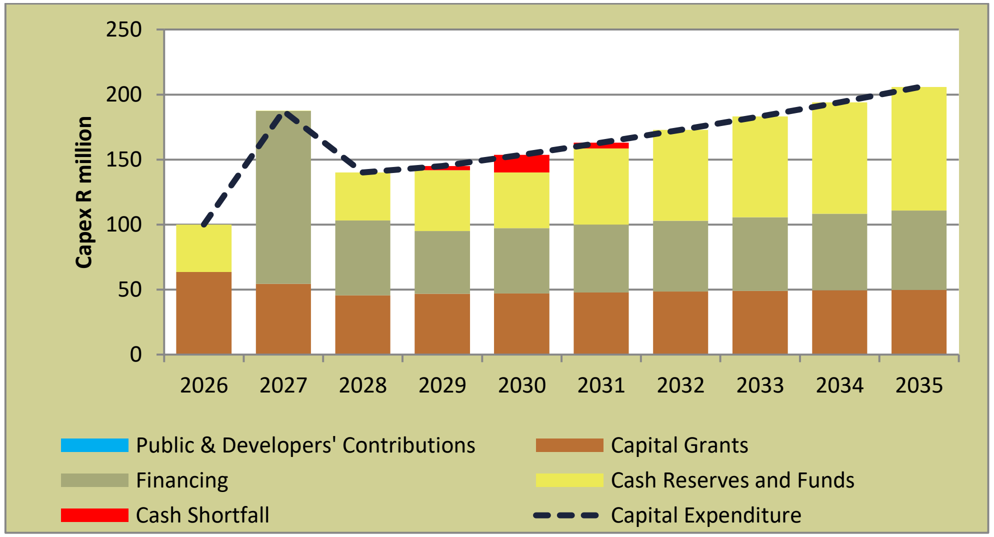


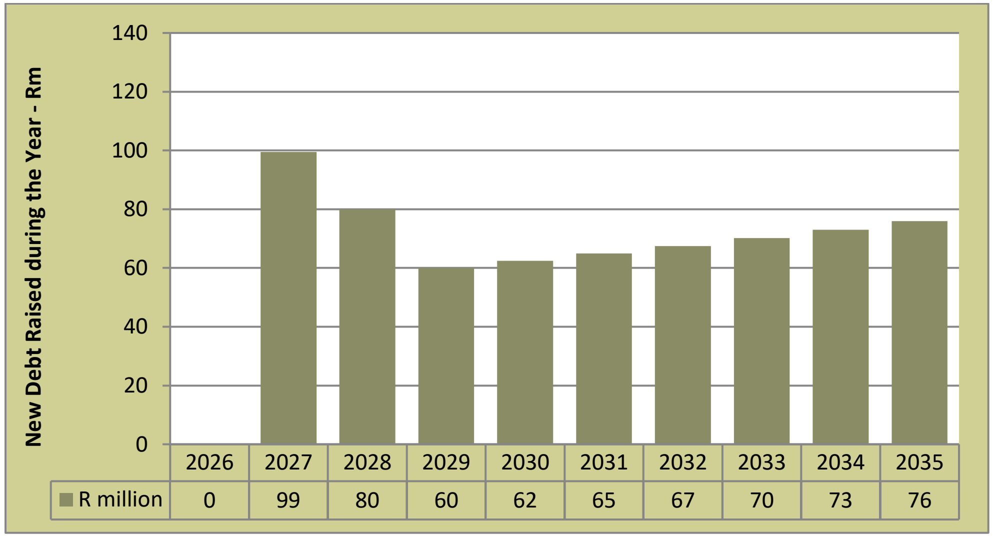
SCENARIO 1.2: RESTRUCTURING OF BASE CASE BORROWING PROGRAMME

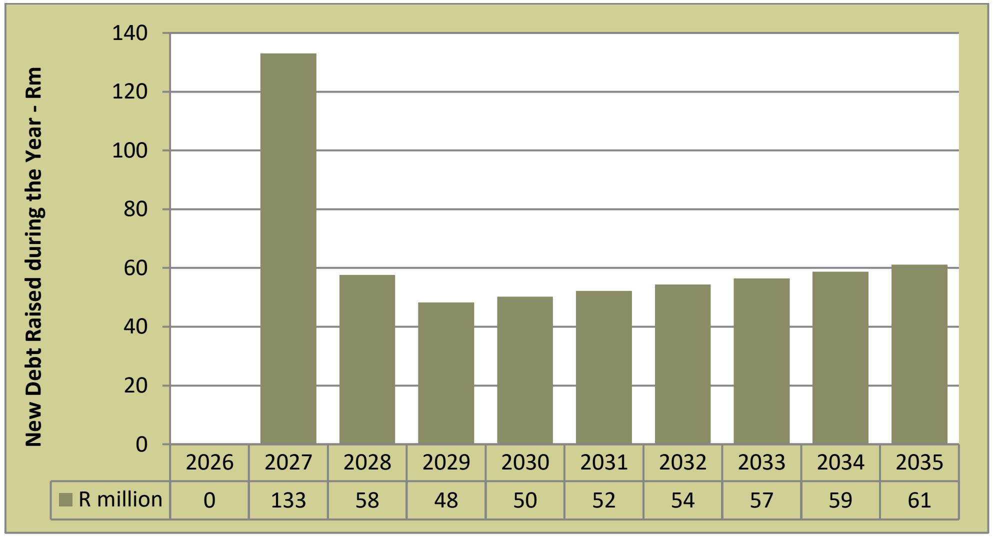
BASE CASE



ACCELERATED BORROWING







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	2026	2028	2030	2032	2034	2035	COMMENTS
FINANCIAL POSITION									
ASSET MANAGEMENT									
R29	Capital Expenditure / Total Expenditure	10% - 20%	6,9%	8,2%	8,0%	8,0%	8,0%	8,0%	CAPEX as a % of Total Expenditure will remain within the recommended range throughout the planning period.
R27	Repairs and Maintenance as % of PPE and Investment Property	8%	2,9%	3,5%	4,0%	4,0%	4,0%	4,0%	Repairs and maintenance as a percentage of PPE and IP will increase to 4.0% over 5 years.
DEBTORS MANAGEMENT									
R4	Gross Consumer Debtors Growth		9,8%	12,6%	13,7%	11,7%	10,4%	10,0%	The Collection Rate is assumed to deteriorate to 90.1 % in 3 year and maintained for the entire planning period.
R5	Payment Ratio / Collection Rate	95%	93,0%	91,5%	90,1%	90,1%	90,1%	90,1%	
LIQUIDITY MANAGEMENT									
R49	Cash Coverage Ratio (excl Working Capital)		1 : 1	2,7 : 1	5,1 : 1	9,8 : 1	19,8 : 1	26,4 : 1	The bank balance will meet the minimum liquidity requirement for 4/10 years of planning. The liquidity ratio will rise to 2.5:1 by the end of the planning period.
R50	Cash Coverage Ratio (incl Working Capital)		0,3 : 1	0,6 : 1	0,8 : 1	1,4 : 1	2,6 : 1	3,3 : 1	
R51	Cash Surplus / Shortfall on Minimum Liquidity Requirements		-R 94,5 m	-R 61,8 m	-R 27,2 m	R 69,5 m	R 289,1 m	R 434,2 m	
R1	Liquidity Ratio (Current Assets : Current Liabilities)	1:1.5 - 1:2.1	1 : 1	1 : 1	1,2 : 1	1,5 : 1	2,1 : 1	2,5 : 1	
LIABILITY MANAGEMENT									
R45	Debt Service as % of Total Operating Expenditure	6% - 8%	8,0%	7,5%	6,3%	5,3%	4,4%	4,7%	The external financing programme is forecast to remain within the recommended benchmarks throughout the planning period, whilst maintaining an adequately leveraged debt profile over the long-term.
R6	Total Debt (Borrowings) / Operating Revenue	45%	15,9%	16,2%	12,8%	11,5%	11,7%	11,4%	
R7	Repayment Capacity Ratio		2,35	2,73	1,55	1,24	1,07	0,98	
R46	Debt Service Cover Ratio (Cash Generated by Operations / Debt Service)		1,2 : 1	1,2 : 1	1,7 : 1	2,3 : 1	3,1 : 1	3,1 : 1	

		N.T. NORM	2026	2028	2030	2032	2034	2035	COMMENTS
SUSTAINABILITY									
	Net Financial Liabilities Ratio	< 60%	21,4%	19,5%	14,2%	8,9%	0,8%	-4,2%	Net Financial Liabilities are below the benchmark, as well as the Operating Surplus Ratio. 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%	4,6%	1,4%	2,9%	4,3%	6,3%	7,3%	
	Asset Sustainability Ratio	> 90%	72,0%	61,0%	40,8%	41,7%	42,9%	43,6%	
FINANCIAL PERFORMANCE									
EFFICIENCY									
R42	**Net Operating Surplus / Total Operating Revenue**	>= 0%	4,6%	1,4%	2,9%	4,3%	6,3%	7,3%	The net operating surplus will remain above zero throughout the planning period and then improves to 7.3% by 2035, an indication that the municipality should endeavour to improve profitability by managing expenditure and improving surplus margins on electricity services and maintaining the high-water surplus margin.
R43	**Electricity Surplus / Total Electricity Revenue**		15,0%	16,5%	18,2%	18,2%	18,2%	18,2%	
R44	**Water Surplus / Total Water Revenue**		100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	
REVENUE MANAGEMENT									
R8	**Increase in Billed Income p.a. (R'm)**		R 127,7 m	R 97,5 m	R 95,9 m	R 107,9 m	R 125,2 m	R 133,7 m	Billed Revenue and Operating Revenue Growth is, for the most part, are above the forecast CPI range over the planning period. Cash generated from operations is expected improve throughout the planning period.
R9	**% Increase in Billed Income p.a.**	CPI	14,0%	8,5%	7,1%	7,0%	7,1%	7,1%	
R12	**Operating Revenue Growth %**	CPI	12,0%	5,9%	6,8%	7,0%	7,2%	7,2%	
R47	**Cash Generated by Operations / Own Revenue**		10,7%	9,6%	11,7%	12,6%	14,2%	15,1%	
R48	**Cash Generated by Operations / Total Operating Revenue**		9,3%	8,6%	10,5%	11,3%	12,8%	13,5%	

		N.T. NORM	2026	2028	2030	2032	2034	2035	COMMENTS
EXPENDITURE MANAGEMENT									
	Creditors Payment Period	30	111	102	93	84	75	70	Creditors' payment period is higher than the NT benchmark but will reduce to 70 days by the end of the planning period.
R30	**Contribution per Expenditure Item: Staff Cost (Salaries, Wages and Allowances)**	25% - 40%	26,9%	25,7%	24,7%	24,2%	23,7%	23,4%	Staff costs as a percentage of total expenditure is forecast to remain within the recommended benchmark throughout the planning period. Contracted services to total expenditure, however, is forecast to exceed the recommended benchmark. The combined contribution will push the municipality to upper limits of affordability.
	Contribution per expenditure item: Contracted Services	2% - 5%	11,9%	13,8%	14,0%	13,8%	13,5%	13,4%	
GRANT DEPENDENCY									
R10	**Total Grants / Total Revenue**		16,3%	13,3%	12,6%	12,4%	12,0%	11,8%	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**		87,5%	89,2%	89,7%	89,7%	89,8%	89,9%	
	Capital Grants to Total Capital Expenditure		63,6%	32,5%	30,6%	28,1%	25,5%	24,2%	

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

Financial Performance

Knysna LM's financial performance improved during the 2024/25 financial year. This is reflected in the movement from an operating deficit of R27.4 million in FY2023/24 to an operating surplus of R94.6 million in FY2024/25. Additionally, cash generated from operations (excluding capital grants) reflected a noteworthy increase to R151.0 million from R44.9 million in the prior year. Electricity services continued to be the municipality's largest source of revenue during the year, followed by income from property rates, highlighting the ongoing reliance on these key revenue streams.

Operating Expenditure

Over the review period, staff costs, contracted services and electricity bulk purchases were the largest expenditure items, contributing on average 61% of operating expenditure over the planning period. When including contracted services, total staff-related expenditure averaged 40%. This is too high and at the National Treasury maximum norm of 40%.

Liquidity & Cash Flow

The collection rate was calculated at 93.7% for FY2024/25. The liquidity position is weak as shown by a liquidity ratio of 0.99:1 as at FYE2024/25 (FYE2023/24: 0.76:1). The municipality did not meet the minimum liquidity requirements for the entire planning period, with a shortfall posted in FY2024/25 amounting to R47.8 million.

Debtors & Collections

Approximately 11.7% of gross outstanding debtors are current, though concern is raised with 80.5% in excess of 90 days. The provision for bad debts covers essentially 87% of these aged accounts, which largely mitigates the counterparty risk associated with long outstanding debtors.

STRENGTHS

- High collection rate.
- Adequately providing for aged debtors.

WEAKNESSES

- High creditors days.
- Weak liquidity position.
- The municipality did not meet the minimum liquidity requirements in all years under review.
- Staff costs and contracted services averaged 40% of total operating expenditure.
- Low repairs and maintenance expenditure to PPE ratio of 2.6%. NT recommends 8%.

Outcome of the Future Forecasts

Base Case Scenario

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

Key focus areas emanating from the MTREF Case outcome included addressing short-term liquidity pressures, long-term growth in creditors and insufficient repairs and maintenance expenditure. The liquidity pressures are primarily addressed through limiting the extent of internally generated funds utilised to fund capital investment. This is a core component of the Base Case.

Key Assumptions

- Collection rate maintained at 90%.
- Operating expenditure cut by 1%
- Tariff increases were included as put forward in the budget document.
- Creditors' payment period reduced to 70 days rom 115 days over 10 years.
- Repairs and maintenance expenditure increased to 4% of PPE & IP over 5 years.
- Electricity losses: Maintained at 10.46%.
- Water losses: Reduced to 30.00 over 5 years (from 47.98%).
- The capital investment programme was adjusted as follows:
  - FY2025/26: **R100.0 million** (Budget: R137.0 million)
  - FY2026/27: **R153.8 million** (Budget: R249.3 million)
  - FY2027/28: **R140.0 million** (Budget: R174.6 million)
  - FY2028/29: **R145.0 million** (Budget: R163.7 million)
  - Assumed growth in capital investment beyond FY2028/29 is 6% p.a.
- The borrowing programme was adjusted as follows:
  - FY2026/27: R99.4 million (Budget: R99.4 million)
  - FY2027/28: **R80.0 million** (Budget: R45.8 million)
  - FY2028/29: **R60.0 million** (Budget: R35.9 million)
  - Assumed growth beyond FY2028/29 is 4% p.a.

Outcome of the Base Case

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

Scenarios Analysis

Alternative Borrowing Programme (Scenario 1.1):

- Significant acceleration to R157 million in FY2026/27.
- Base Case borrowing programme of R239 million over MTREF period maintained.
- Severe short-term liquidity pressures forecast.
- Long-term cash and liquidity positions reduced from Base Case.
- Cash shortfalls on capital investment forecast between FY2028/29-FY2032/33.

Alternative Borrowing Programme (Scenario 1.2):

- Significant acceleration to R133 million in FY2026/27.
- Base Case borrowing programme of R239 million over MTREF period maintained.
- Short-term liquidity pressures forecast though not as severe as Scenario 1.1.
- Long-term cash and liquidity positions reduced from Base Case but improvement on Scenario 1.1.
- Cash shortfalls on capital investment forecast between FY2028/29-FY2030/31.

Conclusion

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

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

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

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

Key Priorities: Knysna should adopt the Base Case with a strong focus on stabilising the liquidity position. This must be achieved through limiting internally generated funds utilised to fund capital investment over the short-term. Achieving these goals will secure the municipality's long-term financial sustainability and resilience.

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)	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**
R thousands											
Non-current assets:	1 562 468	1 602 296	1 693 715	1 766 365	1 840 167	1 918 977	2 003 311	2 093 704	2 190 710	2 294 901	2 406 871
Property, plant and equipment	1 473 157	1 513 156	1 604 406	1 677 056	1 750 858	1 829 666	1 913 997	2 004 386	2 101 389	2 205 576	2 317 542
Intangible assets	34	34	34	34	34	36	39	42	46	50	53
Investment properties	67 370	67 201	67 370	67 370	67 370	67 370	67 370	67 370	67 370	67 370	67 370
Investments	3 426	3 423	3 423	3 423	3 423	3 423	3 423	3 423	3 423	3 423	3 423
Long-term receivables	–	–	–	–	–	–	–	–	–	–	–
Other non-current assets	18 482	18 482	18 482	18 482	18 482	18 482	18 482	18 482	18 482	18 482	18 482
Current assets:	298 681	317 446	354 316	354 938	364 757	395 921	441 587	510 272	615 860	749 369	905 020
Inventories	10 653	12 877	13 374	11 974	11 245	12 698	14 123	15 213	16 390	17 638	18 939
Trade and other receivables	208 933	264 158	264 158	264 158	264 158	264 158	264 158	264 158	264 158	264 158	264 158
Cash & Short term investments	79 095	40 411	76 785	78 806	89 354	119 065	163 306	230 901	335 312	467 574	621 923
TOTAL ASSETS	**1 861 149**	**1 919 742**	**2 048 032**	**2 121 303**	**2 204 925**	**2 314 898**	**2 444 898**	**2 603 977**	**2 806 570**	**3 044 270**	**3 311 891**
Municipal Funds:	1 171 589	1 299 735	1 388 807	1 456 554	1 560 940	1 660 860	1 772 705	1 910 202	2 076 912	2 276 494	2 513 553
Housing development fund & Other Cash Backed Reserves	–	–	–	–	–	–	–	–	–	–	–
Reserves (Not Cash Backed)	–	–	–	–	–	–	–	–	–	–	–
Accumulated surplus	1 171 589	1 299 735	1 388 807	1 456 554	1 560 940	1 660 860	1 772 705	1 910 202	2 076 912	2 276 494	2 513 553
Non-current liabilities:	386 877	288 647	312 602	316 618	305 746	315 219	329 546	358 687	390 789	416 241	433 583
Long-term liabilities (Interest Bearing)	244 795	152 912	176 867	180 883	170 011	168 601	170 825	186 760	204 714	215 283	217 265
Long-term trade payables: Eskom	–	–	–	–	–	–	–	–	–	–	–
Non-current provisions	142 082	135 735	135 735	135 735	135 735	146 618	158 721	171 927	186 075	200 958	216 318
Current liabilities:	302 682	331 360	346 623	348 130	338 238	338 819	342 646	335 087	338 868	351 535	364 755
Consumer deposits	15 872	16 767	17 922	19 185	20 430	21 322	22 326	23 424	24 605	25 896	27 362
Provisions	45 053	38 953	35 372	29 617	23 573	23 573	23 573	23 573	23 573	23 573	23 573
Trade payables	190 560	203 941	217 844	223 344	223 363	230 113	234 075	236 533	238 453	239 636	239 881
Current portion of long-term trade payables: Eskom	–	–	–	–	–	–	–	–	–	–	–
Unspent conditional grants	–	–	–	–	–	–	–	–	–	–	–
Bank overdraft	–	–	–	–	–	–	–	–	–	–	–
Current portion of interest bearing liabilities	51 197	71 698	75 486	75 984	70 871	63 810	62 672	51 557	52 237	62 430	73 938
TOTAL MUNICIPAL FUNDS AND LIABILTIES	**1 861 149**	**1 919 741**	**2 048 031**	**2 121 302**	**2 204 924**	**2 314 898**	**2 444 898**	**2 603 976**	**2 806 569**	**3 044 270**	**3 311 890**

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)	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**
R thousands											
Revenue											
Property rates	348 306	370 336	396 871	425 596	457 182	490 832	527 959	568 524	612 421	659 555	709 711
Service Charges	553 584	659 654	747 267	815 780	879 383	941 178	1 002 663	1 069 456	1 141 516	1 218 984	1 301 890
Service charges - electricity	392 044	455 340	511 145	563 941	613 033	659 603	704 409	753 201	805 998	862 935	924 019
Service charges - water	96 027	116 457	130 265	140 434	149 218	159 136	170 079	181 983	194 851	208 713	223 569
Service charges - waste water management	29 883	31 768	36 127	38 540	41 071	43 510	46 158	48 996	52 005	55 183	58 541
Service charges - waste management	35 630	56 088	69 730	72 864	76 060	78 928	82 017	85 277	88 662	92 153	95 760
Service charges - other	–	–	–	–	–	–	–	–	–	–	–
Rental from fixed assets	7 758	7 405	7 657	7 941	8 234	8 724	9 254	9 823	10 427	11 064	11 737
Interest	5 308	4 237	2 428	4 580	4 862	5 608	7 466	10 154	14 138	20 086	27 254
Interest earned from receivables	29 520	44 381	23 381	21 811	20 880	18 226	19 650	21 073	22 472	23 823	25 098
Dividends	–	–	–	–	–	–	–	–	–	–	–
Fines, penalties and forfeits	108 282	103 209	98 017	101 644	105 405	111 666	118 460	125 743	133 467	141 622	150 241
Licences and permits	1 798	1 454	1 507	1 563	1 621	1 768	1 932	2 113	2 309	2 518	2 736
Agency services	3 663	4 180	4 335	4 495	4 661	4 938	5 239	5 561	5 902	6 263	6 644
Transfer and subsidies - Operational	152 717	177 053	166 581	171 808	176 276	187 720	200 123	213 422	227 543	242 468	258 237
Other revenue	50 245	39 151	38 324	29 849	37 295	39 510	35 736	38 068	40 549	43 178	45 970
Gains on disposal of Assets	–	1 441	12 730	3 000	5 000	5 695	6 521	7 483	8 583	9 815	11 167
Total revenue before Capital Grants	1 261 180	1 412 501	1 499 099	1 588 067	1 700 799	1 815 864	1 935 003	2 071 421	2 219 326	2 379 376	2 550 686
Transfers and subsidies - capital (monetary allocations)	46 706	63 575	54 398	45 500	46 649	47 077	47 726	48 446	49 095	49 560	49 751
Public & developers contributions	–	–	(0)	–	–	–	–	–	–	–	–
Total Revenue after Capital Grants	1 307 886	1 476 076	1 553 497	1 633 566	1 747 448	1 862 941	1 982 730	2 119 867	2 268 422	2 428 937	2 600 437
Operating expenditure											
Employee related costs	333 977	379 153	407 979	426 464	440 133	461 585	484 398	508 419	533 465	559 314	585 707
Remuneration of councillors	9 684	10 926	11 472	11 897	12 303	12 780	13 284	13 809	14 352	14 904	15 458
Debt impairment	126 780	140 243	153 347	172 347	192 837	216 333	230 583	246 087	262 739	280 539	299 488
Depreciation and amortisation	57 813	60 001	62 550	67 351	71 197	74 893	78 591	82 308	86 057	89 855	93 719
Interest	35 701	36 086	40 028	41 982	41 224	40 682	40 689	41 488	42 852	45 537	48 006
Bulk purchases - electricity	328 988	386 926	423 672	471 026	501 375	539 462	576 107	616 012	659 193	705 759	755 718
Inventory Consumed	40 896	47 124	49 185	60 474	64 027	70 501	77 988	86 407	95 609	105 413	115 611
Contracted services	150 413	172 558	210 557	235 058	252 486	269 054	282 568	296 966	312 155	328 115	344 904
Transfers and subsidies	1 661	15 157	2 278	3 118	3 241	3 400	3 573	3 756	3 949	4 150	4 361
Other expenditure	80 366	99 757	103 357	76 102	64 239	74 332	83 104	87 117	91 342	95 768	100 407
Losses on disposal of Assets	325	–	–	–	–	–	–	–	–	–	–
Total Expenditure	1 166 605	1 347 929	1 464 426	1 565 819	1 643 062	1 763 022	1 870 884	1 982 369	2 101 713	2 229 354	2 363 378
Suplus/ (Shortfall) for the year	**141 281**	**128 146**	**89 071**	**67 748**	**104 386**	**99 919**	**111 845**	**137 497**	**166 709**	**199 583**	**237 059**

Municipal Financial Model - Knysna Local Municipality
Cash Flow Statement

Model year Financial year (30 June) *R thousands*	0 2025	1 2026	2 2027	3 2028	4 2029	5 2030	6 2031	7 2032	8 2033	9 2034	10 2035
Cash flows from Operating Activities											
Suplus/Deficit for the year *including* Capital Grants	141 281	128 146	89 071	67 748	104 386	99 919	111 845	137 497	166 709	199 583	237 059
Suplus/Deficit for the year *excluding* Capital Grants & Contributions		64 571	34 674	22 248	57 737	52 843	64 119	89 051	117 614	150 022	187 308
Capital Grants & Contributions		63 575	54 398	45 500	46 649	47 077	47 726	48 446	49 095	49 560	49 751
Adjustments for non-cash items:											
Depreciation, amortisation and impairment loss	57 813	60 001	62 550	67 351	71 197	74 893	78 591	82 308	86 057	89 855	93 719
Revaluation on investment property (gain) / loss	–	–	–	–	–	–	–	–	–	–	–
Increase / (Release from) current provisions & non-interest bearing liabilities	–	(6 100)	(3 581)	(5 755)	(6 043)	–	–	–	–	–	–
Increase / (Release from) other non-current provisions & non-interest bearing liabilities	–	(6 348)	0	–	–	10 883	12 103	13 206	14 148	14 883	15 361
(Increase) / Release from non-current interest bearing assets	–	2	–	–	–	–	–	–	–	–	–
Capitalised interest	–	–	–	–	–	–	–	–	–	–	–
Eskom Debt Relief (synthetic grant)	–	–	–	–	–	–	–	–	–	–	–
Operating surplus before working capital changes:	199 094	175 702	148 040	129 343	169 540	185 695	202 540	233 010	266 914	304 320	346 139
Change in W/C Investment	–	(44 068)	13 406	6 900	748	5 298	2 536	1 368	743	(65)	(1 055)
(Increase)/decrease in inventories	–	(2 225)	(496)	1 400	729	(1 452)	(1 425)	(1 090)	(1 177)	(1 248)	(1 301)
(Increase)/decrease accounts receivable	–	(55 225)	–	–	–	–	(0)	–	–	–	–
Increase/(decrease) in trade payables	–	13 381	13 903	5 501	19	6 750	3 961	2 458	1 920	1 183	245
Eskom Debt Relief (movement into/out of creditors)		–	–	–	–	–	–	–	–	–	–
Increase/(decrease) in unspent grants	–	–	–	–	–	–	–	–	–	–	–
Net cash flow from Operating activities	199 094	131 633	161 447	136 243	170 288	190 993	205 076	234 378	267 657	304 256	345 083
Cash flows from Investing Activities											
Capital expenditure	–	(100 000)	(153 800)	(140 000)	(145 000)	(153 703)	(162 925)	(172 701)	(183 063)	(194 046)	(205 689)
Decrease/(Increase) in non-current receivables	–	–	–	–	–	–	–	–	–	–	–
(Additions) / Disposals of investment property	–	170	(170)	–	–	–	–	–	–	–	–
Net cash flow from Investing activities	–	(99 831)	(153 969)	(140 000)	(145 000)	(153 703)	(162 925)	(172 701)	(183 063)	(194 046)	(205 689)
Cash flows from Financing Activities											
New loans raised	–	–	99 440	80 000	60 000	62 400	64 896	67 492	70 192	72 999	75 919
Loans repaid	–	(71 382)	(71 698)	(75 486)	(75 984)	(70 871)	(63 810)	(62 672)	(51 557)	(52 237)	(62 430)
(Decrease) / Increase in consumer deposits	–	895	1 154	1 264	1 244	893	1 004	1 098	1 181	1 291	1 467
Net cash flow from Financing activities	–	(70 487)	28 897	5 778	(14 740)	(7 579)	2 090	5 918	19 816	22 053	14 956
Change in Cash	199 094	(38 684)	36 374	2 022	10 548	29 711	44 241	67 595	104 410	132 262	154 350
Cash/(Overdraft), Beginning		79 095	40 411	76 785	78 806	89 354	119 065	163 306	230 901	335 312	467 574
Cash/(Overdraft), Ending	**79 095**	**40 411**	**76 785**	**78 806**	**89 354**	**119 065**	**163 306**	**230 901**	**335 312**	**467 574**	**621 923**

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