A - F (32 – 2026) CM 23/06/2026	FINANCE DEPARTMENT: MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF) FOR 2026/27 TO 2028/29 AND THE AMENDMENT 2022/23 TO 2026/27 INTERGRATED DEVELOPMENT PLAN (IDP) (2026/27).

9.10. That **Council APPROVE** the amended **Policies** and **By-Laws** as contained in **Annexure E** to guide the implementation of the municipality's annual budget**.**

POLICIES

Annexure E1 Medium – Term Budget Statement Policy (Reviewed)……..…….....

Annexure E2 Pricing Policy Statement (Reviewed)……..……..……..……

Annexure E3 Property Rates Policy (Reviewed)…….. .....

Annexure E4.1 Provision of Free Basic Electricity Policy (Reviewed)…… .....

Annexure E4.2 Provision of free Basic Water supply services (Reviewed)……..……

Annexure E5 Waste Management Tariff Policy (Reviewed)…….....

Annexure E6 Consumer Deposit Policy (Reviewed)……..…..

Annexure E7 Indigent Support Policy (Reviewed)…… .....

Annexure E8 Credit Control & Debt Collection Policy (Reviewed)……..…..

Annexure E9 Provision for Doubtful Debt and Debt Write-Off Policy) (Reviewed) .....

Annexure E10 Budget Implementation and Monitoring Policy (Reviewed)…….....

Annexure E11 Municipal Entity Financial Support Policy (Reviewed)…… .....

Annexure E12 Accounting Policy (Reviewed)……..…..

Annexure E13 Electricity Metering for Residential and business Customers (Reviewed)… .....

Annexure E14 Policy for the vending of pre-paid electricity (Reviewed)……..…..

Annexure E15 Policy for the Estimation and Correction of Energy or Demand Meter Reading and Billing Data (Reviewed)…….....

Annexure E16 Electricity Tariff Policy (Reviewed)……... .....

Annexure E17 Virements Policy (Reviewed)……..…..

Annexure E18 Consumer Agreement Policy (Reviewed)…….....

Annexure E19 Supply Chain Management Policy (Reviewed)…….. .....

Annexure E20 Treasury Policy (Reviewed)…… .....

Annexure E21 Expanded Public Works Programme Policy (Reviewed)…… .....

Annexure E22 Asset Management Policy (Reviewed)…… .....

Annexure E23 Cost Containment Policy (Reviewed)……..…..

Annexure E24 Policy for the wheeling of Electricity (Reviewed)…….....

Annexure E25 Policy for Embedded Generation Ekurhuleni (Reviewed)…….. .....

Annexure E26 Ekurhuleni Community Enterprise Development Fund Policy (Reviewed)…… .....

Annexure E27 Long Term Financial Strategy 2020/21-2029/30 (Reviewed)……..…..

Annexure E28 Ekurhuleni Public Employment Programme & Implementation Framework Policy (Reviewed)……..……

Annexure E29 CoE Inventory Management Policy (Reviewed) ……..

Annexure E30 Unauthorised, Irregular and Fruitless and Wasteful Expenditure Policy (UIFW) (Reviewed)…..……

Annexure E31 Investment Support Package for Developers Policy (Reviewed)……

CITY OF EKURHULENI METROPOLITAN MUNICIPALITY

Long Term Financial Strategy

CONTENTS

Report Overview – Introduction and Background

INCA Portfolio Managers ("IPM") was appointed under tender RFP233/2020 of the Development Bank of Southern Africa ("DBSA"), on behalf of the National Treasury Cities Support Programme, to develop a Long-Term Financial Strategy for the City of Ekurhuleni Metropolitan Municipality. The deliverable of that assignment was a report entitled

The Ekurhuleni Municipality appointed INCA Portfolio Managers in 2020 to prepare a Long-Term Financial Strategy ("LTFS"). The deliverable of that assignment was a report entitled *City of Ekurhuleni Metropolitan Municipality; Long Term Financial Strategy: 2020/21 – 2029/30*; September 2021. The estimates in that LTFS will be referred to as the 2020 Estimate as they were based on the FY2020 Annual Financial Statements. This 2021 update aims to update the LTFP based on the latest available information and report on the findings.

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

A summary of the demographic, economic and household infrastructure perspective was updated with the latest available information as published by iHS Global Insight. The historic financial analysis was updated with the information captured in the municipality's audited financial statements of 30 June 2021 along with the tabled MTREF budget for FY2022. IPM adapted its Long-Term Financial Model (LTFM) to include and project key effects of the COVID-19 pandemic. This adapted model was populated and run with this latest information, and the outcome thereof is reported herein. The model was re-calibrated against the municipality's MTREF for the 4 years from FY2022 to FY2025, with the exception of property rates income as indicated in the Base Case assumptions.

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

ABBREVIATIONS USED

AFS	Annual Financial Statements
CAPEX	Capital Expenditure
CRR	Capital Replacement Reserve
CPI	Consumer Price Index
DBSA	Developmental Bank of Southern Africa
FY	Financial Year
FYE	Financial Year Ended
GDP	Gross Domestic Product
GVA	Gross Value Added
iHS	iHS Markit Regional Explorer version 2070 (2.6p)
IP	Investment Property
IPM	INCA Portfolio Managers
LTFM	Long Term Financial Model
LTFS	Long Term Financial Strategy
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts
MRRI	Municipal Revenue Risk Indicator
MTREF	Medium Term Revenue and Expenditure Framework
NERSA	National Energy Regulator of South Africa
NT	National Treasury
OPEX	Operational Expenditure
PPE	Property, Plant and Equipment
R ‘000	Rand x 1 000
R’m	Rand x 1 000 000
SA	South Africa
Stats SA	Statistics South Africa

Key Findings and Conclusions drawn from the 2021 LTFP Update

Demographic, Economic and Household Infrastructure

- Following the GVA contraction by 6.4% in 2020 due to the associated impact of COVID-19 and resultant lockdowns, GVA grew by 4.7% p.a., between 2020 and 2021. The population growth over the same period of 1.4% was comparably lower than GVA, thereby resulting in an improvement in the GVA per capita to approximately R74 923 p.a. per capita. However, the positive improvement in the GVA per capita remains below the pre-pandemic average of R81 423 p.a. per capita.

- The working age group (15 -64 years) makes up 69% of Ekurhuleni's total population, however only 47% of the population is economically active. The number of economically active people has decreased over the past five years. The increase in the unemployment rate over the same period from 33.3% in 2017 to 37.1% in 2021 indicates that the decrease in the number of economically active population is proportionally towards the unemployment rate. Notably, this rate is higher than the provincial and national averages of 35.2% and 33.5% respectively. It should be noted that the official unemployment rate does not consider people who have not recently taken active steps to find employment i.e., discouraged workers which would markedly increase the perceived rate.

- Tress index of 53.44 depicts a less diversified economy that is underpinned by four sectors: Finance – 28%; Community Services – 24%; Manufacturing – 20% and Trade – 12%. Together, these four sectors comprise approximately 86% of economic output.

- Although Ekurhuleni would not be considered a tourist destination, it's contribution to the area's economy is significant, representing 4.1% of the area's GDP in 2021. The tourism-spend increased from R8.7 billion in 2020 to R20.7 billion in 2021 following the 2020 impact of COVID-19.

- The household formation between 2011 and 2021 came to 19.1%, third largest of the eight metropolitan municipalities. Ekurhuleni managed to maintain an infrastructure index at 0.83 throughout the 10-year period despite the high household formation over the period. This index is relatively high when compared to the national average index of 0.76.

Historic Financial Assessment

The historical analysis shows:

- The City of Ekurhuleni finds itself in a weak liquidity position indicated by a current ratio of 0.85:1 as at FYE2021. Should debtors older than 30 days be excluded, this ratio only reduces to 0.73:1, well below the NT minimum benchmark of 1.5:1.

- The accounting surplus came to R272.7 million in FY2021, however this value reduces to an operating deficit of R2 157.1 million when capital grant transfers are excluded. Noticeably, the operating deficit reduced from R2 319.8 million when compared to FY2020.

- Ekurhuleni managed to generate cash from operations over the8-year assessment period, however this amount has reduced over the period mainly due to the increase in operating deficits and the low collection rate – averaging 88% over the period. The city generated cash from operations for the past two years despite the operating deficits and the low collection rate – 86% - relative to the NT benchmark of 95%. This was mainly due to the delayed payment of suppliers as evidenced by the high creditors payment period which came to approximately 192 days for FY2021. This is not sustainable over the longer term.

- The gross electricity surplus margin has reduced over the 8-year period from 31% in FY2014 to 19% in FY2021. The electricity distribution losses increased to 16.21% in FY2021 compared to 14.12% recognised in FY2020, remaining above the NT maximum level of 10%. The financial statements disclose non-technical losses as the major contributor to distribution losses – 11.86% - which are also above the NT benchmark.

- Water distribution losses increased from 30.26% in FY2020 to 32.69% in FY2021, of which 17.69% (FY2020: 15.26%) are non-technical losses. The water losses are relatively high when compared to the NT benchmark of 30%.

- Although staff costs as a percentage of operating expenditure remained below the NT minimum level of 25%, contracted services as a percentage of operating expenditure increased to rates above the NT maximum level of 5% from FY2019 – and have since remained at 6% of total operating expenditure.

- Repairs and maintenance expenditure decreased to 4% of property plant and equipment and investment property in FY2021, as opposed to 8% reached in FY2020. This ratio is considered to be low considering the NT recommended level of 8%.

- The low collection rate, persistent operating deficits, and the utilisation of the cash resources to fund capital expenditure has led to the material decrease in the cash balance over the 8-year period from R6 .37.6 million as at FYE2014 to R1 556.8 million as at FYE2021.This cash balance was substantially less than the calculated R3 952.7 million minimum required liquidity needed by the municipality for FY2021.

Long Term Financial Plan Update

The current MTREF indicates accounting and operating surpluses, this is not consistent with the historical assessment which indicates operating deficits and low levels of accounting surpluses. An analysis of the current MTREF attributes the following inconsistencies:

1. An increase in property rates by approximately 28% from R5 935.4 million in FY2021 to R7 571.7 million budgeted from FY2022.
2. An increase in other revenue over the MTREF period by more than 100% from R1 421.8 million budgeted for FY2022 to R3 346.9 budgeted for FY2023.

To address the above inconsistencies, the following ***adjustments*** were made in arriving at the Base Case:

1. The LTFM calculates a lower property rates income over the MTREF period when compared to the budgeted figures. The model figures were therefore assumed to be the realistic depiction of the forecast property rates income. This resulted in an adjustment downward in property rates income by approximately R5 221 million over the MTREF period.
2. The other revenue for the MTREF was adjusted downward by approximately R5 296 million from FY2023 in order to reflect a realistic forecast over the MTREF period.

In addition to the above adjustments, the following ***key assumptions*** were utilised in arriving at the Base Case:

1. The collection rate was assumed to remain at 90% throughout the planning period.
2. Repairs and maintenance as a percentage of property, plant and equipment assumed to progressively improve from the current 4.1% to 8% by the end of the end of the planning period.
3. The model incorporated all increase in revenue and expenditure items as mentioned in the tabled budget 2022/23 – other than the adjustments mentioned above
4. Water and electricity distribution losses assumed to remain at FY2021 rates of 32.67% and 16.21% respectively.
5. No adjustments were made to the MTREF capital budget and the funding mix, as the results depicted by the Current MTREF scenario indicate an optimal funding mix.

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

1. Maintain the funding mix that primarily funds capital expenditure through an effective combination of external borrowings and cash resources, with a focus on preserving liquidity levels.

2. Maintain a balanced approach for the long-term capital investment programme which prioritises investments that contribute to economic growth and revenue generation and prioritise timeous investment in bulk infrastructure.

3. Prevent further deterioration in current MTREF surplus, by ensuring that actual expenditure does not exceed the budgeted expenditure, generating cash from operations and avoiding further deterioration of liquidity.

4. Prevent deterioration of the collection rate by prioritising decisions and actions that will support and maintain the collection rate of 90% without compromising operating surplus.

5. Prevent further increases in distribution losses by putting measures in place to address the root causes of such high distribution losses, and work towards reducing these losses to at least NT norms of 10% and 30% for electricity and water, respectively.

6. Update the long-term financial plan with the latest information to remain relevant and a valuable strategic tool that serves as input to the annual budgeting process.

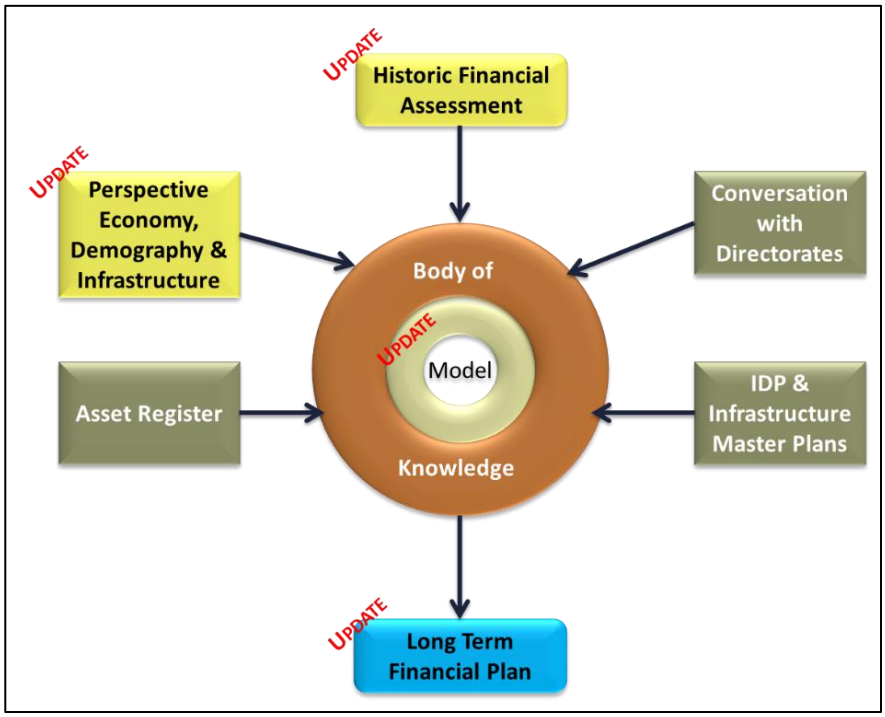
7. Obtain access to and institutionalize the internal use of the LTFM, to timely do an integrated forecast of revenues, expenditures, cash flows, funding, and financial position based on socio-economic drivers and policy choices of the municipality, assisting to model -
    - Rates & tariff increases
    - Catalytic infrastructure / investment programmes
    - Affordability envelope for a “Capital Expenditure Framework”
    - Capital funding mix
    - Borrowing policy / strategy
    - Liquidity policy and working capital management - including credit control, collection rates, creditors payment days, etc.
    - Population- & economic growth forecasts; growth in indigent households
    - Impact of various policy choices on ***Household Bills***

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

Planning Process

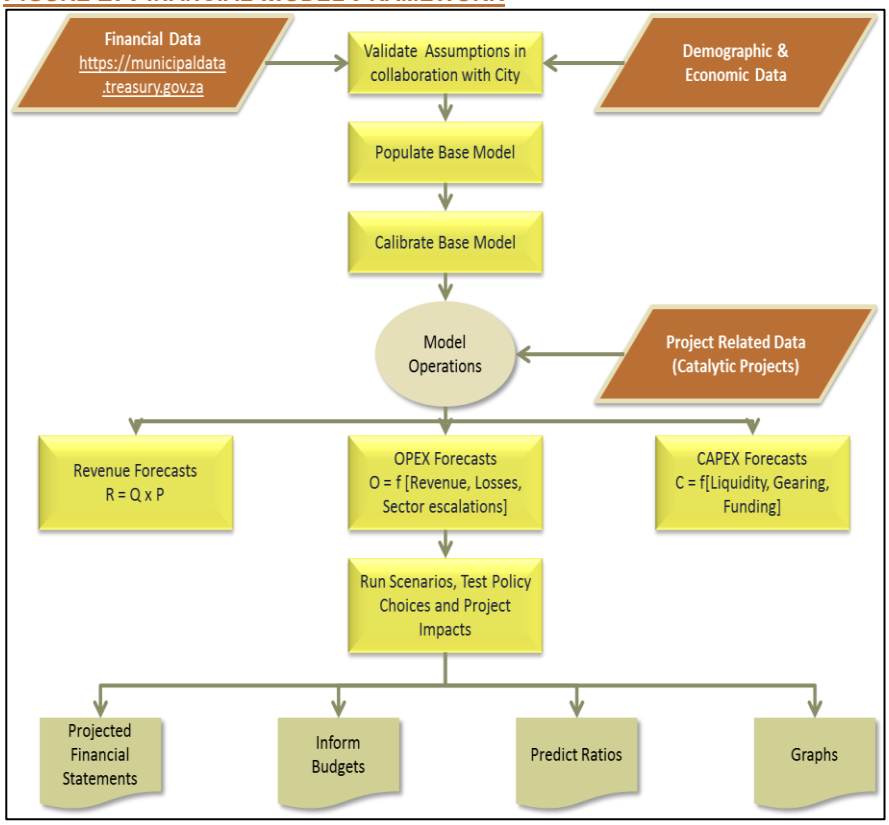
The diagram below illustrates the steps in the process that were followed in drafting the LTFS and the steps taken during this 2021 “LTFP Update”:

FIGURE 1: PLANNING PROCESS



The long-term financial model was populated with the latest information of Ekurhuleni 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
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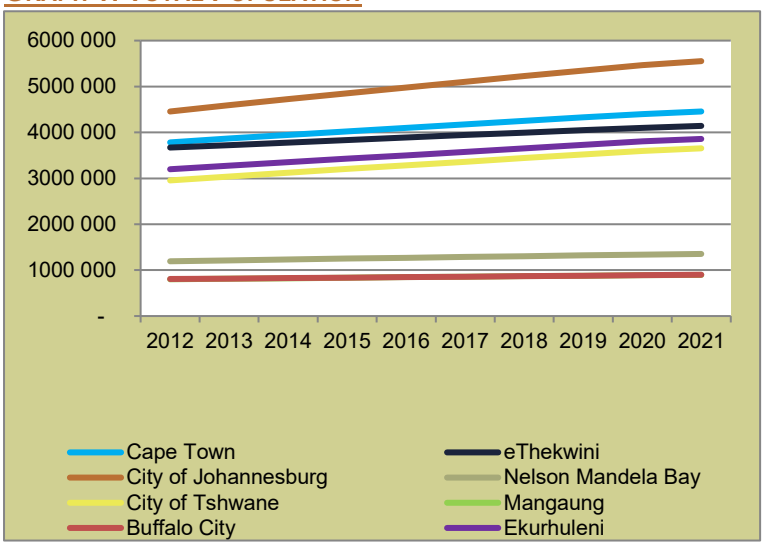
7	Scenario Analysis
8	Ratio Analysis
9	Conclusions

Updated Perspectives (Demographic, Economic, Household Infrastructure)

DEMOGRAPHY

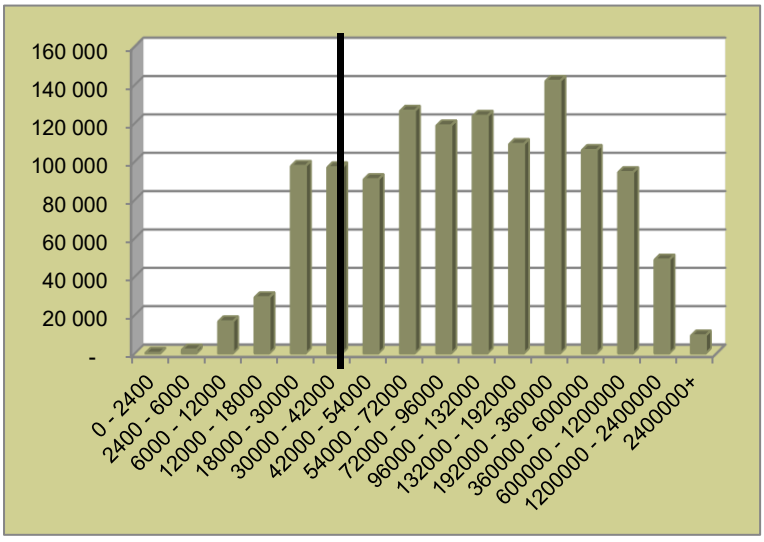
There are approximately 3 858 147 (iHS 2021) people living in Ekurhuleni, the fourth largest population of all the 8 metros. However, Ekurhuleni has the second highest population density of all the 8 metros -1 953 people per km^2 – behind the City of Johannesburg.

GRAPH 1: TOTAL POPULATION



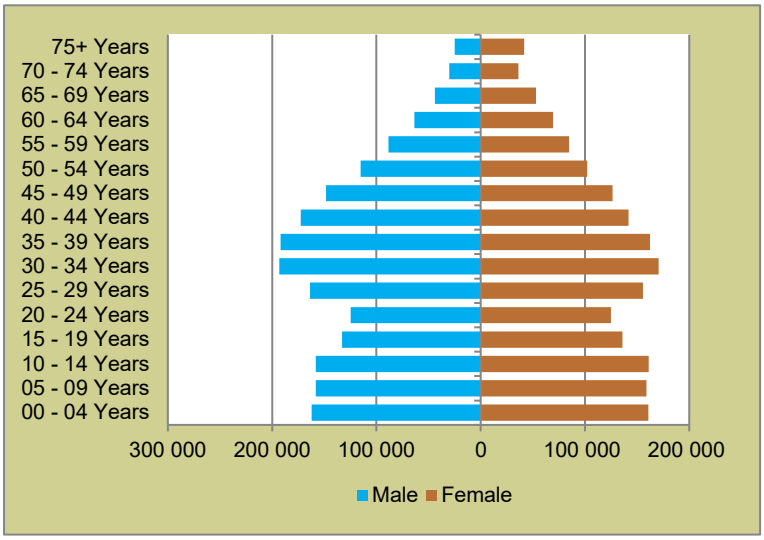
The Ekurhuleni household income in 2021 was approximately R291 458 p.a., this value increased by 7% from R271 449 p.a., in 2020. The household income distribution – per GRAPH 2 indicates that a high 20% of households earn less than R42 000 p.a. households earning less than R42 000 p.a., are indicative 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 reliant on government grants as a source of income. The provision of RDP level of basic services to these households is theoretically covered by the equitable share and should compensate the municipality for providing free basic services. The household income distribution further reflects a society of which 47.1% of all households earn an income within the range R42 000 p.a., and R192 000 p.a (R16 000 p.m.) i.e., below the average middle income (between R180 000 – R500 000 per annum). Considering the negative economic impact of COVID-19 on an economy that was already experiencing sluggish economic growth pre-pandemic; the extent to which households can be levied in future needs to be closely monitored. Any further decline in household income coupled with rapid increase in municipal service costs, will pose a serious challenge to the city's future cash revenue collection.

GRAPH 2: HOUSEHOLD INCOME DISTRIBUTION



The age profile pyramid – Graph 3 – is unlike a typical population pyramid that is characterised by a larger percentage of the population in the younger age cohorts, usually with each age cohort smaller in size than the one below. These types of populations are typically representative of developing society whose populations have high fertility rates and lower than average life expectancies. Ekurhuleni's age profile however is more constrictive with young people (below the age of 14) constituting only 25% and a high number of people – approximately 49% - between the ages 20 and 49 years. 9% of the population is above the age of 60 years and 6% above the age of 65 years. Although Ekurhuleni would not generally be considered an aging population i.e., people above 65 years between 8% and 10%, it should be noted that this age cohort has risen from 4% in 2012.

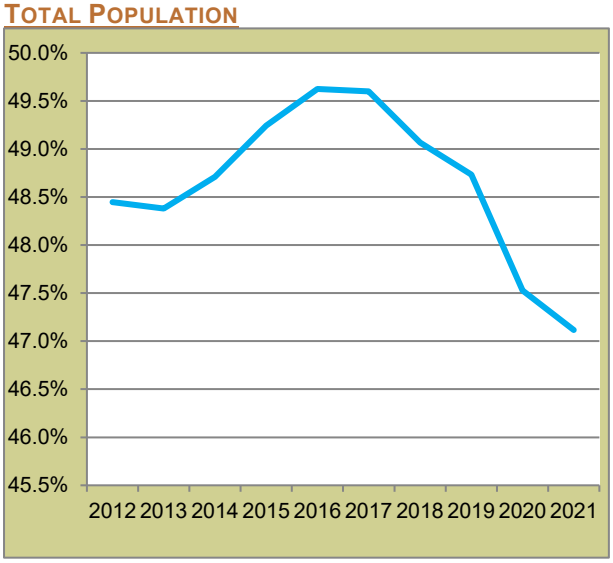
GRAPH 3: AGE PROFILE



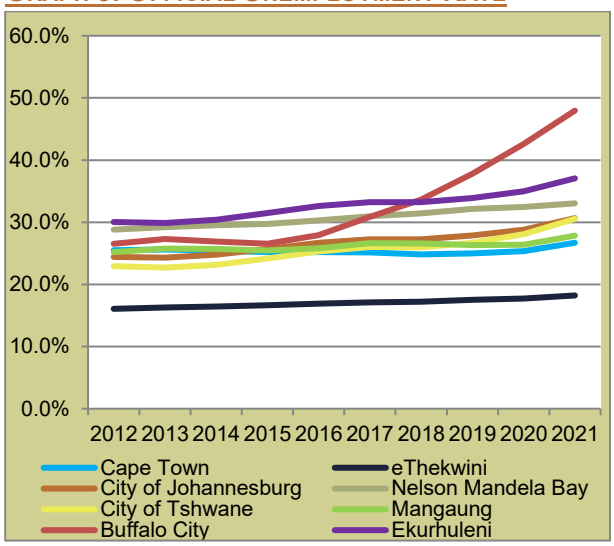
The working age group (15 - 64 years) make up 69%, however, 47% of the total population is economically active i.e., people that are able, willing and who are actively looking for work). The number of economically active people has decreased over the past five years – see GRAPH 4 . This decrease was proportionally towards unemployment as evidenced by the increase in the official unemployment rate over this period from 33.3% in 2017 to 37.1% in 2021 as depicted in

GRAPH 5 below. Ekurhuleni's unemployment rate is high relative to the provincial and national rates of 35.2% and 33.5% respectively. It should be noted that the official unemployment rate does not consider people who have not recently taken active steps to find employment i.e., discouraged workers which would markedly increase the perceived rate.

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

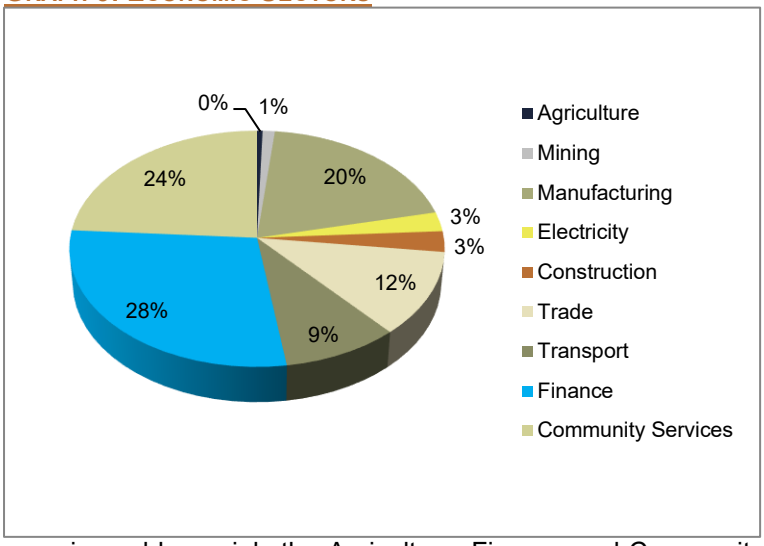


GRAPH 5: OFFICIAL UNEMPLOYMENT RATE



ECONOMY

GRAPH 6: ECONOMIC SECTORS



The Ekurhuleni Gross Value Add (GVA) for 2021 is estimated to been R289.1 billion (Constant Prices). The Tress index[1] of 53.44 indicates a less diversified economy that is dominated by four sectors, namely: Finance – 28%; Community Services – 24%; Manufacturing – 20% and Trade – 12%. Together, these four sectors comprise approximately 86% of economic output.

Over the past ten years, proportional growth was experienced by the Finance and Community Services sectors, whilst

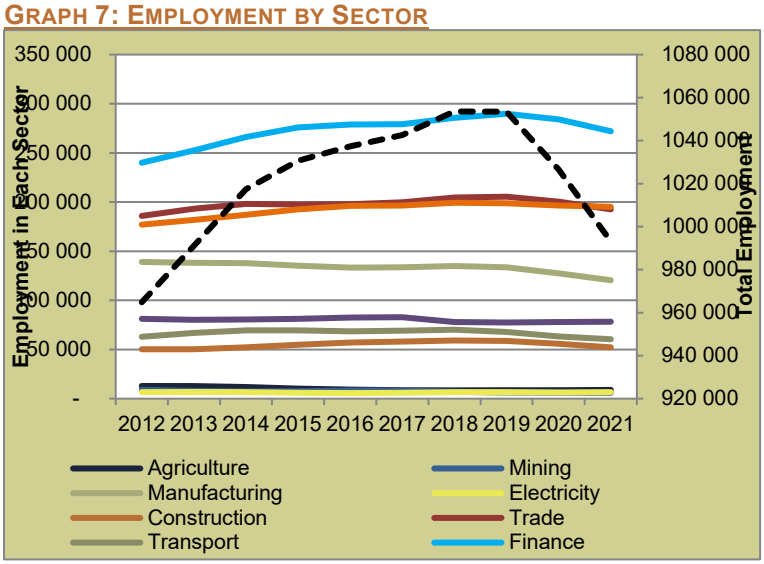
Over the last 10 years, proportional growth was experienced by mainly the Agriculture, Finance and Community Services, whilst the dominance of the Manufacturing declined.

TABLE 1: PROPORTIONAL GROWTH OF ECONOMIC SECTORS

Subsector	2012	2021
Agriculture	0.3%	0.5%
Mining	1.6%	1.2%
Manufacturing	22.8%	19.8%
Electricity	3.5%	2.6%
Construction	3.8%	2.8%
Trade	12.1%	11.6%
Transport	9.9%	9.2%
Finance	24.4%	28.4%
Community Services	21.6%	24.0%

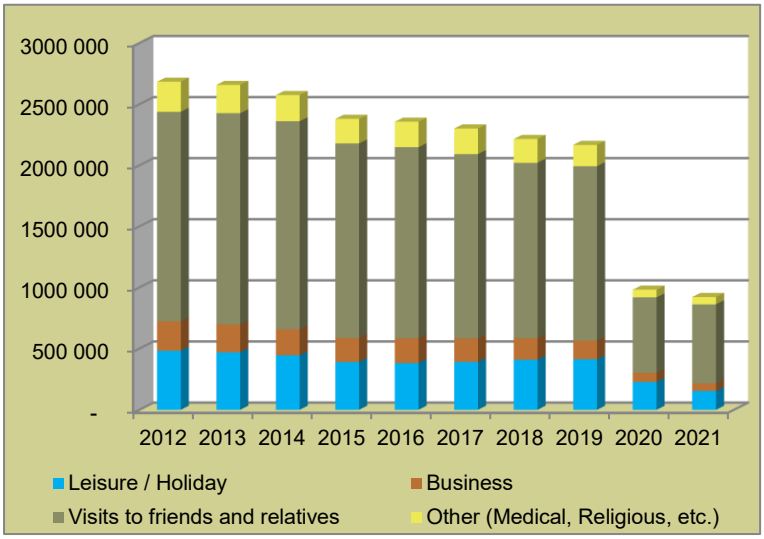
[1] The Tress Index provides insight into the level of concentration (or diversification) within an economic region. A Tress Index value of 0 means that all economic sectors in the region contribute equally to GVA, whereas a Tress index of 100 means that only one economic sector makes up GVA of the region.

GRAPH 7: EMPLOYMENT BY SECTOR



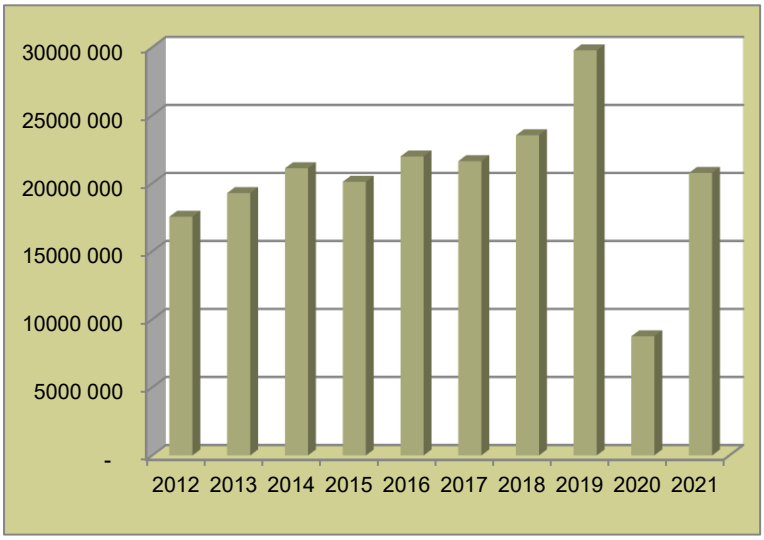
An analysis of the employment figures –per GRAPH 7 - indicates a marked decrease in employment opportunities - 6% (60 231 job losses) - between 2019 and 2021 most sectors. An indication of the continued impact of COVID-19 lockdown restriction in 2020 on the economy. As the largest employer in Ekurhuleni, the Finance sector lost the highest number of jobs over this period – 17 677 job losses in addition, high job losses were experienced in the Manufacturing and Trade sectors – 13 291 and 12 758 respectively.

GRAPH 8: TOURISM TRIPS BY PURPOSE OF TRIP



The tourism sector was negatively impacted by the COVID-19 pandemic. This is evident in the reduction of the number of trips to the region in 2020 by more than 50% – see **GRAPH 8** below. The trips have remained low in 2021, however, these figures should improve in future with the easing of the travel restriction.

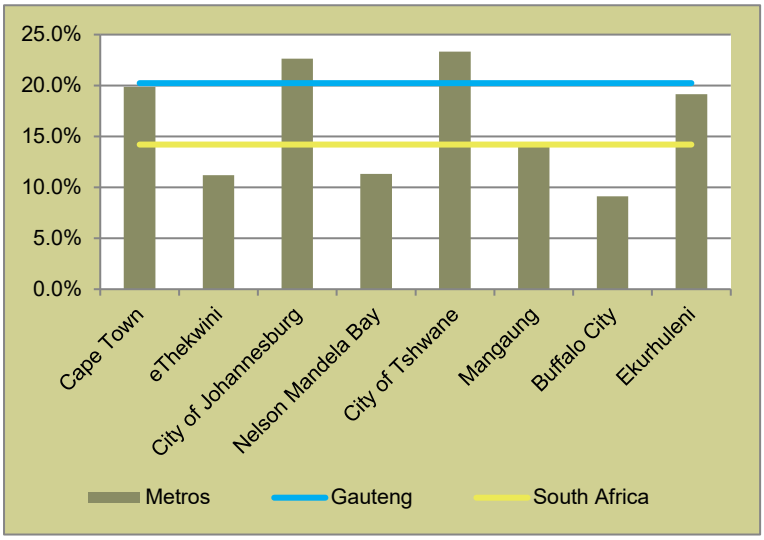
GRAPH 9: TOURISM SPEND (CURRENT PRICES)



Tourism-spend increased from R8.7 billion in 2020 to R20.7 billion in 2021, following the 2020 impact of COVID-19. This gross amount pre-pandemic contributed 6.1 to the region's GDP but represented only 4.1% of GDP in 2021.

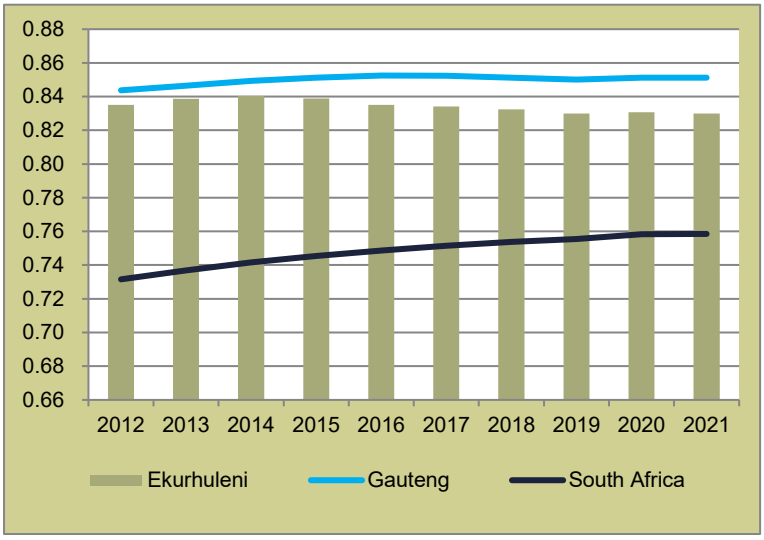
HOUSEHOLD INFRASTRUCTURE

GRAPH 10: HOUSEHOLD FORMATION



The household formation between 2012 and 2020 came to 19.1%, the third highest of all eight metropolitan municipalities. In absolute numbers, the growth of households in Ekurhuleni was 193 797 during the period.

GRAPH 11: INFRASTRUCTURE INDEX



Notwithstanding the relatively high household formation, Ekurhuleni has been able to maintain its infrastructure index of 0.83 (see GRAPH 11). This score is regarded as high in the South African context (0.76). The higher the index, the lower the level of backlogs. The maintenance of this high index score in future will requires ongoing infrastructure investment that keeps up with the rate of household formation.

.

The table below compares the level of backlogs, of ***sanitation, water, electricity, and refuse removal*** of Ekurhuleni with that of the Gauteng province. Ekurhuleni performed well in the provision of basic level of services Although the provision of electricity services indicated 16.9% (approximately 29 403 households in absolute terms) backlog

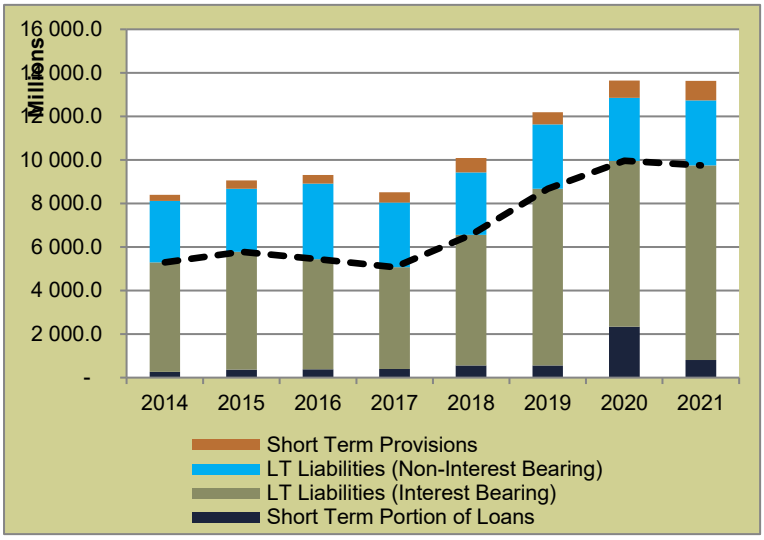
TABLE 2: HOUSEHOLD INFRASTRUCTURE PROVISION

Infrastructure	Gauteng		Ekurhuleni	
Above RDP Level				
Sanitation	3 541 806	90.8%	924 718	91.3%
Water	3 778 413	96.8%	983 392	97.1%
Electricity	3 412 389	87.4%	842 068	83.1%
Refuse Removal	3 511 526	90.0%	929 368	91.8%
Below RDP or None				
Sanitation	360 411	9.2%	88 076	8.7%
Water	123 803	3.2%	29 403	2.9%
Electricity	489 828	12.6%	170 727	16.9%
Refuse Removal	390 691	10.0%	83 426	8.2%
Total Number of Households	**3 902 217**	**100.0%**	**1 012 794**	**100.0%**

Updated Historic Financial Assessment

Financial Position

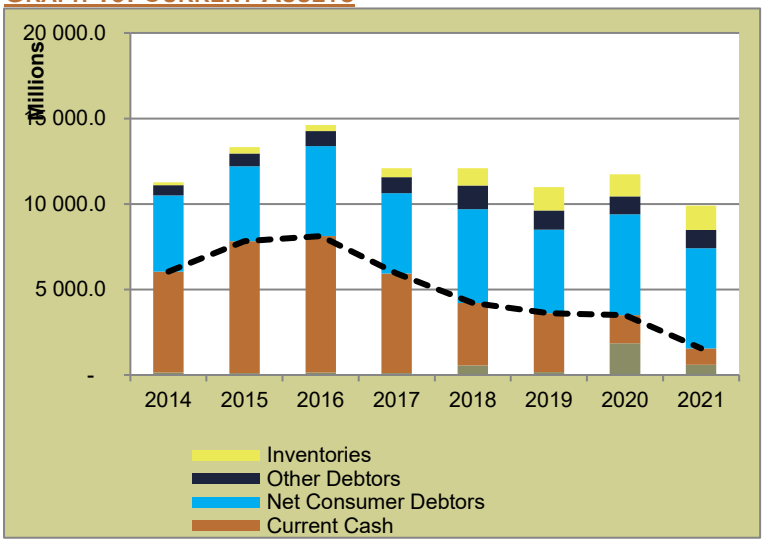
Graph 12: Long Term Liabilities: Interest Bearing vs Non-Interest Bearing



Graph 12 indicates an increasing trend in interest bearing liabilities over the past four years from R5 072.1 million as at FYE2017 to R9 745.2 million as at FYE2021. This trend is due to external borrowings – R7 926 million – taken up over this period to fund capital expenditure – refer to Graph 22 below.

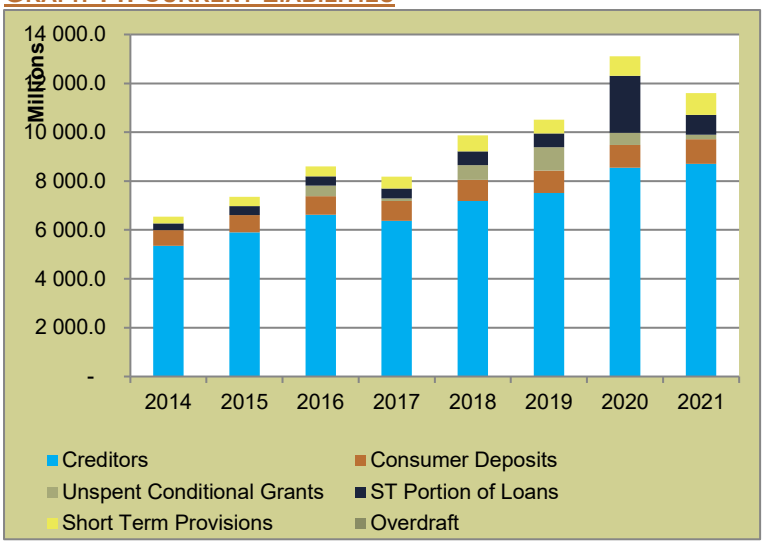
The gearing ratio remained below the NT maximum level of 45% despite the increase in external borrowings over the years, as at FYE2021, this ratio came to 25%. The debt service to total expense ratio, on the other hand increased from 3% in FY2017 to 8% in FY2021, similar to the NT maximum level. The debt service cover ratio of 0.12:1 implies that the municipality did not generate sufficient cash from its operations to service its current interest-bearing debt.

Graph 13: Current Assets



Current Assets have decreased at an average rate of 7% per annum from R14 615 million as at FYE2016, to R9 909 million as at FYE2021. The current assets balance is primarily driven by cash and cash balance which decreased by R6 562 million (81%) between FY2016 and FY2021.

GRAPH 14: CURRENT LIABILITIES

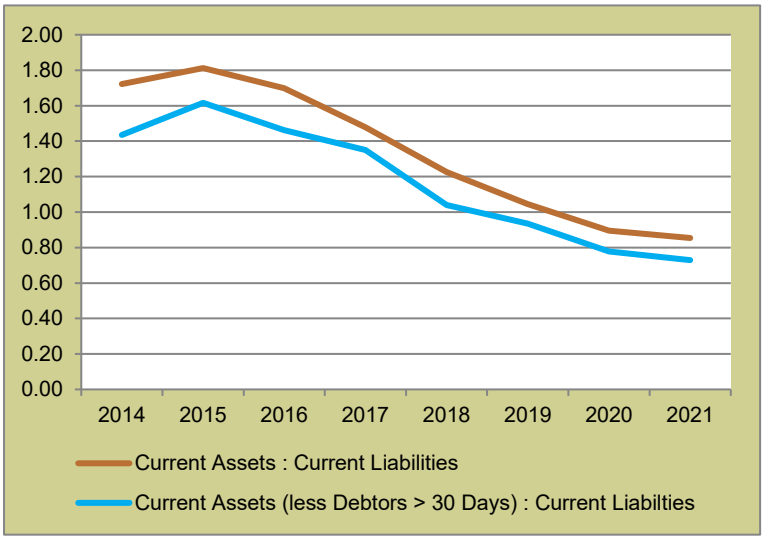


Current Liabilities – see GRAPH 14 below – have increased over the 8-year assessment period at an average rate of 9% p.a. from R6 536 million as at FYE2014 to R11 606 million as at FYE2021. This was mainly driven by an increase in the creditors balance from R5 352 million as at FYE2014 to R8 461 million as at FYE2021.

TABLE 3: LIQUIDITY RATIOS

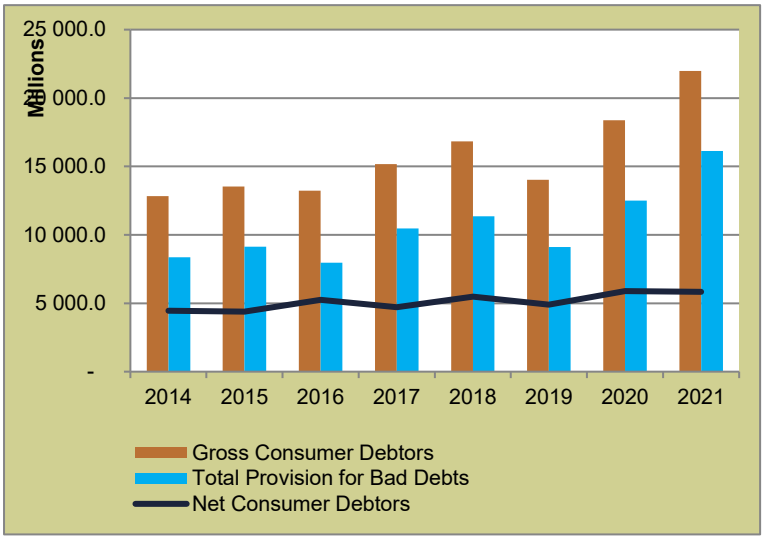
	2014	2015	2016	2017	2018	2019	2020	2021
Current Assets: Current Liabilities	1.72	1.81	1.70	1.48	1.23	1.04	0.90	0.85
Current Assets (less Debtors > 30 Days): Current Liabilities	1.43	1.62	1.46	1.35	1.04	0.93	0.78	0.73

GRAPH 15: LIQUIDITY RATIOS



The combined effect of the movements in current assets and current liabilities is evident in Ekurhuleni's liquidity ratio which has deteriorated over the 8-year period from 1.72:1 as at FYE2014 to 0.85:1 as at FYE2021. The liquidity ratio is weak relative to the minimum National Treasury (NT) benchmark of 1.5:1; indicating that the city's inability to pay its current/short term obligations. Should debtors older than 30 days be excluded from the calculation i.e., least liquid debtors; the ratio reduces to 0.73:1 further depicting the weak financial position.

GRAPH 16: GROSS CONSUMER DEBTORS VS NET CONSUMER DEBTORS



Gross consumer debtors -see GRAPH 16 - increased at an average rate of 9% per annum over the past 8 years and came to R21 971 million as at FYE2021. The balance is mainly driven by electricity and water debtors which were the largest contributors to the balance. It should be noted however that the contribution of electricity debtors has declined over the period and from FY2020, water debtors surpassed electricity as the major consumer debtor balance. In comparison, the growth in billed revenue averaged 7% over the same period.

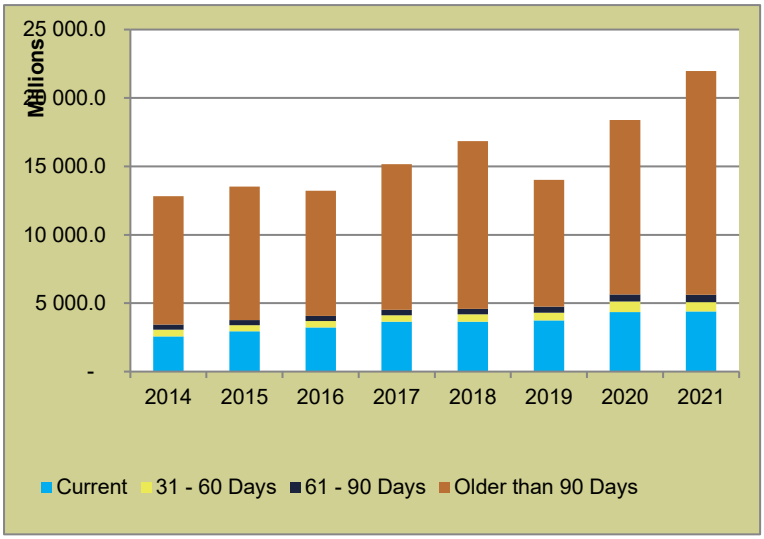
The collection rate has consistently remained below the NT benchmark of 95% throughout the 8-year assessment period, with highest recorded rate of 91% achieved in FY2018. It is positive to note that the municipality improved this rate from 84% recorded in 2020 – partly due to the impact of COVID-19 – to 86% in FY2021. The net debtor days implies that is takes an average of 71 days for customers to settle their bills relative to the NT norm of 30 days.

The provision for doubtful debts of R16 126 million as at FYE2021 covered 99% of the gross consumer debtors older than 90 days (R16 350 million), marginally lower than the 100% recommended by National Treasury.

TABLE 4: DEBTORS RATIOS

	2015	2016	2017	2018	2019	2020	2021
Increase in Billed Income p.a. (R'm)	1 697.7	1 088.6	1 618.9	1 428.0	2 424.7	2 157.9	1 175.5
% Increase in Billed Income p.a.	9%	5%	8%	6%	10%	8%	4%
Gross Consumer Debtors Growth	5%	-2%	15%	11%	-17%	31%	20%
Net Debtors' Days	79.5	90.3	75.1	82.5	66.9	74.5	71.0
Payment Ratio/Collection Rate (%)	90%	89%	89%	91%	87%	84%	86%

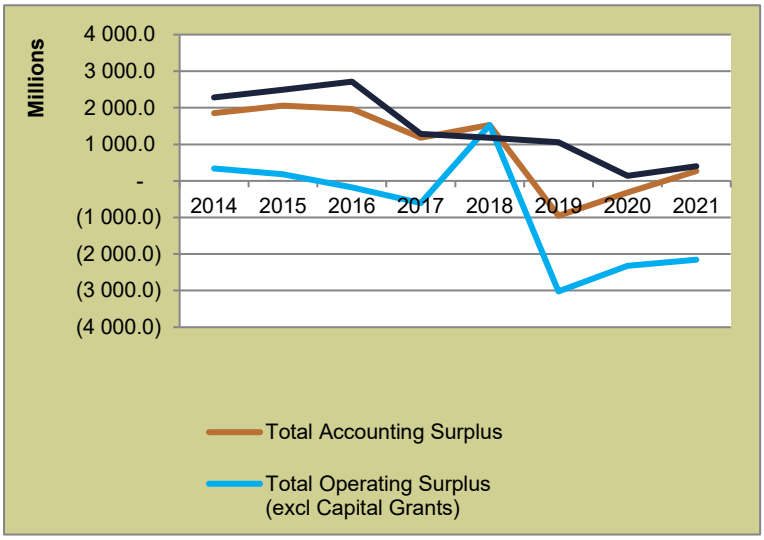
GRAPH 17: CONSUMER DEBTORS AGE ANALYSIS



The age analysis of consumer debtors reflects an increase in the debtors older than 90 days in the last couple of years from R9 275 million as at FYE2018 to R36 565 million as at FYE2021. This balance constitutes 74% of gross debtors as at FYE2021. Comparably, current debtors, who constituted 20% of gross debtors, increased by R656.1 million over the same period.

FINANCIAL PERFORMANCE

GRAPH 18: ANALYSIS OF SURPLUS



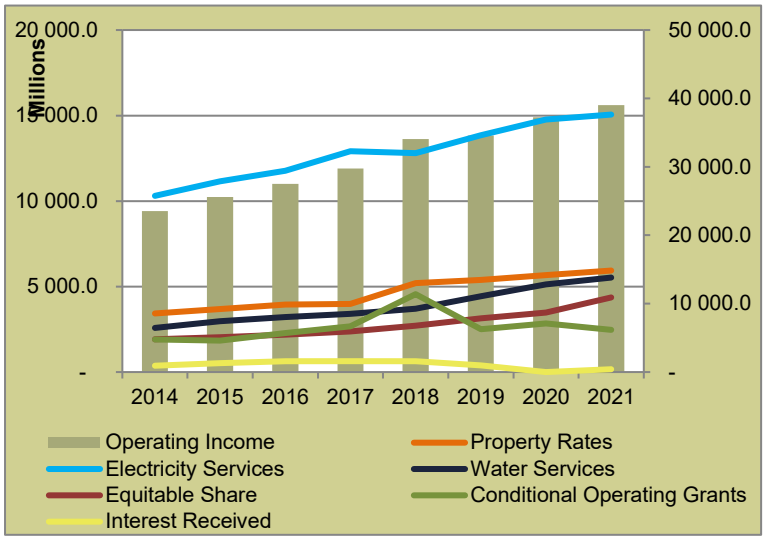
Total Income grew at an average rate of 7% over the 8-year period, whilst total operating expenditure grew at a higher rate – 9% - over the same period. This has resulted in a consistent reduction in accounting surpluses to operating deficits in FY2019 and FY2020. However, it is positive to note that the city improved to an accounting surplus of R272.7 million in FY2021 from an operating deficit of R319.1 million in FY2020. When capital grants are excluded, this amount reduces to an operating deficit of R2 157.1 million. GRAPH 18 depicts operating deficits since FY2019, however this amount has reduced over this period.

Notwithstanding the operating deficits and the low collection rate, the city has managed to generate cash from its operations – although this value has reduced over the years. This is mainly due to delayed payment of creditors, which is reflected in the high creditors' payment period – 71 days for FY2021

TABLE 5: TOTAL INCOME VS TOTAL EXPENDITURE

	2014	2015	2016	2017	2018	2019	2020	2021
Total Income	25 064.7	27 450.9	29 648.3	31 538.9	34 080.3	36 655.3	39 245.8	41 469.7
Total Operating Expenditure	23 208.3	25 393.1	27 676.8	30 359.1	32 554.9	37 609.5	39 564.8	41 197.0
Operating Income (excl Cond Grants)	21 642.7	23 733.7	25 217.3	27 084.2	29 525.2	32 076.2	34 400.2	36 565.3

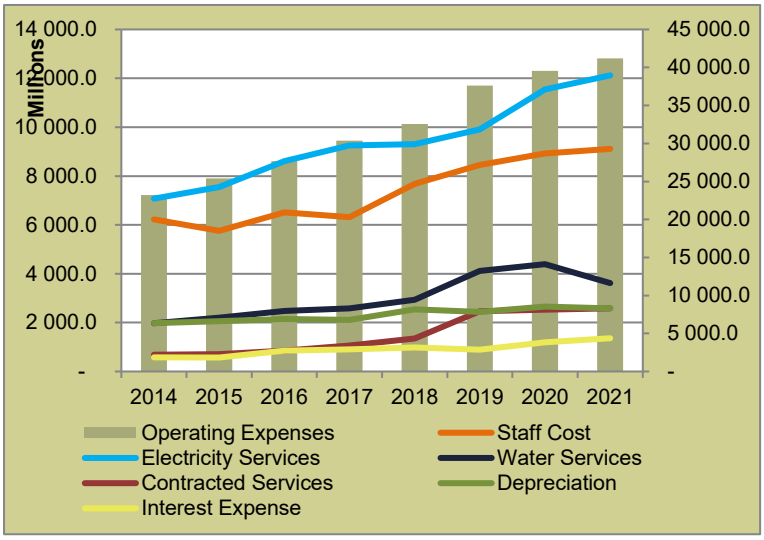
GRAPH 19: CONTRIBUTION PER INCOME SOURCE



Electricity service charges have remained the main contributor to total operating revenue throughput the 8-year period. This revenue item increased at an average rate of 6% per annum since FY2014 to R5 935.4 million in FY2021.The gross surplus margin has reduced over the 8-year period from 31% in FY2014 to 19% in FY2021 mainly due to reduced consumption resulting from the high electricity tariffs in recent years in response to the high NERSA approved cost of electricity. The electricity distribution losses increased to 16.21% in FY2021 compared to 14.12% recognised in FY2020, remaining above the NT maximum level of 10%. The financial statements disclose non-technical losses as the major contributor to distribution losses – 11.86% - which are also above the NT benchmark. The municipality should guide against an increase in non-technical losses considering that electricity is the major income source, any loss of revenue means less of a surplus to reinvest in capital spending on infrastructure.

Property Rates and Water Services are the other main sources of income, behind electricity, contributing a combined average of 27% to total operating income. Water distribution losses increased from 30.26% in FY2020 to 32.69% in FY2021, of which 17.69% (FY2020: 15.26%) are non-technical losses. The water losses are relatively high when compared to the NT benchmark of 30%.

GRAPH 20: CONTRIBUTION PER EXPENDITURE ITEM



Total operating expenditure is primarily driven by Electricity Bulk Purchases and Staff Costs which together contributed to 47% of the total operating expenditure.

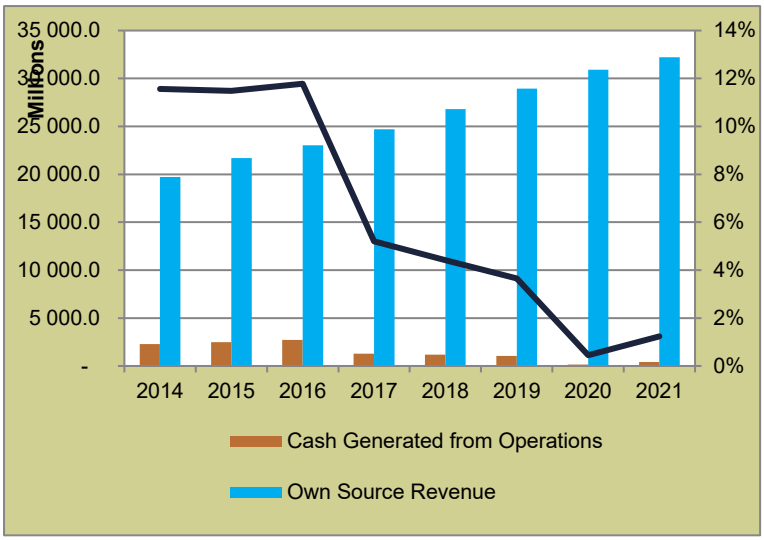
Staff Costs represent 20% of total operating expenditure, this is below the NT minimum level of 25%. The city has managed to maintain this ratio at an average of 20% for the 8-year period. This resulted in staff productivity, as measured by operating income / staff costs of 4.3 for FY2021 (FY2020:4.2).

Contracted services contribution to total operating expenditure has remained at 6% for the past three years. This ratio is considered to be high when compared to the NT maximum level of 5%

Expenditure incurred to repair and maintain capital assets reduced to 4% of PPE and IP for FY2021, relative to the 8% reached in FY2020. This ratio is considered to be low when compared to the NT norm of 8%.

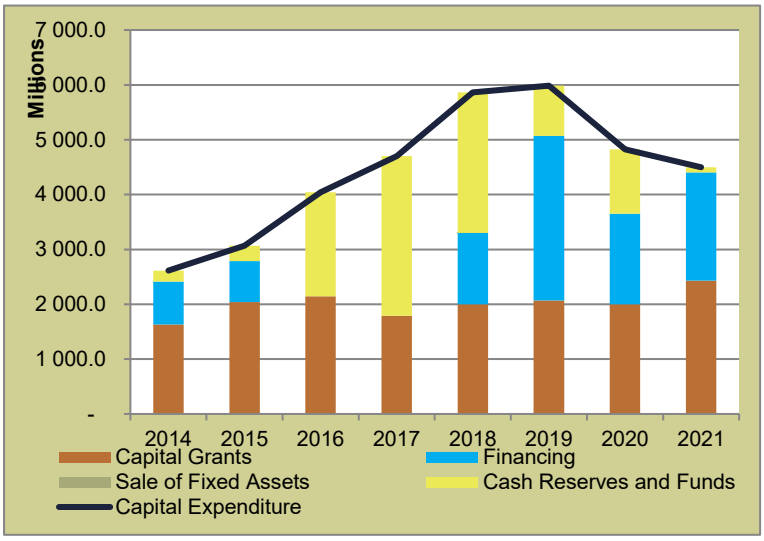
Cash Flow

GRAPH 21: CASH GENERATED FROM OPERATIONS/OWN SOURCE REVENUE



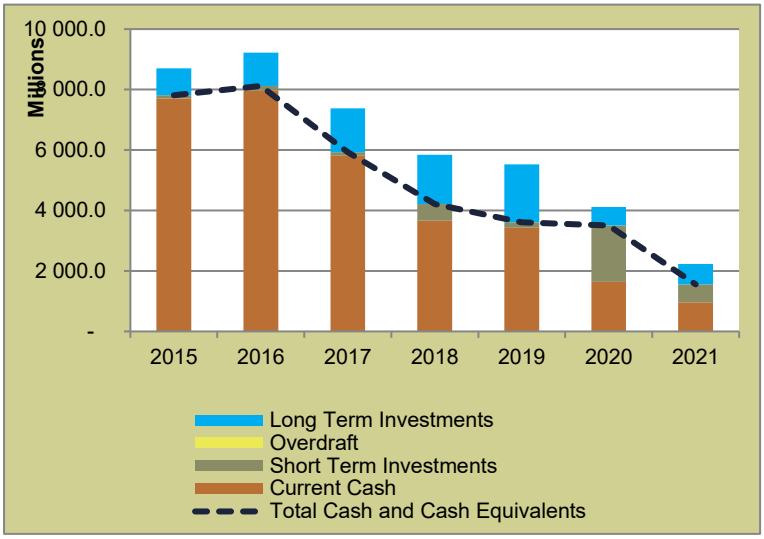
The low collection rate – average 88% over the 8-year- relative to the NT norm of 95% has negatively impacted the city's ability to generate cash from its revenue. Graph 21 indicates that on average, the city's cash generated from operations over the 8-year period comprised 6% of the own source revenue.

GRAPH 22: ANNUAL CAPITAL FUNDING MIX



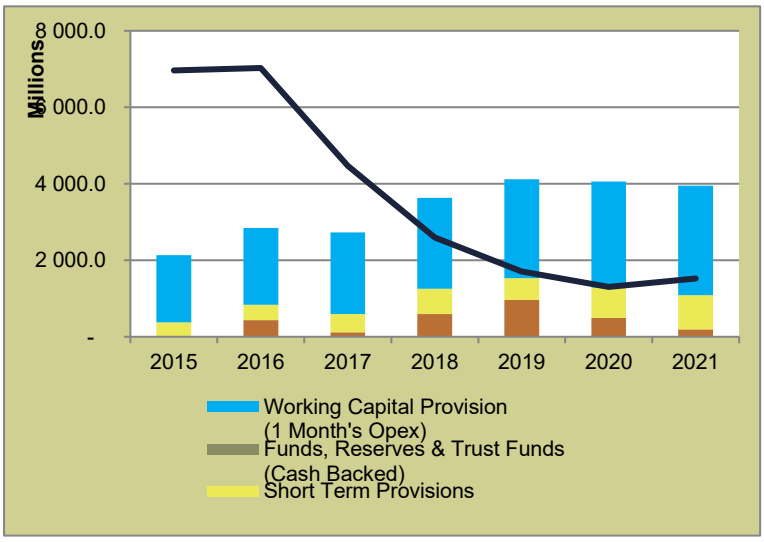
The city invested a cumulative R35 598.5 million to the acquisition of capital assets, over the past 8 years. This amount was funded by capital grant (45%); Own cash reserves (28%) and external borrowings (27%). The city historically underspent on its capital budget, with the capital budget implementation indicator averaging 89% over the 8-year assessment period. However, it should be note that this ratio has improved in the past couple of years to 99% and 98% for FY2020 and FY2021 respectively.

GRAPH 23: CASH AND INVESTMENTS



GRAPH 23 shows a decreasing trend in the cash and cash equivalents balance since from R6 037.6 million as at FYE2014 to R1 556.8 million as at FYE2021. This sharp decline is mainly due to the low collection rate over the 8-year period, coupled with the high utilisation of cash reserves to fund capital specifically between FY2016 and FY2020.

GRAPH 24: MINIMUM LIQUIDITY REQUIRED



Presented in TABLE 6 below, Ekurhuleni is required to maintain enough cash reserves to cover Unspent Conditional Grants (R191.8 million), Short-Term Provisions (R893.6 million) and Working Capital Provision (including 1 month's Opex) (R2 867.3 million). The city's unencumbered cash balance does not meet the required minimum liquidity levels of R3 952.7 million resulting in a shortfall of R2 429.0 million as at FYE2021. The cash coverage ratio (including working capital) came to 0.4:1 for FY2021 a significant decline when compared to 2.7 cash coverage ratio achieved in FY2014.

TABLE 6: MINIMUM LIQUIDITY REQUIREMENTS

	2014	2015	2016	2017	2018	2019	2020	2021
Unspent Conditional Grants	-	-	433.3	113.4	597.9	959.9	492.9	191.8
Short Term Provisions	272.9	372.9	403.8	477.4	655.4	572.9	798.4	893.6
Funds, Reserves & Trust Funds (Cash Backed)	-	-	-	-	-	-	-	-
Total	**272.9**	**372.9**	**837.1**	**590.8**	**1 253.3**	**1 532.8**	**1 291.2**	**1 085.4**
Unencumbered Cash	5 265.1	6 960.6	7 028.0	4 472.8	2 596.4	1 706.0	1 304.1	1 523.7
Cash Coverage Ratio (excl Working Capital)	19.3	18.7	8.4	7.6	2.1	1.1	1.0	1.4
Working Capital Provision (1 Month's Opex)	1 657.1	1 760.4	2 008.2	2 136.2	2 378.2	2 586.1	2 767.1	2 867.3
Cash Coverage Ratio (incl Working Capital)	2.7	3.3	2.5	1.6	0.7	0.4	0.3	0.4
Minimum Liquidity Required	1 930.1	2 133.2	2 845.3	2 727.0	3 631.4	4 118.9	4 058.3	3 952.7
Cash Surplus/(Shortfall)	**3 335.1**	**4 827.4**	**4 182.7**	**1 745.8**	**(1 035.0)**	**(2 412.9)**	**(2 754.2)**	**(2 429.0)**

IPM Shadow Credit Score

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

Based on the FY2021 performance of Ekurhuleni, the IPM credit model reflects a score of **5.0** which is comparable to an **BBB-** on a national ratings scale. This credit score is relatively high compared to metropolitan municipalities, and it is at **Investment Grade** level, which means that Ekurhuleni should be successful in accessing external borrowing at competitive rates.

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

TABLE 7: IPM CREDIT MODEL OUTCOMES

Modules	2021 (5)
Financial	**1.5**
Institutional	**3.4**
Socio-Economic	**2.0**
Infrastructure	**3.6**
Environmental	**4.1**

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

Any improvement in the institutional capacity will have a positive impact on the credit score. Strong governance and prudent financial management remain the key factors to be considered. The Auditor General's report, findings and recommendations need to be addressed annually and improved on a yearly basis.

Supply of household infrastructure services remains strong, which also impacts positively on the municipality's ability to be environmentally sensitive and sustainable.

The score achieved on the financial module is driven by the weak liquidity. By implementing the recommendations of the LTFS update report, maintaining financial discipline and prudent financial management, Ekurhuleni should be able to not only maintain, but even improve this score over time.

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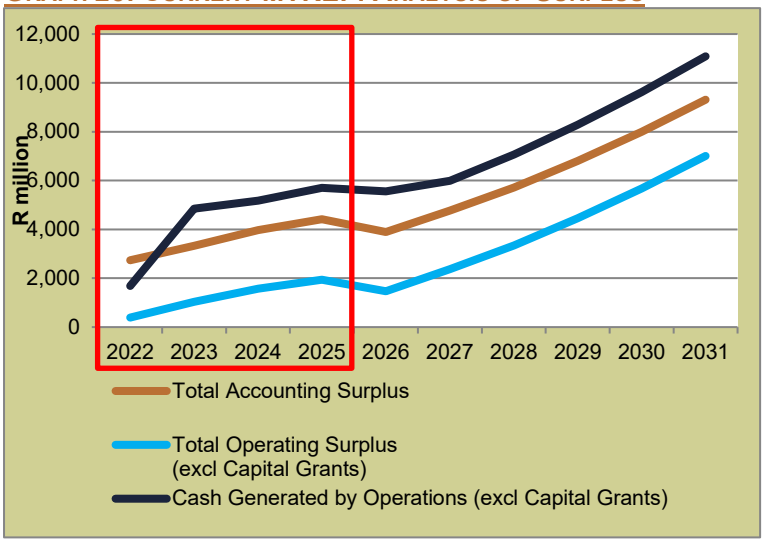
Long Term Financial Model Outcomes

CURRENT MTREF SCENARIO

GRAPH 25: CURRENT MTREF: ANALYSIS OF SURPLUS

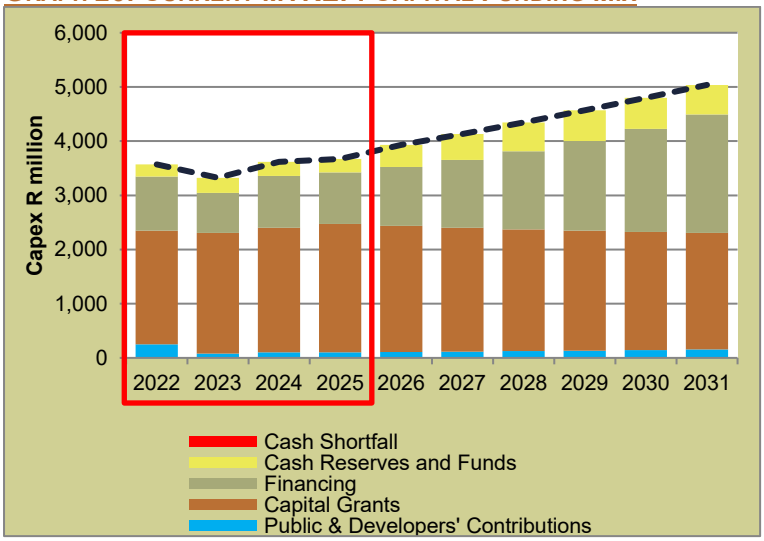


The current MTREF budget indicates a significant increase in surpluses from R363.7 million surplus realised in FY2021 to R2 737.8 million budgeted for FY2021. This results in a drastic improvement in profitability over the MTREF period when compared to the historical analysis - see GRAPH 18 above, this improvement improbable considering the city's current financial position.

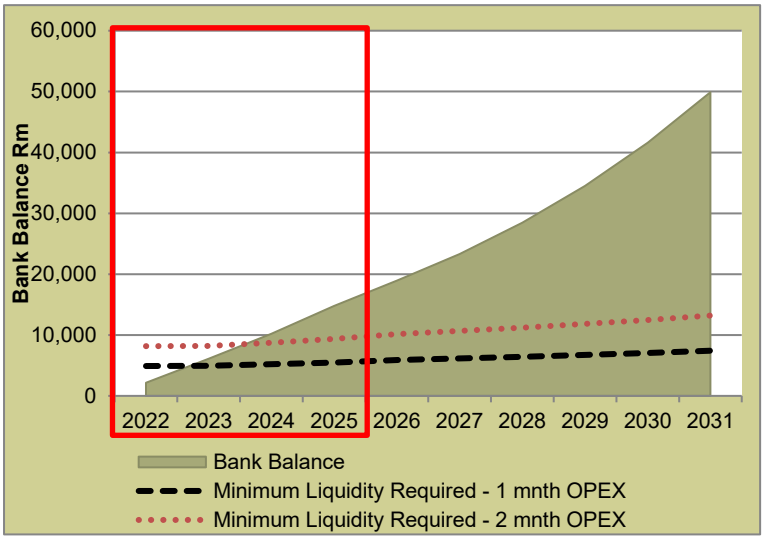
An analysis of the MTREF attributes this anomaly to:

1. An increase in property rates by approximately 28% from R5 935.4 million in FY2021 to R7 571.7 million budgeted from FY2022.
2. An increase in other revenue over the MTREF period by more than 100% from R1 421.8 million budgeted for FY2022 to R3 346.9 budgeted for FY2023.

GRAPH 26: CURRENT MTREF: CAPITAL FUNDING MIX



GRAPH 27: CURRENT MTREF: BANK BALANCE VS MINIMUM LIQUIDITY



The bank balance is budgeted to increase sharply over the MTREF period, despite the assumed low collection rate of 90%. This can be attributed to the budgeted high levels of surpluses brought about by inconsistently high budgeted increases in the property rates and other revenue- (see GRAPH 27 below).

The above scenario is highly unlikely, considering the current weak liquidity ratio, low collection rate (90%) and historical operating deficits. It is our view that the budget may be misstated and does not present an accurate forecast when compared to the historical figures. We therefore recommend that Ekurhuleni review the MTREF budget during the 2022/23 adjustment budget process.

BASE CASE SCENARIO

To address the inconsistencies identified in the MTREF scenario, we analysed the MTREF budget and made the following adjustments in order to arrive at a realistic Base Case scenario:

3. The LTFM calculates a lower property rates income over the MTREF period when compared to the budgeted figures. As a result, the model figures were assumed to be the realistic depiction of the forecast property rates income.
4. The other revenue from MTREF FY2023 was adjusted downward in order to reflect a realistic forecast over the MTREF period.

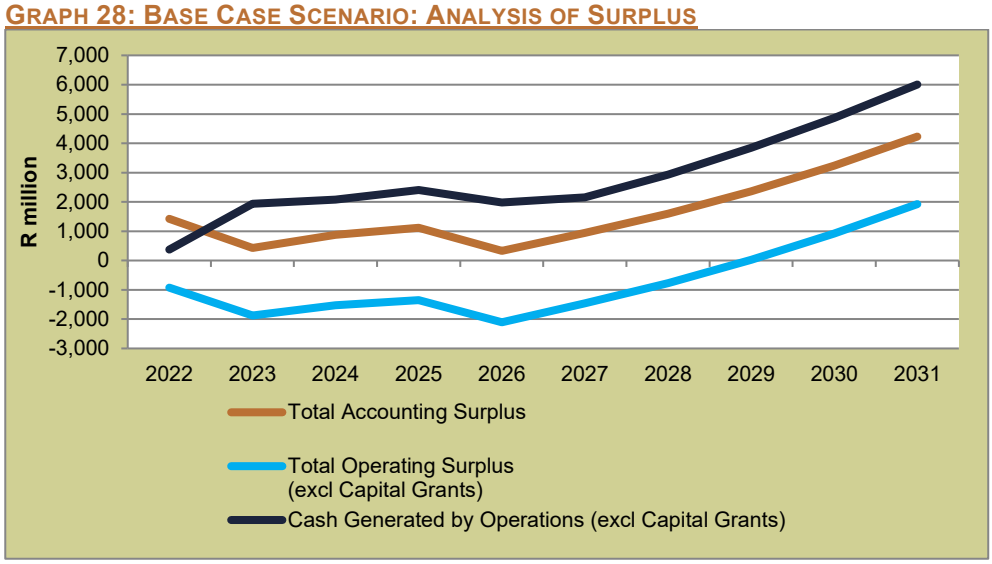
R'm	Total	2021/22	2022/23	2023/24	2024/25
Revenue decreases					
Property Rates	**(5 221)**	(1 467)	(1 324)	(1 251)	(1 179)
Other Revenue	**(5 296)**	-	(1 669)	(1 763)	(1 864)
Net Cash Flow Impact	**(10 517)**	(1 467)	**(2 993)**	**(3 014)**	**(3 043)**

In addition to the above adjustments, the following are the key assumptions utilised to arrive at the Base Case:

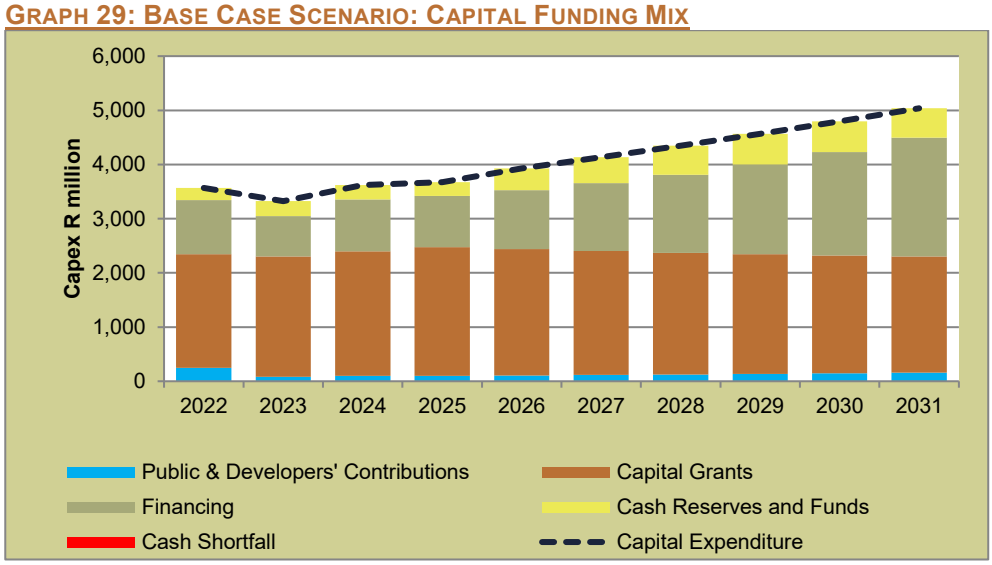
6. The collection rate was assumed to remain at 90% throughout the planning period.
7. Repairs and maintenance as a percentage of property, plant and equipment assumed to progressively improve from the current 4.1% to 8% by the end of the end of the planning period.
8. The model incorporated all increase in revenue and expenditure items as mentioned in the tabled budget 2022/23 – other than the adjustments mentioned above
9. Water and electricity distribution losses assumed to remain at FY2021 rates of 32.67% and 16.21% respectively.
10. No adjustments were made to the MTREF capital budget and the funding mix, as the results depicted by the Current MTREF scenario indicate an optimal funding mix.

The annual borrowing under this scenario consists of 10-year amortising loans at a fixed interest rate equal to 6% over forecast CPI in any given year. At these levels of borrowings, the debt indicators remain below the maximum recommended NT norms being a gearing ratio of .45% and debt service to total expense ratio of 8%.

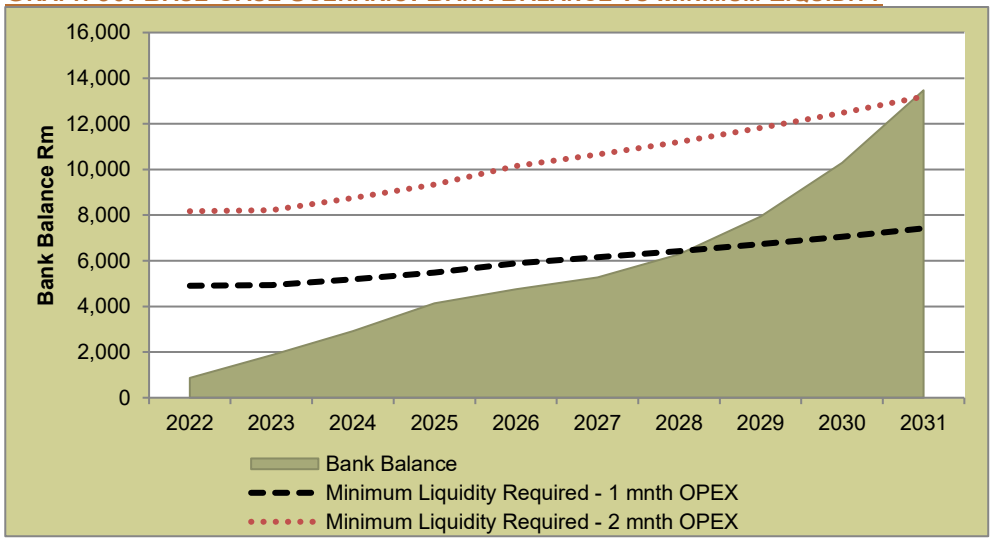
GRAPH 28: BASE CASE SCENARIO: ANALYSIS OF SURPLUS



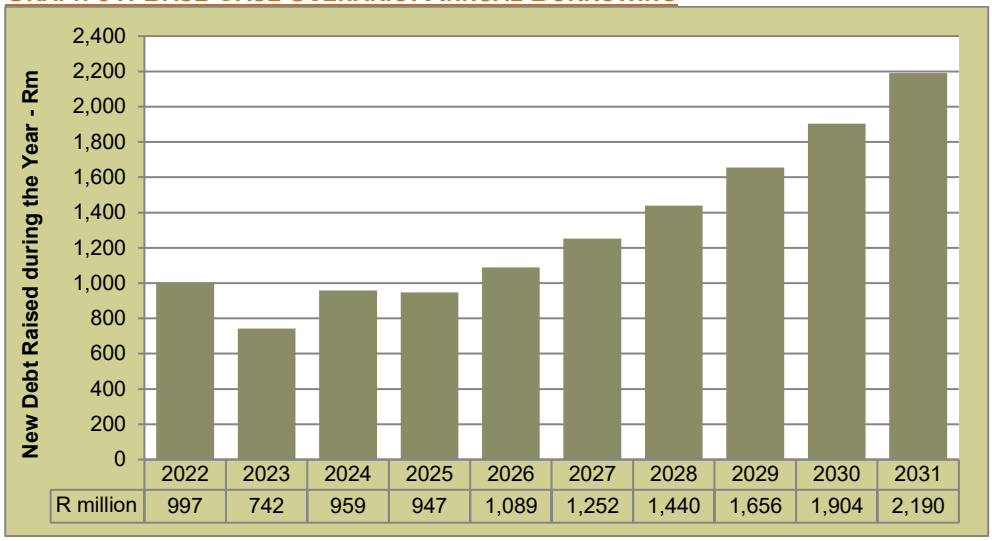
GRAPH 29: BASE CASE SCENARIO: CAPITAL FUNDING MIX



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

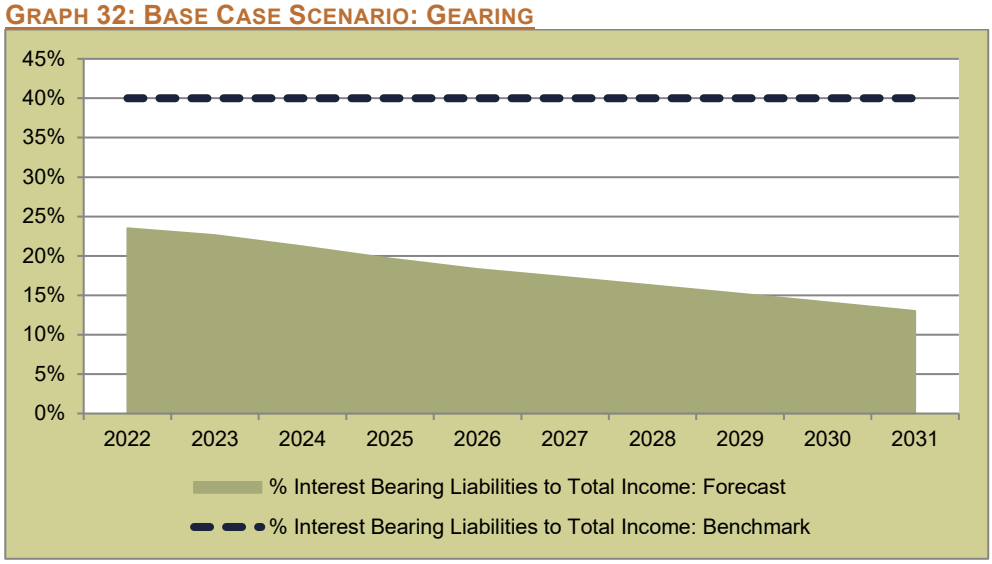


GRAPH 31: BASE CASE SCENARIO: ANNUAL BORROWING

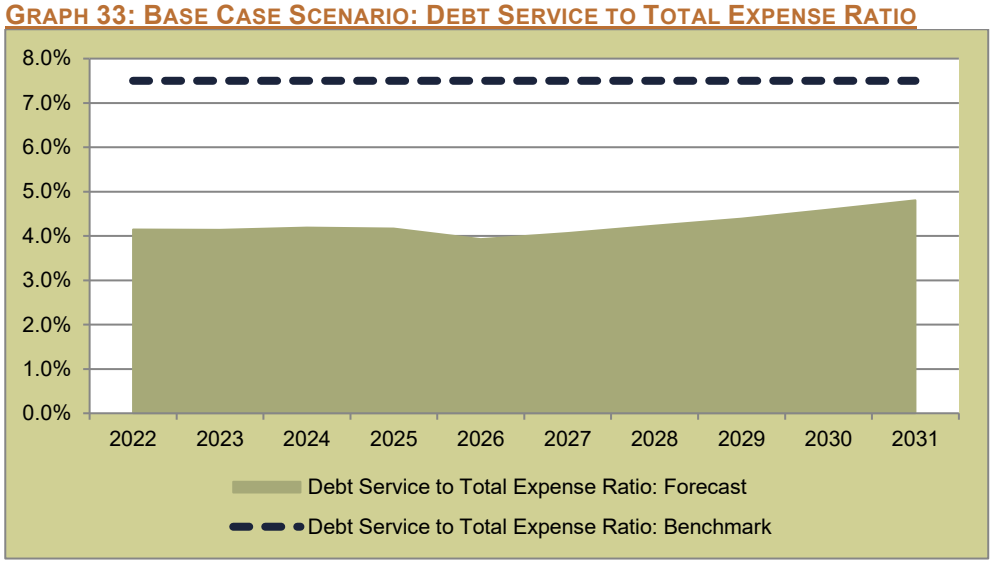


	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
R million	997	742	959	947	1,089	1,252	1,440	1,656	1,904	2,190

GRAPH 32: BASE CASE SCENARIO: GEARING



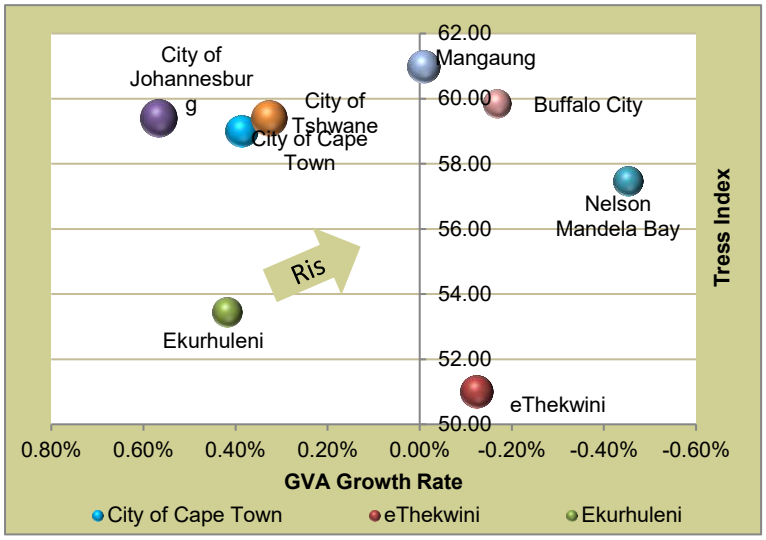
GRAPH 33: BASE CASE SCENARIO: DEBT SERVICE TO TOTAL EXPENSE RATIO



Future Revenues

MUNICIPAL REVENUE RISK INDICATOR (MRRI) = "HIGH"

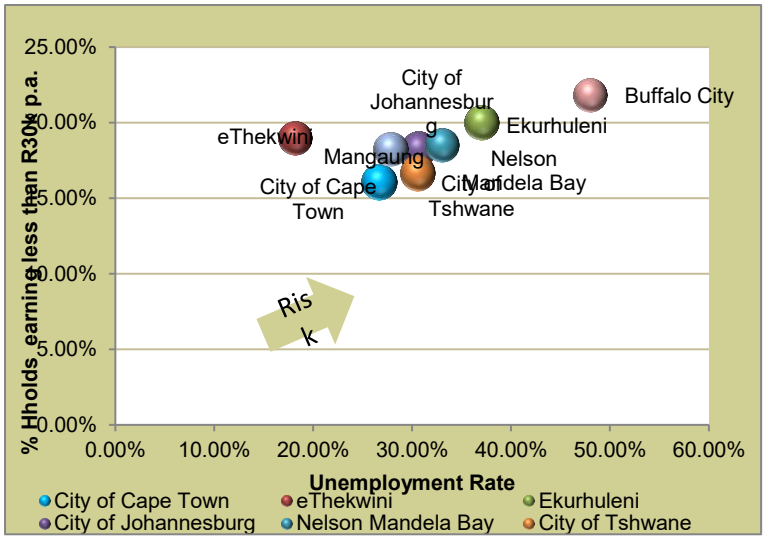
GRAPH 34: ECONOMIC RISK COMPONENT OF MRRI



The Municipal Revenue Risk Indicator (MRRI) measures the risk of the municipality's ability to generate its own revenues. This is a function of the economy (size of the economy as measured by GVA per capita, GVA growth rate and Tress Index); and the household ability to pay (measured by percentage of households with income below R42 000 p.a., unemployment rate and human development index).

The latest iHS Global Insight update of Ekurhuleni's economy reveals average economic contraction during the past 5 years was 0.2% p.a., with GVA per capita of R67 795 p.a., in an economy that is fairly diversified as indicated by a Tress Index of 59.85. This resulted in a "High" risk rating by the economic risk component of the MRRI, mainly due to the low economic growth rate over the past five years.

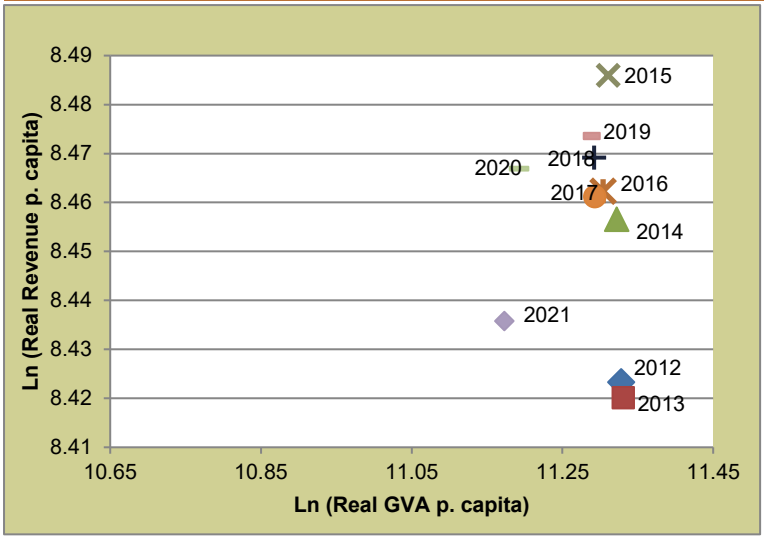
GRAPH 35: HOUSEHOLD ABILITY TO PAY RISK COMPONENT OF MRRI



The percentage of indigent households reliant on support (21.8%), the official unemployment rate of 48% and the human development index of 0.64. resulted in a "High" household ability to pay risk component of MRRI.

The regional economy and the household ability to pay for services delivered by the municipality, rates Ekurhuleni as "High" risk on the MRRI indicator scale i.e., there is a high risk that the municipality will not be able to generate the forecast cash revenue expected in future.

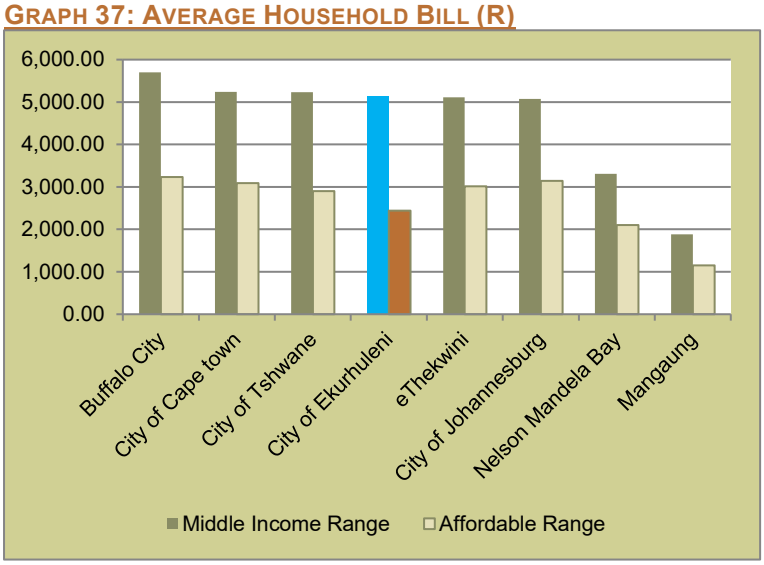
GRAPH 36: REAL REVENUE PER CAPITA VS REAL GVA PER CAPITA



The GVA per capita has decreased over the past ten years, this figure was at its lowest in 2020 – R72 584 per capita – having decreased by 8.2% from R79 098 per capita in 2019, due to the impact of COVID-19. This figure continued to decrease in 2021 and came to R71 191 per capita. The decrease in GVA per capita can be attributed to population growth rate exceeding the economic growth rate over the 10-year period.

Real municipal revenue (excluding capital transfers) remained relatively stable between 2016 and 2019, and expectedly decreased in the years after as a result of the pandemic's impact of economic growth. The sluggish economic growth in recent years is eroding the municipality's revenue base as there is increased pressure on households to pay their municipal bill. A sustained period of low levels of GVA growth will negatively impact the municipality's ability to generate income from households.

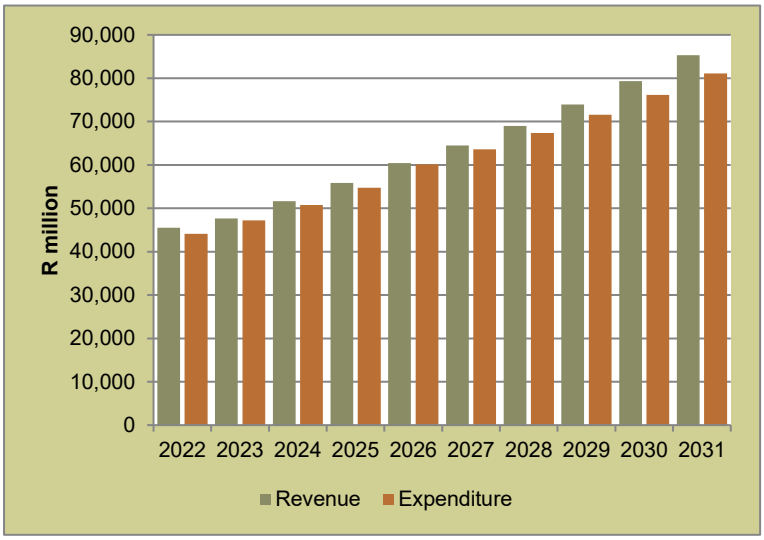
GRAPH 37: AVERAGE HOUSEHOLD BILL (R)



A comparison of the average household bill for the middle income and affordable income range of other metropolitan municipalities (extracted from Budget Table: SA14) based on the 2021/22 tariffs, reveals that Ekurhuleni features at the median of the range. Considering the level of service provided by Ekurhuleni and the size of the municipality, the current household bill is reasonable compared to other municipalities. The scope of the tariff increases is, however, limited by household's ability to pay for services.

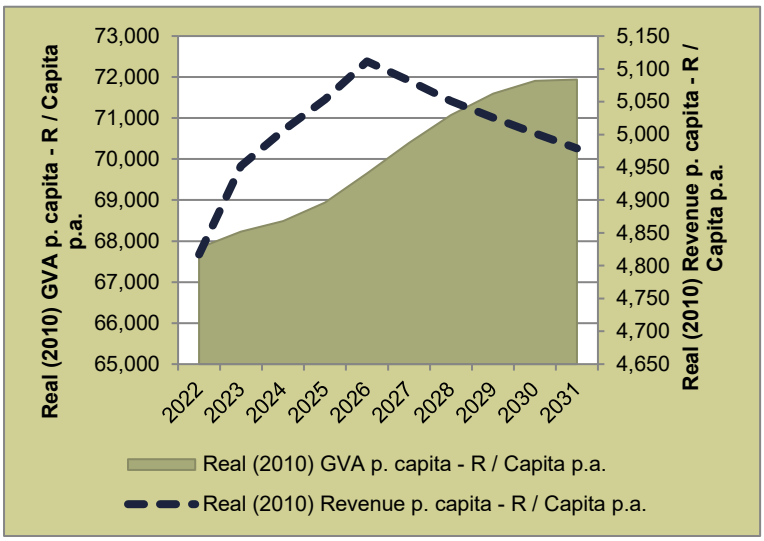
Municipal Revenues

GRAPH 38: BASE CASE: REVENUE AND EXPENDITURE



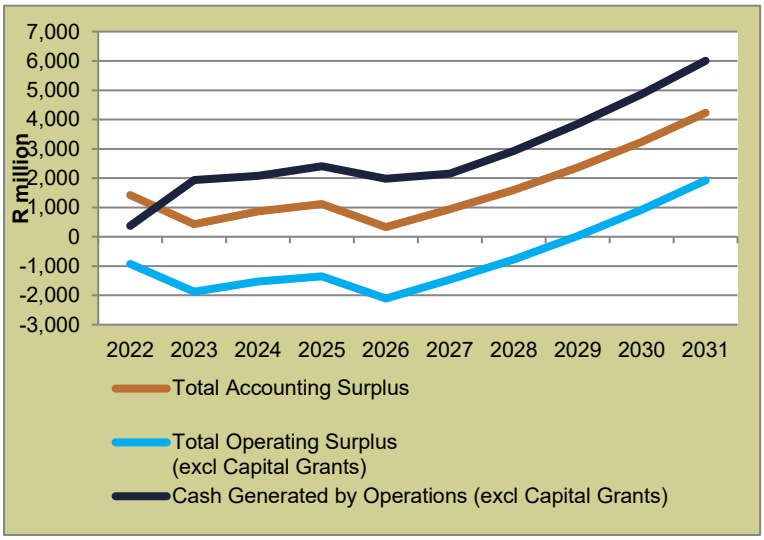
The Base Case estimates that, over the planning period, future nominal revenue (including capital grants) will grow at an average of 7.4% p.a. The revenue growth includes: (i) tariff increases, (ii) increased sales and (iii) additional revenue sources. Future nominal expenditure is estimated to grow at a relatively higher rate of 6.9% p.a., over the same period.

GRAPH 39: PROJECTED REAL GVA AND REVENUES PER CAPITA



The Real GVA per capita is expected to steadily improve over the planning period and exceed 2021 levels by 2022. The Real Revenue per capita is expected to sharply increase over the MTREF period, this is expected to decrease from 2027 and the remainder of the planning period. The local economic growth (GVA growth) is significant to the municipality as it affects the ability of the municipality to generate revenue (MRRI). Growth in GVA will result in an increase in the municipality's revenue base, which will improve profitability and ultimately accelerate investment in capital expenditure.

GRAPH 40: BASE CASE: ANALYSIS OF SURPLUS



Notwithstanding the forecast operating deficits and the low collection rate – assumed to remain at 90%- over the MTREF period, the municipality is expected to generate cash from operations due to the delayed payment suppliers – average creditors payment period forecast to be average 120 days over the MTREF period.

Affordable Future Capital Investment

CAPEX AFFORDABILITY AND FUNDING

The total CAPEX Demand was determined during the preparation of the LTFP in 2021 but has changed since then. For purposes of this report, the adjusted estimated CAPEX Demand in the previous update was adjusted for inflation. It is essential to establish a more accurate and reasonable CAPEX demand estimate. However, for purposes of this report, affordability is the focus of concern.

TABLE 8: CAPEX DEMAND VS CAPEX AFFORDABILITY

Total 10-year CAPEX **Demand (Adjusted)**	**=**	R2 578 million
Total 10-year CAPEX **Affordability:**	=	R82 533 million

MTREF CAPITAL FUNDING MIX

Ekurhuleni's adopted MTREF Budget 2021/22 to 2024/25, expects a capital budget amounting to R14 187 million funded as follows:

TABLE 9: 4-YEAR MTREF FUNDING MIX R'M

R'm	Total	2021/22	2022/23	2023/24	2024/25
Public & Developers Contributions	**528**	248	80	100	100
Capital Grants	**8 997**	2 100	2 224	2 299	2 374
Financing	**3 645**	997	742	959	947
Cash Reserves and Funds	**1 017**	226	278	260	253
Total	**14 187**	**3 571**	**3 324**	**3 618**	**3 674**

The MTREF capital budge funding mix is determined according to Ekurhuleni's "Long Term Funding Strategy" which indicates:

- External loans are below R750 million in 2022/23 and below R1.0 billion in each outer year.
- Own revenue funding limited to R250 million plus own revenue from Ekurhuleni Housing Company and ERWAT, and funding support department projects.

The MTREF capital budget funding strategy slightly differs from the recommendation of the LTFS which recommended no funding by cash reserves over the planning period. However, the results of the MTREF scenario indicated that the MTREF capital budget and the related funding mix to be reasonable. No adjustments were therefore made to the MTREF capital budget in arriving at the Base Case. At these levels of borrowings, the municipality's debt profile remains affordable, while liquidity is expected to improve over the planning period.

The collection rate in FY2021 came to 86%, this rate is assumed to improve to 90% over the planning period, similar to the provisions made in the budget. The city aims to achieve this collection rate through the following measures:

- Implementing more robust credit control measures
- Develop new strategies to bill properties that remain unbilled
- Optimise existing revenue base and continue to implement the revenue enhancement strategy

10-year Capital Funding Mix

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

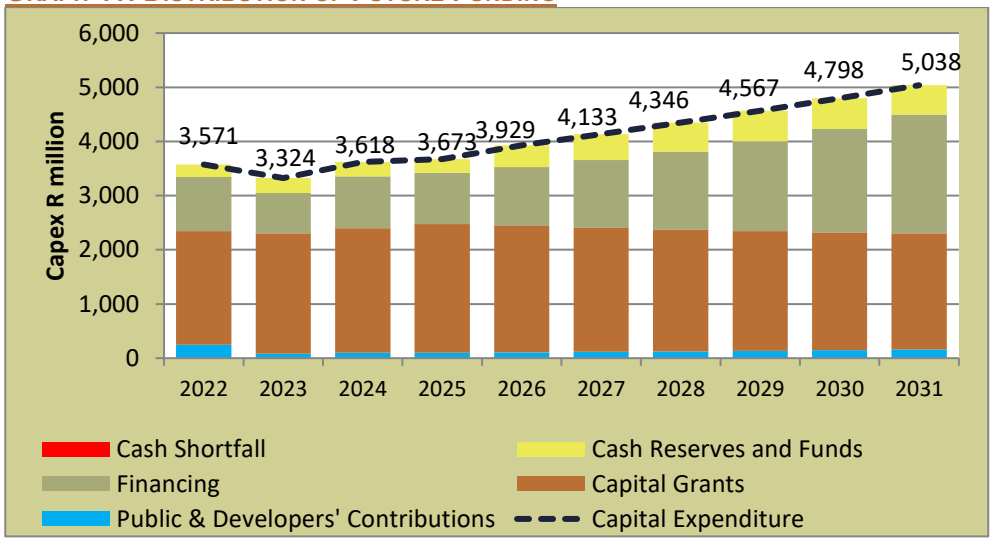
TABLE 10: 10-YEAR CAPITAL FUNDING MIX

Source	Rm	%
Public & Developers' Contributions	1 312	3%
Capital Grants	22 395	55%
Financing	13 175	32%
Cash Reserves and Funds	4 115	10%
Cash Shortfall	0	
Capital Expenditure	**40 997**	**100%**

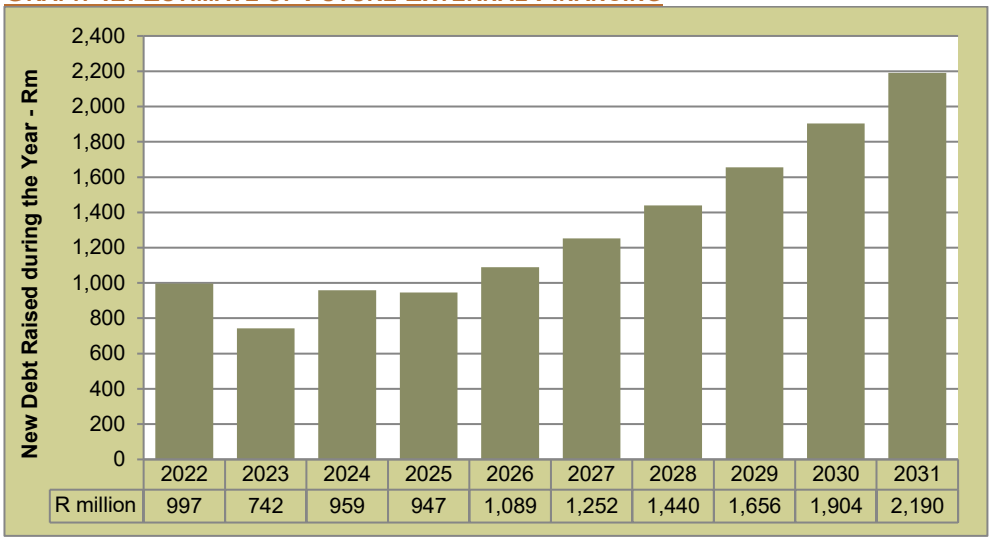
The funding mix indicates capital grants and borrowings as the main sources of funding, as opposed to the historical funding mix whereby a significant portion of cash resources – averaging 28% - and capital grants were predominantly utilised. Extensive use of cash resources in funding capital expenditure proved to be unsustainable historically as it resulted in the reduction of cash reserves and decline in liquidity levels. it is important to note that that due to the prevailing national fiscus constraints, grant funding in future is expected to decline in real terms. It is therefore imperative that the city improves its surpluses by managing its expenditure and consider increases in future tariffs that result in higher surplus margins whilst maintaining a collection rate above 90%.

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

GRAPH 41: DISTRIBUTION OF FUTURE FUNDING

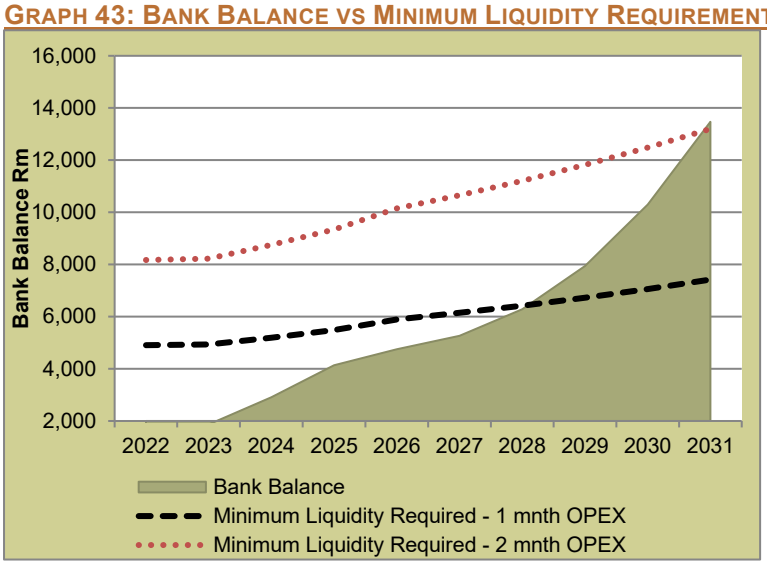


GRAPH 42: ESTIMATE OF FUTURE EXTERNAL FINANCING



LIQUIDITY AND CAPITAL REPLACEMENT RESERVE

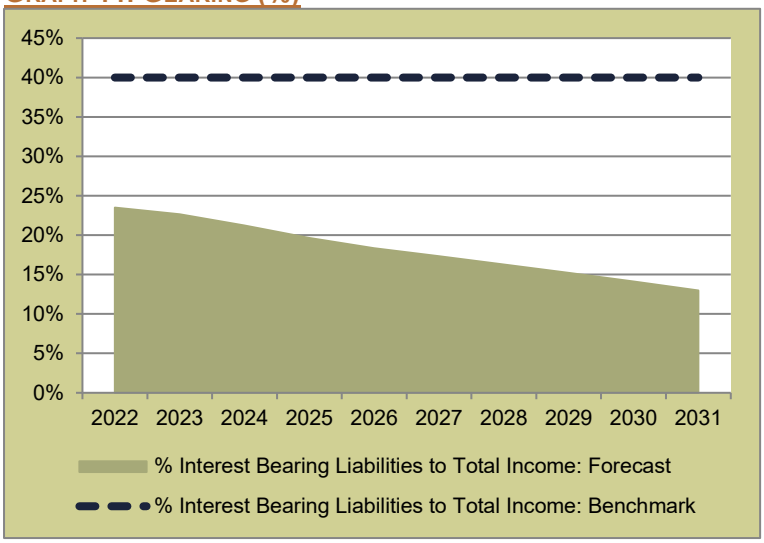
GRAPH 43: BANK BALANCE VS MINIMUM LIQUIDITY REQUIREMENTS



The minimum liquidity levels cater for unspent conditional grants, cash-backed reserves, short term provisions and 1-month's working capital (operating expenditure). The liquidity position is expected to improve to above minimum liquidity requirements from FY2028. It is imperative that the municipality maintain the optimal funding mix indicated in the Base Case by limiting the use of cash reserves to fund capital expenditure along with a collection rate of at least 90%.

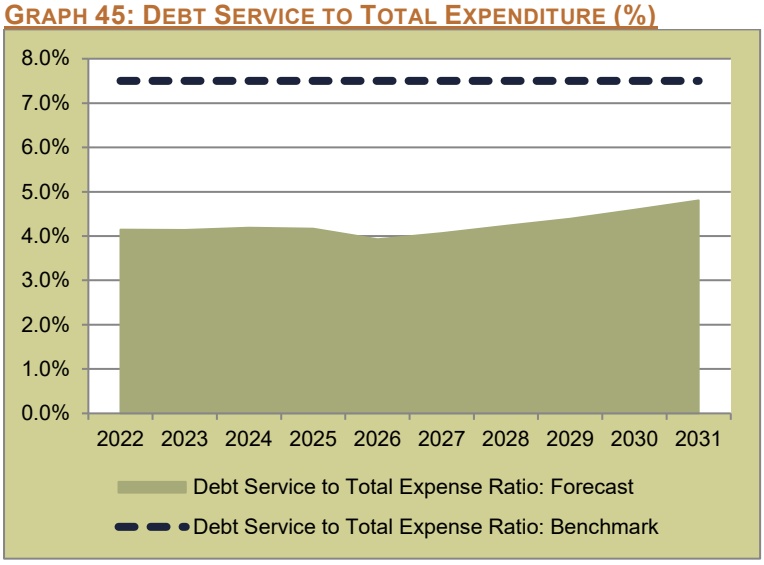
Gearing

GRAPH 44: GEARING (%)



In the Base Case, the gearing is forecast to decrease from FYE2020 rate of 25% to reach 12%, below the maximum gearing level regarded as appropriate for Ekurhuleni (40%). The debt service cover ratio (cash generated by operations to debt service) improves from 0.2:1 to 2.1:1 over the same period, whilst the debt service to total expenditure is expected to remain below the 8% level regarded as appropriate for Ekurhuleni.

GRAPH 45: DEBT SERVICE TO TOTAL EXPENDITURE (%)



Scenarios Analysis

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

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

    1.1. A negative scenario indicating the impact of no improvement in the collection rate achieved in FY2021 – 88%.
    1.2. A positive scenario depicting an improvement in the assumed collection rate by 2 percentage points – 90% to 92%.

2. **To indicate the impact of a reduction in the distribution losses on long-term financial sustainability:**

    2.1. A positive scenario depicting a reduction in the current electricity and water distribution losses from 16.21% and 32.67% to 20% and 7% respectively.

SCENARIO 1: SENSITIVITY ANALYSIS ON THE COLLECTION RATE

No improvement in the collection rate

Should the economic growth remain sluggish, the income base of the municipality continues to erode and households' pressure to pay the municipal bill continue to increase, one can reasonably expect a reduction in the collection rate. To assess the impact that such adverse conditions will have on the finances of the municipality, the model was adjusted by assuming the collection rate remaining at FY2021's 88% for the entire planning period as opposed to the 90% assumed in the Base Case. All other input variables remain constant.

The results indicate a significant decrease in the cash balance to a position where the municipality will not be able to meet the minimum liquidity requirements. This highlights the significance of maintaining the collection rate at 90% or higher along with the application of strict credit control measures.

Increase Collection Rate by 2 percentage points

The historical assessment indicates an improvement in the collection rate from 84% in FY2020 to 86% in FY2021. To indicate the positive impact of an increase in the collection rate on the long-term financial sustainability of the city, the model was adjusted by increasing the assumed collection rate of 90% to 92% for the planning period.

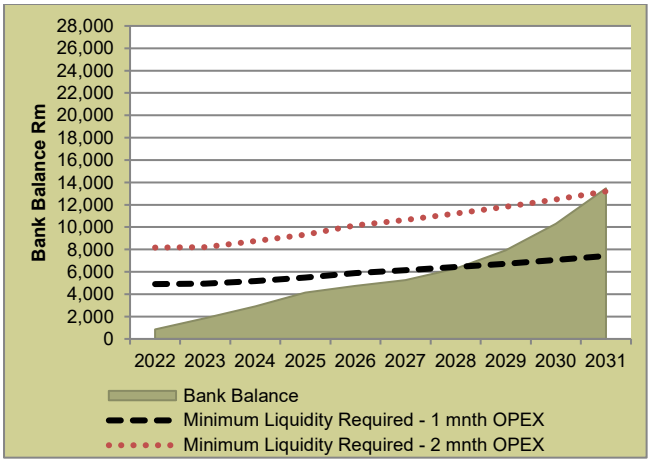
The results indicate a significant improvement in the cash balance, to a point where it is materially above the minimum required liquidity levels. In addition, the city will be in a position to service its debts when they fall due and build up sufficient cash reserves to fund its capital investment programme.

TABLE 11: SCENARIO 2: SENSITIVITY ANALYSIS OF THE COLLECTION RATE

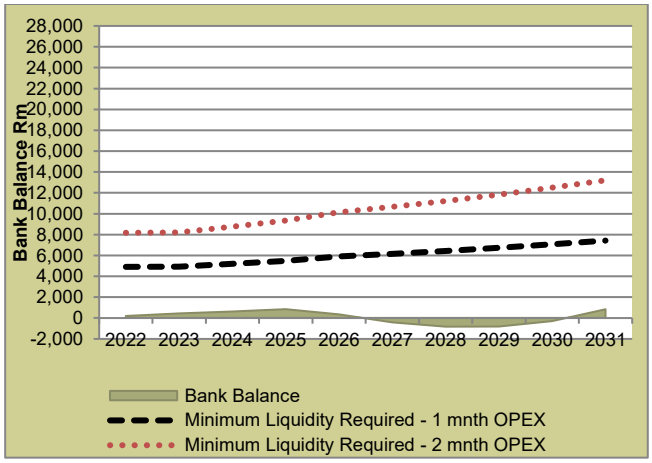
Outcome	Base Case	No improvement in the collection rate	Increase Collection Rate
Average annual % increase in Revenue	7.4%	7.3%	7.5%
Average annual % increase in Expenditure	6.9%	7.1%	6.7%
Accounting Surplus accumulated during Planning. Period (Rm)	R16 539	R3 910	R29 051
Operating Surplus accumulated during Planning. Period (Rm)	**-R7 169**	**-R19 797**	R5 344
Cash generated by Operations during Planning. Period (Rm)	R28 589	R15 961	R41 102
Average annual increase in Gross Consumer Debtors	19.0%	21.0%	16.7%
Capital investment programme during Planning. Period (Rm)	R40 997	R40 997	R40 997
External Loan Financing during Planning Period (Rm)	R13 175	R13 175	R13 175
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R13 470	R841	R25 983
No of Months Cash Cover at the end of the Planning Period (Rm)	2	**0**	5
Liquidity Ratio at the end of the Planning Period	1:1	**0.5:1**	**1.6:1**
Gearing at the end of the Planning Period	13.4%	13.5%	13.2%
Debt Service to Total Expense Ratio at the end of the Planning Period	4.8%	4.8%	4.9%

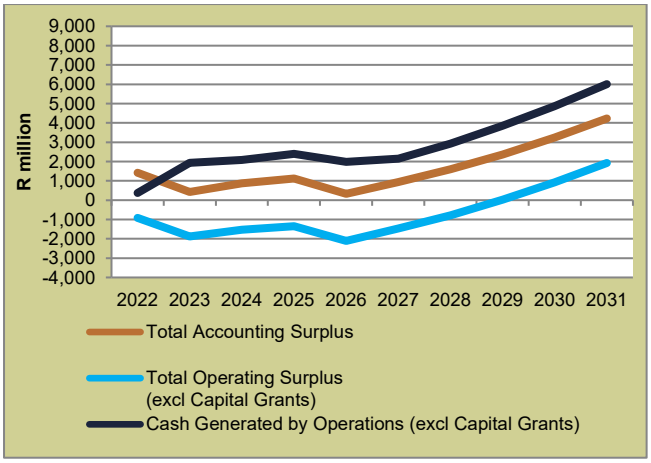
Scenario 1: Sensitivity Analysis on the Collection Rate

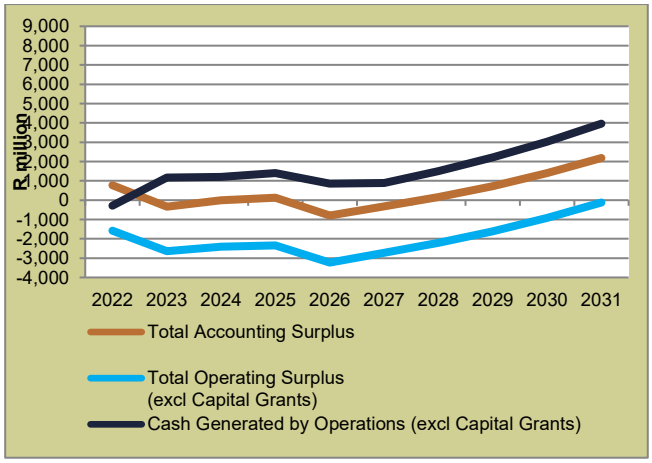
BASE CASE SCENARIO



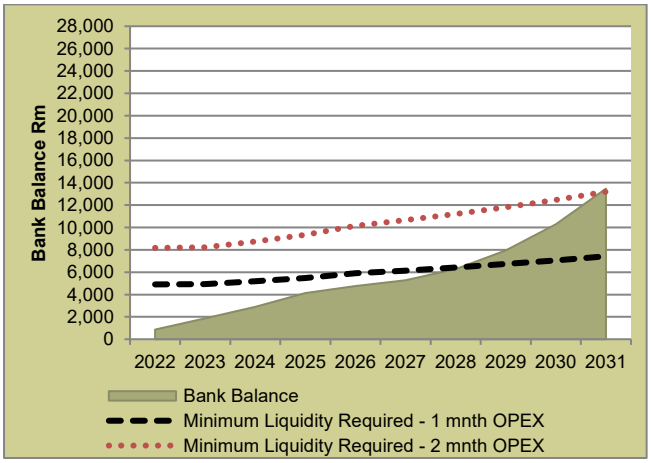
NO IMPROVEMENT IN THE COLLECTION RATE

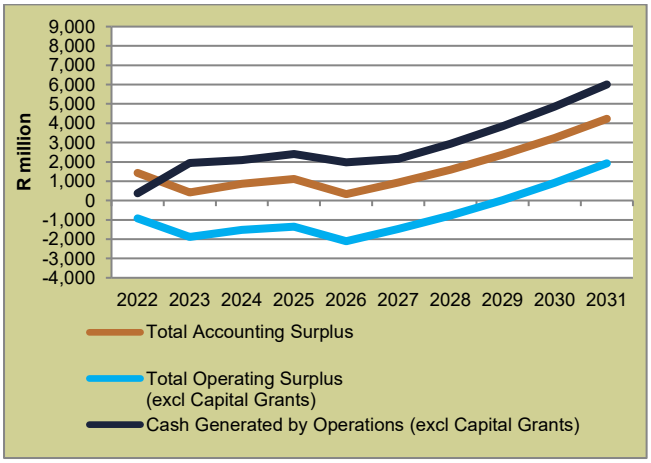




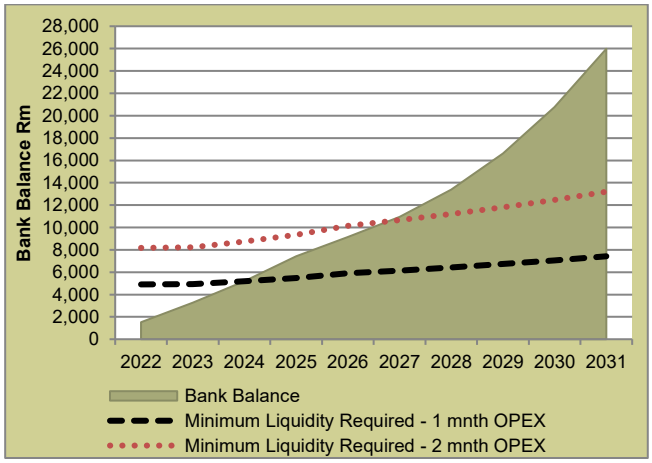


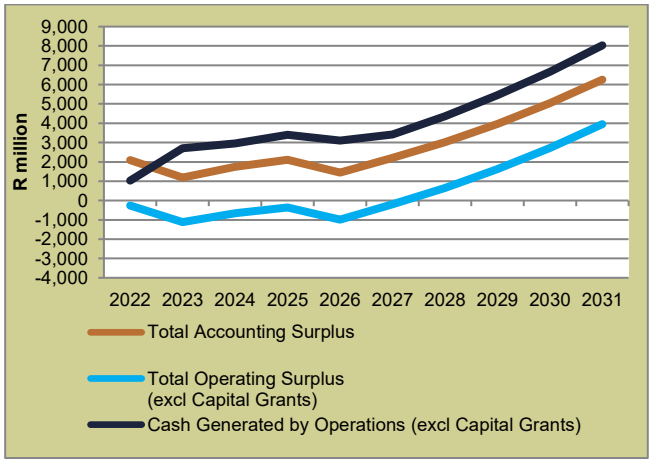
BASE CASE SCENARIO





INCREASE COLLECTION RATE





Scenario 2: Reduce Distribution Losses

The Base Case assumes the distribution losses over the planning period to remain at the FY2021 rates of 16.21% and 32.7% for electricity and water respectively. The historical assessment indicates an increase in these losses over the years, the majority of which are non-technical losses. These high losses are due to the aged infrastructure, lack of maintenance and illegal connections amongst other things. To illustrate the impact a reduction of distribution losses would have on the long-term financial sustainability. The Base Case model was adjusted by progressively reducing the water and electricity distribution losses to reach 20% and 7% respectively by the end of the end of the planning period, whilst keeping other input variables and assumptions constant. This scenario was initially modelled in the LTFS as the increase in the distribution losses was noted as one of the city's main challenges.

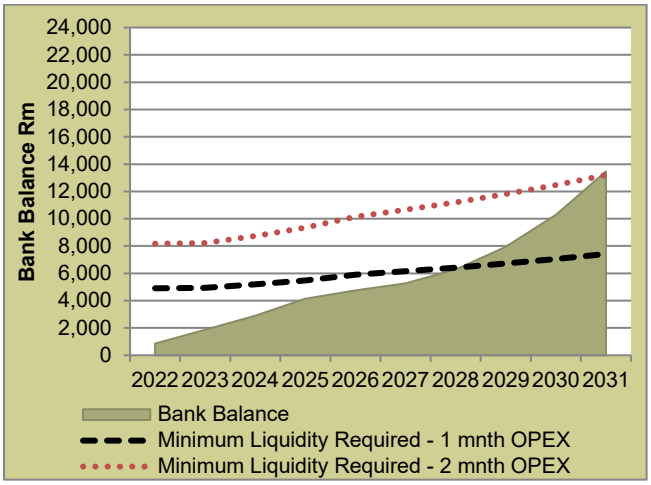
The outcome of the scenario indicates a material improvement in the liquidity position whereby the city will be able to able to service its debt and build up its CRR to invest in its capital infrastructure. the outcome for this scenario is summarised in the table below.

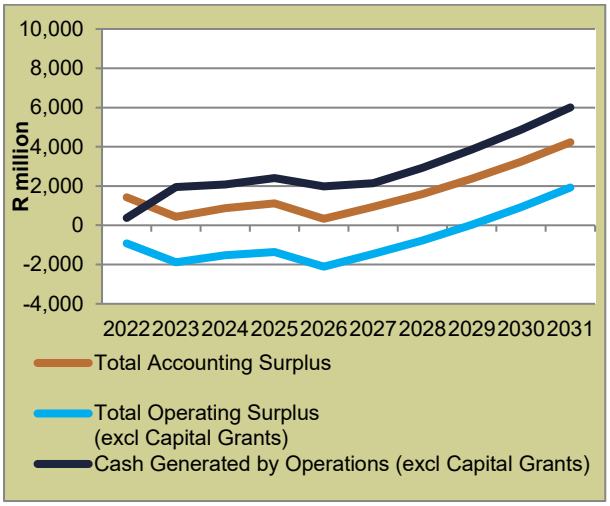
TABLE 12: OUTCOMES OF A REDUCTION IN DISTRIBUTION LOSSES

Outcome	Base Case	Reduce Distribution Losses
Average annual % increase in Revenue	7.4%	7.4%
Average annual % increase in Expenditure	6.9%	6.6%
Accounting Surplus accumulated during Planning. Period (Rm)	R16 539	R25 926
Operating Surplus accumulated during Planning. Period (Rm)	-R7 169	R2 219
Cash generated by Operations during Planning. Period (Rm)	R28 589	R37 415
Average annual increase in Gross Consumer Debtors	19.0%	19.0%
Capital investment programme during Planning. Period (Rm)	R40 997	R40 997
External Loan Financing during Planning Period (Rm)	R13 175	R13 175
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R13 470	R22 296
No of Months Cash Cover at the end of the Planning Period (Rm)	2	4
Liquidity Ratio at the end of the Planning Period	1:1	1.5:1
Gearing at the end of the Planning Period	13.4%	13.3%
Debt Service to Total Expense Ratio at the end of the Planning Period	4.8%	4.9%

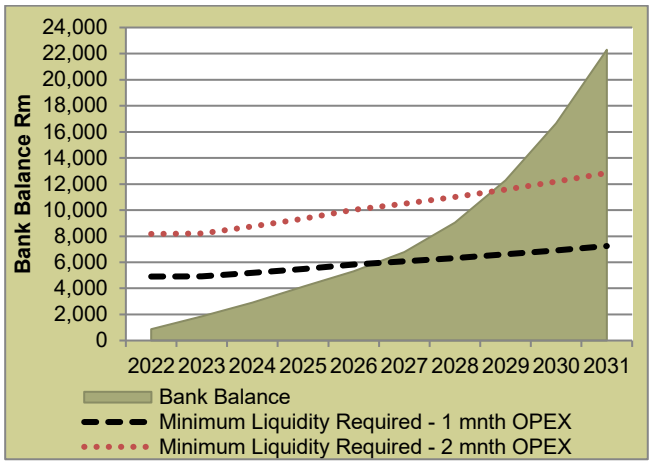
Scenario 2: Reduce Distribution Losses

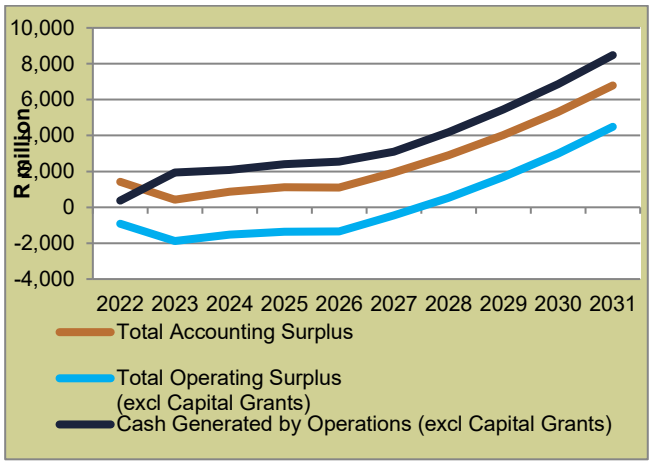
Base Case Scenario





Reduce Distribution Losses Scenario





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	2022	2024	2026	2028	2030	2031	COMMENTS
FINANCIAL POSITION									
ASSET MANAGEMENT									
R29	Capital Expenditure / Total Expenditure	10% - 20%	7.5%	6.7%	6.1%	6.1%	5.9%	5.8%	CAPEX as a % of Total Expenditure remains just below the NT minimum level. A ratio below 10% reflects lower spending in infrastructure and hold potential risks to service delivery. Considering the current status of the city's infrastructure – aged infrastructure, an investment in the renewal or replacement of infrastructure is critical for future financial sustainability and addressing service delivery backlogs.
R27	Repairs and Maintenance as % of PPE and Investment Property	8%	3.7%	4.3%	7.9%	7.9%	7.9%	7.9%	Repairs and maintenance as a percentage of PPE and IP remains forecast to improve to NT norm by the end of the planning period.
DEBTORS MANAGEMENT									
R4	Gross Consumer Debtors Growth		36.8%	23.6%	17.6%	14.1%	12.1%	11.4%	The Collection Rate is assumed to remain at 90% over the planning period.
R5	Payment Ratio / Collection Rate	95%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	
LIQUIDITY MANAGEMENT									

		N.T. NORM	2022	2024	2026	2028	2030	2031	COMMENTS
FINANCIAL POSITION									
R49	**Cash Coverage Ratio (excl Working Capital)**		0.5: 1	1.8: 1	2.9: 1	3.8: 1	6.3: 1	8.2: 1	The bank balance will meet the minimum liquidity levels by the end of the planning period. this ultimately contributes to the improvement in future liquidity position, evidenced by a current ratio of 1:1; by the end of the planning period, however this is below the NT benchmark of 1.5:1
R50	**Cash Coverage Ratio (incl Working Capital)**		0.2: 1	0.6: 1	0.8: 1	1: 1	1.4: 1	1.8: 1	
R51	**Cash Surplus / Shortfall on Minimum Liquidity Requirements**		-R 3 886.2 m	-R 2 325.3 m	-R 1 207.3 m	-R 209.2 m	R 3 161.1 m	R 5 968.9 m	
R1	**Liquidity Ratio (Current Assets: Current Liabilities)**	1:1.5 - 1:2.1	0.7: 1	0.8: 1	0.8: 1	0.8: 1	0.9: 1	1: 1	
LIABILITY MANAGEMENT									
R45	**Debt Service as % of Total Operating Expenditure**	6% - 8%	4.1%	4.2%	3.9%	4.2%	4.6%	4.8%	The external financing is well below the recommended benchmarks.
R6	**Total Debt (Borrowings) / Operating Revenue**	45%	24.8%	22.2%	19.1%	16.8%	14.5%	13.4%	
R7	**Repayment Capacity Ratio**		7.42	3.48	3.65	2.92	1.99	1.65	
R46	**Debt Service Cover Ratio (Cash Generated by Operations / Debt Service)**		1.5: 1	2.1: 1	1.9: 1	1.9: 1	2.1: 1	2.1: 1	
SUSTAINABILITY									
	Net Financial Liabilities Ratio	< 60%	31.2%	26.4%	22.7%	19.5%	13.4%	9.5%	Net Financial Liabilities are within the benchmark, but the Operating Surplus Ratio remains below the recommended lower benchmark for most of the 10-year period. Asset Sustainability is not calculated but entered
	Operating Surplus Ratio	0% - 10%	-2.1%	-3.1%	-3.6%	-1.2%	1.2%	2.3%	
	Asset Sustainability Ratio	> 90%	88.3%	94.3%	99.0%	105.9%	112.4%	115.5%	

		N.T. NORM	2022	2024	2026	2028	2030	2031	COMMENTS
FINANCIAL POSITION									
									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.

		N.T. NORM	2021	2023	2025	2027	2029	2030	COMMENTS
FINANCIAL PERFORMANCE									
EFFICIENCY									
R42	**Net Operating Surplus / Total Operating Revenue**	>= 0%	-2.1%	-3.1%	-3.6%	-1.2%	1.2%	2.3%	The net operating surplus is below 0% for the MTREF period and improves to 2.3% by 2031, 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 margins.
R43	**Electricity Surplus / Total Electricity Revenue**		20.1%	22.4%	20.7%	20.7%	20.7%	20.7%	
R44	**Water Surplus / Total Water Revenue**		35.1%	37.9%	42.8%	42.8%	42.8%	42.8%	
REVENUE MANAGEMENT									
R8	**Increase in Billed Income p.a. (R'm)**		R3 619 .6	R3 304.5	R3 395.0	R3 583.8	R4 309.7	R4 693.4	Billed Revenue and Operating Revenue Growth is above CPI over the planning period. Cash generated from operations is expected to improve over the planning period, this is due to the assumed improvement in the collection rate to 90% - although below the NT benchmark and in part the delayed payment of creditors as indicated by a creditors payment period above NT norm of 30 days.
R9	**% Increase in Billed Income p.a.**	CPI	12.3%	9.1%	7.9%	7.2%	7.5%	7.6%	
R12	**Operating Revenue Growth %**	CPI	9.6%	8.6%	8.6%	7.2%	7.6%	7.8%	
R47	**Cash Generated by Operations / Own Revenue**		7.5%	10.3%	8.6%	9.0%	10.6%	11.3%	
R48	**Cash Generated by Operations / Total Operating Revenue**		6.3%	9.1%	7.6%	8.0%	9.3%	10.0%	

		N.T. NORM	2021	2023	2025	2027	2029	2030	COMMENTS
EXPENDITURE MANAGEMENT									
	Creditors Payment Period	30	113	139	166	201	244	269	Creditors' payment period is higher than the NT benchmark, throughout the planning period. Contracted Services as a percentage of total expenditure are forecasted to exceed the NT benchmark. It is imperative for the municipality to manage this expenditure to improve surpluses
R30	**Contribution per Expenditure Item: Staff Cost (Salaries, Wages and Allowances)**	25% - 40%	21.5%	21.1%	20.4%	20.9%	21.4%	21.7%	
	Contribution per expenditure item: Contracted Services	2% - 5%	10.2%	10.0%	11.3%	11.1%	10.9%	10.8%	
GRANT DEPENDENCY									
R10	**Total Grants / Total Revenue**		20.2%	16.1%	15.3%	14.8%	14.3%	14.0%	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**		84.1%	88.0%	88.2%	88.3%	88.3%	88.3%	
	Capital Grants to Total Capital Expenditure		58.8%	63.5%	59.3%	51.7%	45.4%	42.6%	

Conclusion

Outcome of the Independent Financial Assessment

Ekurhuleni generated an accounting surplus during the current year, amounting to R272.7 million for FY2021. Should capital grants be excluded from total revenue, this figure reduces to an operating deficit of R2 157.1 million during the period. Although the municipality has generated operating deficit for the year, it should be noted that this deficit has decreased from a deficit realised in FY2019 – R3 021.4 million.

The cash generated from operations increased from R138.8 million in FY2020 to R398.2 million in FY2021. This increase is in part due to the improvement in the collection rate over the same period, from 84% to 86% over the same period. However, this collection rate remains materially low relative to the NT benchmark of 95%. Considering the low collection rate and the operating deficit realised in the FY2021, it can be deduced that the major driver of the increase in the cash generated from operations is the delayed payment of creditors as indicated by an increase in the creditors payment period from 163 days in FY2020 to 192 days in FY2021 – significantly higher than the NT benchmark of 30 days.

Staff Costs as a per centage of total operating expenditure have consistently been below the NT maximum level of 40% over the past 8 years. This resulted in the city maintaining its high staff productivity which came to 4.3 in FY2021 Contracted services as a percentage of total operating expenditure have in contrast exceeded the 5% NT benchmark over the past three years.

Repairs and maintenance decreased by 40% between FY2020 and FY2021, this resulted in the ratio of repairs and maintenance as a percentage of property, plant and equipment and investment property decreasing from 8% in FY2020 to 4% in FY2021 – below the NT norm of 8%.

The level of investment in capital expenditure decreased by 7% to R4 499.4 million in FY2021, when compared to FY2020 – R4 823.8 million. The city has managed to implement its capital budget over the past two years, with the ratio of capital expenditure as a percentage of budgeted capital expenditure averaging 99%. Ekurhuleni spent R4 499.4 million on capital expenditure in FY2021. This was primarily funded by capital grants – 54%- and external borrowings – 44% - and the remaining 2% by cash reserves. The funding mix has changed over the years whereby a significant portion of cash reserves was utilised to fund capital expenditure – especially between FY2016 and FY2018. This has resulted in the reduction of the cash balance and ultimately deterioration of the city's liquidity position.

Despite the increase in the external borrowings in recent years the gearing ratio in FY2021 came to 25%, remaining below the NT benchmark of 45%, indicating Ekurhuleni's ability to take up additional borrowings. However, the debt service cover ratio of 0.12:1 in FY2021 reveals that the city does not generate sufficient cash from its operations to service its annual debt obligations. The debt to operating expense ratio in the same year came to 8%, similar to the NT maximum norm.

The liquidity position as indicated by the ratio of current assets to current liabilities of 0.85:1 as at FYE2021 remains weak relative to the NT benchmark of 1.5:1. This ratio excluding the least liquid debtors – debtors greater than 30 days – reduces to 0.73:1. The ratio less than 1 i.e., current liabilities exceed current assets presents a potential financial risk to the city i.e., insufficient cash to meet short-term financial obligations.

Strengths

- Reducing operating deficits over the past three years.
- Implementation of capital budget over the past couple of years with a capital budget implementation indicator average of 98% over this period.
- Improvement in collection rate from 84% to 86% between FY2020 and FY2021.
- High staff productivity
- Low level of grant dependency

Weaknesses

- Low collection rate relative to the 95% NT benchmark.
- Operating deficits since FY2019.
- Reduced spending on repair and maintenance of infrastructure
- Weak liquidity position – current ratio less than 1.

Outcome of the Future Forecasts

The MTREF forecasts operating surpluses over the MTREF period mainly due to material increases in property rates income, electricity service charges and other revenue. However, the budgeted increases in the surpluses over the MTREF are improbable considering the historical financial results. An analysis of the MTREF indicates the following movements in material revenue items which can be attributed to the anomalous increases in operating surpluses over the MTREF period:

1. Property rates increase by approximately 28% from R5 935.4 million in FY2021 to R7 571.7 million in FY2022
2. Other revenue increase of more than 100% from R1 421.8 million in FY2022 to R3 346.9 million in FY2023.

To address the above inconsistencies, the following adjustments were made to the model in order to present a realistic base case:

1. The LTFM calculates lower property rates income over the MTREF period relative to the budget. As a result, model figures were assumed to be the realistic depiction of the forecast property rates income.
2. Other revenue for FY2023 was downward to reflect a realistic forecast over the MTREF period.

The objective of the model is to utilise realistic assumptions to ensure future financial sustainability. The following were assumed, in addition to the above adjustments, in arriving at the Base Case:

11. The collection rate was assumed to remain at 90% throughout the planning period.
12. Repairs and maintenance as a percentage of property, plant and equipment assumed to progressively improve from the current 4.1% to 8% by the end of the end of the planning period.
13. The model incorporated all increase in revenue and expenditure items as mentioned in the tabled budget 2022/23 – other than the adjustments mentioned above
14. Water and electricity distribution losses assumed to remain at FY2021 rates of 32.67% and 16.21% respectively.

The MTREF indicates that 63% of the total budgeted capital expenditure – R14 187 million – will be funded by capital grants, 27% by external borrowings and the remaining 10% by own cash reserves and public contributions. This funding mix is considered optimal, as the municipality's risky liquidity position is not further compromised. As a result, the Base Case did not make any adjustments to the capital expenditure and funding mix over the MTREF period.

Sensitivity Analysis on the Collection Rate

The Base Case assumes a collection rate of 90% over the 10-year planning period. A scenario whereby the collection rate is assumed to remain at the FY2021 88% throughout the planning period was modelled. This scenario indicates a severe impact on the liquidity position whereby the bank balance is forecast to not meet the minimum liquidity requirements. An additional scenario indicating the positive impact of a 2-percentage point increase in the collection rate from 90% to 92% over the planning period was modelled.

The above results demonstrate the significance of maintaining the collection rate at 98% or higher, as assumed in the Base Case.

Reduce distribution losses scenario.

In arriving at the Base Case, the water and electricity distribution losses were assumed to remain at the FY2021 rates of 32.67% and 16.21% respectively. the model was adjusted by progressively reducing these rates to reach 20% and 7% respectively by the end of the planning period. The rise in distribution losses was noted in the LTFS as one of the city's main challenges, as a result this scenario was also modelled. The results of this scenario, as was the case in the LTFS, depict a material improvement in the city's liquidity position, thereby stressing the need to curtail further distribution losses for the municipality to remain financial sustainable.

ANNEXURE 1: PROJECTED FINANCIAL STATEMENTS

Municipal Financial Model
Statement of Financial Position

Model year	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
R thousands										
Non-current assets:	65 468 936	65 607 772	66 289 755	66 992 308	67 916 631	69 002 842	70 252 412	71 667 064	73 248 774	74 999 814
Property, plant and equipment	62 441 762	62 819 893	63 472 226	64 125 148	64 924 450	65 871 833	66 969 592	68 220 610	69 628 370	71 196 982
Intangible assets	1 412 005	1 353 731	1 383 731	1 433 731	1 558 752	1 697 580	1 849 390	2 013 025	2 186 974	2 369 402
Investment properties	410 486	520 040	519 689	519 321	519 321	519 321	519 321	519 321	519 321	519 321
Investments	1 131 805	829 929	829 929	829 929	829 929	829 929	829 929	829 929	829 929	829 929
Long-term receivables	6 761	2 172	2 172	2 172	2 172	2 172	2 172	2 172	2 172	2 172
Other non-current assets	66 117	82 008	82 008	82 008	82 008	82 008	82 008	82 008	82 008	82 008
Current assets:	8 604 267	9 746 264	10 970 821	12 388 105	13 322 766	13 994 346	15 180 385	17 025 600	19 592 601	22 997 757
Inventories	1 568 134	1 710 235	1 885 550	2 077 493	2 400 748	2 554 235	2 724 144	2 912 989	3 121 928	3 352 869
Trade and other receivables	6 174 898	6 174 898	6 174 898	6 174 898	6 174 898	6 174 898	6 174 898	6 174 898	6 174 898	6 174 898
Cash & Short term investments	861 234	1 861 131	2 910 372	4 135 714	4 747 120	5 265 213	6 281 342	7 937 712	10 295 775	13 469 990
TOTAL ASSETS	**74 073 202**	**75 354 037**	**77 260 576**	**79 380 414**	**81 239 397**	**82 997 189**	**85 432 797**	**88 692 664**	**92 841 375**	**97 997 571**
Municipal Funds:	52 013 049	52 437 669	53 308 827	54 427 887	54 757 548	55 695 395	57 289 800	59 656 117	62 896 624	67 125 042
Housing development fund & Other Cash Backed Reserves	–	–	–	–	–	–	–	–	–	–
Reserves (Not Cash Backed)	525 486	519 262	519 262	519 262	519 262	519 262	519 262	519 262	519 262	519 262
Accumulated surplus	51 487 563	51 918 407	52 789 565	53 908 625	54 238 287	55 176 133	56 770 538	59 136 855	62 377 363	66 605 780
Non-current liabilities:	10 123 573	10 030 125	10 063 537	10 028 489	9 953 893	9 818 041	9 621 809	9 334 467	8 946 700	8 608 717
Long-term liabilities (Interest Bearing)	10 046 133	9 998 150	10 031 562	9 996 514	9 919 130	9 780 182	9 580 564	9 289 573	8 897 926	8 555 875
Non-current provisions	77 440	31 975	31 975	31 975	34 763	37 859	41 245	44 894	48 774	52 842
Current liabilities:	11 936 581	12 886 243	13 888 211	14 924 037	16 527 955	17 483 752	18 521 188	19 702 080	20 998 051	22 263 812
Consumer deposits	1 022 025	1 046 961	1 063 281	1 064 822	1 079 199	1 089 607	1 097 849	1 108 913	1 118 477	1 127 607
Provisions	1 448 592	1 525 557	1 510 049	1 515 105	1 515 105	1 515 105	1 515 105	1 515 105	1 515 105	1 515 105
Trade and other payables	8 810 282	9 523 759	10 389 119	11 362 347	12 767 546	13 488 062	14 268 781	15 131 260	16 068 639	17 089 240
Bank overdraft	–	–	–	–	–	–	–	–	–	–
Current portion of interest bearing liabilities	655 683	789 966	925 761	981 763	1 166 106	1 390 979	1 639 453	1 946 801	2 295 829	2 531 860
TOTAL MUNICIPAL FUNDS AND LIABILTIES	**74 073 202**	**75 354 036**	**77 260 576**	**79 380 413**	**81 239 397**	**82 997 189**	**85 432 797**	**88 692 664**	**92 841 375**	**97 997 571**

Municipal Financial Model
Statement of Financial Performance

Model year	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**
R thousands										
Revenue										
Property rates	6 114 684	6 257 198	6 663 954	7 091 778	7 752 210	8 482 965	9 289 294	10 179 978	11 150 674	12 202 451
Service Charges	26 731 319	30 048 273	32 943 930	35 964 136	38 689 766	41 242 078	44 009 328	47 065 670	50 392 538	54 020 982
Service charges - electricity	17 799 956	20 071 392	21 776 191	23 491 811	25 102 993	26 507 167	28 009 998	29 663 342	31 442 204	33 362 516
Service charges - water	5 304 881	5 976 829	6 772 192	7 668 829	8 431 631	9 202 290	10 057 005	11 005 770	12 058 844	13 226 432
Service charges - sanitation	2 065 989	2 303 443	2 558 157	2 824 925	3 017 309	3 222 743	3 444 711	3 690 032	3 956 128	4 245 454
Service charges - refuse	1 560 494	1 696 609	1 837 391	1 978 570	2 137 833	2 309 878	2 497 615	2 706 526	2 935 362	3 186 581
Service charges - other	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Rental of facilities and equipment	124 119	133 859	135 908	138 573	147 466	156 931	167 128	178 381	190 554	203 753
Interest earned - external investments	144 645	126 776	170 232	238 643	321 871	373 169	421 796	504 689	632 795	811 525
Interest earned - outstanding debtors	449 233	430 374	430 374	430 374	886 596	964 378	1 050 365	1 145 646	1 248 993	1 359 962
Dividends received	–	–	–	–	–	–	–	–	–	–
Fines, penalties and forfeits	779 685	817 244	817 244	817 244	869 695	925 512	985 654	1 052 019	1 123 806	1 201 649
Licences and permits	309 884	324 758	324 758	324 758	353 077	384 524	418 911	455 976	495 378	536 700
Agency services	–	–	–	–	–	–	–	–	–	–
Transfers and subsidies (operating)	7 121 095	5 555 962	6 016 489	6 488 833	6 938 705	7 421 276	7 944 177	8 521 689	9 149 492	9 833 146
Other revenue	1 421 817	1 677 526	1 750 045	1 904 886	2 036 803	2 174 483	2 321 280	2 484 929	2 660 833	2 851 178
Gain on disposal of PPE	–	–	–	–	–	–	–	–	–	–
Revaluation of assets gain / (loss)	–	–	–	–	–	–	–	–	–	–
Total revenue before Capital Grants	43 196 480	45 371 970	49 252 934	53 399 224	57 996 190	62 125 316	66 607 932	71 588 978	77 045 063	83 021 346
Capital Grants	2 100 063	2 223 979	2 298 759	2 373 651	2 329 913	2 286 819	2 246 059	2 210 738	2 177 678	2 147 048
Public & developers contributions	247 745	80 000	100 000	100 000	107 599	115 767	124 639	134 477	145 202	156 923
Total Revenue after Capital Grants	45 544 288	47 675 949	51 651 693	55 872 875	60 433 702	64 527 903	68 978 631	73 934 193	79 367 943	85 325 317
Operating expenditure										
Employee related costs	10 107 090	10 817 264	11 331 849	12 056 888	12 887 507	13 798 074	14 796 502	15 891 814	17 092 599	18 406 592
Remuneration of councillors	155 879	163 361	170 549	178 224	188 739	200 187	212 671	226 287	241 122	257 248
Debt impairment	3 867 496	4 245 340	4 577 073	4 925 026	5 303 731	5 674 681	6 077 966	6 523 364	7 007 921	7 535 330
Depreciation and asset impairment	2 885 613	2 915 722	2 936 042	2 970 075	3 004 846	3 046 971	3 096 313	3 152 759	3 216 204	3 286 551
Finance charges	1 278 103	1 300 486	1 336 558	1 355 892	1 379 757	1 417 598	1 458 879	1 502 726	1 550 302	1 599 806
Bulk purchases	14 224 085	15 418 908	16 900 665	18 524 819	19 909 267	21 022 922	22 214 822	23 526 095	24 936 916	26 459 921
Inventory Consumed	4 932 006	5 543 801	6 148 323	6 838 013	8 022 267	8 534 807	9 104 841	9 739 173	10 443 639	11 224 708
Repairs and maintenance	–	–	–	–	–	–	–	–	–	–
Contracted services	4 862 798	5 154 373	5 463 801	5 874 614	7 247 359	7 595 584	7 973 589	8 392 147	8 846 881	9 341 507
Transfers and subsidies	579 178	523 661	663 719	714 675	760 543	809 355	861 949	919 985	982 762	1 050 835
Other expenditure	1 222 499	1 168 412	1 251 955	1 315 589	1 400 024	1 489 877	1 586 693	1 693 527	1 809 089	1 934 400
Loss on disposal of PPE	3 000	–	–	–	–	–	–	–	–	–
Total Expenditure	44 117 747	47 251 328	50 780 535	54 753 815	60 104 041	63 590 056	67 384 226	71 567 876	76 127 435	81 096 899
Suplus/ (Shortfall) for the year	**1 426 541**	**424 620**	**871 158**	**1 119 060**	**329 661**	**937 847**	**1 594 405**	**2 366 317**	**3 240 507**	**4 228 418**

Municipal Financial Model
Cash Flow Statement

Model year	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**
R thousands										
Cash flows from Operating Activities										
Suplus/Deficit for the year including Capital Grants	1 426 541	424 620	871 158	1 119 060	329 661	937 847	1 594 405	2 366 317	3 240 507	4 228 418
Suplus/Deficit for the year excluding Capital Grants & Contributions	(921 266)	(1 879 359)	(1 527 601)	(1 354 591)	(2 107 851)	(1 464 740)	(776 293)	21 101	917 627	1 924 447
Capital Grants & Contributions	2 347 807	2 303 979	2 398 759	2 473 651	2 437 512	2 402 587	2 370 699	2 345 215	2 322 880	2 303 971
Adjustments for non-cash items:										
Depreciation, amortisation and impairment loss	2 885 613	2 915 722	2 936 042	2 970 075	3 004 846	3 046 971	3 096 313	3 152 759	3 216 204	3 286 551
Revaluation on investment property (gain) / loss	–	–	–	–	–	–	–	–	–	–
Increase / (Release from) current provisions & non-interest bearing liabilities	(2 368 933)	76 965	(15 508)	5 056	–	–	–	–	–	–
Increase / (Release from) other non-current provisions & non-interest bearing liabilities	(42 073)	(45 465)	–	–	2 788	3 096	3 386	3 649	3 879	4 069
(Increase) / Release from non-current interest bearing assets	141 386	301 875	–	–	–	–	–	–	–	–
Capitalised interest	–	(0)	–	(0)	–	–	(0)	(0)	(0)	(0)
Operating surplus before working capital changes:	2 042 533	3 673 718	3 791 692	4 094 191	3 337 295	3 987 914	4 694 104	5 522 725	6 460 591	7 519 037
Change in W/C Investment	678 193	571 376	690 045	781 285	1 081 944	567 029	610 810	673 634	728 440	789 660
(Increase)/decrease in inventories	1 200	(142 101)	(175 315)	(191 943)	(323 255)	(153 486)	(169 910)	(188 845)	(208 939)	(230 941)
(Increase)/decrease accounts receivable	255 172	(0)	0	0	0	(0)	(0)	0	(0)	0
Increase/(decrease) in trade payables	421 821	713 477	865 360	973 228	1 405 199	720 516	780 720	862 479	937 379	1 020 600
Net cash flow from Operating activities	2 720 726	4 245 094	4 481 737	4 875 476	4 419 239	4 554 943	5 304 914	6 196 359	7 189 032	8 308 697
Cash flows from Investing Activities										
Capital expenditure	(3 570 830)	(3 323 853)	(3 618 375)	(3 672 997)	(3 929 169)	(4 133 183)	(4 345 883)	(4 567 411)	(4 797 914)	(5 037 591)
Decrease/(Increase) in non-current receivables	15 276	(11 302)	–	–	–	–	–	–	–	–
(Additions) / Disposals of investment property	81 111	(21 279)	351	369	–	–	–	–	–	–
Net cash flow from Investing activities	(3 474 442)	(3 356 434)	(3 618 024)	(3 672 629)	(3 929 169)	(4 133 183)	(4 345 883)	(4 567 411)	(4 797 914)	(5 037 591)
Cash flows from Financing Activities										
New loans raised	996 625	741 983	959 174	946 715	1 088 722	1 252 030	1 439 835	1 655 810	1 904 182	2 189 809
Loans repaid	(549 298)	(655 683)	(789 966)	(925 761)	(981 763)	(1 166 106)	(1 390 979)	(1 639 453)	(1 946 801)	(2 295 829)
(Decrease) / Increase in consumer deposits	28 357	24 936	16 320	1 540	14 377	10 408	8 242	11 065	9 564	9 130
Net cash flow from Financing activities	475 684	111 236	185 529	22 494	121 336	96 333	57 098	27 422	(33 055)	(96 890)
Change in Cash	(278 033)	999 896	1 049 242	1 225 341	611 406	518 094	1 016 129	1 656 370	2 358 062	3 174 216
Cash/(Overdraft), Beginning	1 139 267	861 234	1 861 131	2 910 372	4 135 714	4 747 120	5 265 213	6 281 342	7 937 712	10 295 775
Cash/(Overdraft), Ending	**861 234**	**1 861 131**	**2 910 372**	**4 135 714**	**4 747 120**	**5 265 213**	**6 281 342**	**7 937 712**	**10 295 775**	**13 469 990**