LONG TERM FINANCIAL PLANNING POLICY

2026/2027 FINANCIAL YEAR

MIDVAAL
LOCAL MUNICIPALITY

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ABBREVIATIONS

MLM	Midvaal Local Municipality
AO	Accounting Officer
CFO	Chief Financial Officer
LTFP	Long Term Financial Plan
IDP	Integrated Development Plan
MFMA	Municipal Finance Management Act
MSA	Municipal Systems Act

1. PURPOSE OF THIS DOCUMENT

This policy sets outs the principles for determining the following:-

The Policy on Long Term Financial Planning is aimed at ensuring that the Municipality has sufficient funding in order to achieve its long term objectives through the implementation of the medium term operating and capital budgets. The purpose of the Policy on Long Term Financial Planning is therefore to:-

(a) Ensure that all long term financial planning is based on a structured and consistent methodology in order to ensure the long term financial sustainability of the Municipality.
(b) Identify capital investment requirements and associated funding sources to ensure the future sustainability of the Municipality;
(c) Identify revenue enhancement and cost saving strategies in order to improve service delivery at affordable rates; and
(d) Identify new revenue sources of funding for future years.

2. DEFINITIONS

In this Policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003), has the meaning so assigned, and:

"Accounting Officer" – means the Municipal Manager and vice versa;

"Act" – means the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003);

''basic municipal service'' means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment;

"Budget Steering Committee", a committee established to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the MFMA;

''budget-related policy'' means a policy of a municipality affecting or affected by the annuabudget of the municipality, including –

(a) the tariffs policy which the municipality must adopt in terms of section 74 of the Municipal Systems Act;

(b) the property rates policy which the municipality must adopt in terms of legislation regulating municipal property rates; or

(c) the credit control policy which the municipality must adopt in terms of section 96 of the Municipal Systems Act;

“Chief Financial Officer” – means an officer of the Municipality, designated by the Municipal Manager to be administratively in charge of the financial affairs of the municipality;

“Council” or “Municipality” – means the Municipal Council of Midvaal Local Municipality as referred to in Section 18 of the Municipal Structures Act;

“Creditor” – in relation to a municipality, means any person or service provider to whom money is owing by the Municipality;

“Debt” – means –

(a) a monetary liability of obligation created by a financing agreement, note, debenture, bond, overdraft or the issuance of municipal securities; or

(b) a contingent liability such as that created by guaranteeing a monetary liability or obligation of another.

“Financing Agreement” means any long-term agreement, lease, installment purchase contract or hire purchase agreement under which the Municipality undertakes to pay the capital cost of property, plant or equipment over a period of time;

“Financial year” – means a year ending 30 June;

“Financial Statement” – means statements consisting of at least –
(a) a balance sheet (statement of financial position);
(b) an income statement (statement of financial performance);
(c) a cash-flow statement;
(d) any other statements that may be prescribed; and
(e) any notes to these statements.

“IDP” means the Integrated Development Plan;

“LTFP” means Long Term Financial Plan;

''long term debt'' means debt repayable over a period exceeding one year;

"MBRR" means the Municipal Budget and Reporting Regulations;

"MFMA" means the Municipal Finance Management Act 56 of 2003;

"MTREF" means Medium Term Revenue and Expenditure Framework, as prescribed by the MFMA. It sets out indicative revenue and projected expenditure for the budget year, plus two outer financial years;

"Municipal debt instrument" – means any note, bond, debenture or other evidence of indebtedness issued by a municipality, including virtual or electronic evidence of indebtedness intended to be used in raising debt;

''municipal tariff'' means a tariff for services which a municipality may set for the provision of a service to the local community, and includes a surcharge on such tariff;

''National Treasury'' means the National Treasury established by Section 216(1) of the Constitution and section 5 of the Public Finance Management Act;

"Short Term" refers to a period up to 3 (three) years;

"Medium Term" refers to a period between 3 (three) and 5 (five) years;

"Long Term" refers to any period longer than 5 (five) years.

"Security" – means a lien, pledge, mortgage, cession or other form of collateral intended to secure the interest of a creditor; and

"Short Term Debt" – means a debt which is repayable over a period not exceeding 12 months.

3. OBJECTIVES

The annual updated LTFP should identify the following:

(a) Assumptions and parameters to be used to compile the Operating and Capital budgets over the next MTREF;

(b) Future Operating revenue and expenditure projections based on assumptions and parameters;

(c) Future affordability of projected Capital Plans;

(d) The level of infrastructure development required to achieve the Municipal priorities, within the available funding; and

(e) External funding requirements in the form of long term debt.

4. APPROVAL AND EFFECTIVE DATE

The policy will be effective as from 1 July 2026.

5. POLICY AMENDMENT

The Accounting Officer must–

(a) at least annually review the implementation of this Policy; and

(b) when the AO considers it necessary, submit proposals for the amendment of this Policy to the Council.

The review of this policy and any amendment should be made with due consideration and in conjunction with the annual review of the budget related policies as prescribed in the Municipal Budget and Reporting Regulations, 2008.

6. RELATIONSHIP WITH OTHER POLICIES

This policy needs to be read in conjunction with other relevant adopted policies of the municipality, including the following:

- Delegations of Authority;
- Accounting Policies;
- Credit Control and Debt Collection Policy;
- Tariff Policy, Indigent Policy and Free Basic Services Policies;
- Property Rates Policy;
- Budget Implementation and Monitoring Policy;

7. PRINCIPLES

The policy is based on the following principles:-

(a) Viability and sustainability of the municipality;

(b) Optimisation of the municipal revenue basket, taking into consideration the following:

- Grant funding is optimally utilised and managed; and
- Effective credit control and debt collection, ensuring optimal revenue collection in the context of the socio-economic environment.

(c) Continuous improvement and expansion in service delivery framework, and

(d) Effective financial strategies.

During the process of compilation of the LTFP the Municipality should take cognisance of the following additional factors regarding the process:-

(c) A collaborative and visionary process. The LTFP does not just forecast the status quo into the future but considers different possible scenarios.

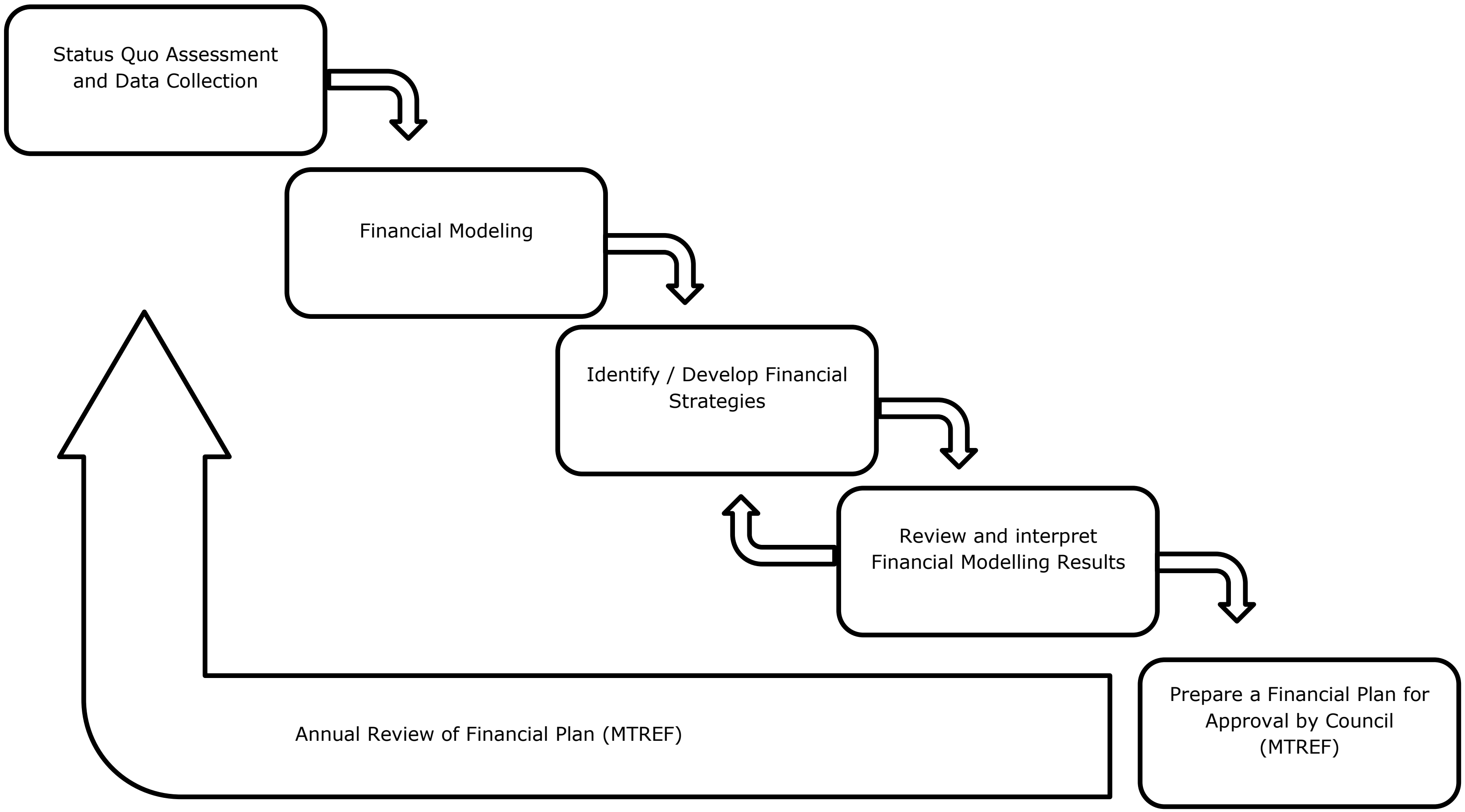
(d) A combination of technical analysis and strategising. Long-term forecasts and analysis are used to identify long-term imbalances and financial strategies are developed to counteract these imbalances or inequities.

(e) An anchor of financial sustainability and policy development. The plan develops big-picture and long-term thinking among elected and appointed Councilors and Officials and also aims to ensure alignment and credibility of the IDP.

(f) Long term in nature. The plan will cover three (3) years.

8. DEVELOPMENT OF A FINANCIAL PLAN

8.1 Process map



8.2 Status Quo assessment and data collection

Perform a Status Quo assessment under the following criteria:-

(a) The Municipality's current financial status;

(b) Audit Outcome for prior Financial Years;

(c) Current revenue sources, internal and external proportion of revenue;

(d) Main cost drivers impacting on the sustainability of the Municipality;

(e) Determine the main expenditure categories and the scale of each;

(f) Identify internal and external factors, which influence expenditure levels;

(g) Loan and liability obligations;

(h) Status of municipal infrastructure;

(i) Repairs and maintenance and refurbishments as per the Infrastructure Asset Management Plans;

(j) Distribution Losses;

(k) Reviewing the Municipality's funding requirements as per:

- financial plan; and
- IDP.

(l) Ability to finance capital expenditure;

(m) Trends and the implications including the financial problems; opportunities and constraints/risks facing the Municipality;

(n) Powers and Functions of the Municipality;

(o) Service backlogs and population projections in order to determine service needs; and

(p) Summarise the gaps and challenges to be addressed in the financial and funding plan.

In reviewing the current revenue sources in terms of:

(a) Existing service charges and fees.

(b) Options for increasing user charges and fees based on:

- the impact of inflation;
- other cost increases;
- number of registered indigents;
- the adequacy of the coverage of costs and current competitiveness of rates; and
- impact on households, particularly poorer households.

(c) The nature and extent, purpose and predictability of National and Provincial Grants and Agency Payments.

(d) Future opportunities and threats in terms of revenue:

(e) Other revenue opportunities, such as leases and the sale of non-core assets.

(f) Revenue constraints, such as maximum service charges and poor payment levels.

(g) Potential threats to Municipal revenue, including changes in Grant allocations.
(h) Potential expansion of the current revenue base.
(i) Factors, which influence revenue collections.

Other non-financial issues to consider during status quo analysis
(a) Proposed organisational structure and assessing its cost implications;
(b) Proposed community projects and programmes by Departments, such as Housing and Health, and assessing their cost implications; and
(c) Current state of Information Communication and Technology

8.3 Financial Modeling

Upon completion of the status quo assessment, resulting in an understanding of the Municipality's financial position, the next phase is to determine the Municipality's financing need over the medium-term:-

(a) Develop a financial forecast model to identify immediate opportunities and risks; and
(b) To identify future opportunities and risks.

This entails determining what expenditure the Municipality plans to undertake over the medium-term and what its financing requirements are likely to be and how these can be funded either internally or externally.

As the Municipality evolves and expands its service delivery framework, so do those of the National Government. Long term community development and economic development projects will therefore also be included under this phase.

8.4 Financial Strategies

A key feature of the LTFP is to give effect to the Municipality's financial strategies. These strategies should include:
(a) Increasing funding for asset maintenance and renewal;
(b) Continuous improvement to the financial position;
(c) Ensuring affordable debt levels to fund the capital budget;
(d) Maintaining fair, equitable and affordable rates and tariff increase;
(e) Maintaining or improving basic municipal services;
(f) Achieving and maintaining a breakeven/surplus Operating budget; and

(g) Ensuring full cost recovery for the provision of internal services.

8.5 Analyse results

For the short-term needs of the Municipality based on the Financial Modelling, perform scenario planning to identify the optimum balance between revenue collection and municipal spending, taking into account the following:-

(a) Potential revenue enhancement strategies which may have an immediate impact on the revenue base of the Municipality;

(b) Evaluate cost saving mechanisms to minimise the cost of effective service delivery; and

(c) Current infrastructure investments and maintenance programs which may influence revenue streams or the cost of service delivery.

8.6 Prepare Financial plan for approval

The Long Term Financial Plan should indicate the following:-

(a) Illustrate the projected result for a three (3) year period.

(b) Forecasting of revenues and the forecasting of expenditures into a single financial forecast.

(c) Finalisation of the Financial Plan includes collating all financial data and develop a financial plan that:-

    (a) Identifies future revenue projections based on current and projected revenue streams, as well as those projects required to achieve these projections;

    (b) Identifies future expenditure frameworks and cost of service delivery based on current and projected expenditure patterns;

    (c) Identifies the level of infrastructure development required to achieve the municipal priorities, within the funding restrictions; and

    (d) Identifies external funding requirements required for capital investment.

8.7 Annual Review

The success of the LTFP lies in continuous revision:

(a) The financial plan must be reviewed on an annual basis as part of the annual review of the IDP and updated with at least the following information:-

(b) any direct change in financial status or internal factors, other than previously predicted, which may influence the financial status and viability of the Municipality;

(c) any changes in the economic and socio economic environment, other than previously predicted, which may influence the financial status of the Municipality;

(d) any changes in the revenue base or composition which may have an impact on the financial viability of the Municipality;

(e) any changes in the national or municipal priorities as previously identified; and

(f) any factors which may have an impact on the ability to implement previously identified projects.

(g) The impact of any national disasters that may be declared

9. IMPLEMENTATION AND REVIEW OF THE POLICY

The policy will be effective as from 1 July 2026.

INCA
Portfolio Managers

MIDVAAL MUNICIPALITY

Long Term Financial Plan – *Update 2019*

Prepared by

INCA Portfolio Managers

February 2019

Report Overview – Introduction and Background

The Midvaal Municipality appointed INCA Portfolio Managers in 2017 to prepare a Long Term Financial Plan (LTFP). The output of the assignment was a report entitled *Midvaal Municipality Long Term Financial Plan: 2016 – 2026*; December 2017. This *2019 Update* aims to update the LTFP based on the latest available information and report on the findings.

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

A summary of the demographic-, economic- and household infrastructure perspective was updated with the latest available information as published by iHS Global Insight. The historic financial analysis was updated with the information captured in the municipality's audited financial statements of 30 June 2018. IPM's Long Term Financial Model (latest and updated version 21.1) was populated and run with this latest information, and the outcome thereof is reported herein. The model was re-calibrated against the municipality's MTREF for the 3 years from 2020/21 to 2022/23.

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

The contents of this report entail the following:

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

KEY FINDINGS AND CONCLUSIONS DRAWN FROM THE 2019 LTFP UPDATE

- An analysis of the socio-economic aspects reveal that Midvaal's overall performance is favourable when compared to the other two local municipalities in the Sedibeng District. This however does not deviate from the many challenges faced by the municipality such as slow local economy growth, high unemployment rates and low debt collection rates.

- The fact that 61.4% of all households earn an income of less than R 16 000 pm is an important factor when considering the potential upside of the municipal income potential. On the downside, the unemployment rate at the end of 2017 remained high at 36.2%.

- The number of people officially employed shown a substantial improvement since 2013 and at the end of 2017, 29% or 31 248 people of the total population were employed.

- The economy of Midvaal is well diversified with the five subsectors each contributing more than 10% to the GVA. The Manufacturing, Finance, Trade and Community services sectors are also the largest Employer with 20%, 20%, 19% and 17% respectively of Total Employment.

- The 4^{th} consecutive clean audit at FYE2018 is a reflection of good governance.

- Service delivery challenges given the population growth is reflected in the 17% of households that experience electricity backlogs, 10% sanitation backlogs and 10% refuse removal backlogs.

- Total operating income increased by R 72.25 million or 7.9% to in FY2018, which is higher than the growth in Operating Expenditure (excluding capital grants) of R 62.33 or 6.7% in the same period.

- The Liquidity Ratio is healthy at 2.32 as at FYE2018; indicating that Midvaal has enough cash resources to cover short term obligations should they fall due. Cash and investment balances increased by R 71.89 million (55.3%). Net cash from operating activities compared to the previous year increased by R 51.08 million to R 123.02 million.

- The collection rate of 93% in FY2018, which is also the average rate for the past 7 years, is still below the minimum acceptable benchmark of 95%.

- Turning to the 10-year LTFP the following is observed:

  - The MTREF capex budget of the municipality is financially feasible. This is due to a conservative capex budget and the blended funding mix as projected during the MTREF period.
  - The LTFP indicates that should the financial improvement be maintained; a potential exists to accelerate capital expenditure from 2022 onwards to reach 13.8% of total expenditure by 2028. It is estimated that Midvaal will be able to invest R 2 149 million in a capital programme over the next ten years to FYE 2028 and will be able to sustain external borrowings that fund 37% of this capital spend.
  - The IPM model projects that the municipality will continue building a healthy bank balance in excess of the estimated minimum liquidity required over the 10-year period. The Liquidity Ratio will peak at 2.5:1 in 2023 before decreasing to 1.8:1 by the end of the 10-year planning period.
  - A pre-condition for this positive outlook is however that finances are managed with the needed care and discipline within the guidelines set in the LTFP.

1	**Planning Process**
2	Updated Perspectives (Demographic, Economic, Household Infrastructure)
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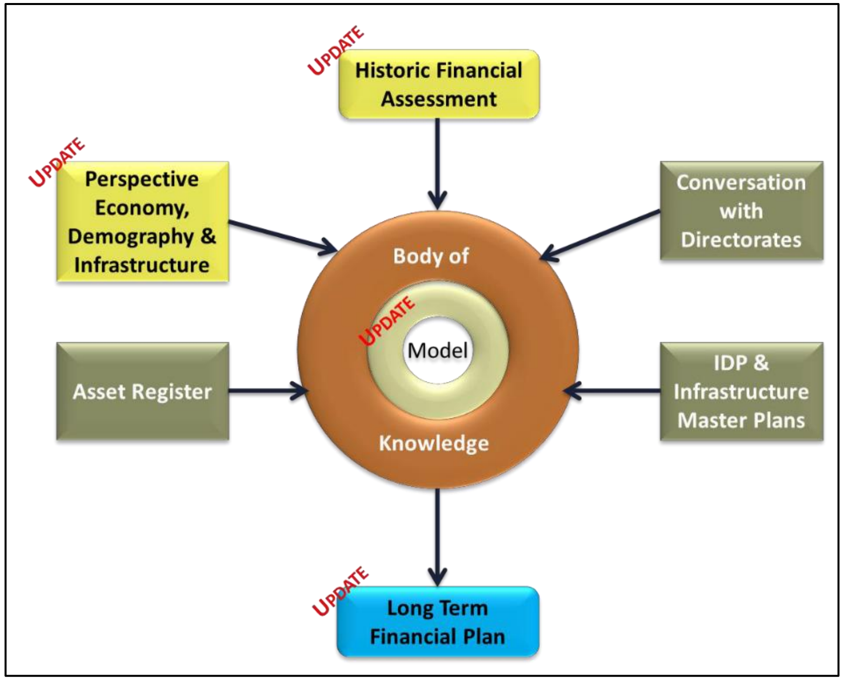
PROCESS

The diagram below illustrates the steps in the process that were followed in drafting the LTFP and the steps taken during this 2018 "LTFP Update":

FIGURE 1: PLANNING PROCESS



During the course of the past year IPM developed a new long term financial model[1], which was populated with the latest information of Midvaal and used to make a base case financial prediction of the future. The diagram below illustrates the outline of the model

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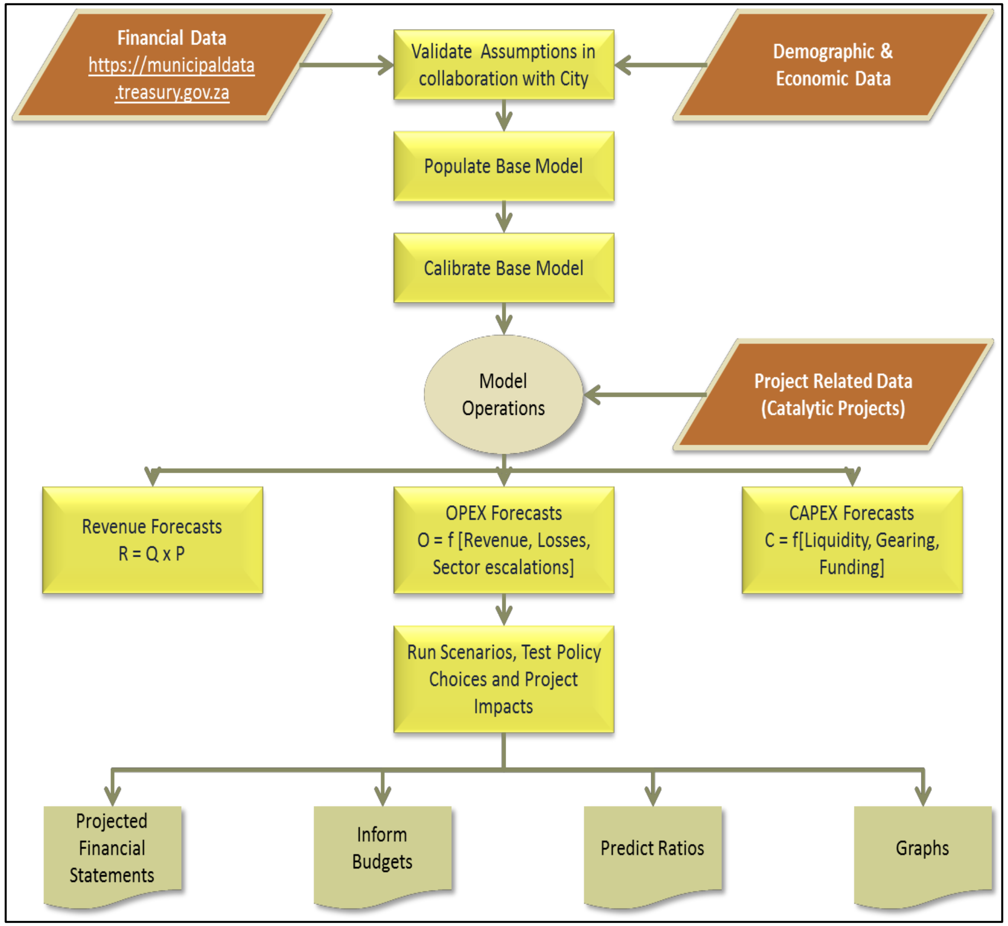
[1] Part of National Treasury's Cities Support Programme and with technical assistance from the World Bank Group

The model was adapted for the purpose of this update in that no large infrastructure projects were assessed. The capital budget as presented in the MTREF was however included and predictions of affordable future capex were made.

FIGURE 2: FINANCIAL MODEL FRAMEWORK



Demography

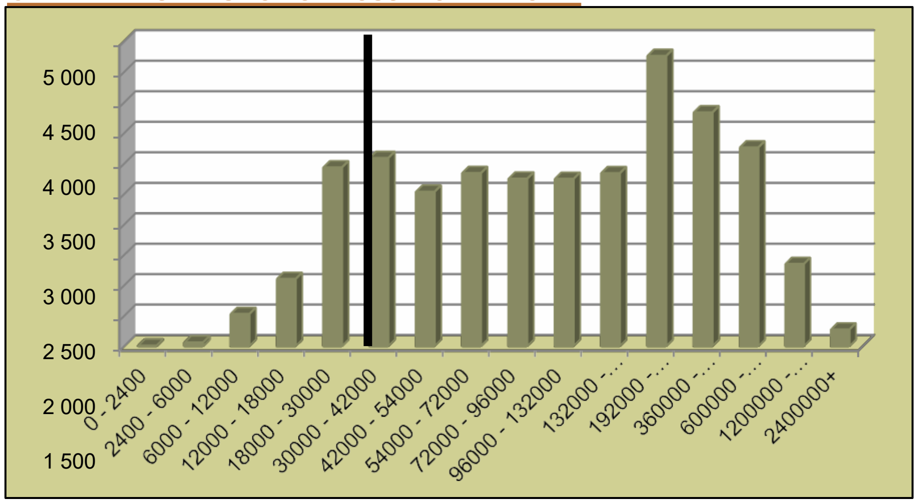
The current ***Population*** of Midvaal is estimated at 109 422 (2017). This is on par with that of Lesedi (114 251) and respectively representing 11.2% and 11.7% of the people living in Sedibeng District Municipality. Midvaal and Lesedi currently have the same population growth rate (2.3%) in the District, while Emfuleni (1.2%) has the lowest. The population growth rate for Midvaal is higher than both Gauteng (2.0%) and National growth rates (1.5%)

Households earning less than R30 000 p.a. represents a rough estimate of the number of indigent household in the municipal area, which qualify for and/or are largely reliant on government grants as source of income.

The ***Household Income*** distribution illustrates that the proportion of households earning less than R 30 000 p.a. constitute approx. 13.2% which is the lowest in the district and below the district average of 17.4%. 61.4% of all households earn an income of less than R 192 000 p.a. (R 16 000 p.m.). The extent to which these households can be levied in future needs to be specifically considered. The highest concentration of households (13.6%) fall within the economic income bracket of between R 192 000 and R 360 000 p.a. The average households' income for Midvaal is R 308 106 p.a (R 25 676 p.m). which is the highest of all three municipalities in the Sedibeng District, and higher than the national average of R 201 630 p.a.

The average annual per capita income of Midvaal of R 99 906 is the highest in the district. Followed by Lesedi: R 64 313 and Emfuleni: R 61 488

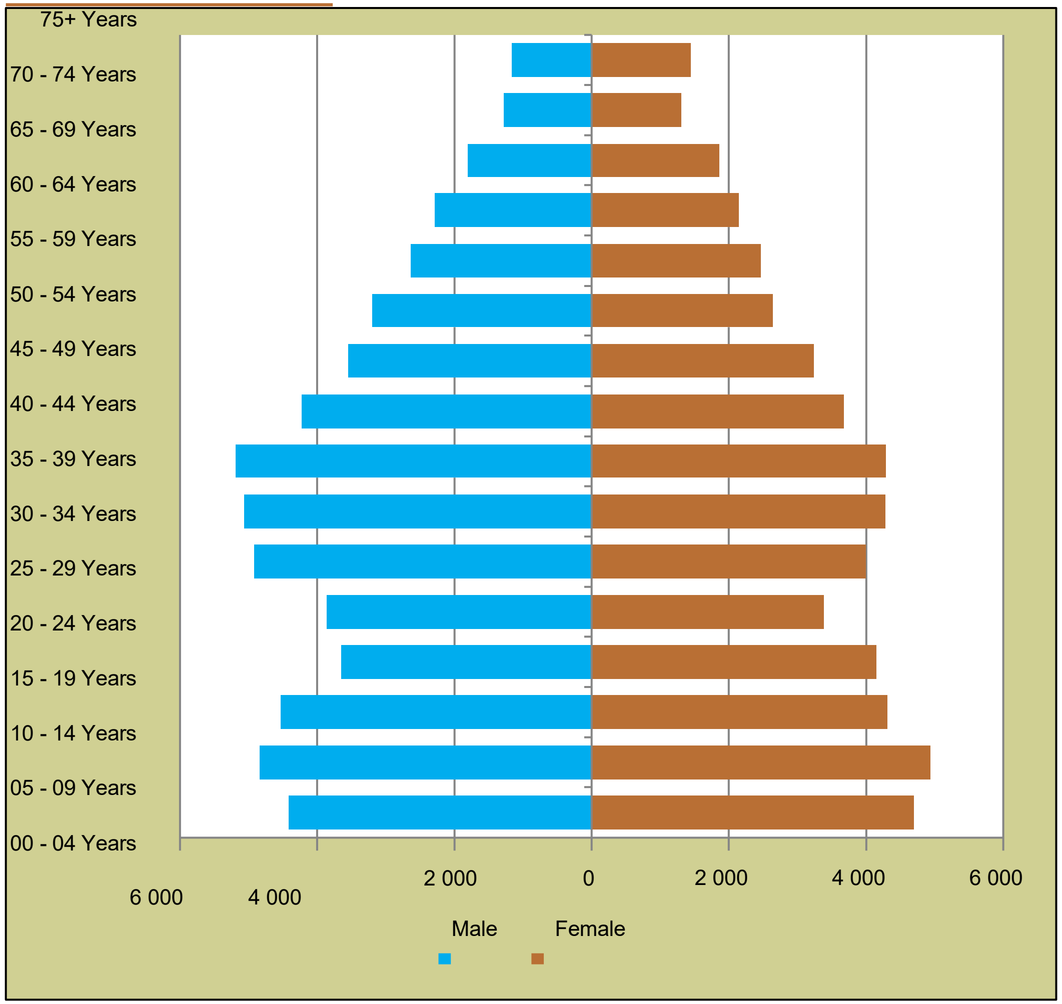
Graph 2: Distribution of Household Income



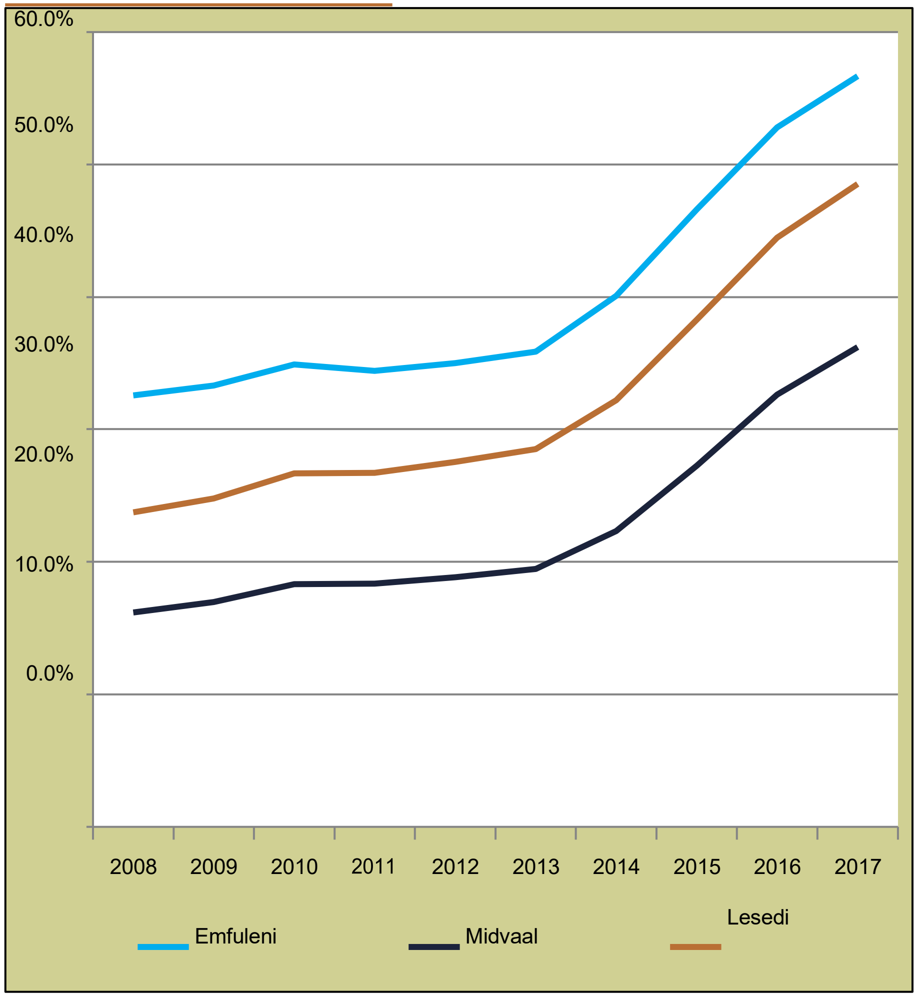
The ***Age Profile*** illustrates that proportionally Midvaal has the highest percentage of people falling within the 25 to 39-year age bracket for Male and within the 00 to 14 year age bracket for Female. The working age group of Midvaal represents a notable size of the population. This age profile of Midvaal is typical of a developing society.

Although, the 36.2% ***Unemployment Rate*** for 2017 is the lowest of the three municipalities in the district, it remains very high and increased since 2013 and is higher than the Gauteng's 29.5% and the Country's 27.2%.

Graph 3: Age Profile



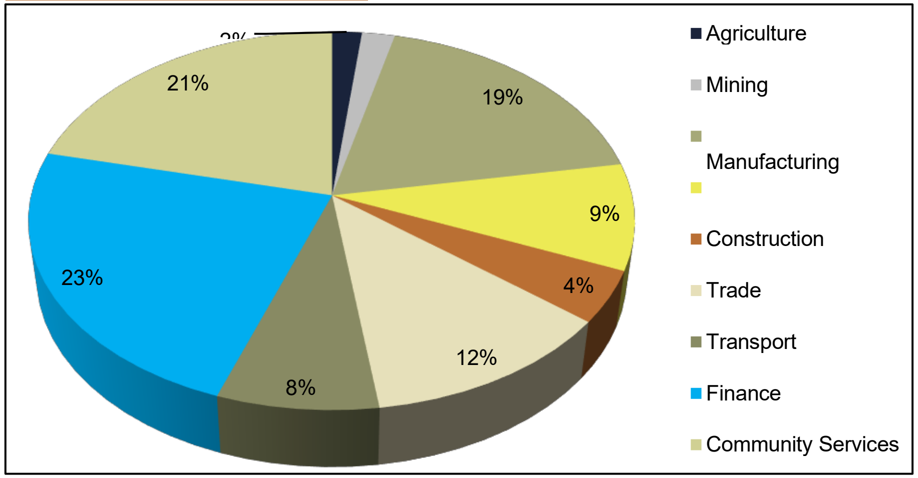
Graph 4: Unemployment Rate



Economy

Finance remains the dominant ***Economic Sector*** with 23% of the output in 2017, followed by Community services (21%), Manufacturing (19%) and Trade (12%). The Midvaal economy is well diversified, which should provide economic stability. The services sector comprising trade, finance, manufacturing and community services not only contributes significantly to the economy (75% of output) but is also the main provider of employment.

Graph 5: Economic Sectors



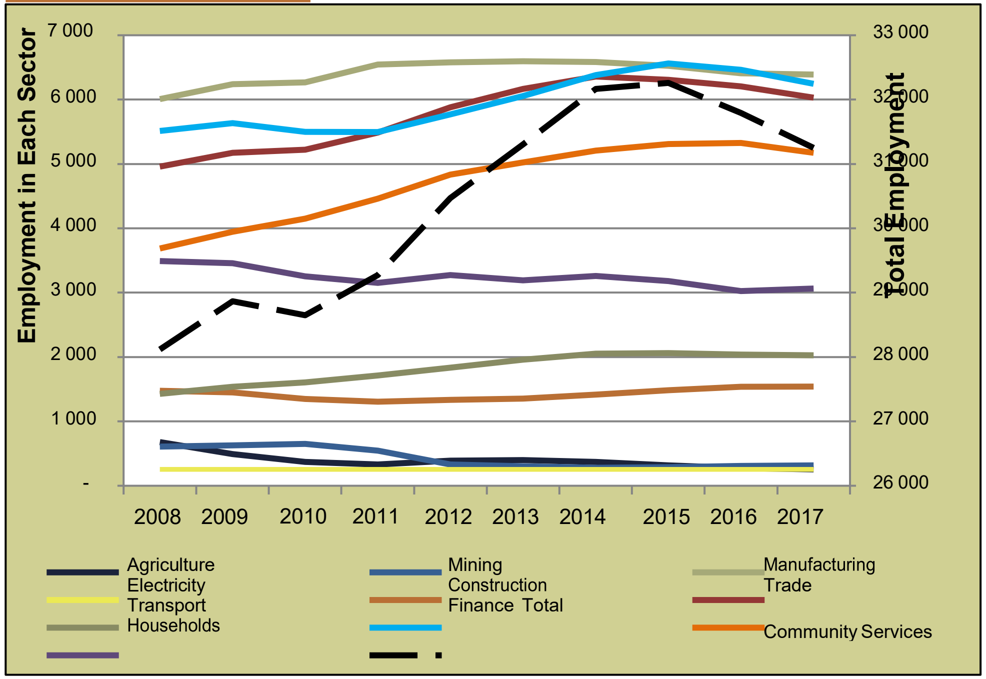
The changing nature and function of the area is reflected in the proportional growth figure of the key economic sectors. ***Proportional growth*** was experienced in the Finance, Community services and Trade sectors, with all other sectors experiencing stagnant or declining growth rate from 2008 to 2017. The proportional contribution of Manufacturing showed the greater declined over the period.

Table 1: Proportional Growth of Economic Sectors

Sector	2008	2017
1 Agriculture	1.7%	1.8%
2 Mining	2.5%	2.0%
3 Manufacturing	21.9%	18.5%
4 Electricity	10.0%	9.0%
5 Construction	3.7%	4.4%
6 Trade	11.0%	12.1%
7 Transport	7.2%	7.6%
8 Finance	22.4%	23.3%
9 Community services	19.6%	21.3%

Changes in the economic structure of the region as reflected in the employment figures. The Manufacturing, Finance, Trade and Community services sectors are the largest Employer with 20%, 20%, 19% and 17% respectively of Total *Employment*. Household, Transport and Construction sectors are also significant with the contribution of over 1 000 of employment. Total employment reflects a significant improvement between 2010 and 2015, and since then it reflected a decline. At the end of 2017 the officially registered workers came to 31 248 people or 29% of the population.

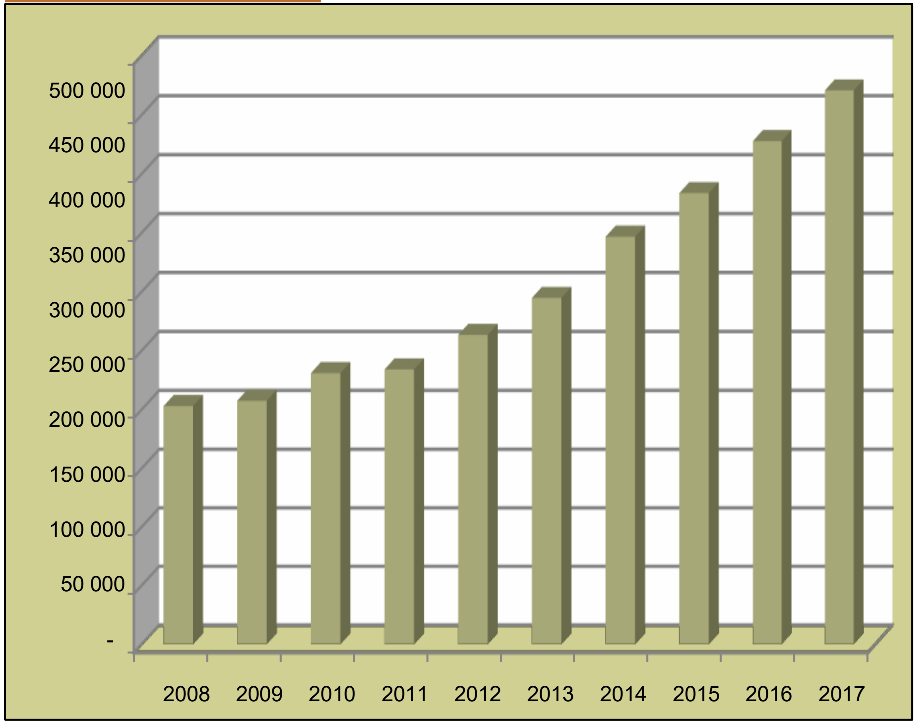
GRAPH 6: EMPLOYMENT



Tourism Spend in 2017 amounted to R 470.92 million, which equates to 9.5% of GVA (Current Prices).

GRAPH 7 reflects the increasing trend of Tourism Spend over the past ten years. Tourism remains an important economic driver for the local economy.

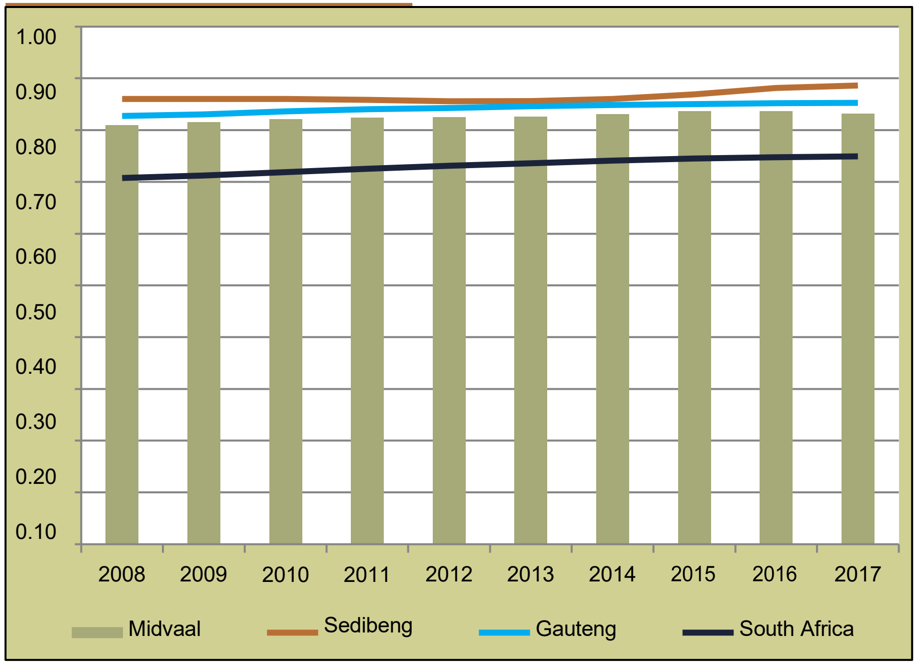
GRAPH 7: TOURISM SPEND



Household Infrastructure

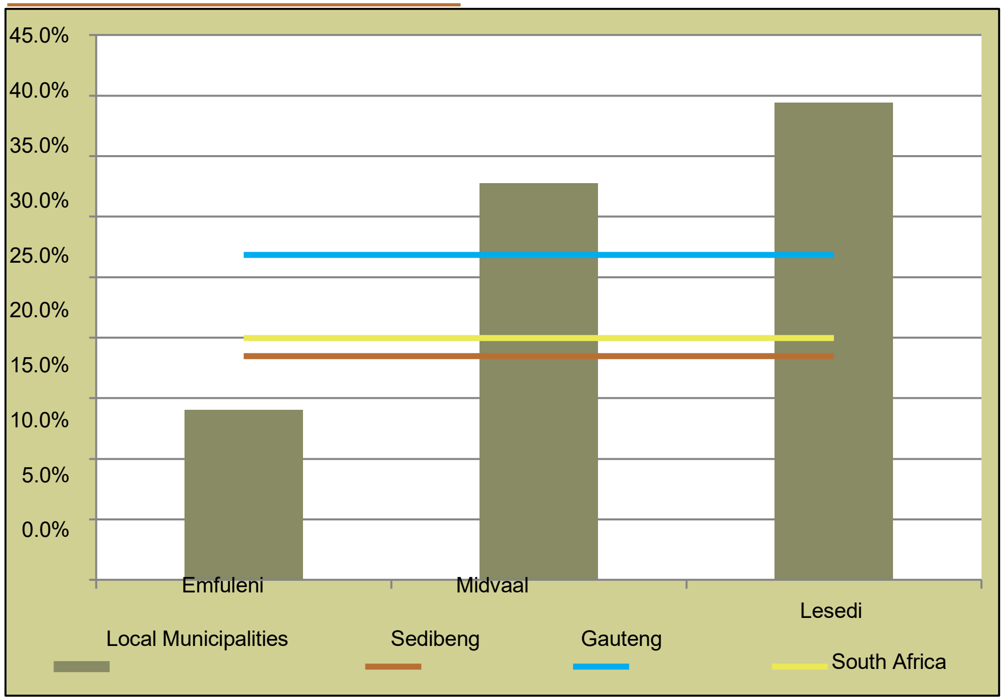
The ***Infrastructure Index*** of 0.83 is lower than the Province (0.85) and the District (0.89). When comparing the three municipalities in the Sedibeng District, it is noted the Midvaal has the lowest infrastructure index. This is due to the high population growth and household formation in recent times, exacerbating the infrastructure backlogs.

Graph 8: Infrastructure Index



Growth in ***Household Formation*** between 2008 and 2017 was 33%, the second highest of all three municipalities in the district. In absolute numbers, the growth of households in Midvaal was 8 793 during the period.

Graph 9: Household Formation



By comparing backlogs of ***Sanitation, Water, Refuse Removal and Electricity*** in urban as well as non-urban areas, Midvaal Municipality performed below the average service delivery in the Sedibeng District. Its service delivery challenge given the population growth is reflected in the 17% of households that experience electricity backlogs, 10% sanitation backlogs and 10% refuse removal backlogs.

TABLE 2: HOUSEHOLD INFRASTRUCTURE PROVISION

Infrastructure	Sedibeng DM	%	Midvaal	%
Above RDP Level				
Sanitation	287 949	93.7%	32 027	89.9%
Water	304 653	99.1%	34 986	98.2%
Electricity	283 238	92.1%	29 521	82.8%
Refuse Removal	289 146	94.1%	32 061	90.0%
Below RDP Level or None				
Sanitation	19 473	6.3%	3 610	10.1%
Water	2 769	0.9%	650	1.8%
Electricity	24 184	7.9%	6 116	17.2%
Refuse Removal	18 276	5.9%	3 575	10.0%
Total No. of Households	**307 421**	**100.0%**	**35 636**	**100.0%**

1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Future Revenues

5 Affordable Future Capital Investment

6 Scenario Analysis

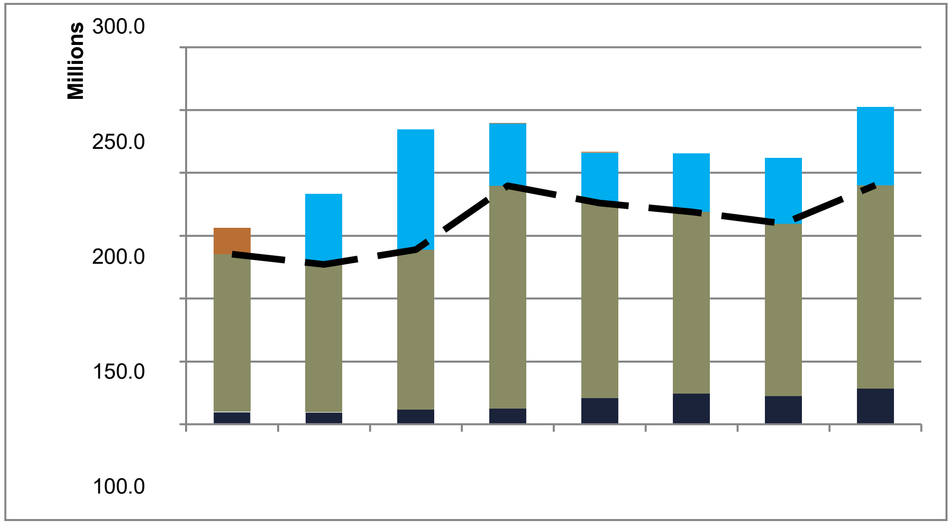
7 Ratio Analysis

8 Conclusions

Financial Position

The financial position of Midvaal LM improved noticeably since the last assessment in FY2016. The balance sheet demonstrates this improvement by an increase in Total Assets from R 2.30 billion to R 2.43 billion as at 30 June 2018. (an increase of R 131.05 million, which includes an increase in Cash and Cash Equivalents of R 101.98 million). This positive growth in assets should also be viewed in the context of the increase in liabilities of only R 22.17 million for the past 2 years. To gain a deeper understanding of these movements the categories of assets and liabilities were analysed further.

Graph 10: Long Term Liabilities: Interest Bearing vs Non-Interest Bearing

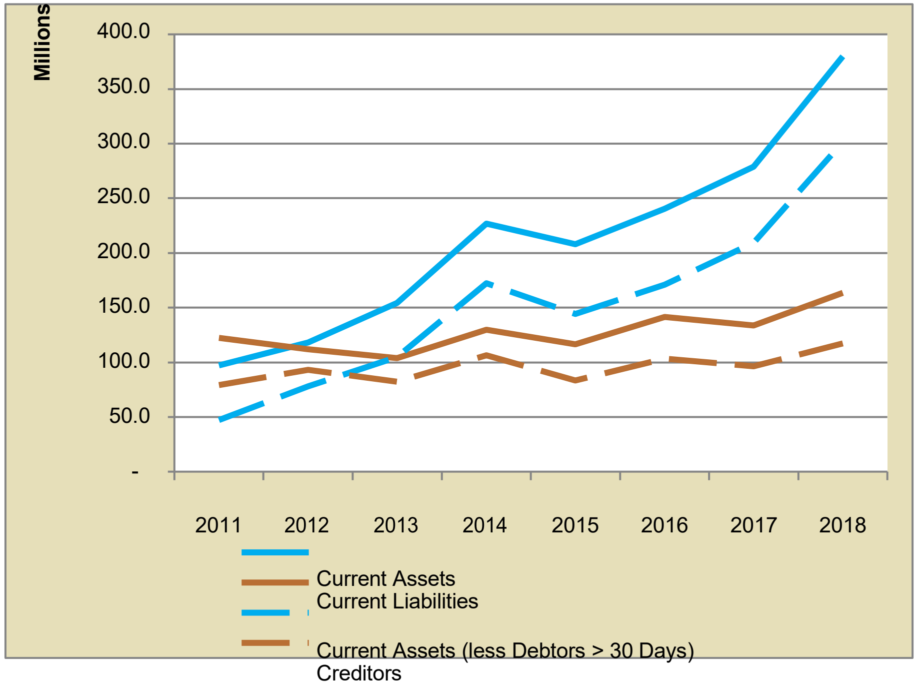


The Total Interest-bearing Liabilities have increased by R30.52 million (19.1%) from R 159.72 million as at FYE2017 to R 190.24 million as at FYE2018. This increase was driven by an additional borrowing of R 51.7 million during FY2018 as part of the funding mix utilised for Capital Expenditure.

The additional take-up of external loans had no significant impact in the Gearing Ratio, which only increased by 1 percentage point to 19% as atFYE2018. This implicates that the Gearing Ratio remained below the maximum norm of 40% suggested by National Treasury. The debt service cover ratio (which measures the ability of the municipality to service its debt from cash generated by operations) came to a healthy 3.24, indicating that the current levels of debt are affordable to the municipality.

Long term Non-interest bearing liabilities increased by R9.85 million (18.9%).

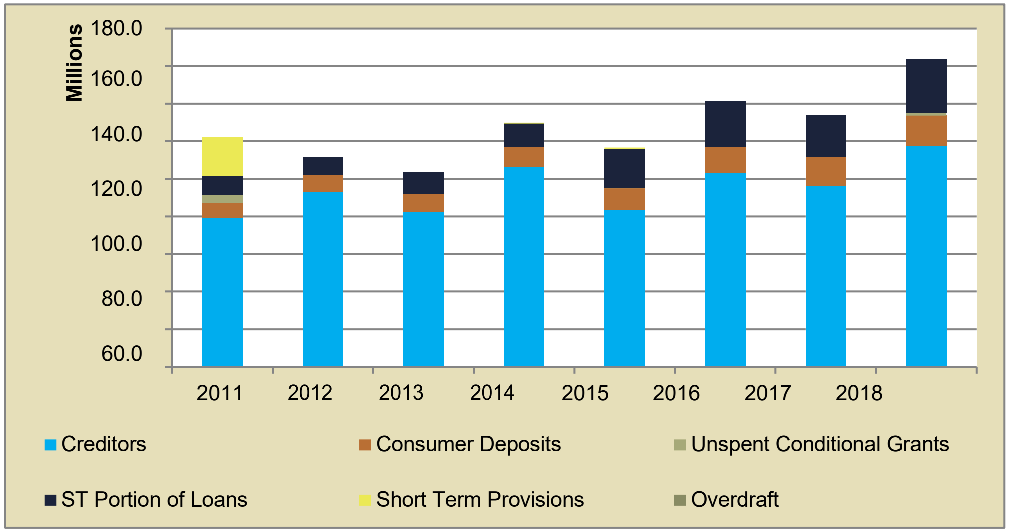
Graph 11: Current Assets vs Current Liabilities



The Liquidity Ratio improved from 2.09 as at FYE2017 to 2.32 as at FYE2018. Should all debtors older than 30 days be excluded, this ratio reflects a healthy 1.84 as at FYE2018, compared to 1.56 as at FYE2017.

The increase in Current Assets of R100.74 million (36.1%) was mainly a result of increases in Cash and Cash Equivalents (R71.89 million or 55.3%) and Net Consumer Debtors (R 10.21 million or 8.8%).

GRAPH 13: CURRENT LIABILITIES

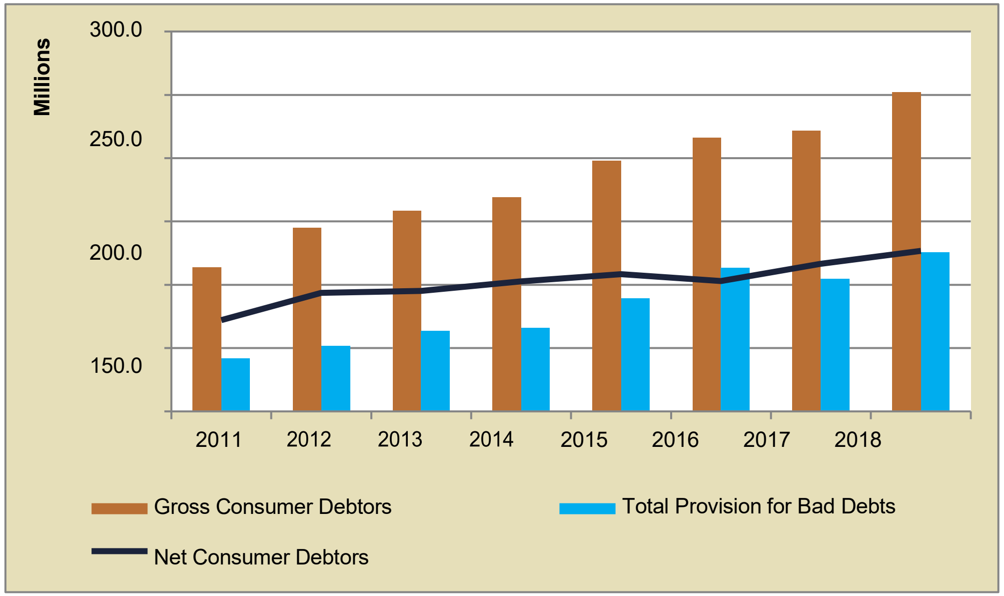


Notwithstanding these positive increases in Current Assets, Creditors increased by R 20.94 million (21.7%) during FY2018, which was the main reason for the R 29.77 million (22.2%) increase in Current Liabilities.

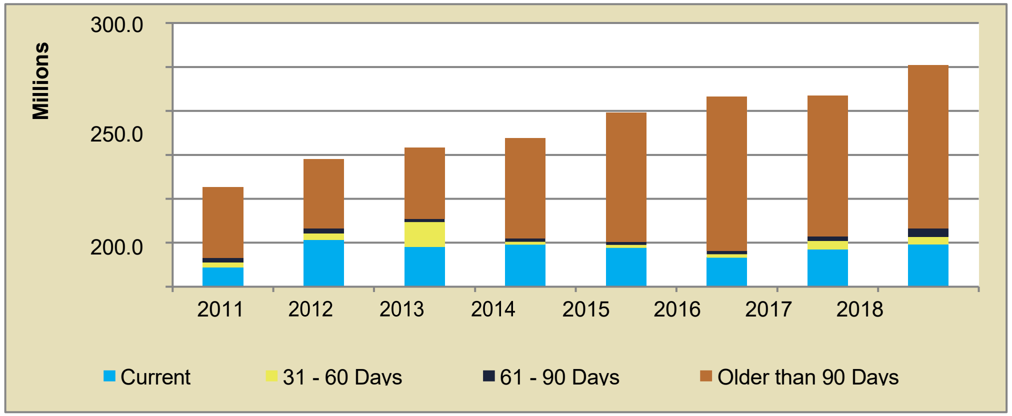
Debtors Management

In the past 2 years, Gross Consumer Debtors increased by R 30.63 million (13.8%) while Net Consumer Debtors increased at a smaller extent by R 10.21 million (8.8%), due the effect of an increase in the provision for doubtful debt of R20.42 million (19.5%) to R125.24 million as at FYE2018. This provision is still not sufficient to cover all debtors older than 90 days (R185.85 million as at FYE2018(.

GRAPH 14: GROSS CONSUMER DEBTORS VS NET CONSUMER DEBTORS



GRAPH 15: CONSUMER DEBTORS AGE ANALYSIS

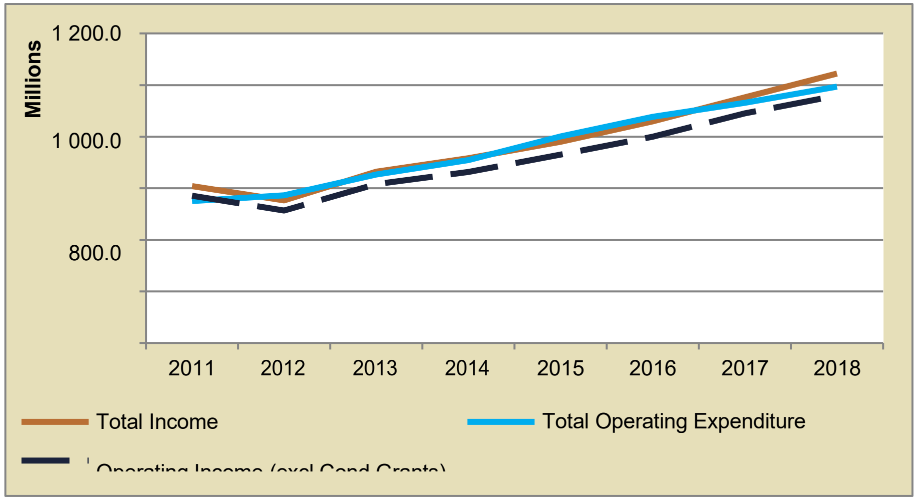


The collection rate of 93% in FY2018, which is also the average rate for the past 7 years, is still below the minimum acceptable benchmark of 95%. This has resulted in the ageing of the debtors' book and may result in higher consumer debtor write-offs in future.

Financial Performance

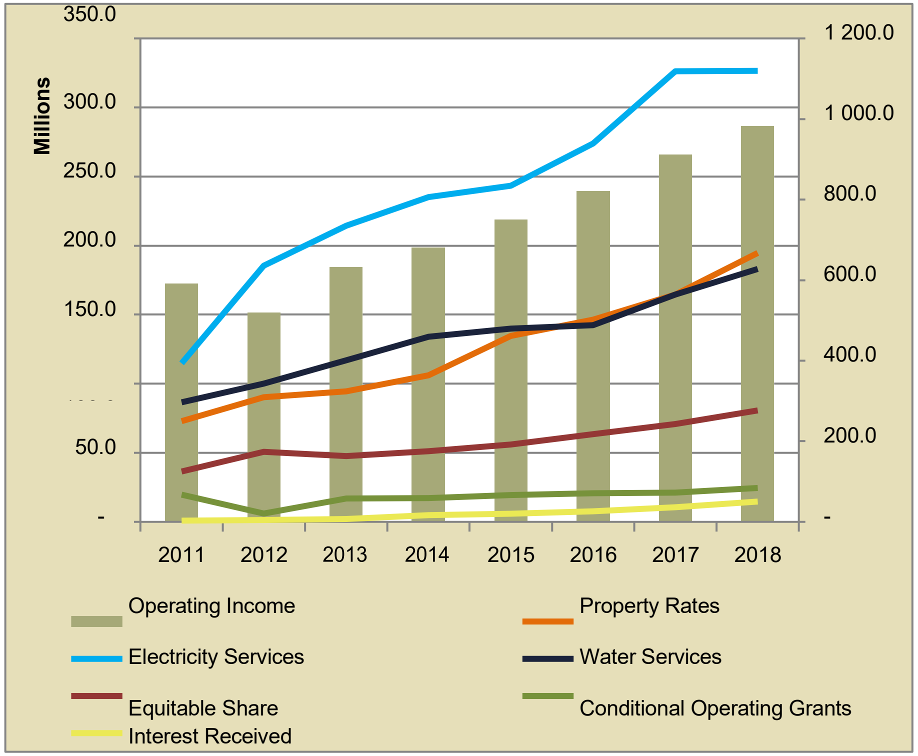
Surplus/Deficit

Graph 16: Total Income vs Total Expenditure



Total operating income increased by R 72.25 million or 7.9% in FY2018, which is higher than the growth in Operating Expenditure (excluding capital grants) of R 62.33 or 6.7% in the same period. This had a positive impact on Midvaal's profitability by reducing operating deficits to R 10.4 million in FY2018 from R20.3 million in FY2017.

Graph 17: Contribution per Income Source



Revenue Management

Total Income for FY2018 was R 1.04 billion against a Total Operating Expenditure of R 993.7 million, leading to an accounting surplus of R 50.6 million.

The increase in Total Income was mainly driven by increases in Property Rates (R 29.88 million or 18.1%), Water Services (R 18.62 million or 11.3%), Equitable Share (R 9.73 million or 13.7%), Interest Received (R 4.35 million or 41.9% and Conditional Operating Grants (R 3.39 million or 16.0%)

Expenditure Management

The increase in operating expenditure was mainly driven by increases in Staff Costs of R 15.71 million (7.1%), Water Services (R 48.34 million or 83.2%), and Depreciation Charges (R 6.02 million or 5.2%).

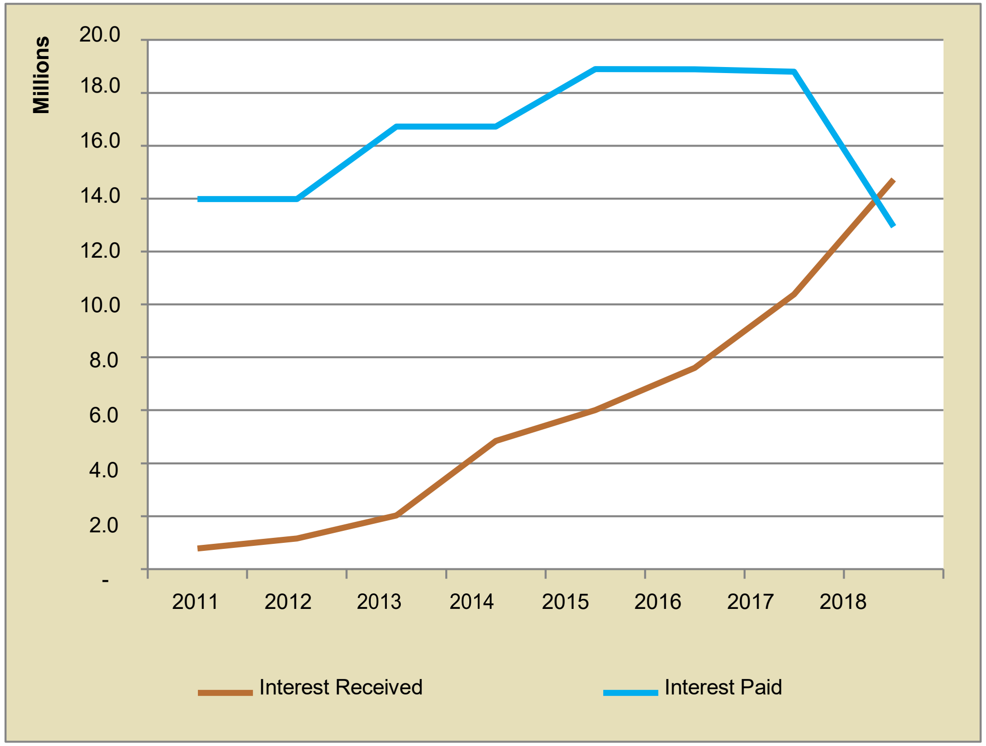
Positive to note is the decrease of R 25.53 million or 9.6% in Electricity bulk purchases for the current year; resulting in surplus margins increasing to 26% in FY2018 from 18% the previous year.

The electricity distribution losses decreased slightly from 11.79% in FY2017 to 11.16% in FY2018.

The water distribution losses remained high at 28.77% in FY2018.

The repairs and maintenance expense has increased to R 93.25 million or 5% of the carrying value of PPE and investment property.

GRAPH 19: INTEREST PAID VS INTEREST RECEIVED



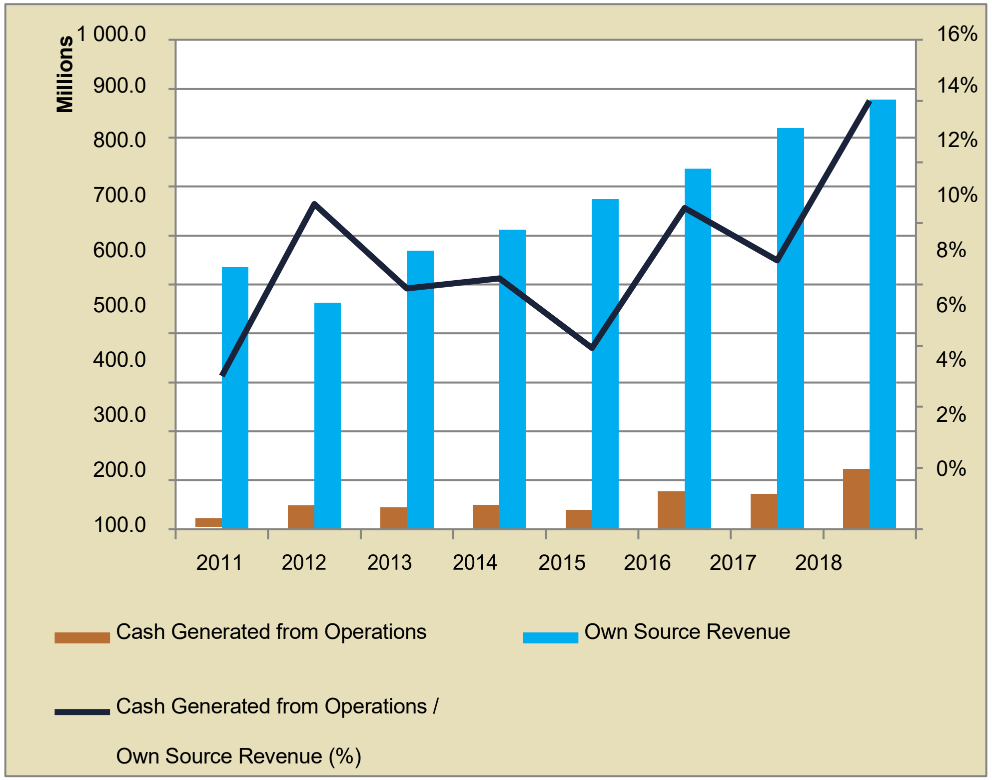
Noteworthy, although relatively small, is that the Interest Received from external investments exceeded Interest Paid on external loans for the first time during the 8-year assessment, resulting in a net interest inflow of R 1.79 million. The expectation is that the Interest Received will continue to increase as cash and investments grow in the future.

Cash Flow

Cash Generated from Operations

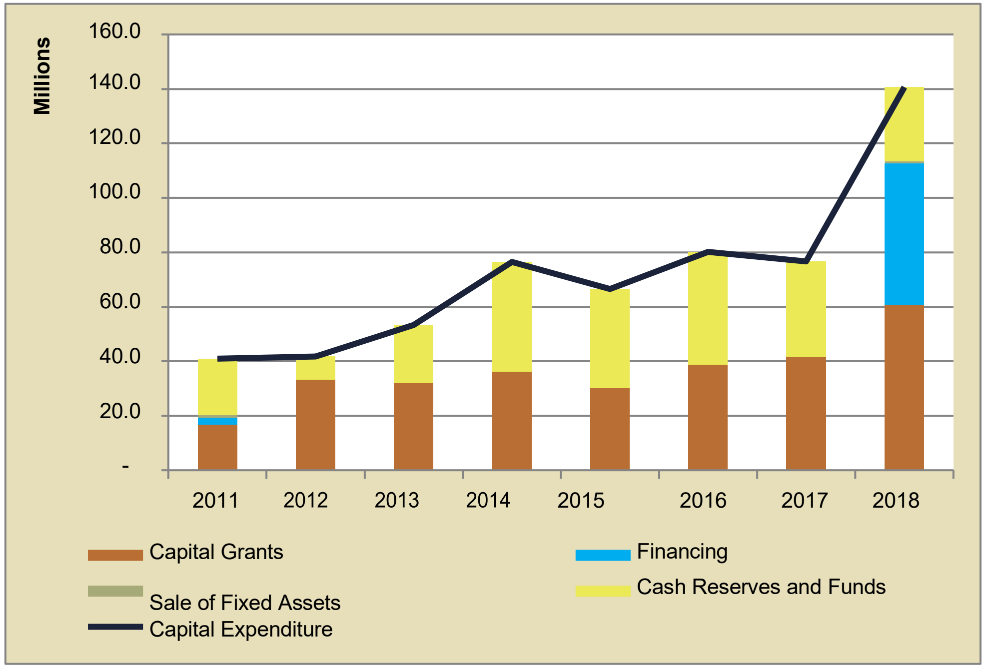
Cash generated from operations (excl Capital grants) for FY2018 increased by 71% (R 51.08 million) to R 123.02 million for the year.

Graph 20: Cash Generated from Operations / Own Source Revenue



Capital Expenditure and Funding Mix

Graph 21: Annual Capital Funding Mix

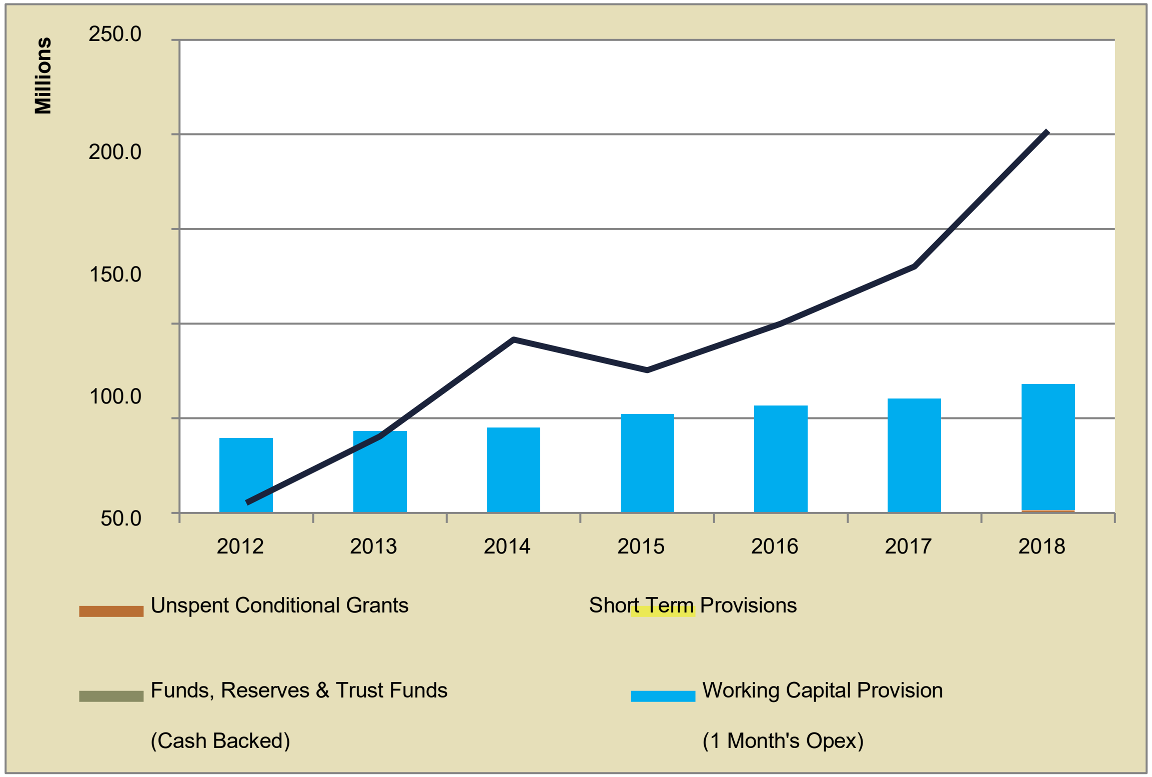


The positive cash generated from operations and the external loan liability of R 51.71 million taken up during the year enabled Midvaal to accelerate their capital expenditure program by R 64 million or 83.5% in FY2018. The other main funding source was Capital Grants which increased from R 41.80 million in FY2017 to R 60.94 million in FY2018. The funding mix appears more balanced as compared to the past 7 years of assessment.

The Capex was R 20.21 million less than budgeted and this was against the backdrop of an increase in capital grants received of R 19.14 million (46%).

Minimum Liquidity Requirements

Graph 22: Minimum Liquidity Required



The *unencumbered* cash and cash equivalents of R 202 million as at FYE2018 was R 134.1 million more than the minimum liquidity required (including one month's operational expenditure) of R 67.9 million. The cash coverage improved from 1.8 in FY2016 to 3.0 in FY2018.

It is important to note that the table below reflects a distorted view of cash coverage ratio (excl working capital). This is because, except for the R1.5 million Unspent Conditional Grants, Midvaal's AFS did not reflect any statutory requirements to be cash backed. The inclusion of Short-Term Provisions, and Funds and reserves will increase statutory requirements and reduce the cash surpluses at the end of the year.

Table 3: Minimum Liquidity Levels

	2011	2012	2013	2014	2015	2016	2017	2018
Unspent Conditional Grants	4.2	-	-	-	0.1	0.0	-	1.5
Short Term Provisions	20.7	-	-	0.4	0.5	-	-	-
Funds, Reserves & Trust Funds (Cash Backed)	-	-	-	-	-	-	-	-
Total Statutory Requirements	**25.0**	**-**	**-**	**0.4**	**0.6**	**0.0**	**-**	**1.5**
Unencumbered Cash ***	**4.7**	**5.4**	**40.5**	**91.5**	**75.5**	**100.0**	**130.1**	**202.0**
Cash Coverage Ratio (excl Working Capital) *	0.2			214.6	123.2	4 251.5		135.8
Working Capital Provision (1 Month's Opex) **	34.4	39.4	43.0	44.7	51.5	56.7	60.3	66.4
Cash Coverage Ratio (incl Working Capital) *****	0.1	0.1	0.9	2.0	1.4	1.8	2.2	3.0
Minimum Liquidity Required *****	59.4	39.4	43.0	45.1	52.1	56.7	60.3	67.9
Cash Surplus/(Shortfall)	**(54.7)**	**(34.0)**	**(2.6)**	**46.4**	**23.4**	**43.3**	**69.8**	**134.1**

*Cash coverage ratio = Unencumbered cash and cash equivalents/Total statutory requirements

**Total Expenditure/12

***Total cash and cash equivalents – ceded investments

****Total statutory requirements + working capital provision

*****Minimum liquidity required – Unencumbered cash and cash equivalents

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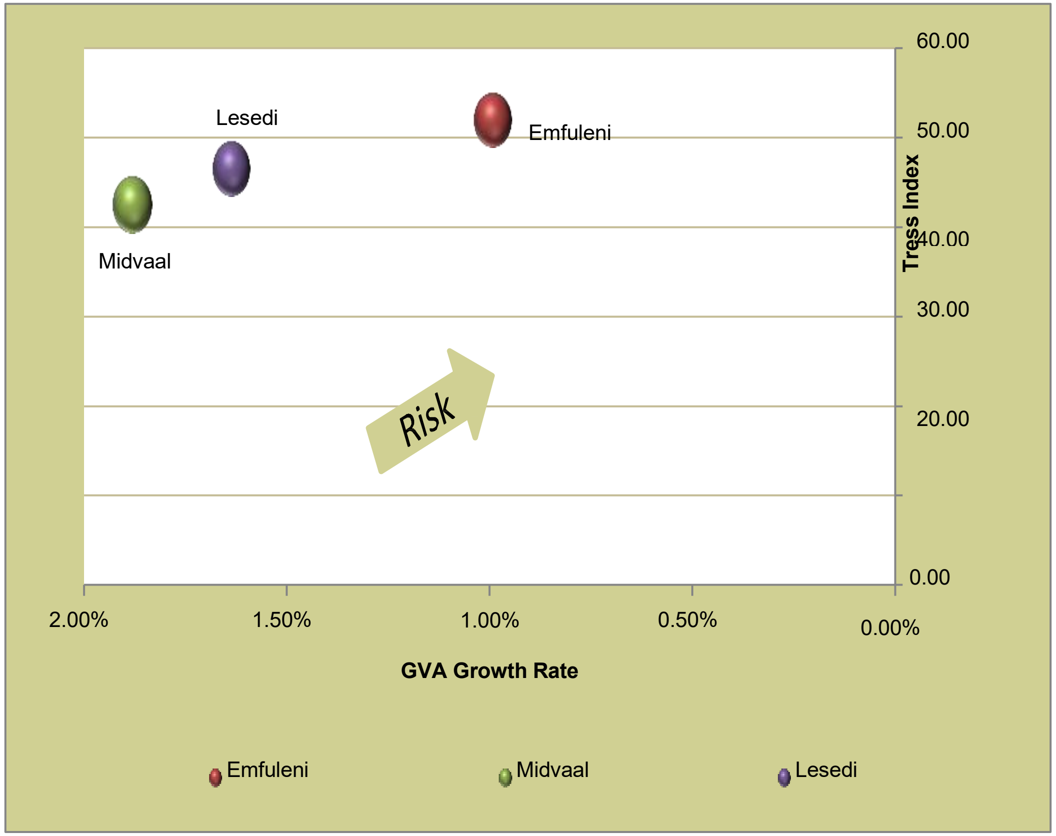
MUNICIPAL REVENUE RISK INDICATOR (MRRI) = "MEDIUM TO HIGH"

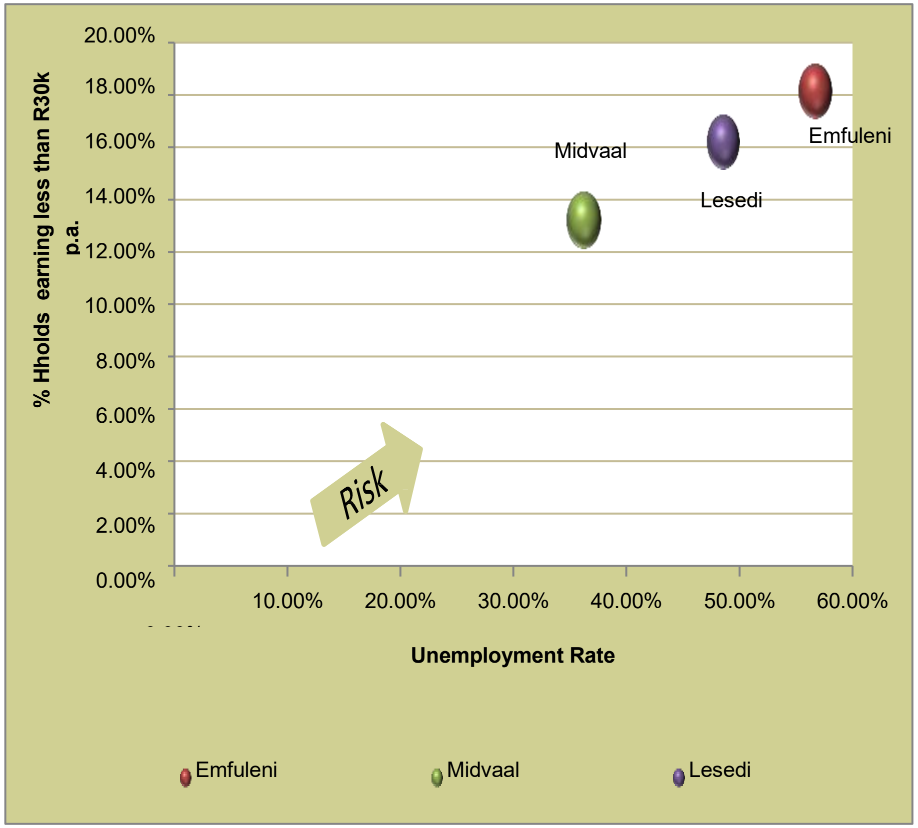
The latest iHS Global Insight update of the Midvaal economy reveals that the average economic growth rate during the past 5 years was on the higher end of the scale at 1.88% p.a. With a Tress Index of 43, the Midvaal economy is reasonably well diversified. This combination of factors produced an ***Economic Risk*** component of the MRRI for Midvaal of "Medium", representing the risk of capacity to generate own revenue in the future.

The Municipalities in Sedibeng district experience high unemployment rates and Midvaal is no exception, with a rate of 36.21%. The percentage of households earning less than R 30 000 p.a. is 13.24%, and these factors combine to return a *Household Ability to Pay Risk* component of the MRRI of "Medium to high", and the overall MRRI of "Medium to High".

GRAPH 23: ECONOMIC RISK COMPONENT OF MRRI

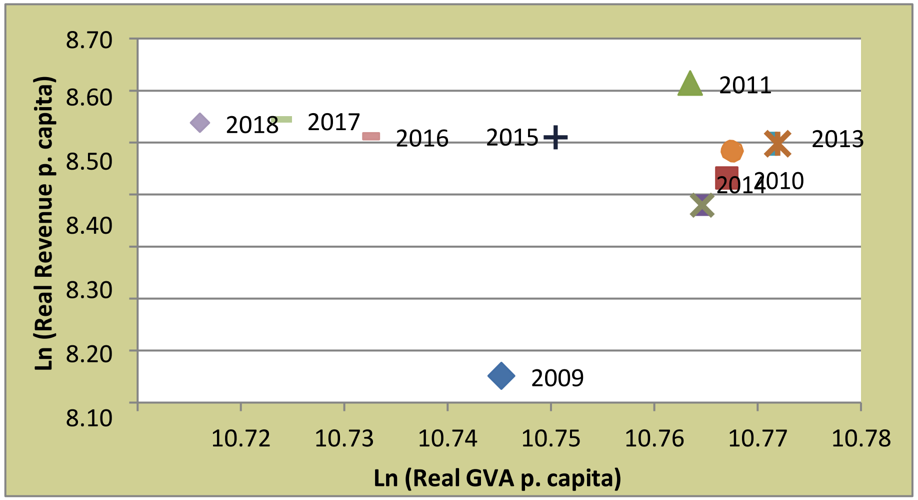


GRAPH 24: HOUSEHOLD ABILITY TO PAY RISK COMPONENT OF MRRI



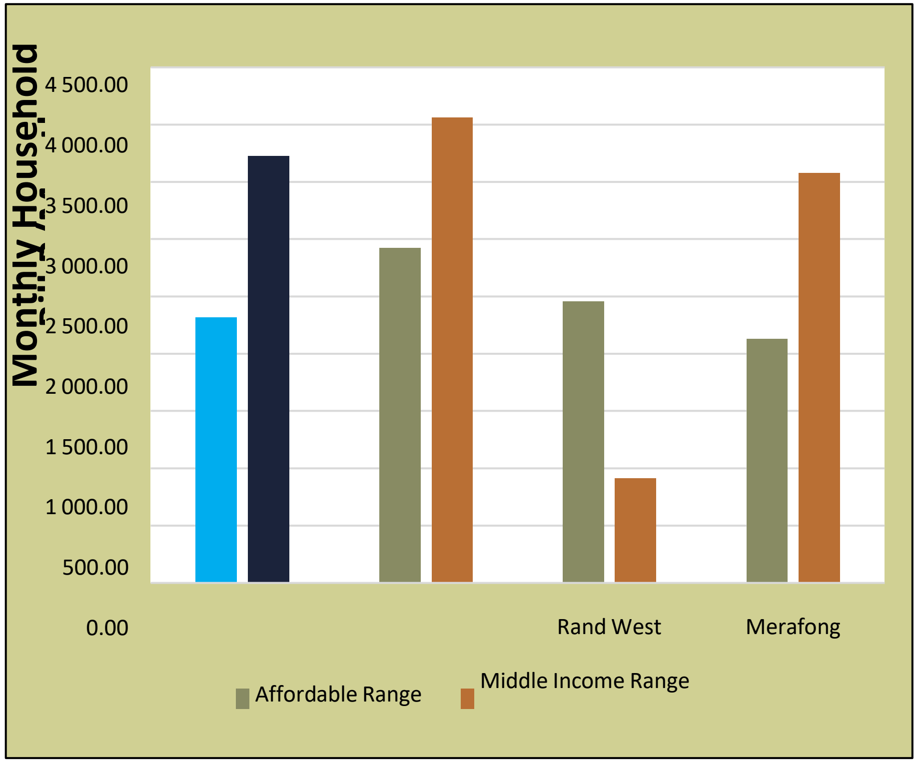
In 2018 both ***Real Municipal Revenue (excluding transfers) per Capita*** and ***Real GVA per Capita*** remained stable. The trend since 2013 reflects a consistent decrease in Real GVA per capita while Real Revenue per capita remained at the same level.

GRAPH 25: REAL REVENUES PER CAPITA VS REAL GVA PER CAPITA



A comparison of the *Average Household Bill* for the Middle Income- and Affordable Range of a selected number of local municipalities in Gauteng Province (extracted from Budget Table SA14), based on the 2017/18 tariffs reveals that Midvaal continued to be on the high end of the selected sample but it has been surpassed by Emfuleni since we last reported. The Monthly average household bill will most likely remain high as, according to Midvaal's projections, tariff increases for the MTREF period could not be contained within projected inflation targets due to the high cost of service provision.

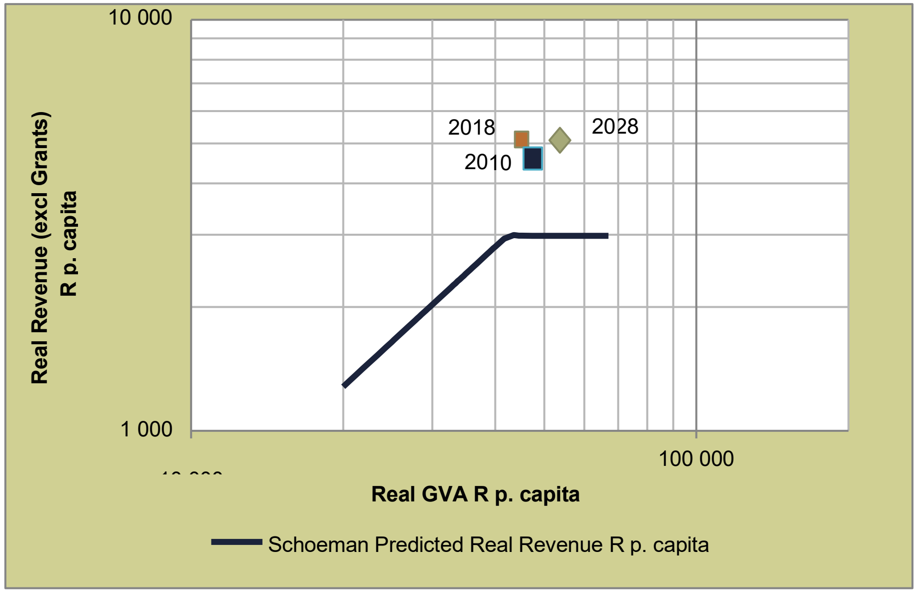
GRAPH 26: AVERAGE MONTHLY HOUSEHOLD BILL



Municipal Revenues

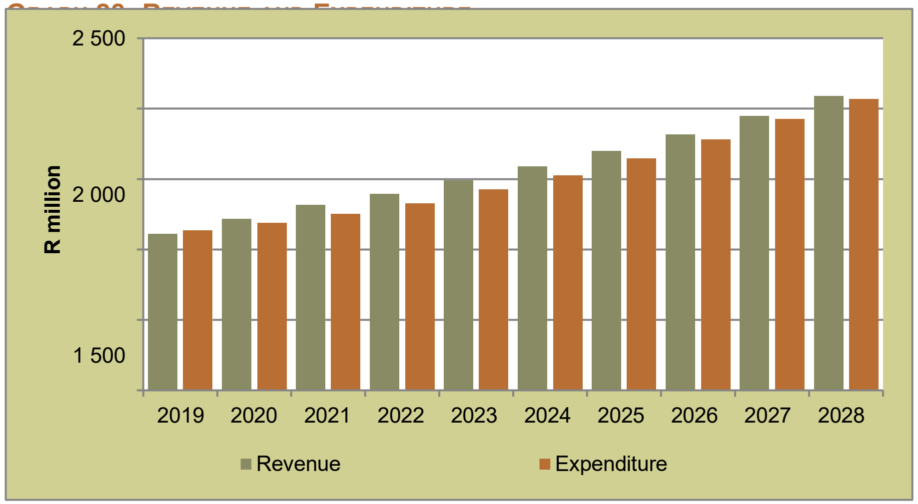
In 2018 the ***Real Revenue per Capita*** of R 5 107 p.a. exceeded the expected amount for the Real GVA per Capita as researched by Schoeman[2]. In real terms the projected revenue per capita of R 5 198 in 2028 is predicted to be at the same level as the revenue per capita in 2018. This correlates with the growing number of indigent households and high unemployment rates.

GRAPH 27: REAL REVENUE PER CAPITA ACROSS TIME



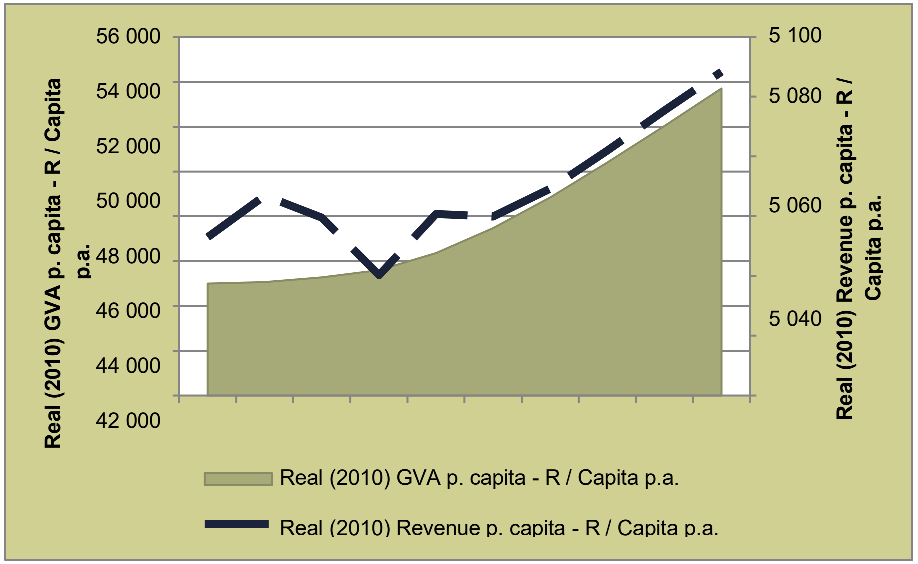
Future Nominal Revenue is growing at an average rate of 7.1% p.a. This is a combination of (i) tariff increases (ii) increased sales and (iii) potentially additional revenue sources. This revenue growth is however still less than the average growth of 9% p.a. during the past 5 years, between 2013/14 and 2017/18. Revenue is expected to exceed expenditure for the duration of the planning period, with the gap narrowing in the later years.

2 *Fiscal Performance of Local Government in South Africa - an Empirical Analysis*; Niek Schoeman; UP 22 July 2011; https://editorialexpress.com/cgi-bin/conference/download.cgi?db_name=IIPF67&paper_id=40



Both the Real ***GVA per Capita*** and the ***Real Revenue per Capita*** are expected to improve after a significant decline in 2022

GRAPH 29: PROJECTED REAL GVA AND REVENUES PER CAPITA



1 Planning Process

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Capex Affordability and Funding

The total Capex Demand was determined during the preparation of the LTFP in 2017 but is expected to have changed since then. However, for purposes of this report the affordability is of more concern and not so much the demand.

Total 10-year Capex **Demand**	**=**	R 5 910 million
Total 10-year Capex **Affordability:**	=	R 2 149 million

The Capex Demand exceeds the Capex Affordability by R 3 761 million. It needs to be stressed however that the capex demand estimates were based on the desk top estimates undertaken in 2017, which included an analysis of the Asset Registers and IPM's estimates of new capital investments. These estimates need to be revised pursuant to updated Master Plans.

MTREF Capital Funding Mix

Midvaal's MTREF budget 2020/21 to 2022/23 as tabled in its Adopted Budget 2018/19 expects a capital budget amounting to R 401 652 thousand and funded as follows:

Table 4: 3-Year MTREF Funding Mix R'000

R'000	*Total*	*2018/19*	*2019/20*	*2020/21*
Loans	**105 890**	32 650	33 300	39 940
Cash	**41 784**	12 289	15 190	14 305
Grants	**253 978**	65 223	89 468	99 287
Contributions	**0**	0	0	0
Total	**401 652**	**110 162**	**137 958**	**153 532**

IPM's model accommodated the intended borrowing of R 105.89 m, Internally Generated Funding of R 41.78 m and Capital Transfers of R 253.98 m for the MTREF period of 3 years to 2022/23 and allowed the model to calculate the future optimal funding mix.

The MTREF capex budget of the municipality is financially feasible. This is due to a conservative capex budget and the blended funding mix during the MTREF period. The cash surplus above the minimum liquidity levels is expected to reach its peak of R 246 million in 2025. These findings are illustrated in graph 30.

We have investigated a few alternatives in addition to this Base Case, which will be discussed in the following chapter on "Scenarios".

10-YEAR CAPITAL FUNDING MIX

The 10-year capital funding mix is presented in the table below:

Table 5: Capital Funding Mix

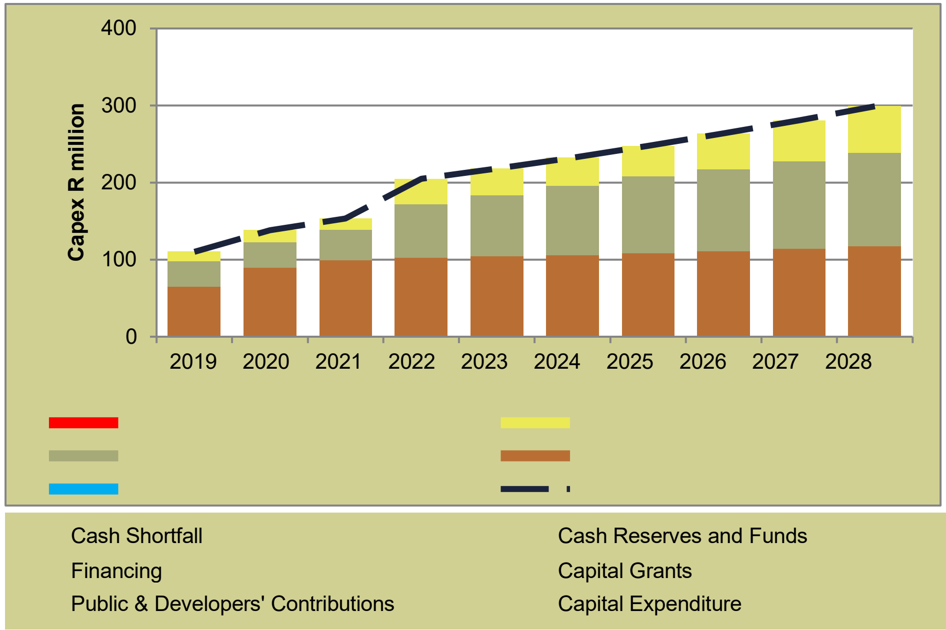
Source	Rm	%
Public & Developers' Contributions	0	0%
Capital Grants	1 017	47%
Financing	787	37%
Cash Reserves and Funds	345	16%
Capital Expenditure	**2 149**	**100%**

The capital funding mix reflects the MTREF budget for the first 3 years. An increase of capital expenditure thereafter is possible at an average annual growth rate of 6.5% which can be achieved by making use of the projected growing cash surpluses. Borrowings can also be increased more rapidly to allow for the capex program acceleration.

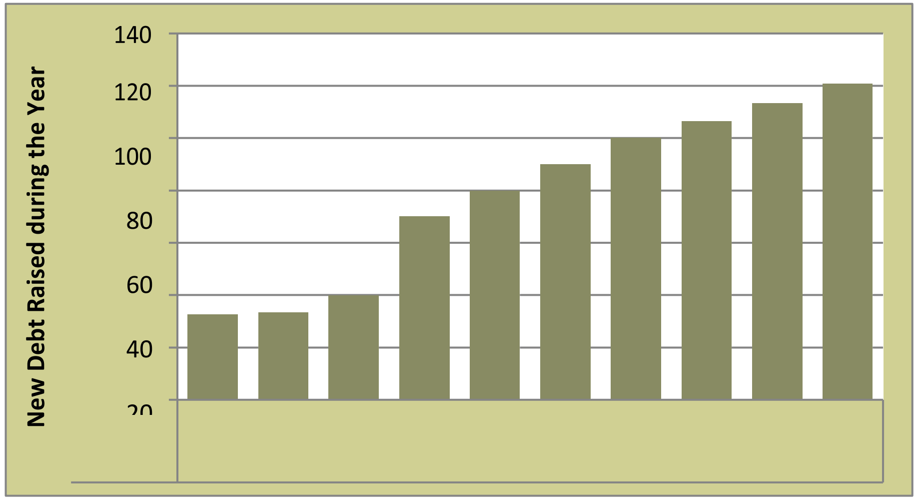
The distribution of the funding mix is illustrated as per **Graph 30** below:

The amount of annual external financing is estimated to be distributed as follows:

GRAPH 30: DISTRIBUTION OF FUTURE FUNDING



GRAPH 31: ESTIMATE OF FUTURE EXTERNAL FINANCING

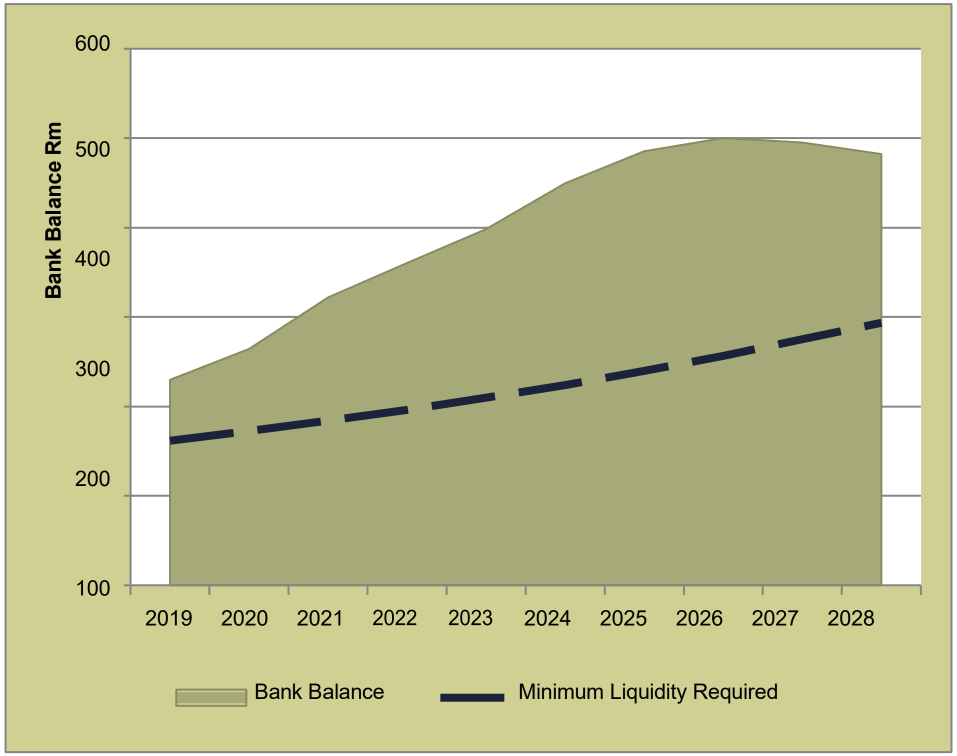


	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
R million	33	33	40	70	80	90	100	107	113	121

Liquidity and Capital Replacement Reserve

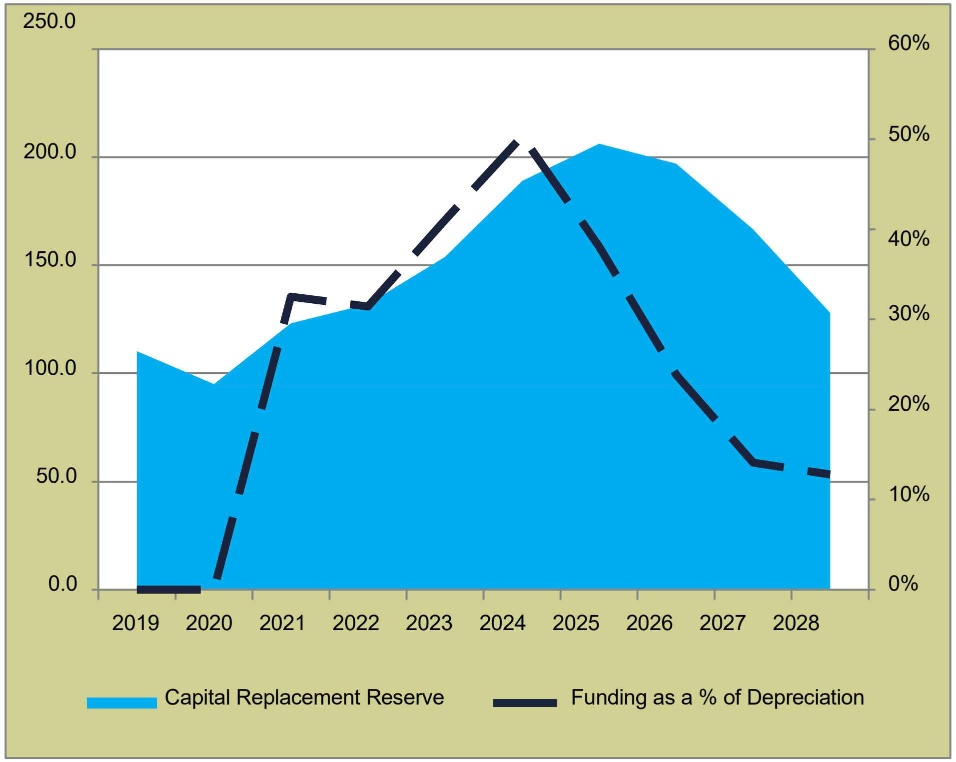
For purposes of this report the minimum required liquidity level caters for unspent conditional grants, reserves, short term provisions, and 1 month working capital. The municipality will build a healthy bank balance in excess of the estimated minimum liquidity required over the 10-year period. The Liquidity Ratio will peak at 2.5:1 in 2023 before decreasing to 1.8:1 by the end of the 10-year planning period.

GRAPH 32: BANK BALANCE VS PROPOSED CASH BACKED RESERVES



The accumulation of internally generated funds to fund capital expenditure will allow for a CRR to be fully funded for most of the planning period. Since Midvaal currently did not have a cash backed Capital Replacement Reserve in 2018, it would be prudent to start making this provision to cater for the growing capex demand.

GRAPH 33: CAPITAL REPLACEMENT RESERVE



GEARING

The ratio of Long-Term Interest-Bearing Liabilities to Income is illustrated in the graph below. A level of gearing of 30% (NT Norm is 45%) is regarded appropriate for Midvaal currently. During the MTREF period Gearing increases gradually but never exceeds this threshold. Throughout the 10-year planning period the ratio remains in the range of 17.6% to 29.7%. The Debt Service Cover Ratio (Cash Generated by Operations / Debt Service) which should at least be 1:1 and preferably 2:1 peaks at 3.5:1 in 2021 before decreasing to 1.8:1 at the end of the planning period.

GRAPH 34: GEARING

Scenarios

Realistic Upside and Downside Scenarios were compared to the Base Case Scenario.

Table 6: Variables Assessed in a Scenario Analysis

VARIABLE	BASE CASE	UPSIDE	DOWNSIDE
	% of Base Case		
Population Growth Rate	100%	98.0%	102.0%
GVA Growth Rate	100%	120.0%	80.0%
Employee related cost escalation (Margin above Inflation rate)	100%	100.0%	120.0%
Bulk electricity cost escalation (Margin above Inflation rate)	100%	100.0%	120.0%
Bulk water cost escalation (Margin above Inflation rate)	100%	80.0%	120.0%
Collection Rate of customer billings	100%	80.0%	120.0%

For the 10-year period, the Accumulated Accounting Surplus will be positive for the Upside but negative for the Downside. The same applies with Cash generated by Operations. The cash position after 10 years of R 482 million in the Base Case and R 473 million for the Upside are both above the minimum required liquidity but in the case of the Downside, the municipality will experience a R 1 271 million cash shortfall.

Whereas the 10-year capital investment for the Base Case is R 2 149 million, this may increase to almost R 2 989 million in the Upside.

The great variation of outcome for a realistic combination of input variables, demonstrates the need to manage the municipality's finances with care and discipline.

Table 7: Outcome of Scenario Analysis

OUTCOME	BASE CASE	UPSIDE	DOWN SIDE
Average annual % increase in Revenue	7.2%	7.3%	6.9%
Average annual % increase in Expenditure	7.6%	7.5%	8.9%
Accounting Surplus accumulated during Planning Period (Rm)	R 391	R 918	-R 1 394
Operating Surplus accumulated during Planning Period (Rm)	-R 627	-R 99	-R 2 412
Cash generated by Operations during Planning Period (Rm)	R 1 003	R 1 660	-R 788
Average annual increase in Gross Consumer Debtors	9.9%	-5.3%	20.0%
Capital investment programme during Planning Period (Rm)	R 2 149	R 2 989	R 1 979
External Loan Financing during Planning Period (Rm)	R 787	R 1 038	R 646
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 482	R 473	-R 1 271

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Predicted Ratios

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

Table 8: Outcome of Future Ratio Analysis

		N.T. NORM	2019	2021	2023	2025	2027	2029	COMMENTS
FINANCIAL POSITION									
ASSET MANAGEMENT									
R29	**Capital Expenditure / Total Expenditure**	10% - 20%	8.8%	10.4%	10.9%	13.4%	13.3%	13.2%	Capex post 2019 is well within the proposed benchmark of between 10% and 20% of Total Expenditure.
DEBTORS MANAGEMENT									
R4	**Gross Consumer Debtors Growth**		16.6%	12.7%	9.8%	9.4%	9.0%	8.8%	The collection rate is below the minimum acceptable benchmark of 95% in the early years. All efforts must be put in place to ensure that a payment ratio in excess of 95% is achieved and maintained
R5	**Payment Ratio / Collection Rate**	95%	93.0%	94.0%	95.0%	95.0%	95.0%	95.0%	
LIQUIDITY MANAGEMENT									
R49	**Cash Coverage Ratio (excl Working Capital)**		2.6 : 1	2.8 : 1	3.2 : 1	3.4 : 1	3.5 : 1	3.8 : 1	Liquidity is stable and the expected trend is positive resulting in a healthy liquidity ratio of more than 2:1 in future and a cash position that exceeds the minimum required liquidity level.
R50	**Cash Coverage Ratio (incl Working Capital)**		1.4 : 1	1.5 : 1	1.7 : 1	1.8 : 1	1.9 : 1	2 : 1	
R51	**Cash Surplus / Shortfall on Minimum Liquidity Requirements**		R 67.2 m	R 90.8 m	R 136.3 m	R 163.5 m	R 186.9 m	R 224.1 m	
R1	**Liquidity Ratio (Current Assets : Current Liabilities)**	1:1.5 - 1:2.0	2.3 : 1	2.3 : 1	2.4 : 1	2.4 : 1	2.5 : 1	2.5 : 1	
LIABILITY MANAGEMENT									
R45	**Debt Service as % of Total Operating Expenditure**	6% - 8%	4.3%	4.5%	4.6%	5.2%	5.4%	4.5%	The municipality has scope to increase its borrowings. However, for it to receive credit it must demonstrate financial discipline and continue to manage its liquidity prudently.
R6	**Total Debt (Borrowings) / Operating Revenue**	45%	18.6%	17.6%	16.8%	18.1%	19.4%	22.1%	
R7	**Repayment Capacity Ratio**		1.78	1.37	1.14	1.27	1.44	1.76	
R46	**Debt Service Cover Ratio (Cash Generated by Operations / Debt Service)**		2.7 : 1	3.2 : 1	3.5 : 1	3.1 : 1	2.8 : 1	3.3 : 1	
SUSTAINABILITY									

		N.T. NORM	2019	2021	2023	2025	2027	2029	COMMENTS
	Net Financial Liabilities Ratio	< 60%	1.0%	-0.6%	-3.7%	-2.9%	-1.5%	0.4%	The Operating Surplus Ratio that is negative during the early years but somewhat improves during the latter years.
	Operating Surplus Ratio	0% - 10%	-8.6%	-5.6%	-3.2%	-2.8%	-2.9%	-2.9%	
	Asset Sustainability Ratio	> 90%	29.8%	33.7%	35.8%	49.2%	50.5%	51.7%	
FINANCIAL PERFORMANCE									
EFFICIENCY									
R42	Net Operating Surplus / Total Operating Revenue	>= 0%	-8.6%	-5.6%	-3.2%	-2.8%	-2.9%	-2.9%	Electricity surplus margins appears to be under threat and the municipality should ensure that its tariffs are adjusted accordingly in the future.
R43	Electricity Surplus / Total Electricity Revenue	0% - 15%	26.0%	25.6%	25.2%	24.2%	23.2%	22.2%	
REVENUE MANAGEMENT									
R8	Increase in Billed Income p.a. (R'm)		R 70.5 m	R 65.6 m	R 65.5 m	R 65.1 m	R 71.4 m	R 77.2 m	Billed income is above the assumed inflation rate due to an increase in quantities of services sold as well as increase in tariffs. The national fiscal constraints will necessitate that the municipality strengthens its ability to generate cash from own revenue.
R9	% Increase in Billed Income p.a.	CPI	9.0%	7.7%	7.1%	6.6%	6.8%	6.9%	
R12	Operating Revenue Growth %	CPI	6.6%	7.6%	7.8%	6.3%	7.4%	7.0%	
R47	Cash Generated by Operations / Own Revenue		14.2%	16.8%	19.0%	18.7%	17.8%	17.0%	
R48	Cash Generated by Operations / Total Operating Revenue		12.6%	14.9%	16.7%	16.5%	15.8%	15.1%	
EXPENDITURE MANAGEMENT									
R30	Contribution per Expenditure Item: Staff Cost (Salaries, Wages and Allowances)	25% - 40%	24.1%	24.0%	24.0%	23.2%	23.2%	23.0%	Employee related costs are at the lower end of the proposed norm although increasing over time and Contracted Services as a % of Total Expenditure is above the norm.
	Contribution per Expenditure Item: Contracted Services	2% - 5%	10.9%	10.5%	10.4%	9.9%	9.9%	9.9%	
GRANT DEPENDENCY									
R10	Total Grants / Total Revenue		16.6%	17.9%	18.6%	18.0%	17.7%	17.4%	The municipality's dependence on transfers from other spheres of government is never entirely eliminated. It is however essential to try and reduce such dependence in future.
R11	Own Source Revenue to Total Operating Revenue		88.6%	88.7%	88.1%	88.5%	88.5%	88.5%	

		N.T. NORM	2019	2021	2023	2025	2027	2029	COMMENTS
	Capital Grants to Total Capital Expenditure		59.2%	64.9%	64.7%	49.9%	47.6%	45.6%	

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

Outcome of the Independent Financial Assessment

Midvaal posted a Net Surplus of R 50.6 million in 2018 (FYE2017: R 21.5 million). The increases in grants, and other revenue sources resulted in Total Income of R 1.04 billion for the year under review. Of this, R 958.8 million was Operating Revenue. Against the Operating Expenses of R 993.7 million, the Municipality posted an Operating Deficit of R 10.4 million (compared to R 20.3 million in 2017).

Analysing income by source and expenditure by item, it was noted that Midvaal generated R 48.80 million more from the 3 main revenue sources as compared to FYE2017. The largest increase per item was Property Rates at R 29.88 million (18%) followed by Water Services at R 18.62 million (11%), and Electricity services at a lesser extent of R 0.30 million (0%).

Midvaal proved its ability to translate the Accounting Surpluses into cash, with R 123 million Cash Generated from Operations (excl capital grants), regardless of the low collection rate of 93% on its Consumer Debtors.

The improved Cash generated from operations enabled Midvaal to accelerate their capital spending to R 140.6 million at FYE2018. In addition, Midvaal took up external borrowing of R 51.7 million during the year to part-fund its growing Capital Expenditure programme. The Municipality also received Capital Grants amounting to R 60.9 million, increasing from R 41.8 million the previous year to fund CAPEX. The Debt Service Cover Ratio, which is an indication of the municipality's ability to service its debt from cash generated by operations, improved from 2.79 in 2017 to a healthy 3.24 in 2018.

The level of CAPEX can also be assessed by using National Treasury's guideline benchmark of 10% to 20% of Total Expenditure which indicates the prioritisation of expenditure towards current operations versus future capacity in terms of municipal services. The ratio improved from 8% to 12% and is now within the norms and it is encouraged that it increases further to keep up with the high level of service delivery and address current backlog challenges.

This concentrated effort to improve the liquidity and cash position of the municipality is further evidenced in an improved liquidity ratio of 2.32 as at FYE2018, compared to 2.09 as at FYE2017 and the cash coverage ratio (including 2 months Opex) that improved from 2.16 as at FY2017 to 2.97 as at FYE2018.

The unencumbered cash and investments of R 202 million were sufficient to cover minimum liquidity required comprising of unspent conditional grants (R 1.5 million), and the 1 months Opex provision (R 66.4 million); resulting in a cash surplus of R 134.1 million at year end. Of concern though, is the absence of a capital asset replacement reserve (CRR).

Positively, 53% of current assets is represented by very liquid cash and cash equivalents, which highlights this healthy liquidity position. Consumer debtors (representing 33% of current assets) seem to be fast growing, with 74% of gross consumer debtors being older than 90 days. The provision for doubtful debts leaves room for improvement as it only covers 67% of debtors older than 90 days currently.

The gearing ratio of 19% and the positive debt service cover ratio (which measures the ability of the municipality to service its debt from cash generated by operations) at 3.24, indicate that the current levels of debt are affordable to the municipality.

STRENGTHS

- Healthy liquidity ratio of 2.32 in 2018, supported by an increased cash and cash equivalents balance, suggesting that the municipality will be able to service its liabilities as and when it becomes due.
- Balanced capital funding mix which supported the municipality in effectively managing its borrowings and increasing its cash balances.
- Manageable debt levels with a Gearing ratio of 19%.
- Consistent cash generated from operations even when capital grants are not included
- Very low levels of Unspent conditional grants

Weaknesses

- Midvaal posted Operating deficits consistently for the past 7 years.

- Absence of a Capital Asset Replacement Reserve to address the risk of unexpected future increases in capital requirements.
- Low consumer debtors collection rate of 93%.
- Debtors aging profile indicates that 74% of debtors are older than 90 days and not sufficiently provided for.

Outcome of the Future Predictions

The latest version of IPM's Municipal Financial Model was populated with the latest available financial, demographic and economic data of Midvaal and calibrated against the municipality's 2018/19 MTREF. Due to the incremental adjustments made on the model each year we always place more reliance on the latest outcome, i.e. this 2018 Estimate.

The 2018 the *Real Revenue per Capita* of R 5 107 p.a. exceeded the expected amount for the Real GVA per Capita. In real terms the projected revenue per capita of R 5 198 in 2028 is predicted to be more than the revenue per capita in 2018 which provides comfort in the light of a growing number of indigent households and high unemployment rates. The estimated average Household Bill based on the 2017/18 tariffs reveals that Midvaal continued to be on the high end of the selected sample will most likely remain high as tariff increases for the MTREF period could not be contained within projected inflation targets due to the high cost of service provision. The *Economic Risk* component of the MRRI for Midvaal remained "Medium", representing sufficient capacity to generate own revenue in the future. This is attributable to the average economic growth rate of 1.88% during the past 5 years and a high Tres Index of 43.

The municipality's collection rate of 93% is below the National Treasury benchmark and is assumed to be increased to the acceptable level of 95% which will be maintained throughout the 10-year planning period. The municipality should put all efforts in place to implementing effective revenue collection strategies improve debt collection.

The possibility to accelerate capital expenditure to R 153.53 million in 2021 during the MTREF period is possible through the anticipated blended funding mix. The model then follows an aggressive borrowing approach to increase the potential of bridging the gap between capex demand and affordability from 2022 onwards without depleting the Municipality's cash reserves. Capex will reach 13.2% of Total Expenditure by 2029. We estimate that the municipality will be able to invest in a capital programme of R 2 149 million in the planning period to FYE2029 and be able to afford that 37% of this capex is funded with external financing.

With continued good financial management there is no reason why the municipality's liquidity position cannot be maintained or even improved upon. This would allow a cash backed capital replacement reserve ("CRR") to be funded to finance future asset replacement expenses.

As demonstrated in the scenario analysis, a great variation of outcome for a realistic range of input variables is possible. It is therefore also possible that future performance will provide a different outcome to the base case scenario in this report. It is however encouraging to note that the cash generated by operations remains positive for the planning period.

An analysis of projected financial ratios does not reveal any serious concerns. It is however probable that a slight deterioration in most ratios will occur in future due to a greater demand placed on the municipality to provide services, the full costs of which are not recoverable.

An analysis of the projected financial ratios reveals positive trends for most metrics, except for the continuing Operating Deficits as grant dependency is expected to increase in the earlier years despite the deteriorating national fiscus.

The expected positive outlook is subject to the condition that the municipality manages its finances with care and discipline.

ANNEXURE 1: ROJECTED FINANCIAL STATEMENTS

Municipal Financial Model - Midvaal
Statement of Financial Performance

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
R thousands											
Revenue											
Property rates	194 658	206 373	227 722	246 952	265 420	289 609	317 614	349 670	386 000	426 797	472 217
Service Charges	584 086	642 955	687 086	733 250	779 834	826 964	876 037	928 691	985 786	1 047 895	1 115 728
Rental of facilities and equipment	1 345	1 300	1 378	1 454	1 531	1 640	1 757	1 882	2 017	2 164	2 323
Interest earned - external investments	14 725	10 503	12 647	14 544	17 593	19 928	22 367	25 830	28 636	30 333	30 868
Interest earned - outstanding debtors	9 181	7 529	7 829	8 121	8 418	15 179	16 384	17 772	19 355	21 142	23 136
Dividends received	–	–	–	–	–	–	–	–	–	–	–
Fines, penalties and forfeits	34 362	50 342	53 362	56 297	59 289	63 508	68 019	72 868	78 105	83 779	89 953
Licences and permits	1	40	45	47	51	56	61	67	74	82	91
Agency services	–	–	–	–	–	–	–	–	–	–	–
Transfers and subsidies (operating)	105 174	119 802	127 829	144 771	149 114	159 297	170 189	181 909	194 574	208 306	223 251
Other revenue	39 536	9 239	9 793	10 332	10 642	11 399	12 209	13 079	14 019	15 038	16 146
Gain on disposal of PPE	279	–	–	–	–	–	–	–	–	–	–
Revaluation on investment property gain / (loss)	–	–	–	–	–	–	–	–	–	–	–
Total revenue before Capital Grants	983 348	1 048 083	1 127 692	1 215 768	1 291 892	1 387 580	1 484 636	1 591 768	1 708 567	1 835 536	1 973 714
Capital Grants	60 939	65 223	89 468	99 287	102 266	103 966	105 944	108 265	110 985	114 162	117 861
Public & developers contributions	–	–	–	–	–	–	–	–	–	–	–
Total Revenue after Capital Grants	1 044 287	1 113 306	1 217 160	1 315 055	1 394 157	1 491 545	1 590 581	1 700 033	1 819 552	1 949 698	2 091 575
Operating expenditure											
Employee related costs	225 728	288 593	305 908	324 263	341 537	366 021	388 228	419 267	453 159	490 247	522 993
Remuneration of councillors	11 726	12 390	13 133	13 921	14 478	15 278	16 136	17 064	18 070	19 167	20 362
Debt impairment	73 894	94 798	92 354	88 536	93 887	100 415	107 436	115 076	123 424	132 553	142 550
Depreciation and asset impairment	122 503	131 381	130 190	130 719	132 186	137 031	142 498	148 592	155 328	162 720	170 787
Finance charges	17 080	21 926	22 876	24 111	28 106	32 285	37 585	45 010	52 849	60 570	69 239
Bulk purchases	347 657	384 328	415 984	450 376	488 194	527 808	570 558	616 689	666 886	721 677	781 701
Other Materials	12 939	13 638	14 285	15 071	15 760	17 197	18 729	20 450	22 337	24 414	26 656
Contracted services	117 702	135 741	139 079	146 743	151 243	163 732	173 678	189 201	206 061	224 409	238 936
Transfers and subsidies	275	287	295	312	323	346	371	397	426	456	490
Other expenditure	(29 046)	54 895	57 213	60 279	62 839	67 355	72 099	77 314	82 948	89 055	95 569
Loss on disposal of PPE	–	–	–	–	–	–	–	–	–	–	–
Total Expenditure	993 711	1 137 977	1 191 318	1 254 331	1 328 553	1 427 467	1 527 318	1 649 060	1 781 488	1 925 269	2 069 281
Suplus/ (Shortfall) for the year	**50 576**	**(24 671)**	**25 842**	**60 724**	**65 604**	**64 078**	**63 262**	**50 973**	**38 064**	**24 429**	**22 294**

Municipal Financial Model - Midvaal
Statement of Financial Position

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
R thousands											
Non-current assets:	2 052 167	2 030 948	2 038 716	2 061 529	2 134 342	2 215 637	2 305 654	2 404 692	2 513 090	2 631 237	2 759 574
Property, plant and equipment	2 004 552	1 983 332	1 991 100	2 013 913	2 086 727	2 168 021	2 258 039	2 357 076	2 465 474	2 583 622	2 711 959
Intangible assets	1 027	1 027	1 027	1 027	1 027	1 027	1 027	1 027	1 027	1 027	1 027
Investment properties	46 570	46 570	46 570	46 570	46 570	46 570	46 570	46 570	46 570	46 570	46 570
Investments	–	–	–	–	–	–	–	–	–	–	–
Long-term receivables	–	–	–	–	–	–	–	–	–	–	–
Other non-current assets	19	19	19	19	19	19	19	19	19	19	19
Current assets:	379 941	389 255	424 062	481 796	521 189	559 047	611 084	647 868	663 429	659 234	647 233
Inventories	8 601	7 510	7 835	8 258	8 614	9 266	9 954	10 714	11 538	12 435	13 394
Trade and other receivables	169 356	151 794	151 794	151 794	151 794	151 794	151 794	151 794	151 794	151 794	151 794
Cash & Short term investments	201 984	229 950	264 432	321 744	360 781	397 987	449 336	485 360	500 097	495 004	482 044
	2 432 109	**2 420 203**	**2 462 778**	**2 543 324**	**2 655 531**	**2 774 684**	**2 916 738**	**3 052 560**	**3 176 519**	**3 290 471**	**3 406 807**
TOTAL ASSETS											
Municipal Funds:	2 044 706	2 020 035	2 045 877	2 106 600	2 172 205	2 236 283	2 299 545	2 350 518	2 388 582	2 413 011	2 435 304
Housing development fund & Other Cash Backed Reserves	–	82 693	85 295	87 900	90 661	93 588	96 691	99 980	103 466	107 161	111 078
Reserves (Not Cash Backed)	–	–	–	–	–	–	–	–	–	–	–
Accumulated surplus	2 044 706	1 937 342	1 960 582	2 018 700	2 081 543	2 142 694	2 202 854	2 250 539	2 285 116	2 305 850	2 324 226
Non-current liabilities:	223 814	229 937	232 659	235 519	264 371	316 656	373 010	432 628	494 017	558 949	620 219
Long-term liabilities (Interest Bearing)	161 836	165 113	164 667	164 186	189 597	238 338	291 041	346 899	404 414	465 357	522 518
Non-current provisions	61 978	64 825	67 992	71 333	74 774	78 319	81 969	85 730	89 603	93 592	97 701
Current liabilities:	163 589	170 230	184 242	201 205	218 956	221 745	244 183	269 413	293 920	318 511	351 283
Consumer deposits	16 419	17 662	18 913	20 158	21 404	22 645	23 881	25 116	26 348	27 578	28 825
Provisions	–	2 846	6 014	9 356	12 798	16 344	19 996	23 757	27 631	31 622	35 732
Trade and other payables	118 769	119 494	125 570	131 270	140 165	151 497	163 009	176 398	190 956	206 831	223 093
Bank overdraft	–	–	–	–	–	–	–	–	–	–	–
Current portion of interest bearing liabilities	28 401	30 228	33 745	40 421	44 589	31 259	37 297	44 142	48 984	52 479	63 634
	2 432 109	**2 420 203**	**2 462 778**	**2 543 324**	**2 655 531**	**2 774 684**	**2 916 738**	**3 052 560**	**3 176 519**	**3 290 471**	**3 406 807**
TOTAL MUNICIPAL FUNDS AND LIABILTIES											

Municipal Financial Model - Midvaal
Cash Flow Statement

Model year	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
R thousands										
Cash flows from Operating Activities										
Suplus/Deficit for the year *including* Capital Grants	(24 671)	25 842	60 724	65 604	64 078	63 262	50 973	38 064	24 429	22 294
Suplus/Deficit for the year *excluding* Capital Grants & Contributions	(89 894)	(63 626)	(38 563)	(36 662)	(39 888)	(42 682)	(57 292)	(72 921)	(89 733)	(95 568)
Capital Grants & Contributions	65 223	89 468	99 287	102 266	103 966	105 944	108 265	110 985	114 162	117 861
Adjustments for non-cash items:										
Depreciation, amortisation and impairment loss	131 381	130 190	130 719	132 186	137 031	142 498	148 592	155 328	162 720	170 787
Revaluation on investment property (gain) / loss	–	–	–	–	–	–	–	–	–	–
Increase / (Release from) current provisions & non-interest bearing liabilities	2 846	3 168	3 342	3 442	3 546	3 652	3 761	3 874	3 991	4 110
Increase / (Release from) other non-current provisions & non-interest bearing liabilities	2 847	3 167	3 341	3 441	3 544	3 651	3 760	3 873	3 989	4 109
(Increase) / Release from non-current interest bearing assets	–	–	–	–	–	–	–	–	–	–
Capitalised interest	–	–	–	–	–	–	–	–	–	–
Operating surplus before working capital changes:	112 403	162 367	198 126	204 674	208 199	213 063	207 087	201 139	195 129	201 300
Change in W/C Investment	19 378	5 751	5 278	8 539	10 680	10 824	12 629	13 734	14 978	15 302
(Increase)/decrease in inventories	1 091	(325)	(422)	(356)	(652)	(688)	(760)	(824)	(897)	(960)
(Increase)/decrease accounts receivable	17 562	–	–	–	–	–	–	–	–	–
Increase/(decrease) in trade payables	725	6 076	5 700	8 895	11 333	11 512	13 389	14 558	15 875	16 262
	131 781	168 118	203 403	213 213	218 879	223 887	219 716	214 873	210 107	216 602
Net cash flow from Operating activities										
Cash flows from Investing Activities										
Capital expenditure	(110 162)	(137 958)	(153 532)	(205 000)	(218 325)	(232 516)	(247 630)	(263 726)	(280 868)	(299 124)
Decrease/(Increase) in non-current receivables	–	–	–	–	–	–	–	–	–	–
(Additions) / Disposals of investment property	–	–	–	–	–	–	–	–	–	–
Net cash flow from Investing activities	(110 162)	(137 958)	(153 532)	(205 000)	(218 325)	(232 516)	(247 630)	(263 726)	(280 868)	(299 124)
Cash flows from Financing Activities										
New loans raised	32 650	33 300	39 940	70 000	80 000	90 000	100 000	106 500	113 423	120 795
Loans repaid	(27 546)	(30 228)	(33 745)	(40 421)	(44 589)	(31 259)	(37 297)	(44 142)	(48 984)	(52 479)
(Decrease) / Increase in consumer deposits	1 243	1 251	1 246	1 246	1 241	1 237	1 234	1 232	1 231	1 246
Net cash flow from Financing activities	6 347	4 323	7 440	30 824	36 652	59 978	63 937	63 589	65 669	69 562
Change in Cash	27 966	34 483	57 312	39 037	37 206	51 349	36 024	14 737	(5 092)	(12 960)
Cash/(Overdraft), Beginning	201 984	229 950	264 432	321 744	360 781	397 987	449 336	485 360	500 097	495 004
Cash/(Overdraft), Ending	**229 950**	**264 432**	**321 744**	**360 781**	**397 987**	**449 336**	**485 360**	**500 097**	**495 004**	**482 044**

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