INCA
Portfolio Managers

HESSEQUA MUNICIPALITY

Long-Term Financial Plan – *Update 2026*

Prepared by
INCA Portfolio Managers
April 2026

REPORT OVERVIEW – INTRODUCTION AND BACKGROUND

The Hessequa Municipality appointed INCA Portfolio Managers in 2020 to develop a Long-Term Financial Plan. The deliverable of that assignment was a report entitled *Hessequa; Long-Term Financial Plan: 2019/20 – 2028/29*; July 2020. The initial report was updated in 2021-2025. This 2026 update, done in terms of a new contract with Hessequa Municipality, aims to update the LTFP based on the latest available information and report on the findings.

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

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

A summary of the demographic, economic and household infrastructure perspective was updated with the latest available information as published by S&P Global Market Intelligence. The historic financial analysis was updated with the information captured in the municipality's audited financial statements of 30 June 2025 along with the Tabled Budget for FY2026/27. The LTFM, as institutionalised in Hessequa Municipality, was populated and run with this latest information, and the outcome thereof is reported herein.

Abbreviations Used

AFS	Annual Financial Statements
CAPEX	Capital Expenditure
CRR	Capital Replacement Reserve
CPI	Consumer Price Index
FY	Financial Year
FYE	Financial Year Ended
GVA	Gross Value Added
IP	Investment Property
IPM	INCA Portfolio Managers
LM	Local Municipality
LTFM	Long-Term Financial Model
LTFP	Long-Term Financial Plan
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts
MRRI	Municipal Revenue Risk Indicator
MTREF	Medium Term Revenue and Expenditure Framework
NERSA	National Energy Regulator of South Africa
NT	National Treasury
OPEX	Operational Expenditure
PPE	Property, Plant and Equipment
R '000	Rand x 1 000
SA	South Africa
S&P	S&P Global Market Intelligence ReX v2540

CONTENTS

EXECUTIVE SUMMARY

KEY FINDINGS AND CONCLUSIONS DRAWN FROM THE 2026 LTFP UPDATE

HIGHLIGHTS FROM THE FY2024/25 FINANCIAL RESULTS

- The liquidity ratio improved during FY2024/25 to 3.58:1 from 2.71:1 in the prior year, the driving factor for this was the reduction in the unspent conditional grants liability of R3.6 million from R74.8 million included in the prior year.

- The collection rate increased during the year to 98.2% from 96.6% in the prior year. This is positive to note.

- The debtors age analysis revealed that debtors older than 90 days remained the largest pool of debtors, constituting 59.8% of gross consumer debtors as at FYE2024/25 followed by current debtors which accounted for 34.9% of gross consumer debtors. These aged debtors have been fully provided for through the provision for bad debts.

- Financial performance improved during FY2024/25, with the operating surplus improving to R79.6 million, up from R68.9 million in the prior year. Cash generated by operations (excluding capital grants) decreased to R46.9 million, down from R135.2 million in the prior year.

- Electricity services remained the main revenue stream for the municipality, contributing 30.7% to revenue in FY2024/25. This is followed by property rates (18.2%) and equitable share (8%). Staff costs remained the predominant expenditure item, accounting for 26% of expenditure in FY2024/25. This was followed by electricity bulk purchases (20%). Contracted services accounted for 8% of expenditure in FY2024/25.

- No borrowing was undertaken during FY2024/25. This resulted in a decline in the gearing ratio to 15.9% as at FYE2024/25. The debt service to total expense ratio reduced marginally to 5.2%, down from 6% in the prior year. This indicates scope to borrow over the MTREF period, the extent of borrowing must, however, be carefully monitored.

- Hessequa utilised its healthy liquidity reserves to supplement increased grant funding to accelerate capital investment during FY2024/25. The capital outlay of R236.6 million in FY2024/25 represents a peak for the review period.

- The municipality posted cash surpluses over the minimum liquidity requirements in excess of R150 million throughout the review period (R349.8 million in FY2024/25).

Long-Term Financial Plan Update

Analysis of Hessequa's Tabled Budget revealed that the municipality has budgeted for a notable deterioration of financial performance over the MTREF period. This is contrary to the historic performance and as such, we deem the budget to be conservative and expect that the budget will be outperformed. This has implications for the LTFM forecasts as well and must be considered in their analysis. The first step of our modelling process is to develop an MTREF Case, which entails loading the underlying financial data, in this case the FY2026/27-FY2028/29 Tabled Budget and the FY2024/25 AFS, to the LTFM and assessing the long-term outcome prior to making any adjustments or assumptions. The MTREF Case informs the Base Case by allowing key strengths and weaknesses to be identified and addressed. This scenario reflected a long-term outcome that, while sustainable, was not optimal. A deterioration of liquidity from current levels was forecast, driven by impeded financial performance and growth in creditors. These are key issues that the Base Case aims to address. These key weaknesses are addressed through the modelling of an opex cut of 2.5%, aimed at mitigating the impact of the conservative budget, as well as the reduction of creditors days which aims to maintain creditors at a consistent level throughout the planning period. These assumptions resulted in the desired outcome with improved financial performance and creditor management a feature of the Base Case. Other adjustments include an acceleration of capital investment and borrowings aimed at enabling investment in infrastructure to stimulate economic growth, whilst maintaining adequate liquidity throughout the planning period. The key assumptions are provided below:

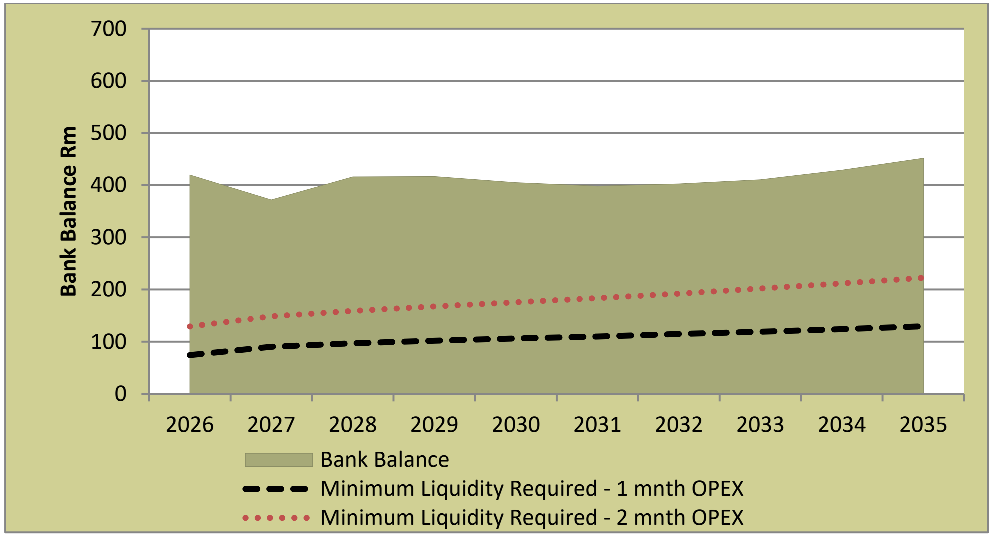
1. A collection rate of 98% is assumed to be maintained throughout the planning period. The collection rate for fines was set at 22%, in line with the budgeted figure.
2. Operating expenditure was cut by 2.5%.
3. The Tabled Capital Budget was adjusted as follows:
    - FY2026/27: R175.3m (Budget: R175.3m)
    - FY2027/28: **R170.0m** (Budget: R140.8m)
    - FY2028/29: **R165.0m** (Budget: R172.4m)
4. Growth in capex beyond the MTREF period of 6% p.a. was modelled.
5. The Tabled Budget borrowing programme was adjusted as follows:
    - FY2026/27: **R30.0m** (Budget: R20.0m)
    - FY2027/28: R70.0m (Budget: R70.0m)
    - FY2028/29: **R42.5m** (Budget: R34.6m)
6. The borrowing in this scenario consists of 10-year amortising loans at an interest rate of 5% above forecast CPI. Growth in borrowings beyond the MTREF period of 6% p.a. was modelled.
7. Repairs and maintenance expenditure was maintained at 8.0% of PPE & IP throughout the planning period.
8. Electricity and water distribution losses were maintained at 9.64% and 18.00% respectively.
9. Creditors days were reduced to 40 days from 72 days over the planning period.
10. Tariff increases were included as put forward in the Tabled Budget Document.

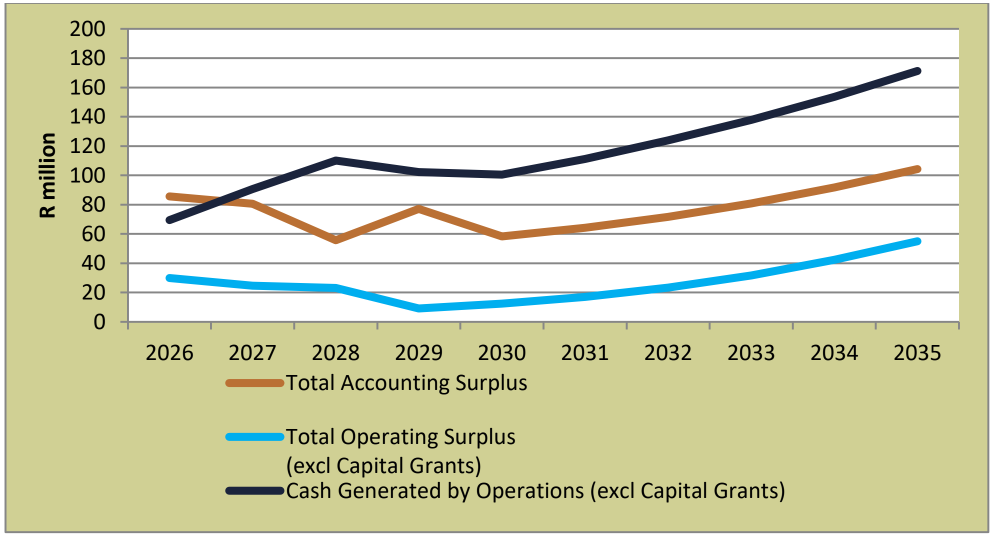
LONG-TERM FINANCIAL MODEL OUTCOMES

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

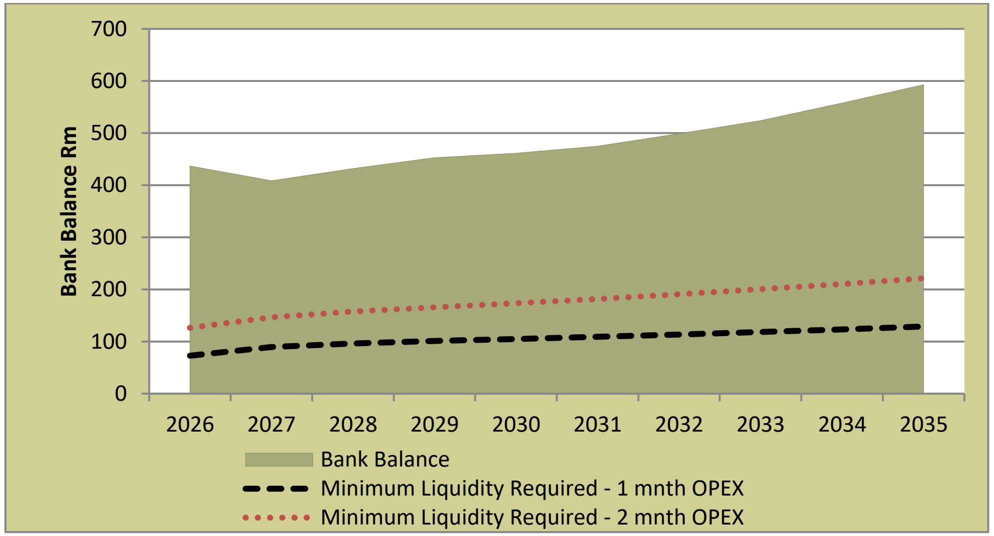
Outcome	MTREF Case	Base Case
Average annual % increase in Revenue	4,9%	4,9%
Average annual % increase in Expenditure	6,6%	6,6%
Accounting Surplus accumulated during Planning Period (Rm)	R 770	R 912
Operating Surplus accumulated during Planning Period (Rm)	R 269	R 411
Cash generated by Operations during Planning Period (Rm)	R 1 171	R 1 260
Average annual increase in Gross Consumer Debtors	9,7%	9,7%
Capital investment programme during Planning Period (Rm)	R 1 754	R 1 764
External Loan Financing during Planning Period (Rm)	R 413	R 507
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 452	R 593
No of Months Cash Cover at the end of the Planning Period (Rm)	4,9	6,4
Liquidity Ratio at the end of the Planning Period	2,4 : 1	3,8 : 1
Gearing at the end of the Planning Period	15,0%	19,3%
Debt Service to Total Expense Ratio at the end of the Planning Period	4,7%	5,8%

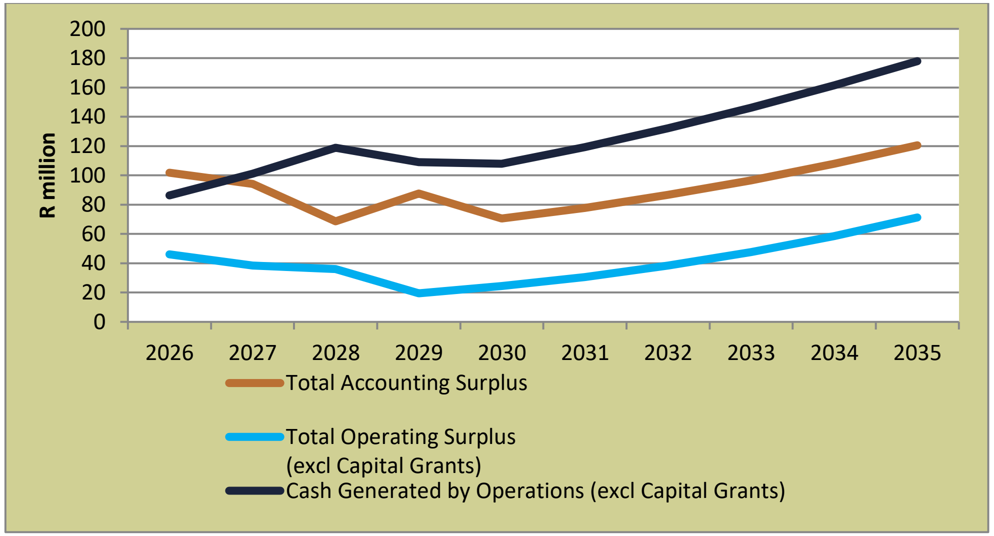
MTREF CASE SCENARIO





BASE CASE SCENARIO





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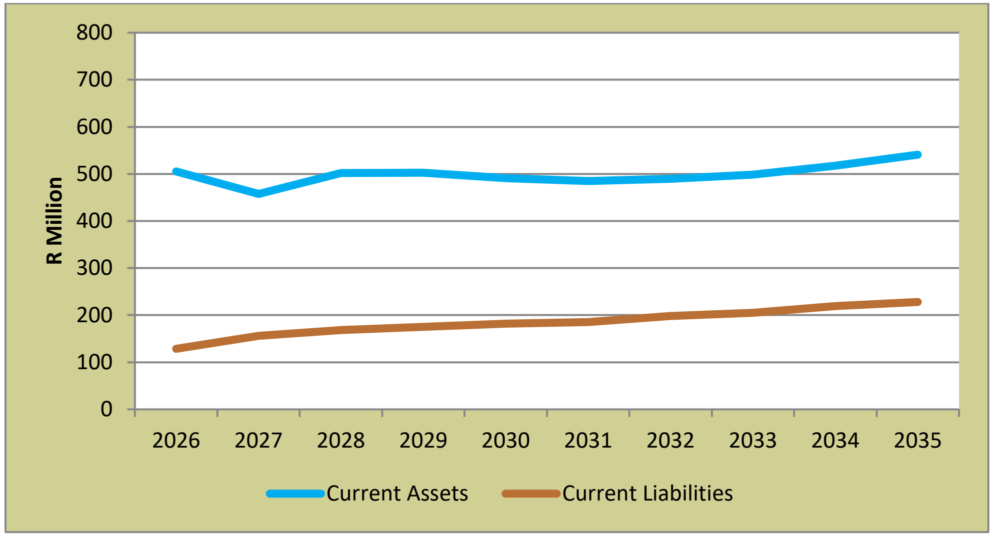
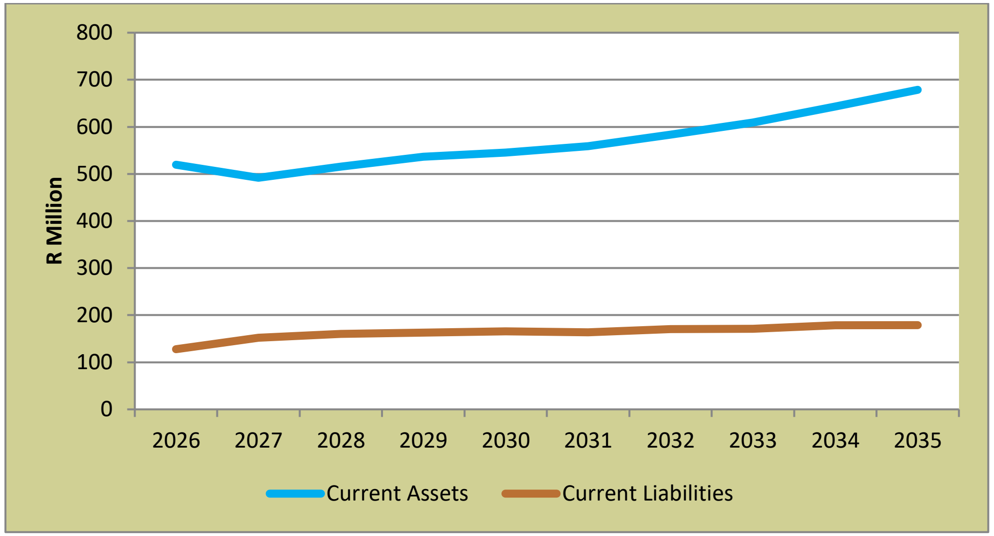
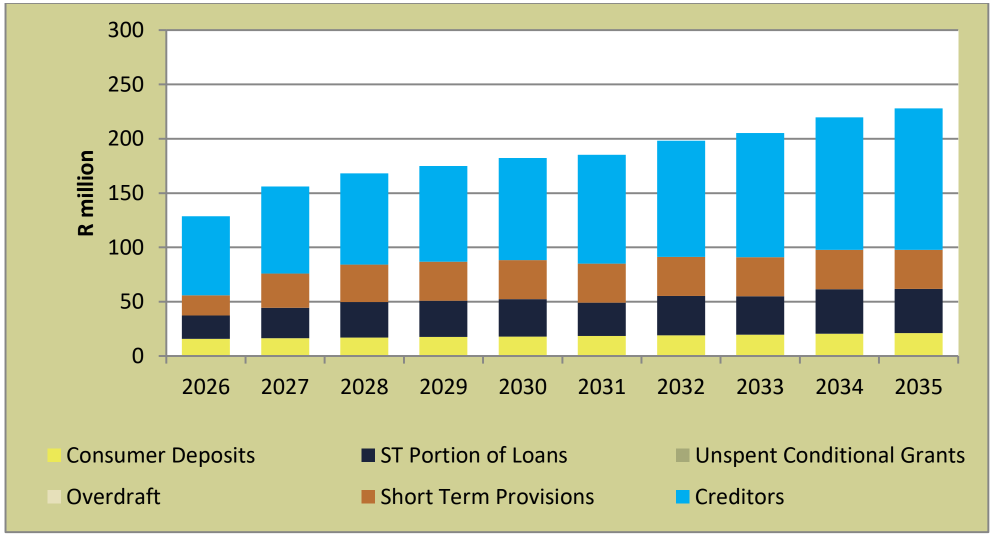
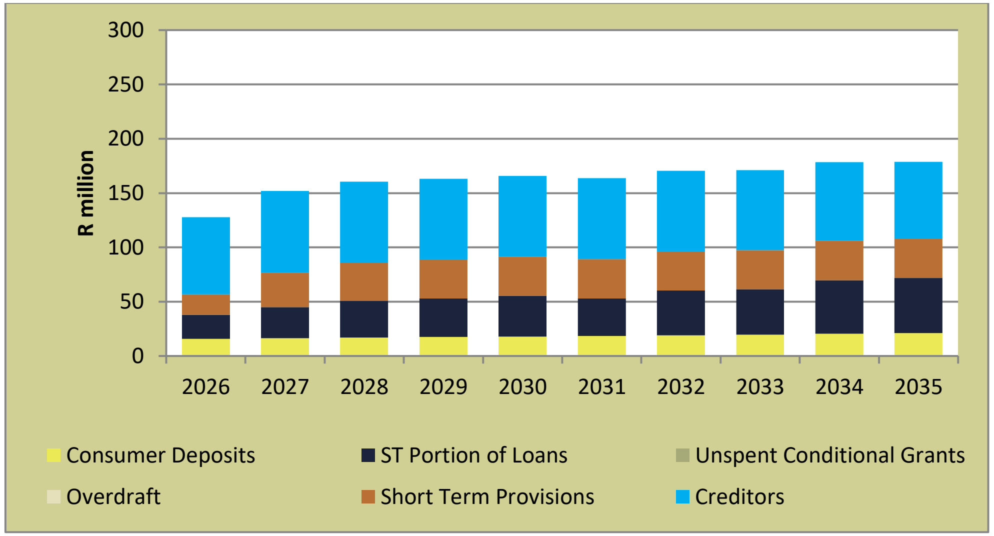


BASE CASE SCENARIO







Capex Affordability & Funding Mix

Base Case 10-Year Capital Funding Mix

Source	Rm	%
Public & Developers' Contributions	1	0 %
Capital Grants	501	28 %
Financing	507	29 %
Cash Reserves and Funds	756	43 %
Cash Shortfall	0	0 %
Capital Expenditure	**1 764**	**100 %**

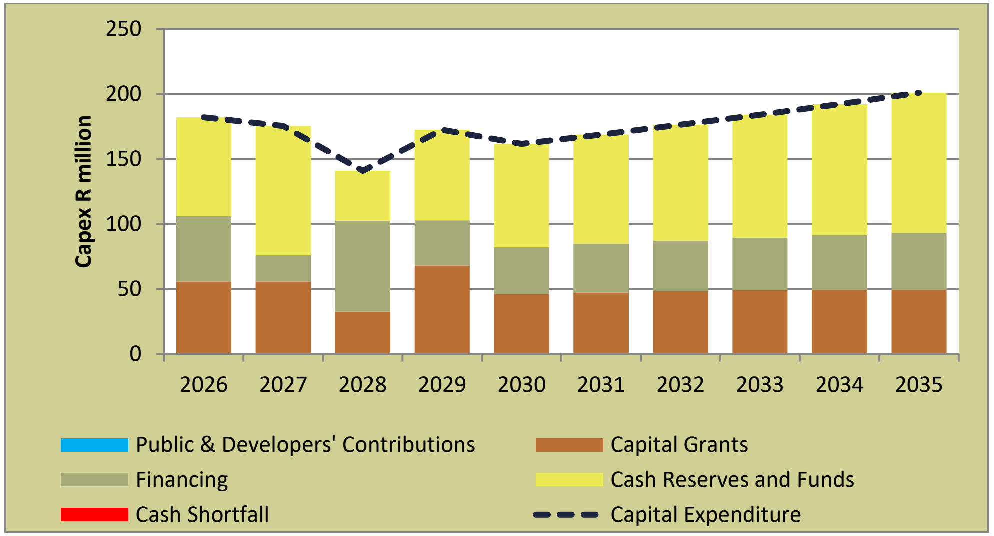
Base Case Distribution of Future Capital Funding (R'm)

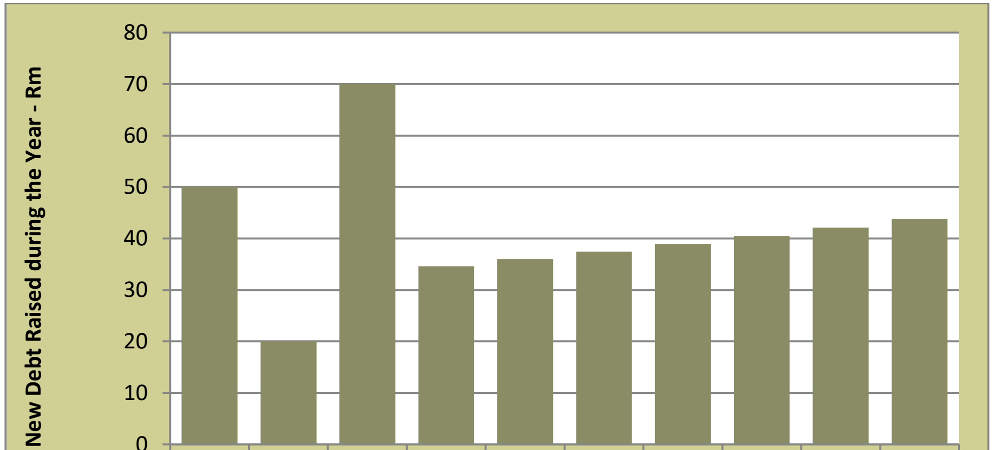
R'm	Total	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Public & Developers' Contributions	**1**	1	0	0	0	0	0	0	0	0	0
Capital Grants	**501**	55	56	32	68	46	47	48	49	49	49
Financing	**507**	50	30	70	43	45	48	51	54	57	60
Cash Reserves and Funds	**756**	76	90	68	54	64	69	74	80	87	94
Cash Shortfall	**0**	0	0	0	0	0	0	0	0	0	0
Capital Expenditure	**1 764**	182	175	170	165	155	164	173	183	193	204

Key Takeaways

- The affordable capital envelope for the 10-year planning period was calculated at **R1 764 million.**
- This is primarily funded through own cash utilisation (43%), with affordable borrowings (29%) included to supplement capital grant funding (28%).
- The healthy liquidity position is leveraged to accelerate capital investment in an affordable and sustainable manner.

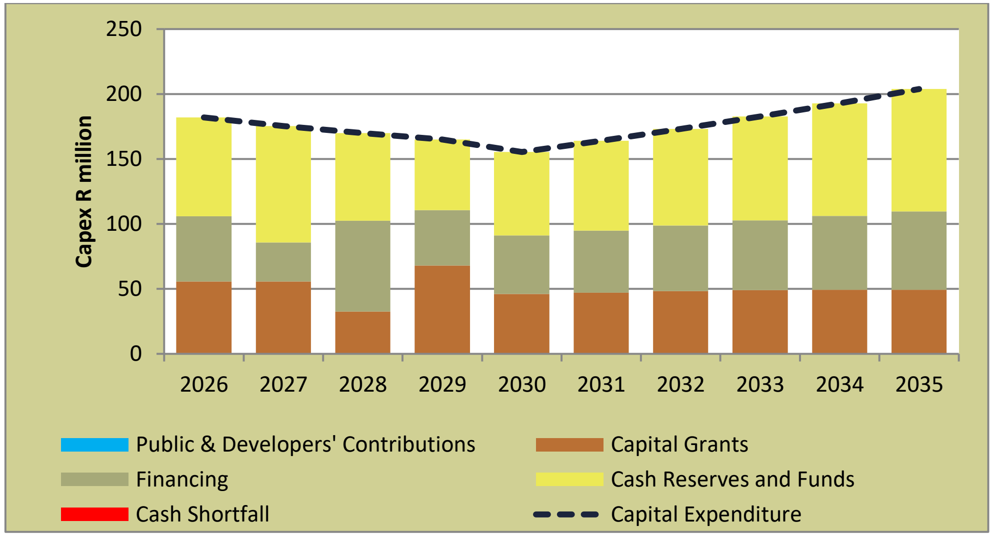
MTREF Case Scenario

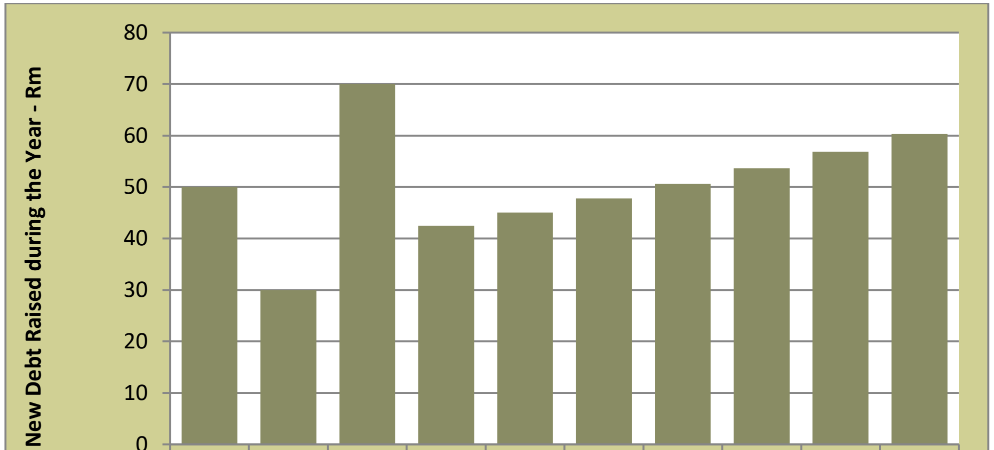




	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
R million	50	20	70	35	36	37	39	40	42	44

Base Case Scenario





	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
R million	50	30	70	43	45	48	51	54	57	60

Recommendations

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

1. Maintains the collection rate at 98% over the planning period – this is crucial in ensuring that sufficient operational cash flows are realised to fund operations as well as the capital investment programme.

2. Implements an operating expenditure cut of at least 2.5% - this is aimed at ensuring more realistic financial performance given the conservative budget. As such, it is likely that the improvement in financial performance that the 2.5% opex cut would bring will be met with ease, provided the operating budget is outperformed as expected.

3. Accelerate capital investment in FY2027/28 – this will allow capital investment to remain at elevated levels over the MTREF period thus enabling the required investment in infrastructure to occur. Capital projects that are geared towards revenue generating, infrastructure related projects must be prioritised to create an enabling environment for economic growth.

4. Avoid material increases in trade payables – this is aimed at curbing growth in current liabilities, specifically creditors, to ensure a continual strengthening of the liquidity position. The borrowing programme will naturally result in growth in current liabilities due to the short-term portion of loans increasing, however, this remains a more productive means of growth in current liabilities as it feeds directly into capital projects that may result in long-term revenue growth for the municipality.

5. Maintain repairs and maintenance expenditure at a minimum of 8% of PPE & IP – this must be coupled with ensuring that a proactive approach to asset management is undertaken, thus avoiding expensive repair and potential replacement costs.

6. Formalise a capital investment prioritisation and tracking system to optimise management's capital investment decisions and mitigate the risk of underspending on capital projects. The affordable envelope presented in this report reflects the available capacity for affordable capital investment. This should inform the capital prioritisation programme, which will form part of the Capital Expenditure Framework.

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

8. Update the long-term financial plan at least annually with the most recent information to remain a relevant and valuable strategic tool that serves as input to the annual budgeting process. The utilisation of IPM's Long-Term Financial Model as institutionalised within Hessequa must form part of the budgeting and decision-making process within the municipality. This underpins the model of evidence-based decision making, thus providing comfort to stakeholders that a scientific and considered approach has been taken towards the financial decision making within the municipality.

DEMOGRAPHIC, ECONOMIC AND HOUSEHOLD INFRASTRUCTURE

- Despite being the largest municipality in the district in terms of geographical size, Hessequa LM has the second lowest total population, growing at a 5-year average rate of 1.2% p.a. A majority (57%) of the population fall within the ages of 24-64 years.

- The municipality has the second lowest household formation in the district at 13%, which assisted them in maintaining a high infrastructure index above 0.90 over the review period. Hessequa achieved an index of 0.93 in 2023, outperforming the district (0.90); provincial (0.89) and national (0.77) indices.

- Refuse removal remain the lagging service, with a backlog of 16.2%. This is likely predominantly confined to rural areas where the municipality does not provide this service. Approximately 95.2% of the population has access to above RDP level infrastructure.

- Hessequa LM has the highest per household income in the district of R 282 314. The municipality is expected to generate sufficient income from its population.

- The official unemployment rate declined to 8.58% in 2024 (10.6% in 2023), making it the lowest in the district. Finance (22%) and trade (21%) remained the predominant providers of employment in Hessequa in 2024.

- The economy has exhibited sluggish growth over the review period, with an annual average of 0.4% over the last 5 years. This is exceeded by the annual average population growth rate of 1.2% over the same period.

- The economy is diversified, as indicated by the tress index of 37.27. The four main sectors are: Community Services (21.4%), Trade (16.9%), Finance (16.1%) and agriculture (16.4 which contributed a combined total of 70.9% towards total GVA in 2024.

- Tourism spends contributed approximately 13.83% towards the total economic output of Hessequa in 2023. The tourism sector was negatively impacted by the Covid-19 pandemic. Tourism spends increased from R407.501 million in 2020 to R515.696 million in 2024. This indicates that the tourism sector has fully recovered post-pandemic.

1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long-Term Financial Model Outcomes

5 Future Revenues

6 Affordable Future Capital Investment

7 Scenario Analysis

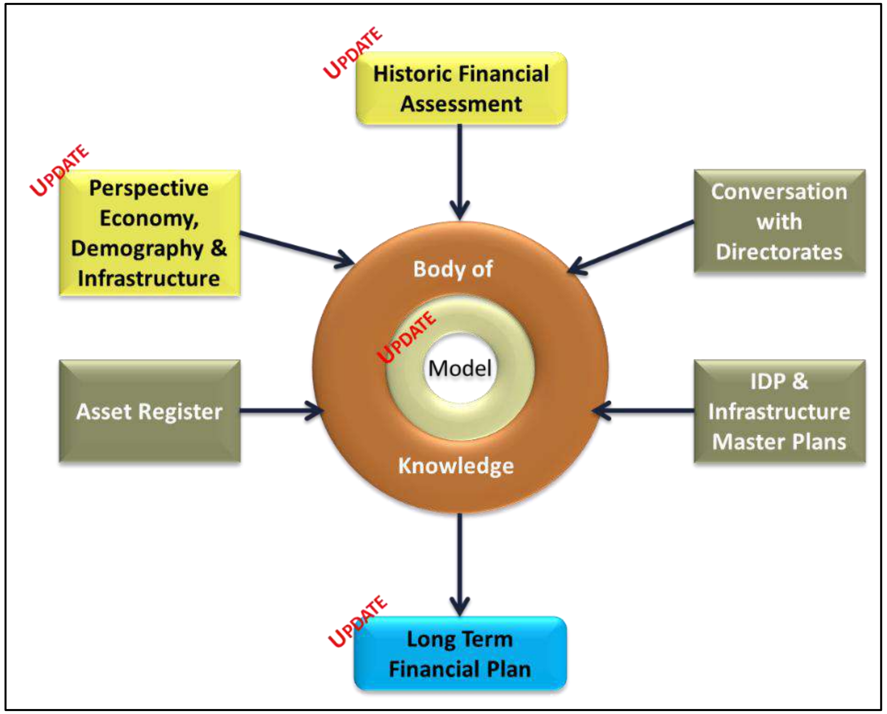
8 Ratio Analysis

9 Conclusions

Planning Process

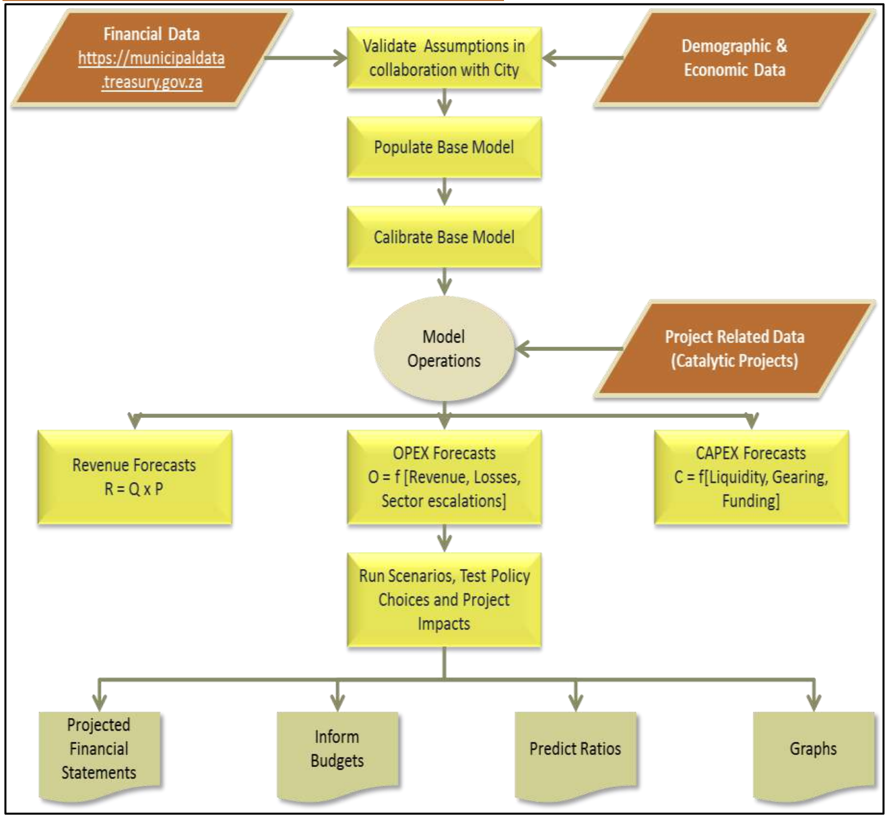
The diagram below illustrates the steps in the process that were followed in drafting the LTFP and the steps taken during this 2026 “LTFP Update”:

Figure 1: Planning Process



The long-term financial model was populated with the latest information of Hessequa 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)

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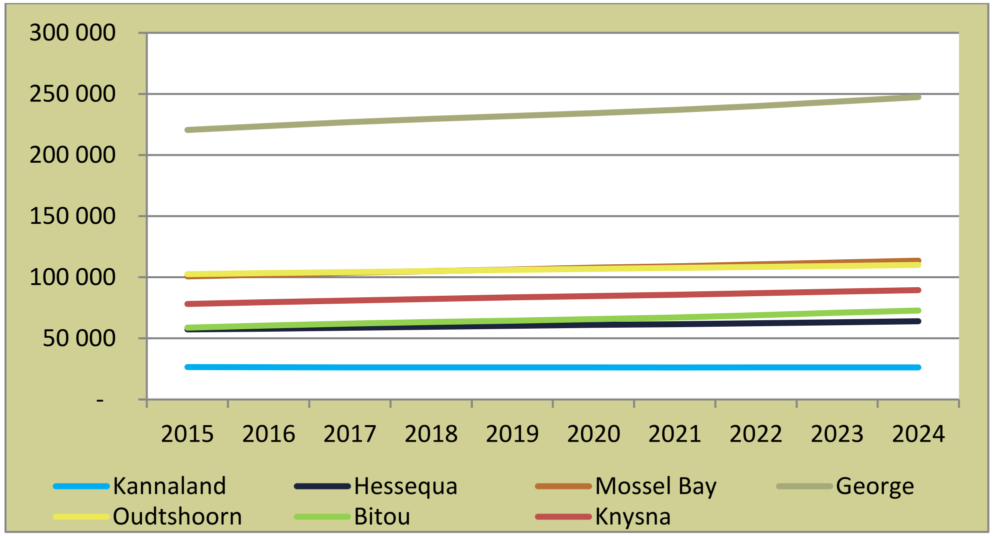
UPDATED PERSPECTIVES (DEMOGRAPHIC, ECONOMIC, HOUSEHOLD INFRASTRUCTURE)

DEMOGRAPHY

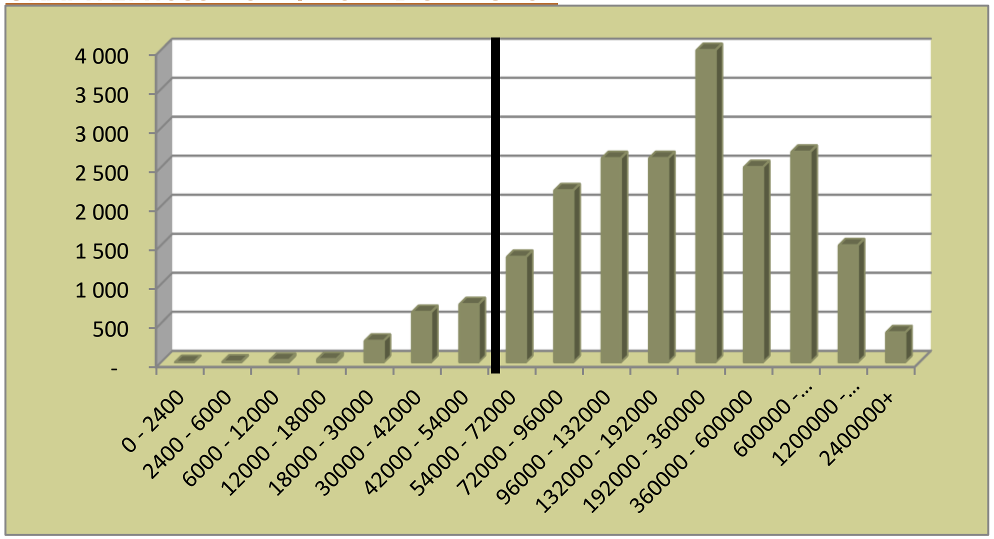
Hessequa LM has a total population of 64 009 people in 2024, contributing 9% towards the Garden Route District's total population. Despite being the largest municipality in the district in terms of geographical size, the municipality has the second smallest population, growing at a 5-year average rate of 1.2% p.a., falling below the district (1.44%), provincial (1.39%) and national (1.35%) population growth rates. Resultantly, the municipality has a low population density of approximately 11 people per km². Hessequa LM is thus expected to cope with the growing demand for services.

GRAPH 1: TOTAL POPULATION



The Western Cape Province experienced increasing population growth rates in recent years, averaging 1.4% p.a. over the past 5 years and only exceeded by the Gauteng Province (1.9%). This is an indication of the influx of people who sought for better living conditions as well as working/academic opportunities in the province. The Garden Route District is one of the Western Cape areas that is popular for high service delivery and thus falls part of the popular destinations for "semigrants". Hessequa LM, as one of the municipalities in the district, may experience higher population growth rates should the "semigration" trend continue, although the municipality is experiencing relatively low population growth relative to other municipalities in the district.

GRAPH 2: HOUSEHOLD INCOME DISTRIBUTION

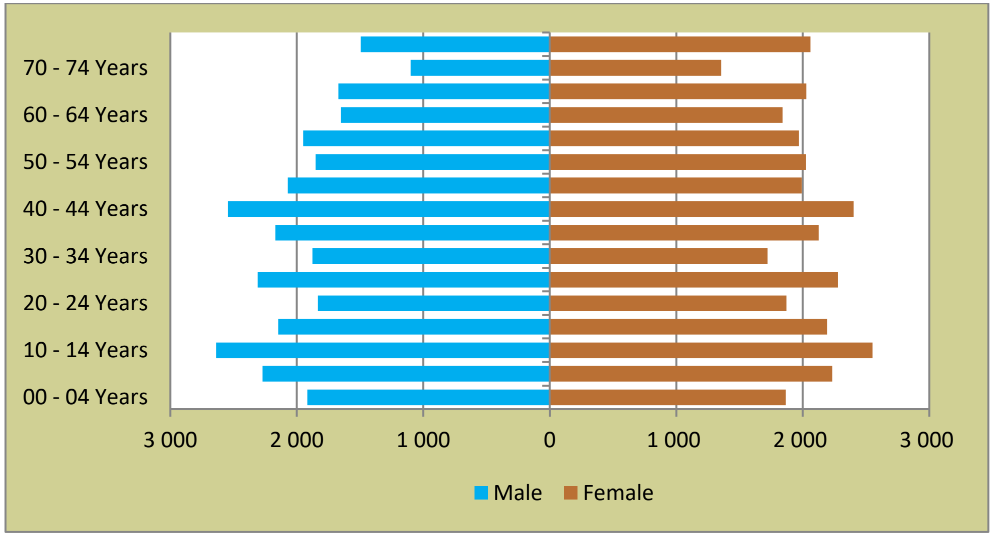


GRAPH 2 above illustrates a comparison of the household income distribution of Hessequa LM. Approximately 100.05% of the households in the municipality earn an income above the Equitable share bracket of R54 000 p.a. This is relatively higher than that of the Garden Route District (97.23%). Theoretically, households earning less than R54 000 p.a. are indicative of the number of indigent households in the municipal area and reflect those who qualify for and/or are largely reliant on government grants as a source of income. Approximately 8.57% of the population is considered indigent and reliant on the municipality for free services. This is well below the Garden Route District figure of 9.6%.

The provision of RDP level of basic services to these households is theoretically covered by the equitable share and this should compensate the municipality for providing free basic services. Hessequa LM has the has the highest income per household and per capita in the Garden Route District at approximately R282 314 p.a. and R 225 256 p.a., respectively.

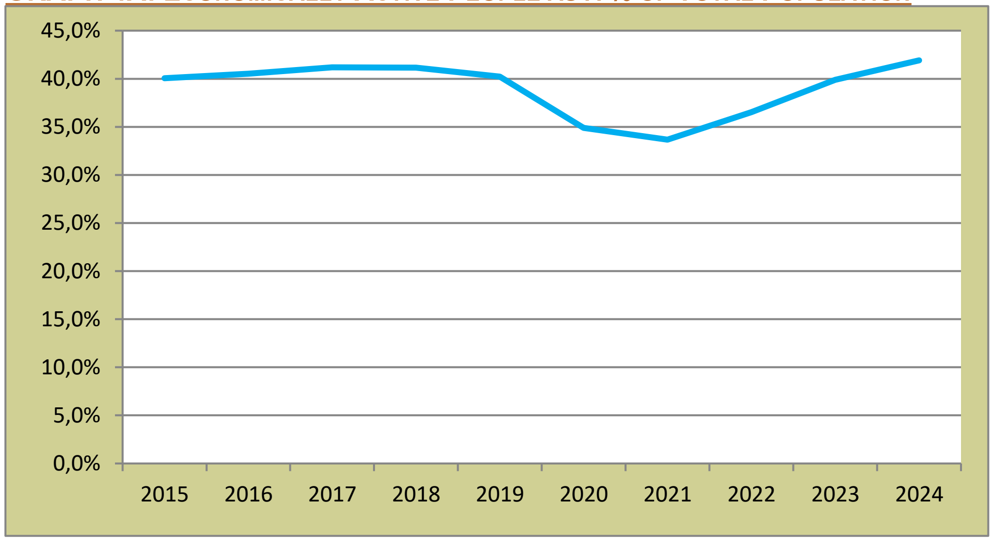
Although these indicators reflect high household affordability for services, the extent to which households can be levied is limited by several factors and should thus be closely monitored. The municipality must be cognisant of the fact that a decline in household income coupled with increases in municipal service costs, will hinder the municipality's future revenue prospects.

GRAPH 3: AGE PROFILE



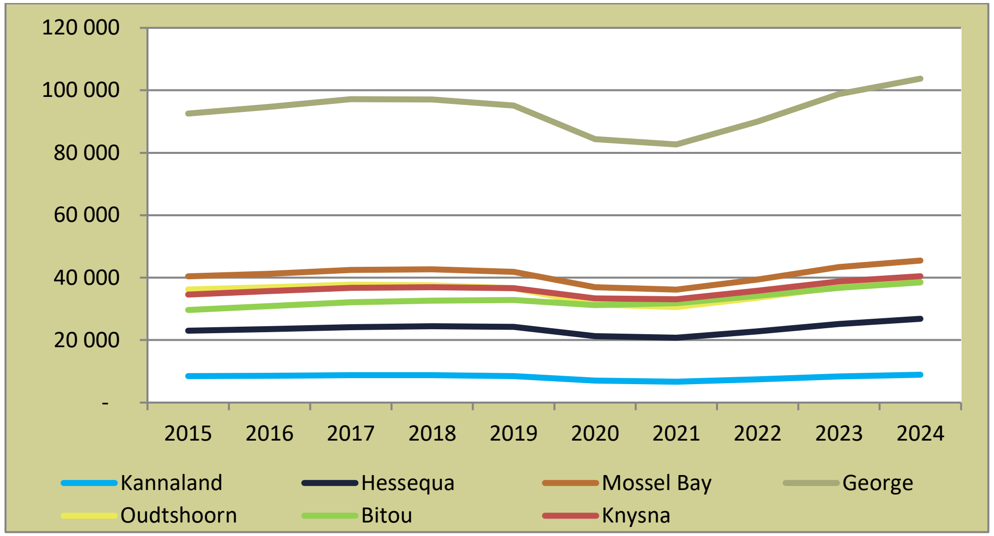
GRAPH 3 illustrates the age profile of Hessequa LM's population. A majority of the municipality's population (57%) falls between the ages of 20 and 64, which can be considered to be of working age. However, only 41.9% of those are considered to be economically active. This indicates that approximately 15% of the working age group may be discouraged and/or not taken active steps in finding employment. A considerable 28% of the total population falls below the age of 24 years. The largest age cohort is between the ages of 10 and 14 years old. A relatively low number of people between the ages of 20 and 24 years may indicate that school leavers are pulled away from the municipality in search of further education or job opportunities. Hessequa LM has the highest proportion of people older than 65 in the district. This would suggest that Hessequa is seen as a popular retirement destination.

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



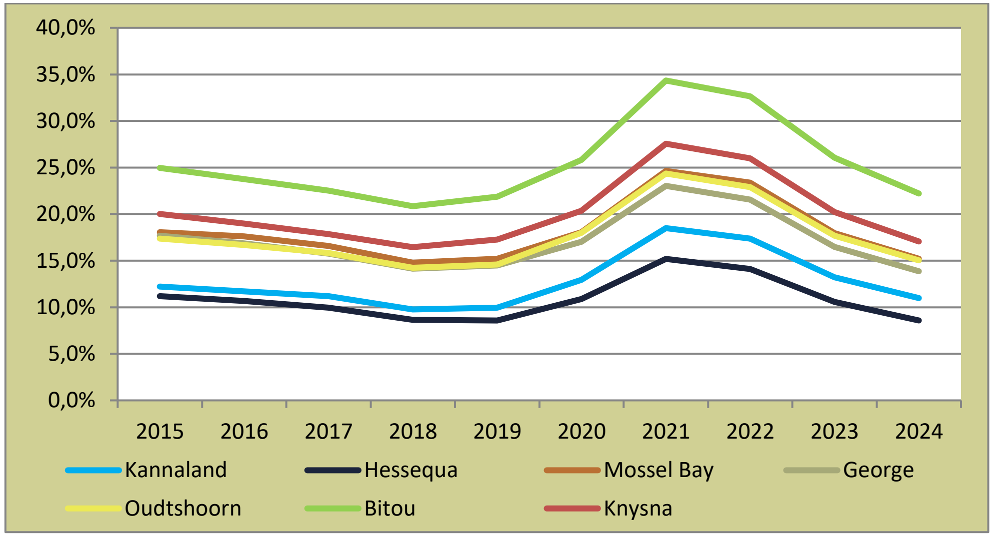
The total number of economically active people considers those who are employed; and people of working age who have been actively seeking employment. The number of economically active people followed an annual declining trend between 2019 and 2021, from 40.2% to 33.7%. Year-on-year growth has since been observed, with this figure rising to 41.9% in 2024.

GRAPH 4B: ECONOMICALLY ACTIVE POPULATION



GRAPH 4B above depicts the trend in the number of economically active people in each of the municipalities within the Garden Route District over the past 10 years. Hessequa has the second lowest proportion of economically active people. This indicates that fewer people are likely to seek employment in Kannaland LM and Hessequa LM than they would in George LM for example, which has the highest proportion of economically active people.

GRAPH 5: OFFICIAL UNEMPLOYMENT RATE



Hessequa LM has the lowest unemployment rate in the district, at 8.58% in 2024, well below the national unemployment rate of 32.6%. The municipality experienced increasing unemployment rates between 2019 and 2021, 15.2% to 14.1% respectfully. This is influenced by the job losses suffered during the Covid-19 pandemic. The unemployment rate has since moderately recovered from 14.1% in 2022 to 8.58% in 2024. A majority of the employment opportunities are created by the Finance (22%), Trade (21%), Community services (19%), and Manufacturing (15%) sectors.

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

ECONOMY

Hessequa's total economic output (GVA) amounted to R5.62 billion (current prices) in 2024. This constitutes 8% of the Garden Route District GVA of R81.13 billion (current prices). Hessequa's economy was severely impacted by the pandemic, with an economic contraction of 4.8% observed in 2020. The GVA growth rate of 4.4% in 2021 was merely a recovery following the contraction suffered during the prior year. The 5-year average GVA growth rate pre-pandemic is approximately 0.9% p.a. The municipality's GVA contracted by -0.5% in 2024, from the growth rate of 0.2% experienced in 2023. The average GVA growth for the 5-year period 2020-2024 stands at 0.4%. The average population growth rate over the same period stands at 1.2% p.a. This indicates that the population is growing at a relatively faster rate than the economy, which effectively results in an impoverishment of the local population.

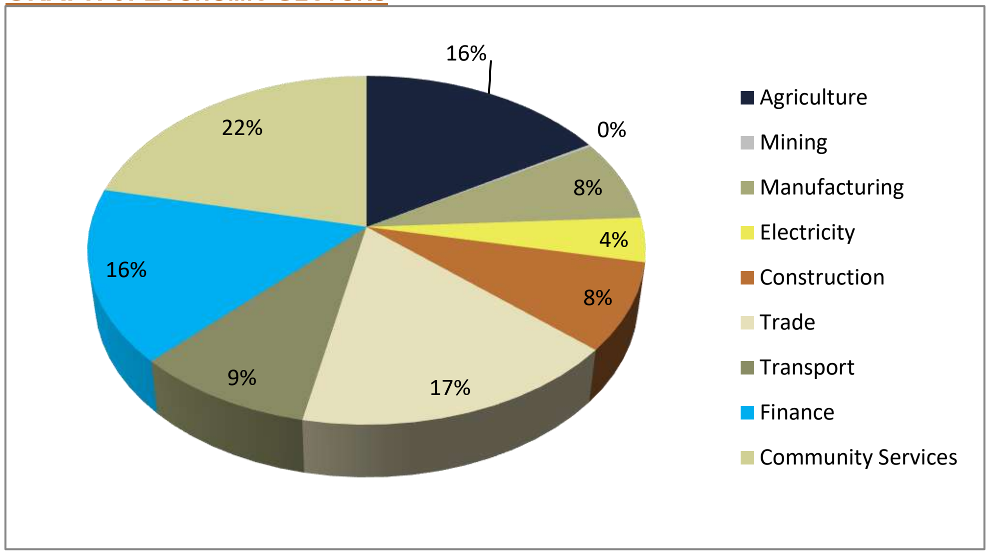
Hessequa's local economy is well diversified as evidenced by the Tress Index of 37.27. This has increased from 36.25 in 2023 but remains the lowest in the district. The Tress Index is a measure of economic diversification, the higher the degree of economic diversification, the lower the degree of economic risk in the event of adverse economic conditions due to the impact being spread over a greater number of sectors. Typical of a developing economy, Hessequa's economy is mainly driven by the tertiary sector. The main sectors being the Finance (22%), Trade (21%); Community Services (19%) and Manufacturing (15%) sectors which contributed a combined total of 77% towards the total economic output of Hessequa in 2024.

The community services sector exhibited the most significant proportional growth over the review period, increasing its proportional contribution by 2.0% between 2015 and 2024, followed by the transport sector which increased its proportional contribution by 1.6% over the same period. The construction sector suffered a contraction of 4.1% over the review period.

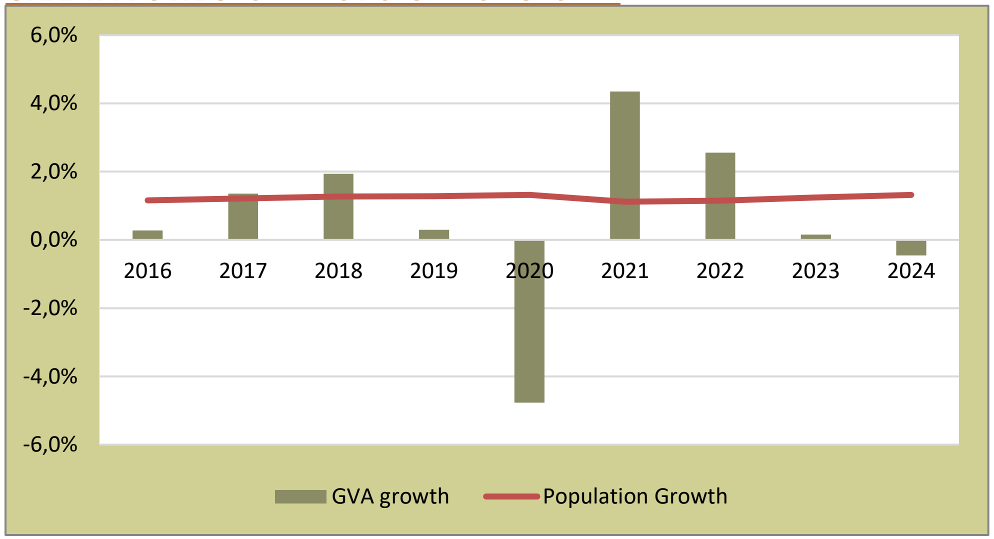
TABLE 1: PROPORTIONAL GROWTH OF ECONOMIC SECTORS

Subsector	2015	2024
Agriculture	15,4%	16,4%
Mining	0,3%	0,2%
Manufacturing	7,4%	7,5%
Electricity	4,3%	4,1%
Construction	12,3%	8,1%
Trade	17,7%	16,9%
Transport	7,6%	9,2%
Finance	15,7%	16,1%
Community Services	19,5%	21,4%

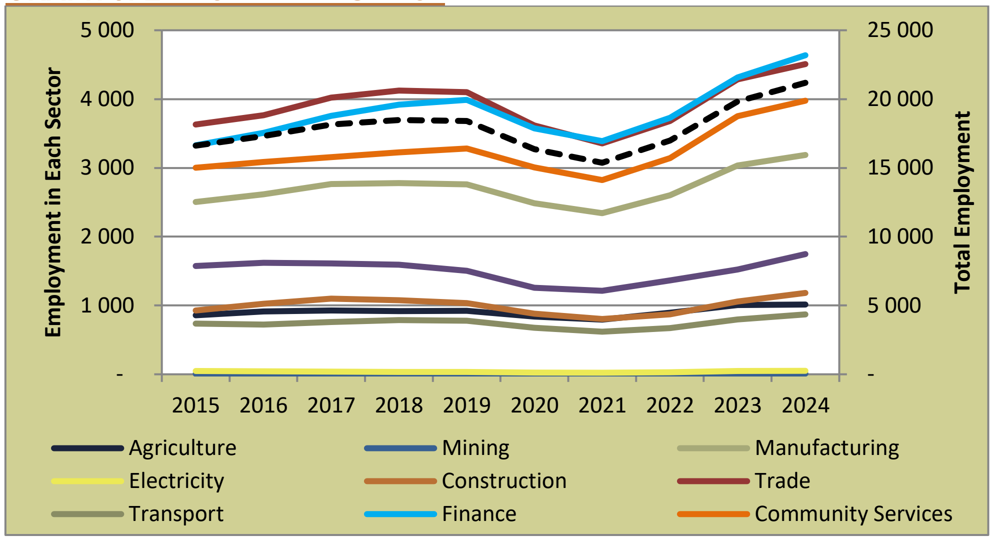
GRAPH 6: ECONOMIC SECTORS



GRAPH 7: GVA GROWTH VS POPULATION GROWTH



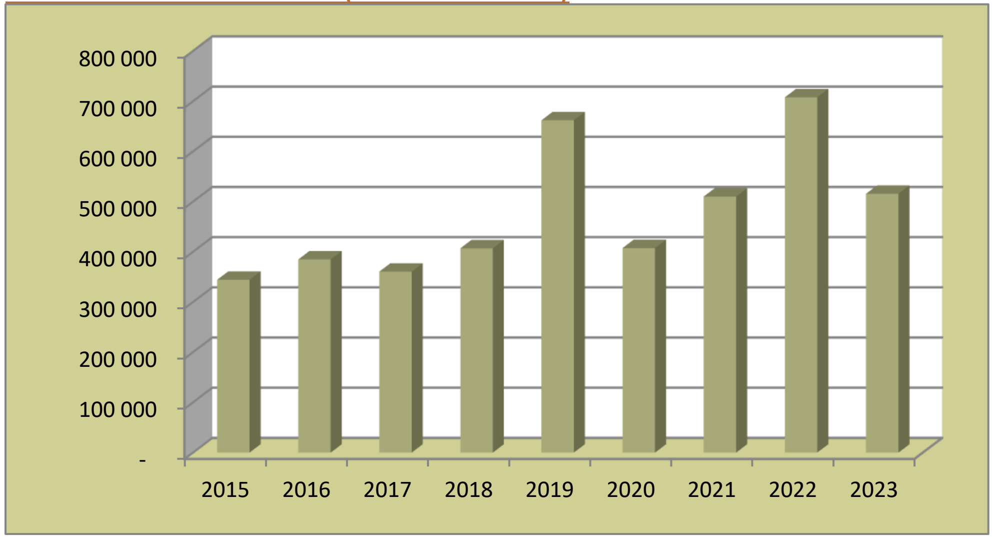
GRAPH 8: EMPLOYMENT BY SECTOR



GRAPH 7 above illustrates a comparison between growth of the economy and population over the review period. It is indicated that population growth has exceeded GVA growth over the review period, with exceptions for 2017, 2018, 2021 and 2022. While GVA growth exceeded population growth in 2021 and 2022, these years were mainly a recovery from the 4.8% economic contraction suffered in 2020. The municipality must continue to invest in productive assets that aim to create an environment for economic growth. The municipality is encouraged to utilise its current position of financial strength to increase capital investment, with priority given to capital projects that aim to stimulate the economy.

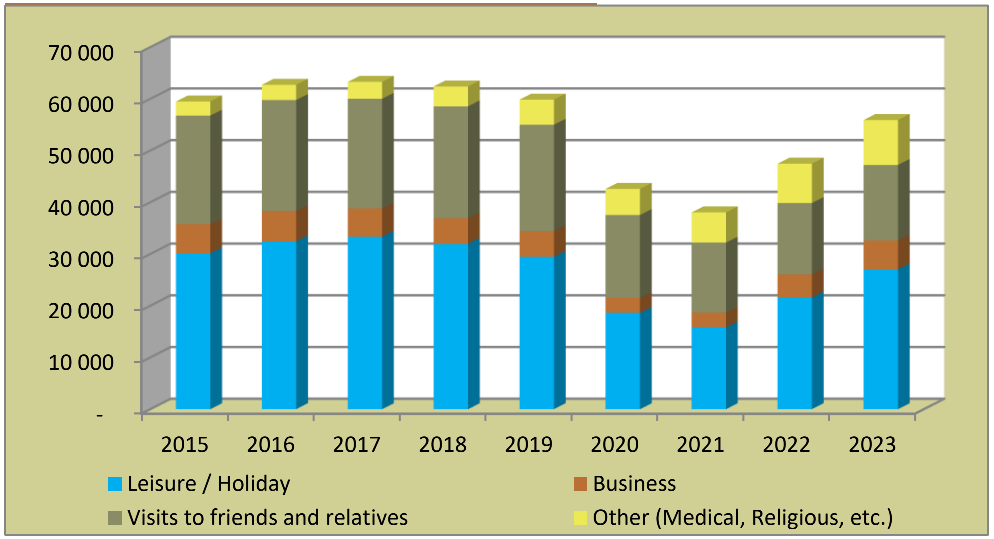
The number of employment opportunities increased by 6.4% or an absolute total of 1 618 in 2024, bringing the total number of formal jobs in Hessequa to 26 829. The Finance and Trade sectors are the predominant providers of employment in Hessequa in 2024, each accounting for 22% and 21% of total jobs. This is followed by Community Services (19%) and Manufacturing (15%).

GRAPH 9: TOURISM SPEND (CURRENT PRICES)



Tourism spend contributed approximately 13.83% towards the total economic output of Hessequa in 2023. The tourism sector was negatively impacted by the Covid-19 pandemic due to the travel restrictions enforced during the period. This is evident in the reduction of tourism spend of 38% in 2020. Tourism spend declined during 2023, falling below pre-pandemic levels. Tourism remains an important role player in the municipality's economy, and it is thus in the municipality's interest to ensure that Hessequa remains an attractive tourist destination. This can be facilitated by the municipality through ensuring adequate service delivery remains the norm, whilst undertaking actions that aim to create an enabling environment for those in the tourism sector to thrive.

GRAPH 10: TOURISM TRIPS BY PURPOSE OF TRIP



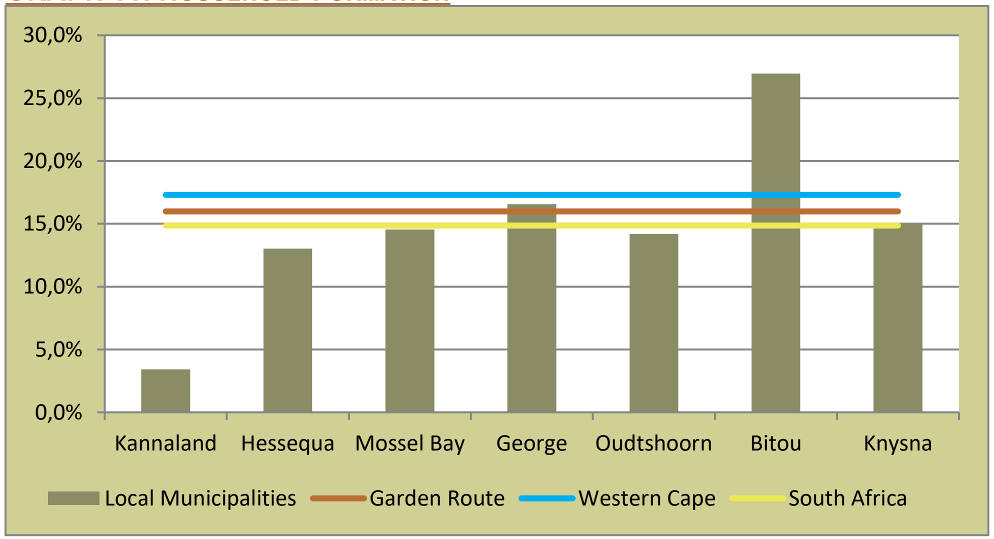
GRAPH 10 depicts the number of trips within the tourism sector in the municipality for 2023 and purpose thereof. The total number of trips significantly reduced by 36% during from 59 854 in 2019 to 38 049 in 2021. The number of trips has since improved to 55 907 in 2023. However, this remains below the average pre-pandemic total of trips of 61 556 p.a. Trips for leisure/holiday purposes remained the predominant purpose of trips into Hessequa. This confirms that Hessequa is a popular tourist destination. Leisure/holiday visits accounted for 48% of trips in 2023. This is followed by trips to visit friends and family that accounted for 26% of trips in 2023.

Household Infrastructure

Hessequa LM's household formation between 2015 and 2024 stands at 13%. This translates to a total increase of 2 287 households in absolute terms, over the 10-year period. This household formation rate is the second lowest within the Garden Route District, surpassing only Kannaland, which experienced a household formation rate of only 3.4% over the previous 10 years.

The increase in the population and the number of households in a municipality will place added pressure on the municipality to meet the additional demand for municipal services. Hessequa is expected to be well-positioned to do so due to its low population and household formation rates.

Graph 11: Household Formation



Hessequa has maintained a high infrastructure index of 0.93 since 2020. The municipality's infrastructure index remained above 0.91 since 2015. The infrastructure index exceeds that of the district (0.90), provincial (0.89) and national (0.77) indices. It must be stated that the infrastructure index provides an indication as to the level of access to municipal services in a municipality and is not an indication as to the quality and security with which these services are provided.

Graph 12: Infrastructure Index

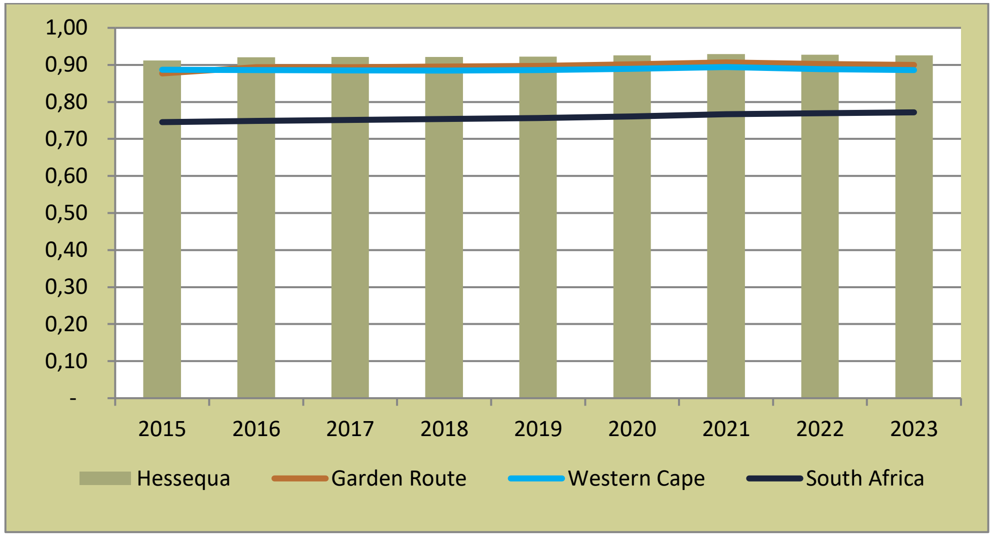


Table 2 below compares the level of backlogs of sanitation, water, electricity and refuse removal services of Hessequa with that of the district. Hessequa must be commended for reducing the level of backlogs in all infrastructure service categories over the review period. It is further noted that the municipality has outperformed the district in the provision of municipal services in each service category except the refuse removal services.

The refuse removal backlog in Hessequa is high at 16.2%. This is likely confined to rural areas where the municipality does not provide this service. It is crucial for Hessequa to continue to ensure that adequate repairs and maintenance is undertaken on critical infrastructure, as well as that capital investment is utilised to assist in the municipality's backlog eradication efforts. Analysis of the level of service provided by the municipality reveals that 95.2% of households receive a level of service above the RDP level, exceeded by the Garden Route District figure of 96.4%.

TABLE 2: HOUSEHOLD INFRASTRUCTURE PROVISION

Infrastructure	Garden Route		Hessequa	
Above RDP Level				
Sanitation	210 816	97,4%	19 619	98,9%
Water	214 446	99,1%	19 661	99,1%
Electricity	210 719	97,4%	19 638	99,0%
Refuse Removal	199 012	91,9%	16 617	83,8%
Below RDP or None				
Sanitation	5 625	2,6%	222	1,1%
Water	1 994	0,9%	181	0,9%
Electricity	5 722	2,6%	203	1,0%
Refuse Removal	17 429	8,1%	3 224	16,2%
Total Number of Households	**216 441**	**100,0%**	**19 842**	**100,0%**

1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long-Term Financial Model Outcomes

5 Future Revenues

6 Affordable Future Capital Investment

7 Scenario Analysis

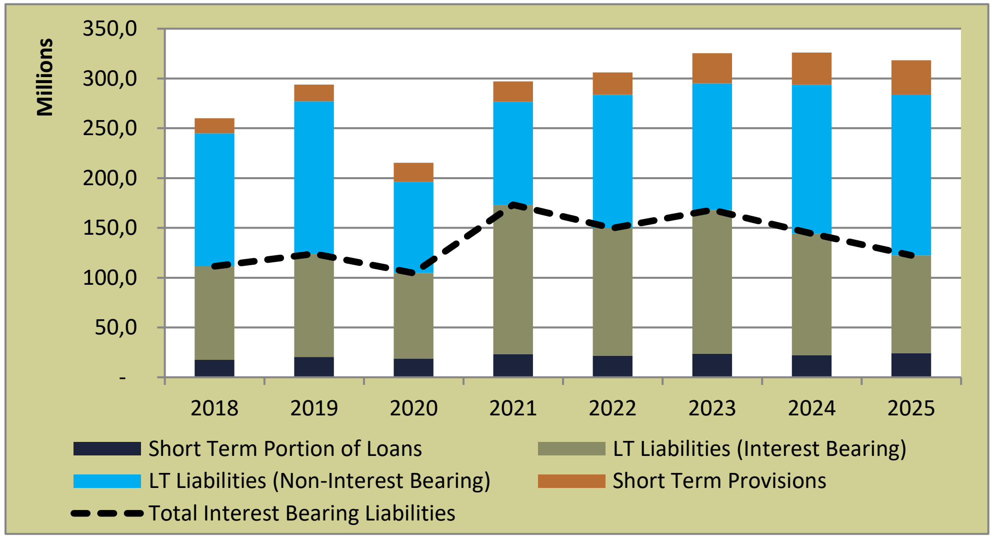
8 Ratio Analysis

9 Conclusions

UPDATED HISTORIC FINANCIAL ASSESSMENT

FINANCIAL POSITION

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

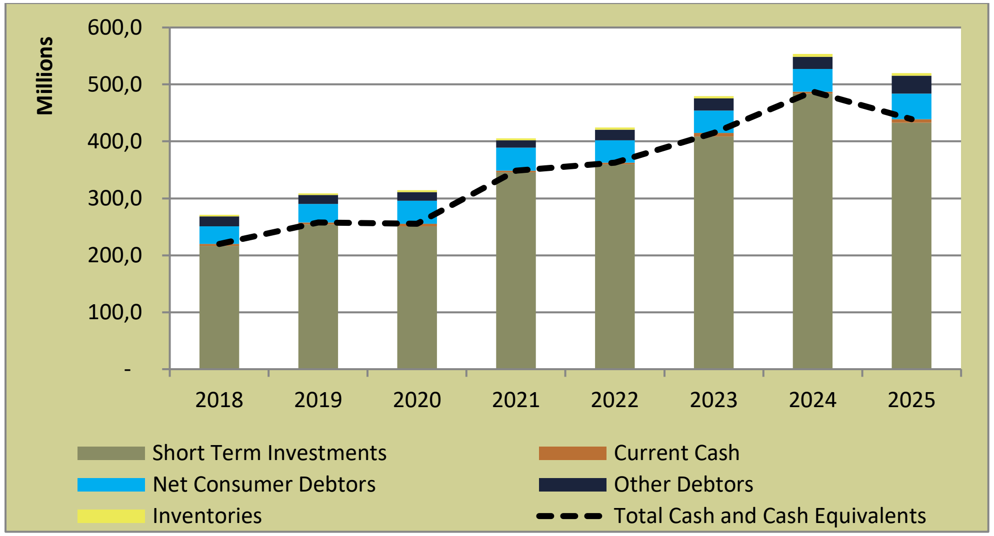


The consistent trend of growth observed in Hessequa's net fixed assets position continued during FY2024/25, with net fixed assets increasing by 16.9% to R1.45 billion as at FYE2024/25. The accumulated surplus followed suit, with growth of 18.3% observed during the year. This was driven by the maintenance of sound financial performance and a continued ability to generate surpluses.

Total interest-bearing liabilities declined during the year, owing to no additional borrowings being undertaken. A reduction of 15.2% was noted, with total interest-bearing liabilities amounting to R122.5 million as at FYE2024/25. Non-interest-bearing liabilities on the other hand, increased by 8.28% to R161.4 million during the year. This is a product of increases in the provision for the decommissioning, restoration and similar liabilities related to landfill sites. This provision increased by R7.77 million during the year to total R95.71 million. The Slangrivier (R7.3 million), Gouritsmond (R9.9 million) & Witsand (R8.0 million) landfill sites are all due for rehabilitation within the next 5 years. The extent of the provision at this point in time would suggest that the municipality is well prepared for the expected economic outflow associated with the rehabilitation of these landfill sites. While adequate time remains to provide for the rehabilitation of the other landfill sites with longer remaining useful lives, the municipality must continue to prudently manage this provision.

The lack of borrowing undertaken during the year resulted in a deleveraging of the debt profile. This is evidenced by the reduced gearing ratio of 15.9%, down from 19.9% at the prior year end. The debt service to total expense ratio decreased marginally to 5.2%, down from 6.0% at the prior year end. The municipality remains in an adequately leveraged position. Scrutiny of the 2025/26 Adjustment Budget indicates that borrowings are expected to be undertaken throughout the MTREF period. The municipality will likely be able to undertake this additional leverage whilst remaining within IPM's maximum recommended limits of 30% for gearing and 7% for the debt service to total expense ratio. This likelihood is increased as interest rates are expected to be cut consistently over the next few years, should inflationary pressures remain under control. Over the longer term, however, should these borrowings be undertaken as planned, a cautious approach may be required beyond the MTREF period. This will be explored later in the report.

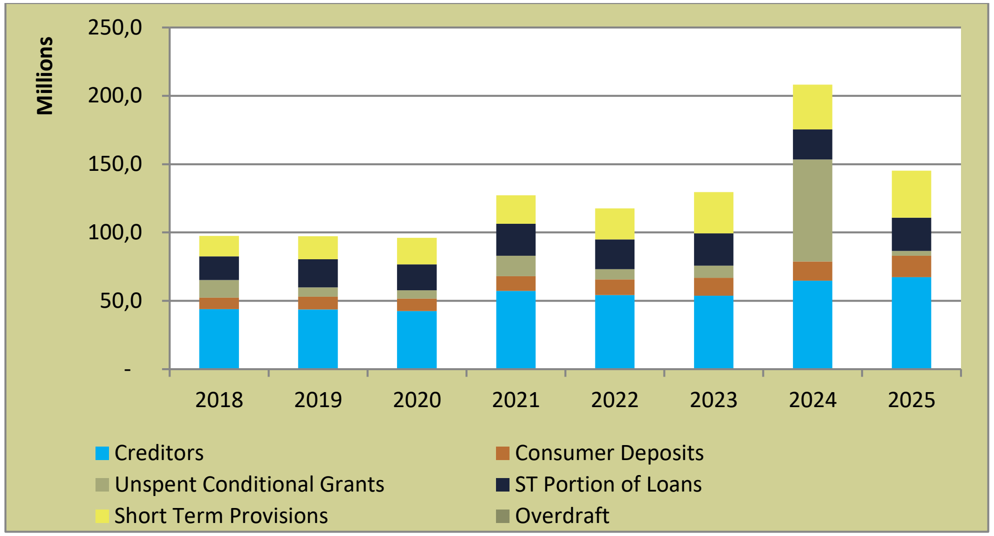
GRAPH 14: CURRENT ASSETS



Current assets have grown consistently over the review period. They did, however, decrease by 7.7% during FY2024/25. The main driver of this decrease was cash and cash equivalents, which decreased by R48.6 million during the year to total R439.0 million as at FYE2024/25.

Current liabilities decreased by a comparatively higher 30.2% during the year to total R145.3 million. The municipality had a total of R3.6 million in unspent conditional grants during the year, a marked reduction from R74.8 million at the prior year end. There was an increase in payables from exchange transactions of R2.5 million during the year, with this balance increasing to R67.3 million as at FYE2024/25. This highlights the municipality's ongoing commitment to employing sound working capital management practices.

GRAPH 15: CURRENT LIABILITIES



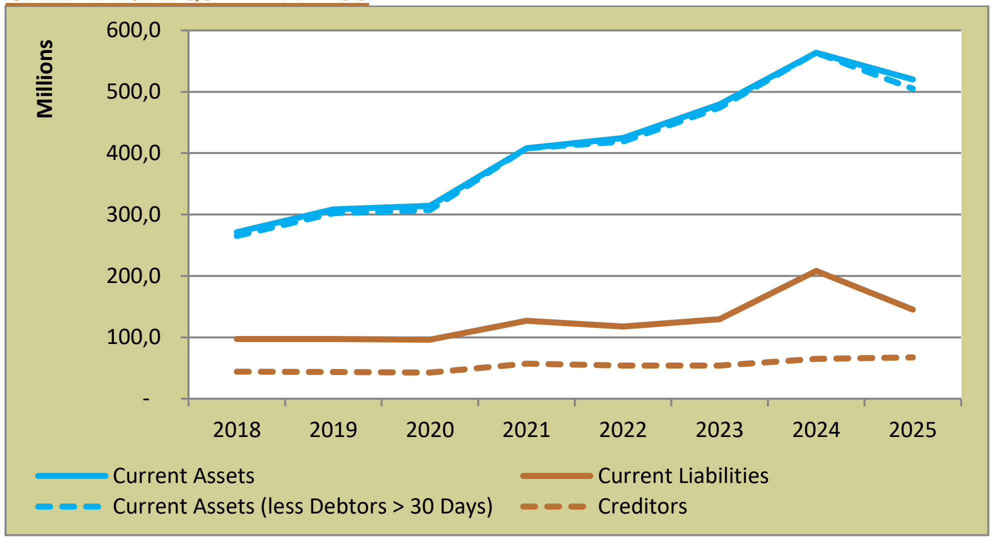
The combined movement in current assets and current liabilities resulted in an improvement in liquidity ratio to 3.58:1, up from 2.71:1 in the prior year. The prior year's liquidity ratio was negatively impacted by the presence of substantial unspent conditional grants. Upon the removal of the impact of this, the liquidity ratio stood at 3.33 at FYE2023/24. Thus, the municipality has clearly strengthened the liquidity ratio during FY2024/25.

Should debtors older than 30 days be excluded from the calculation (i.e., the quick ratio), the ratio reduces to only 3.48:1. A low liquidity ratio (<1:1) would indicate the municipality's inability to pay its current or short-term obligations and a deterioration of the liquidity ratio should therefore be avoided.

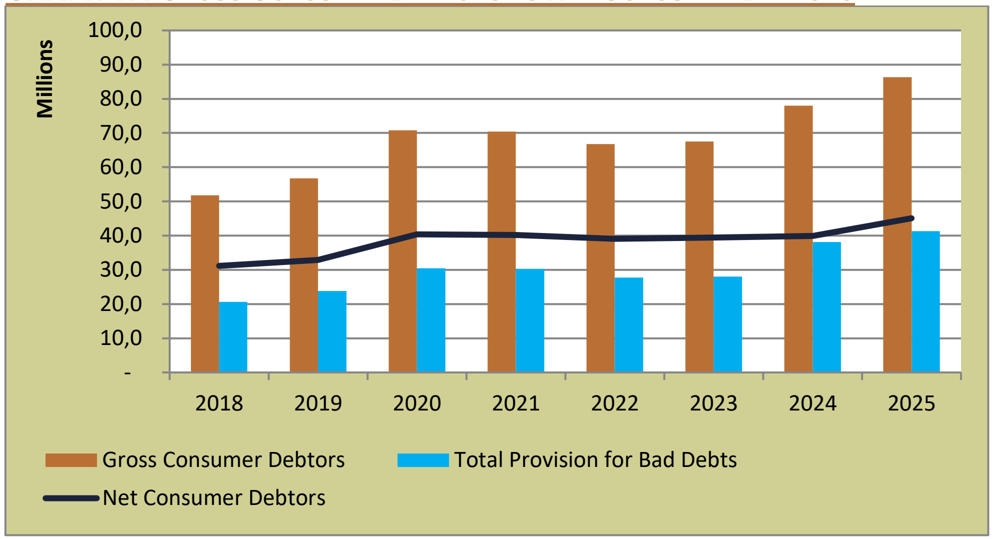
TABLE 3: LIQUIDITY RATIOS

	2018	2019	2020	2021	2022	2023	2024	2025
Current Assets: Current Liabilities	2,78	3,17	3,27	3,21	3,61	3,70	2,71	3,58
Current Assets (less Debtors > 30 Days): Current Liabilities	2,72	3,11	3,20	3,21	3,56	3,66	2,71	3,48

GRAPH 16: LIQUIDITY RATIOS



GRAPH 17: GROSS CONSUMER DEBTORS VS NET CONSUMER DEBTORS



Gross consumer debtors increased by approximately R8.38 million (10.8%) during the year to total R86.4 million. The provision for bad debts increased by R3.18 million (8.4%) during the year. The increase in the provision for bad debts resulted in a marginal increase of R5.20 million in net consumer debtors during the year.

The collection rate increased to 98.2% from 96.6% in the prior year. Our calculation methodology mirrors that of Circular 71. The municipality has maintained a healthy collection rate throughout the review period, thus maintaining its ability to generate cash from operations and underpinning the sound financial position. This is positive to note.

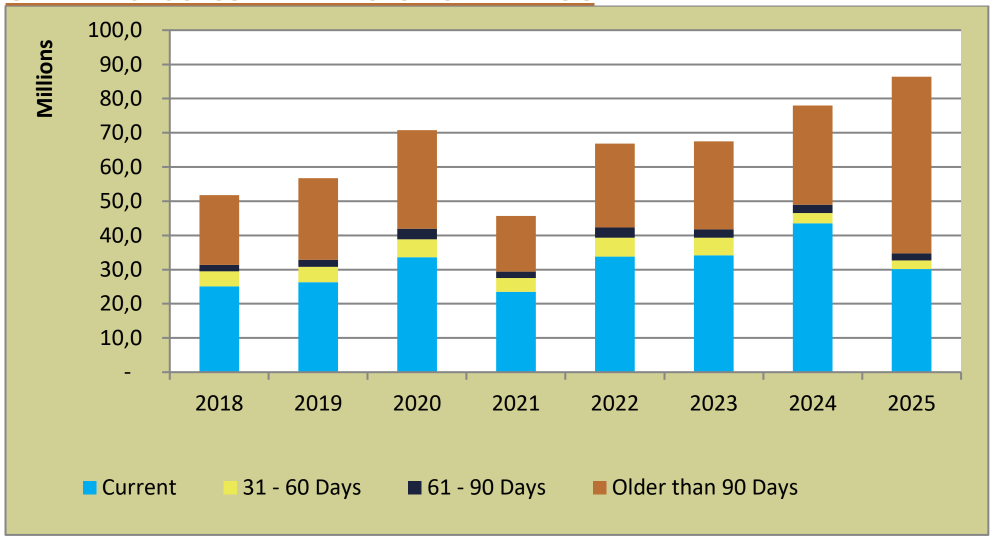
Electricity debtors remained the largest pool of debtors, accounting for 52.9% of consumer debtors in FY2024/25. This is followed by water debtors (18.2%), rates debtors (17.3%), refuse removal debtors (6.3%) & sanitation debtors (5.3%).

Scrutiny of the debtors age analysis reveals that the majority of debtors are older than 90 days (59.8%), followed by current debtors sitting at 34.9%. Aged debtors pose the highest risk of non-payment. It is positive to note that this risk has been mitigated through the provision for bad debts, which equates to 80% of debtors older than 90 days. This indicates that this risk has largely been provided for.

TABLE 4: DEBTORS RATIOS

	2019	2020	2021	2022	2023	2024	2025
Increase in Billed Income p.a. (R'm)	27,2	25,9	18,6	54,6	(5,7)	44,5	55,7
% Increase in Billed Income p.a.	9%	8%	5%	15%	-1%	11%	12%
Gross Consumer Debtors Growth	9,6%	24,8%	-0,5%	-5,2%	1,0%	15,6%	10,8%
Payment Ratio/Collection Rate (%)	96,5%	95,9%	98,5%	99,5%	98,6%	96,6%	98,2%
Net Debtors' Days	38	43	41	34	35	32	32

GRAPH 18: CONSUMER DEBTORS AGE ANALYSIS



Financial Performance

GRAPH 19: Analysis of Surplus

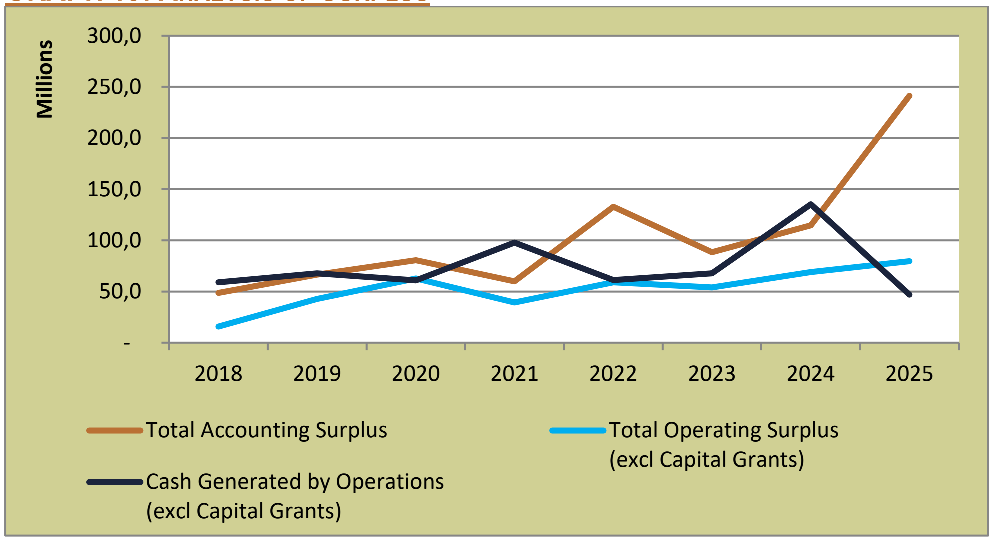
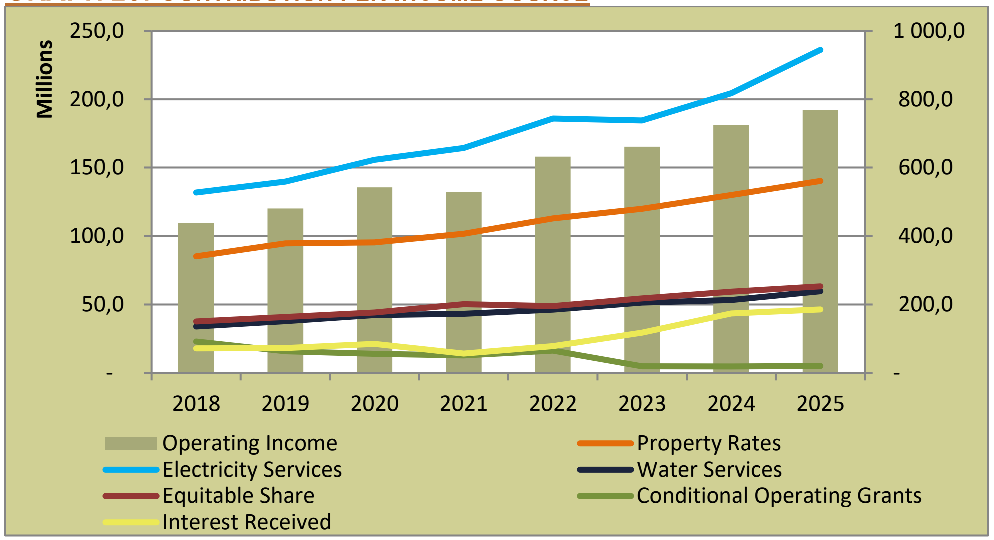


TABLE 5: Analysis of Surplus

	2018	2019	2020	2021	2022	2023	2024	2025
Total Accounting Surplus	48,6	66,4	80,5	59,8	132,8	88,5	114,7	241,3
Total Operating Surplus (excl Capital Grants)	15,8	42,7	62,8	39,3	58,9	54,1	68,9	79,6
Cash Generated by Operations (excl Capital Grants)	59,1	67,8	60,9	97,9	61,2	67,8	135,2	46,9

Total income increased during the year by 20.9% to R930.8 million. Total operating expenditure increased by a comparatively lower 5.2% to R689.5 million during FY2024/25. These movements resulted in an improvement in financial performance during the year. This is evidenced by increases in both the accounting and operating surpluses of R241.3 million and R79.6 million respectively. Operating surpluses (excluding capital grants) provide a more valuable perspective on the financial performance of a municipality. It is positive to note that Hessequa has posted operating surpluses throughout the review period. Cash generated by operations (excluding capital grants) fluctuated over the review period, decreasing from R135.2 million in FY2023/24 to R46.9 million in the current year. This marks a low for the review period.

GRAPH 20: Contribution per Income Source

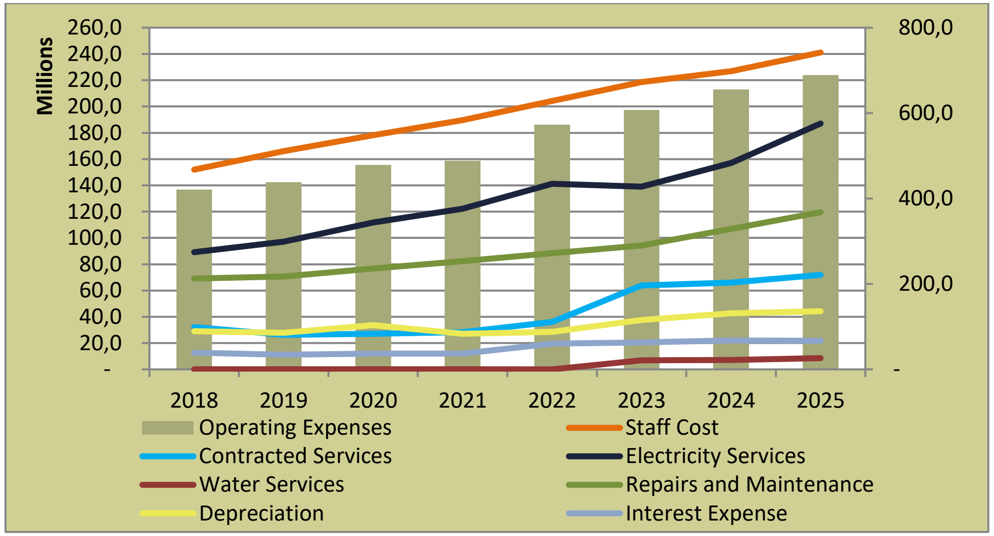


Electricity revenue remained the main contributor towards revenue in FY2024/25, increasing to R236.0 million from R204.3 million in the prior year. Electricity services increased its contribution to revenue during the year, up to 31% from 28% in the prior year. This was followed by property rates (18%), equitable share (8%) and water services (8%).

Total grants received during the year increased to R229.7 million during FY2024/25. This increased the total grants to total revenue ratio to 25%, up from 14% in the prior year. This increase was driven by a total transfer to revenue of R135.9 million of the Municipal Energy Resilience Grant during the year.

While the impact of the energy crisis has waned with less load shedding, the possibility of load shedding returning should remain on the radar. With electricity revenue being the municipality's main source of revenue, this may provide a revenue risk to the municipality. It is positive to note that the municipality has begun implementing plans to mitigate this risk through the solar plant project. This will provide immense benefits to the municipality and its communities, whilst providing a safeguard against the impact of unstable energy supply.

GRAPH 21: CONTRIBUTION PER EXPENDITURE ITEM



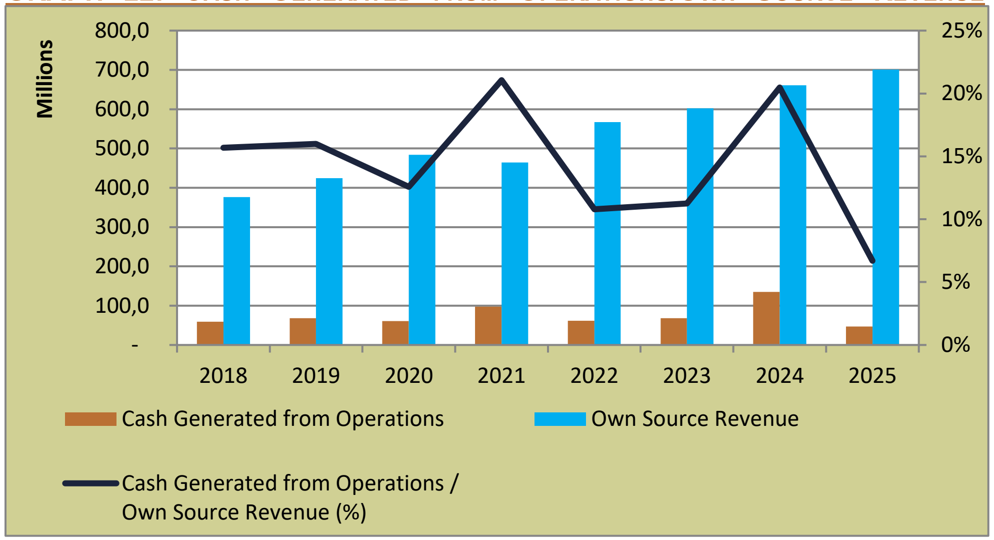
The increase in operating expenditure was driven by increases in electricity bulk purchases, staff costs and repairs and maintenance expenditure. Electricity bulk purchases increased by 16%. Staff costs remained the predominant expenditure item, accounting for 26% of operating expenditure in FY2024/25. This is followed by electricity bulk purchases (20%), repairs and maintenance (13%) and contracted services (8%).

The increase in expenditure on contracted services was predominantly driven by an increase in outsourced maintenance of computer software. Despite the increase, the contribution of contracted services to operating expenditure remained at 8%. This exceeds the NT norm range of 2%-5%. While this is high, it must be considered in conjunction with staff costs. This is due to contracted services essentially being an alternative to staff costs, meaning that this must be included in the analysis of the municipality's employee related expenditure profile. As such, the contribution of staff costs (26%) and contracted services (8%) amounts to 34% of operating expenditure. This is near the upper limit of according to NT's norm range of 25%-40%. While this remains affordable at present, this expenditure must be closely monitored, and any excessive increases avoided if possible.

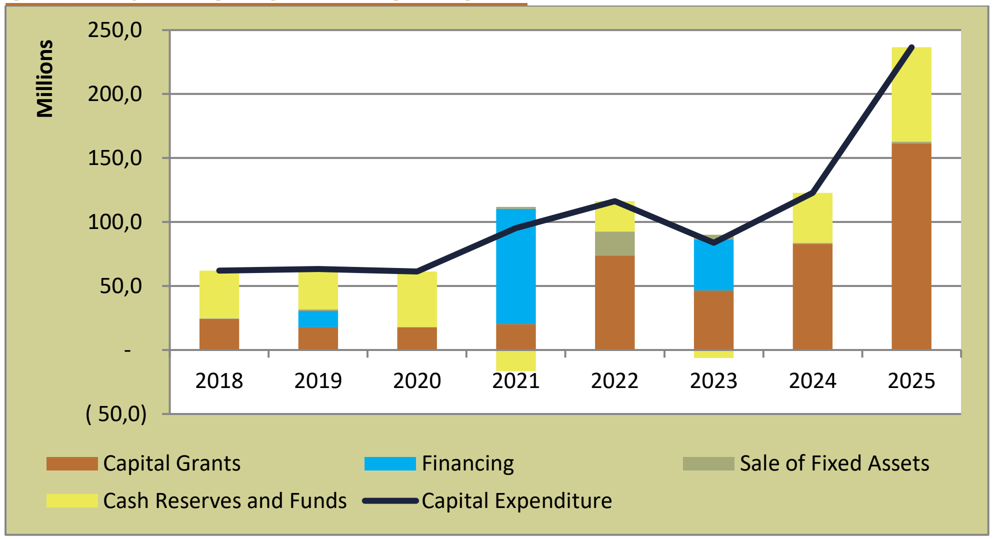
Repairs and maintenance expenditure totalled R119.6 million in FY2024/25, a peak for the review period. This translates to 8.2% of PPE & IP, down from 8.6% in the prior year. This is in line with NT's recommendation of 8% of PPE & IP. The electricity distribution losses increased in the current year to 9.64% from 7.52% but remains within the NT norm range. Water losses increased to 21.02% from 14.18% in the prior year but also remain within NT's recommended limits. The extent of the increase poses concern and thus the reason for the increase must be identified and addressed in order to avoid this increasing further in future.

Cash Flow

GRAPH 22: Cash Generated from Operations/Own Source Revenue



GRAPH 23: Annual Capital Funding Mix



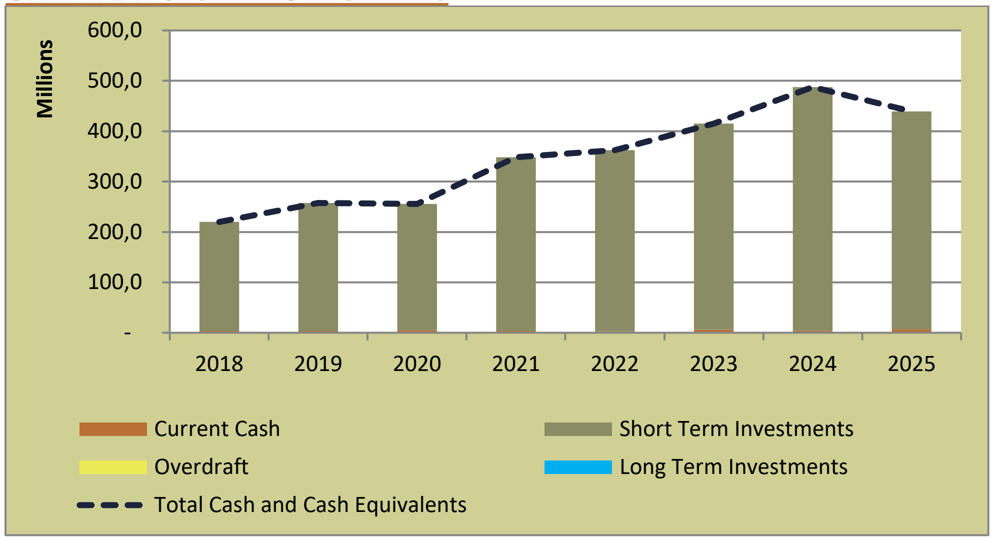
The total capital outlay over the review period amounted to R803.6 million, at an annual average of R100.5 million. Capital expenditure during FY2024/25 amounted to R236.6 million. This was primarily funded through capital grants followed by cash reserves. No borrowings were undertaken in FY2024/25. Over the review period, capital grants and own cash accounted for a combined 80% of the capital funding, with borrowings accounting for 17% and the sale of fixed assets the remaining 3%.

Loans were undertaken in 3 of the 8 years under review, for a total of R142.6 million since FY2018/19. The lack of borrowing in the current year resulted in the gearing ratio reducing to 15.9%, down from 19.9% in the prior year. The debt service to total expense ratio remained stable, decreasing to 5.2%, down from 6.0% in the prior year. IPM recommends upper limits of 30% for gearing and 7% for debt service to total expense for Hessequa. Against these limits, the debt profile is deemed affordable. The municipality has budgeted for additional borrowings throughout the MTREF period. The affordability of this will be assessed later in this report. While the current debt profile is affordable at present, an overly aggressive borrowing programme may result in an excessively leveraged debt profile. Should the recommended upper limits of the debt indicators be breached, the returns from the borrowing programme will begin to be diminished and the liquidity position begin to deteriorate.

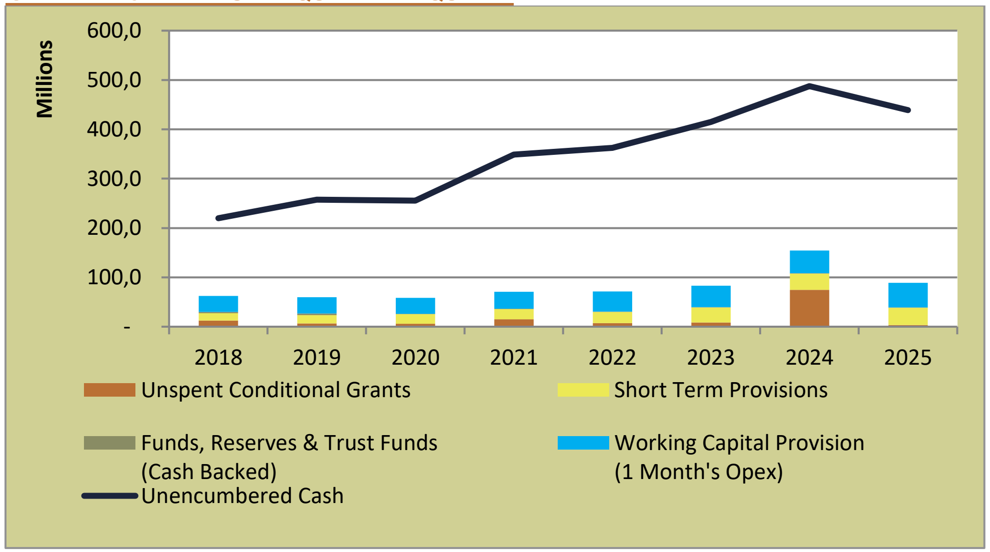
Due to the liquidity constraints of many municipalities, it is not a common recommendation that capital funding be accelerated through own cash reserves. This, however, is not the case in Hessequa. A sustained period of sound and disciplined financial management and religious implementation of the recommendations of the LTFP and subsequent updates, has left Hessequa in a healthy financial position. This unlocks the ability to accelerate capital investment through a balanced approach of affordable, sustainable borrowings as well as through own cash reserves that have steadily been built up over time.

Hessequa must be commended for maintaining healthy liquidity levels throughout the review period. Cash and cash equivalents have grown steadily throughout the review period, reaching a peak of R487.5 million as at FYE2023/24. This is a product of strong financial performance, the maintenance of healthy collection rates as well as a disciplined approach to the financial management of the municipality. This must continue. The liquidity position leaves the municipality well placed to absorb any potential financial shocks that may arise due to a volatile external environment. This is a key indicator of long-term financial sustainability and resilience.

GRAPH 24: CASH AND INVESTMENTS



GRAPH 25: MINIMUM LIQUIDITY REQUIRED



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

Hessequa's unencumbered cash and cash equivalents of R439.0 million at the current year end exceeded the minimum liquidity requirement of R89.1 million, resulting in a cash surplus of R349.8 million. Hessequa has posted cash surpluses in excess of R150 million throughout the review period. The ability to consistently post cash surpluses above the minimum liquidity requirements is a strong indicator of long-term sustainability and resilience, for which the municipality must be commended. The cash coverage ratio increased to 4.9:1 in the current year but remains healthy and sustainable.

TABLE 6: MINIMUM LIQUIDITY REQUIREMENTS

	2018	2019	2020	2021	2022	2023	2024	2025
Unspent Conditional Grants	12,7	6,9	6,0	15,1	7,5	8,9	74,8	3,6
Short Term Provisions	14,9	16,8	19,5	20,7	22,6	30,1	32,7	34,5
Funds, Reserves & Trust Funds (Cash Backed)	2,3	2,7	0,5	0,5	0,5	0,5	0,5	0,5
Total	**29,9**	**26,4**	**26,0**	**36,4**	**30,7**	**39,5**	**108,1**	**38,7**
Unencumbered Cash	219,9	257,5	255,6	348,7	362,7	414,9	487,5	439,0
Cash Coverage Ratio (excl Working Capital)	7,4	9,8	9,8	9,6	11,8	10,5	4,5	11,3
Working Capital Provision (1 Month's Opex)	32,7	33,2	32,7	34,2	40,6	43,4	46,2	50,4
Cash Coverage Ratio (incl Working Capital)	3,5	4,3	4,4	4,9	5,1	5,0	3,2	4,9
Minimum Liquidity Required	62,6	59,6	58,7	70,6	71,3	82,9	154,3	89,1
Cash Surplus/(Shortfall)	**157,3**	**197,9**	**196,9**	**278,0**	**291,4**	**332,0**	**333,2**	**349,8**

IPM Shadow Credit Score

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

Based on the FY2024/25 performance of Hessequa, the IPM credit model reflects a score of **7.7** which is comparable to an **A+** on a national ratings scale. This credit score is relatively high compared to other municipalities and is considered to be of **Investment Grade** - which means that Hessequa 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	2025 (5)
Financial	4,2
Institutional	4,5
Socio-Economic	2,7
Infrastructure	3,4
Environmental	3,8

The municipality performed exceptionally well in the infrastructure module of the credit model. Supply of household infrastructure services remains a key strength of the municipality. This is also linked to the municipality's ability to be cognisant of its environmental impact. The low degree of distribution losses contributed to the strong performance in this module.

The assessment indicates that the socio-economic module remains the main impediment to Hessequa achieving an even higher credit score. This is mainly linked to sluggish economic growth within the municipal area. The municipality must continue to invest in productive assets with the aim of stimulating the economy in order to improve this score over time.

The high score achieved in the financial module is driven by the maintenance of a high collection rate, a healthy liquidity position as well as sound financial performance.

The high score achieved under the institutional capacity module was driven by strong governance and prudent financial management. The municipality must maintain the clean audit report received from the Auditor General.

Long-Term Financial Model Outcomes

MTREF Case Scenario

The starting point for our modelling exercise is to develop the MTREF Case. This entails utilising unadjusted figures from the Tabled Budget for 2026/27-2028/29 along with the 2024/25 AFS, and key cash flow drivers such as the collection rate. The purpose of the MTREF Case is to assess the LTFM's long-term forecast should the budget be implemented as is and the status quo be maintained. Essentially, this allows us to see if the budget will "hold", given the municipality's current situation. Part of this process includes an analysis of the operating and capital budgets. Beginning with the operating budget, it is our view that Hessequa has been reasonably conservative in its compilation. This view is informed through comparing the budget estimates with the recent historic levels of financial performance. This reveals that the municipality has budgeted for a noteworthy decline in financial performance from levels seen in the FY2024/25 AFS. For context, an operating surplus (excluding capital grants) of R78.7 million was posted during FY2024/25. The tabled budget reflects operating surpluses of R0.6 million, R17.8 million and R1.2 million over the MTREF period. With this in mind, we determine that there is high probability that the operating budget will be outperformed.

In arriving at the MTREF Case, no adjustments were made to the Adjustment operating and capital budgets. A collection rate of 98% for service charges was assumed throughout the planning period with the fines collection rate set at 22%, in line with the Tabled Budget. Interest on new debt was assumed at 5% above forecast CPI. Furthermore, items such as the level of repairs and maintenance expenditure (8% of PPE), creditors days (72 days) etc. were maintained at their respective FY2024/25 levels. Assumed growth beyond the MTREF period (FY2027/28) is 5% and 4% p.a. for capital investment and borrowings respectively.

Looking at financial performance, a deterioration is expected over the MTREF period, with a downward trend in the operating surplus forecast until FY2028/29. Though operating surpluses are expected, the extent of these surpluses remain well below the FY2024/25 operating surplus. This is impacted by the conservative budget estimates which impacts upon the LTFM forecasts. It must be reiterated that we expect the forecast levels of financial performance to be outperformed.

Hessequa has historically maintained healthy collection rates exceeding NT's norm of 95%. This is expected to continue, with the municipality budgeting for a collection rate of 98%. This is deemed achievable and has thus been modelled at this level under the MTREF Case. The maintenance of the healthy collection rate is expected to lead to significant operational cash flows over and beyond the MTREF period. An upward trend is expected until FY2027/28, whereafter marginal reductions are expected. Thereafter, consistent growth is forecast for the remainder of the planning period. Another factor underpinning these operational cash flows is the forecast growth in creditors. Creditors are expected to increase from R72.7 million at FYE2025/26 to R130.4 million at FYE2034/35. While this underpins operational cash flows, it begins to strain the liquidity position through excessive growth in current liabilities, to be discussed below.

Hessequa has historically maintained healthy levels of liquidity over the review period, with a liquidity ratio of 3.58:1 recorded at FYE2024/25. The MTREF Case reflects a liquidity position that while sustainable, is expected to deteriorate from current levels. This deterioration is predominantly driven by the forecast growth in creditors discussed above and despite Hessequa being expected to maintain healthy cash and cash equivalents. The minimum liquidity requirement of 2-months opex is expected to be met with ease throughout the planning period. The MTREF Case forecasts a planning period end liquidity ratio of 2.4:1, with cash and cash equivalents of R452.0 million (R439.0 million at FYE2024/25).

The capital budget reflects a balanced funding mix comprised of healthy borrowings and own cash reserves as a supplement to capital grant funding. Capital grant funding is expected to reduce over the MTREF period, requiring an increase in borrowings or own cash utilisation to maintain recent levels of capital investment. The initial outcomes of the MTREF Case suggest that the budgeted capital programme can be implemented as put forward. The borrowing programme reflects a similar outcome in that the budgeted levels of borrowings with a 4% annual growth factor beyond the MTREF period will remain sustainable.

In summary, the MTREF Case reflects a sustainable but not optimal long-term outcome. Key weaknesses include reduced financial performance and growth in creditors. These will be addressed in the Base Case, with key strengths consolidated.

Strengths:

- Healthy operational cash flows.
- Sufficient expenditure on repairs and maintenance.
- Healthy cash position forecast.

Weaknesses:

- Reduced financial performance.
- Forecast growth in creditors.
- Reduced liquidity position.

BASE CASE SCENARIO

With the MTREF Case outcomes analysed and key strengths and weaknesses identified, we now arrive at the sustainable Base Case. The MTREF Case and historic financial assessment discussed in the previous section of this report, inform the Base Case through allowing key strengths and weaknesses to be identified which, in turn, are addressed in the Base Case. Realistic and achievable assumptions are incorporated to ensure that Hessequa remains financially sustainable over the long-term and that the key strengths and weaknesses identified in the MTREF Case are addressed. In doing so, the Base Case utilises the same data sources as the MTREF Case, being the 2026/27 Tabled Budget and 2024/25 AFS. Similarly with the MTREF Case, the conservative operating budget impacts upon the Base Case outcome. As such, if the operating budget is outperformed as expected, one can reasonably expect the Base Case outcome to be outperformed as well. The key assumptions made in arriving at the Base Case are listed below:

11. A collection rate of 98% is assumed to be maintained throughout the planning period. The collection rate for fines was set at 22%, in line with the budgeted figure.
12. Operating expenditure was cut by 2.5%.
13. The Tabled Capital Budget was adjusted as follows:
    - FY2026/27: R175.3m (Budget: R175.3m)
    - FY2027/28: **R170.0m** (Budget: R140.8m)
    - FY2028/29: **R165.0m** (Budget: R172.4m)
14. Growth in capex beyond the MTREF period of 6% p.a. was modelled.
15. The Tabled Budget borrowing programme was adjusted as follows:
    - FY2026/27: R30.0m (Budget: R20.0m)
    - FY2027/28: R70.0m (Budget: R70.0m)
    - FY2028/29: R42.5m (Budget: R34.6m)
16. The borrowing in this scenario consists of 10-year amortising loans at an interest rate of 5% above forecast CPI. Growth in borrowings beyond the MTREF period of 6% p.a. was modelled.
17. Repairs and maintenance expenditure was maintained at 8.0% of PPE & IP throughout the planning period.
18. Electricity and water distribution losses were maintained at 9.64% and 18.00% respectively.
19. Creditors days were reduced to 40 days from 72 days over the planning period.
20. Tariff increases were included as put forward in the Tabled Budget Document.

Financial performance over the MTREF period is forecast to mirror that of the MTREF Case, with reduced operating surpluses expected. This is again impacted by the conservative operating budget. A declining trend in the operating surplus is expected over the MTREF period, whereafter year-on-year growth is expected for the remainder of the planning period. Financial performance levels in the Base Case exceed that presented in the MTREF Case. This is primarily a function of the 2.5% opex cut. This was included to model more realistic levels of financial performance, given the conservative budget. In all likelihood, the municipality will outperform the Base Case forecast. This will have a knock-on effect on operational cash flows as well as the liquidity position. We have elected to employ a sense of conservatism in our modelling of Hessequa's financial performance as geopolitical factors and the resultant impact on fuel prices and inflationary expectations may begin to pressurise the municipality's financial situation. It is thus feasible that the municipality may in fact see a deterioration in financial performance as well as its ability to collect revenue from consumers. This has been factored into the modelling of the Base Case.

Hessequa is expected to continue to generate strong operational cash flows, with a total of R1.26 billion expected over the planning period. This is underpinned by the healthy collection rate of 98%, modelled to be maintained at this level throughout the planning period. This is in line with historic levels seen in Hessequa and we thus believe the municipality is likely to maintain it at this level. However, the municipality must remain cognisant that the unstable geopolitical and economic environment may have a notable impact on household affordability. Should elevated oil and fuel prices persist over the medium-term, a decline in the collection rate may very well transpire. It is positive to note that the municipality has implemented projects aimed at shielding its communities from these impacts. One example being the solar project which has enabled Hessequa to absorb part of the NERSA electricity tariff increases. This has enabled Hessequa to reduce electricity tariff increases by approximately 2%. This will not only result in additional cash in the pockets of consumers but will also generate substantial goodwill amongst local communities which in turn should provide returns to the municipality over the longer-term.

The Base Case presents an adjusted capital investment programme from the Tabled Budget. The key adjustment is reflected in the acceleration of capital investment in FY2027/28. This was aimed at maintaining elevated levels of capital investment over the MTREF period. The LTFM suggests that this will remain affordable. Hessequa must continue to strike a balance between necessary social spending and investment in infrastructure to stimulate the local economy. Maintaining high levels of service delivery is integral in creating a positive perception of the municipality for would-be investors. The Base Case capital investment programme, which will inform the Capital Expenditure Framework, is aimed at enabling Hessequa to do so.

The Tabled Budget borrowing programme was adjusted over the MTREF period. An additional R10m in borrowings was included in FY2026/27 in an attempt to mitigate the forecast reduction in cash and cash equivalents as depicted in Graph 29 below. A marginal increase to R42.5 million (from R34.6 million) in FY2028/29 was included to reflect a more aggressive borrowing programme over the planning period. This must of course be balanced with long-term sustainability and ensuring an affordable long-term debt profile is an integral part of that. This will be assessed in greater detail in Section 6 of this report.

Hessequa has employed disciplined financial management over the review period, which resulted in the maintenance of a healthy liquidity position. The municipality, through the LTFP, has placed maintaining liquidity at the forefront of its decision-making process. This LTFP Update aims to continue this practice.

With that in mind, the Base Case forecasts a sustainable long-term liquidity position. A minor reduction in the liquidity position is expected in FY2026/27, with the liquidity ratio expected at 3.2:1. This is impacted by the forecast reduction in cash and cash equivalents. Thereafter, consistent growth in cash and cash equivalents, and resultantly, current assets is expected for the remainder of the planning period, with a total of R593 million in cash expected at FYE2034/35.

Looking at current liabilities, the forecast growth in creditors was identified as the predominant weakness in the MTREF Case outcome and thus a key issue to address in the Base Case. The reduction of creditors days to 40 days in the Base Case has effectively curtailed any growth in creditors over the planning period. This renders growth in the short-term portion of loans the main driver of growth in current liabilities. This is a far more productive source of growth in current liabilities as it feeds directly into either an acceleration of capital investment or allows the cash position to be consolidated as less reliance is placed on cash reserves to fund capital projects. This can also have a positive impact on future revenues if invested into revenue generating projects.

The healthy growth in current assets, predominantly cash, and the limited growth in current liabilities underpins the healthy long-term liquidity position. The liquidity ratio is forecast to progressively improve to 3.8:1 by the end of the planning period. An improvement on current levels whilst also maintaining elevated levels of capital investment.

Overall, the Base Case presents a sustainable long-term outcome and addresses key issues identified in the MTREF Case. The maintenance of healthy liquidity remains the priority, and this is reflected in the Base Case assumptions. It is essential that the collection rate of 98% is maintained and that sustainable levels of borrowings are utilised.

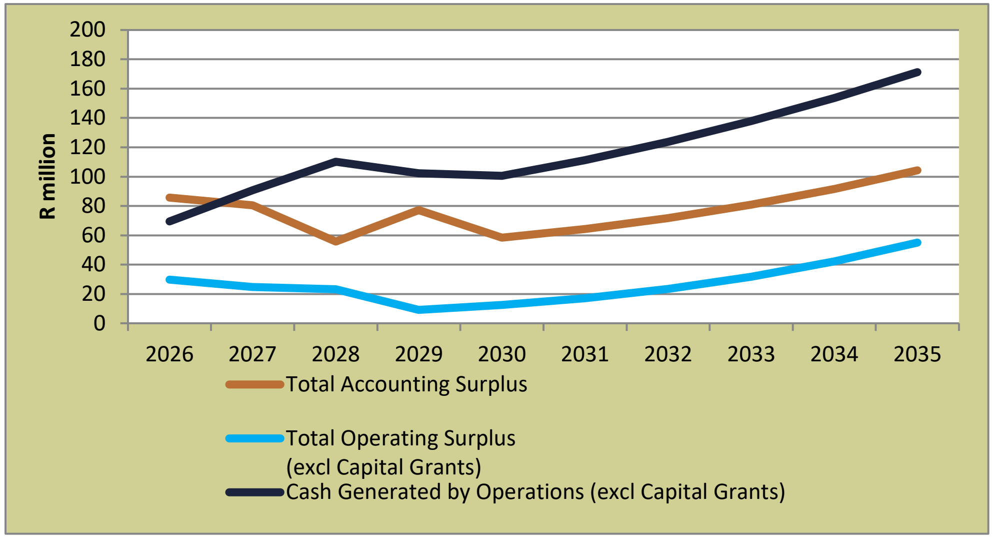
Strengths:

- Strong ability to generate cash from operations.
- Healthy financial performance.
- Sufficient expenditure on repairs and maintenance.
- Healthy cash and cash equivalents providing liquidity buffer.
- Optimised funding mix.
- Reduction of creditors over long-term.
- Improved liquidity position.

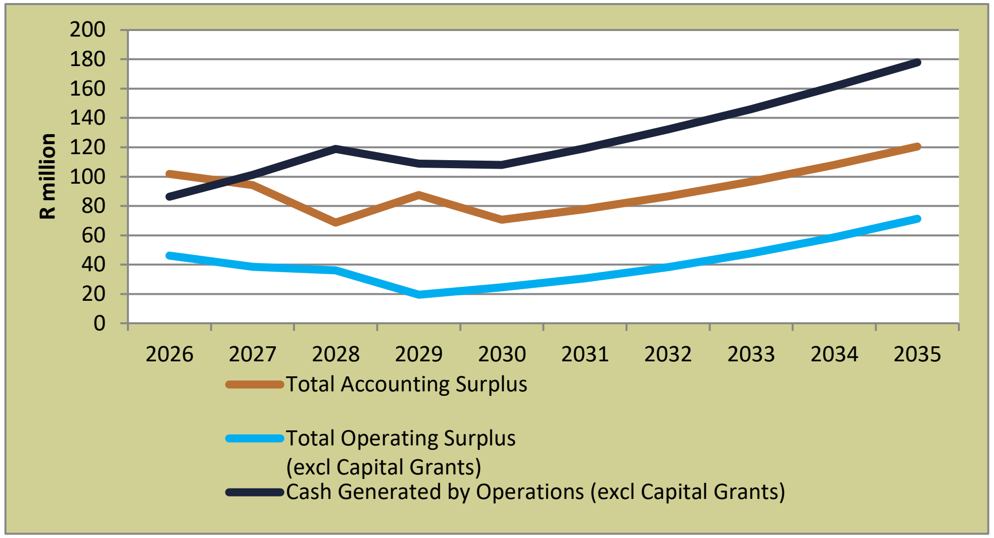
TABLE 8: MTREF VS BASE CASE OUTCOMES

Outcome	MTREF Case	Base Case
Average annual % increase in Revenue	4,9%	4,9%
Average annual % increase in Expenditure	6,6%	6,6%
Accounting Surplus accumulated during Planning Period (Rm)	R 770	R 912
Operating Surplus accumulated during Planning Period (Rm)	R 269	R 411
Cash generated by Operations during Planning Period (Rm)	R 1 171	R 1 260
Average annual increase in Gross Consumer Debtors	9,7%	9,7%
Capital investment programme during Planning Period (Rm)	R 1 754	R 1 764
External Loan Financing during Planning Period (Rm)	R 413	R 507
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 452	R 593
No of Months Cash Cover at the end of the Planning Period (Rm)	4,9	6,4
Liquidity Ratio at the end of the Planning Period	2,4 : 1	3,8 : 1
Gearing at the end of the Planning Period	15,0%	19,3%
Debt Service to Total Expense Ratio at the end of the Planning Period	4,7%	5,8%

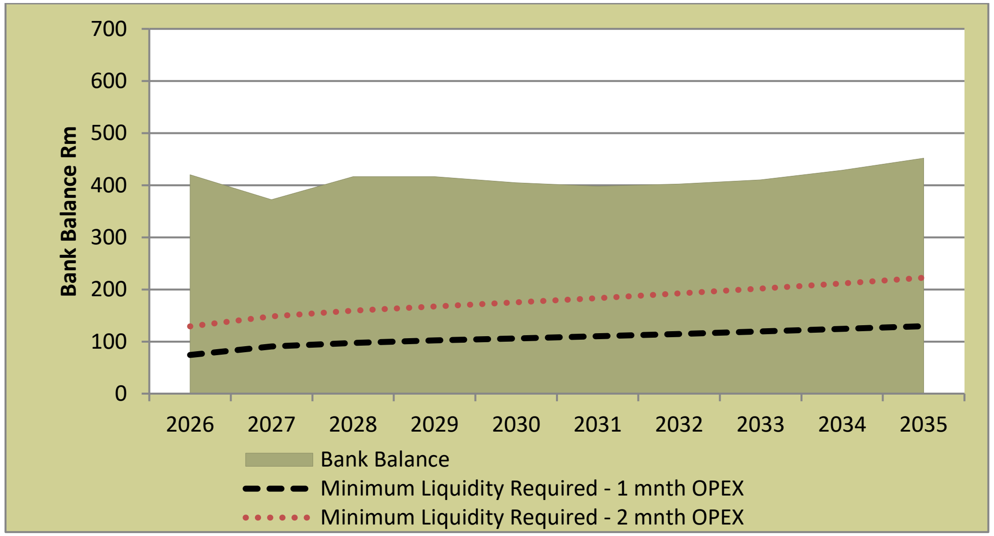
GRAPH 26: MTREF CASE SCENARIO: ANALYSIS OF SURPLUS



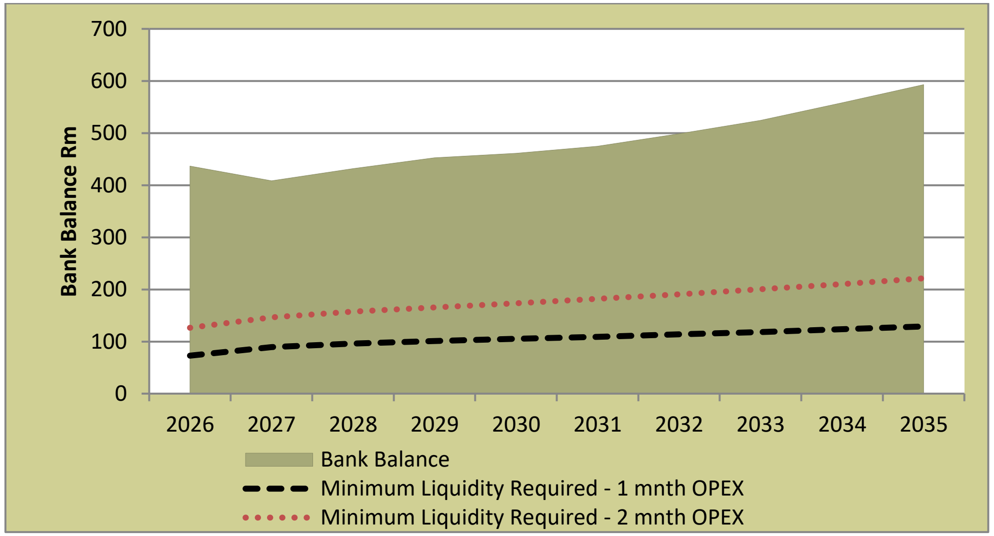
GRAPH 28: BASE CASE SCENARIO: ANALYSIS OF SURPLUS



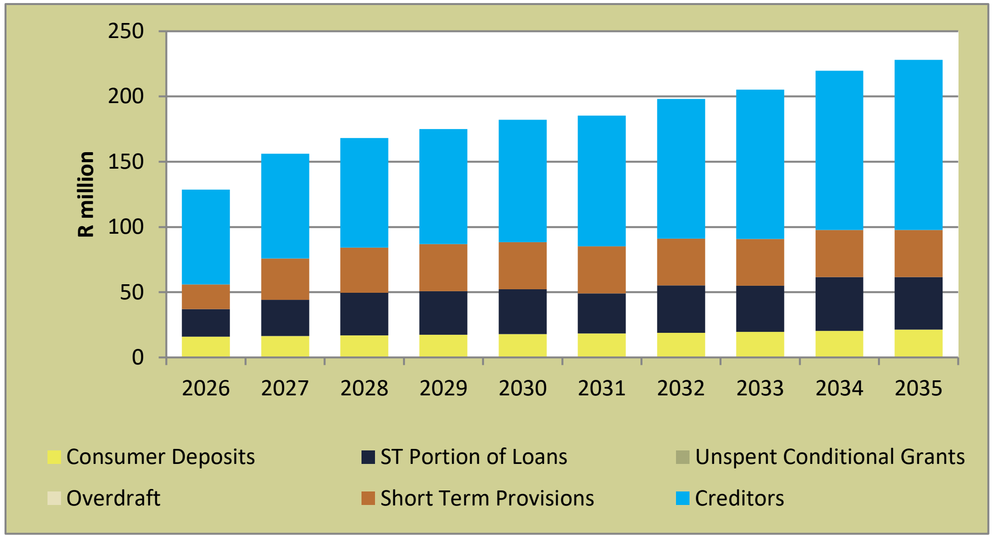
GRAPH 27: MTREF CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY



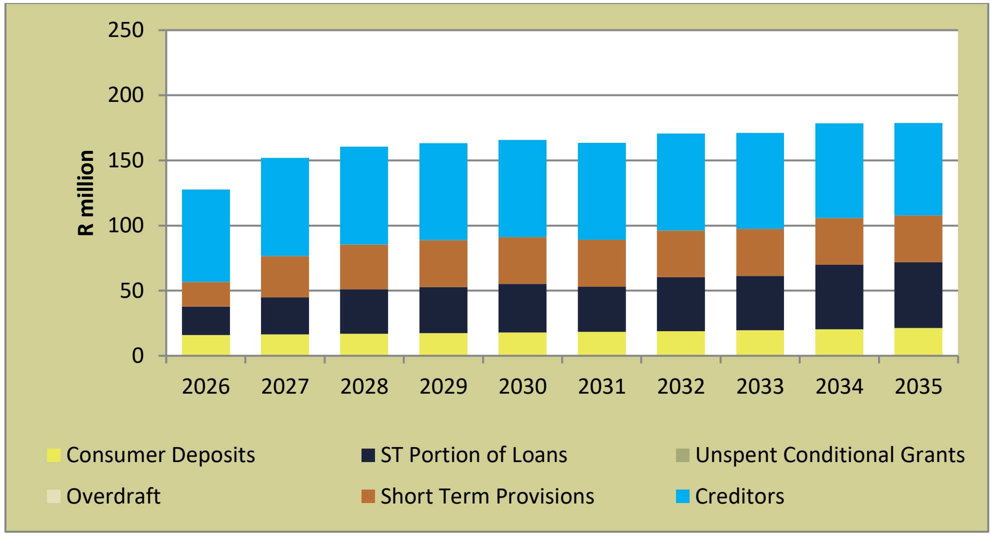
GRAPH 29: BASE CASE SCENARIO: BANK BALANCE VS MINIMUM LIQUIDITY



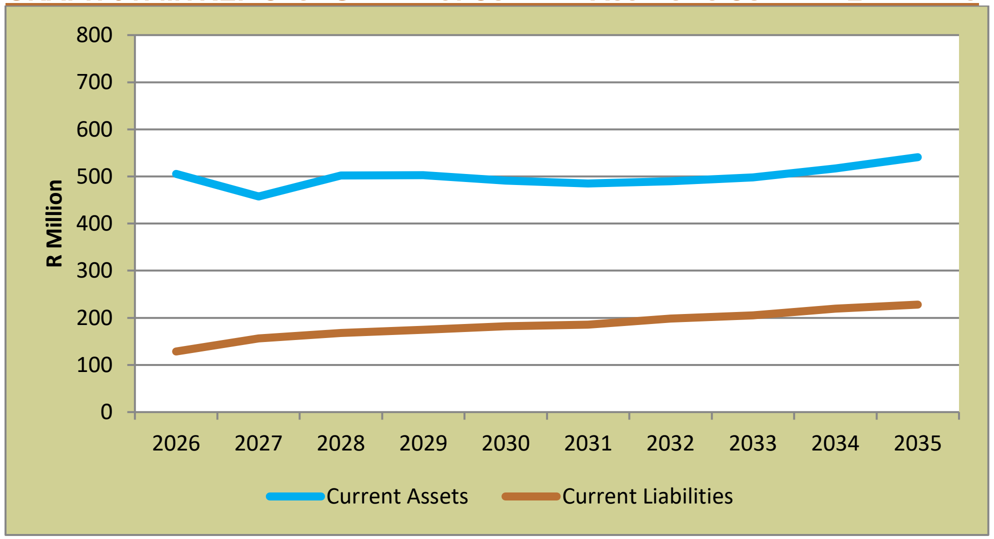
GRAPH 30: MTREF CASE SCENARIO: CURRENT LIABILITIES



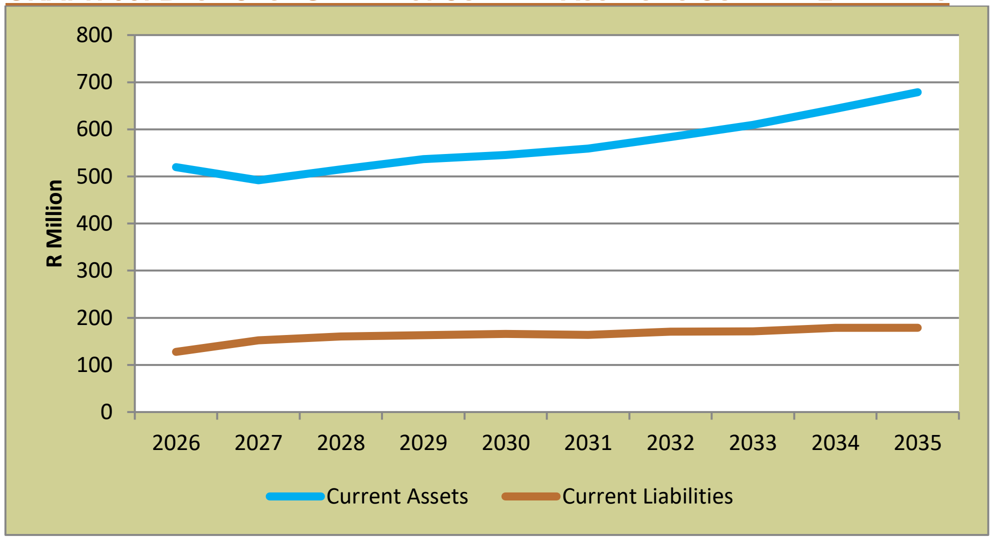
GRAPH 32: BASE CASE SCENARIO: CURRENT LIABILITIES



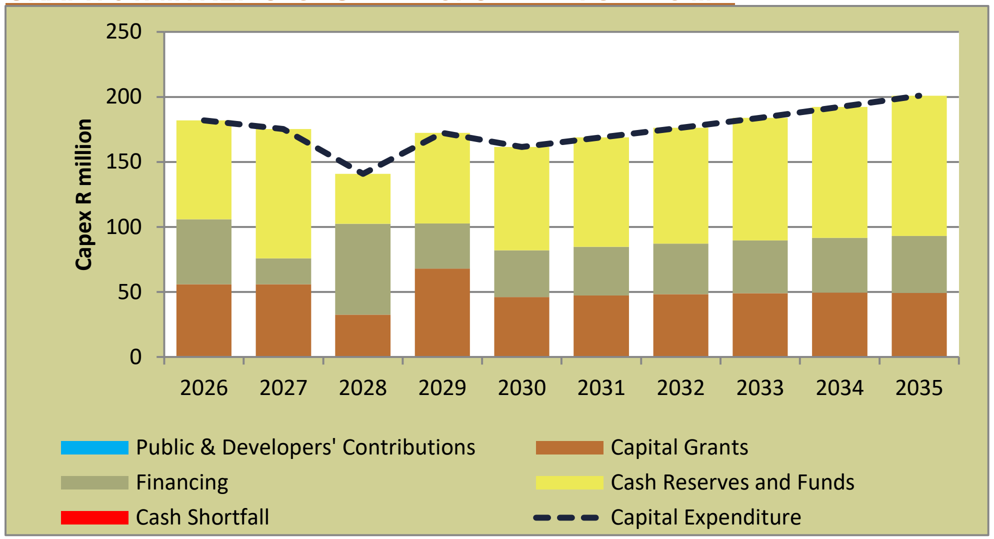
GRAPH 31: MTREF CASE SCENARIO: CURRENT ASSETS VS CURRENT LIABILITIES



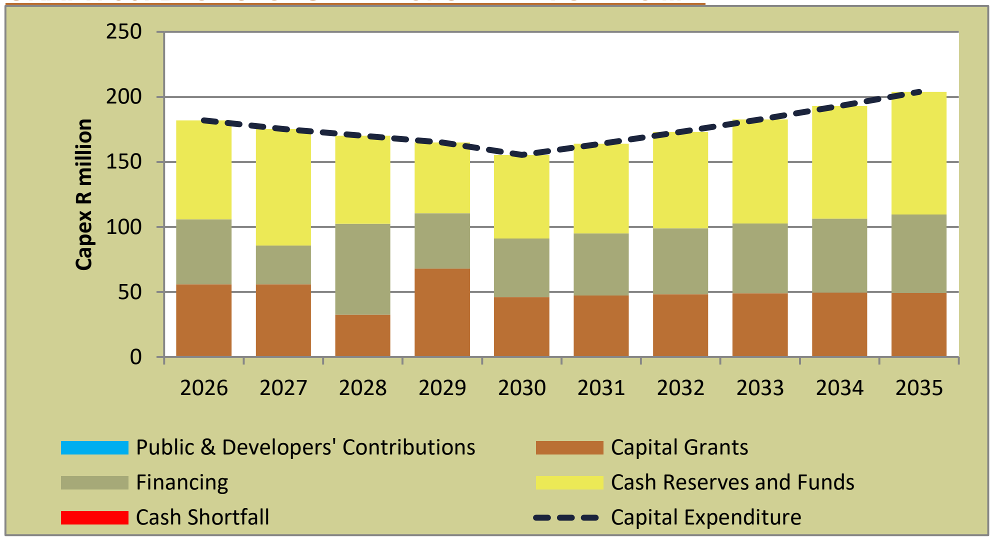
GRAPH 33: BASE CASE SCENARIO: CURRENT ASSETS VS CURRENT LIABILITIES



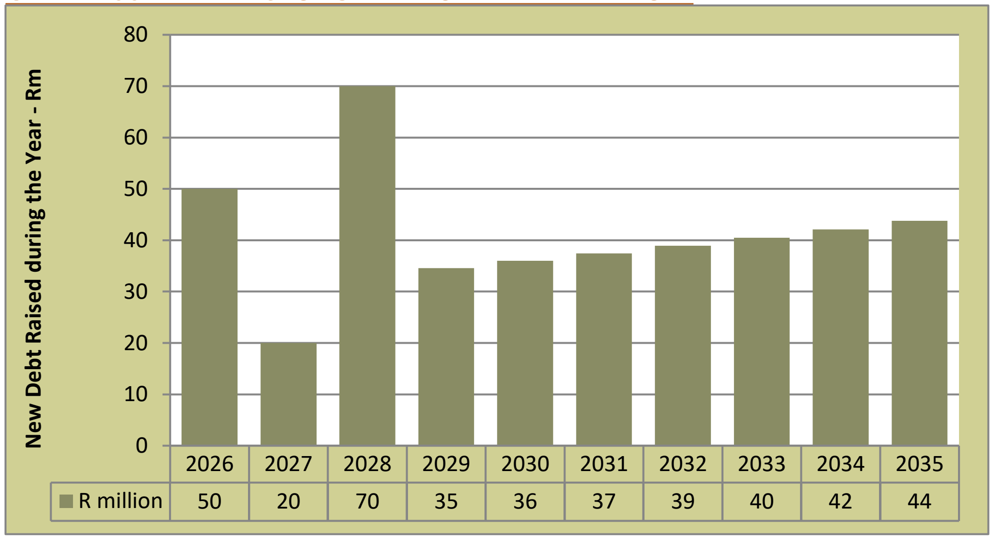
GRAPH 34: MTREF CASE SCENARIO: CAPITAL FUNDING MIX



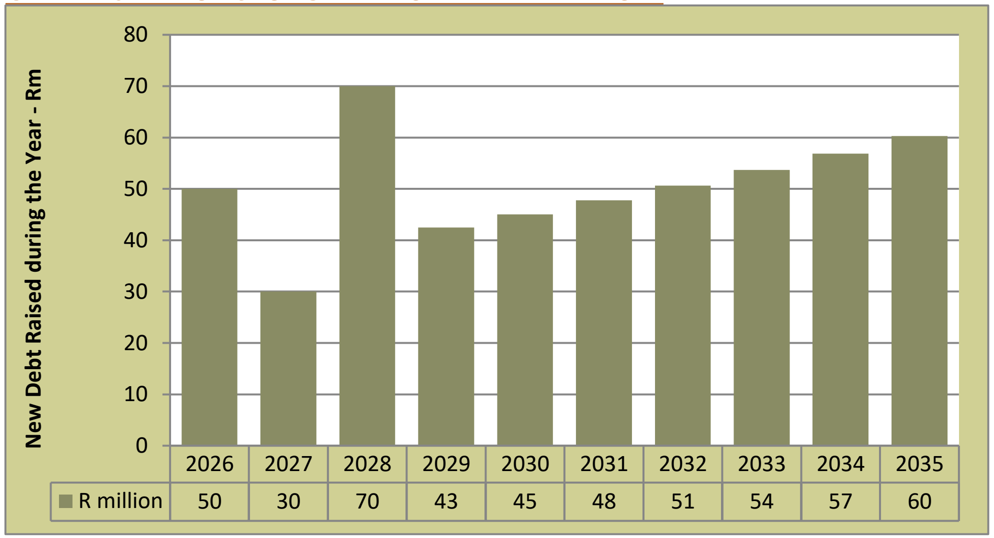
GRAPH 36: BASE CASE SCENARIO: CAPITAL FUNDING MIX



GRAPH 35: MTREF CASE SCENARIO: NEW DEBT RAISED



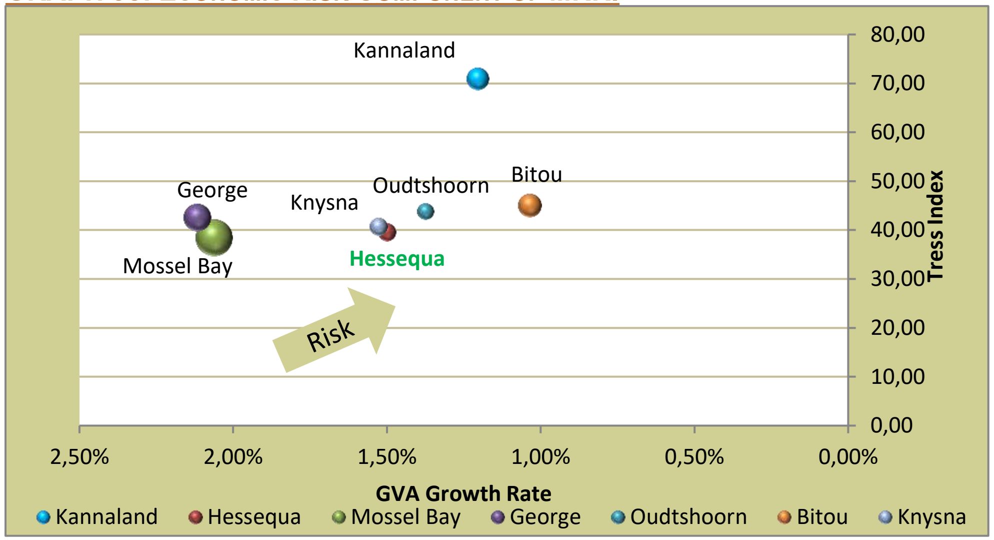
GRAPH 37: BASE CASE SCENARIO: NEW DEBT RAISED



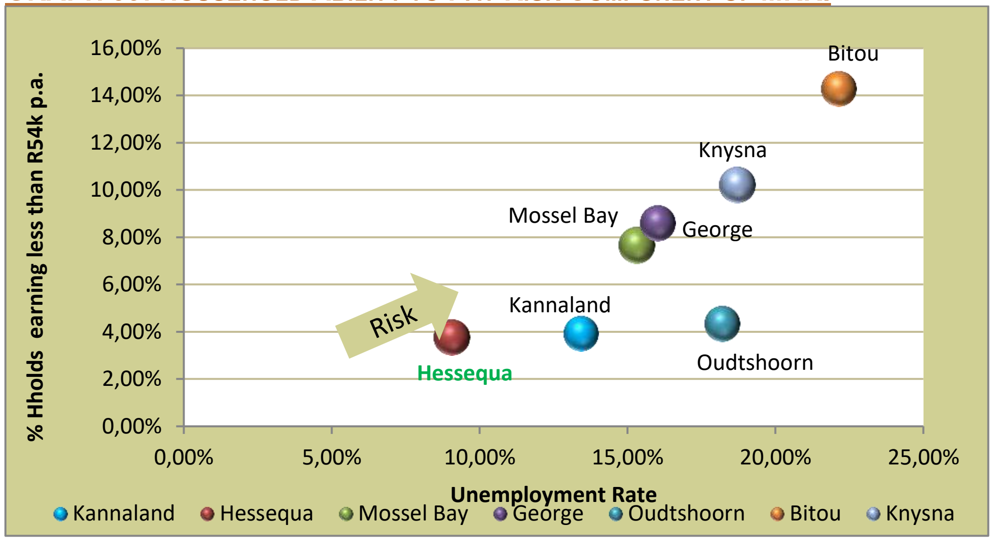
Future Revenues

Municipal Revenue Risk Indicator (MRRI) = "Medium to Low"

GRAPH 38: ECONOMIC RISK COMPONENT OF MRRI



GRAPH 39: HOUSEHOLD ABILITY TO PAY RISK COMPONENT OF MRRI



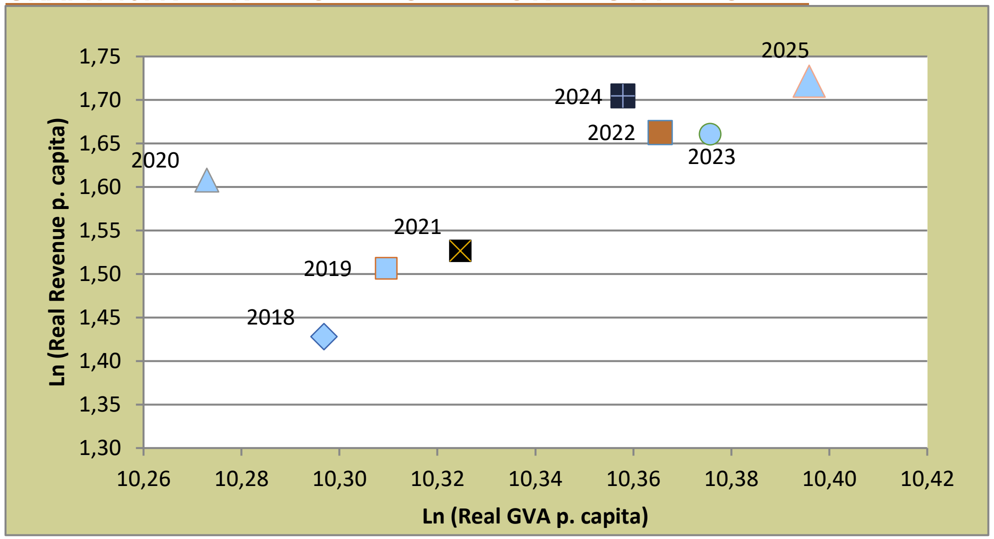
The Municipal Revenue Risk Indicator (MRRI) measures the risk of the municipality's ability to generate its own revenues. This is a function of the economy (size of the economy as measured by GVA per capita, GVA growth rate and Tress Index); and the household ability to pay (measured by percentage of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

Hessequa has exhibited reasonable economic growth in recent years, as evidenced by the 5-year annual average GVA growth of 2.7%. This exceeds the average population growth rate of 0.2% over the same period. While positive, the need for investment in productive, revenue generating assets as a means to stimulate economic growth and thus growth of the municipality's revenue base remains high. GVA per capita of R32 725 p.a. in 2025, as well as the reasonably high degree of diversification of Hessequa's economy, all contribute to the "**Medium to Low**" rating on the economic risk component of the MRRI.

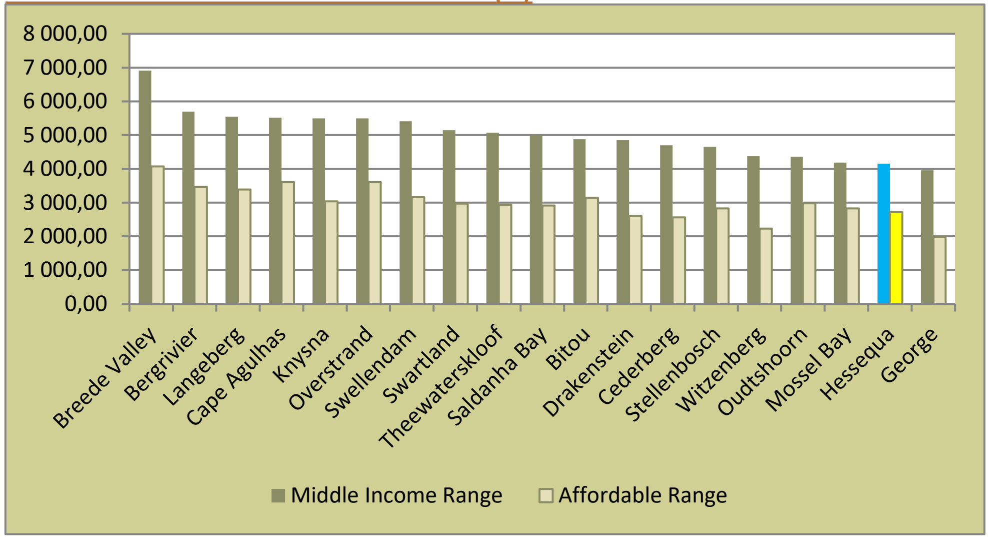
The percentage of indigent households reliant on support of 3.78%, the official unemployment rate of 9.06% and the human development index of 0.77 resulted in a **"Low"** rating on the household ability to pay risk component of MRRI. Hessequa is on the low end of risk in relation to some of the other municipalities in the district.

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

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



GRAPH 41: AVERAGE HOUSEHOLD BILL (R)



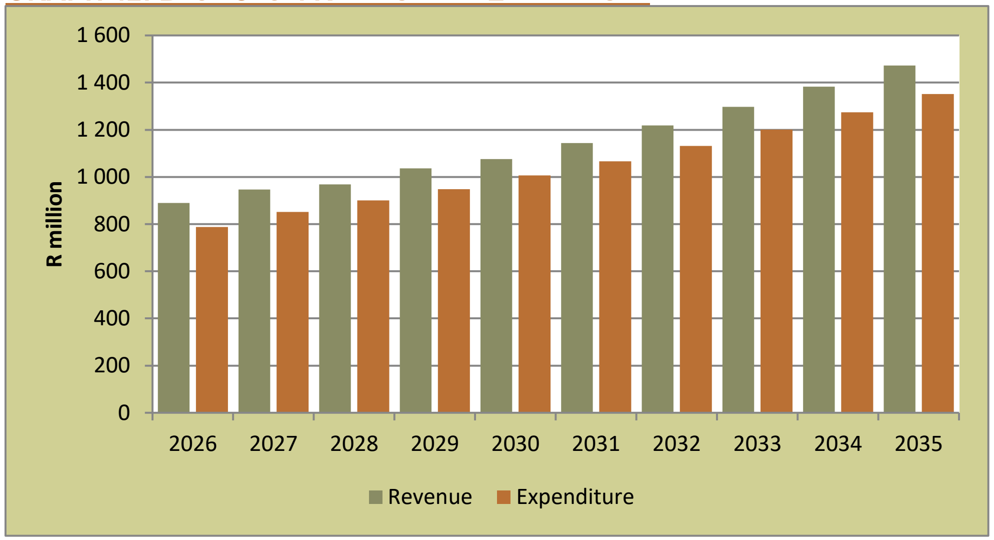
Real municipal revenue (excluding capital transfers) per capita increased between 2018 & 2020. A notable decline was then observed during 2021 partly influenced by the fallout of Covid-19. A full recovery was observed during 2022, with fluctuations seen in the subsequent years, with 2025 representing a peak for the review period. Real GVA per capita saw a notable decline in 2020 following growth in prior years, again impacted by Covid-19. Thereafter, consistent growth has been observed, with a reduction in 2024 considered an outlier. Notable growth was observed in 2025 with this too representing a peak for the review period.

It is the municipality's responsibility to ensure that it does its part in facilitating an economic growth environment. This will assist in alleviating pressure on households to service their municipal bill, thus providing additional security to the municipality's future revenue prospects. A prolonged period of sluggish economic growth will place further strain on the municipality's revenue base as households struggle to service their municipal bill, whereas positive economic growth will translate into growth of the municipality's rates and revenue base.

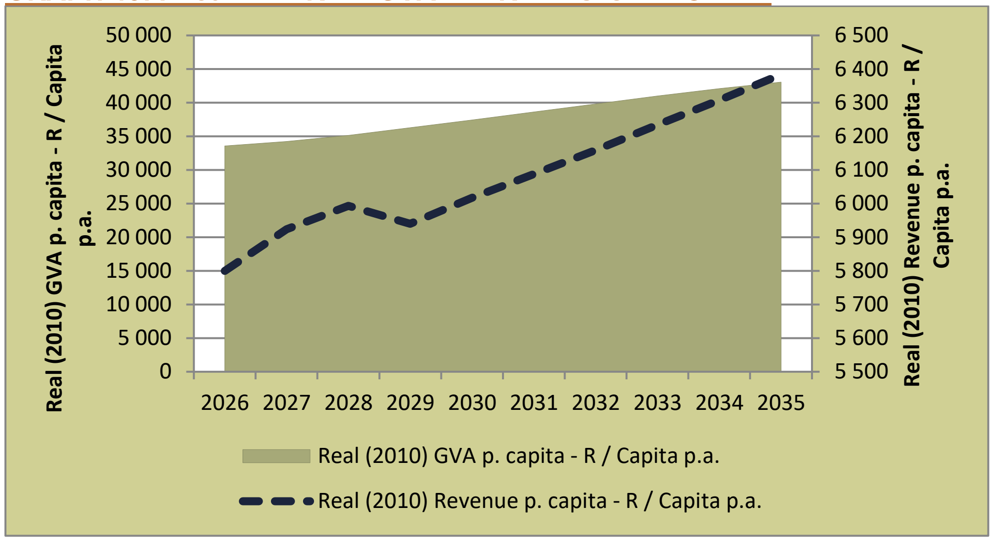
A comparison of the average household bill for the middle income and affordable income range of a selected number of municipalities in the Western Cape province (extracted from Budget Table: SA14) based on the 2025/26 tariffs, reveals that Hessequa LM features near the bottom of the range. Considering the level of service provided by Hessequa LM and the size of the municipality, the current household bill is reasonable, if not relatively low, compared to other municipalities. The scope of the tariff increases is, however, limited by household's ability to pay for services.

Municipal Revenues

GRAPH 42: BASE CASE: REVENUE AND EXPENDITURE



GRAPH 43: PROJECTED REAL GVA AND REVENUES PER CAPITA

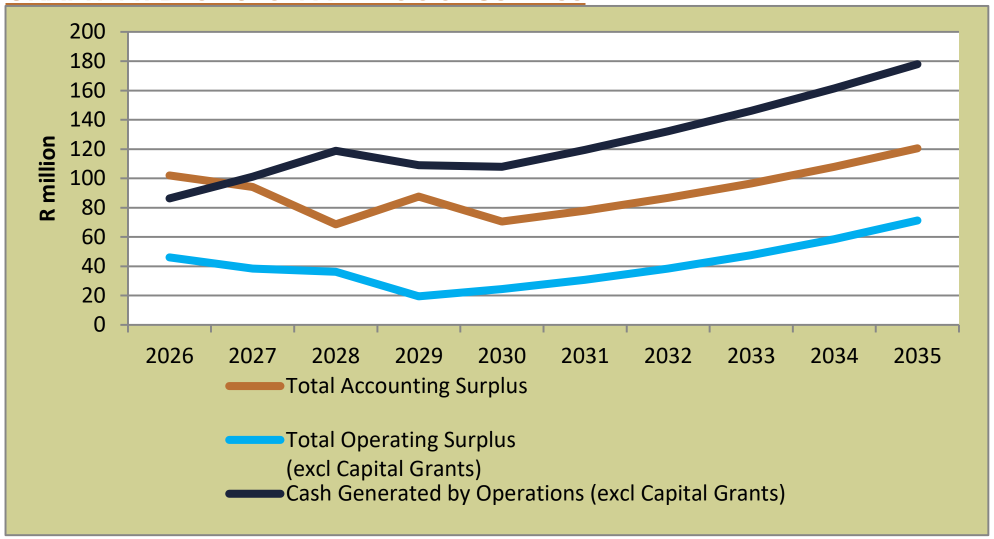


The Base Case estimates that, over the planning period, future nominal revenue (including capital grants) will grow at an average rate of 4.9% p.a. This growth in revenue includes: (i) tariff increases, (ii) increased sales and (iii) additional revenue sources. Future nominal expenditure is estimated to grow at a higher rate of 6.6% over the same period.

Our analysis of the Tabled Operating Budget for FY2025/26 revealed that the municipality was reasonably conservative in its estimates for financial performance, with a notable deterioration in financial performance in relation to the historic performance expected. We expect that the budgeted financial performance will be outperformed. Despite the modelling of a 2.5% opex cut in order to combat the conservative budget and employ levels of financial performance that are more reflective of the historic performance, we still expect the Base Case outcome to be outperformed.

Real GVA per capita is forecast to increase consistently over the planning period. A total increase of 28.3% from R33 561 in 2026 to R43 062 in 2035 is forecast. Real revenue per capita is forecast to exhibit net growth of 10.0% over the planning period, from R5 800 in 2026 to R6 384 in 2035. Growth of the local economy is crucial to the municipality as it has a direct impact on the municipality's ability to generate revenue (MRRI). Growth of the local economy will result in an expansion of the municipality's revenue base, which will enable growth and an acceleration of the capital investment programme. This is particularly necessary to keep up with the growing population and associated increased demand for municipal services. Hessequa has done well to maintain a high level of service delivery despite the elevated population growth rates observed in recent years.

GRAPH 44: BASE CASE: ANALYSIS OF SURPLUS



The maintenance of the Base Case collection rate of 98% is a key factor underpinning the strong ability to generate cash from operations. A total of R1 132 million in cash is forecast to be generated by operations over the planning period. This is positive to note and further underpins the healthy liquidity position. The liquidity position is set to be sufficient to enable productive infrastructure investment, new debt to be undertaken as well as to reduce outstanding creditors over the planning period. This underpins the sustainable outcome presented in the Base Case.

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

Affordable Future Capital Investment

Capex Affordability and Funding

The total affordable capital envelope for the 10-year period FY2025/26-FY2034/35 was calculated at R1 764 million. This figure was arrived at by finding the optimal levels of external financing and own cash utilisation to supplement capital grant funding.

Table 9: CAPEX Affordability

Total 10-year CAPEX **Affordability:**	=	R 1 764 million

MTREF Capital Funding Mix

Hessequa's Tabled Budget FY2026/27 to FY2028/29 expects a capital budget amounting to R488 million, funded as follows:

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

R'm	Total	2026/27	2027/28	2028/29
Public & Developers Contributions	**0**	0	0	0
Capital Grants	**155**	55	32	68
Financing	**125**	20	70	35
Cash Reserves and Funds	**208**	100	38	70
Total	**488**	**175**	**140**	**173**

Hessequa's historic capital funding mix was dominated by capital grants, which accounted for 53% of total funding over the review period. Borrowing was undertaken in 3 of the 8 years under review at an annual average of R17.8 million. This accounted for approximately 17% of total funding. Finally, cash reserves and funds accounted for 27% with the remaining 3% funded through the sale of fixed assets. A notable acceleration of the utilisation of own cash to fund capital investment was observed in FY2024/25.

10-Year Capital Funding Mix

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

Table 11: Base Case 10-Year Capital Funding Mix

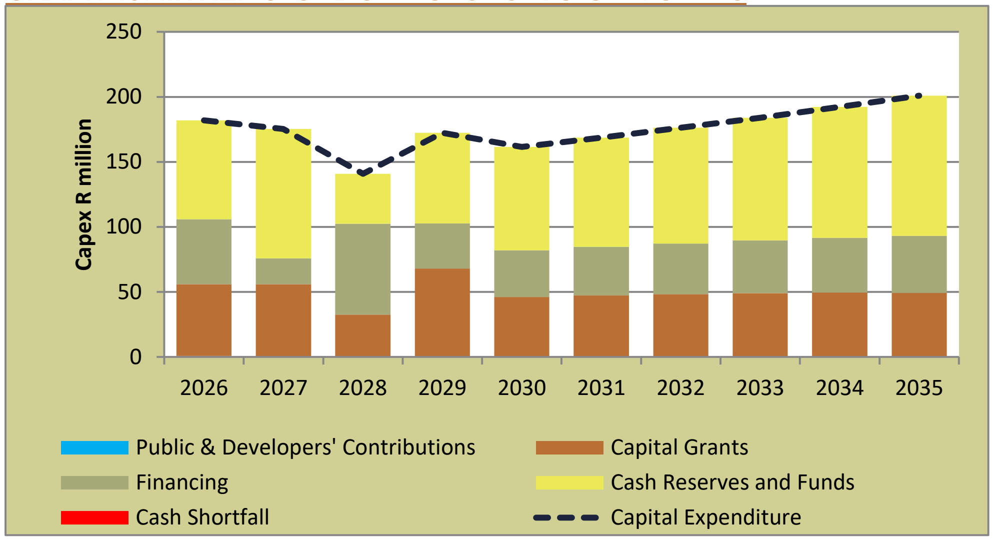
Source	Rm	%
Public & Developers' Contributions	1	0 %
Capital Grants	501	28 %
Financing	507	29 %
Cash Reserves and Funds	756	43 %
Cash Shortfall	0	0 %
Capital Expenditure	**1 764**	**100 %**

The Tabled Capital Budget aims to continue the accelerated capital investment programme observed in recent years. This is expected to remain affordable. A key adjustment made in arriving at the Base Case is to accelerate capital investment in FY2027/28. This is aimed at maintaining elevated levels of capital investment over the review period in an attempt to further support the municipality's infrastructure investment requirements. This is balanced with long-term sustainability by marginally reducing capital investment in FY2028/29. These adjustments have been made with the prioritisation of maintaining healthy levels of liquidity in mind, whilst also aiming to support productive infrastructure investment that will stimulate the local economy and ultimately contribute towards an expansion of the revenue base.

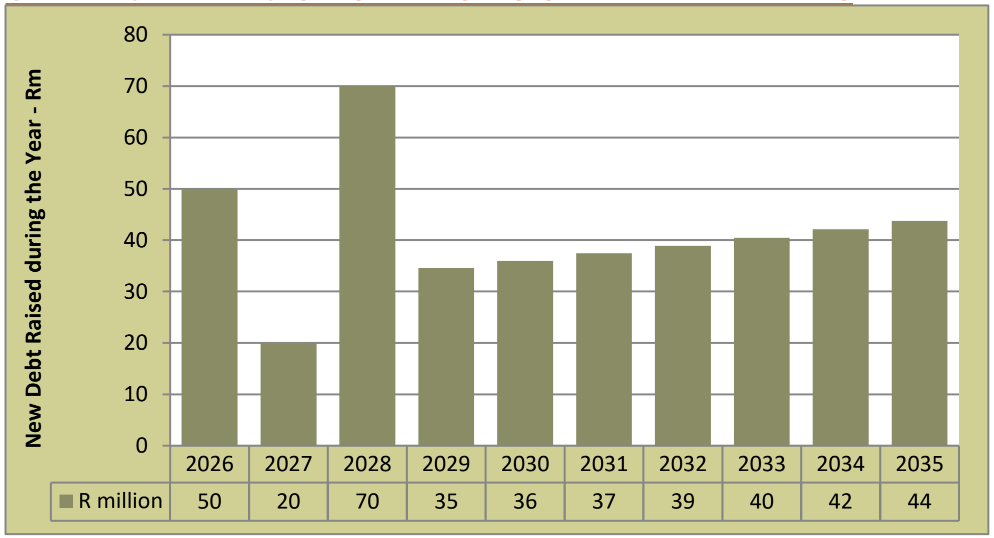
The 10-year affordable capital envelope is largely in line with the previous LTFP Update (December 2025), with an acceleration of R144 million included in this update. This is achieved through additional external financing (R507 million vs R416 million) which enables the own cash portion of the funding mix to be reduced (R756 million vs R813 million). Additional capital grant funding (R501 million vs R391 million) also contributes to the increased affordable envelope.

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

GRAPH 45: MTREF Case Distribution of Future Funding

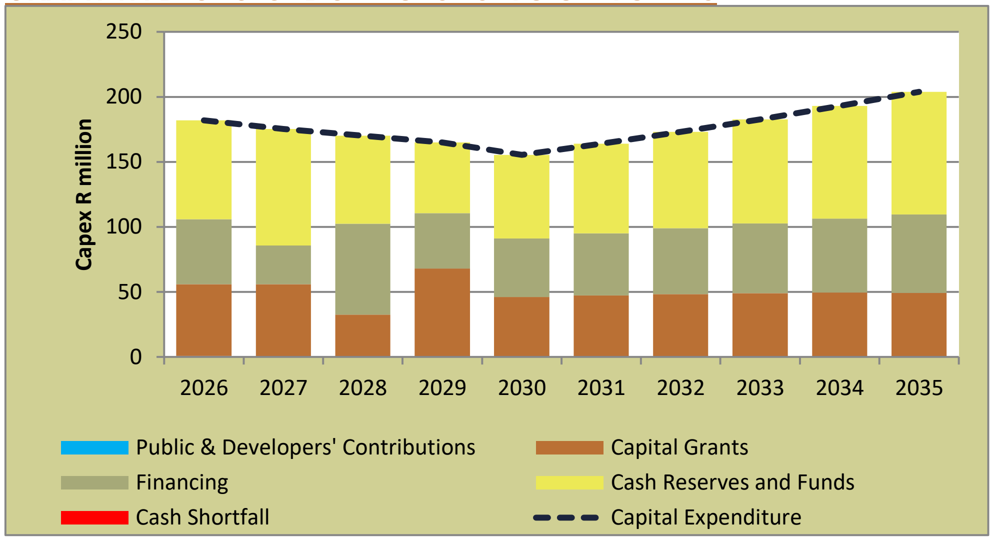


GRAPH 46: MTREF Case Estimate of Future External Financing



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

GRAPH 47: Base Case Distribution of Future Funding



GRAPH 48: Base Case Estimate of Future External Financing

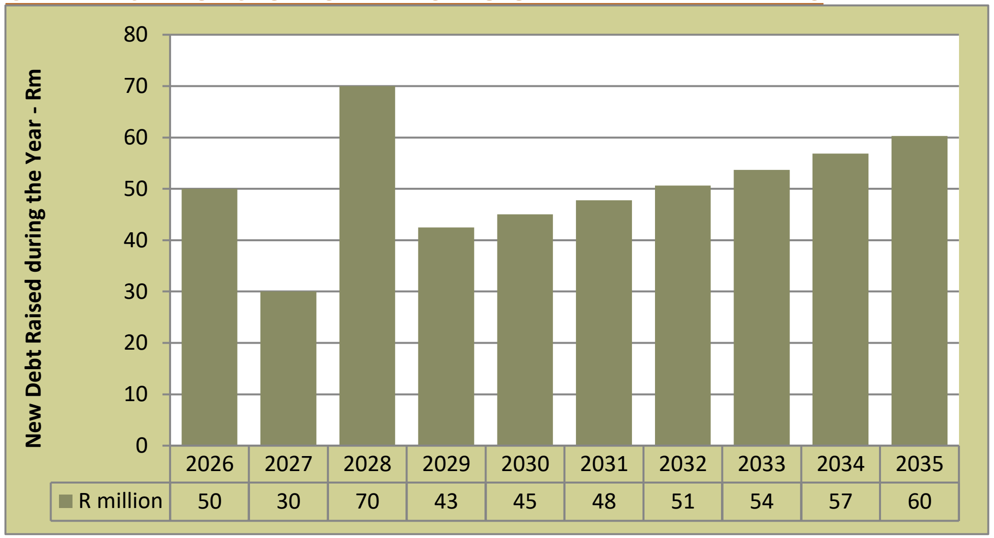


TABLE 12: MTREF Case Distribution of Future Capital Funding (R'm)

R'm	Total	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Public & Developers' Contributions	1	1	0	0	0	0	0	0	0	0	0
Capital Grants	501	55	56	32	68	46	47	48	49	49	49
Financing	413	50	20	70	35	36	37	39	40	42	44
Cash Reserves and Funds	840	76	100	38	70	80	84	89	95	101	108
Cash Shortfall	0	0	0	0	0	0	0	0	0	0	0
Capital Expenditure	**1 754**	182	175	141	172	162	169	176	184	192	201

TABLE 13: Base Case Distribution of Future Capital Funding (R'm)

R'm	Total	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Public & Developers' Contributions	1	1	0	0	0	0	0	0	0	0	0
Capital Grants	501	55	56	32	68	46	47	48	49	49	49
Financing	507	50	30	70	43	45	48	51	54	57	60
Cash Reserves and Funds	756	76	90	68	54	64	69	74	80	87	94
Cash Shortfall	0	0	0	0	0	0	0	0	0	0	0
Capital Expenditure	**1 764**	182	175	170	165	155	164	173	183	193	204

Liquidity and Capital Replacement Reserve

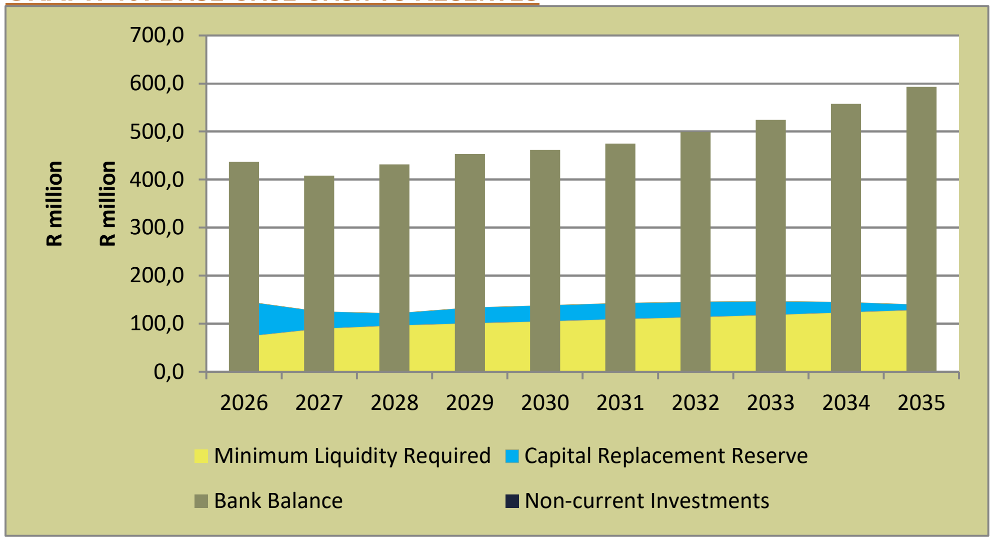
The minimum liquidity levels cater for unspent conditional grants, cash-backed reserves, short-term provisions and 1-month's working capital (operating expenditure). The municipality is forecast to maintain sufficient cash and cash equivalents to meet the minimum liquidity requirements with ease throughout the planning period. This is underpinned primarily by the maintenance of a high collection rate, but also through employing an optimised capital funding mix. The inclusion of consistent, affordable borrowings underpins the municipality's cash flow management through reducing reliance on own cash reserves to fund capital investment. This funding strategy will allow the municipality to continue building its cash reserves, whilst maintaining affordability of the long-term capital programme.

Hessequa has diligently contributed to a capital replacement reserve (CRR) in recent years, steadily increasing the balance to R60.0 million as at FYE2024/25. This has left Hessequa well placed to employ its cash reserves to accelerate capital investment. This is reflected in the Tabled Capital Budget, and the same philosophy applies to the Base Case capital program. In order for a municipality to sustainably contribute to a CRR, it must first ensure that it is able to meet the minimum liquidity requirements. This is illustrated in Graph 49 below, which highlights that Hessequa's forecast bank balance (green bar) is expected to remain sufficient to comfortably meet the minimum liquidity requirements throughout the planning period. This enables the municipality to consistently contribute to the CRR over the planning period, thus preparing the municipality adequately for future capital funding. It is recommended that the annual depreciation charge is utilised as a yardstick as to the annual contribution to the CRR. Graph 50 below indicates that Hessequa will be able to contribute the full depreciation charge throughout the planning period. While sufficient liquidity is available for annual contributions beyond the annual depreciation charge, the LTFM limits these contributions to this level. It must be further noted that the CRR balances included in Table 14 below are **net** of the own cash portion of the funding mix in that particular year. For example, the balance of R36.0 million included in FY2026/27 is net of the "**withdrawal**" of R89.5 million utilised to fund capital investment in that same year.

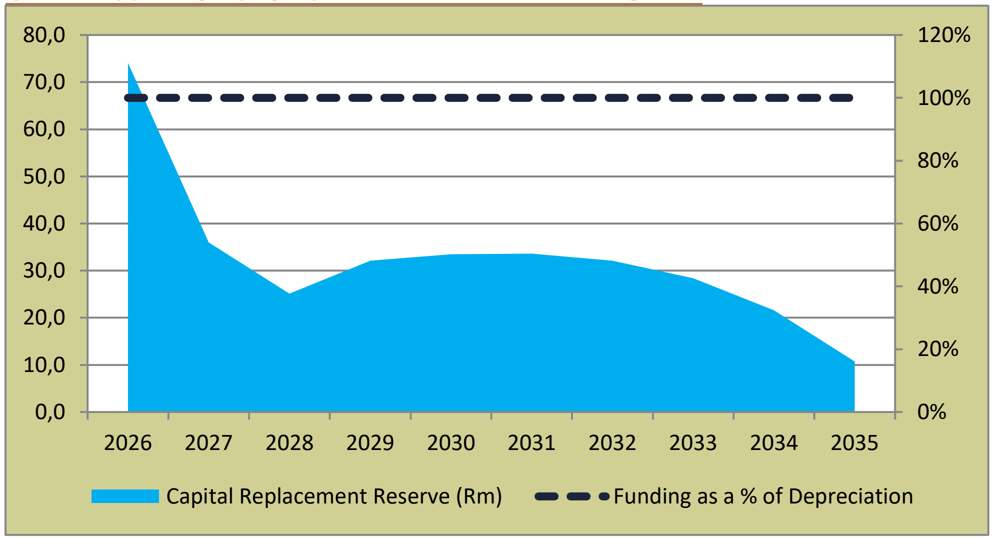
TABLE 14: Base Case Capital Replacement Reserve (R'm)

R'm	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Capital Replacement Reserve (Rm)	74,1	36,0	25,1	32,1	33,5	33,6	32,1	28,4	21,6	10,7
Funding as % of Depreciation	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %

GRAPH 49: BASE CASE CASH VS RESERVES



GRAPH 50: BASE CASE CAPITAL REPLACEMENT RESERVE

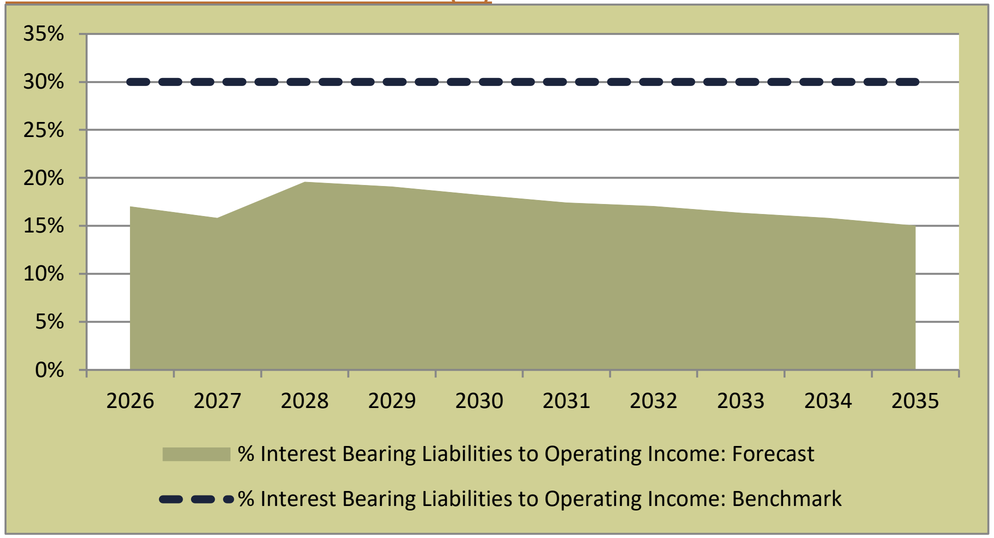


GEARING

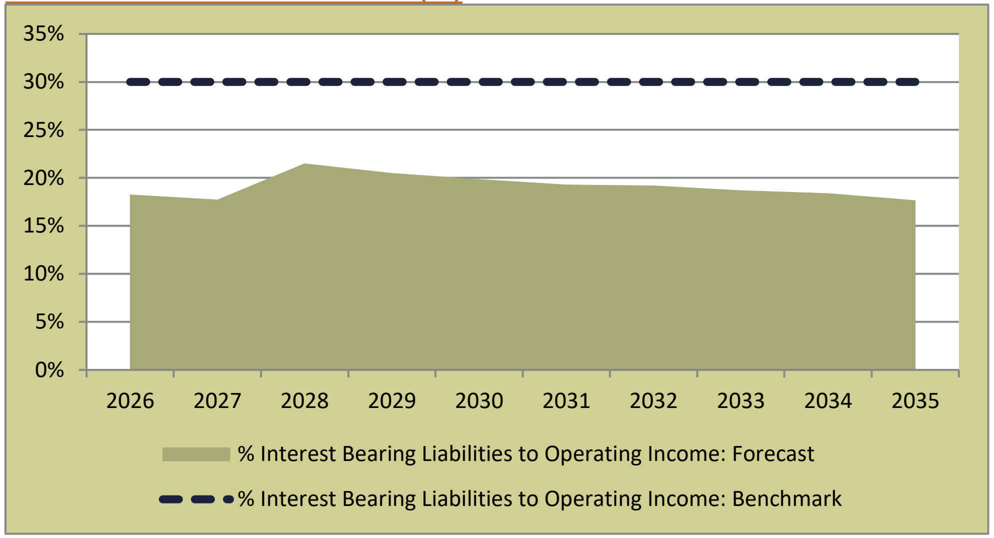
The MTREF Case presents the unadjusted Tabled Capital Budget & funding mix. This funding mix includes healthy borrowings over the MTREF period, with a growth factor of 4% assumed beyond the MTREF period. This is expected to result in a total borrowing programme of R413 million over the planning period. At an annual average of R41.3 million in borrowings, this does not present an aggressive borrowing programme, with levels of gearing and debt service to total expense ratios remaining well within their respective maximum limits as depicted in GRAPHS 51 & 52 below. This provides scope to sustainably accelerate borrowings over the planning period. This is tested in the Base Case.

In arriving at the Base Case, the Tabled Budget borrowing programme was adjusted over the MTREF period. An additional R10m in borrowings was included in FY2026/27 in an attempt to mitigate the forecast reduction in cash and cash equivalents as depicted in GRAPH 29 in Section 4 of this report. A marginal increase to R42.5 million (from R34.6 million) in FY2028/29 was included to reflect a more aggressive borrowing programme beyond the MTREF period. This must of course be balanced with long-term sustainability and ensuring an affordable long-term debt profile is an integral part of that. This is particularly prevalent given uncertainty over future economic conditions. To assess the affordability of the debt profile, we compare forecast levels of the gearing and debt service to total expense ratios against their respective maximum recommended limits. For Hessequa, IPM recommends maximum levels for the gearing and debt service to total expense ratios of 30% and 7% respectively. As depicted in Graphs 53 & 54 below, the accelerated borrowing programme is expected to remain affordable, with these ratios remaining well within their respective maximum limits. The Base Case borrowing programme thus underpins the accelerated capital investment programme whilst prioritising the maintenance of healthy liquidity. It is recommended that consistent borrowings are undertaken to assist with liquidity and cash flow management, whilst implementing an accelerated capital investment programme.

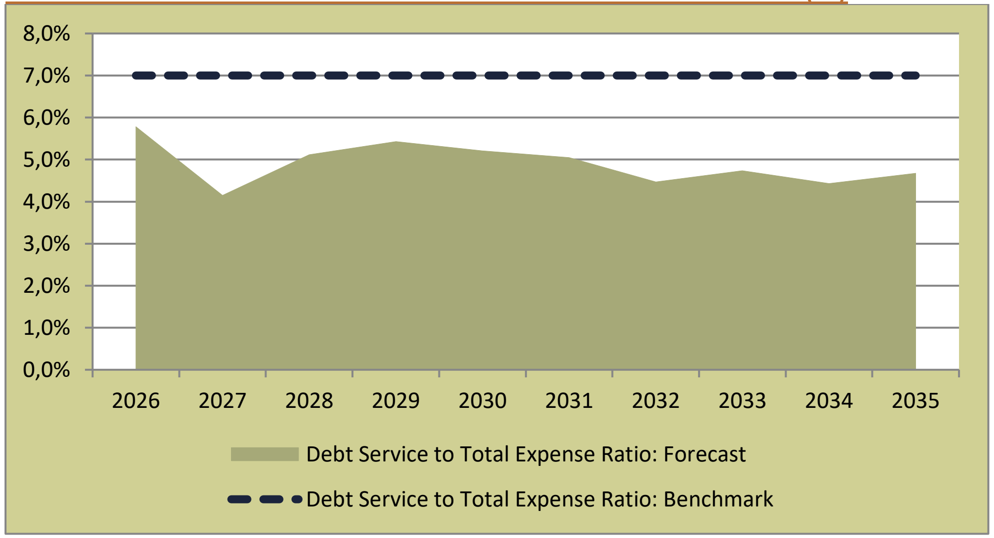
GRAPH 51: MTREF CASE GEARING (%)



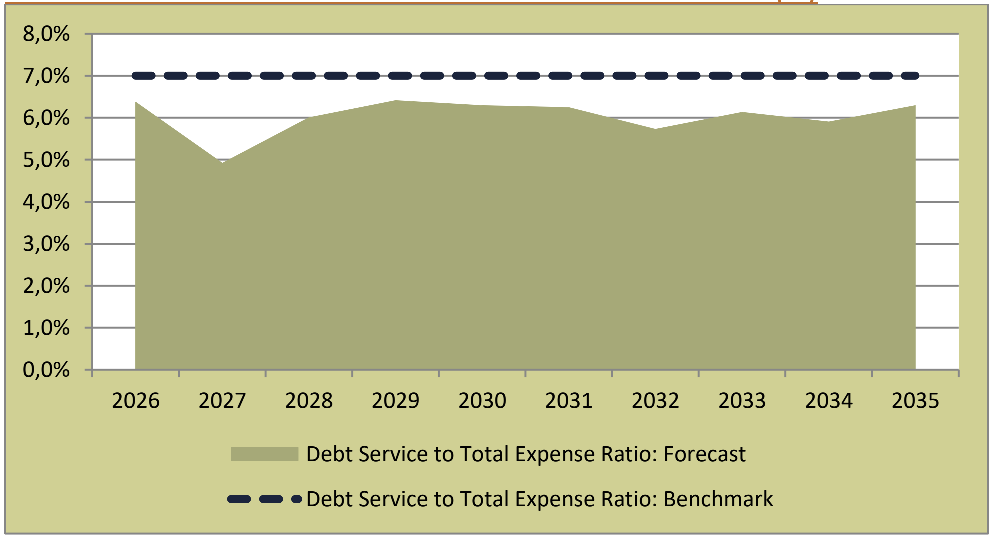
GRAPH 53: BASE CASE GEARING (%)



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



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



SCENARIOS ANALYSIS

Scenarios to be completed after further consultation with the municipality.

FORECAST RATIOS

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

		N.T. NORM	2026	2028	2030	2032	2034	2035	COMMENTS
FINANCIAL POSITION									
ASSET MANAGEMENT									
R29	Capital Expenditure / Total Expenditure	10% - 20%	18,8%	15,9%	13,4%	13,3%	13,1%	13,1%	CAPEX as a % of Total Expenditure will remain within the recommended range throughout the planning period.
R27	Repairs and Maintenance as % of PPE and Investment Property	8%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	Repairs and maintenance as a percentage of PPE and IP will be maintained at 8.0% throughout the planning period.
DEBTORS MANAGEMENT									
R4	Gross Consumer Debtors Growth		11,5%	10,5%	9,6%	9,0%	8,6%	8,4%	The Collection Rate is maintained at 98% throughout the planning period.
R5	Payment Ratio / Collection Rate	95%	98,0%	98,0%	98,0%	98,0%	98,0%	98,0%	
LIQUIDITY MANAGEMENT									
R49	Cash Coverage Ratio (excl Working Capital)		22,6 : 1	12,3 : 1	12,6 : 1	13,6 : 1	15,3 : 1	16,2 : 1	The bank balance will meet the minimum liquidity requirement throughout the forecast period. The liquidity position will rise to 3.8:1 by the end of the planning period.
R50	Cash Coverage Ratio (incl Working Capital)		6,1 : 1	4,4 : 1	4,4 : 1	4,3 : 1	4,5 : 1	4,6 : 1	
R51	Cash Surplus / Shortfall on Minimum Liquidity Requirements		R 364,9 m	R 334,4 m	R 355,4 m	R 384,1 m	R 433,2 m	R 462,7 m	
R1	Liquidity Ratio (Current Assets: Current Liabilities)	1:1.5 - 1:2.1	4,1 : 1	3,2 : 1	3,3 : 1	3,4 : 1	3,6 : 1	3,8 : 1	
LIABILITY MANAGEMENT									
R45	Debt Service as % of Total Operating Expenditure	6% - 8%	5,9%	5,3%	5,7%	5,2%	5,4%	5,8%	The external financing programme is forecast to remain within the recommended benchmarks, whilst taking advantage of scope to sufficiently leverage the debt profile.
R6	Total Debt (Borrowings) / Operating Revenue	45%	17,0%	20,4%	20,3%	20,2%	19,8%	19,3%	
R7	Repayment Capacity Ratio		1,12	1,45	1,58	1,51	1,43	1,38	
R46	Debt Service Cover Ratio (Cash Generated by Operations / Debt Service)		3,1 : 1	3,1 : 1	2,7 : 1	3,1 : 1	3,1 : 1	2,9 : 1	

		N.T. NORM	2026	2028	2030	2032	2034	2035	COMMENTS
SUSTAINABILITY									
	Net Financial Liabilities Ratio	< 60%	-11,5%	-0,3%	3,1%	5,4%	5,8%	5,5%	Net Financial Liabilities are below the benchmark, but the Operating Surplus Ratio remains below the recommended lower benchmark for the majority of the planning period. Asset Sustainability is not calculated but entered as an assumption in the model. The municipality must ensure that a greater proportion of CAPEX is spent on asset replacement should it be required.
	Operating Surplus Ratio	0% - 10%	5,5%	3,9%	2,4%	3,3%	4,4%	5,0%	
	Asset Sustainability Ratio	> 90%	18,2%	30,3%	6,4%	6,5%	6,7%	6,8%	
FINANCIAL PERFORMANCE									
EFFICIENCY									
R42	Net Operating Surplus / Total Operating Revenue	>= 0%	5,5%	3,9%	2,4%	3,3%	4,4%	5,0%	The net operating surplus improves to 5.0% by 2035, an indication that the municipality should endeavour to improve profitability by managing expenditure and improving surplus margins on electricity services and maintaining the high-water surplus margin.
R43	Electricity Surplus / Total Electricity Revenue		19,8%	17,0%	18,0%	18,0%	18,0%	18,0%	
R44	Water Surplus / Total Water Revenue		86,2%	86,0%	85,9%	85,7%	85,6%	85,5%	
REVENUE MANAGEMENT									
R8	Increase in Billed Income p.a. (R'm)		R 34,1 m	R 36,9 m	R 39,7 m	R 46,6 m	R 53,9 m	R 57,8 m	Billed Revenue and Operating Revenue Growth is, for the most part, marginally above forecast CPI over the planning period. Cash generated from operations is expected improve throughout the planning period.
R9	% Increase in Billed Income p.a.	CPI	6,7%	6,4%	6,0%	6,3%	6,4%	6,5%	
R12	Operating Revenue Growth %	CPI	11,6%	5,1%	6,4%	6,6%	6,8%	6,8%	
R47	Cash Generated by Operations / Own Revenue		18,8%	17,9%	16,6%	17,2%	17,8%	18,0%	
R48	Cash Generated by Operations / Total Operating Revenue		17,0%	16,2%	14,9%	15,4%	15,8%	16,0%	

		N.T. NORM	2026	2028	2030	2032	2034	2035	COMMENTS
EXPENDITURE MANAGEMENT									
	Creditors Payment Period	30	74	66	59	51	44	40	Creditors' payment period is higher than the NT benchmark but remains at acceptable levels.
R30	**Contribution per Expenditure Item: Staff Cost (Salaries, Wages and Allowances)**	25% - 40%	27,9%	28,7%	29,3%	28,8%	28,3%	28,1%	Staff costs as a percentage of total expenditure is forecast to remain within the recommended benchmark throughout the planning period. Contracted services to total expenditure, however, is forecast to exceed the recommended benchmark.
	Contribution per expenditure item: Contracted Services	2% - 5%	6,8%	6,4%	6,1%	6,0%	5,9%	5,9%	
GRANT DEPENDENCY									
R10	**Total Grants / Total Revenue**		15,2%	12,7%	13,7%	14,0%	14,2%	14,2%	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**		90,5%	90,3%	90,1%	89,5%	89,0%	88,8%	
	Capital Grants to Total Capital Expenditure		30,3%	19,1%	29,6%	27,9%	25,6%	24,2%	

1 Planning Process

2 Updated Perspectives (Demographic, Economic, Household Infrastructure)

3 Updated Historic Financial Assessment

4 Long-Term Financial Model Outcomes

5 Future Revenues

6 Affordable Future Capital Investment

7 Scenario Analysis

8 Ratio Analysis

9 Conclusions

Conclusion

Outcome of the Independent Financial Assessment

Hessequa's financial performance improved during FY2024/25, with the operating surplus (excluding capital grants) increasing from R68.9 million to R79.6 million. Cash to the value of R46.9 million was generated by operations (excluding capital grants) during FY2024/25 (R134.4 million in FY2023/24). This was despite an increase in the collection rate to 98.2%, down from 96.6% in the prior year. Electricity services remained the predominant revenue generator for Hessequa, accounting for 31% of revenue in FY2024/25. This was followed by property rates (18%) and equitable share (8%). Hessequa has managed to post operating surpluses and generate cash from operations throughout the review period, indicative of sustained healthy financial performance and the maintenance of high collection rates.

Staff costs accounted for 26% of operating expenditure during FY2024/25, down from the 31% contribution in the prior year. This is followed by electricity bulk purchases (20%) and repairs and maintenance expenditure (13%). Contracted services constituted 8% of operating expenditure during FY2024/25, high relative to the NT norm range of 2-5%. The combined contribution of staff costs and contracted services came in at 34%, thus placing Hessequa's employee related expenditure profile near the maximum norm of 40%, as prescribed by NT. Repairs and maintenance expenditure came in at 8.2% of PPE & IP.

The accelerated capital investment programme observed in recent years continued in FY2024/25, with the capital outlay of R236.6 million a peak for the review period. This was driven by the renewable energy project. The total capital outlay over the 8-year review period totalled R803.6 million, for an annual average of R100.5 million.

Hessequa has borrowed intermittently over the review period, with borrowings undertaken in 3/8 years under review. No borrowing was undertaken during FY2024/25. This resulted in a reduced gearing ratio of 15.9%, down from 19.9% in the prior year. The debt service to total expense ratio reduced marginally to 5.2%, down from 6.0% in the prior year. This suggests that scope exists to access borrowings in future, as is expected in the Adjustment Capital Budget. The level of debt undertaken must be carefully monitored to avoid an overleveraging of the debt profile.

The liquidity ratio improved during the year, up to 3.58:1 from 2.71:1 at the prior year end. It was indicated in the previous update that the presence of notable unspent conditional grants presented a fictitiously negative picture for the municipality's liquidity in FY2023/24. When the impact of this is removed, the liquidity ratio stood at 3.33:1. This highlights the notable improvement in liquidity during the year. The municipality has maintained healthy liquidity throughout the review period. This has been underpinned by sustained sound operational and financial management, for which the municipality must be commended. Further evidence of this lies in the consistent posting of cash surpluses above the minimum liquidity requirements over the review period.

Strengths

- Healthy collection rate of 98%.
- Healthy liquidity ratio of 3.58:1.
- Strong financial performance.
- Ability to generate cash from operations.
- Balanced funding mix over review period.

Weaknesses

- Excessive expenditure on contracted services.
- Employee related expenditure profile approaching upper limits.

OUTCOME OF THE FUTURE FORECASTS

Base Case Scenario

The assumptions made in the Base Case were focused on maintaining liquidity whilst also ensuring that the capital investment is maximised in a sustainable manner. The Base Case debt profile remains sustainable, whilst enabling a healthy capital investment programme to aid productive infrastructure investment.

Financial Performance

- Projected operating surpluses throughout the planning period.
- Healthy cash generation as a result of this and the maintenance of a high collection rate.
- Liquidity expected to improve and facilitate the implementation of the capital programme that is underpinned by a sustainable long-term debt profile.

Key Adjustments in the Base Case

- Acceleration of capex & borrowings over the MTREF period.
- Reduction in operating expenditure in order to reflect more realistic levels of financial performance given the conservative operating budget.

Key Assumptions

- **Collection rate** maintained at 98% throughout the planning period.
- **Tariff increases** incorporated as per the Budget Document.
- **Creditors' payment period** reduced from 77 days to 40 days over 10 years to manage rising creditor balances.
- **Repairs and maintenance** expenditure maintained at 8.0% of PPE & IP.
- **Electricity and water distribution losses** maintained at the following respective levels:
    - Electricity: 9.64%
    - Water: 18.00%.
- **Capital Investment Programme**
  Adjustments made to align with affordability and sustainability:
    - FY2027/28: R170 million
    - FY2028/29: R165 million
    - Growth beyond MTREF: Assumed 6% per annum.
- **Borrowing Programme**
  Adjustments made to align with affordability and sustainability:
    - Borrowing in FY2026/27: R30 million
    - Borrowing in FY2028/29: R42.5 million
    - Growth beyond FY2028/29: Assumed 6% p.a.
    - Average loan tenor: Assumed 10 years
    - Interest rates: Assumed 5% above forecast CPI

Outcome of the Base Case

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

CONCLUSION

Conservative Forecast Financial Performance: The Tabled Budget presented a conservative outlook. The Base Case has adjusted operating expenditure levels to be more reflective of the historic performance. With that said, we expect the budget and the short-term forecast in the Base Case to be outperformed.

Financial Stability: Through maintaining healthy financial performance, maintaining a healthy collection rate and continuing prudent management of the municipality's capital investment and borrowing programmes, Hessequa will maintain the sustainable financial position over the long-term. This will provide a basis for further growth and development to be fostered.

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

Investment and Growth: Sustained prudent financial management will enable greater investment in infrastructure and economic development, with the investment in renewable energy an example of this.

Key Priorities: Hessequa should adopt the Base Case with a strong focus on maintaining the collection rate and carefully managing the undertaking of new debt.

ANNEXURE 1: PROJECTED FINANCIAL STATEMENTS

Municipal Financial Model - Hessequa Local Municipality
Statement of Financial Position

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
R thousands											
Non-current assets:	1 460 495	1 578 455	1 720 791	1 834 110	1 937 727	2 027 463	2 122 297	2 222 662	2 329 070	2 442 122	2 562 530
Property, plant and equipment	1 328 076	1 464 112	1 588 022	1 701 340	1 804 927	1 894 649	1 989 467	2 089 815	2 196 204	2 309 237	2 429 624
Intangible assets	179	174	179	179	179	193	209	227	245	265	285
Investment properties	123 789	105 432	124 139	124 139	124 139	124 139	124 139	124 139	124 139	124 139	124 139
Investments	–	–	–	–	–	–	–	–	–	–	–
Long-term receivables	–	–	–	–	–	–	–	–	–	–	–
Other non-current assets	8 452	8 736	8 452	8 452	8 482	8 482	8 482	8 482	8 482	8 482	8 482
Current assets:	520 033	519 888	491 871	515 278	536 440	545 430	559 264	583 456	609 222	643 278	678 709
Inventories	4 775	3 387	3 739	3 917	4 103	4 373	4 673	5 003	5 358	5 737	6 138
Trade and other receivables	76 301	79 669	79 669	79 669	79 669	79 669	79 669	79 669	79 669	79 669	79 669
Cash & Short term investments	438 957	436 832	408 464	431 692	452 668	461 389	474 922	498 784	524 196	557 872	592 903
TOTAL ASSETS	**1 980 528**	**2 098 342**	**2 212 662**	**2 349 387**	**2 474 167**	**2 572 893**	**2 681 561**	**2 806 118**	**2 938 292**	**3 085 400**	**3 241 239**
Municipal Funds:	1 572 345	1 674 237	1 768 424	1 837 052	1 924 588	1 995 120	2 072 993	2 159 614	2 256 232	2 364 210	2 484 729
Housing development fund & Other Cash Backed Reserves	543	543	543	543	543	543	543	543	543	543	543
Reserves (Not Cash Backed)	62 982	110 096	68 771	113 589	112 911	112 911	112 911	112 911	112 911	112 911	112 911
Accumulated surplus	1 508 820	1 563 598	1 699 110	1 722 920	1 811 134	1 881 665	1 959 538	2 046 160	2 142 778	2 250 756	2 371 275
Non-current liabilities:	259 657	296 381	292 226	351 888	386 417	412 025	444 986	475 935	510 956	542 765	577 663
Long-term liabilities (Interest Bearing)	98 254	119 926	121 310	157 228	164 366	172 133	185 251	194 546	206 364	213 759	223 454
Long-term trade payables: Eskom	–	–	–	–	–	–	–	–	–	–	–
Non-current provisions	161 403	176 454	170 916	194 660	222 051	239 892	259 735	281 389	304 592	329 006	354 209
Current liabilities:	148 526	127 724	152 012	160 447	163 162	165 747	163 581	170 568	171 103	178 425	178 847
Consumer deposits	15 600	15 885	16 342	16 851	17 435	17 865	18 376	18 958	19 613	20 358	21 229
Provisions	25 576	18 787	31 569	34 597	36 008	36 008	36 008	36 008	36 008	36 008	36 008
Trade payables	79 500	71 103	75 485	74 916	74 357	74 591	74 562	74 279	73 645	72 580	71 017
Current portion of long-term trade payables: Eskom	–	–	–	–	–	–	–	–	–	–	–
Unspent conditional grants	3 643	–	–	–	–	–	–	–	–	–	–
Bank overdraft	–	–	–	–	–	–	–	–	–	–	–
Current portion of interest bearing liabilities	24 207	21 949	28 616	34 082	35 361	37 283	34 636	41 323	41 837	49 479	50 592
TOTAL MUNICIPAL FUNDS AND LIABILTIES	**1 980 528**	**2 098 342**	**2 212 662**	**2 349 387**	**2 474 166**	**2 572 892**	**2 681 560**	**2 806 117**	**2 938 291**	**3 085 400**	**3 241 239**

Municipal Financial Model - Hessequa Local Municipality
Statement of Financial Performance

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**
R thousands											
Revenue											
Property rates	140 197	148 014	155 412	163 320	171 881	181 750	192 578	204 323	216 925	230 359	244 552
Service Charges	365 374	391 499	420 465	449 072	480 346	509 841	541 491	575 951	613 158	653 202	696 308
Service charges - electricity	236 044	258 770	282 624	306 211	332 132	355 813	380 964	408 369	438 007	469 962	504 448
Service charges - water	59 596	62 049	65 662	69 076	72 685	76 730	81 247	86 164	91 473	97 198	103 338
Service charges - waste water management	31 842	34 075	34 218	34 388	34 596	34 790	35 051	35 352	35 672	36 005	36 351
Service charges - waste management	37 892	36 605	37 961	39 397	40 932	42 508	44 228	46 067	48 005	50 038	52 172
Service charges - other	–	–	–	–	–	–	–	–	–	–	–
Rental from fixed assets	4 431	4 622	4 992	5 391	5 822	6 164	6 539	6 943	7 376	7 838	8 332
Interest	46 305	30 955	32 078	30 947	33 467	35 643	36 645	37 799	39 535	41 126	43 061
Interest earned from receivables	4 277	3 930	4 532	4 699	4 869	4 774	5 111	5 445	5 768	6 077	6 367
Dividends	–	–	–	–	–	–	–	–	–	–	–
Fines, penalties and forfeits	44 899	110 061	102 834	107 458	112 291	118 887	126 106	133 907	142 260	151 171	160 688
Licences and permits	2 345	2 559	2 692	2 814	2 940	3 207	3 506	3 834	4 190	4 570	4 967
Agency services	3 213	3 716	3 884	4 012	4 144	4 387	4 654	4 942	5 250	5 579	5 930
Transfer and subsidies - Operational	68 053	79 731	89 081	90 921	92 835	101 810	111 628	122 295	133 819	146 232	159 596
Other revenue	68 302	44 657	66 500	49 670	49 560	52 471	55 658	59 100	62 787	66 720	70 921
Gains on disposal of Assets	–	14 000	8 000	28 000	10 000	11 441	13 150	15 136	17 402	19 937	22 712
Total revenue before Capital Grants	747 397	833 743	890 469	936 302	968 155	1 030 376	1 097 064	1 169 675	1 248 472	1 332 812	1 423 435
Transfers and subsidies - capital (monetary allocations)	161 688	55 169	55 799	32 485	68 063	46 023	47 206	48 257	49 026	49 389	49 265
Public & developers contributions	–	639	–	–	–	–	–	–	–	–	–
Total Revenue after Capital Grants	909 084	889 551	946 268	968 787	1 036 218	1 076 399	1 144 270	1 217 932	1 297 497	1 382 200	1 472 700
Operating expenditure											
Employee related costs	231 995	260 158	281 349	296 136	311 937	327 929	344 944	362 943	381 878	401 683	422 280
Remuneration of councillors	9 128	10 039	10 537	10 969	11 418	11 861	12 328	12 816	13 320	13 832	14 346
Debt impairment	31 374	97 193	92 508	96 684	101 256	107 226	113 748	120 801	128 360	136 432	145 056
Depreciation and amortisation	44 315	45 992	51 460	56 681	61 413	65 645	69 197	72 743	76 290	79 848	83 431
Interest	21 681	15 898	15 443	19 480	20 651	21 612	22 742	23 912	25 558	26 839	28 475
Bulk purchases - electricity	187 077	207 635	230 526	254 013	272 278	291 691	312 310	334 776	359 073	385 269	413 540
Inventory Consumed	48 942	37 840	45 427	47 714	49 870	53 651	57 951	62 730	67 942	73 533	79 435
Contracted services	71 920	65 817	76 500	68 003	66 906	70 388	74 138	78 142	82 392	86 894	91 672
Transfers and subsidies	2 613	2 509	2 775	2 874	2 972	3 117	3 275	3 444	3 624	3 815	4 016
Other expenditure	64 329	44 578	45 555	47 606	49 981	52 748	55 765	59 003	62 442	66 079	69 930
Losses on disposal of Assets	1 065	–	(0)	0	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Total Expenditure	714 439	787 659	852 081	900 159	948 682	1 005 867	1 066 397	1 131 311	1 200 879	1 274 223	1 352 181
Suplus/ (Shortfall) for the year	**194 646**	**101 892**	**94 187**	**68 628**	**87 535**	**70 532**	**77 873**	**86 621**	**96 618**	**107 978**	**120 519**

Municipal Financial Model - Hessequa Local Municipality
Cash Flow Statement

Model year	0	1	2	3	4	5	6	7	8	9	10
Financial year (30 June)	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**
R thousands											
Cash flows from Operating Activities											
Suplus/Deficit for the year *including* Capital Grants	194 646	101 892	94 187	68 628	87 535	70 532	77 873	86 621	96 618	107 978	120 519
Suplus/Deficit for the year *excluding* Capital Grants & Contributions		46 084	38 388	36 143	19 473	24 509	30 667	38 364	47 593	58 589	71 254
Capital Grants & Contributions		55 808	55 799	32 485	68 063	46 023	47 206	48 257	49 026	49 389	49 265
Adjustments for non-cash items:											
Depreciation, amortisation and impairment loss	44 315	45 992	51 460	56 681	61 413	65 645	69 197	72 743	76 290	79 848	83 431
Revaluation on investment property (gain) / loss	–	–	–	–	–	–	–	–	–	–	–
Increase / (Release from) current provisions & non-interest bearing liabilities	–	(6 789)	12 782	3 028	1 411	–	–	–	–	–	–
Increase / (Release from) other non-current provisions & non-interest bearing liabilities	–	15 051	(5 538)	23 744	27 391	17 841	19 843	21 654	23 203	24 413	25 203
(Increase) / Release from non-current interest bearing assets	–	–	–	–	–	–	–	–	–	–	–
Capitalised interest	–	–	–	–	–	–	–	–	–	–	–
Eskom Debt Relief (synthetic grant)	–	–	–	–	–	–	–	–	–	–	–
Operating surplus before working capital changes:	238 961	156 147	152 891	152 081	177 751	154 018	166 913	181 018	196 111	212 239	229 154
Change in W/C Investment	–	(14 018)	4 029	(747)	(745)	(35)	(330)	(612)	(989)	(1 444)	(1 964)
(Increase)/decrease in inventories	–	1 388	(352)	(178)	(186)	(269)	(301)	(329)	(356)	(379)	(401)
(Increase)/decrease accounts receivable	–	(3 368)	–	–	–	(0)	–	0	0	(0)	–
Increase/(decrease) in trade payables	–	(8 397)	4 381	(568)	(559)	234	(29)	(283)	(634)	(1 065)	(1 563)
Eskom Debt Relief (movement out of creditors)		–	–	–	–	–	–	–	–	–	–
Increase/(decrease) in unspent grants	–	(3 643)	–	–	–	–	–	–	–	–	–
Net cash flow from Operating activities	238 961	142 128	156 921	151 334	177 005	153 982	166 583	180 405	195 122	210 795	227 190
Cash flows from Investing Activities											
Capital expenditure	–	(182 023)	(175 375)	(170 000)	(165 000)	(155 381)	(164 031)	(173 108)	(182 697)	(192 901)	(203 839)
Decrease/(Increase) in non-current receivables	–	(285)	285	(0)	(30)	–	–	–	–	–	–
(Additions) / Disposals of investment property	–	18 357	(18 707)	–	–	–	–	–	–	–	–
Net cash flow from Investing activities	–	(163 952)	(193 796)	(170 000)	(165 030)	(155 381)	(164 031)	(173 108)	(182 697)	(192 901)	(203 839)
Cash flows from Financing Activities											
New loans raised	–	50 000	30 000	70 000	42 500	45 050	47 753	50 618	53 655	56 875	60 287
Loans repaid	–	(30 587)	(21 949)	(28 616)	(34 082)	(35 361)	(37 283)	(34 636)	(41 323)	(41 837)	(49 479)
(Decrease) / Increase in consumer deposits	–	285	456	510	583	431	511	582	655	745	872
Net cash flow from Financing activities	–	19 698	8 508	41 893	9 001	10 119	10 981	16 565	12 987	15 782	11 680
Change in Cash	238 961	(2 125)	(28 368)	23 228	20 977	8 720	13 533	23 862	25 411	33 676	35 031
Cash/(Overdraft), Beginning		438 957	436 832	408 464	431 692	452 668	461 389	474 922	498 784	524 196	557 872
Cash/(Overdraft), Ending	**438 957**	**436 832**	**408 464**	**431 692**	**452 668**	**461 389**	**474 922**	**498 784**	**524 196**	**557 872**	**592 903**

Prepared by INCA Portfolio Managers

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

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