BITOU LOCAL MUNICIPALITY

Independent Financial Assessment

Against the context of the Municipality's Demographic, Economic & Household Infrastructure Situation

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Abbreviations

GRAP:	Generally Recognized Accounting Practice
IPM:	INCA Portfolio Managers
LTFM:	IPM's Credit and Cash Flow Forecast Model
LTFP/S:	Long-term Financial Plan/Strategy
MTREF:	Medium Term Revenue and Expenditure Framework
LM:	Local Municipality

Information assessed

- Economic data extracted from IHS Global Insight ReX
- The Audited consolidated financial statements for the years ending 30 June 2015 to 30 June 2022 supplemented by the Adopted 2023-25 MTREF Budget

1. Introduction

This Independent Financial Assessment ("IFA") report has been prepared by INCA Portfolio Managers ("IPM") with financing from the INCA Capacity Building Fund (ICBF), a not-for-profit company established in 1998 as a joint venture between Infrastructure Finance Corporation Limited (INCA) and Agence Française de Development (AFD).

The ICBF has received a recapitalization grant from SECO. Part of the work done by ICBF is to support municipalities with their long-term financial planning capacity to access debt funding to accelerate their infrastructure investment programmes. It is within this context that Bitou LM has elected for technical assistance support.

The approach followed to assist the municipality to develop a Long-term Financial Plan ("LTFP") consists of two phases. The first phase, the outcome of which is this IFA report, and the second phase the drafting of a LTFP (which is derived from a Long-term Financial Model ("LTFM")). The IFA report and the key conclusions drawn herein serve as a base for the development of the LTFM, and then the LTFP.

The detailed financial assessment that underpins the IFA Report includes a historical financial overview and a perspective of the demography, local economy and the household infrastructure services provided to the community. These perspectives serve to provide the reader with context and identify key issues to model in the LTFM, and to respond to in the LTFP. In addition, the IFA report presents an early indication of the creditworthiness of the Municipality and its ability to absorb external funding and points to the most critical aspects that need urgent and focused attention.

2.   Executive Summary

Bitou Local Municipality is situated in the Garden Route District, in the Western Cape Province. It is the smallest of the seven local municipalities in the Garden Route District, making up just 4% of its geographical area. It is home to the pristine coastal city of Plettenberg Bay, one of the most popular holiday destinations in the country. Unsurprisingly, the tourism sector is crucial to Bitou's economy.

Bitou LM has a population of 65 660 (IHS 2021) people, the third lowest population in the district. The vast majority of the population are of working age (25-64), with the economically active population as a percentage of total population of 42.8%, the highest in the district. Bitou LM has the fastest growing population in the Garden Route District, while exceeding the provincial and national rates as well. Unemployment in Bitou is the highest in the district and is in excess of the district, provincial and national averages.

Bitou LM had the third smallest economy in the Garden Route District, with a 2021 GVA of R6.13 billion. This represents 9.2% of the Garden Route District GVA. Notwithstanding the fact that the tourism sector isn't defined as a specific economic sub sector per se, it contributed R1.81 billion to the economy, making it the largest economic contributor in 2021.

The municipality performed well in the provision of infrastructure services over the review period, reducing the level of backlogs in all services, with the exception of refuse removal. The infrastructure index of 0.87, albeit an improved figure over the review period, lags behind the district and provincial averages, but is an improvement on the national average. There has been a general trend of urbanisation during the review period, underpinned by the high household formation of 34.8%, the highest in the district by a considerable margin.

Bitou LM achieved a shadow credit rating of 4.7 on the INCA Shadow Credit Rating Model. This is considered "Investment Grade" and equates to a rating of BBB- on the national credit ratings scale. The municipality performed well in the Infrastructure and Environmental components of the credit model. Performance in the Financial component can be improved with a particular focus on increasing the collection rate, strengthening the liquidity position, and further leveraging the municipality. An increased credit score will allow the municipality to access affordable lending rates should it decide to approach the market for additional borrowing.

The municipality currently finds itself in an under-leveraged position, highlighted by low levels of gearing and debt servicing. There is plentiful scope to undertake external financing to accelerate capital expenditure. Bitou has realised operating deficits in three of the last four years under review, indicating a reasonably high reliance on fiscus.

The current liquidity position is concerning, posing a significant threat to meeting short-term obligations. Bitou has realised cash shortfalls in six of the eight years under review, further highlighting the current liquidity risk. The capital funding mix relies heavily on the municipality's own cash reserves to fund capital expenditure which, in light of the low levels of liquidity, is financially unsustainable and can be avoided through approaching the market to access external financing.

Bitou LM's demographic and economic situations highlight the need for increased service delivery and capital investment in projects that will create an enabling environment for economic growth and consequently create job opportunities. The municipality is required to find appropriate and sustainable solutions to the challenges it is exposed to. The achievement of the above will foster an environment of improved living conditions, increased service delivery and thus contribute to the betterment of the lives of the municipality's inhabitants.

3. Key Perspectives

Demography

- Bitou LM has a total population of 65 660 people, this represents the third lowest population in the Garden Route district.
- The municipality is the fastest growing municipality in the district, with a 5-year average population growth rate of 2.87%.
- Bitou has the second most dense population in the Garden Route district, with population density of 66.2 people/km^2.
- Bitou has the lowest average annual household income in the Garden Route district with an average of R252 780.
- The municipality's economically active population as a percentage of total population has declined considerably since 2017, with an aggregate decline of 7.8% from 2017 to 2021.
- The Official Unemployment Rate, a narrow definition excluding discouraged workers and those not actively searching for work, was 35.5% in 2021, continuing the trend of being the highest in the district over the review period.

Local Economy

- Bitou LM's 2021 GVA amounted to R6.13 billion, with a total GVA contribution of 9.2% of the Garden Route district GVA in 2021.
- There has been a 5-year average GVA contraction of 0.2% in the municipality, while the heavily pandemic affected 2020 contributed to this contraction, a pre-pandemic 5-year average GVA growth rate (2015-2019) of 0.7% indicates sluggish economic growth prior to the pandemic.
- It is concerning to note that the 5-year average population growth rate of 2.8% greatly exceeds the average GVA growth of -0.2% over the same period, further eroding the municipality's economic base.
- The Finance, Community Services and Trade sectors contribute a combined 67.7% to Bitou's GVA.
- Total tourism trips declined to 72 214 trips in 2021, largely due to the lingering effects of the pandemic resulting in reduced trips for leisure/holiday purposes.
- Tourism spend increased to R1.81 billion in 2021. Tourism is crucial to Bitou's GVA as highlighted by a 5-year average GVA contribution of 22.8%.

Household Infrastructure and Service Delivery

- Bitou LM performed well in the provision of municipal services with reduced sanitation, electricity and water backlogs in 2021 as compared to 2012.
- The municipality had an infrastructure index of 0.87 in 2021, a high for the review period. The maintenance and improvement of this index highlights the ability to keep up with the rate of household formation within the municipality.

Financial Position

- The Liquidity Ratio of 1.05:1 as at FYE2022 is at its lowest for the review period and is well below the NT minimum norm of 1.5:1, posing a significant liquidity risk.
- Low collection rate of 83% as at FYE2022, slightly below the average of 84% for the entire review period. This remains well below the NT norm of 95%.
- Net debtors' days amounted to 31 days as at FYE2022, a slight increase from 28 days as at FYE2021, but remains an improvement on the 5-year average of 37 days.

- Creditors' days totaled 104 days, slightly exceeding the 5-year average of 101 days. This greatly exceeds the NT norm of 30 days.
- The low gearing and debt service to total expense ratios of 10% and 4% respectively, provide scope for accelerated borrowing in the coming years. The municipality has not undertaken any borrowing since FY2018.

Financial Performance

- Bitou LM's Total Income exceeded its Total Operating Expenditure resulting in an accounting surplus of R47.9 million in FY2022.
- Concerning to note is that 8-year average Operating Expenditure growth of 10.1% has exceeded that of Operating Income of 8.9% over the same period, posing a threat to financial sustainability.
- There is a reasonably high reliance on grant funding as a revenue source, as evidenced by the realisation of operating deficits in 3 of the last 4 years.
- Staff costs remain the largest contributor to operating expenditure, coming in at 32% of operating expenditure during FY2022.
- Repairs and maintenance expenditure as a percentage of carrying value of PPE and IP totaled 4% in FY2022, slightly above the 8-year average of 3%. This is below the NT recommended norm of 8%.

Cash Flow Statement

- The municipality managed to generate cash from its operations in 7 of the 8 years under review, with a peak of R107.0 million in FY2020.
- The capital funding mix is less than optimal, with too much capital investment funded through the municipality's own cash reserves and funds.
- It is recommended that the municipality utilises the scope for affordable borrowing to fund capital expenditure, as this will not only alleviate pressure on cash reserves but also unlock accelerated capital investment.
- Bitou has an 8-year average capital budget implementation ratio of 83%, this is far below the NT norm range of 95%-100%.
- The municipality has a history of cash shortfalls below the minimum liquidity requirement, with shortfalls realised in 6 of the 8 years under review.
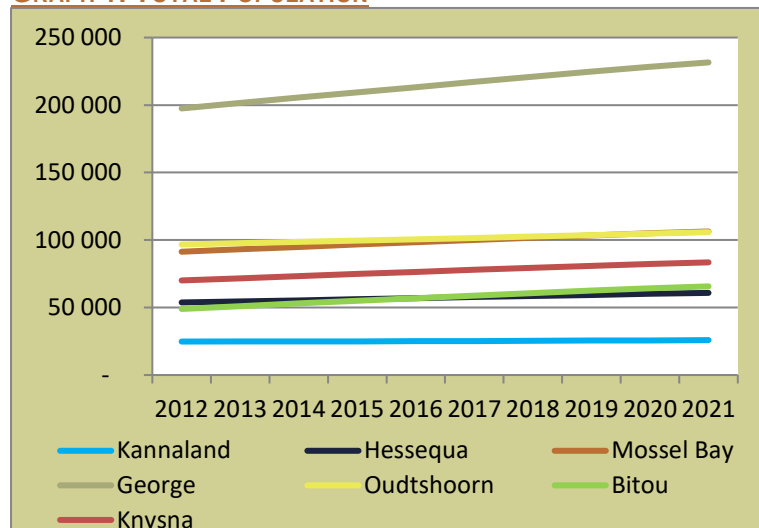
Credit Score

- The municipality achieved an IPM Credit Score of 4.7, which is considered **Investment Grade** and equates to a **BBB-** score on the National Credit Ratings Scale.

4. Demography

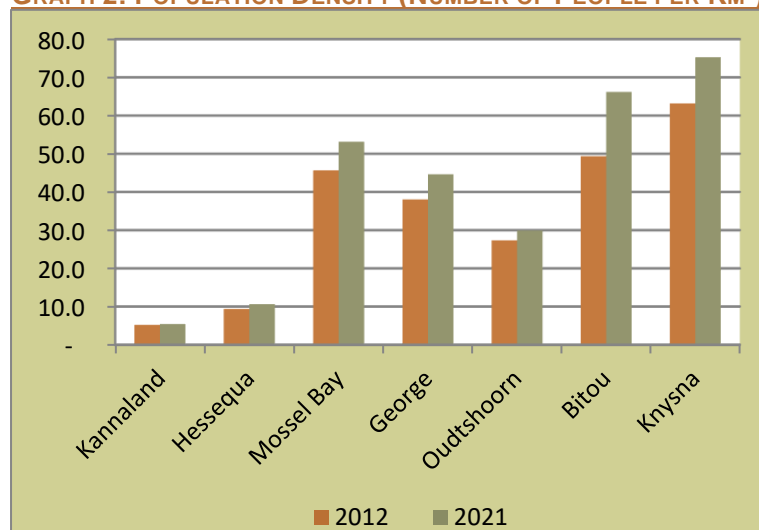## Population

GRAPH 1: TOTAL POPULATION

Bitou LM has a total population of 65 660 people (2021), the third lowest in the Garden Route district. This equates to 9.66% of the Garden Route district population.

Bitou has the fastest growing population in the district, with 5-year average population growth of 2.87%. This growth rate is high in the district (1.61%), provincial (1.62%) and national (1.44%) contexts. There has been a decreasing trend in the population growth rate over the review period, reducing from 4.61% in 2012 to 2.16% in 2021.

TABLE 1: TOTAL POPULATION

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Kannaland	24 791	24 811	24 859	24 936	25 038	25 172	25 333	25 508	25 701	25 871
Hessequa	53 756	54 550	55 347	56 142	56 928	57 731	58 542	59 341	60 145	60 841
Mossel Bay	91 339	93 139	94 901	96 620	98 313	100 017	101 715	103 380	105 034	106 341
George	197 479	201 591	205 581	209 460	213 275	217 116	220 948	224 704	228 458	231 575
Oudtshoorn	96 716	97 598	98 520	99 484	100 463	101 501	102 586	103 677	104 804	105 800
Bitou	48 941	51 039	53 079	55 058	56 992	58 901	60 763	62 553	64 272	65 660
Knysna	70 064	71 704	73 307	74 873	76 408	77 948	79 467	80 929	82 347	83 455
Garden Route	583 084	594 433	605 594	616 572	627 417	638 386	649 354	660 091	670 762	679 543

GRAPH 2: POPULATION DENSITY (NUMBER OF PEOPLE PER KM²)

Bitou LM covers an area of 992km², making it the smallest (by geographical area) local municipality in the Garden Route district. GRAPH 2 illustrates that Bitou has the second highest population density in the municipality with 66.2 people/km², trailing only Knysna in this regard. Bitou has experienced the most growth in population density over the review period, consistent with having the fastest growing population over the same period.

The table below shows the proportion of the consolidated age groups which are broken down into children, learners and young people (00 – 24), working age people (25 – 64) and post retirement age people (65+), for the 7 municipalities in the Garden Route District.

TABLE 2: AGE GROUP OF POPULATION

Age Group	Kannaland	Hessequa	Mossel Bay	George	Oudtshoorn	Bitou	Knysna
00 - 24	42,2%	34,5%	33,1%	38,2%	42,2%	34,5%	35,1%
25 - 64	47,8%	51,2%	53,8%	53,6%	48,0%	58,4%	55,1%
65+	10,0%	14,3%	13,1%	8,3%	9,8%	7,1%	9,8%

TABLE 2 illustrates that the majority of Bitou's population falls in the group of working age people. There is a small proportion of post retirement age people (65+) of just 7.1% of the population, the lowest proportion in the district, indicating Bitou is not necessarily seen as a popular retirement destination.

**GRAPH 3: POPULATION PYRAMID OF BITOU LM**
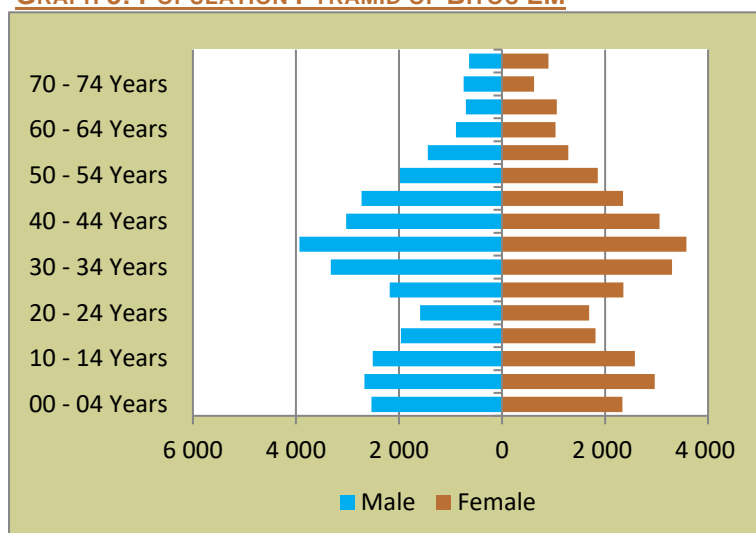
The population pyramid illustrates the age composition of a society. It provides an indication of the size of the working age population, including job seekers and the potential for new household formation and associated demands on household service delivery, such as housing, sanitation, water, electricity and refuse removal.

Bitou LM's Age Profile illustrates that the largest age brackets are between the ages of 30-45 years. This can be an effect of urbanisation, leading people to move into urban areas looking for job opportunities. This is consistent with the high level of household formation discussed later in this report.

Income

GRAPH 4: ANNUAL PER CAPITA INCOME (RAND, CURRENT PRICES)
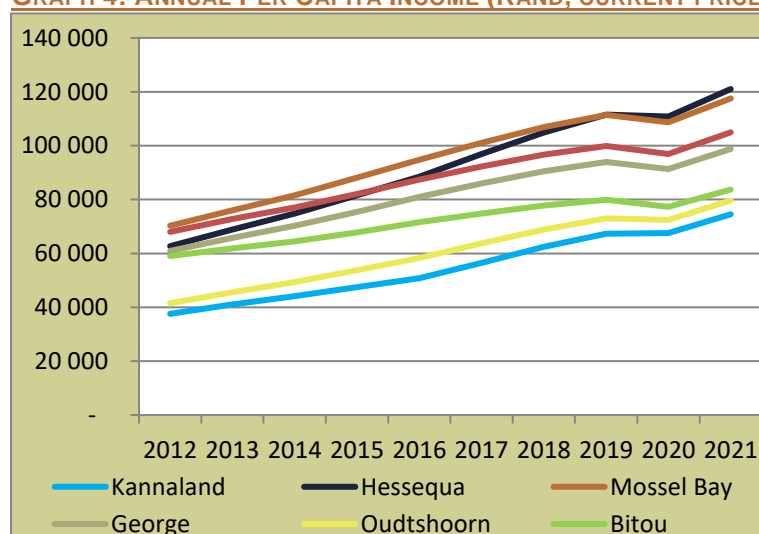
Bitou LM's annual per capita income of R83 716 was the third lowest in the Garden Route district and is less than that of the district (R99 108) and province (R100 034), but exceeds the national per capita income of R73 121.

The average annual income per household for the municipalities in the district is as follows:
- Bitou – R252 780
- Kannaland – R289 938
- Mossel Bay – R382 165
- George – R352 183
- Oudtshoorn – R327 427
- Hessequa – R407 692

TABLE 3 below compares the annual per capita income across the local municipalities within the Garden Route District over the review period. Each municipality in the district has experienced an increasing trend in annual per capita income over the review period, barring 2020 in which the district economy was heavily affected by Covid-19. It is positive to note that there has been a subsequent recovery, beyond pre-pandemic levels, in 2021.

TABLE 3: ANNUAL PER CAPITA INCOME IN CURRENT PRICES R – BITOU LM

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Kannaland	37 587	41 056	44 197	47 515	50 775	56 453	62 439	67 295	67 541	74 536
Hessequa	62 695	68 869	74 779	81 566	88 498	96 885	104 920	111 510	110 783	121 026
Mossel Bay	70 293	76 020	81 610	88 153	94 776	101 071	106 865	111 398	108 637	117 531
George	60 923	65 767	70 241	75 423	80 940	85 968	90 512	93 947	91 332	98 770
Oudtshoorn	41 548	45 563	49 340	53 790	58 257	63 701	68 873	73 010	72 491	79 674
Bitou	59 034	61 858	64 451	67 759	71 585	74 769	77 817	79 895	77 260	83 716
Knysna	68 006	72 782	77 010	82 040	87 448	92 262	96 638	99 938	96 930	104 958
Garden Route	59 041	63 820	68 280	73 477	78 901	84 353	89 421	93 343	91 269	99 108
Western Cape	67 728	71 977	75 653	80 356	85 018	89 351	93 505	96 534	92 828	100 034
South Africa	47 796	50 871	53 927	57 482	60 781	64 208	67 525	69 856	67 342	73 121

GRAPH 5: NUMBER OF HOUSEHOLDS PER INCOME CATEGORY, 2021 BITOU LM
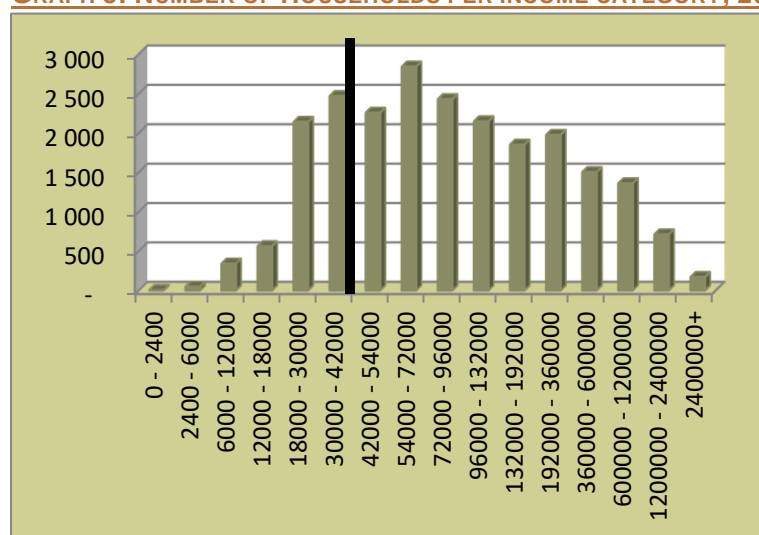
GRAPH 5 illustrates the distribution of household income, indicating that 25.6% of households in the municipality earn less than R42 000 p.a. This is higher than the Garden Route district figure of 14.2%.

The income category of between R54 000 and R72 000 has the highest concentration of households in the municipality with 13.1%.

Households who earn less than the R42 000 p.a. threshold represent the number of indigent households who qualify for and/or are largely reliant on government grants as a source of income. 13.4% of Bitou LM's households receive a level of service below the RDP level. The provision of RDP level of services is theoretically provided for by the equitable share which should compensate the municipality for the provision of these free services.

Economically Active Population

**GRAPH 6: ECONOMICALLY ACTIVE POPULATION (EAP)**
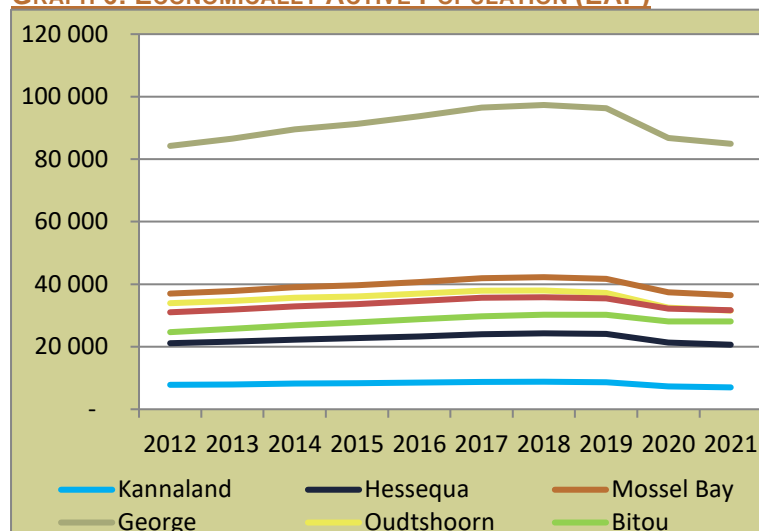
GRAPH 6 provides a perspective on the growth in the number of Economically Active People[1] in the six local municipalities within the Garden Route District.

GRAPH 6 indicates that Bitou has the third lowest EAP in the district, with a total EAP of 28 126 people in 2021. There was a moderate increasing trend throughout the review period up until 2019, with a total of 24 666 people in 2012 increasing to a peak of 30 220 in 2019. The Covid-19 pandemic resulted in severe job losses around the world, and the affect on Bitou LM was no different. As a result, there has been a decreasing trend over the most recent two years of the review period.

TABLE 4: ECONOMICALLY ACTIVE POPULATION (EAP)

|	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Kannaland	7 788	28 831	30 221	31 406	32 515	33 638	34 280	35 234	34 771	35 334
Hessequa	21 178	11 524	12 094	12 502	12 970	13 481	13 778	14 241	14 019	14 286
Mossel Bay	36 991	31 032	32 655	33 969	35 417	36 860	37 653	39 004	38 718	39 641
George	84 247	23 881	25 154	26 155	27 237	28 370	29 074	30 132	30 076	30 799
Oudtshoorn	33 907	22 310	23 821	24 985	26 082	27 148	27 864	28 686	28 022	28 380
Bitou	24 666	43 328	45 983	48 094	50 075	52 035	53 337	54 961	54 479	55 421
Knysna	31 019	19 177	20 035	20 715	21 338	21 942	22 347	22 848	22 626	22 867
Garden Route	239 796	180 083	189 962	197 825	205 634	213 474	218 333	225 106	222 712	226 728

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[1] The economically active population (EAP) is defined as the number of people who are able, willing and who are actively looking for work and who are between the ages of 15 and 65. It thus includes both employed and unemployed people.

GRAPH 7: ECONOMICALLY ACTIVE POPULATION (EAP) AS % OF POPULATION, BITOU LM
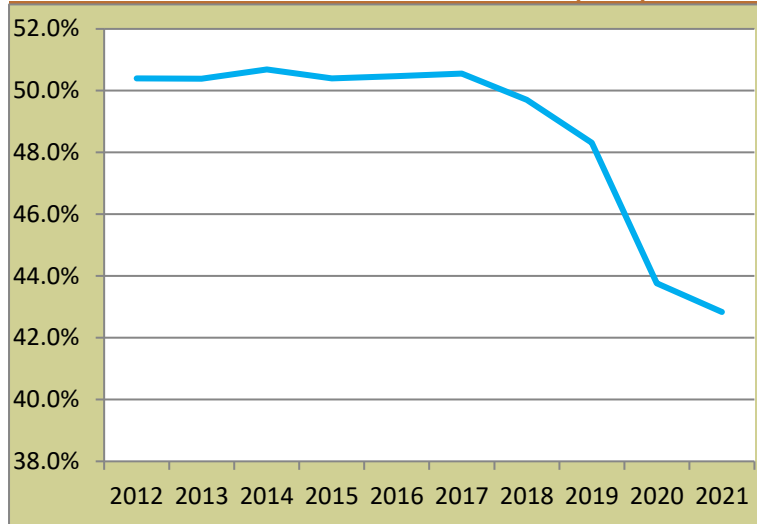
The EAP of the municipality as a percentage of total population is reflected in **GRAPH 7**. This metric remained stable between 2012 and 2017 with just a 0.2% deviation during that period. However, since 2018 there has been a significant decreasing trend, dropping from 50.6% in 2017 to 48.3% in 2019, before dropping further to just 42.8% in 2021. While the effects of Covid-19 on unemployment have exacerbated this decrease, the decline between 2017-2019 indicates that the decreasing trend has been in effect prior to Covid-19.

The EAP as a percentage of population for the other municipalities in 2021 are as follows:

➢ Kannaland LM 27.0%
➢ Hessequa LM 33.9%
➢ Mossel Bay LM 34.3%
➢ George LM 36.6%
➢ Oudtshoorn LM 29.8%
➢ Knysna LM 37.9%

GRAPH 8: UNEMPLOYMENT RATE – BITOU
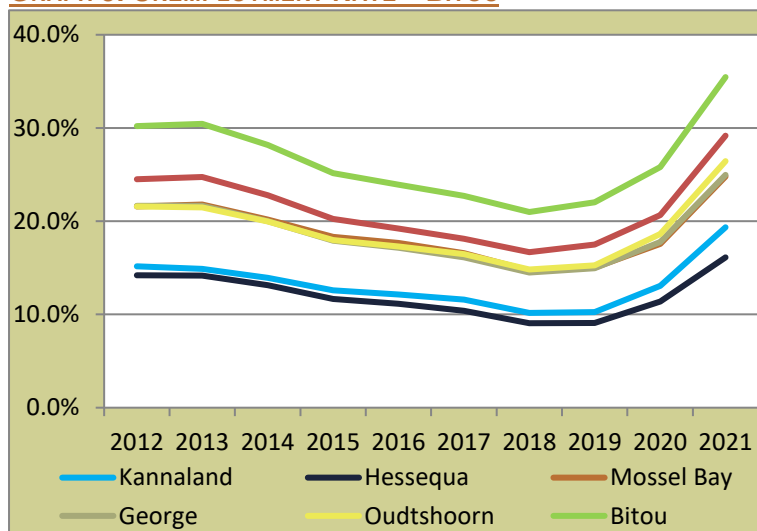
GRAPH 8 illustrates that the local municipalities within the Garden Route district have experienced a similar trend in unemployment rates over the review period, with each and every municipality reaching a peak in 2021. Bitou LM has had the highest rate of unemployment in the Garden Route district throughout the review period, with a rate of 35.5% in 2021. Concerning to note, the unemployment rate in Bitou LM exceeds that of the district, province and country, as reflected in **TABLE 5** below.

It must be noted that the current official unemployment rate employs a definition which excludes discouraged workers and those who are not actively seeking work. Thus, should a broader, more realistic definition be utilised, this rate will increase further.

As previously mentioned, the increase in unemployment was exacerbated by the pandemic which resulted in severe job losses across the board. This highlights the need for increased investment in capital projects that create an enabling environment to stimulate the municipal economy and as a result, create job opportunities.

TABLE 5 below illustrates the unemployment rates across the past 10 years for all the municipalities within the Garden Route district, as well as that of the Western Cape province and the country.

TABLE 5 UNEMPLOYMENT RATE – BITOU

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Kannaland	15,2%	14,9%	13,9%	12,6%	12,2%	11,6%	10,2%	10,2%	13,1%	19,3%
Hessequa	14,2%	14,2%	13,1%	11,7%	11,1%	10,4%	9,1%	9,1%	11,4%	16,1%
Mossel Bay	21,6%	21,8%	20,2%	18,3%	17,7%	16,6%	14,7%	15,0%	17,6%	24,8%
George	21,6%	21,6%	20,0%	17,9%	17,2%	16,1%	14,5%	14,9%	17,8%	25,0%
Oudtshoorn	21,6%	21,5%	20,0%	18,0%	17,3%	16,5%	14,8%	15,3%	18,6%	26,4%
Bitou	30,2%	30,4%	28,2%	25,2%	23,9%	22,7%	21,0%	22,0%	25,8%	35,5%
Knysna	24,5%	24,7%	22,8%	20,3%	19,2%	18,1%	16,7%	17,5%	20,7%	29,2%
Garden Route	22,0%	22,1%	20,5%	18,3%	17,6%	16,6%	14,9%	15,4%	18,5%	26,0%
Western Cape	22,7%	22,7%	22,2%	21,4%	21,1%	20,8%	20,2%	20,4%	21,8%	24,8%
South Africa	25,1%	25,2%	25,2%	25,5%	26,4%	27,2%	27,4%	28,4%	30,3%	33,6%

5. A snapshot of the Local Economy

Gross Value Add

Bitou LM's Gross Value Add (GVA), which reflects the monetary value of the local economy, was R6.13 billion in current prices (2021) or R4.57 billion in constant (2015) prices. This represents 9.2% of the total Garden Route district GVA of R66.56 billion and 0.8% of the Western Cape province GVA of R766.63 billion (both current prices). Bitou's GVA contribution ranked 3rd lowest out of the 7 local municipalities within the Garden Route district, with the contributions of the other local municipalities, in current prices, as follows:

➢ Kannaland LM R2.25 billion
➢ Hessequa LM R4.71 billion
➢ Mossel Bay LM R15.66 billion
➢ George LM R22.68 billion
➢ Oudtshoorn LM R7.92 billion
➢ Knysna LM R7.19 billion

Definitions of 9 Economic Sectors

Agriculture - is the foundation of developing economies. Includes all agriculture, hunting, forestry and fishing.

Mining - Involves the full life cycle from exploration through to production (quarrying and mineral processing) up to closure and rehabilitation.

Manufacturing - is the production of merchandise for use or sale using labour and machines, tools, chemical and biological processing, or formulation. It Includes the processing; refining and value add to all primary agricultural and mining products, inclusive of the chemical, rubber, plastic, glass and metal industries. Manufacturing household goods, plant, equipment and transport goods are also included. The last part of the beneficiation that is included in this broad sector classification of manufacturing is the printing, publishing, recording and communication industry.

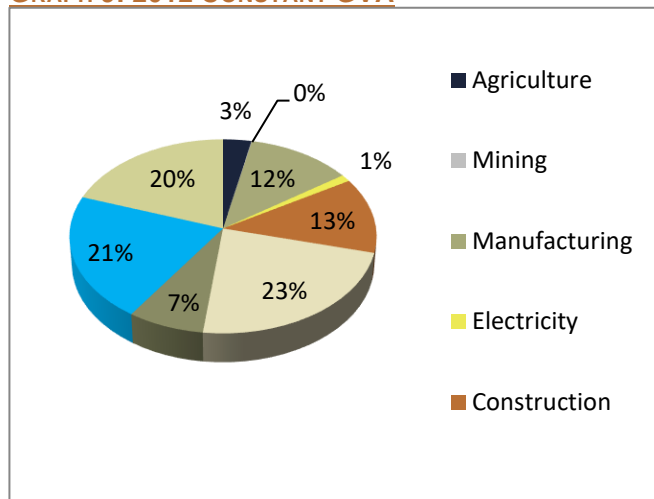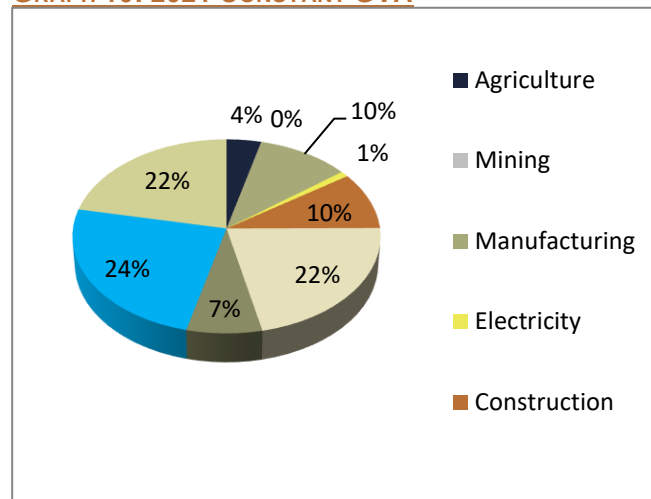*Electricity -* Includes the generation, manufacture and distribution of sources of energy, gas and water.

Construction - Includes all building and or demolition of accommodation, manufacturing and retail civil structures and related services, such as plumbing, electrical contracting, painting, decorating and air conditioning.

Trade - Includes wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods, hotels and restaurants.

Transport - Includes all transport, storage and post and telecommunication

Financial - Includes financial intermediation, insurance, real estate and business services as well as rental of machinery and equipment, whilst the computer related services, research and services such as advertising, legal, accounting and other professional consulting services are also included.

Community Services - Includes community, social and personal services such as public administration and defence activities, educational services, health and social work, washing/cleaning, beauty treatment and funeral services.


GRAPH 9: 2012 CONSTANT GVA

TABLE 6: CONTRIBUTION OF SECTORS TO GVA – BITOU

Sub Sector	2012	2021
1 Agriculture	3,2%	3,9%
2 Mining	0,1%	0,0%
3 Manufacturing	12,0%	10,5%
4 Electricity	1,2%	0,9%
5 Construction	12,6%	9,5%
6 Trade	22,9%	21,6%
7 Transport	7,5%	7,3%
8 Finance	21,0%	24,3%
9 Community services	19,6%	21,8%

GRAPH 10: 2021 CONSTANT GVA

TABLE 6 reflects the changes in GVA contribution over the past 10 years. The Finance sector experienced the most significant growth over the 10-year review period, resulting in it overtaking the Trade sector as the largest contributor to GVA in 2021. The Finance, Trade and Community Services sectors remain the three largest contributors, contributing a combined 67.7% of total GVA in Bitou LM. Construction experienced the largest contraction, with its GVA contribution reduced by 3.1% over the review period.

Bitou LM has a Tress index, a measurement of the degree of economic diversification, of 49.24 indicating a reasonably diverse economy. Bitou has the 4th most diverse municipal economy within the Garden Route district, with Mossel Bay LM being the most diversified as evidenced by a Tress Index of 41.13, while Kannaland LM has the least diversified economy with an index of 58.70. The higher the degree of diversification, the lower the risk in the event of economic contractions/recessions negatively affecting the municipal economy.

GRAPH 11: GVA BY PRIMARY, SECONDARY AND TERTIARY SECTORS; 2012
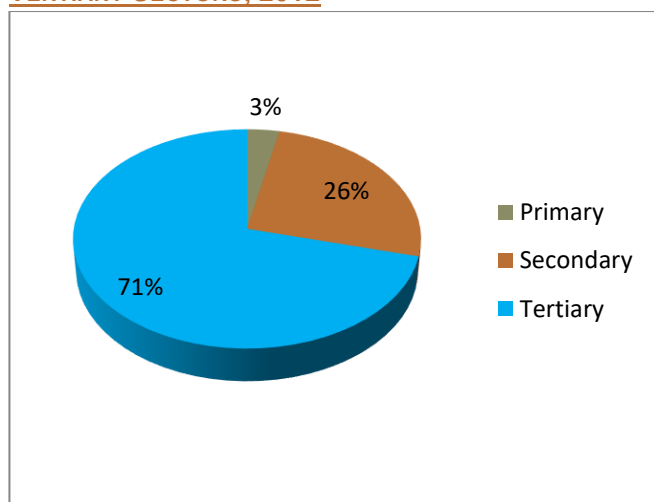
GRAPH 12: GVA BY PRIMARY, SECONDARY AND TERTIARY SECTORS; 2021
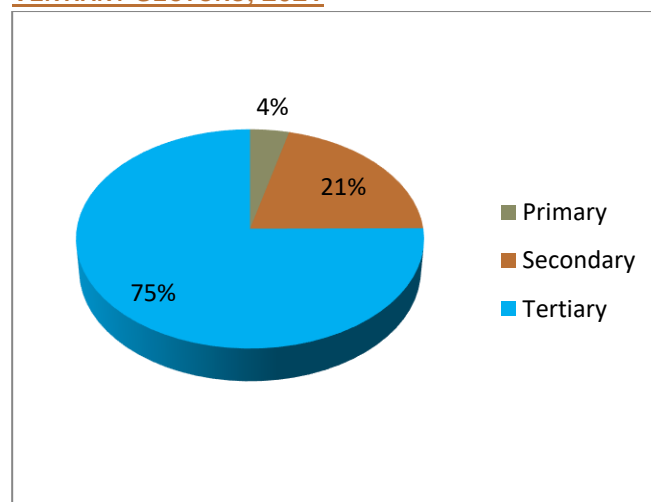
GRAPH 11 & **GRAPH 12** above illustrate the breakdown of GVA contribution between the primary, secondary and tertiary sectors. The proportional breakdown has remained largely unchanged over the 10-year review period, with the tertiary sector remaining the largest contributor to GVA in 2021. The primary sector remains the smallest contributor, with just 4%.

Bitou LM's 5-year average annual GVA growth rate came in at -0.2%, this is partly due to a major contraction of 5.8% during the Covid-19 affected 2020. It must be noted that there has been a trend of sluggish economic growth prior to the pandemic, with a pre-pandemic 5-year average annual GVA growth rate of 0.7%. Bitou has the 2nd worst 5-year growth rate in the Garden Route district, in which Hessequa LM has experienced the highest growth (0.9%). This is concerning, particularly when considered against the population growth rate over the same period of 2.8%. This paints a negative picture for the municipality's future revenue prospects as this, along with high unemployment rates, erodes the municipal revenue base. An emphasis must be placed on capital investment in projects that will create an enabling environment to stimulate the municipal economy, prioritise job creation and lead to an environment of economic growth.

Employment

GRAPH 13: FORMAL SECTOR EMPLOYMENT
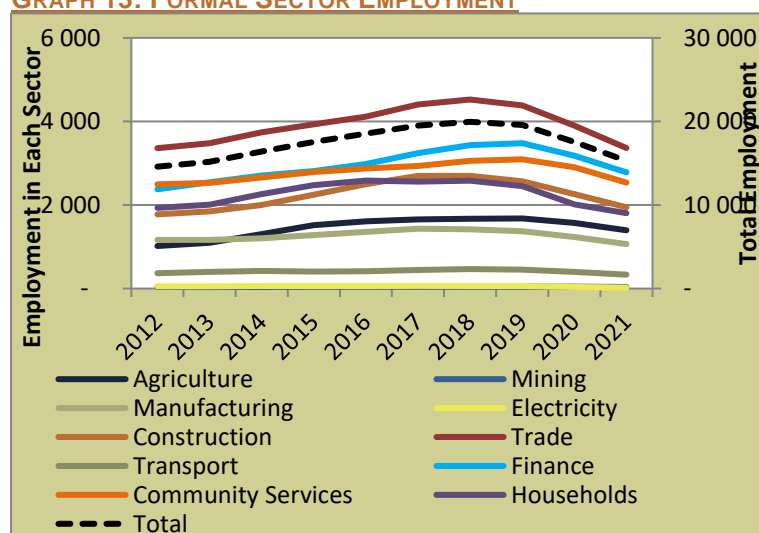
As previously indicated by the rising unemployment rate, the total number of formally employed people in the municipality has decreased in 2021 to a total of 15 282 people. There was an upward trend from 2012 until a peak of 19 954 people was reached in 2018. Since then, there has been a declining trend, which is of concern.

Trade continues to lead the way in terms of employment in Bitou, with 3 363 people (22%) formally employed in this sector. The top three sectors include trade, finance and community services which together form a combined 56.8% of jobs in the municipality. Employment within the different sectors experienced proportional growth during the most recent three years.

TABLE 7: FORMAL SECTOR EMPLOYMENT – BITOU

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Agriculture	1 019	1 094	1 300	1 520	1 611	1 657	1 672	1 679	1 570	1 391
Mining	39	36	41	44	43	45	43	47	45	37
Manufacturing	1 162	1 163	1 203	1 280	1 355	1 433	1 417	1 370	1 232	1 065
Electricity	57	58	60	60	62	65	64	61	42	23
Construction	1 776	1 849	1 999	2 243	2 497	2 697	2 695	2 569	2 264	1 947
Trade	3 360	3 479	3 737	3 930	4 115	4 410	4 524	4 386	3 902	3 363
Transport	372	399	420	407	411	444	467	454	398	333
Finance	2 377	2 544	2 703	2 813	2 983	3 244	3 432	3 479	3 179	2 778
Community services	2 494	2 525	2 658	2 790	2 870	2 934	3 058	3 094	2 902	2 540
Households	1 933	2 010	2 260	2 475	2 585	2 559	2 583	2 455	2 015	1 805
Total	**14 590**	**15 158**	**16 381**	**17 562**	**18 533**	**19 488**	**19 954**	**19 593**	**17 549**	**15 282**

Tourism

Although tourism is not officially recognised as an economic sector, its importance to the local economy cannot be understated. Tourism has historically been an integral component of Bitou LM's economy, consistently seen as an attractive tourist destination for locals and foreigners alike.

GRAPH 14: NUMBER OF TRIPS BY PURPOSE OF TRIP – BITOU
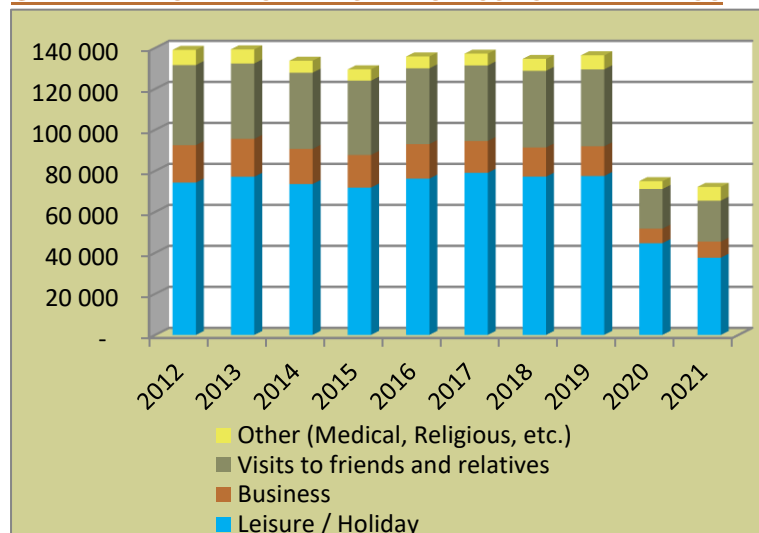
GRAPH 14 is an indication of the main reasons for people visiting Bitou LM, with the majority of trips being for leisure/holiday, followed by trips to see friends or relatives. This is consistent with the perception of Bitou LM as an attractive tourist destination.

The total number of trips has seen a sharp decline since 2019, largely attributable to the Covid-19 lockdowns and restrictions. One would reasonably expect these numbers to increase towards pre-pandemic levels as the effects of the pandemic begin to wane. Interestingly, visits for business and other purposes such as medical purposes increased during 2021, while trips for leisure/holiday decreased further from the already deflated 2020 numbers. This can be attributed to trips for business or other purposes such as medical purposes being less affected by restrictions, as well as other effects such as price increases and a harsh economic environment resulting in many of the population cutting down on luxuries such as leisure/holiday trips.

TABLE 8 below reflects the total number of tourism trips into the municipality, broken down into 4 main purposes.

TABLE 8: TRIP PURPOSE AS A PROPORTION OF TOTAL TOURISM TRIPS

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Leisure / Holiday	74 289	77 154	73 613	71 860	76 241	79 058	77 213	77 511	44 745	37 668
Business	18 283	18 491	17 145	15 939	16 854	15 528	14 252	14 534	7 070	7 854
Visits to friends and relatives	39 098	36 770	37 142	36 260	36 996	36 876	37 379	37 516	19 377	19 949
Other (Medical, Religious, etc.)	7 396	6 897	5 862	5 514	5 751	5 760	5 814	6 854	3 811	6 743
Total	**139 066**	**139 312**	**133 762**	**129 574**	**135 843**	**137 223**	**134 658**	**136 414**	**75 002**	**72 214**

GRAPH 15: TOTAL TOURISM SPEND (R1000, CURRENT PRICES)
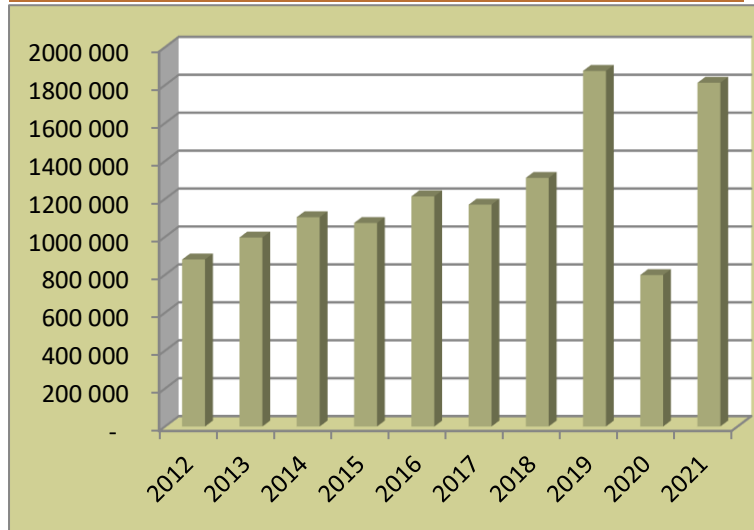
Total tourism spend saw a substantial increase in 2021 to a total of R1.81 billion, following a considerable decline in 2020. The decline is attributable to the pandemic lockdowns and restrictions resulting in decreased tourist activity.

The discrepancy between the reduced number of total tourism trips and the increased spending can be attributed to differences in tourist behaviour, spending patterns as well as changes in the types of trips into the municipality resulting in more money being spent.

The total GVA contribution of tourism equated to 27.32% of total GVA in 2021. This is a sharp increase from the Covid-19 effected 2020 contribution of 13.28%. Tourism is an integral part of Bitou LM's municipal economy, this is highlighted by a 5-year average GVA contribution of 22.80%, including the deflated 2020. The municipality must continue to prioritise the health of its tourism sector, as it is a crucial component of the municipal economy.

6. Household Infrastructure Service Delivery

A comprehensive perspective of the ability of Bitou Local Municipality to provide, maintain and operate infrastructure services would require an in-depth investigation into the technical and operating capacity as well as performance of the municipality. This is outside the mandate of this assignment and we will make use of existing available information to obtain a proxy of such a perspective.

At the core of infrastructure asset management is the acknowledgement that linkages exist between policy, planning (e.g., service level at which infrastructure is provided), the cost of provision of such infrastructure and the replacement thereof after expiry of its useful life, operating performance, maintenance strategies and customer satisfaction, all within the affordability levels of consumers and the municipality to ensure long term sustainability. In the absence of a holistic approach to asset management a municipality assumes a high risk of failure in future, unless it has the resources to rectify the situation, which in most instances is unfortunately not the case.

In this report we will analyse the infrastructure service provision of the municipality and when assessing the backlogs, we are guided by the Reconstruction and Development Programme (RDP) standards of level of service.

Infrastructure Index

In this report use is made of the Infrastructure Index as developed by *iHS Global Insight in its Regional Explorer* to compare the region's access to household infrastructure. The infrastructure index is a population-adjusted, access-to-service weighted index which measures a region's overall access to household infrastructure. The index ranges from 0 to 1, where 0 implies that every household in the region is below the minimum level of access to infrastructure, and 1 implying that every household in the region is at the minimum level of access to infrastructure.

For each infrastructure category, a sub-index was created by weighting the different levels of service. For example, the sanitation sub-index counts 1 for each household that has a flush toilet, but only 0.1 for each household on the bucket system. Throughout the sub-indices, households without any infrastructure receive a zero weighting. For example, households with no toilet receive a weight of zero. By summing the households in this manner and dividing by the total number of households in the region, a total percentage of 'serviced' households for each of refuse, sanitation, water, electricity and housing are derived at.

These sub-indices are multiplied by a weighting which considers the 'importance' of that service. By this method, a final figure that measures the level of access to household infrastructure in the municipality is determined.

The 'importance' weightings are derived from the cost of providing the basic (or minimum) level of access – as defined by the relevant free basic services. In other words, the index assumes that a service is more important if the cost of providing it at a basic level is higher.

The final weightings are as follows:

Service	Final Weight
Electricity	8.0%
Water	20.0%
Refuse	18.0%
Sanitation	16.0%
Formal Housing	38.0%

The graphs below illustrate the Infrastructure Index over time for Bitou in comparison to the district, provincial and national average Infrastructure Index.

GRAPH 16: INFRASTRUCTURE INDEX – BITOU
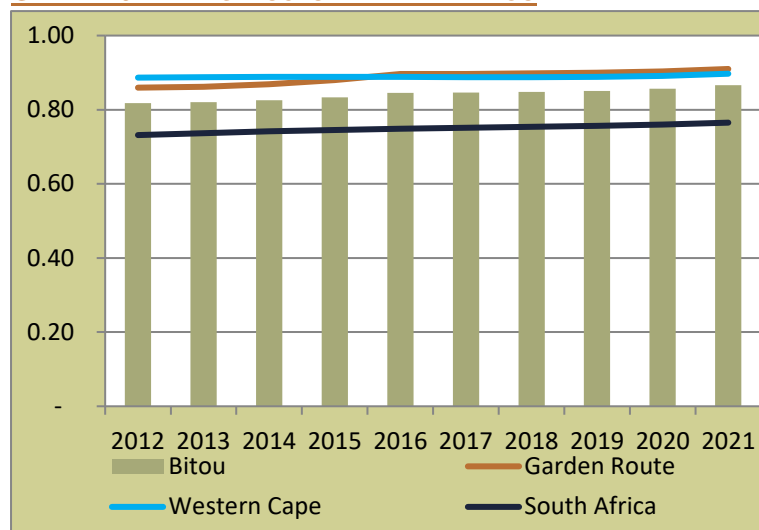
Bitou's infrastructure index has increased steadily over the review period, improving from 0.82 in 2012 to 0.87 in 2021. This is the lowest in the district, with Hessequa remaining the highest with an index of 0.93. The maintenance and improvement of the index is indicative of ongoing infrastructure development that has enabled the municipality to keep up with the rate of household formation.

GRAPH 16 above illustrates the comparison between Bitou, the district, province and country. Bitou LM's index is relatively low in the district (0.91) and provincial (0.90) contexts, while remaining high in the national (0.77) context.

Extent of Infrastructure Provision

TABLE 9 below reflects the extent of the provision of infrastructure in Bitou local municipality as compared to the Garden Route district.

The first category of **TABLE 9** reflects the number of households that have access to services at the RDP level of service or above. The absolute number of households at this level of service as well as the percentage within the district and municipality are given. The second category reflects the number of households that have access to services below the RDP level of service or no access to these services at all. These absolute numbers reflect the infrastructure backlog for each category of service. For example, 360, or 1.7% of households in Bitou LM have either no access to or access to a level of sanitation service below the RDP level, indicating a backlog of 1.7% of households within the municipality.

- *Sanitation Backlog*: Number of households without access to a hygienic toilet, i.e. no formal toilet or they make use of either a pit toilet or the bucket system
- *Water Backlog*: Households that have access to piped water further than 200m from the dwelling or do not have access to formal piped water at all
- *Electricity Backlog*: Households not connected to any form of electricity at all
- *Refuse Removal*: Households that do not have access to a refuse removal service provided by a local authority (or its contractors)

**TABLE 9: NUMBER OF HOUSEHOLDS WITH "ABOVE" AND "BELOW" RDP SERVICE LEVEL INFRASTRUCTURE**

Infrastructure	Garden Route	%	Bitou	%
Above RDP Level				
Sanitation	189 879	97,1%	21 386	98,3%
Water	192 547	98,5%	21 148	97,3%
Electricity	189 817	97,1%	21 546	99,1%
Refuse Removal	178 337	91,2%	19 633	90,3%
Below RDP Level or None				
Sanitation	5 632	2,9%	360	1,7%
Water	2 964	1,5%	597	2,7%
Electricity	5 694	2,9%	200	0,9%
Refuse Removal	17 174	8,8%	2 113	9,7%
Total No. of Households	**195 511**	**100,0%**	**21 746**	**100,0%**

Bitou LM has performed well in the provision of services during the review period, with backlogs in sanitation, water and electricity services reducing significantly from the 2012 levels. However, the refuse removal services backlog has increased during the review period. Bitou LM outperformed the Garden Route District average in the provision of sanitation and electricity services, while underperforming the district average in the provision of water and refuse removal services. The municipality must maintain their current level of provision of services with regards to sanitation and electricity, while making a concerted effort to improve the provision of water and refuse removal services closer to and ultimately beyond the district averages.
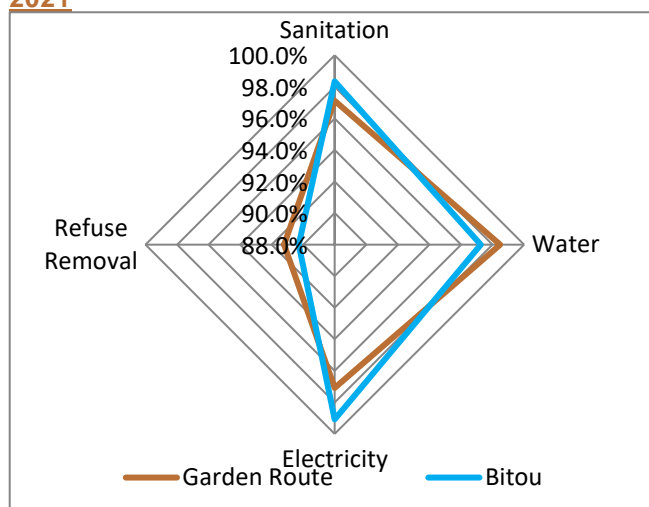
Infrastructure Diamond

A summary of the provision of the four infrastructure services, namely Sanitation, Water, Electricity and Refuse Removal by Bitou LM in relation to the Garden Route District is best illustrated by the Infrastructure Diamonds reflected in GRAPH 17 and GRAPH 18 below.

GRAPH 17: INFRASTRUCTURE DIAMOND – BITOU 2012

GRAPH 18: INFRASTRUCTURE DIAMOND – BITOU 2021
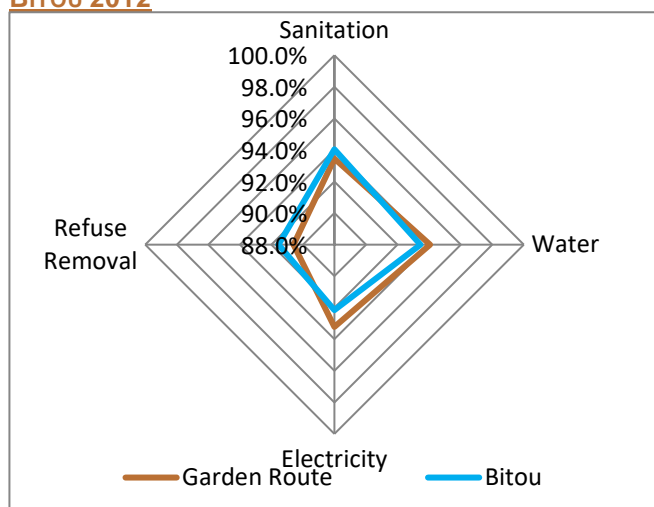
In 2012, Bitou LM's infrastructure provision exceeded that of the district in the provision of sanitation and refuse removal, while the district outperformed the municipality in the provision of water and electricity services. The general level of backlogs in 2012 was reasonably high.

In 2021, Bitou LM's infrastructure provision improved and exceeded the district averages in the provision of sanitation and electricity, while lagging in the provision of water and refuse removal services. The level of backlogs in 2021 decreased in all services except for refuse removal services.

Service Level Affordability

The Local Government Equitable Share Formula uses the monthly pension amount of R 3 500 as a threshold level. The formula has two objectives: to enable municipalities to provide basic services to poor households and to enable municipalities to afford administration and governance capacity to perform core municipal functions. The subsidy amount per poor household below the threshold level, which covers water, sanitation, refuse removal and, energy includes an amount of 10% to be used for maintenance.

A municipality that provides services at a level higher than the basic level of services to households that cannot afford these services, however, only receives a subsidy amount that attempts to cover the cost of provision of basic services. Therefore, the greater the gap between the number of households that receive a higher than basic level of service and the number of households that receive an income of lower than R 3 500 per month, the more stressed a municipality will be in providing these services in a sustainable manner and will pay for these from other revenue sources.

The number of households in Bitou LM that are below the R42 000 p.a. income bracket equates to 25.6% of all households within the municipality. This is relatively high in the district context, with a comparatively smaller 14.2% of households in the Garden Route district falling below the R42 000 p.a. bracket. Bitou thus has a comparatively higher proportion of the population that cannot afford the minimum level of services, creating increased pressure on the municipality to provide these services free of charge.

GRAPH 19: PERCENTAGE OF HOUSEHOLDS PER INCOME CATEGORY – BITOU, 2021
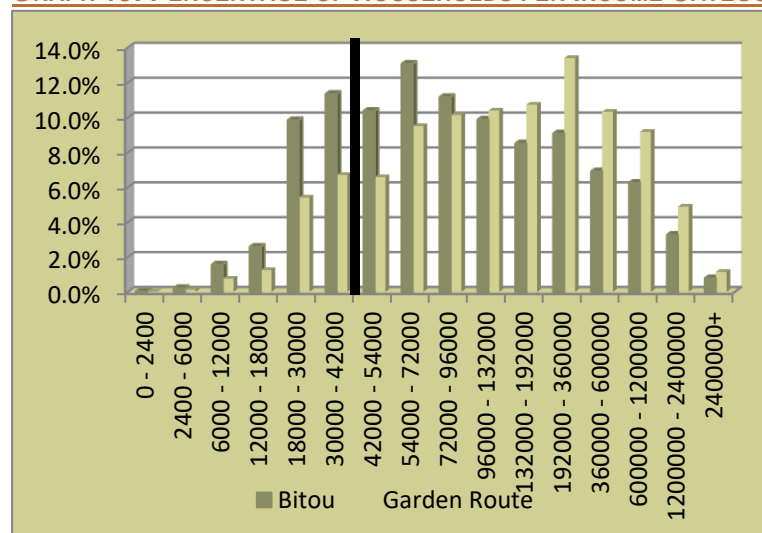
Those households that are above the R 42,000 p.a. bracket should in principle be able to afford the minimum level of services. The infrastructure index on the other hand is an indication the number of households who receive a level of service above the RDP level of services for household infrastructure.

A comparison of household income and level of service is presented in the **TABLE 10** below:

TABLE 10: COMPARISON OF HOUSEHOLD INCOME AND LEVEL OF SERVICE

	Garden Route	Bitou
Households above the Equitable Share Bracket	93,0%	90,6%
Households with level of service at RDP or higher	91,0%	86,6%

Household Infrastructure

Housing

Any analysis of the different housing types (dwelling units) in the municipality for the period between 2012 and 2021 is made. Dwelling units are distributed into 5 categories:

Very Formal Dwellings: Housing that fall into this category are structures built according to approved plans, e.g., houses on a separate stand, flats or apartments, townhouses, rooms in backyards that also have running water and flush toilets within the dwelling.

Formal Dwellings: Housing that fall into this category are considered to be a structure built according to approved plans, i.e., house on a separate stand, flat or apartment, townhouse, room in backyard, rooms or flat-let elsewhere etc., but without running water or without a flush toilet within the dwelling.

Informal Dwellings: Housing that fall into this category are considered to be a makeshift structure not erected according to approved architectural plans. For example, shacks or shanties in informal settlements, serviced stands or proclaimed townships or shacks in the backyards of other dwelling types.

Traditional Dwellings: Housing that fall into this category are considered to be a dwelling made of clay, mud, reeds or other locally available materials. This is a general term that includes huts, rondavels, etc. Such dwellings can be found as single units or in clusters. StatsSA notes that rondavels constructed with concrete blocks or stone walls are not considered traditional.

Other Dwelling Units: Units that do not fall into any of the above categories. Some of the dwelling units included in this category includes tents, ships and caravans.

An illustrative comparison of the different housing typologies for Bitou LM during the period 2012 and 2021 is presented below.

GRAPH 20: DWELLING TYPOLOGY – BITOU
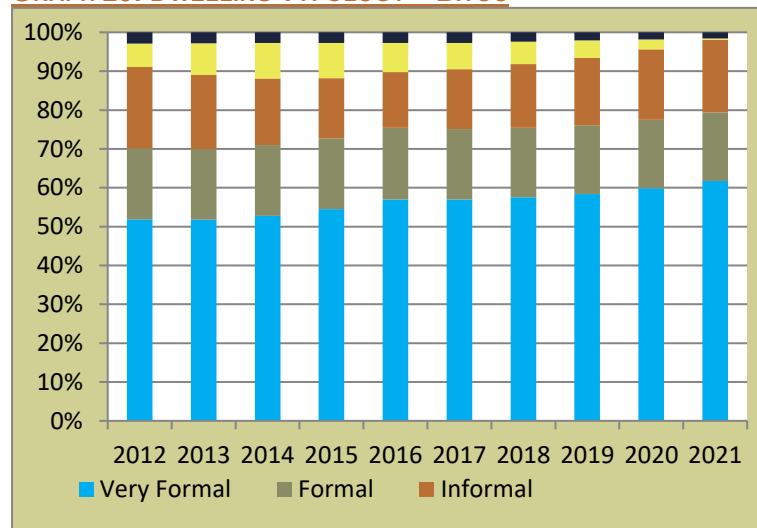
It is positive to note that in 2021 61.7% of households fall into the very formal dwellings category, an increase from 51.8% in 2012. The number of households in the traditional dwellings category has seen the biggest decline over the review period, falling from 981 dwellings in 2012 to just 76 in 2021.

The level of household infrastructure plays an integral role in the day-to-day quality of life of the municipal population. The municipality must maintain the growth in the number of very formal dwellings, as this level of household infrastructure considerably improves the quality of life of its inhabitants.

GRAPH 21: Growth in Household Formation – South Africa between 2012 & 2021
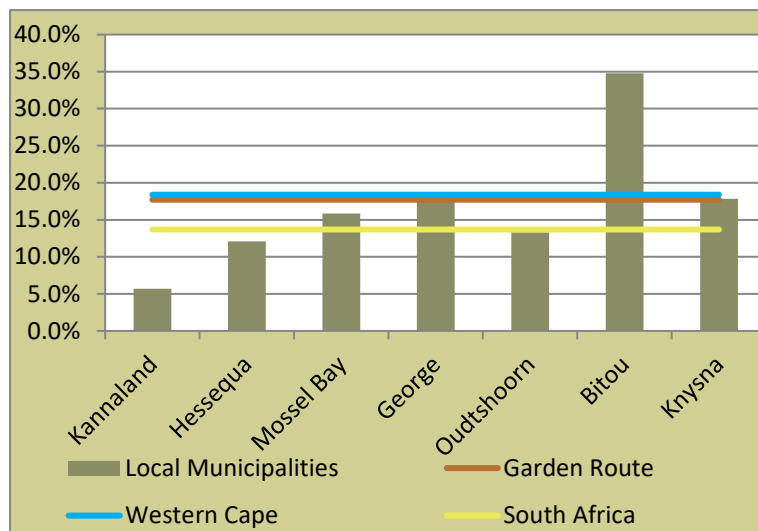
The rate of household formation in the municipality over the review period was 34.8%, by a long way the highest in the district, with George LM coming a distant second with a rate of 18.5%. This equates to an increase of 5 610 households in absolute terms. A high rate of household formation increases demand for municipal services, placing the municipality under increased pressure to provide these services.

The rate of household formation greatly exceeds the district average of 17.7%, the provincial average of 18.4% as well as the national average of 13.7%. This indicates that a higher proportion of the population are deciding to move to and settle in Bitou LM, as compared to the other municipalities in the Garden Route District.

Water

The minimum level of access to water regarded as the RDP level, are households with access to piped water within 200m of their dwelling. Houses that have access to piped water further than 200m from the dwelling, or households that do not have access to formal piped water are considered to form part of the water backlog. Households at or above the RDP level are not considered to be part of the water supply backlog. Above RDP level includes all households that have access to piped water within their dwelling, within their yard or within 200 meters of their dwelling.

An illustration of the different types of water infrastructure for Bitou during the period 2012 and 2021 is illustrated below:

**GRAPH 22: PERCENTAGE HOUSEHOLDS PER WATER INFRASTRUCTURE – BITOU**
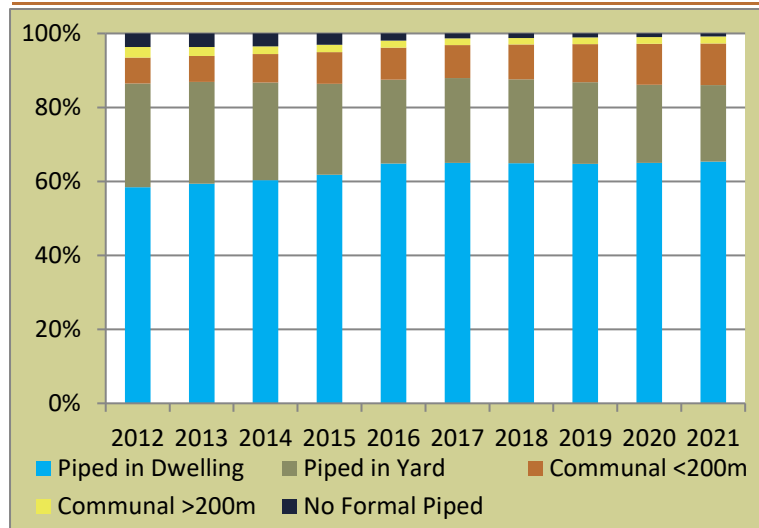
The number of households with access to water at or above the RDP level of service amounts to 21 148 in absolute terms, or 97.3%.

As previously stated, the level of backlogs in 2021 of 2.7% is a considerable improvement from the 2012 level of 6.6%. The municipality remains behind the Garden Route district average, which has a level of backlogs of just 1.5%.

Sanitation

The household sanitation infrastructure in the province was analysed. The hygienic toilet categories include flush toilets, chemical toilets and pit latrines with a ventilation pipe. Hygienic toilets exclude pit toilets and bucket systems which are both classified as unhygienic.

GRAPH 23: PERCENTAGE HOUSEHOLDS PER SANITATION INFRASTRUCTURE – BITOU
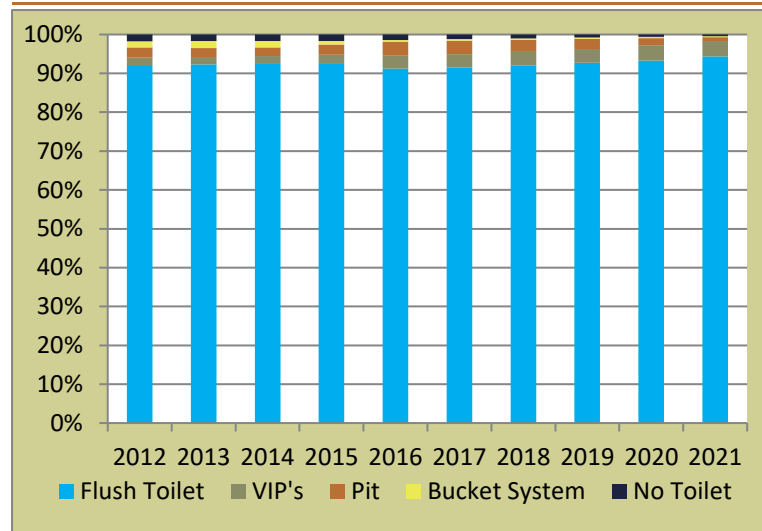
The Sanitation Backlog represents the number of households without access to a hygienic toilet - this implies that they have no formal toilet or that they make use of either a pit toilet or bucket system.

In Bitou LM, the 2021 sanitation backlog in absolute terms amounts to 360 or 1.7% of households. This is a marked improvement from the 2012 backlog of 962 or 6.0% of households.

In relation to the district average, Bitou LM continued to outperform the Garden Route district, which had an average sanitation backlog of 2.9% in 2021.

Electricity

The provision of electricity in the country has grown significantly. Distinctions are made between households that use electricity for lighting and other purposes, households that use electricity for lighting only and finally households that do not use electricity at all.

GRAPH 24: PERCENTAGE HOUSEHOLDS PER ELECTRICITY INFRASTRUCTURE – BITOU
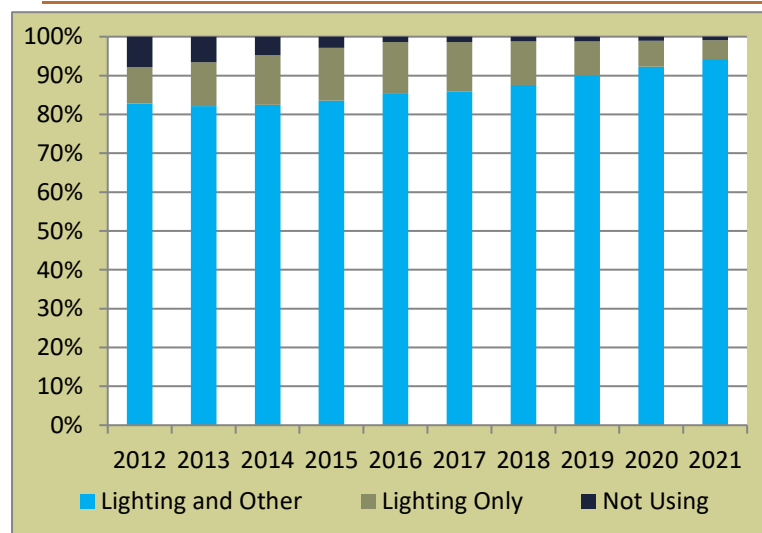
In Bitou LM, the percentage of households connected to electricity was 99.1% in 2021, 21 546 households in absolute terms, a substantial increase from 92.2% in 2012.

Just 200 households (0.9%) in the municipality do not have access to electricity, a marked improvement from the 1 266 number in 2012. This should be maintained.

Bitou LM outperformed the district average of 97.1% in 2021, highlighting an improvement relative to the other municipalities in the district.
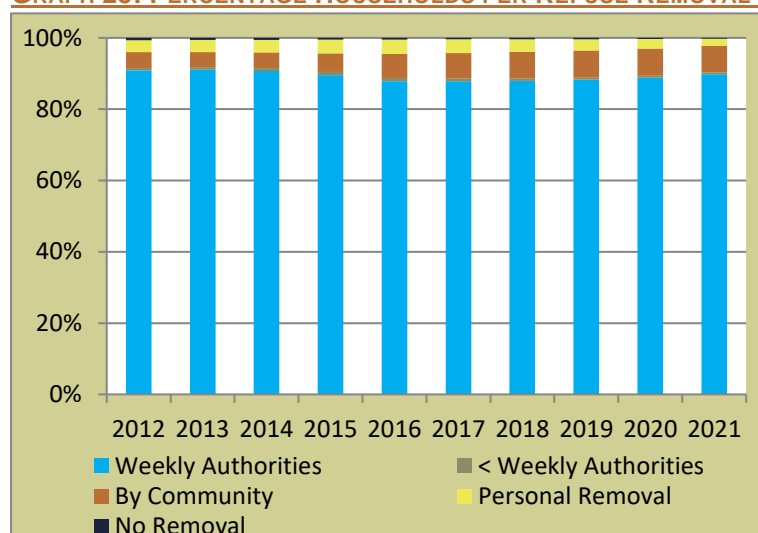
Refuse Removal

A distinction is made between 'formal' and 'informal' refuse removal. Formal refuse removal occurs when refuse is removed by local authorities. Informal refuse removal occurs when refuse is removed either by the community, by the individual household or if there is no refuse removal. Access in these broad categories are then analysed according to the frequency with which it is removed. The final categories of analysis of refuse removal are as follows:

- Formal
    - Removed weekly by authority
    - Removed less often than weekly by authority
- Informal
    - Removed by community members
    - Personal removal (own dump)
    - No refuse removal

Access to formal refuse removal implies that refuse is removed by a local authority – this includes removal by private sector companies. The share of households with access to formal refuse removal refers to the percentage of all households in the region that have access to this service. If a household does not have access to formal refuse removal, they are categorized into the refuse removal backlog.

GRAPH 25: PERCENTAGE HOUSEHOLDS PER REFUSE REMOVAL SERVICE – BITOU

In Bitou LM the number of households with access to formal refuse removal services in 2021 totalled 19 633, or 90.3% of households. This is a decline from 91.6% of households in 2012, and below the 2021 district average of 91.2%.

The current refuse removal backlog equates to 9.7% of households, or 2 113 in absolute terms. It is estimated that a large proportion of these households are located in non-urban areas of the municipality, where refuse removal is not undertaken by the municipality.

7.   Historical Financial Overview

To understand the present financial position of Bitou LM, the actual historical financial performance was assessed which provides the required foundation to critically review the assumptions made in the Adopted Budget for 2022/23 (projected operational and capital budgets).

This section documents the actual financial performance (trend analysis) of Bitou LM over an 8-year period from 2014/15 to 2021/22. It is noted that during this period, Bitou LM adjusted and aligned its accounting practices in accordance with the Generally Recognised Accounting Practice (GRAP) and mSCOA (Municipal Standard Chart of Accounts); which impacts on the comparison of annual financial performance.

For purposes of this report, annual financial information as per the audited financial statements of Bitou LM for the period 2014/15 to 2021/22 was assessed, as well as the Adopted budget for 2022/23.

Audit reports

Year	Audit outcome
2017	Unqualified – with findings
2018	Unqualified – with findings
2019	Unqualified – with findings
2020	Unqualified – with findings
2021	Unqualified – with findings

Emphasis of matters in the 2021 audit report:
- Material impairments relating to receivables from exchange transactions (consumer debtors) of R 293.4 million (FY2020: R287.1 million).
- Material losses incurred by the municipality relating to water and electricity services of R1.4 million (FY2020: R1.1 million) and R 22.2 million (FY2020: R16.3 million), respectively.
- Restatement of corresponding figures: The corresponding figures for 30 June 2020 were restated as a result of errors and reclassification of results in the financial statements of the municipality at year end of 30 June 2021.
- Material write offs relating to receivables from exchange transactions (consumer debtors) and non-exchange transactions of R108.5 million (FY2020: R76.6 million).

Statement of Financial Position

GRAPH 26: NON-CURRENT ASSETS VS. ACCUMULATED SURPLUS
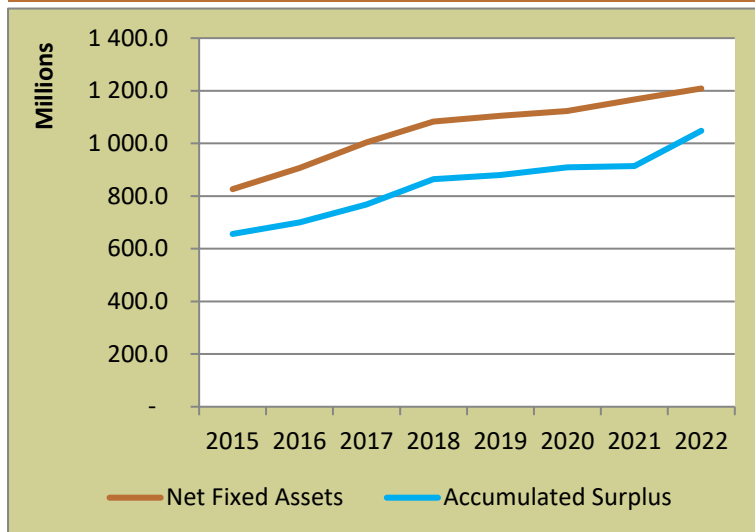
Bitou's Net Fixed Asset position improved steadily over the review period, with the total balance increasing from R826.4 million as at FYE2015 to R1 208.7 million as at FYE2022. The accumulated capital investment over the review period amounted to R670.2 million.

Accumulated Surplus has experienced a similar trend to that of Net Fixed Assets, steadily improving in each year of the review period. The improvement from R656.3 million as at FYE2015 to R1 048.1 million at the end of the current year was mainly driven by the consistent achievement of accounting surpluses.

GRAPH 27: LONG TERM LIABILITIES INTEREST BEARING VS. NON-INTEREST BEARING
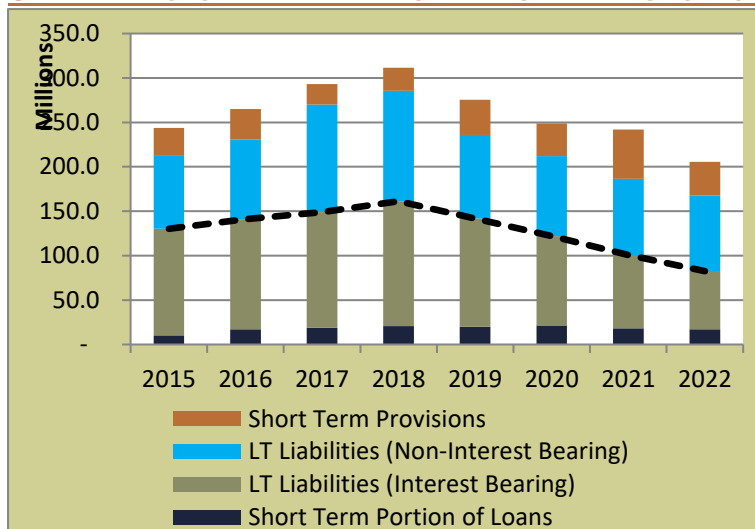
Bitou has not undertaken any interest bearing external financing to fund capital investment since FY2018. The outstanding balance of borrowing as at FYE2022 amounts to R65,5 million, this is comprised of 11 different loans with various institutions.

The municipality has provided for long-term non-interest bearing liabilities in the form of provisions for Employee Benefits including Staff Leave, Staff Bonuses, Pension and Retirement Fund obligations. Additional provisions for Environmental reasons and legal proceedings have also been made. The landfill site in Bitou has been decommissioned as it has exhausted its useful life, as a result there is currently no provision for the rehabilitation of the landfill site. The cost of the rehabilitation is estimated to be R24.6 million. Notwithstanding the decommissioning and subsequent awarding of the tender for construction, it would be prudent to build liquidity and cash reserves to prepare for the future economic outflows required to service this provision in future.

TABLE 11: INTEREST BEARING LIABILITIES VS NON-INTEREST BEARING LIABILITIES

	2015	2016	2017	2018	2019	2020	2021	2022
Short Term Provisions	30,7	34,1	23,0	26,2	39,7	36,8	55,5	37,9
LT Liabilities (Interest Bearing)	120,0	124,2	130,0	140,7	121,8	100,5	82,5	65,5
LT Liabilities (Non-Interest Bearing)	82,8	89,7	121,4	124,2	93,9	90,2	85,9	85,1
Short Term Portion of Loans	10,3	17,0	18,8	20,5	20,0	21,3	18,0	17,0
Total Interest Bearing Liabilities	130,2	141,2	148,8	161,2	141,8	121,8	100,5	82,5

TABLE 12: DEBT REPAYMENT AND GEARING

	2015	2016	2017	2018	2019	2020	2021	2022
Total Debt (Borrowings) / Operating Revenue	29%	28%	28%	26%	19%	18%	14%	10%
Debt Service as a % of Total Operating Expenditure	8%	8%	8%	6%	5%	5%	5%	4%

The municipality is under-leveraged as evidenced by the reasonably low gearing and debt service to total expense ratios presented in TABLE 12. These ratios are well below the NT maximum norms of 45% and 8% for gearing and debt service to total expense, respectively, providing plentiful scope for additional borrowing. It is recommended that the municipality utilises this scope for additional borrowing as this will unlock significant benefits for the municipality, such as alleviating pressure on cash reserves, improving the liquidity position as well as the acceleration of capital investment.

GRAPH 28: CURRENT ASSETS VS. CURRENT LIABILITIES
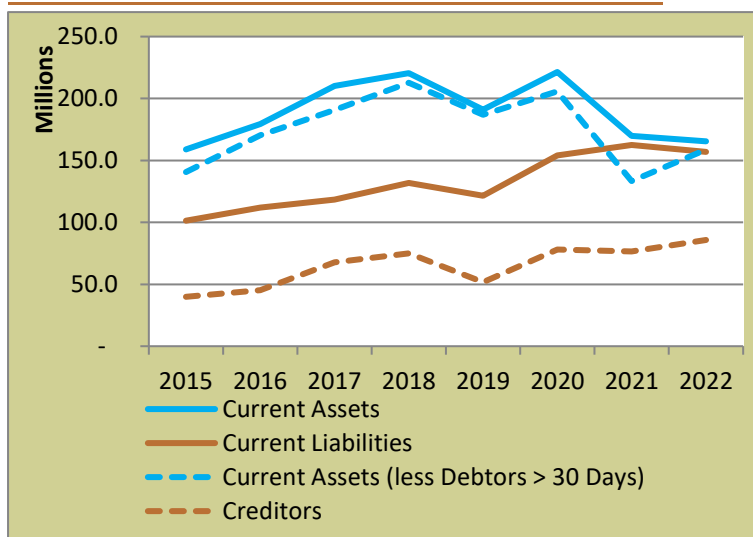
GRAPH 28 illustrates the fluctuations in Current Assets and Current Liabilities over the review period. Current Assets fluctuated during the review period, peaking at R221.4 million as at FYE2021, it has since declined to R165.5 million as at FYE2022. Current Liabilities at the end of the current year amounted to R156.9 million, an increase from R101.4 million as at FYE2015.

The narrowing gap between Current Assets and Current Liabilities is reflective of the municipality's deteriorating liquidity position. Up until FYE2019, the municipality managed to maintain sufficient liquidity levels to meet the NT minimum norm liquidity ratio of 1.5:1.

There was a considerable decline in liquidity in FY2021, as reflected in TABLE 13 below. This decline can be attributed to a notable decrease in Cash and Cash Equivalents as well as an increase in ST Provisions.

The municipality's current liquidity position presents a liquidity risk, meaning the municipality has insufficient liquid assets that can be converted into cash to meet its short-term obligations. This creates a threat to the financial sustainability of the municipality, thus it is imperative that the municipality makes a concerted effort to improve its liquidity position.

TABLE 13: LIQUIDITY RATIOS

	2015	2016	2017	2018	2019	2020	2021	2022
Current Assets: Current Liabilities	1,57	1,60	1,78	1,67	1,57	1,44	1,05	1,05
Current Assets less Debtors > 30 days: Current Liabilities	1,39	1,52	1,61	1,61	1,54	1,34	0,82	1,01

GRAPH 29: GROSS CONSUMER DEBTORS VS. NET CONSUMER DEBTORS
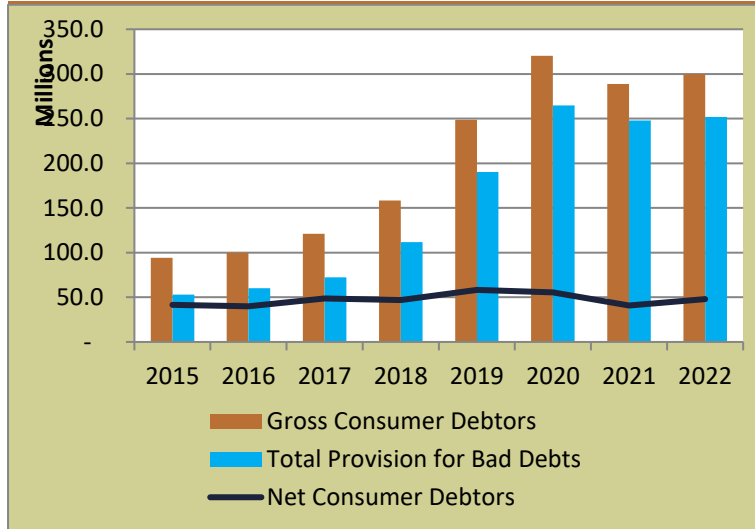
Gross consumer debtors have increased significantly over the review period, from R94.5 million as at FYE2015 to R299.8 million as at FYE2022. The provision for bad debts has shown a similar trend to gross consumer debtors, resulting in fairly consistent net consumer debtors balances throughout the review period, as illustrated in **GRAPH 29**.

The fluctuations in the collection rate are reflected in **TABLE 14** below. The current level of collections is 83%, in line with the 8-year historical average of 84%, but remains well below the NT benchmark of 95%. This is of major concern, particularly when assessed in conjunction with the municipality's dire liquidity position. It is recommended that measures are implemented to improve the effectiveness of collection procedures to bring the collection rate in line with the NT norm. Improving the collection rate will allow the municipality to use its debtors to service its creditors, which will not put any further pressure on cash reserves to reduce the rising outstanding creditors balance.

The net debtor days ratio of 31 days as at FYE2022 is in line with the NT norm of 30 days. The average net debtor days ratio for the 8-year review period was 40 days. Although this exceeds the NT norm, it is considered acceptable and should be maintained.

The total provision for bad debts as a % of consumer debtors older than 90 days has largely exceeded the NT norm of 100% (102% average). This is positive to note as consumer debtors older than 90 days have been fully provided for for the majority of the review period.

TABLE 14: ANALYSIS OF DEBTORS

	2016	2017	2018	2019	2020	2021	2022
Increase in Billed Income p.a. (R'm)	(21,7)	35,2	35,4	85,0	14,3	24,5	46,8
% Increase in Billed Income p.a.	-6%	11%	10%	21%	3%	5%	9%
Gross Consumer Debtors Growth	6%	21%	31%	57%	29%	-10%	4%
Payment Ratio / Collection Rate	96%	93%	87%	70%	72%	86%	83%
Provision for bad debts as a % of consumer debtors greater than 90 days	94%	90%	103%	110%	104%	109%	106%
Net Debtor Days	44	49	43	44	40	28	31

GRAPH 30: CONSUMER DEBTOR TYPES
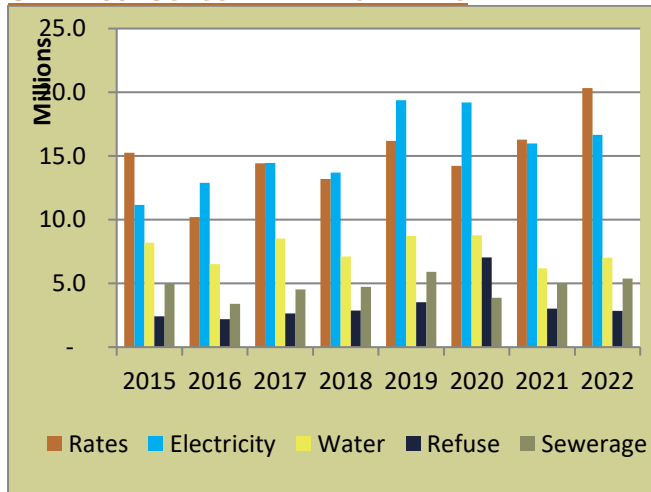
GRAPH 31: CONSUMER DEBTOR AGE ANALYSIS
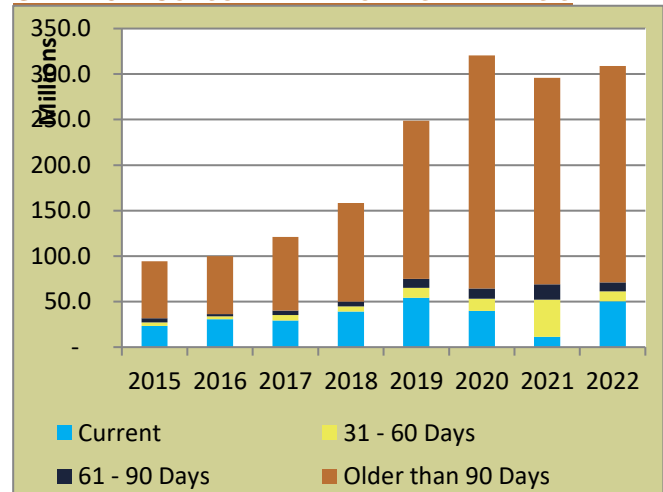
Electricity and property rates debtors have consistently been the largest contributors to the total consumer debtors balance during the review period. **GRAPH 31** illustrates that debtors older than 90 days constitutes the largest pool of consumer debtors, averaging 73% of the total consumer debtors balance over the review period. The likelihood of default is significantly increased when debtors are outstanding for over 90 days.

GRAPH 32: CURRENT LIABILITIES
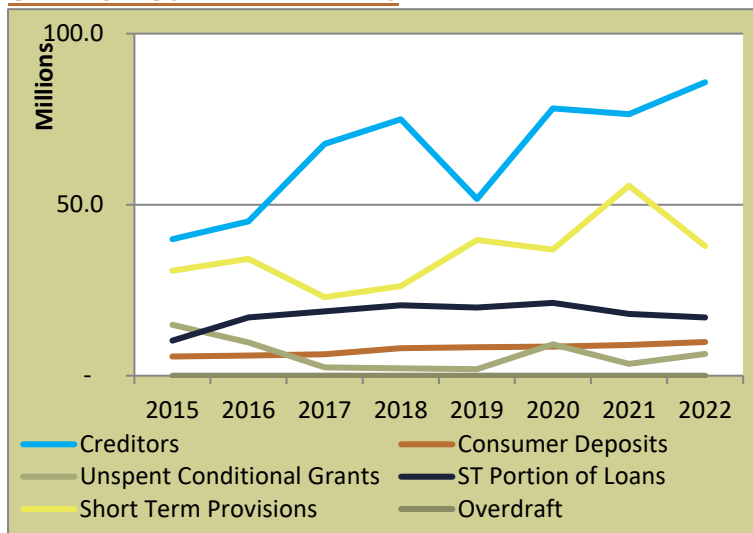
The creditors balance has steadily increased over the review period, while fluctuating at times as illustrated in **GRAPH 32**. Creditors remain the largest pool of current liabilities, forming 54.6% of current liabilities as at FYE2022. Net creditor days as at FYE2022 was 104 days, far exceeding the NT norm of 30 days. The reasonably large creditors balance plays a considerable role in the municipality's poor liquidity position.

The constant existence of a balance of unspent conditional grants over the review period, indicates that the municipality is experiencing challenges in implementing its capital budget.

TABLE 15 below reflects the year end monetary values of current liabilities over the review period.

TABLE 15: CURRENT LIABILITIES

	2015	2016	2017	2018	2019	2020	2021	2022
Consumer Deposits	5,6	5,9	6,3	8,0	8,4	8,5	9,0	9,8
ST Portion of Loans	10,3	17,0	18,8	20,5	20,0	21,3	18,0	17,0
Unspent Conditional Grants	14,9	9,7	2,5	2,1	1,9	9,2	3,4	6,4
Overdraft	-	-	-	-	-	-	-	-
Short Term Provisions	30,7	34,1	23,0	26,2	39,7	36,8	55,5	37,9
Creditors	39,9	45,1	67,7	74,9	51,6	78,1	76,4	85,8

Statement of Financial Performance

The ability of the municipality to generate surpluses is assessed in this section. This entails analysis of the main drivers of financial performance as well as the degree of reliance on capital funding.

**GRAPH 33: TOTAL INCOME VS. TOTAL EXPENDITURE**
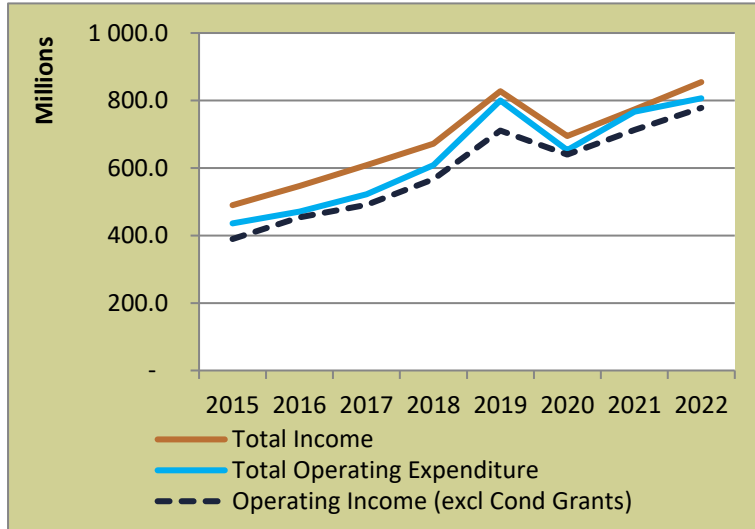
Total income has increased throughout the review period, from a total of R489.8 million in FY2015 to R854.5 million in FY2022. The average growth rate over the 8-year review period is 8.9%. This is relatively low when compared to total operating expenditure, which experienced average growth of 10.1% over the same period. The maintenance of a higher growth rate in income relative to expenditure is an integral part of achieving long term financial sustainability.

TABLE 16 below indicates Bitou LM's ability to generate surpluses (deficits) over the 8-year assessment period based on the following methodologies:

- Total accounting surplus (deficit) measures whether income from all sources exceeds total expenditure incurred. The calculation, however, includes earmarked operational and capital conditional funding received as well as accounting changes.
- Total operating surplus measures whether income from all sources excluding capital grants exceeds total expenditure.
- Cash generated by operations indicates Bitou LM's ability to generate cash and operational surpluses, exclusive of capital grants, once all non-cash items have been removed from the operational expenditure.

TABLE 16: ANALYSIS OF SURPLUS

	2015	2016	2017	2018	2019	2020	2021	2022
Total Accounting Surplus (Deficit)	54,0	76,3	86,6	62,8	27,5	41,9	6,3	47,9
Total Operating Surplus (excl Capital Grants)	19,9	27,3	4,8	11,8	(62,7)	15,7	(26,7)	(3,0)
Cash Generated by Operations (excl Capital Grants)	72,8	40,2	51,0	65,4	(29,0)	107,0	4,7	24,9

GRAPH 34: ANALYSIS OF SURPLUS
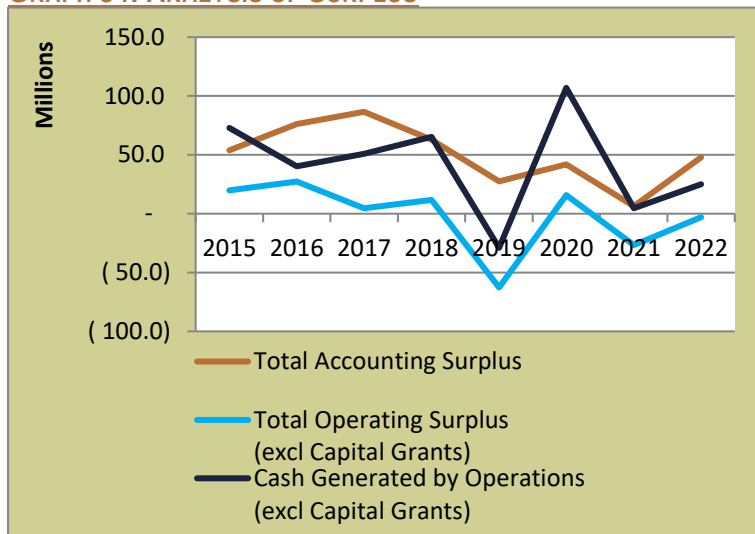
The municipality has managed to realise accounting surpluses throughout the duration of the review period, with an 8-year average surplus of R50.4 million.

Upon the exclusion of capital grants, the municipality realised operating deficits in FY2019, FY2021 and FY2022. This is indicative of insufficient generation of income through the municipality's own sources.

The municipality managed to generate cash from its operations throughout the review period, apart from FY2019.

GRAPH 35: CONTRIBUTION PER INCOME SOURCE
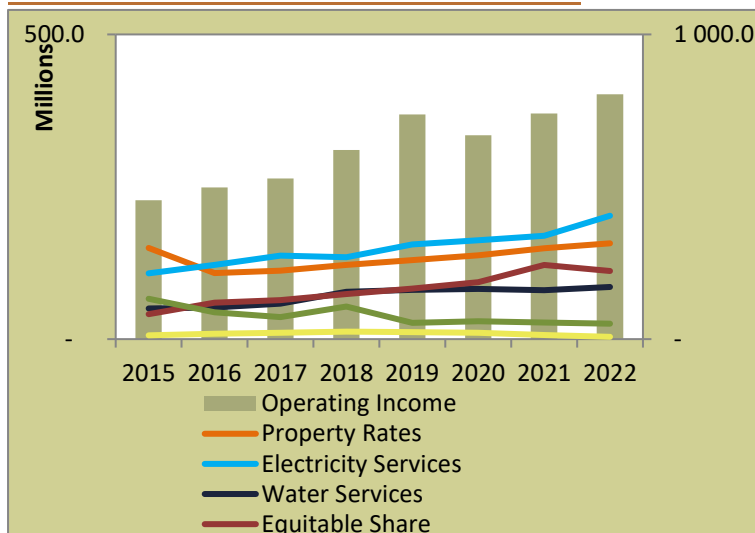
Electricity services, property rates and equitable share have been the three largest contributors, contributing an average of 69% to total income over the review period.

The gross surplus margin for the provision of electricity services has experienced slight fluctuations over the review period, this has however largely remained close to the 8-year average surplus margin of 22% (21% in FY2022). The NT norm range of 0% to 15% has been exceeded over the duration of the review period.

Water bulk purchases were reclassified as inventory during FY2020, resulting in the expenditure component being reclassified as inventory consumed. For purposes of this report and in determining the water surplus margin, the necessary adjustments have been made. The water surplus margin has averaged 99.7% over the 8-year review period, while coming in at 99.3% in FY2022.

Electricity losses amounted to 18.8% in FY2022 following 21.3% in FY2021, while water losses amounted to 37.7% in FY2022 and 35.7% in FY2021. These figures are above the NT norm ranges of 7% to 10% for electricity and 15% to 30% for water. It is recommended that the municipality implements measures to reduce these losses as far as possible as this will improve financial performance and consequently improve its prospects of achieving financial sustainability.

TABLE 17: SURPLUS MARGINS

|	2016	2017	2018	2019	2020	2021	2022
Electricity Surplus / Total Electricity Revenue	23%	24%	20%	25%	22%	20%	21%
Water Surplus / Total Water Revenue	100%	100%	100%	99%	100%	99%	99%

TABLE 18 reflects the annual increases per income source. Electricity services and equitable share have generally experienced average annual growth above CPI, with average annual growth rates of 10% and 17% respectively. Property rates income has remained relatively stable over the review period, showing a modest increase of R7.5 million from FY2015 to FY2022.

TABLE 18: ANNUAL INCREASE PER INCOME SOURCE

	2016	2017	2018	2019	2020	2021	2022
Property Rates	-28%	4%	8%	6%	6%	9%	5%
Electricity Services	13%	12%	-2%	16%	4%	4%	20%
Water Services	3%	12%	34%	4%	2%	-2%	7%
Equitable Share	47%	7%	15%	12%	13%	30%	-8%
Interest Received	45%	16%	19%	-6%	-11%	-36%	-43%

GRAPH 36: CONTRIBUTION PER EXPENDITURE ITEM
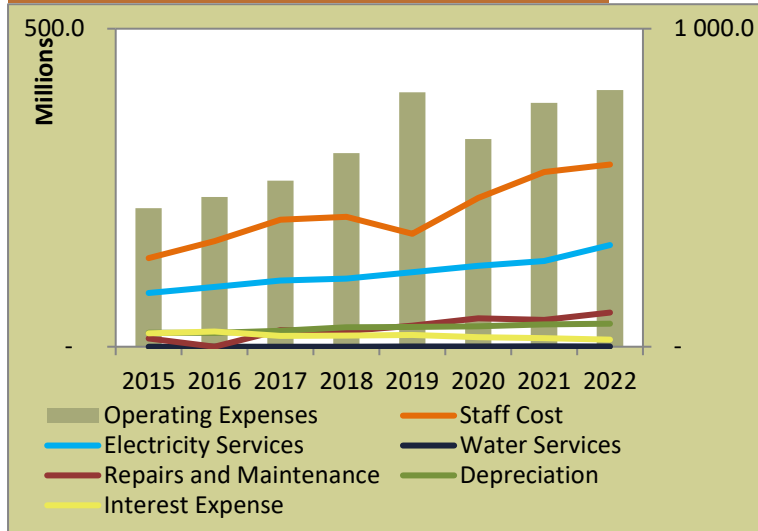
The management of operating expenditure, over which the municipality has an element of control, in relation to operating income is an integral part of achieving long term financial sustainability.

Staff costs, electricity bulk purchases and repairs and maintenance expenditure have been the largest contributors to operating expenditure during the review period.

Staff costs comprised 32% of total operating expenditure in FY2022, while averaging 29% over the review period. This remains below the NT maximum norm of 40% and should be maintained. However, when contracted services are considered, the NT norm is exceeded. Contracted services constituted 12.7% of total operating expenditure in FY2022, while averaging 11.3% over the review period. This is far above the NT norm range of 2% to 5%. Contracted services expenditure needs to be carefully monitored and ultimately reduced as the current levels are financially unsustainable.

TABLE 19: CONTRIBUTION PER EXPENDITURE ITEM

	2015	2016	2017	2018	2019	2020	2021	2022
Staff Cost	28%	30%	31%	28%	20%	33%	33%	32%
Electricity Services	17%	17%	16%	15%	13%	18%	16%	18%
Water Services	0%	0%	0%	0%	0%	0%	0%	0%
Contacted Services	3%	0%	4%	3%	4%	6%	5%	6%
Depreciation	4%	4%	4%	4%	3%	5%	4%	4%
Interest Expense	4%	4%	3%	2%	2%	2%	2%	1%

TABLE 20: ANNUAL INCREASE PER EXPENDITURE ITEM

	2016	2017	2018	2019	2020	2021	2022
Staff Cost	19%	20%	2%	-13%	32%	18%	4%
Electricity Services	11%	11%	3%	9%	9%	6%	19%
Water Services	0%	0%	0%	0%	-49%	200%	-16%
Contracted Services	-100%	0%	-5%	35%	34%	-5%	27%
Depreciation	-1%	15%	22%	2%	2%	9%	4%
Interest Expense	13%	-28%	3%	4%	-20%	-10%	-17%

TABLE 21 reflects the extent to which the municipality is reliant on grant funding as a source of revenue. The average ratio of total grants received to total revenue generated over the review period amounted to 26%. This is indicative of a reasonably high level of reliance on fiscus to generate surpluses, as the accumulated operating deficit of R12.9 million over the review period further confirms.

TABLE 21: GRANT DEPENDENCY

	2015	2016	2017	2018	2019	2020	2021	2022
Total Grants	141,3	153,1	182,2	178,6	200,1	148,9	182,2	188,3
Total Revenue	489,9	546,8	608,6	671,6	827,8	694,9	773,5	854,5
Total Grants / Total Revenue	29%	28%	30%	27%	24%	21%	24%	22%

Repairs and maintenance expenditure has increased steadily over the review period, in absolute terms increasing from R12.8 million in FY2015 to R53.7 million in the current year. TABLE 22 reflects the ratio of repairs and maintenance expenditure as a percentage of the combined carrying value of PPE and IP, of which the NT norm is 8%. The ratio has averaged 3% during the review period, remaining below the NT norm throughout. A well maintained and healthy municipal asset base is crucial for the municipality to achieve its targeted levels of service delivery. It is recommended that the current levels of repairs and maintenance expenditure are increased, as this will reduce the likelihood of impairment of assets in future.

TABLE 22: ASSET MANAGEMENT RATIO

	2015	2016	2017	2018	2019	2020	2021	2022
Repairs and maintenance as a % of PPE and IP	2%	0%	3%	2%	3%	4%	4%	4%

It is crucial that the municipality continues to carefully manage its operating expenditure, over which it has a degree of control, to achieve improved financial performance and consequently reduced reliance on fiscus. It is recommended that Bitou LM focuses on the reduction of certain expenditure items in which the municipality is overspending, such as contracted services. The generation of operating surpluses, excluding capital grants, gives a clear indication of the financial sustainability of the municipality.

Cash Flow Statement

In this section the ability of Bitou LM to generate cash from its operations is assessed, as well as the extent to which the surplus cash is utilised for investment in capital infrastructure or to bolster cash reserves. The municipality's financial resources that are utilised to accelerate capital investment are determined as well as the extent to which these resources are optimally leveraged to achieve the required level of infrastructure investment whilst maintaining a financially sustainable position.

GRAPH 37: CASH IMPACT OF WORKING CAPITAL CHANGES
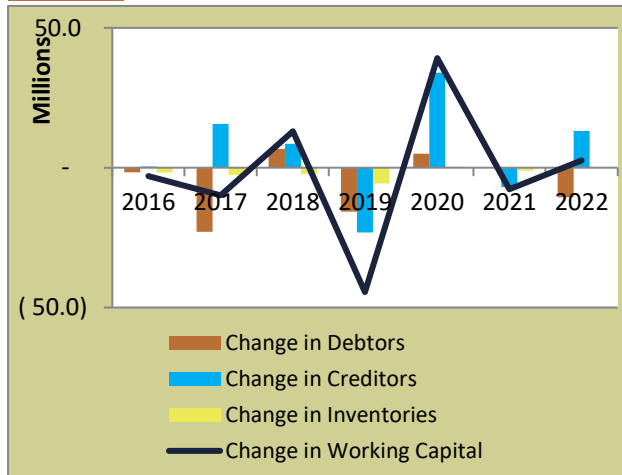

GRAPH 38: INVESTMENT INCOME VS. INTEREST PAID
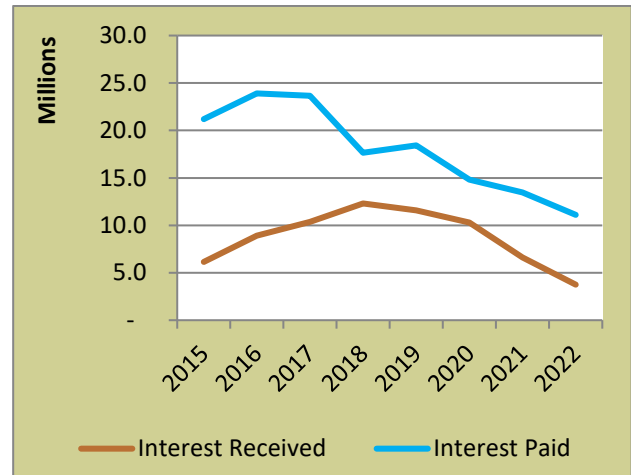
Due to the limited ability for diversification (revenue sources) in the municipal sector, it is recommended that the municipality settle its creditors from debtors' collection. Scrutiny of GRAPH 37 illustrates that the municipality has experienced vastly fluctuating movements in working capital throughout the review period. Deviations in creditors are mostly responsible for the significant deviations in working capital experienced in FY2019 and FY2020. The net changes in working capital are highlighted below:

	R'Million
Change in debtors	(38.9)
Change in creditors	41.6
Change in stock	(13.0)
Total net change	**(10.3)**

GRAPH 38 highlights that interest received and paid have generally followed similar trends over the review period. Interest paid has consistently exceeded interest received, with an average of R18.0 million compared to R8.7 million received during the 8-year assessment period. Notably, there is a decreasing trend in the amount of interest paid from FY2019, consistent with no undertaking of external financing since FY2018.

GRAPH 39: ANNUAL CAPITAL FUNDING MIX
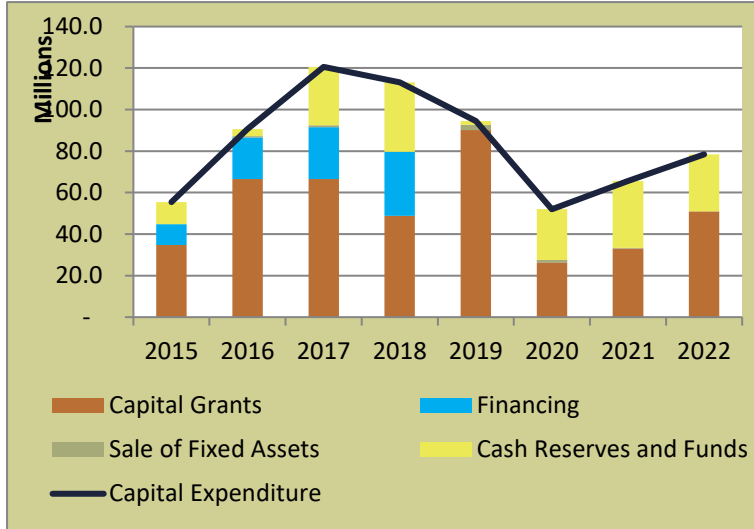
The accumulated capital investment employed by the municipality amounts to R670.2 million for the 8-year review period. This has been funded by 62.2% from capital grants, 12.8% from external financing, 0.8% from the sale of fixed assets and the remaining 24.2% from cash reserves and funds.

The municipality has not undertaken any borrowing since FY2018, this has resulted in heavy reliance on cash reserves to fund capital investment. This is financially unsustainable and has contributed to the municipality's poor liquidity position. It is recommended that the municipality fosters a more balanced funding mix through utilising the scope for additional borrowing provided for by the low gearing and debt service to total expense ratios. This can be attained in an affordable and sustainable manner whilst not only alleviating pressure on cash reserves, but additionally unlocking the acceleration of capital investment.

Analysis of **GRAPH 39** reveals a sharp decline in capital expenditure in FY2020, this can be attributed to supply chain issues and delays created by the Covid-19 pandemic. It is positive to note that there has been an upturn in capital expenditure since then.

TABLE 23 below shows the monetary values of the Funding Mix for the Capital Program:

TABLE 23: ANNUAL CAPITAL FUNDING MIX (R'M)

	2015	2016	2017	2018	2019	2020	2021	2022
Capital Grants	34,8	66,6	66,6	48,7	90,2	26,2	33,0	51,0
Financing	10,0	20,0	25,0	30,9	-	-	-	-
Sale of Fixed Assets	-	0,6	0,8	-	2,4	1,4	0,3	-
Cash Reserves and Funds	10,7	3,4	28,2	33,5	1,9	24,4	32,3	27,4
Capital Expenditure	55,5	90,6	120,6	113,1	94,5	52,0	65,6	78,4

## GRAPH 40: GROWTH IN TOTAL CAPITAL EXPENDITURE VS. TOTAL OPERATING INCOME
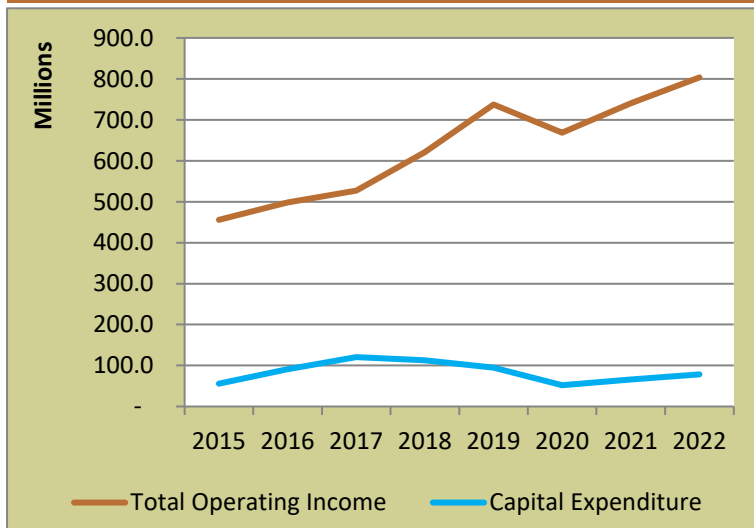
Bitou LM's capital expenditure as a percentage of total expenditure (total operating expenditure + capital expenditure) was consistently below the NT norm range of between 10% and 20% throughout the assessment period.

Scrutiny of the historical data indicates that the municipality has historically struggled to implement its capital budget. The average ratio of actual capital expenditure to budgeted capital expenditure amounted to 83% over the 8-year review period, this is well below the NT norm of at least 95%. This is indicative of capacity challenges and

potential supply chain issues hindering the implementation of the capital budget. Upon the exclusion of the Covid-19 affected FY2020, this average increases modestly to 86%, remaining below the NT norm.

GRAPH 41: NET CHANGE IN CASH AND INVESTMENTS
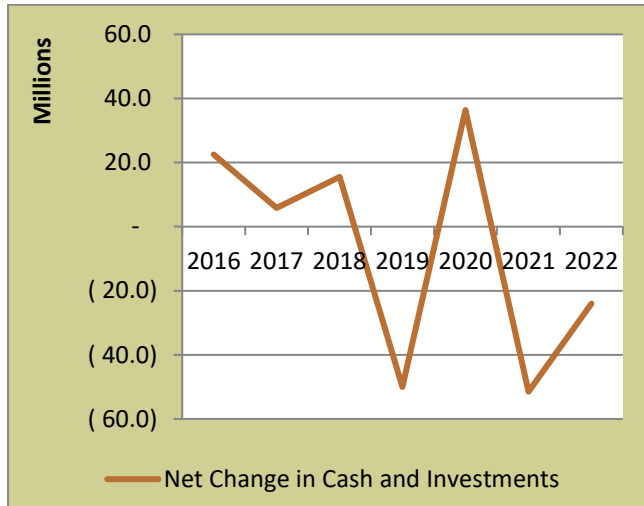
GRAPH 42: CASH AND INVESTMENTS
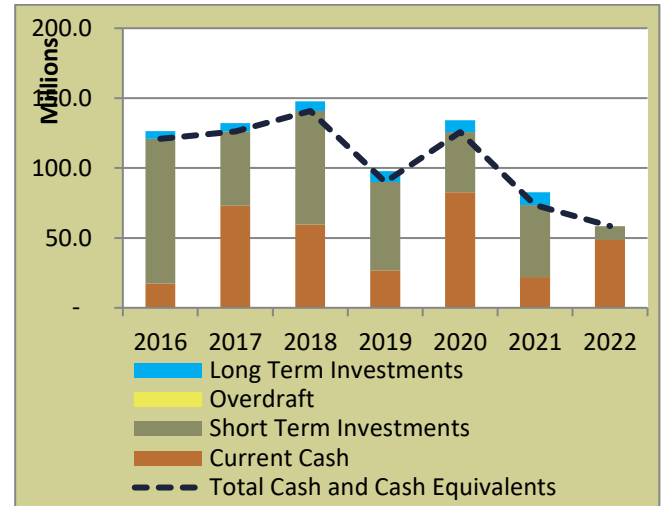
GRAPH 41 illustrates the fluctuations in cash and cash equivalents throughout the review period. The sharp declines experienced in FY2019 and FY2021 are largely attributable to substantial dips in current cash. There was a marked decrease in ST investments during the current financial year, resulting in a decline in unencumbered cash and cash equivalents as at FYE2022.

GRAPH 43: MINIMUM LIQUIDITY REQUIREMENTS
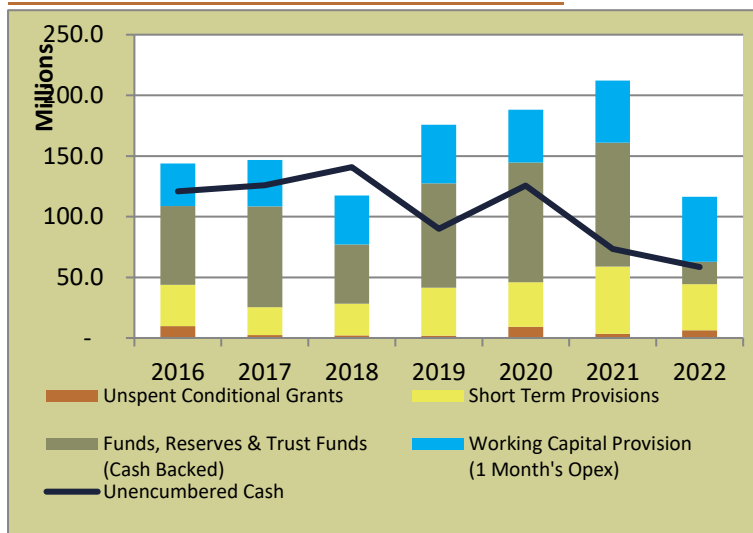
A Municipality is required to maintain cash reserves which sufficiently cover the following statutory requirements:

- Unspent Conditional Grants
- Short-Term Provisions
- Cash backed Funds and Reserves
- Cash Cover for 1-3 months working capital

It is an extreme concern that the municipality has generated cash surpluses above the minimum liquidity requirement in just 2 of the 8 years under review, as presented in TABLE 24 below. The cumulative cash shortfall over the review period amounts to R364.8 million.

This poses an enormous threat to financial sustainability and leaves the municipality in a precarious position should unforeseen events lead to any financial shocks.

The cash coverage ratio (incl working capital) of 0.5 is very low. This indicates that Bitou LM is ill-equipped to cope with circumstances or events that may be potentially harmful to its revenue and cash generation sources. There is a high risk that the municipality will not be able to meet its operational expenses should circumstances dictate that it cannot generate cash for one month.

TABLE 24: MINIMUM LIQUIDITY LEVELS

	2015	2016	2017	2018	2019	2020	2021	2022
Unspent conditional grants	14,9	9,7	2,5	2,1	1,9	9,2	3,4	6,4
Short term provision	30,7	34,1	23,0	26,2	39,7	36,8	55,5	37,9
Funds, Reserves & Trust Funds [Cash Backed]	25,0	65,0	83,0	48,9	85,9	98,7	102,0	18,6
Total	**70,6**	**108,9**	**108,4**	**77,1**	**127,5**	**144,7**	**161,0**	**62,9**
Unencumbered Cash	103,6	120,8	125,9	140,8	90,1	125,7	73,5	58,5
"Cash Coverage Ratio (excl Working Capital)"	1,5	1,1	1,2	1,8	0,7	0,9	0,5	0,9
"Working Capital Provision (1 Month's Opex)"	32,5	34,9	38,3	40,3	48,3	43,5	51,2	53,6
"Cash Coverage Ratio (incl Working Capital)"	1,0	0,8	0,9	1,2	0,5	0,7	0,3	0,5
Minimum Liquidity Required	103,0	143,8	146,7	117,4	175,8	188,2	212,2	116,5
Cash Surplus/(Shortfall)	**0,6**	**(23,0)**	**(20,8)**	**23,4**	**(85,7)**	**(62,5)**	**(138,7)**	**(58,0)**

*	Cash Coverage Ratio (excl Working Capital) =Unencumbered cash and cash equivalents/Total
**	Total Expenditure/12
****	Unencumbered cash and cash equivalents = Total cash & cash equivalents-ceded investments
****	Total + Working Capital Provision
*****	Minimum liquidity required - Unencumbered cash and cash equivalents

8.   Credit Score

The Model calculates a credit score considering the following factors in order of weighting: Finance, Economic, Institutional, Socio Economic and Environmental. Although financial performance outweighs other factors, the other factors are by no means considered of less importance. Institutional strength and stability are as important to the sustainability of the municipality as the financial performance and having a sizeable economic base. The individual credit score of each municipality is calculated through scoring its performance against IPMs own predefined norms to derive an absolute score. The score is totalled out of 10 on the following scale:

8 to 10	AAA+ to AA-	Investment Grade
6 to 8	A+ to A-	Investment Grade
4 to 6	BBB+ to BBB-	Investment Grade
0 to 4	< BB+	Non-Investment Grade

Bitou LM achieved a shadow credit rating of **4.7** on the INCA Shadow Credit Rating Model. This is "Investment Grade" and equates to a rating of **BBB-** on a recognised national credit ratings scale. It would be beneficial to improve the external investors' perception of the financial position of Bitou through actively addressing credit risk factors such as improving liquidity levels and operational management. This will enable the Municipality to access the external market and obtain competitive lending rates.

INCA Shadow Credit Rating		
Municipality	WC047	Bitou Local Municipality
Date of Assessment		November 2022
INCA Shadow Credit Rating		**4.7**
Investment Grade		**Yes**
Equivalent on National Credit Ratings Scale		**BBB+ to BBB-**

The municipality achieved the following scores in each module of the credit scoring model:

	(Out of 5)
Financial	**1,9**
Institutional	**2,2**
Socio-Economic	**2,1**
Infrastructure	**3,6**
Environmental	**3,5**

9. Appendix

Appendix 1: IHS Global Insight Rex Version 2.5q

Regional eXplorer (ReX) is a consolidated platform of integrated databases that provides accurate and up-to-date statistics down to the local municipal level for South Africa. ReX Information is output for a broad range of topics, including economic, socioeconomic, demographic, and development data. ReX is the first port of call for consistent and reliable geographically distributed data.

ReX combines different sources of sub-national information to provide relevant data:

- Bureau for Market Research (BMR) at UNISA
- Statistics South Africa (StatsSA)
- South African Reserve Bank (SARB)
- South African Revenue Services (SARS)
- Council for Scientific and Industrial Research (CSIR)
- Chamber of Mines of South Africa (CM)
- Cement and Concrete Institute (CNCI)
- South African Petroleum Industry Association (SAPIA)
- National Electricity Regulator (NER) and Eskom
- Government departments, including the National Treasury and the DTI
- Various development agencies
- Selected private research houses
- And many more
- Capital Expenditure

The following areas form the geographic coverage within ReX:

- National
- Metropolitan municipalities
- Sub-metropolitan regional breakdowns
- Provinces
- District municipalities
- Magisterial districts
- Local municipalities

The ReX database starts from the year 1996 and runs to the present for all modules.

10. Background of INCA Portfolio Managers

INCA Portfolio Managers (trading as IPM) is an independent privately-owned company and registered at the Financial Services Board as a financial services provider. IPM was established in 2009 by the executive management and all of the staff of Infrastructure Finance Corporation (INCA). This team, who started INCA in 1996 and who has been involved in the municipal and infrastructure sector for the past 20 years, is still managing the INCA Portfolio, but is actively involved in strategic analysis, guidance and financial advisory services in the municipal sector.

Since 1996, the INCA team has concluded credit assessments on the financial affairs of municipalities across South Africa, applying its own scoring methodology and comparing similar sized municipalities to ascertain which municipalities are of a financially acceptable risk for further capital investment. IPM applies this skill and expertise to provide municipalities an independent and holistic assessment of the financial sustainability of the entity. In conjunction with the finance team of a municipality IPM, through an interactive process, provides strategic input and support both to the financially sound municipality that wishes to maintain its financial position and extend its service delivery functions on a sustainable basis, as well as to the municipality in financial distress that requires a turnaround strategy.

The years of active involvement in the municipal sector and having been active in the capital markets since issuing the 2nd corporate bond in South Africa back in 1999, enables IPM to be an invaluable resource of expertise and know how to assist public entities and especially municipalities in implementing appropriate policies and strategies that will optimize available resources and taking entities to the next level of efficiency.

11. Disclaimer

Whilst all care has been taken by INCA Portfolio Managers (IPM) in the preparation of the opinions, assessments and information provided in this document, IPM does not give any warranties as to its correctness, accuracy or completeness, nor do they assume liability for any losses arising from actions taken based on the information provided.

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