

Chapter Five

FINANCIAL PERFORMANCE REPORT

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Breede River Winlands Municipality's long-term sustainability hinges on sound financial management practices and compliance with the Municipal Finance Management Act (2003). These financial practices that underpin the municipality's process of effective municipal financial management are planning and budgeting, revenue and expenditure management, reporting and oversight. In the past two financial years the municipality has achieved unqualified audits and compiled its financial statement in the new Generally Recognised Accounting Practice (GRAP) Format.

Each of these components contributes to ensuring that Breede River Winlands municipality's financial expenditure is developmental, effective and efficient and that municipalities / municipal entities is accountable for the effective management of its budgets. The reforms introduced by the MFMA in 2003 form the cornerstone of the broader reform package for Breede River Winlands Municipality, outlined in the 1998 White Paper on Local Government. The MFMA (2003) together with the Municipal Structures Act (1998), the Municipal Systems Act (2000) and the Municipal Property Rates Act (2004), provides the procedures and processes for our Municipality's operations, planning, governance and accountability. Chapter 12 of the MFMA provides specific detail on the financial reporting and auditing requirements to be executed by all municipalities.

The aim of this chapter is to provide an overview of the financial performance of the Breede River Winlands Municipality with the aim of measuring financial results. It further provides an opportunity for planning, so as to ensure that future budgetary allocations are brought in line with functional area activities and outputs.

Information included in this chapter is divided into the following framework:

1. FINANCIAL SUSTAINABILITY

Operating results: Revenue and Expenditure

The revenues and expenditures of Breede River Winlands Municipality determine the ability to deliver basic services to our communities. Weaknesses in revenue and expenditure management could constrain our ability to contribute to poverty reduction and economic development.

This section reviews key trends in revenue and expenditures for the current year. It provides a detailed analysis of specific expenditure functions.



BREEDE RIVER WINLANDS MUNICIPALITY



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Allocation of Expenditure

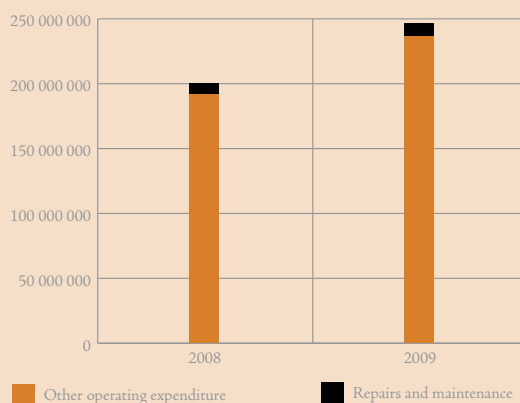
Expenditure on repairs and maintenance remained the same year on year. It is projected that repairs and maintenance will remain at this level over the medium-term while the asset base of Breede River Winelands Municipality continues to grow. Accordingly, the municipality spent 4.2% and 4.2% in 2007/08 and 2008/09 financial year respectively on repairs and maintenance.

The graph below illustrates the allocation of expenditure for repairs and maintenance as a total percentage of the actual operational expenditure.

Table 42: Percentage Expenditure on Repairs & Maintenance

	2008	2009
Other Operating Expenditure	193,823,656	241,931,300
Repairs & Maintenance	8,427,801	10,616,905
Repairs and Maintenance as the percentage of the total Opex	4.2%	4.2%

Figure 9



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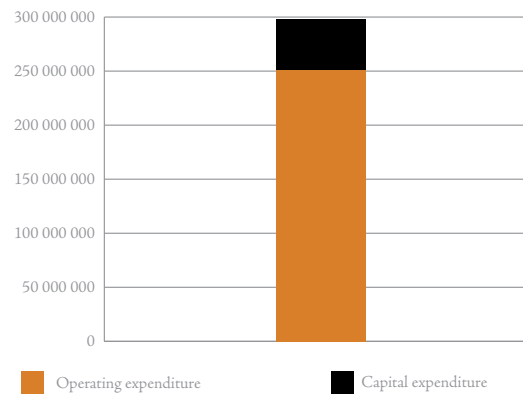
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Capital and Operation expenditure

Table 43: Capital expenditure compared to overall budget (2008/09)

BUDGET CATEGORY	AMOUNT	%
Operating Expenditure	252,548,205	84%
Capital Expenditure	46,351,922	16%
Total Expenditure	R298,900,127	100%

Figure 10



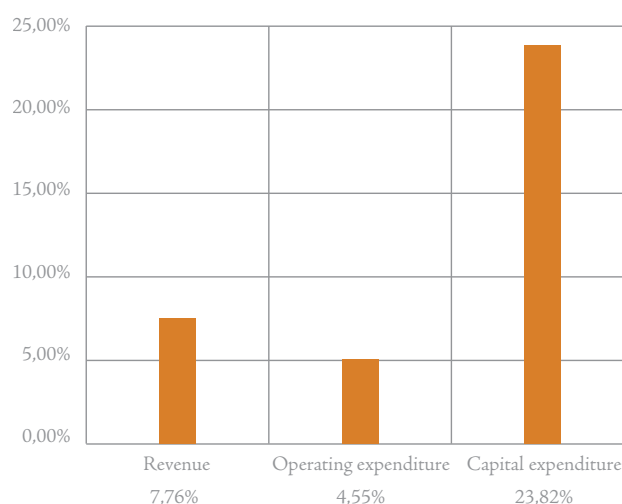
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Table 44: Variance between Actual & Budgeted Expenditure

	% VARIANCE BETWEEN ACTUAL & BUDGETED EXPENDITURE	VARIANCE	BUDGET	ACTUAL
Revenue	7.76%	18 614 488	249 004 264	268 332 523
Operating Expenditure	4.55%	13 305 604	264 576 952	252 548 205
Capital Expenditure	23.82%	14 493 978	60 845 900	46 351 922

Figure 11: Variance of Actual Revenue to Expenditure (as compared to original Budget)



The Variance for revenue & operating expenditure is within the norm, but Capital Expenditure need to improve. The higher than expected variance on the Capital Expenditure is due to the slow delivery on Housing. Only R 4 251 703 of the R 14 908 000 housing grant was spend.

Financial ratios based on Key Performance Indicator

The following calculations are to be used to provide key financial ratios for the determination of the financial health of Breede River Winelands Municipality (viability). The information is sourced from the financial statements as financial ratios involve the comparison of elements from both the balance sheet and income statement, and are crafted with particular points of focus in mind. These ratios are to be presented as per the General Key Performance Indicators (Municipal Systems Act Section 43).

a) Cost coverage

Table 45: Cost coverage (2008 and 2009)

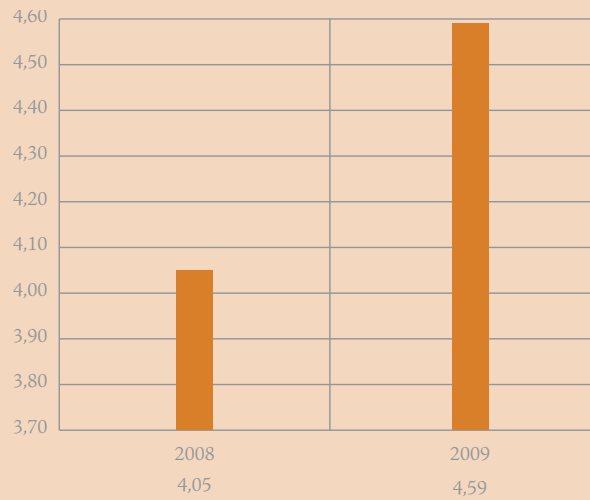
	2009	2008
Available cash	3 956 989	17 586 389
Investments	92 146 276	51 082 923
Monthly fixed operating expenditure.	21 045 684	16 854 288
Cost coverage	4.57	4.07

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Figure12: Cost coverage 2008 and 2009

The available cash is sufficient to cover the operating expenditure for 4.5 (2008: 4.0) months.

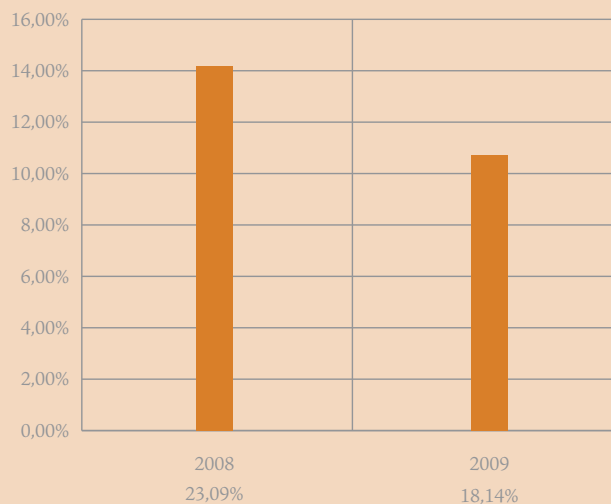


b) Outstanding service debtors to revenue:

Table46: Outstanding service debtors to revenue (2008 and 2009)

	2009	2008
Outstanding service debtors	27 881 747	28 035 891
Annual revenue actually received for services	258 480 114	199 473 021
Outstanding service debtors to revenue	0.11	0.14

Figure13: Outstanding service debtors to revenue



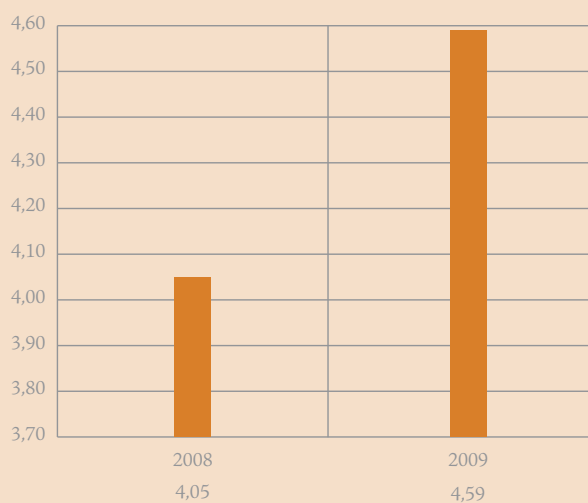
The outstanding service debtors equal 11% (2008: 14%) of revenue. The improvement is due to the fact that there was a small reduction in outstanding debt, but a substantial increase in revenue.

a) Debt Coverage

Table 47: Debt coverage 2008 and 2009

	2009	2008
Total operating revenue received	268 332 523	212 550 627
Grants	50 202 239	31 687 684
(i.e. interest + redemption) due within the financial year	12 023 256	7 833 757
Debt coverage	18.14	23.09

Figure14: Debt coverage



The operating revenue is sufficient to cover interest and redemption payments on external loans. The decline in the ratio is as a direct result of a new loan taken up with the Development Bank of South Africa.

Other financial matters

Credit Control

Responsibility includes credit control measurements on outstanding accounts and identifying indigents.

- Through the debt management policy the municipality's debt recovery rate of 97.65% has exceeded the annual target of 96%, as well as the previous financial year's 95%.
- Approximately 4 656 indigents were identified during the 2008/09 financial year, compared to approximately 4 668 indigents households identified during 2007/08.



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Table 48: Indigents per town:

2007/08		2008/09	
Robertson	1676	Robertson	1532
McGregor	40	McGregor	67
Ashton	1202	Ashton	1184
Bonnievale	607	Bonnievale	543
Montagu	1143	Montagu	1330
Total	4668	Total	4656

- Outstanding amounts to the value of R 3 431 147.71 owed by indigents was written off during the 2008/09 financial year, compared to approximately R 374 996.95 owed in 2007/08.
- The municipality has a 40% rebate policy on property tax for pensioners (60 years and over) with an income of \leq R 2 500 per month.
- The total rebate which was calculated according to the rates policy amounted to R5 601 124 during 2008/09, compared to the 2007/08 financial year's R19 493 197. This huge decrease is due to changes in the tariff structure, inter alia, agricultural properties.

Table 49: Rebates

REBATES	2007/08	2008/09
Rates rebates (residential, government and agricultural)	R18 996 875	R5 053 903
Rates rebates - pensioners	R33 119	R43 850
Rebates - developers	R436 567	R492 107
Rebates - land reform	R26 636	R11 264
Total	R19 493 197	R5 601 124

2. INCOME

Revenue

Conditional transfers make up the remainder of the resources transferred from national government to municipalities. As the word implies, these grants are based on specific programmes / projects to be initiated by the municipality concerned. Transfers are made directly as cash, or indirectly as assets or support services. Some of the better known transfers include:

- Municipal Infrastructure Grant (MIG)
- Government Grants and Subsidies

Loans and borrowing:

Borrowing as a financing option carries an intrinsically higher risk compared to financing from own resources and national transfers. The increase in the borrowings is as a direct result of a new loan taken up with the Development Bank of South Africa. The proceeds of the loan were utilized to upgrade sewerage and water infrastructure. A loan of R 20 million will be taken up during the 2009/10 and 2010/11 financial years to finance the upgrading of electricity infrastructure.



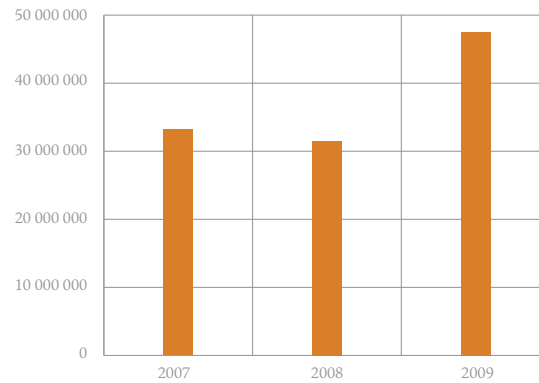
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Table50: Actual Borrowings

	2007	2008	2009
Actual Borrowings	33 184 163	31 522 364	47 581 548

Figure15: Actual Borrowings



The increase in external loans is due to the financing of capital expenditure.

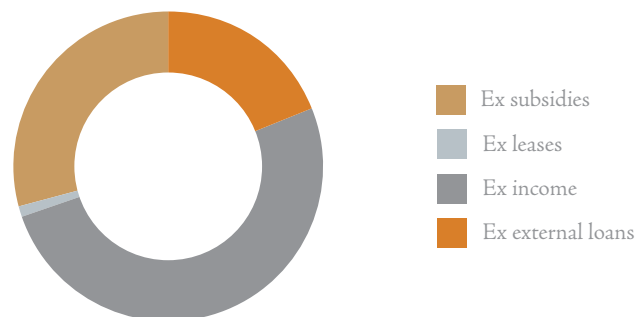
Capital Funding by Source:

The bulk of the Capital Expenditure is financed from own funds. External loans were used to finance the upgrading of electricity infrastructure. The Municipal Infrastructure Grant and the Housing Grant are the main sources of subsidies used for capital expenditure.

Table 51: Capital Funding by Source:

	CAPITAL REVENUE
ex External Loans	8 918 353
ex Income	23 999 112
ex Leases	559 211
ex Subsidies	13 657 105

Figure16: Capital funded by source 2008/09



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Own Revenue:

Breede River Winelands Municipality also generate other revenue in the form of traffic fines, business licences, rental fees, entrance fees for use of municipal facilities and fresh produce markets.

Current revenues are income derived mainly from rates and service charges. Surpluses generated from these sources can be used to finance assets. However, increasing property rates and service charges may not be the only answer to finance infrastructure. This is because it would place an immediate burden on current residents who may not be there to enjoy the benefits of the completed infrastructure in the future.

Table 52: Actual Revenue by Source

	ACTUAL REVENUE BY SOURCE		2009 %	2008 %
	2009	2008		
Property rates	20 323 699	20 322 854	8%	10%
Service charges	165 229 142	138 457 749	62%	65%
Interest Earned	12 406 597	9 506 253	5%	4%
Government grants and subsidies	50 202 239	31 687 684	19%	15%
Other income	20 170 845	12 576 087	8%	6%
Total Revenue	268 332 523	212 550 627	100%	100%

Figure 17: Actual Revenue by Source



Service charges accounts for 62% (2008: 65 %) of revenue. Electricity provides for 72% (2008: 68%) of service charges.

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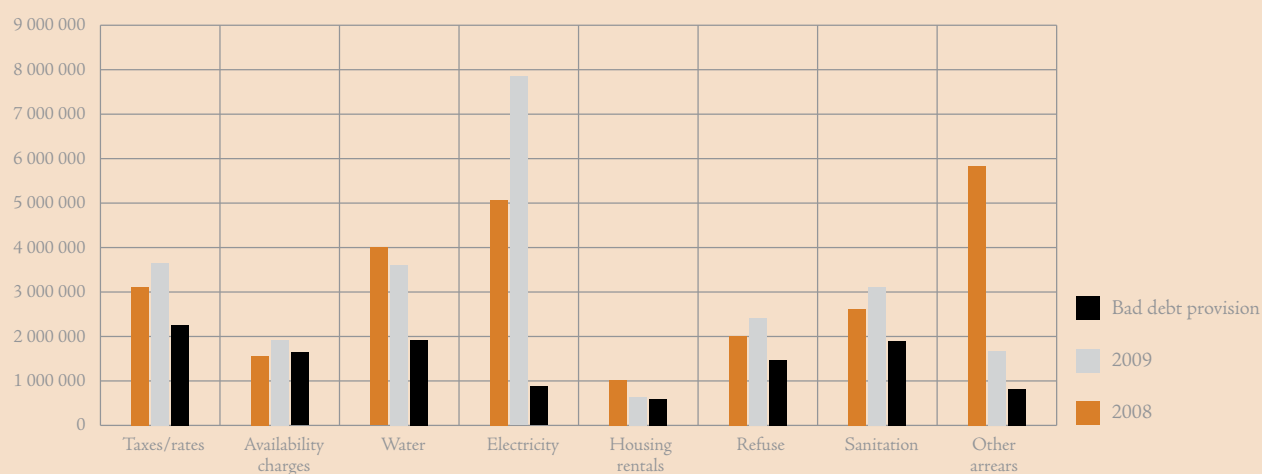
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Outstanding Consumer Debt:

Table 53: Outstanding Consumer Debtors by Category

OUTSTANDING CONSUMER DEBTORS PER CLASS			
	2008	2009	BAD DEBT PROVISION
Taxes - Rates	3 455 397	4 060 952	2 516 923
Availability Charges	1 725 714	2 143 205	1 823 571
Water	4 444 278	4 002 621	2 131 195
Electricity	5 640 686	8 718 839	970 878
Housing Rentals	1 136 195	710 271	664 771
Refuse	2 240 085	2 691 030	1 644 115
Sanitation	2 918 206	3 456 222	2 112 182
Other Arrears	6 475 330	1 868 940	907 064

Figure 18: Outstanding Consumer Debtors by Category



Although electricity contributes the most to consumer debtors it does not contribute much to the bad debt provision as the recovery rate is high. A slight decrease in debtors was experienced during the 2008/2009 financial year.



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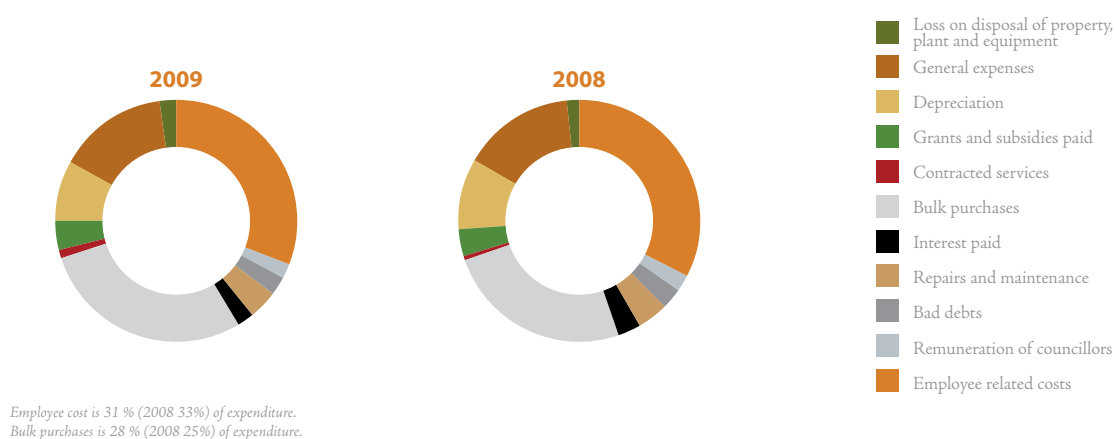
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3: EXPENDITURE

Table 54: Actual expenditure by Item 2009

	ACTUAL EXPENDITURE BY ITEM	
	2009	
Employee related costs	78 176 721	30.96%
Remuneration of Councillors	4 730 734	1.88%
Bad debts	6 414 120	2.54%
Repairs and maintenance	10 616 905	4.20%
Interest paid	8 881 080	3.52%
Bulk purchases	71 344 891	28.25%
Contracted services	2 757 519	1.09%
Grants and subsidies paid	9 748 267	3.86%
Depreciation and amortisation	20 787 174	8.23%
General expenses	34 199 622	13.54%
Loss on disposal of property, plant and equipment	4 891 171	1.95%
Total Expenditure	252 548 205	100.00%

Figure19: Actual Expenditure by item 2009/8



The main key costs are employee cost which is 31% (2008:33%) of the expenditure and bulk purchases are 28%.



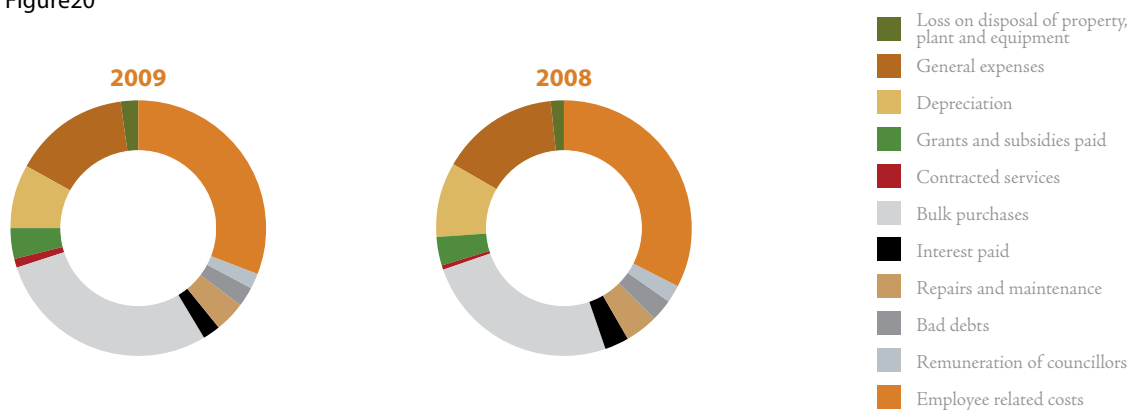
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Table 55: Actual expenditure by Item 2008

	ACTUAL EXPENDITURE BY ITEM	
	2008	
Employee related costs	66 487 702	32.66%
Remuneration of Councillors	4 216 902	2.07%
Bad debts	6 104 253	3.00%
Repairs and maintenance	8 427 801	4.14%
Interest paid	6 116 969	3.00%
Bulk purchases	50 982 806	25.04%
Contracted services	1 044 855	0.51%
Grants and subsidies paid	7 238 310	3.56%
Depreciation and amortisation	18 110 733	8.95%
General expenses	30 172 581	14.82%
Loss on disposal of property, plant and equipment	3 348 546	1.64%
Total Expenditure	202 251 457	100.00%

Figure20



Employee cost is 31 % (2008 33%) of expenditure.
Bulk purchases is 28 % (2008 25%) of expenditure.



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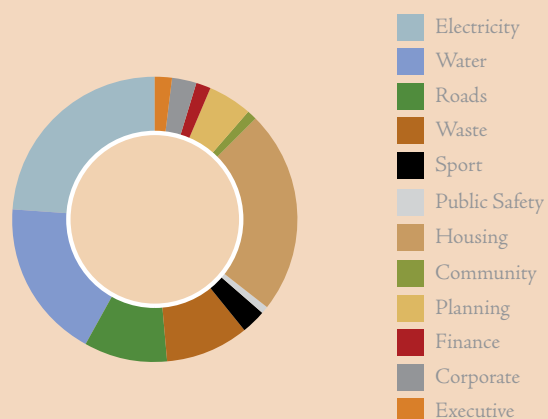
Capital expenditure by vote/department

The bulk of capital expenditure is in respect of Housing and Electricity.

Table 56: Actual Expenditure by major user department

CAPITAL EXPENDITURE BY VOTE	2009
Executive	1 000 911
Corporate	1 305 135
Finance	743 627
Planning	2 229 491
Community	578 333
Housing	10 652 260
Public Safety	422 689
Sport	1 346 894
Waste	4 289 125
Roads	4 388 942
Water	8 329 003
Electricity	11 065 514

Figure 21: Actual Expenditure by major user department



The bulk of capital expenditure is in respect of Housing and Electricity.



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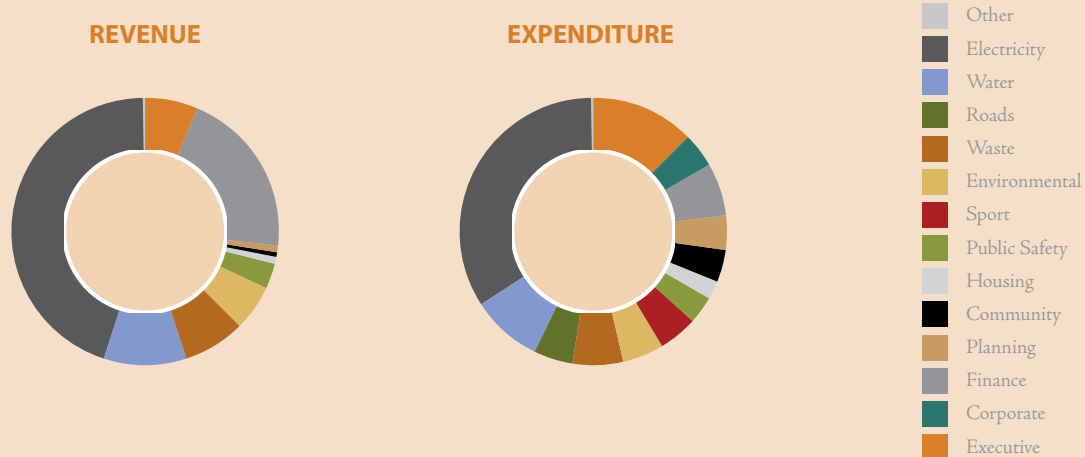
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Revenue by Vote (2007/08)

Table 57: Revenue by Vote (2007/08)

	REVENUE BY VOTE 2007/2008	
Executive	13,843,473	6.54%
Corporate	185,491	0.09%
Finance	43,787,456	20.60%
Planning	1,499,191	0.71%
Community	1,064,721	0.50%
Housing	1,811,660	0.86%
Public Safety	6,607,470	3.12%
Sport	312,884	0.15%
Environmental	11,786,588	5.57%
Waste	15,492,539	7.32%
Roads	378,586	0.18%
Water	20,900,219	9.88%
Electricity	94,376,803	44.61%
Other	503,546	0.24%
Total	212,550,627	100.00%

Figure22



The graph for expenditure is for comparative purposes.



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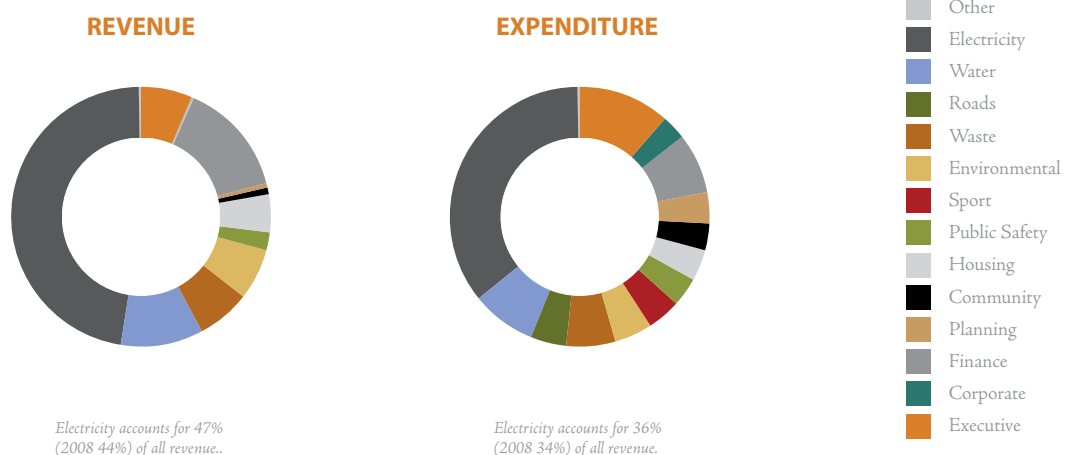
Revenue by Vote (2008/09)

Table 58: Revenue by Vote (2008/09)

	REVENUE BY VOTE 2008/2009	
Executive	17,788,896	6.65%
Corporate	481,559	0.18%
Finance	38,435,273	14.32%
Planning	1,572,081	0.59%
Community	1,994,690	0.75%
Housing	12,900,270	4.82%
Public Safety	6,047,294	2.26%
Sport	255,980	0.10%
Environmental	16,686,147	6.24%
Waste	17,617,955	6.58%
Roads	93,804	0.04%
Water	27,838,978	10.40%
Electricity*	126,441,016	47.25%
Other	178,580	0.07%
Total	268,332,523	100.00%

*Electricity accounts for 47% (2008: 44%) of all revenue

Figure23



The graph for expenditure is for comparative purposes.



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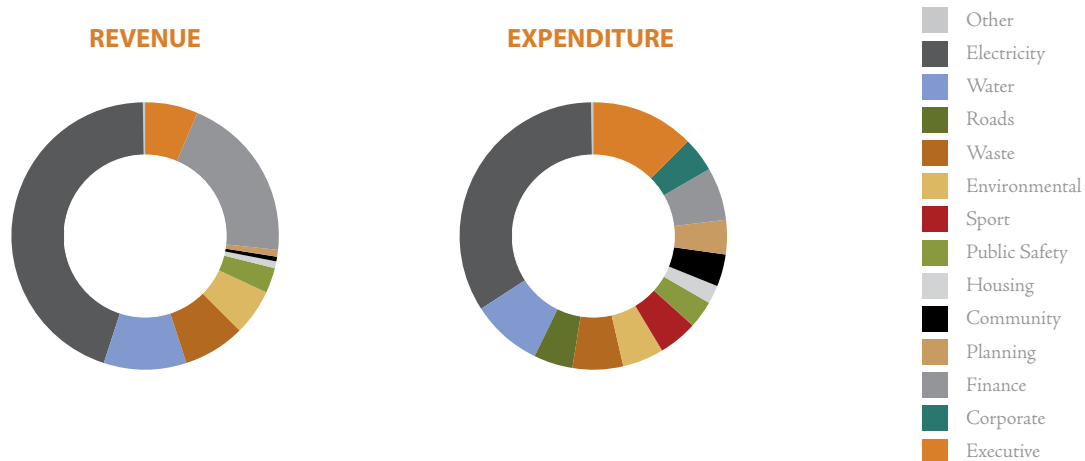
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Expenditure by Vote (2007/08)

Table 59: Expenditure by Vote (2007/08)

	EXPENDITURE BY VOTE 2007/2008	
Executive	26,292,935	12.51%
Corporate	9,044,807	4.30%
Finance	13,493,689	6.42%
Planning	8,635,802	4.11%
Community	8,088,260	3.85%
Housing	4,683,862	2.23%
Public Safety	7,262,889	3.46%
Sport	9,567,734	4.55%
Environmental	10,610,092	5.05%
Waste	12,892,255	6.14%
Roads	9,915,965	4.72%
Water	17,901,936	8.52%
Electricity	71,225,917	33.90%
Other	505,205	0.24%
Total	210,121,349	100.00%

Figure 24



The graph for revenue is for comparative purposes.



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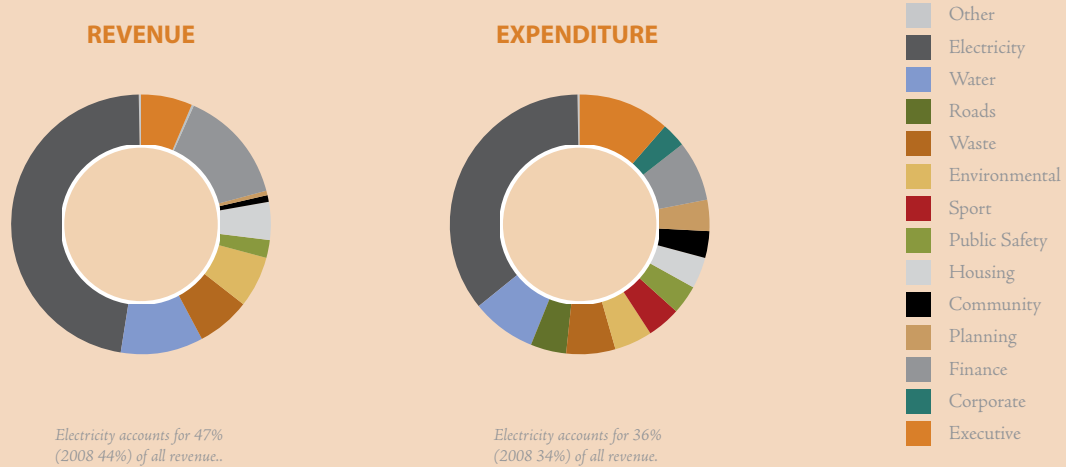
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Expenditure by Vote (2008/09)

Table 60: Expenditure by Vote (2008/09)

	EXPENDITURE BY VOTE 2008/2009	
Executive	31,120,590	11.52%
Corporate	8,633,285	3.20%
Finance	20,225,644	7.49%
Planning	9,799,115	3.63%
Community	9,708,949	3.59%
Housing	10,429,616	3.86%
Public Safety	9,357,505	3.46%
Sport	11,419,715	4.23%
Environmental	12,798,545	4.74%
Waste	16,381,091	6.06%
Roads	12,315,130	4.56%
Water	21,174,596	7.84%
Electricity	96,339,917	35.65%
Other	498,186	0.18%
Total	270,201,883	100.00%

Figure25



The graph for revenue is for comparative purposes.

