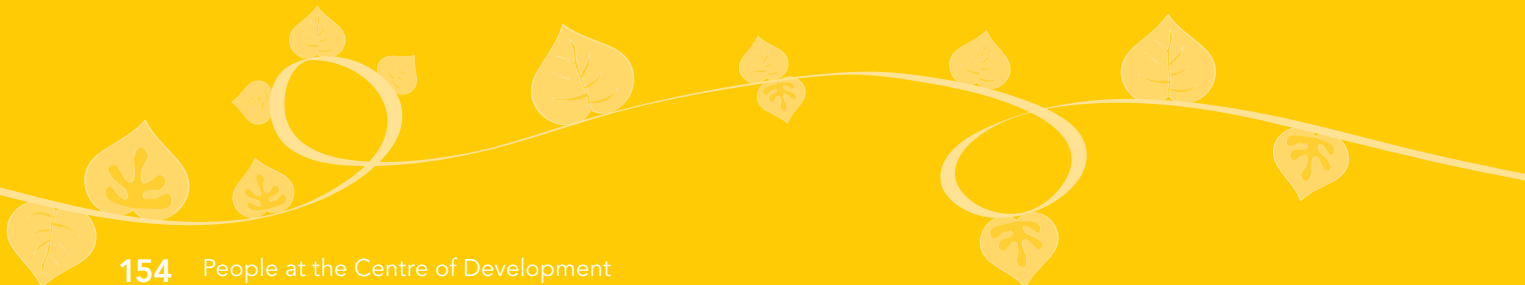


Chapter 5

FINANCIAL PERFORMANCE REPORT

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The Langeberg 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 three 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 Langeberg Municipality's financial expenditure is developmental, effective and efficient and that the municipality is accountable for the effective management of its budget. The reforms introduced by the MFMA in 2003 form the cornerstone of the broader reform package for Langeberg 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 details 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 Langeberg 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:

FINANCIAL SUSTAINABILITY

OPERATING RESULTS: REVENUE AND EXPENDITURE

The revenues and expenditures of Langeberg 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.

ALLOCATION OF EXPENDITURE

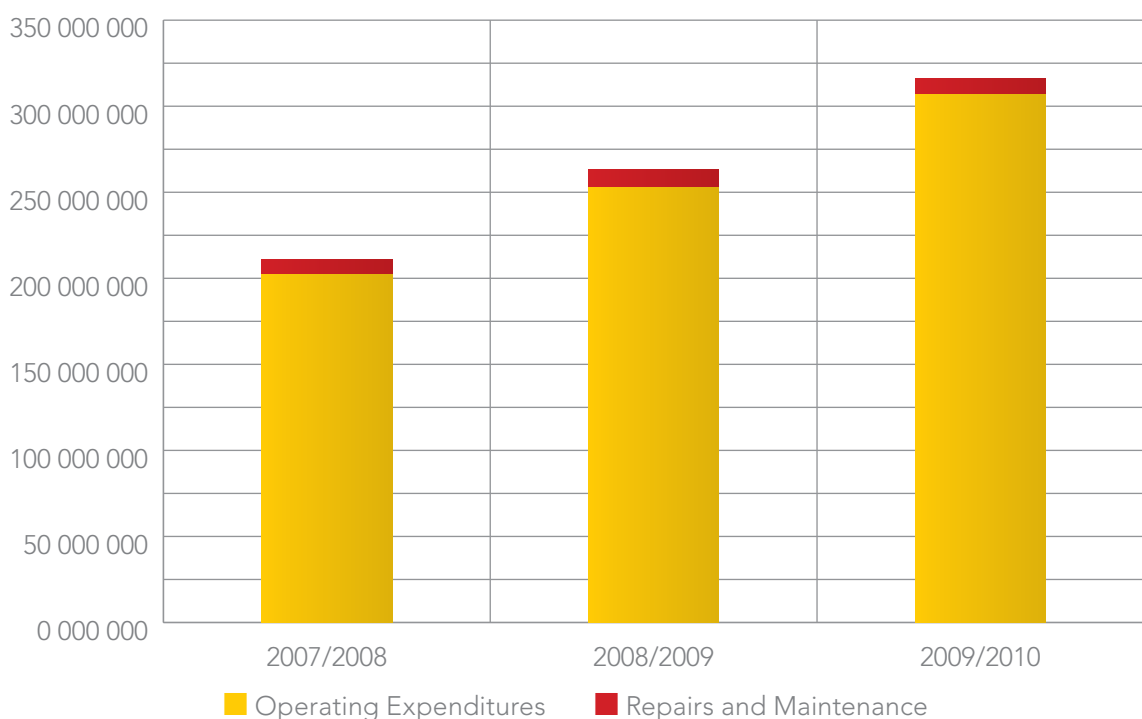
Expenditure on repairs and maintenance remained the same year on year. It is projected that repairs and maintenance will remain at this level over the medium-term while the asset base of Langeberg Municipality continues to grow. Accordingly, the municipality spent 4.2%, 4.2% and 2.9% in the 2007/08, 2008/09 and 2009/2010 financial years 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 5.1:

	2007/2008	2008/2009	2009/2010
Operating expenditure	202,251,457	252,548,205	307,009,425
Repairs & maintenance	8,427,801	10,616,905	9,024,038
Repairs & maintenance as a percentage of operating expenditure	4.17%	4.20%	2.94%

Figure 5.1: Repairs & Maintenance Versus Operation Expenditure



CAPITAL AND OPERATION EXPENDITURE

Table 5.2: Capital Expenditure Compared to Overall Budget

	2008/2009	2009/2010
Operating expenditure	252,548,002	307,009,425
Capital expenditure	46,351,922	76,114,315
Repairs & maintenance as a percentage of operating expenditure	18.35%	24.79%

Figure 5.2: Capital versus Operating Expenditure

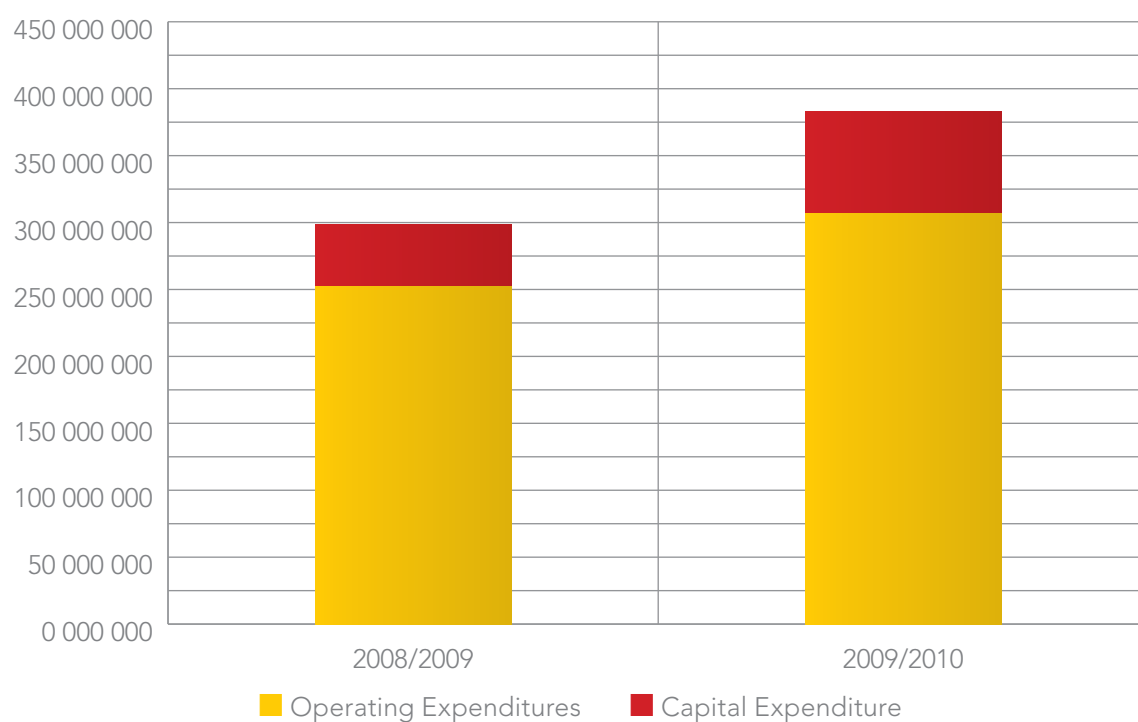
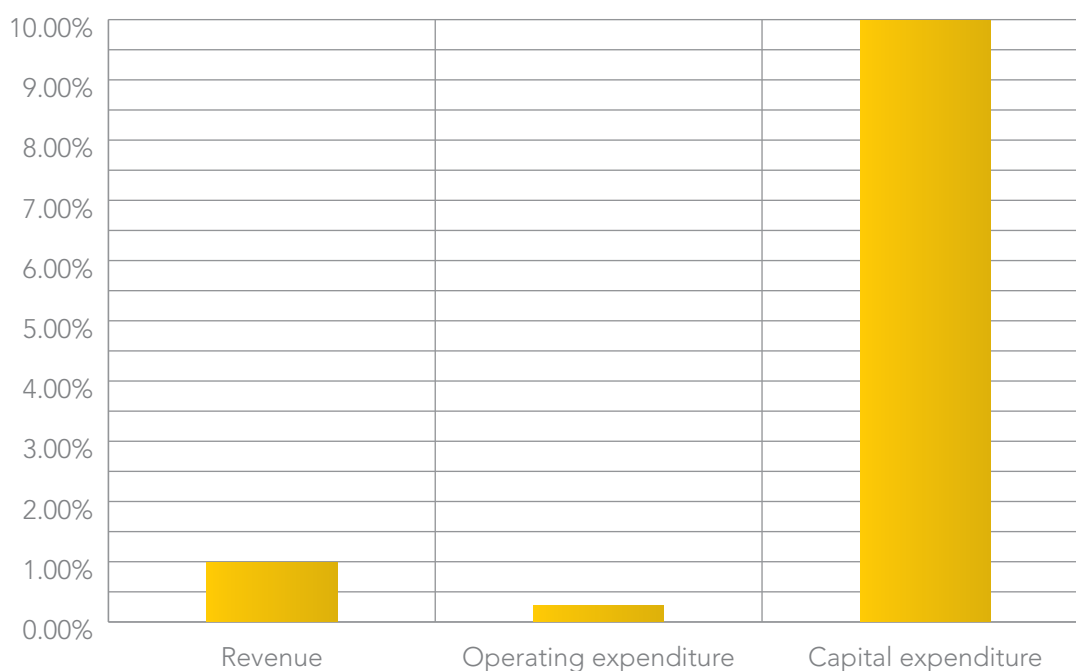


Table 5.3: Variance between Actual & Budgeted Expenditure

	Percentage	Variance	Budget	Actual
Revenue	0.99%	3,266,713	331,203,724	334,470,437
Operating expenditure	0.28%	862,611	306,146,814	307,009,425
Capital expenditure	9.98%	8,440,965	84,555,280	76,114,315

Figure 5.3: % Variance between Actual and Budgeted Expenditure



The variance for revenue & operating expenditure is within the norm, but capital expenditure needs to improve.

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 Langeberg 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).

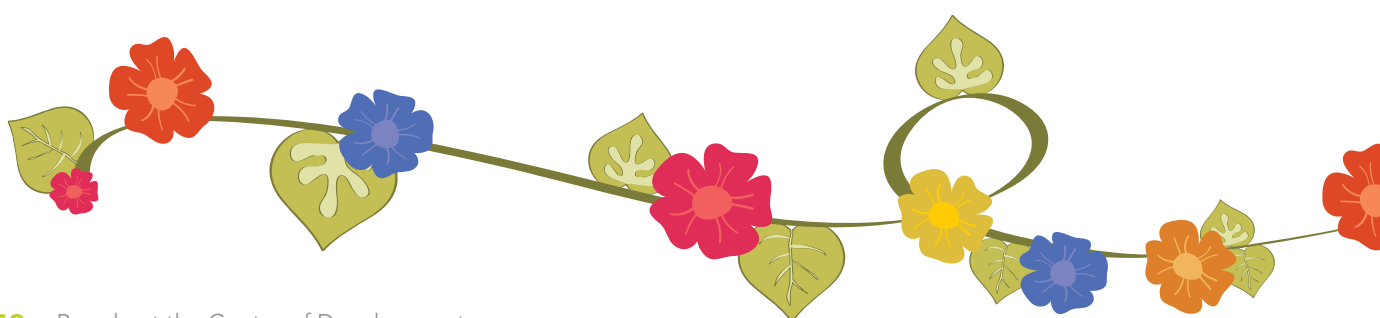


Table 5.4: Cost Coverage

	2007/2008	2008/2009	2009/2010
Available cash	17,586,389	3,956,989	2,282,291
Investments	51,082,923	92,146,276	75,000,000
Monthly fixed operating expenditure	16,854,288	21,045,684	25,584,119

Figure 5.4: Cost Coverage

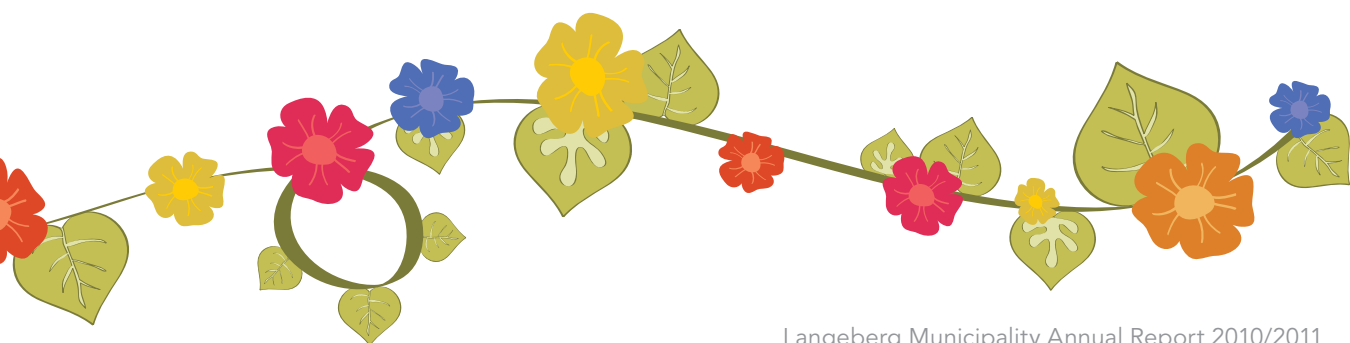
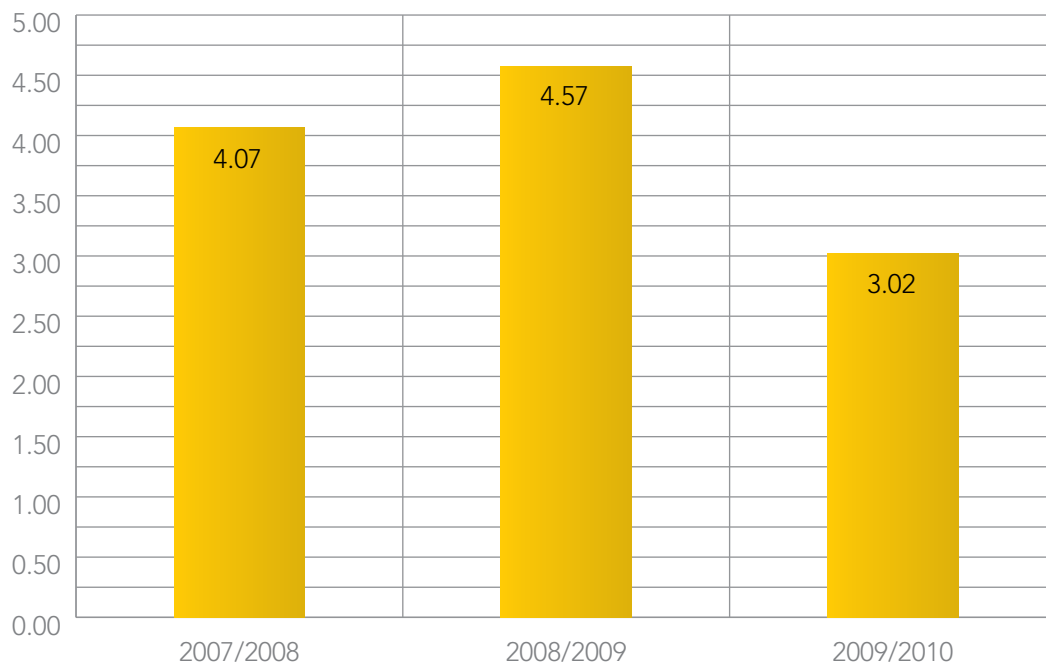
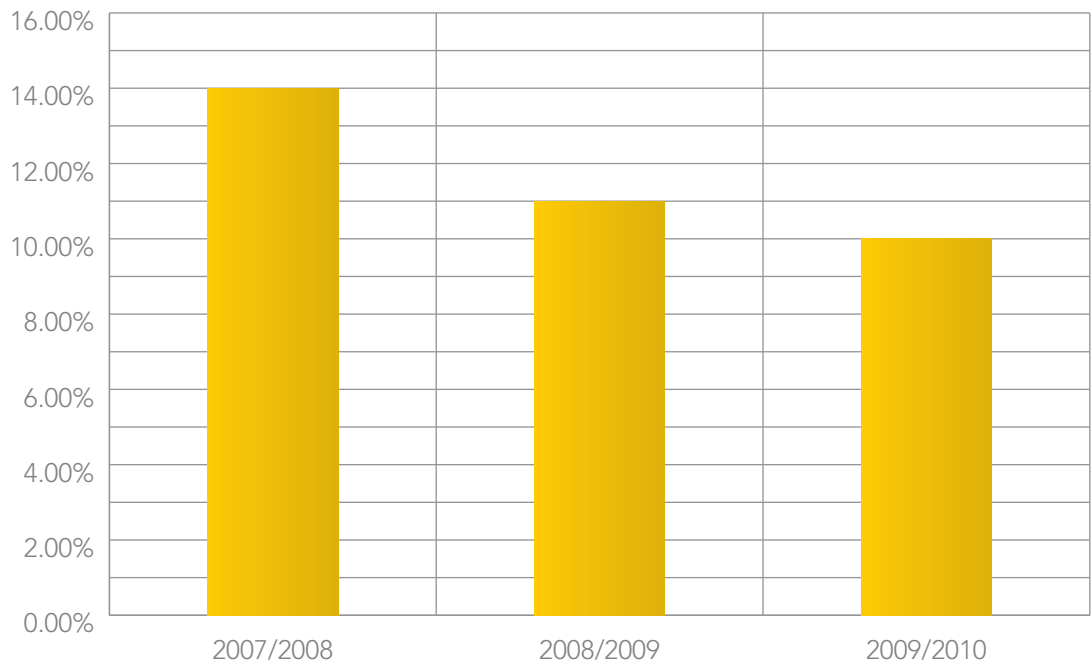


Table 5.5: Outstanding Service Debtors to Revenue

	2007/2008	2008/2009	2009/2010
Outstanding service debtors	28,035,891	27,881,747	33,179,965
Annual revenue actually received for services	199,473,021	258,480,114	320,617,311
Outstanding service debtors to revenue	0.14	0.11	0.10

Figure 5.5: Outstanding Service Debtors to Revenue

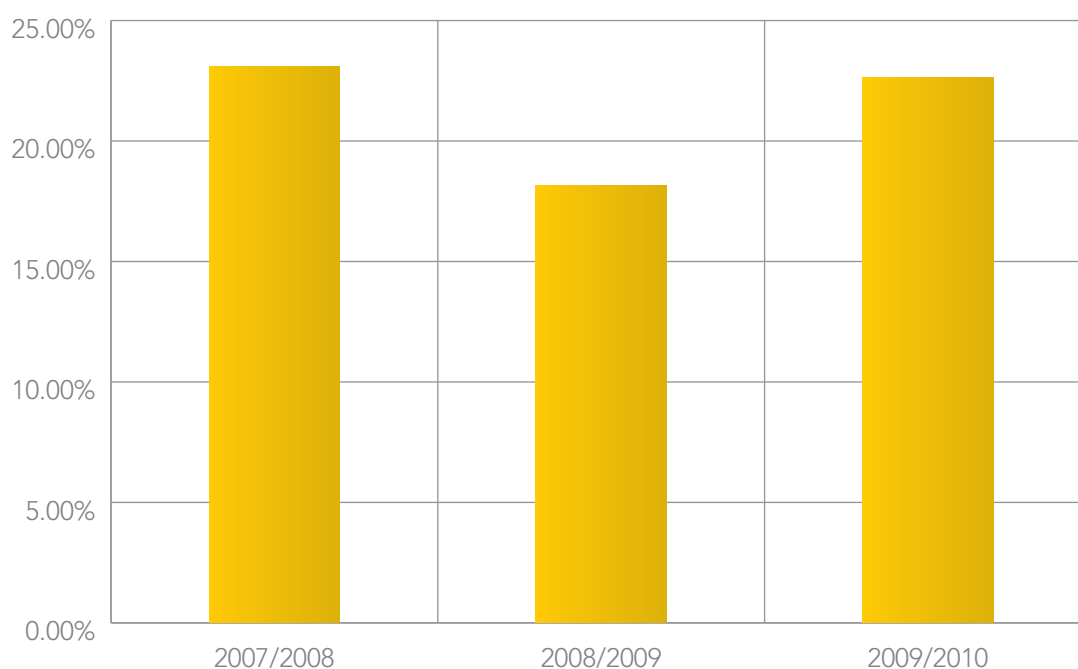


The outstanding service debtors equal 10% (2008/2009: 11%) of revenue. The improvement is due to the fact that there was a substantial increase in revenue.

Table 5.6: Debt Coverage

	2007/2008	2008/2009	2009/2010
Total operating revenue received	212,550,627	268,332,523	334,470,437
Grants recognised as income	31,687,684	50,202,239	80,029,472
(Interest + redemption) due within the financial year	7,833,757	12,023,256	11,240,200
Debt coverage	23.09	18.14	22.64

Figure 5.6: Debt Coverage



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

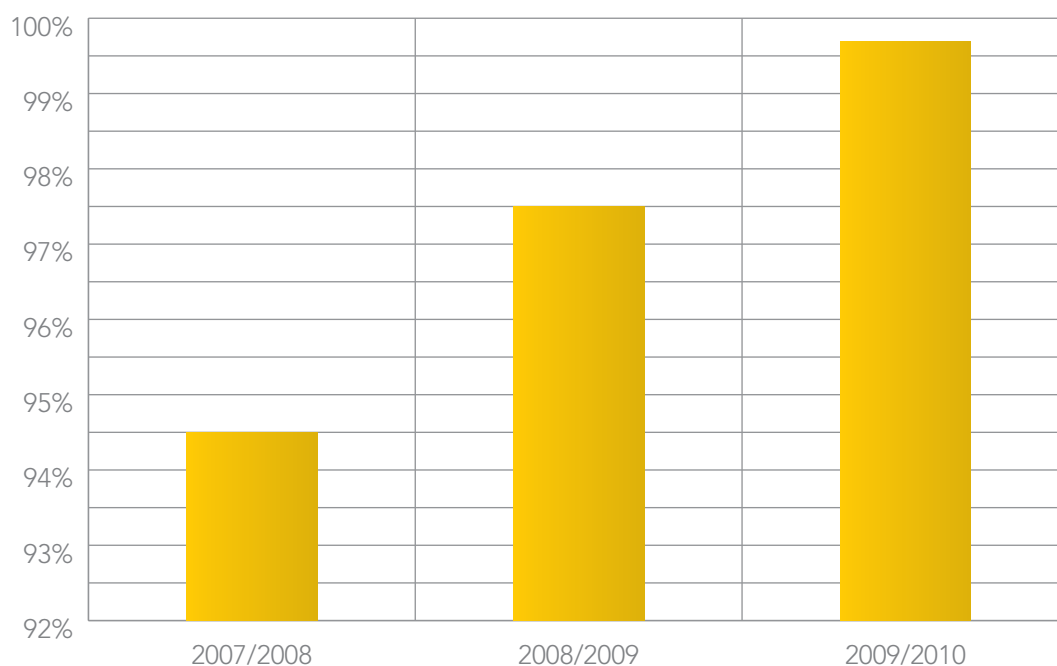
OTHER FINANCIAL MATTERS

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 99.69% has exceeded the annual target of 96%, as well as the previous financial year's target of 97.65%.

Figure 5.7: Recovery of Debtors



- Approximately 5,778 indigents were identified during the 2009/10 financial year, compared to approximately 4,656 indigent households identified during 2008/09.

Table 5.7:

Town	2007/2008	2008/2009	2009/2010
Ashton	1,202	1,184	1,483
Bonnievale	607	543	776
McGregor	40	67	124
Montagu	1,143	1,330	1,517
Robertson	1,676	1,532	1,878
	4,668	4,656	5,778

- The municipality has a 40% rebate policy on property tax for pensioners (60 years and over) with an income of ≤ R 2 500 per month.
- The total rebate which was calculated according to the rates policy amounted to R6 839 329 during 2009/10, compared to the 2008/09 financial year's target of R5 601 124.

Table 5.8: Rebates

Rebates	2007/2008	2008/2009	2009/2010
Rates rebates (residential, government & agricultural)	18,996,875	5,053,903	6,450,381
Rates rebate - pensioners	33,119	43,850	37,361
Rebates - developers	436,567	492,107	335,017
Rebates - land reform	26,636	11,264	16,571
Total	19,493,197	5,601,124	6,839,329



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



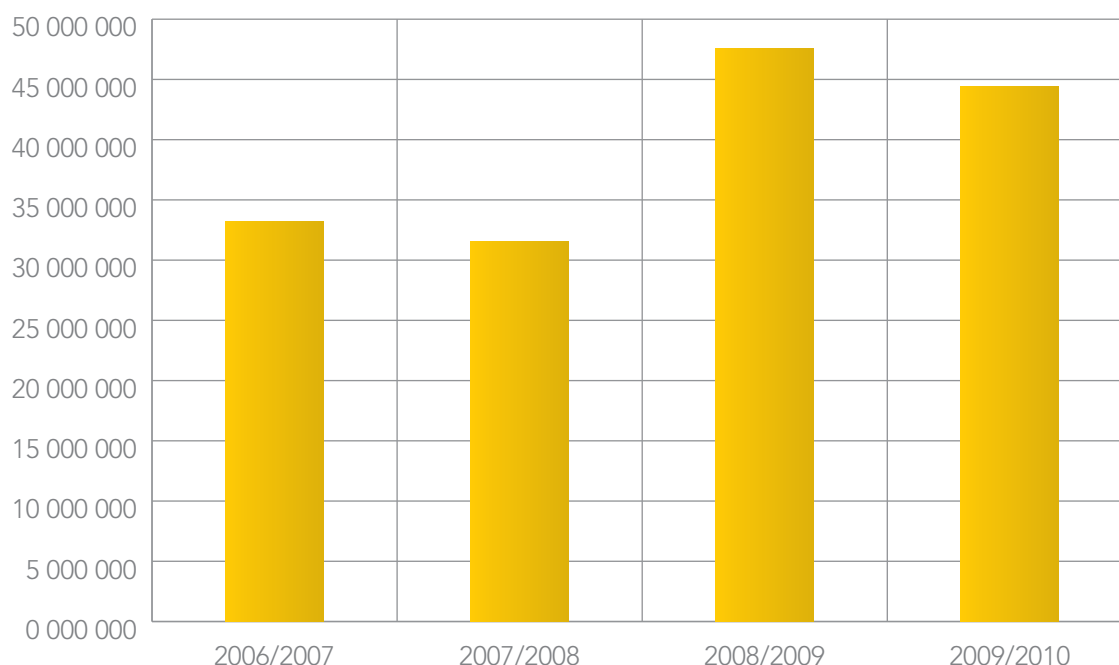
LOANS AND BORROWING

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

Table 5.9: Actual Borrowing

	2006/2007	2007/2008	2008/2009	2009/2010
Actual borrowing	33,184,163	31,522,364	47,581,548	44,424,387

Figure 5.8 Actual Borrowings



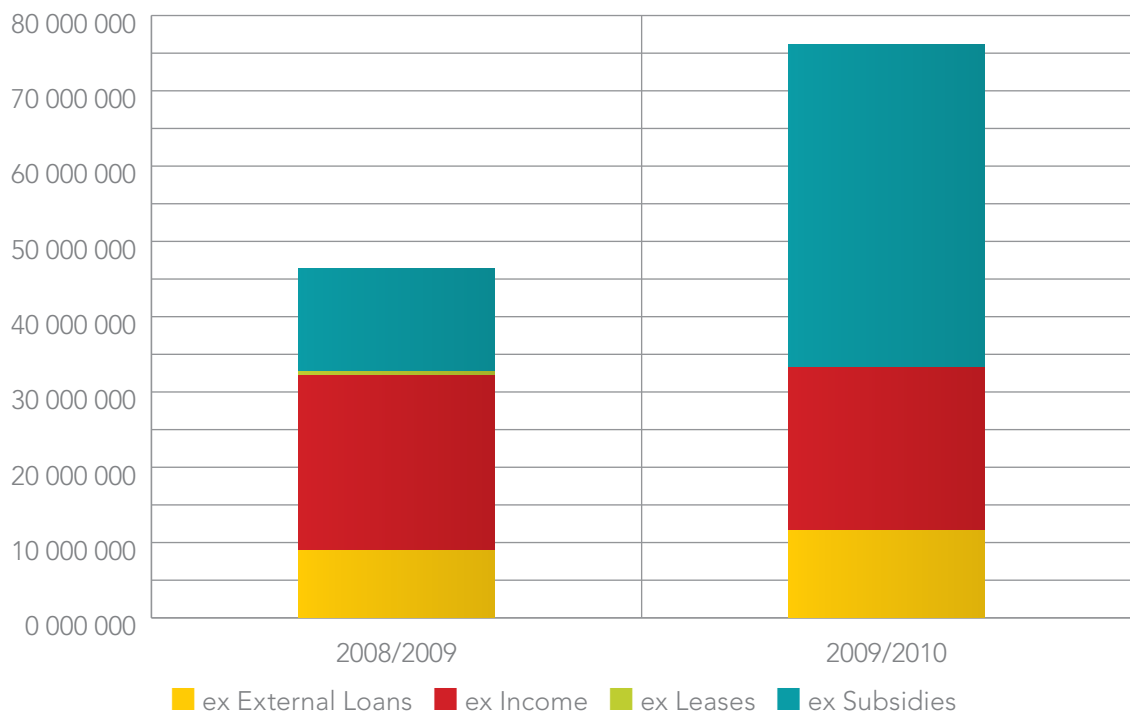
Capital Funding by Source

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

Table 5.10:

	2008/2009	2009/2010
External loans	8,918,353	11,581,763
Income	23,217,254	21,651,711
Leases	559,211	41,373
Subsidies	13,657,105	42,839,468
	46,351,922	76,114,315

Figure 5.9: Capital Funding by Source



OWN REVENUE

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

Current revenues are income derived, and are 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 financing the 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 5.11: Actual Revenue by Source

	2007/2008	2008/2009	2009/2010
Property rates	20,322,854	20,323,699	22,470,346
Service charges	138,457,749	165,229,142	208,816,112
Interest earned	9,506,253	12,406,597	8,635,606
Government grants and subsidies	31,687,684	50,202,239	80,029,472
Other income	12,576,087	20,170,845	14,518,901
Total revenue	212,550,627	268,332,523	334,470,437

Figure 5.10: Revenue by Source

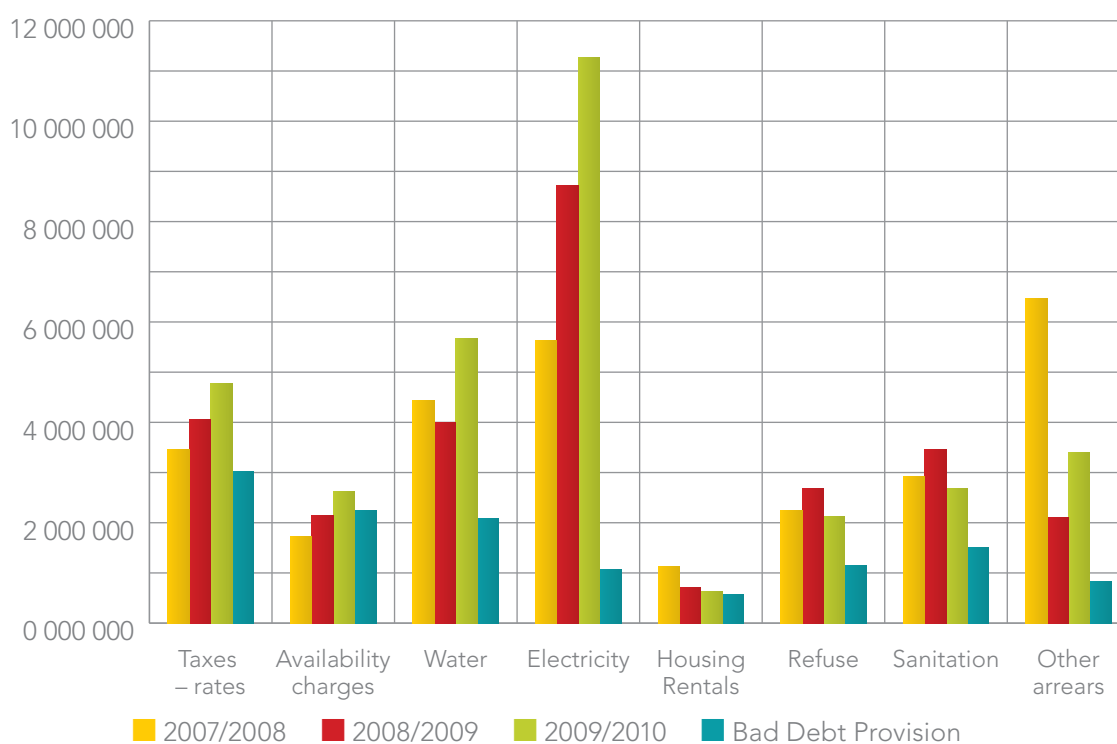


Service charges account for 62% (2008/2009: 62 %) of revenue. Electricity accounts for 73% (2008/2009: 72%) of service charges.

Table 5.12: Outstanding Consumer Debt

	2007/2008	2008/2009	2009/2010	Bad debt provision
Taxes - rates	3,455,397	4,060,952	4,774,374	3,015,375
Availability charges	1,725,714	2,143,205	2,613,581	2,248,759
Water	4,444,278	4,002,621	5,677,673	2,090,108
Electricity	5,640,686	8,718,839	11,273,773	1,071,098
Housing rentals	1,136,195	710,271	634,764	578,353
Refuse	2,240,085	2,691,030	2,122,524	1,153,193
Sanitation	2,918,206	3,456,222	2,689,306	1,505,531
Other arrears	6,475,330	2,098,607	3,393,970	836,467
Total	28,035,891	27,881,747	33,179,965	12,498,884

Figure 5.11 Outstanding Consumer Debtors per Class



Although electricity contributes the most to consumer debtors it does not contribute much to the bad debt provision as the recovery rate is high. An increase in debtors was experienced during the 2009/2010 financial year.



EXPENDITURE

CAPITAL EXPENDITURE BY VOTE/DEPARTMENT

The bulk of capital expenditure is in respect to housing and electricity.

Table 5.13: Actual Capital Expenditure by Major User Department

Capital expenditure by vote 2009/2010	
Corporate	3,427,885
Finance	1,186,642
Housing	29,935,020
Waste management	2,746,989
Roads	5,281,821
Water	16,080,040
Other	2,093,932
Electricity	15,361,986

Figure 5.12: Capital Expenditure by Vote

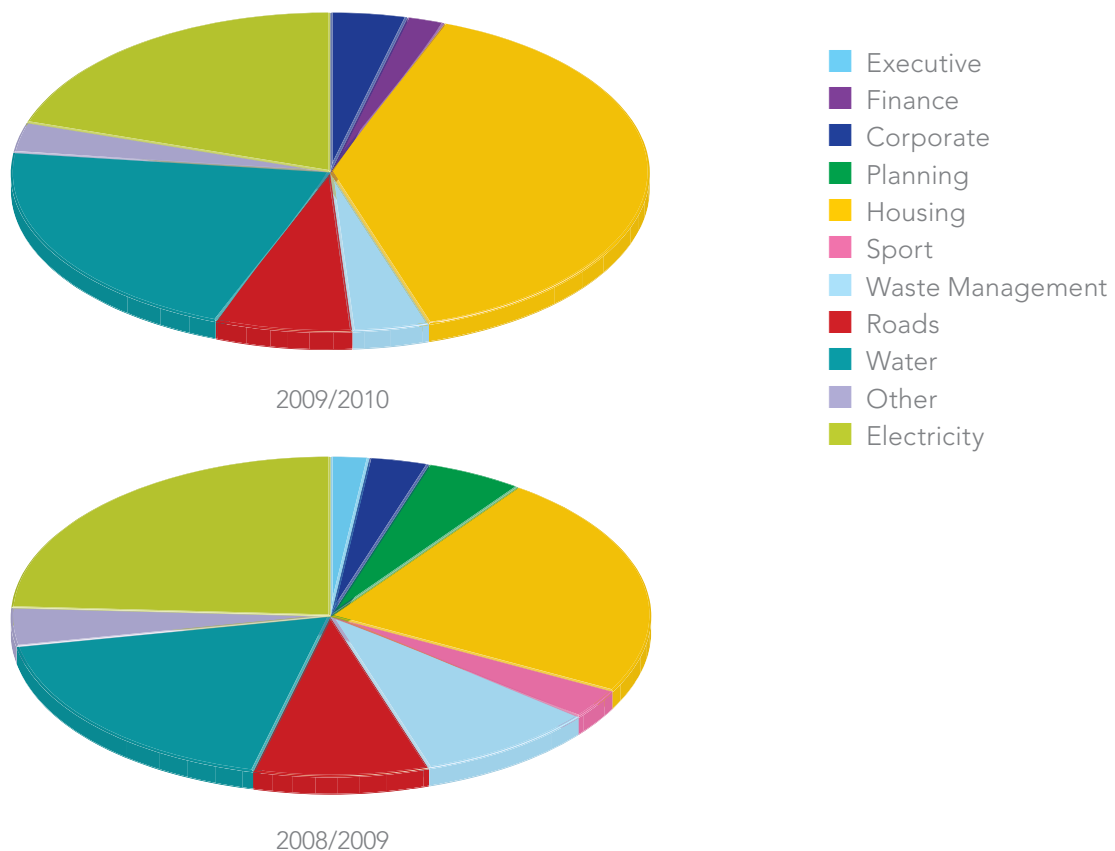


Table 5.14: Revenue by Vote

Revenue by vote 2009/2010		
Executive	1,969,290	0.59%
Finance	62,123,462	18.57%
Community	1,382,178	0.41%
Housing	24,660,098	7.37%
Public safety	4,479,031	1.34%
Environmental	18,182,623	5.44%
Waste	14,751,280	4.41%
Roads	1,832,205	0.55%
Water	45,203,526	13.51%
Electricity	158,241,435	47.31%
Other	1,645,309	0.49%
Total	334,470,437	100.00%

Figure 5.13: Capital Expenditure by Vote

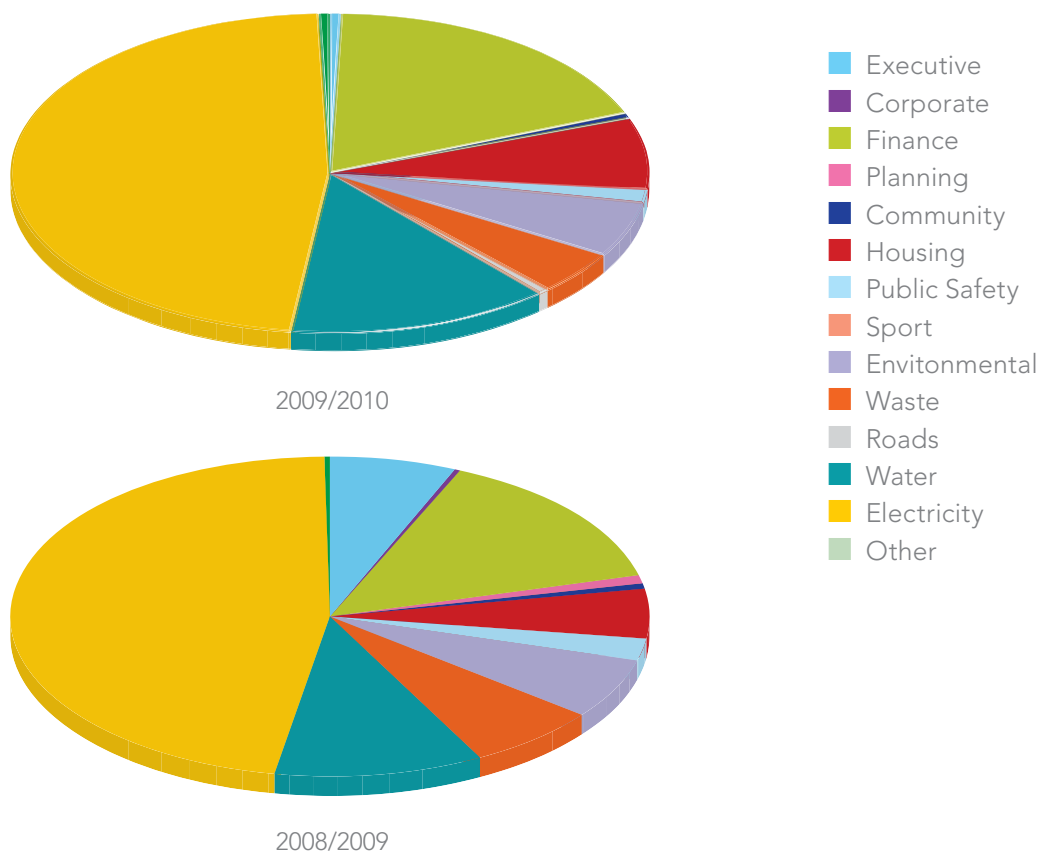


Table 5.15: Expenditure by Vote

Expenditure by vote 2009/2010		
Executive	25,554,790	7.93%
Corporate	11,474,879	3.56%
Finance	34,553,057	10.73%
Planning	9,881,642	3.07%
Community	8,853,993	2.75%
Housing	15,315,802	4.76%
Public safety	11,088,158	3.44%
Sport	12,656,663	3.93%
Environmental	16,689,131	5.18%
Waste	13,734,280	4.26%
Roads	13,774,212	4.28%
Water	24,126,074	7.49%
Electricity	123,179,242	38.24%
Other	1,209,530	0.38%
Total	322,091,451	100.00%

Figure 5.14: Expenditure by Vote

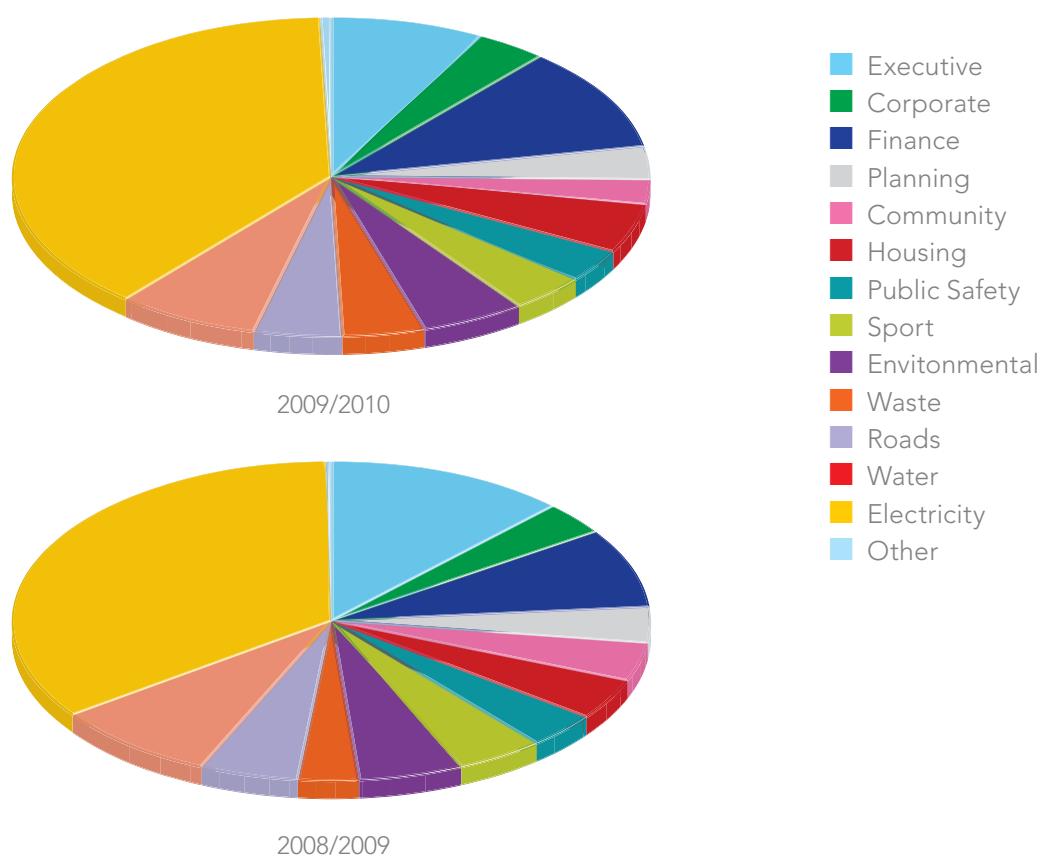
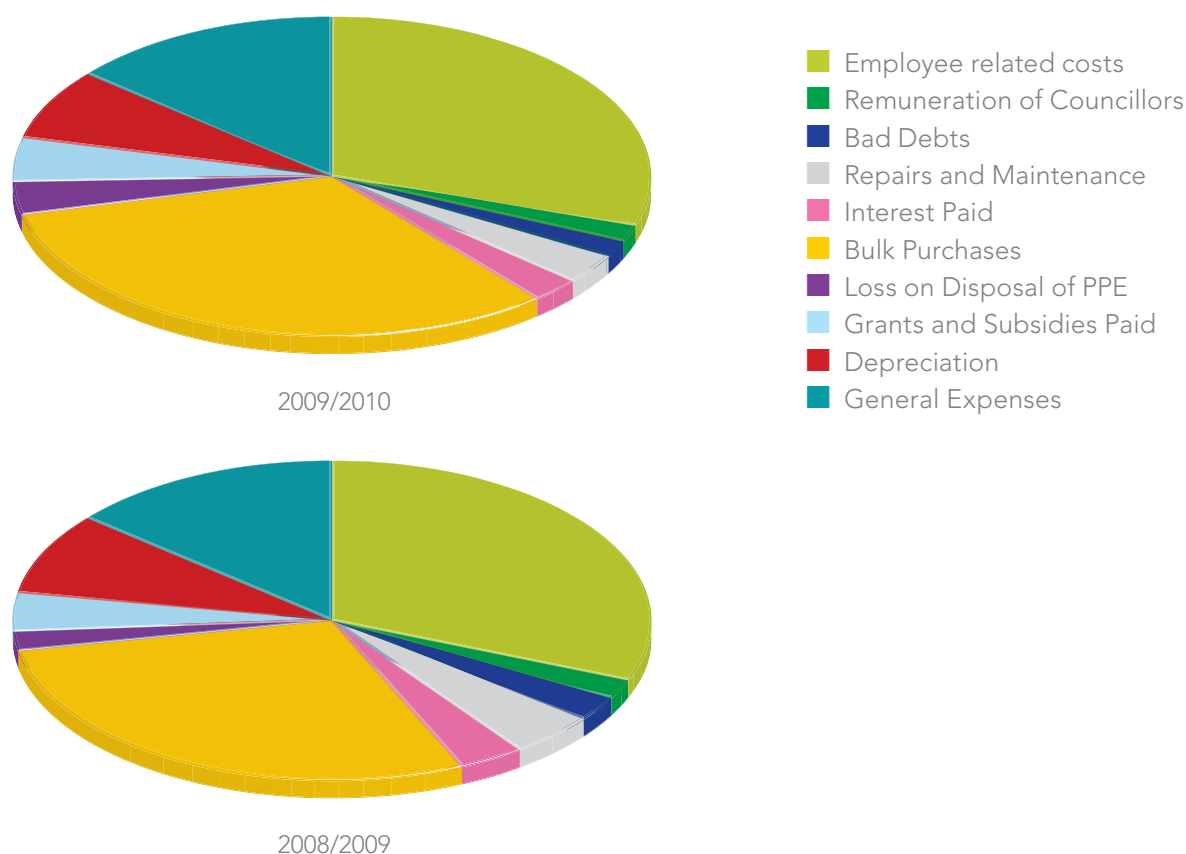


Table 5.16: Actual Expenditure by Item

2009/2010		
Employee related costs	92,865,759	36.77%
Remuneration of councillors	4,995,472	1.98%
Bad debts	5,231,860	2.07%
Repairs and maintenance	9,024,038	3.57%
Interest paid	8,041,666	3.18%
Bulk purchases	98,707,237	39.08%
Loss on disposal of PPE	10,514,479	4.16%
Grants and subsidies paid	13,206,376	5.23%
Depreciation	22,278,363	8.82%
General expenses	42,144,177	16.69%
Total expenditure	307,009,425	

Figure 5.15: Actual Expenditure by Item



The main key costs are employee costs, which is 36% (2008/2009: 31%) of the expenditure and bulk purchases, which is 39% (2008/2009: 28%).