

FINANCIAL ANALYSIS

ASSESSMENT BASED ON LAST THREE FINANCIAL YEARS

1. REVENUE MANAGEMENT

1.1. Level of reliance on Government Grants

Purpose:

The purpose of this ratio is to determine what percentage of the municipality's operating revenue is made up of government grants in order to determine level of reliance on government funding by the municipality

Level of reliance on Government Grants	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Government grant & Subsidies	R 12,873,877	R 15,682,933	R 14,147,547	R 8,791,150	R 1,535,388	10.85%
Total revenue	R 134,055,494	R 145,750,978	R 133,400,580	R 123,014,925	R 12,350,398	9.26%
Ratio	9.60%	10.76%	10.61%	7.15%		
Norm	4-10 %					

Analysis and interpretation:

The municipality is just outside the norm, but is able to generate sufficient own revenue. The revenue excluding grants & subsidies did increase with 9.06%.

Recommendation:

Continued effort should be made to reduce the level of reliance by increasing the income from own resources, especially due to the fact that increased support is shown above the normal inflation rate, as gazetted.

1.2. Budgeted Implementation Indicator: Income

Purpose:

The purpose of this ratio is to identify deviations between actual and budgeted income and to ascertain reasons for deviations

Budget implementation indicator: Income	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Actual Income	R 134,055,494	R 145,750,978	R 133,400,580	R 123,014,925	R 12,350,398	9.26%
Budgeted Income	R 137,651,112	R 149,675,024	R 130,806,059	R 132,472,254	R 18,868,965	14.43%
Ratio	97.39%	97.38%	101.98%	92.86%		
Norm	Equal of exceed					

Analysis and interpretation:

The actual income is 2.63% below the budgeted income, which are outside the norm.

Variances per line item is:

Grants and subsidies:	-10.04%
- National government	-8.85%
- Provincial government	-54.70%
- District Municipality	101.02%
Operating income:	-1.64%
- Assessment rates	-2.21%
- Sale of electricity	2.19%
- Sale of water	-6.78%
- Sewerage	-1.31%
- Refuse	0.28%
- Other service charges	-9.20%

Variances per line item in excess of 10 % must be explained

Explanation:

Grants and subsidies deviation was due to non spending of:

Masibabane funds of DWAF - R 490,000 and

734,000

income

MSIG of R
therefore not included as

Other services charges deviation was caused by two major contributors:

on sale of unserviced land not materialised - R 1,400,000, and

Traffic services due to poor collection rate - R 500,000.

Return

Recommendation:

Efforts should be made to align with the different government votes as well as improving project management.

1.3. Potential loss of Income

Purpose:

The purpose of this ratio is to identify deviations between electricity and water consumption versus brought/generated/distributed and to ascertain reasons for deviations

1.3.1 Electricity:

Distribution losses	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Units bought and generated	159,656,285	167,657,389	153,605,463	157,706,002	14,051,926	9.15%
Units sold	139,722,283	150,834,265	133,664,249	134,668,335	17,170,016	12.85%
Ratio	12.49%	10.03%	12.98%	14.61%		
Norm	6-10%					

Analysis and interpretation:

The distribution loss, although decreasing, is above the norm.

Value of losses	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Costs per unit purchase	5,277,091	R 4,523,738	R 5,184,716	R 6,122,820	-R 660,978	-12.75%
Potential Income	7,038,227	R 5,963,797	R 6,979,425	R 8,171,460	-R 1,015,628	-14.55%

1.3.2 Water:

Distribution losses	Average (2 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Units bought and generated	2,335,701	Not Available	4,671,402	Not Available	#VALUE!	#VALUE!
Units sold	3,661,876	3,798,245	3,525,507	3,652,445	272,738	7.74%
Ratio	-56.78%	#VALUE!	24.53%			
Norm	6-10%					

Analysis and interpretation:

The norm for this ratio is 6 - 10 per cent water distribution loss.

Analysis and interpretation:

The distribution loss is above the norm.

Value of losses	Average (2 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Costs per unit purchase	#VALUE!	#VALUE!	R 2,601,182		#VALUE!	#VALUE!
Potential Income	#VALUE!	#VALUE!	R 6,901,223		#VALUE!	#VALUE!

Recommendation:

The implementation of project plan to reduce the loss in terms of cost and to increase the income should be of high importance.

1.4. Profit Margin on Income

Purpose:

Profit margin on income	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Net surplus at end of year	R 4,775,943	-R 1,022,494	R 520,075	R 14,830,248	-R 1,542,569	-296.61%
Total income	R 134,055,493	R 145,750,978	R 133,400,580	R 123,014,921	R 12,350,398	9.26%
Ratio	3.56%	-0.70%	0.39%	12.06%		
Norm						

Analysis and interpretation:

Recommendation:

2. EXPENDITURE MANAGEMENT

2.1. Personnel cost to Total Expenditure

Purpose:

The purpose of this ratio is to indicate what percentage of total expenditure is attributable to personnel costs.

	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Personnel costs	46,106,993	53,472,063	45,453,193	39,395,722	8,018,870	17.64%
Total Expenditure - excluding internal charges	131,108,472	145,468,623	128,153,503	119,703,289	17,315,120	13.51%
Ratio	35.17%	36.76%	35.47%	32.91%		
Norm	35 - 38%					

Analysis and interpretation:

The analysis indicate that there is an increase from 35,47% to 36,76% which is within the norm. The increases is due to the increases of Councilor remuneration and the appointment of directors two as from 1 July 2006 and one from the 1 August 2006.

Recommendation:

Future filling, creation of new posts must be done within the economical growth pattern.

2.2. Personnel cost to Total Own Income

Purpose:

The purpose of this ratio is to indicate what percentage of total own income is spend on personnel costs.

	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Personnel costs	46,106,993	53,472,063	45,453,193	39,395,722	8,018,870	17.64%
Total Income - excluding Grants & subsidies	121,181,618	130,068,045	119,253,033	114,223,775	10,815,012	9.07%
Ratio	38.05%	41.11%	38.11%	34.49%		

Analysis and interpretation:

The analysis indicate that there is an increase from 41.11% to 38.11% which is within the norm.

Recommendation:

Future filling, creation of new posts must be done within the economical growth pattern.

2.3. Budget implementation Indicator: Expenditure

Purpose:

The purpose of this ratio is to identify deviations between actual and budgeted expenditure and to ascertain reasons for deviations

Budget implementation Indicator: Expenditure	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Actual Expenditure	131,108,472	145,468,623	128,153,503	119,703,289	17,315,120	13.51%
Budgeted Expenditure	137,644,590	149,674,386	130,798,800	132,460,583	18,875,586	14.43%
Ratio	95.25%	97.19%	97.98%	90.37%		

Norm

Not less than 10% or if exceed 2.5%

Analysis and interpretation:

The variance is within acceptable levels at 2.81% less than budget.

Variances per line item in excess of above acceptable variances must be explained

Variances per line item is:

Salaries, wages and allowances	1.37%
General expenses:	4.14%
- Purchase of electricity	-1.99%
- Subsidies & Grants expenses	15.22%
- Other general expenses	6.41%
Repairs and maintenance	-5.16%
Capital charges	1.20%
Contributions	19.25%
Gross expenditure	3.56%
Less: Amounts charged out	9.36%
Net expenditure	2.81%

Explanation:

For the explanation of the deviation in **subsidies & grant expenses** see the income indicator, the two are linked.

The under spending of **contributions** is linked to the provision for bad debt.

The latter also has an influence the **amounts charged out**.

Recommendation:

Efforts should be made to continue to function within the norm.

2.4. Capital charges to total operating expenditure

Purpose:

This ratio indicates the percentage of total expenditure that is attributable to capital charges

Capital charges to Operating expenditure	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Capital charges	17,963,822	18,522,809	16,973,794	18,394,862	1,549,015	9.13%
Total Operating Expenditure	131,108,472	145,468,623	128,153,503	119,703,289	17,315,120	13.51%
Ratio	13.70%	12.73%	13.24%	15.37%		
Norm	10 - 12%					

Analysis and interpretation:

The Municipality is functioning outside the acceptable norm, although it improved again. (13.24% to 12.73%) Cognizance must be taken of the fact that the long-term liabilities with regard to Ceres Koekedouw Dam is the biggest contributor to the fact that Witzenberg function outside the norm.

Recommendation:

Efforts should be made to continue to decrease the reliance on external loans.

2.5. Repairs and Maintenance as a percentage of total operating expenditure

Purpose:

This ratio indicates the percentage of total expenditure that is attributable to repair and maintenance costs.

Repair & Maintenance to Operating expenditure	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Repairs & Maintenance	6,525,236	6,920,970	7,226,890	5,427,848	-305,920	-4.23%
Total Operating Expenditure	131,108,472	145,468,623	128,153,503	119,703,289	17,315,120	13.51%
Ratio	4.98%	4.76%	5.64%	4.53%		
Norm	10.0%					

Analysis and interpretation:

Witzenberg is operating outside the norm. The ratio decreased from 5.64% to 4.76%

Recommendation:

Steps should be taken to ensure that PPE is properly maintained.

2.6. Work skills plan expenditure as a percentage of total operating expenditure

Purpose:

This ratio indicates the percentage of total expenditure that is attributable to skills development

Skills levies & training to Operating expenditure	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Skills development levies and training costs	361,463	580,344	291,688	212,357	288,656	98.96%
Total Operating Expenditure	131,108,472	145,468,623	128,153,503	119,703,289	17,315,120	13.51%
Ratio	0.28%	0.40%	0.23%	0.18%		
Norm	At least 3%					

Analysis and interpretation:

The analysis shown that there is an improvement but that Witzenberg is still far from the norm.

Recommendation:

Steps should be taken to ensure that the capacitating of employees enjoy the attention required. Work smarter not necessarily harder.

2.7. Creditors payment period

Purpose:

This ratio indicates the number of days it takes to pay the creditors

Creditors payment period	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Total Creditors	23,599,499	25,385,479	33,884,202	11,528,817	-8,498,723	-25.08%
Total Operating & Capital Expenditure	146,353,169	169,710,399	137,573,986	131,775,121	32,136,413	23.36%
Repayment days	58.86	54.60	89.90	31.93		
Norm	30 days					

Analysis and interpretation:

The analysis shown that Witzenberg is functioning outside the norm. It should be mentioned that the biggest contributor to this is the unutilized grants and subsidies. The largest portion of this is not due to the municipalities poor performance but rather due to process not under the control of the municipality.

Recommendation:

Steps should be taken to ensure that the Municipality function within the norm.

3. ASSET MANAGEMENT

3.1. Acquisition of Property, Plant and Equipment - Budget implementation indicator: Capital

Purpose:

The purpose of this ratio is to compare the variance between actual and budgeted PPE acquisitions.

Budget implementation indicator: Capital	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Actual expenditure	15,244,697	24,241,776	9,420,483	12,071,832	14,821,293	157.33%
Budgeted expenditure	20,423,983	30,376,452	19,137,883	11,757,615	11,238,569	58.72%
Ratio	74.64%	79.80%	49.22%	102.67%		
Norm	2.5% variance					

Analysis and interpretation:

The variance is outside acceptable norms, although it improved from 49.22% to 79.8%.

Variances per section is:

Administration	-17.31%
Building Regulation & Enforcement	-42.94%
Council Costs	-51.64%
Control room	-12.17%
Environmental protection	-19.78%
Licensing & Regulation	-47.83%
Parks	-29.37%
Property services: Administration	186.22%
Sport grounds	-27.39%
Social & Welfare services	-29.57%
Storm water management	-25.42%
Roads	-49.11%
Police & Traffic	-43.57%
Cemeteries	-29.81%
Library services	-58.59%
Holiday Resort Pine Forest	-51.26%
Sewerage	-11.02%
HOUSING SERVICES	-22.39%
Electricity	-15.41%

Explanation:

The highest contributor departments is:		
Roads	R 728,723	49.11%
Sewerage	R 569,319	11.02%
Housing	R 3,877,152	22.39%
Electricity	R 325,321	15.41%

Recommendation:

Efforts should be made to improve the project management, especially the planning, monitoring and controlling.

3.2. Average Stock to turnover

Purpose:

The purpose of this ratio is to analysis the average amount of stock carry to the annual turnover.

Average Stock to turnover	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Stock	2,772,943	3,574,482	2,328,662	2,415,685	1,245,820	53.50%
Annual turnover	134,055,494	145,750,978	133,400,580	123,014,925	12,350,398	9.26%
Ratio	2.07	2.45	1.75	1.96		

Analysis and interpretation:

The increase in the Stock value is mainly due to: the meters received as a grant from China

Recommendation:

To manage the stock at a levels as determined for maximum , order and minimum level.

3.3. Fixed Assets to Turnover

Purpose:

Fixed assets to turnover	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Total income	134,055,494	145,750,978	133,400,580	123,014,925	12,350,398	9.26%
Fixed Asset	250,981,159	270,282,505	246,040,729	236,620,242	24,241,776	9.85%
Ratio	1.87	1.85	1.84	1.92		
Norm	1 : 2					

Analysis and interpretation:

Recommendation:

3.3. Total Assets Turnover

Purpose:

Total Assets Turnover	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Total income	134,055,494	145,750,978	133,400,580	123,014,925	12,350,398	9.26%
Operating Assets	129,334,296	127,595,974	139,434,770	120,972,144	-11,838,796	-8.49%
Net Fixed Assets	83,714,847	77,730,800	82,982,515	90,431,225	-5,251,715	-6.33%
Leased Assets	0	0	0		0	#DIV/0!
Investments	10,489,903	8,483,390	11,023,856	11,962,463	-2,540,466	-23.05%
Long-term Debtors	3,469,810	3,425,946	3,500,056	3,483,428	-74,110	-2.12%
Current Assets	31,659,736	37,955,838	41,928,343	15,095,028	-3,972,505	-9.47%
Ratio	1.04	1.14	0.96	1.02		
Norm	1 : 1,5					

Analysis and interpretation:

Recommendation:

3.4. Inventory to Working Capital

Purpose:

Inventory to Working Capital	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Inventory	2,772,943	3,574,482	2,328,662	2,415,685	1,245,820	53.50%
Working Capital	-6,051,255	-7,441,160	-5,407,959	-5,304,647	-2,033,201	37.60%
Current Assets	31,659,736	37,955,838	41,928,343	15,095,028	-3,972,505	-9.47%
Less: Current liabilities	-37,710,992	-45,396,998	-47,336,302	-20,399,675	1,939,304	-4.10%
Ratio	-0.46	-0.48	-0.43	-0.46		
Norm	1 : 1					

Analysis and interpretation:

The municipality although improving is still far from the acceptable norm. The whole ratio is negatively influenced by the cash situation of the municipality.

Recommendation:

The only way to improve the situation is by collecting the outstanding debt.

3.5. Current assets

Purpose:

Current assets	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Current Assets	31,659,736	37,955,838	41,928,343	15,095,028	-3,972,505	-9.47%
Current Liabilities	37,710,992	45,396,998	47,336,302	20,399,675	-1,939,304	-4.10%
Ratio	0.84	0.84	0.89	0.74		
Norm	1 : 1,5					

Analysis and interpretation:

See above

Recommendation:

See above

3.6. Acid test ratio

Purpose:

The purpose of this ratio is to provide an indication of the ability to meet its short-term obligation with short-term liquid asset.

Acid Test ratio	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Current Assets less Stock	28,886,793	34,381,356	39,599,681	12,679,343	-5,218,325	-13.18%
Current Liabilities	37,710,992	45,396,998	47,336,302	20,399,675	-1,939,304	-4.10%
Ratio	0.77	0.76	0.84	0.62		
Norm	1,5 : 1					

Analysis and interpretation:

The Municipality is functioning outside the norm. The Municipality is still unable to cover its short-term liabilities.

Recommendation:

See above

3.7. Net Debtors to Annual income

Purpose:

The purpose of the ratio is to test the efficiency of the provision for Bad debt as contained in the accounting policy.

Net Debtors to Annual Income	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Current Debtors	45,286,106	51,021,979	44,788,072	40,048,266	6,233,907	13.92%
Less: Provision for Bad Debts	30,124,805	35,201,055	27,508,050	27,665,311	7,693,005	27.97%
Nett: Current debtors	15,161,300	15,820,924	17,280,022	12,382,955	-1,459,098	-8.44%
Total Income	134,055,494	145,750,978	133,400,580	123,014,925	12,350,398	9.26%
Ratio	11.31%	10.85%	12.95%	10.07%		

Norm 11% - 15%

Analysis and interpretation:

The current provision for bad debt is sufficient

Recommendation:

To ensure compliance with the current accounting policy.

3.8. Debtors Collection Period

Purpose:

To determine the effectiveness and efficiency of the credit control procedures and mechanisms implementation.

Debtors Collection Period	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Debtors - before provision	45,286,106	51,021,979	44,788,072	40,048,266	6,233,907	13.92%
Debtors	15,161,300	15,820,924	17,280,022	12,382,955	-1,459,098	-8.44%
Sales /Income	134,055,494	145,750,978	133,400,580	123,014,925	12,350,398	9.26%
Collection days - After provision	41	40	47	37		
Collection days - Before provision	123	128	123	119		

Norm 42 days

Analysis and interpretation:

Currently the municipality operates outside the norm. It must be mentioned that although the ratio before provision deteriorated, there was no bad debts written-off during the 2006/2007 year as suppose to the prior years.

Recommendation:

An effort to improve on the effectiveness and efficiency must remain to be a strong focus area of the Municipality.

3.9. Annual Collection Rate

Purpose:

To calculate the performance of the credit control for the specific year.

Annual collection rate	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Debtors receipts	107,037,938	115,124,118	99,904,897	106,084,799	15,219,221	15.23%
Debtors billing	112,877,567	124,848,166	104,831,156	108,953,379	20,017,011	19.09%
Ratio	94.83%	92.21%	95.30%	97.37%		

3.10. Annual Collection Rate, excluding debtors written-off

Purpose:

To calculate the performance of the credit control for the specific year.

Collection rate, excluding debtors written-off	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Debtors receipts	107,037,938	115,124,118	99,904,897	106,084,799	15,219,221	15.23%
Amount written-off included above	3,042,077	0	4,942,798	4,183,434	-4,942,798	-100.00%
Debtors billing	112,877,567	124,848,166	104,831,156	108,953,379	20,017,011	19.09%
Ratio	92.13%	92.21%	90.59%	93.53%		

Analysis and interpretation:

Currently the municipality operates outside the norm. It must be mentioned that ratio improved since 2006, it is still not to the level of prior to 2006.

Recommendation:

To ensure that all efforts is made to improve this rate year on year without the writing -off of bad debt.

3.10. Return on Total Assets

Purpose:

Return on total assets	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Earning before interest & Tax (EBIT)	16,953,140	10,512,631	12,608,547	27,738,241	-2,095,916	-16.62%
Total Assets	129,334,295	127,595,973	139,434,769	120,972,144	-11,838,796	-8.49%
Ratio	13.11%	8.24%	9.04%	22.93%		

Analysis and interpretation:

Recommendation:

4. DEBT MANAGEMENT

4.1. Debt / Equity

Purpose:

Debt / Equity	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Debt	74,695,122	112,318,555	123,243,624	100,841,742	#REF!	#REF!
Equity	17,199,655	15,277,418	16,191,145	20,130,402	-913,727	-5.64%
Ratio	4.34	7.35	7.61	5.01		
Norm						

Analysis and interpretation:

Recommendation:

4.2. Nett Annual increase in Total Debt

Purpose:

Nett Annual increase in Total Debt	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Total Debt at year end	112,134,640	112,318,555	123,243,624	100,841,742	-10,925,069	-8.86%

Total Debt at beginning of year	113,741,349	123,243,624	100,841,742	117,138,680	22,401,882	22.21%
Increase (Decrease) in Total Debt	-1,606,708	-10,925,069	22,401,882	-16,296,938	-33,326,951	-148.77%
Total Capital Expenditure during the year						
Total Capital Expenditure during the year	15,244,697	24,241,776	9,420,483	12,071,832	14,821,293	157.33%
Ratio	-10.54%	-45.07%	237.80%	-135.00%		

Norm

Analysis and interpretation:

Recommendation:

4.3. Total Debt to Annual Income

Purpose:

Total Debt to Annual Income	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Total Debt	112,134,640	112,318,555	123,243,624	100,841,742	-10,925,069	-8.86%
Total Income	134,055,494	145,750,978	133,400,580	123,014,925	12,350,398	9.26%
Ratio	83.65%	77.06%	92.39%	81.98%		

Norm

Analysis and interpretation:

Recommendation:

4.4. Debt ratio

Purpose:

Total Debt to Annual Income	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Total Debt	112,134,640	112,318,555	123,243,624	100,841,742	-10,925,069	-8.86%
Total Assets	129,334,295	127,595,973	139,434,769	120,972,144	-11,838,796	-8.49%
Ratio	0.87	0.88	0.88	0.83		

Norm

Analysis and interpretation:

Recommendation:

4.5. Cash Flow to Total Debt

Purpose:

Cash flow to Total debt	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Cash available from operations	11,084,084	-1,485,909	23,803,691	10,934,469	-25,289,600	-106.24%
Total debt	112,134,640	112,318,555	123,243,624	100,841,742	-10,925,069	-8.86%
Ratio	10.12	-75.59	5.18	9.22		

Norm

Analysis and interpretation:

Recommendation:

4.6. Earning before interest & Tax (EBIT)

Purpose:

Earning before interest & Tax (EBIT)	Average (3 years)	2007	2006	2005	Variance 2006 -2007	Variance % 2006 -2007
Earning before interest & Tax (EBIT)	16,953,140	10,512,631	12,608,547	27,738,241	-2,095,916	-16.62%
Surplus for the year	4,775,943	-1,022,494	520,075	14,830,248	-1,542,569	-296.61%
Interest paid	12,177,197	11,535,125	12,088,472	12,907,993	-553,347	-4.58%
Ratio	1.39	0.91	1.04	2.15		

Norm

Analysis and interpretation:

Recommendation: