

DRAKENSTEIN MUNICIPALITY

1. INTRODUCTION

The 2009/2010 annual financial statements have been prepared in accordance with the effective standards of Generally Recognised Accounting Practice (GRAP), including any interpretations and directives issued by the Accounting Standards Board.

A Financial Health Assessment has been done looking back at the 2008/2009 financial year as well as the 2009/2010 financial year.

2. ASSESSMENT FRAMEWORK

The format of the Performance Assessment Report is not prescribed within the Local Government: Municipal Financial Management Act, Act 56 of 2003, it is however done to provide useful and relevant information, to look back, to plan ahead and to be able to take appropriate decisions.

In an endeavour to provide useful analysis and interpretation of the financial health, the Directorate: Financial Services made use of certain comparative industry norms throughout this document to formulate its observations and comments. It is acknowledged that these norms may differ across municipalities given the dynamics and environment within which each operates. This is further influenced by how municipalities report and prepare their budgets (i.e. IMFO, GAMAP and GRAP).

3. FINANCIAL HEALTH ASSESSMENT

3.1 Assessments on the 2008/09 & 2009/10 Annual Financial Statements

The purpose of this section is to analyse and interpret financial information of the municipality in order to assess the financial position, performance and cash flow position of the municipality.

The ratios utilised will be classified to determine the municipality's performance in four areas namely **Revenue Management, Expenditure Management, Asset Management and Liability Management (REAL)**. Drakenstein Municipality is classified as high capacity municipality. The municipality prepared its financial statements on GAMAP/GRAP principles.

3.1.1 REVENUE MANAGEMENT

a. Level of reliance on Government Grants

Purpose: The purpose of this ratio is to determine what percentage of the municipality's revenue is made up of government grants, to determine level of reliance on government funding by the municipality.

Formula: Grants & Subsidies/Total Revenue

These figures are found on the face of the Statement of Financial Performance & Appendix D

YEAR 09/10			YEAR 08/09		
GOVT GRANTS & SUBSIDIES	TOTAL REVENUE	%	GOVT GRANTS & SUBSIDIES	TOTAL REVENUE	%
153,545,776	942,882,953	16%	123,758,051	824,788,161	15%

Analysis and Interpretation

- The best practice for Grants and Subsidies is 20% of Total Revenue.

- A percentage of more than 20% implies that the municipality is dependent on Grants and Subsidies.
- Government Grants amounts to R 153,545,776 or 16% of Total Revenue. Actual income less than budgeted due to the following
 1. Bergriver Pollution project amount carried over
 2. Housing Claims submitted but not received during the year
 3. RBIG amount carried over
- Total Revenue increased by 14.32%.
- The Municipality's reliance on Government Grants increased by 1% in 2009/2010,
- The Municipality is not dependent on grants and subsidies for its day-to-day operations. This is an indication that the Municipality has access to adequate sources of revenue from both its own operations and intergovernmental transfers and is not dependant on Government Grants and Subsidies for its operating activities.

b. Actual Revenue vs. Budgeted Revenue

Purpose: The purpose of this ratio seeks to determine identify deviations between actual and budgeted revenue and to ascertain reasons for the deviations.

Formula: Actual Revenue/Budgeted Revenue

These figures are found in Appendix D of the Financial Statements

Actual Revenue 2009/2010	Budgeted Revenue 2009/2010	Variance R	Variance in %
942,882,953	979,199,243	36,316,289	3.70%

Analysis and Interpretation

- The acceptable standard is that the actual revenue for a financial year must equal or exceed the approved budget for the financial year.
- The municipality actual revenue is less than the budget by 3.70% which is within the norm.

i. Actual income line items that's less than the budget:

➤ *Government Grants and Subsidies*

The variance of (R 33,237,431) or 17.79% was due to the following:

1. Bergriver Pollution project amount carried over 6.5m
2. Housing Claims submitted but not received during the year 6.4m
3. RBIG amount carried over 6.5m

➤ *Property Rates – Penalties imposed and collection charges*
The variance of (R 434,930) or 26.57% was due to improved Cash Management practises that were applied during the year under review.

➤ *Gains on disposal of property plant and equipment*
The variance of (R 2,981,018) or 99.37% were as a result of projected properties to be sold did not materialise in the financial year.

- *Licences and permits*
The variance of R1, 119,447 or 11.36% due to less licences issued.
- *Interest – external outstanding debtors:*
The variance of 26.59% or R2, 578,728 is due to improved Cash Management practises that were applied during the year under review.
- Actual Income line items that exceeds than the budget:
 - *Services Charges*
The variance of R7, 966,777 or 1.43% was as a result of more electricity and water units sold during the financial year
 - *Interest earned on external investments*
Budget of and Actual, there is a variance of R372.288 (3.31%) is due to the effective management of the Investment portfolio and implementation of the cash management policy

3.1.2 EXPENDITURE MANAGEMENT

a. Personnel Cost to Total Expenditure

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

Formula: Salaries, wages and allowances/Total Expenditure

(the formula exclude labour charges and include councilor remuneration)

These figures are found in Appendix D of the Financial Statements.

YEAR 09/10			YEAR 08/09		
PERSONNEL COSTS	TOTAL OPERATING EXPENDITURE	%	PERSONNEL COSTS	TOTAL OPERATING EXPENDITURE	%
285,593,049	950,236,179	30%	245,447,698	777,306,928	32%

Analysis and Interpretation

- The best practice for this norm is that Personnel Cost (including councillor remuneration) must not exceed Total Expenditure by 35%.
- The trend analysis indicates that the ratio is fluctuating year-on-year. The ratio decreased by 2 percentage points in the 2009/10 financial. The Rand value of personnel expenditure increased from R218.8 million in 2008/09 financial year to R248.97 million in 2009/10 financial year.
- The reason for the increase in the Rand value can be attributed to the increase in Salaries and wages from R156.4 million to R184.7 million in 2009/10 financial year. The overall increase in the ratio can be attributed to personnel expenditure, which increased by 16.3 per cent, while the total expenditure increased by 22.6 per cent in 2009/2010 financial year.

b. Total Operating Actual Expenditure vs. Budgeted Expenditure

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

Formula: (Actual expenditure less Budgeted expenditure)/
Budgeted expenditure

These figures are found in Appendix D of the Financial Statements

Actual expenditure 2009/2010	Budgeted expenditure 2009/2010	Variance in R	Variance in %
950,236,179	1,011,344,896	61,108,717	6.62%

Analysis and interpretation

i. Actual Expenditure line items that exceeded the budget:

➤ *Collection Costs*

A 10, 65% (R577, 849) variance on the Collection cost is due to the appointment of additional vendors during the financial year. Vendors receive a commission on the total electricity sales.

Actual Expenditure line items that's less than the budget::

➤ *Depreciation and amortisation*

The variance of 21.74% or R33, 056,456 was due to the change in useful life of property, plant and equipment reviewed during the year. An amount of 22,549,013 was for motor vehicles.

➤ *General Expenses*

The variance of 7.24% or R13, 786,632 was due to the difference between the municipal financial year and the Western Cape Department of Housing financial years.

➤ *Repairs and Maintenance*

The variance of 4.56% or R3, 976,890 was due to more funds spend on assets being upgraded as well as new assets acquired during the financial year

➤ *Contracted services*

The variance on contracted services of 13, 56% or R 1,421,691 was due to actual expenditure on security service contracts which was less than the budgeted amount.

c. Interest as a Percentage of Total Expenditure

Purpose: This ratio indicates the percentage of total expenditure that is attributable to interest cost.

Formula: Total external interest paid/Total expenditure

These figures were found in Appendix D and the Cash Flow Statement in the Financial Statements

YEAR 09/10			YEAR 08/09		
INTEREST	OPERATING EXPENDITURE	%	INTEREST	OPERATING EXPENDITURE	%
21,638,152	950,236,179	2.28%	R18,006,279	R777,306,928	2.32%

Analysis and Interpretation

- The norm for this ratio is that interest costs should not exceed 5% of operating expenditure.
- The ratio has decreased by .04% from previous financial year.
- The ratio is well within the norm.

d. Repairs and Maintenance/Total Operating Expenditure

Purpose: The purpose of this ratio is to determine whether municipalities are spending adequate amounts on repairs and maintenance of PPE.

Formula: Repairs and Maintenance/Total Operating Expenditure

These figures are found in Appendix D to the AFS.

YEAR 09/10			YEAR 08/09		
Repairs and Maintenance	Total operating expenditure	%	Repairs and Maintenance	Total operating expenditure	%
83,251,335	950,236,179	8.77%	R70,617,361	R777,306,928	9.08%

Analysis and Interpretation

- The norm for this ratio is that Repairs and Maintenance should equal at least 10% of total operating expenditure.
- The ratio has decrease slightly from the previous financial year.
- The ratio is less that the norm of 10% it's still acceptable, indicating that Property, Plant and Equipment are adequately maintained to yield optimal economic benefit and have a good maintenance schedules that are being implemented.

3.1.3 ASSET MANAGEMENT

a. Total Capital Expenditure – Actual vs. Budget

Purpose: The purpose of this ratio is to identify per class of asset whether a municipality has a variance of more than 5% when actual and budgeted capital expenditure are compared.

Formula: (Actual Capital Expenditure – Budget Capital Expenditure)/ Budgeted Capital Expenditure

These figures are found in Appendix C.

YEAR 09/10			
Actual	Budget	Variance	Variance
215,859,607	232,890,774	17,031,167	7.31%

Analysis and interpretation

- Capital Expenditure by the municipality is 93% of the budget. This is slightly lower than the 2008/2009 spending percentage of 95%.
- The high % of capital expenditure can be attributed to an approved tenderplan, a web based SDBIP, good planning, capacity and good SCM practices.
- Management will continue striving to close the gap as far as possible to uplift the social and economic development.

b. Debtors Collection Period

Purpose: The purpose of this ratio is to calculate the debtors collection period of the municipality by comparing the year-end balance of certain debtors with the revenue earned from those debtors during the financial year.

Formula: Consumer Debtors after provision for Bad Debts/Total Revenue * 365

These figures found on Appendix D and notes to the Financial Statements

YEAR 09/10			YEAR 08/09		
CONSUMER DEBTORS	Operating Income	COLLECTION PERIOD (DAYS)	CONSUMER DEBTORS	Operating Income	COLLECTION PERIOD (DAYS)
100,164,062	942,882,953	39 days	70,332,890	824,788,161	31 days

Analysis and interpretation

- The norm is 42 days and will be used as basis of interpretation.
- The ratio has increased by 8 days compared to the 2008/2009 financial year.
 - The debtor's collection period represents the average length of time that the Municipality must wait, after sending out accounts, before receiving the cash. The norm is dependent on the credit policy, which is normally between thirty- and forty-five days. If the ratio is more than the norm/credit policy, it will have a negative effect on the cash flow situation. The ratio, based on the outstanding debtors, net of the bad debt provision, is 39 days, which is below the norm. This ratio stabilised at this position over the last three years. The Municipality's Bad Debt Provision fully allows for all debtors outstanding for longer than 60 days.

3.1.4 LIABILITY (DEBT) MANAGEMENT

a. Acid Test Ratio

Purpose: The purpose of this ratio still needs to be developed for GRAP AFS. A municipality with a high ratio than other municipalities or with an exceptional increase in the ratio from one year to the next may indicate too high levels of stockholding.

Formula: Current Assets less Inventory/Current Liabilities

These figures are found on the Balance Sheet of the Financial Statements

YEAR 09/10			YEAR 08/09		
CURRENT ASSETS LESS INVENTORY	CURRENT LIABILITIES	RATIO	CURRENT ASSETS LESS INVENTORY	CURRENT LIABILITIES	RATIO
324,211,085	258,825,163	1,25 : 1	283,292,551	218,205,135	1,30 : 1

Analysis and Interpretation

- The norm for this ratio is 1:1, i.e. the Current Assets less Inventory must exceed the Current Liabilities by 100%.
- The municipality ratio of 1.26:1 is better than the norm, thus indicating that the municipality should be able to meet its short-term obligations.
- The ratio has slightly increased as compared to previous financial year.
- The municipality has adequate liquidity to meets its immediate obligations.

b. Total Liability/Total Assets

Purpose: The purpose of this ratio is to give an indication of the level to which the assets of the municipality have already been utilized in the past, to take or incur debt.

Formula: Total Liabilities/Total Assets

These figures are found on the Balance Sheet of the Financial Statements

YEAR 09/10			YEAR 08/09		
Total Assets	Total Liabilities	RATIO	Total Assets	Total Liabilities	RATIO
3,592,608,400	606,731,214	5.9:1	3,447,548,070	496,146,475	6:9:1

Analysis and Interpretation

- The best practice for this ratio is 2:1.
- The municipality ratio of 5.9:1 is better than the norm, thus indicating that the municipality should be able to meet its long-term obligations.

3.2 EXTERNAL LOANS, INVESTMENTS AND CASH AT 30 JUNE 2010

External Loans outstanding on 30 June 2010 amounted to R250, 991,447. During the year, loans of R85, 000,000 were taken up and R20, 180,157 was repaid.

On 30 June 2010, Council had a positive Cashbook Balance of R27, 287,301. Investments (Longer than 12 months) on 30 June 2010 amounted to R112,000. The Call Investment deposits amounted to R163, 301,780. (Shorter than 12 months).

The Total Bank and Cash at 30 June 2010 is allocated as follows:

	<u>30/06/2010</u>	<u>30/06/2009</u>
Capital replacement Reserve	15,255,000	18,065,482
Self Insurance Reserve	2,065,745	824,260
Consumer Deposits	8,250,350	5,956,949
Creditors	116,605,097	88,759,731
Unspend conditional grants and receipts	34,569,571	53,827,147
Cash invested for repayment of long-term liabilities	10,730,713	12,406,631
Unappropriated Surplus	3,124,505	1,961,190
Total Investments Bank and Cash	190,600,981	181,801,390

3.3 CONCLUSIONS

Summary on Credibility

The operating expenditure budget of the Municipality depicts a credible budget as this is substantiated by a variance of 3.74 per cent less than the benchmark of 10 per cent. The personnel and Councillors remuneration is at 30 per cent of total expenditure and there are vacant posts that still need to be filled.

The Municipality is currently managing its gearing levels effectively. There are no substantial amounts spent on repayment of long-term loan despite the increase in long term liabilities from R166 million to R225 million in 2009/10 financial year. Long-term loans do not put the safety of capital at risk; ratio is currently at 9 per cent. The net asset position is favourable at 23 per cent; this ratio is fluctuating year on year due to the additions of newly identified PPE. The overall ratio results indicate that the Municipality has a sound net asset position.

The short-term obligations will still be covered by the short-term liquid asset, as currently the ratio stands at 1.26:1. Current Assets increased by 7 per cent, while current liabilities increased by 18 per cent as compared to 2008/09. The Municipality has taken steps to make certain that the current liabilities balances are kept at minimal. Assets are being managed responsibly; although the ratio is less than 2 per cent, the Municipality spends substantial amount in repairs and maintenance at R83 million in 2009/10 financial year (R71 million: 2008/09). Municipality's capital spending remains a challenge year-on-year with a variance of per cent in 2009/10 financial year.

Summary on sustainability

The operating revenue budget of the Municipality depicts a credible budget as this is substantiated by a variance of 3.74 per cent (exceeded budget) less than the benchmark of 10 per cent. The Municipality is not reliant on Government Grants and Subsidies; currently the ratio is at 16 per cent, which as a result of increase in equitable Share, Budget Reform Programmes and Housing projects grants. Water and Electricity losses are being managed and maintained at a minimal level which is below the norm and if not managed well, will have an impact on the revenue stream.

The Municipality is continually enforcing its credit policy to avoid consumer debtors that are outstanding for longer period; currently the collection period is at 39 days. The Municipality might appear to have under-provided for Bad Debt provision in 2009/10, it has reliance on the strategies devised to enhance the revenue collection of council by enforcing consumers to pay and cut off, blocking of electricity, handing over long outstanding consumers to the Lawyers and encouraging consumers to make some arrangements to pay the outstanding balances off. A debt collection strategy will be implemented where focus will be put on debtors that can afford to pay but does not pay their outstanding debt.

There has been some great improvements in consumer debtors where the ratio decreased on the provision for bad debts in relation to consumer debtors from 66 per cent to 61 per cent, which clear indicates the efficient functioning of the credit and debt management policy of council.

4. HALF-YEAR BUDGET STATEMENT: 31 DECEMBER 2010 (JULY 2010 – DECEMBER 2010 YEAR TO DATE PERFORMANCE)

The municipality's **Total Budget** amounts to R 1,396,255,442 (Operating Budget: R 1,109,777,981 and Capital Budgets: R 286,877,461).

All Virements (budget transfers) for the period 01 July 2010 to 31 December 2010 within functions were approved by the head of departments and if it were between functions the transfer were approved by council.

4.1. OPERATING EXPENDITURE

Total expenditure up to December 2010 amounts to R 496,249,472 or 44.7 % of the Total Operating Budget of R 1,109,377,981. Expenditure, less than the pro-rata 50% is registered on and is attributed to the following factors:

1. **Salaries and wages** Budget amounts to R 271,264,624 and R 137,466,830 (50.7%) has been spent, R 1,835m more than the pro-rata spending. The amount of R 137,466,830 also includes bonuses that were paid out to employees during November.
2. **Remuneration of councillors** Budget amounts to R 16,672,910 million and R 7,421,688 million (44.5%) has been spent, R 914,766 less than the pro-rata spending. It must be noted that backpay in respect of councillor allowance increase is not yet effected.
3. **Repairs and maintenance** Budget amounts to R 77,356,709 million and R 28,278,521 million (36.56%) has been spent, R 10,4m less than the pro-rata pending.
4. **Bulk purchases – electricity** Budget amounts to R309,806,560 million and R141,017,194 million (45.5%) has been spent, R13.9million less than the pro-rata spending.
5. **Bulk purchases – water** Budget amounts to R 16,381,229 million and R 5,743,983 million (35%) has been spent, less than the pro-rata spending.
6. **Working Capital** Budget amounts to R 25,648,325 and R 12,746,299 (49.7%) has been spent, R 77,830 less than the pro-rata spending.
7. **Contracted Services** Budget amounts to R 9,361,857 and R 3,831,666 (40.9%) has been spent, R 849,263 less than the pro-rata spending.
8. **General Expenses** Budget amounts to R 201,384,871 and R 73,794,045 (36.6%) has been spent, R 26,898,391 less than the pro-rata spending.

4.2. OPERATING REVENUE

Total Operating revenue up to December 2010 amounts to R 590,790,404 or 54.3% of the Total Operating Budget of R 1,087,922,795. Revenue is more than the pro-rata 50% this is attributed to the following factors:

It should be noted that R 152,482,117* or 94.8% of the **Assessment (Property) Rates Income** of R 160,832,164 budgeted, has been generated to date. (This includes the annual levy of Property Rates

Service Charges include revenue related to Consumption Charges such as :

- Water and Electricity,
- Refuse Removal, (Yearly levy)
- Sewerage, (Yearly Levy)
- Availability Fees,
- New Connection Fees,
- Reconnection Fees,
- Sundry Income, etc.

[Budgeted Amount = R 669,622,195 Earned = R 358,462,901* (53.5%).]

Other Revenue represents all revenue generated, which is not specified on the prescribed Section 71 Report in terms of the MFMA such as the following:

- Interest on Investments, (R4,250m)
- Interest on Arrear Accounts (R2,846m),
- Fines (R4,088m),
- Rental Fees (R7,801m),
- Sundry Income (R8,793m),
- Licence and Permits (R4,926m)

[Other Income Budgeted = R 255,708,828 Earned = R 79,329,008* (31%)]

4.3. CAPITAL EXPENDITURE

The **Capital Budget (2010/11)** amounts to R 287million of which the expenditure to date are as follows:

- R 61,4million (excluding commitments) or 21.4%
- R 104,7million (including commitments) or 36.5%

In terms of our **cash flow** only R92.6 million of the total R 287 million was budgeted for the 6 months (**refer to our SDBIP**) The expenditure in relation to the cash flow are as follows:

- R 61,4million (excluding commitments) or 66.32%
- R 104,7million (including commitments) or 113.1%

It is however anticipated by departments that 100% of the Capital Budget will be spent by 30 June 2011.

Details of savings on projects as well as additional moneys required are part of the proposed adjustment budget.

Breakdown of Capital Expenditure:

DIRECTORATES	Budget	Commitments	Actual Expenditure	Balance
Council and General	25,000	2,630	1,289	21,081
Municipal Manager	31,140	4,014	10,332	16,795
Strategic Services	1,105,611	817,754	142,897	144,960
Corporate Governance	8,416,319	297,834	1,376,909	6,741,576
Social Services	64,545,078	6,230,344	11,259,817	47,054,917
Finance	986,188	188,788	476,641	320,759
Infrastructure and Planning	211,768,125	35,774,448	48,140,924	127,852,753
Total Operational Expenditure	286,877,461	43,315,811	61,408,809	182,152,841

4.4. SOURCES OF FINANCE - CAPITAL REVENUE

It should be noted that **Capital Revenue** represents the sources of finances of capital expenditure and not actual capital receipts as indicated on the prescribed Section 71 Report in terms of the MFMA. Actual receipts could exceed the expenditure.

4.5. DEBTORS

The total **Outstanding Debt** as at 31 December 2010 is R 262,429,673.

The Collection Rate for the period July 2010 to December 2010 is 95.57% and compares favourably to the budget forecasting of 95% for the financial year. Payment rates are as follows:

- July 2010 – 87.90%
- August 2010- 90.25%
- September 2010 – 102.55%
- October 2010 – 104.81%
- November 2010 – 97.18
- December 2010 – 90.73

The importance of the immediate and strict implementation of all processes in the Debt Collection Strategy cannot be over emphasized to ensure that the outstanding debtors which are over 90 days do not increase dramatically. The above-mentioned statistics is testimony of the positive actions already taken. A debt collection strategy was implemented where focus are on all debtors that are not indigent

It is important for the municipality to be financially sound to meet its challenges of increased repairs and maintenance of existing assets/infrastructure and further investment in municipal assets/infrastructure.

The following are some challenges, interventions implemented and in progress:

- Expansion of the Debt Collection Unit tasked with effective, efficient and economical Debt Management.
- A Project Team was established to assist in the recovery of debt.
- The collection of amounts in arrears from businesses, farmers and government and annual rates are prioritised.
- Lack of debtors' information, especially farms cause serious delays, along with the huge backlog in outstanding debt collection.
- We are in the continuous process of Debtors Data Cleansing and Profiling.
- The amount of work cannot be under-estimated and debt collection unit should be capacitated to ensure a full-fledged Debt Collection Unit.
- Compilation of a Credible Indigent Register.
- Exploring possibility of sourcing external service providers for debt management
- Unbundling of debt to focus on the debtors which is not indigent

**Drakenstein Municipality
Outstanding Balances as on: 31 December 2010**

DEBTOR TYPES	NET TOTAL	% OF TOTAL DEBT
AGRICULTURE	9,746,228.70	3.71%
BUSSINESS	28,603,760.86	10.90%
DOMESTIC	196,258,287.48	74.79%
GOVERNMENT	2,143,983.09	0.82%
MUNICIPAL	172,845.85	0.07%
SUNDRY ACCOUNTS	3,951,286.31	1.51%
OTHER	6,320.36	0.00%
VAT	21,546,960.35	8.21%
TOTAL	262,429,673.00	100.00%

Underneath find a breakdown of the unbundled debt .As can be seen from the table the amount that we focus on to recover immediately amounts to 107 million This is a real concern.

4.6. CREDITOR AGE ANALYSIS

95% of creditors were paid within 30 days of receiving the relevant invoice or statement as prescribed in terms of Section 65(e) of the MFMA. As at end of December 2010 the total amount payable, which represent commitments by Council of which the relevant invoice or statement is outstanding, amounted to R 30,045,768. The top 10 creditors are:

	Supplier Name	Amount
1	JVZ Construction (Pty) Ltd	2,878,216
2	Exeo Khokela Civil Engineers	2,392,712
3	Fire Raiders (Pty) Ltd	1,701,864
4	F Luke T/a Supreme Electrical	1,464,969
5	ITRON Metering Solutions	1,445,539
6	DEP Technologies	1,154,056
7	JVZ Construction (Pty) Ltd	927,970
8	Aurecon South Africa (Pty) Ltd	904,545
9	CSM Consulting Services (Pty) Ltd	773,670
10	CSM Consulting Services (Pty) Ltd	766,884
	Total	14,410,425

4.7. EXTERNAL LOANS, INVESTMENTS AND CASH AT 31 DECEMBER 2010

External Loans outstanding on 31 December 2010 amounted to R 238,249,178. During the six months no loans of were taken up and R 12,742,269 was repaid. The municipality is in the process of obtaining a loan of R108, 534 million to finance a portion (38%) of 2010/11 Capital Expenditure.

On 31 December 2010, Council had a positive Bank Balance of R 7,153,063. Investments (Longer than 12 months) on 31 December 2010 amounted to R 112,000. The Call Investment deposits amounted to R 117,769,192 (Shorter than 12 months).

The Total Bank and Cash at 31 December 2010 is allocated as follows:

	31/12/2010	31/12/2009
Capital replacement Reserve	32,951,802.00	31,006,191
Self Insurance Reserve	1,024,594.00	824,260
Consumer Deposits	6,324,595.00	5,956,383
Creditors	30,045,765.00	39,334,482
Unspend conditional grants and receipts	37,737,045.00	42,634,529
Cash invested for repayment of long-term liabilities	13,245,631.00	12,406,631
Unappropriated Surplus	3,592,824.00	2,893,562
Total Investments Bank and Cash	124,922,256	135,056,038

4.8. AN ADJUSTMENT BUDGET IS NECESSARY BECAUSE:

a. Unspent Conditional Grants

At year - end 30 June 2010 the municipality had unspent conditional grants . These conditional grants were not envisaged in the original budget of 2010/2011 and has to be included in the adjustment budget

b. Anticipated revenue less than budgeted revenue

The municipality foresees that the anticipated revenue will be less than the budgeted revenue for 2010/2011

c. Additional Funding for Projects

The departments requested additional funds for projects; therefore it's necessary to do an adjustment budget to identify savings to cover additional requests.

RECOMMENDATIONS

- 1. That Council takes note of the Mid Year Assessment and financial Health and Performance Indicators in the report.**
- 2. That Council takes note that an Adjustment Budget is necessary.**

CM Petersen
Executive Director: Finance

JT Basson
Portfolio Councillor: Finance