



SECTION 72

MID -YEAR ASSESSMENT

AND

PERFORMANCE REPORT

2020/2021

KAROO HOOGLAND LOCAL MUNICIPALITY

TABLE OF CONTENTS

- 1. Introduction**
- 2. Comments from the Municipal Manager**
- 3. Capital Expenditure**
- 4. Operating Income**
- 5. Operating Expenditure**
- 6. Investments & Loans**
- 7. Grants and subsidies received**
- 8. Personnel Expenditure**
- 9. Outstanding Debtors**
- 10. Outstanding Creditors**
- 11. Supply Chain Management**
- 12. Internal Audit and Audit Committees**
- 13. Conclusion**
- 14. Recommendations**

KAROO HOOGLAND LOCAL MUNICIPALITY

INTRODUCTION

The Municipal Manager, as Accounting Officer of the Municipality is required by Section 72 of the Municipal Finance Management Act, 2003, to submit a report in the prescribed format to the Mayor by 25th January of each year, reviewing the financial performance of the municipality for the first six months of the financial year.

This mid-year report is a critical stage in the in-year reporting cycle. As part of the review, in terms of Section 72 (3), the Accounting Officer needs to make recommendations as to whether the SDBIP and the annual budget need to be adjusted.

Section 54(f) of the MFMA requires the Mayor to consider and submit the mid-year report to Council by 31 January.

This report includes, inter alia the following information:

- (a) The monthly statements referred to in Section 71 for the first half of the financial year.
- (b) The municipality's service delivery performance for the first half of the financial year.
- (c) The past year's annual report and progress on resolving problems identified in the annual report and
- (d) submit a report on such assessment to –
 - The Mayor of the Municipality
 - The National Treasury and
 - The relevant Provincial Treasury

KAROO HOOGLAND LOCAL MUNICIPALITY

COMMENTS FROM THE MUNICIPAL MANAGER

The financial information provides an overall position on the Capital and Operating Budget of the Municipality for the 6 months under review.

- The overall operating income according to the mid-year review is in line with the annual approved operating income budget. Although the income for the past six months is in line with the budget, management and the officials of the municipality must still stay focus on improving income levels by ensuring the strict enforcement of the income related policies. The effect of the Covid-19 pandemic will surely have an adverse effect on revenue collection.
- The overall operating expenditure for the past six months is in line with the annual approved budget operating expenditure budget. Notwithstanding that the past six months operating expenditure are in line with the annual budget management and the officials of the municipality must curtail expenses to the maximum to ensure that all expenses can be paid till year end and to provide savings on votes for possible unavoidable expenses that may occur.
- Efforts to avoid fruitless and wasteful expenditure are ongoing. All aspects of compliance are adhered to at all times to avoid fruitless and wasteful expenditure.
- While efforts have been made to manage debt and credit control through policies and procedures, the reality of the situation shows reasonable progress. Effectively, cut-offs are achieved, billings are checked for accuracy, payment arrangements are made.
- Midyear Performance Assessment was done but due to a performance management system that we are in process of implementing, certain information on the SDBIP can be inaccurate.

Mr. JJ Fortuin

Municipal Manager

KAROO HOOGLAND LOCAL MUNICIPALITY

CAPITAL EXPENDITURE

<u>CAPITAL EXPENDITURE</u>						
000						
Type	DORA	Budget	Received	Expend	% Spent	ADJ Budget Feb
MIG	8,065	8,065	7,698	7,376	95.82%	8,065
TOTAL	8,065	8,065	7,698	7,376		8,065

During the period under review the Municipality has embarked on projects funded from MIG.

MIG funds are spent well within the timeframe of the projects.

OPERATING REVENUE

The following table shows the actual operating income per source against the planned budget as at 31 December 2020. It should be noted that the figures relate to billed income and not cash collected.

Karoo Hoogalnd Municipality									
Description	2019/20	Budget Year 2020/21							
	Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	Adjustments	Comments
R thousands									
Revenue By Source									
Property rates	7,209	7,544	7,468	561	3,664	3,734	(70)	(120)	Downwards
Service charges - electricity revenue	10,506	12,065	12,124	876	5,494	6,062	(568)	(800)	Downwards
Service charges - water revenue	3,232	3,564	3,564	330	2,138	1,782	356	500	Upwards
Service charges - sanitation revenue	2,890	3,410	3,367	283	1,717	1,683	34	70	Upwards
Service charges - refuse revenue	2,282	2,453	2,539	216	1,345	1,270	76	155	Upwards
Rental of facilities and equipment	591	795	788	41	251	394	(143)	(200)	Downwards
Interest earned - external investments	270	297	297	10	118	149	(31)	(60)	Downwards
Interest earned - outstanding debtors	2,284	1,961	1,961	221	1,274	981	293	600	Upwards
Fines, penalties and forfeits	1	27	27	-	3	13	(10)	(20)	Downwards
Agency services	-	28	28	-	-	14	(14)	-	None
Transfers and subsidies	26,611	30,022	33,160	10,625	22,271	16,580	5,691	(300)	MSIG
Other revenue	1,361	1,184	1,132	16	242	566	(324)	(600)	Downwards
Gains	-	0	-	-	-	-	-	-	-
Total Revenue (excluding capital transfers and contributions)	57,236	63,350	66,455	13,179	38,517	33,227	5,289	(775)	-

KAROO HOOGLAND LOCAL MUNICIPALITY

The following are highlighted from the schedule above:

- Adjust property rates downwards with R 120 000.00
- Adjust the electricity service charges revenue downwards with R 800 000.00
- Adjust water revenue downwards with R 500 000.00
- Adjust sanitation revenue upwards with R 70 000.00
- Adjust refuse revenue upwards with R 155 000.00
- Adjust Rental of facilities downwards with R 200 000.00
- Adjust Interest on external investments downwards with R 60 000.00
- Adjust interest on outstanding debtors upwards with R 600 000.00 distributed over all services.
- Adjust Fines downwards with R 20 000.00
- Adjust transfers downwards with R 300 000.00 (MSIG)
- Adjust other revenue downwards with R 600 000.00

OPERATING EXPENDITURE

The following table depicts the actual operating expenditure per type of expenditure against planned budget at 31 December 2020.

KAROO HOOGLAND LOCAL MUNICIPALITY

Description	2019/20	Budget Year 2020/21							
	Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	Adjustments	Comments
R thousands									
Expenditure By Type									
Employee related costs	25,078	26,726	28,028	3,814	13,609	14,014	(405)	-	Senior Managers Bonuses
Remuneration of councillors	2,633	2,763	2,763	220	1,331	1,382	(51)	-	Upper Limits
Debt impairment	178	2,915	3,739	0	542	1,869	(1,327)	-	Year End Journals
Depreciation & asset impairment	12,242	7,500	7,500	-	-	3,750	(3,750)	-	Year End Journals
Finance charges	2,909	134	134	7	70	67	3	-	Not Material
Bulk purchases	9,482	9,636	10,800	809	4,654	5,400	(746)	(1,200)	Downwards
Other materials	1,380	1,475	1,320	56	544	660	(115)	-	Not Material
Contracted services	3,002	7,148	7,483	565	3,300	3,733	(432)	-	Not Material
Transfers and subsidies	134	42	197	-	172	98	74	-	Not Material
Other expenditure	11,515	7,230	11,441	484	2,499	5,687	(3,188)	(1,200)	Downwards Capital Assets
Losses	1,315	145	-	-	-	-	-	-	Year End Journals
Total Expenditure	69,869	65,713	73,405	5,954	26,721	36,660	(9,939)	(2,400)	-

The Municipality is still facing challenges to ensure that expenditure is correctly accounted for between the different votes as per the mSCOA chart.

Bulk purchases downwards with R 1 200 000.00

Other expenditure to be adjusted downwards with R 1 200 000.00 and include the following.

- Advertisements to be adjusted downwards with R 200 000.00 due to cost containment regulations
- External Audit fees to be adjusted downwards with R 100 000.00 in relation to invoices submitted.
- Water testing fees to be adjusted downwards with R 200 000.00 due to the department of water and sanitation that financed these expenses.
- Chemicals R 200 000.00
- Ward Committee expenses R 100 000.00
- Travel and Subsistence downwards with R 100 000.00
- UDS fees downwards with R 200 000.00
- Maintenance Materials downwards with R 100 000.00

KAROO HOOGLAND LOCAL MUNICIPALITY

Travel, accommodation and subsistence expenses to be curbed. It is the responsibility of ***all managers*** to ensure that costs are cut to the upmost especially with reference to travel, accommodation and subsistence expenses. Proper internal controls over these expenditures needs to be implemented as soon as possible and must be effectively implemented and monitored on a regularly basis to ensure that these costs are in line with the annual approved operational budget. Covid-19 restrictions will assist to curb these expenses.

INVESTMENTS & LOANS

The following table includes the detailed investments as on 31 December 2020.

The main reason for all the investment accounts is to mainly ring-fence funds received as grants and subsidies and to ensure that the investment is only utilized for the purposes of the grant or subsidy.

The Municipality mainly makes use of short/medium term fixed deposits as investment instruments.

The closing balance of all investment accounts as on 31 December 2020 is R 12.4 Mil and consists of conditional grants and cannot be spent on any other expenditure than the purpose of the grants.

INVESTMENTS				
Investments				
Institution	Account Number	Type	Account Use	Amount
Standard Bank	83212442	Current	Main account	7,704,015
ABSA Bank	2490000065	Current	Deposit	2,439,369
Standard Bank	288641922002	Investment	Wholesale Call deposit	1,757,479
ABSA Bank	92-9194-4935	Investment	Call Account - Eskom	18,050
Standard Bank	288641922005	Investment	Fixed deposit Eskom	34,750
ABSA Bank	40-5435-2064	Investment	32 day notice account	495,176
ABSA Bank	92-8398-9339	Investment	Call Account - INEG	1,022
			Total	12,449,862

KAROO HOOGLAND LOCAL MUNICIPALITY

The following table consists of all loans as on 31 December 2020 and it excludes the finance leases of the municipality.

<u>LOANS</u>				
Loans Outstanding				
Institution	Account Number	Type	Account Use	Amount
DBSA	102367/1	Long Term Loans	Williston Electricity Network	1,556,895
Total				
The total monthly repayment is R25 045.94				
The amount of interest for the remaining period is R 254 969				

The loan is payable on a monthly basis with an annual interest rate of 5 %. The total monthly repayment is R 25,046 and the end date is December 2026. Therefore, the period remaining is 6 years. The amount of interest for the remaining period is R 254 969. The outstanding capital amount is as reflected in the table.

The Municipality is currently honoring the repayment of the loan and no amount is in arrears.

GRANTS AND SUBSIDIES RECEIVED

The table below includes all the grants and subsidies that were allocated to the Municipality in terms of the DORA.

<u>GRANTS AND SUBSIDIES</u>		
Grants and subsidies		
Institution	Budget	ADJ Budget
Equitable Share	27,301	27,301
FMG	2,800	2,800
MSIG	300	-
EPWP	1,000	1,000
MIG	8,065	8,065
LIBRARY	1,667	1,667
TOTAL	41,133	40,833

KAROO HOOGLAND LOCAL MUNICIPALITY

The Municipality did receive the full complement of the FMG.

The Municipality claim from the Library Fund as soon as expenses were incurred. Payment from Department Sports, Art and Culture to the value of R 833 500.00 is due in February 2020. No amount was received for the first six months.

Management needs to ensure prompt expenditure on the MIG and EPWP eliminate the forfeiting of the MIG funds.

PERSONNEL EXPENDITURE

At 31 December 2020, the personnel expenditure to date amounted to R 13.6 Mil against the budgeted R 28 Mil.

As the salary bill thus far is within the original salary budget it will be recommended that vacancies not be filled except for emergency needs, to ensure that the municipality stays within its original personnel expenditure budget.

Council remuneration is within the budget and will include the back pay on upper limit implementation.

OUTSTANDING DEBTORS - AGE ANALYSIS

The table indicates that on the 31 December 2020 a total of R 49.7 Mil was outstanding for debtors. This will result in cash flow constrains as well as the possibility of writing off a large portion of debtors.

The Municipality should enforce more strict credit control measures to ensure consumers do pay for services, received.

KAROO HOOGLAND LOCAL MUNICIPALITY

Totals per Property Use	Total Balance	Current	30 Days	60 Days	90 Days	120 Days	150+ Days
Business	3416906.18	428626.91	204874.51	138761.83	94872.63	82343.26	2467427.04
Church	144904.88	14246.46	3977.21	3426.08	3241.96	3301.96	116711.21
Farm	3437093.27	-6135.60	203620.91	139183.96	104377.74	95926.88	2900119.38
Government	1560630.97	33631.45	42814.59	46097.88	41900.27	39218.12	1356968.66
Hospital	13178.14	-32121.99	8723.28	15162.91	18179.60	1108.83	2125.51
Municipal	929103.12	31039.55	22275.25	19669.71	18876.73	12669.08	824572.80
None	7782.21	-16601.51	568.11	565.31	562.52	559.72	22128.06
Residential	39878548.48	961593.00	866725.60	799396.36	732882.91	737315.29	35780635.32
School	355763.75	40516.65	22511.85	23034.68	26935.21	14375.48	228389.88
Small Business	-70.55	-70.55	0.00	0.00	0.00	0.00	0.00
Sundry Debtor	19861.99	1523.90	1514.91	1310.22	1292.67	1239.01	12981.28
Total	49763702.44	1456248.27	1377606.22	1186608.94	1043122.24	988057.63	43712059.14

From Jul 2015 the Municipality did embark on a debt collection process as entailed in the credit control and debt collection policy. There was a reasonable improvement but the targets that were set have not been reached as yet. Regular credit control meetings are held and where all relevant officials are given feedback on the challenges and progress made. Therefore, the Municipality call on all its officials and on the Political Office Bearers to assist the Municipality in this regard as this will determine the Municipality as a “Going Concern” or not.

OUTSTANDING CREDITORS

The total outstanding creditors as on 31 December 2020 amount to R 9.4 Mil.

The main creditor is the Office of the Auditor- General to the value of R 2.0 Mil.

The amounts reflected in the “other” relates to retention monies due on all capital projects and is payable on different times during the 2020/2021 and 2021/2022 financial years. Furthermore, it relates to capital projects which payment certificates is also payable within 30 days from date of payment certificate issued by the consulting engineers.

Trade creditors consists of operational suppliers which invoices are payable within 30 days from invoice date.

KAROO HOOGLAND LOCAL MUNICIPALITY

OUTSTANDING CREDITORS									
CREDITORS AGE ANALYSIS	0-30 Days	31-60 Days	61-90 Days	91-120 Days	121-150 Days	151-180 Days	181->	Total	
Bulk Electricity	-	-	-	-	-	-	-	-	-
Bulk Water	-	-	-	-	-	-	-	-	-
PAYE deductions	-	-	-	-	-	-	-	-	-
VAT (output less input)	-	-	-	-	-	-	-	-	-
Pensions / Retirement deduction	-	-	-	-	-	-	-	-	-
Loan repayments	-	-	-	-	-	-	-	-	-
Trade Creditors	281,891.96	41,565.27	-	-	-33,848.75	45,596.36	98,581.52	433,786.36	
Auditor General	172,722.02	884,315.50	981,221.37	-	-	-	-	2,038,258.89	
Other	-	-	-	-	-	-	6,948,348.17	6,948,348.17	
Total	454,613.98	925,880.77	981,221.37	-	-33,848.75	45,596.36	7,046,929.69	9,420,393.42	

SUPPLY CHAIN MANAGEMENT REPORT

Supply Chain Management unit is functional. The Supply Chain Management Policy has been updated.

The Policy was aligned to the regulations on procurement.

There are still issues of non-compliance with the Supply Chain Management Policy and Regulations.

The amount of the deviations in terms of the SCM regulations amounts to R 1 063 832.16

INTERNAL AUDIT AND AUDIT COMMITTEE

Section 165(1) of the Municipal Finance Management Act of 2003 requires municipalities to have an internal audit unit. The Municipality have an internal auditor.

Section 166(1) of the Municipal Finance Management Act of 2003 requires municipalities to have an audit committee. The Municipality is currently using the shared service of Namakwa District Municipality. Due to the high cost involved the Municipality will for the next financial year appoints its own committee. The latest sitting has taken place on 27 October 2020 where the AFS 2019/2020 was presented.

KAROO HOOGLAND LOCAL MUNICIPALITY

CONCLUSION

- The purpose of the mid-year review is to guide the municipality, whether the annual budget needs to be adjusted or not.
- By analyzing the current financial performance (operating and capital income and expenses) it was found that adjustments to the current approved annual budget would be done where it was referred to in this report
- Management, officials and political office bearers should apply themselves hereto and take note and action to assist in upholding the current approved annual budget and the adjusted budget.

RECOMMENDATIONS

These recommendations are linked to the responsibilities of the Mayor under Section 54 of the MFMA.

That the original budget to be adjusted per vote.

Honourable Mayor: Me V Wentzel

Date: