



SECTION 72

MID -YEAR ASSESSMENT

AND

PERFORMANCE REPORT

2019/2020

KAROO HOOGLAND LOCAL MUNICIPALITY

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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

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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 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

CAPITAL EXPENDITURE						
CAPITAL PERFORMANCE 2019/2020						
000						
TYPE	DORA	Budget	Received	Expend	% Spent	ADJ Budget Feb
EEDSM	5,000	5,000	-		0%	0
RBIG	20,000	20,000	-		0%	0
MIG	8,087	8,087	5,000	5,051	62%	8,087
INEP	2,000	2,000	2,000	2,000	100%	2,000
TOTAL	35,087	35,087	7,000	7,051		10,087

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

The RBIG funding of R 20 Mil will not realise as the Department has evaluated that the water in Williston is currently enough for the demand. A letter from the Department confirmed that the Municipality will not receive the funding.

- Adjust capital expenditure budget downwards with R 20 Mil

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

The INEP funds for the 2019/2020 MTREF was received and has been spent.

The EEDSM Grant will also not realize as the Department had indicated that from now on a business plan must be submitted and approved before a certain date in order for the funds to be released. This however was not communicated to the Municipalities beforehand. We will ensure that the application is done by the due date.

- Adjust capital expenditure budget downwards with R 5 Mil.

OPERATING REVENUE

The following table shows the actual operating income per source against the planned budget as at 31 December 2019. It should be noted that the figures relate to billed income and not cash collected.

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The percentage billed should be as close to 50 % as possible for the six months actual levies.

OPERATING REVENUE 2019/2020							
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Revenue By Source	ORB Budget	ADJ BUD Nov	YTD Actual	% of Adj BUD	ADJ BUD Feb	Comments	ADJ amount
Property rates	7,147	7,147	3,214	45%	7,147	No Adjustment	
Service charges - electricity revenue	10,443	10,965	5,774	53%	11,265	Service Charges	- 300
Service charges - water revenue	3,215	3,215	1,511	47%	3,215	No Adjustment	
Service charges - sanitation revenue	3,173	3,173	2,219	70%	3,173		
Service charges - refuse revenue	2,429	2,429	1,187	49%	2,429	No Adjustment	
Rental of facilities and equipment	739	739	481	65%	739	No Adjustment	
Interest earned - external investments	309	309	191	62%	309	No Adjustment	
Interest earned - outstanding debtors	2,715	2,715	1,076	40%	2,215	All Services	500
Fines, penalties and forfeits	29	29	13	45%	29	No Adjustment	
Agency services	75	75	35	47%	75	No Adjustment	
Transfers and subsidies	26,348	26,262	19,995	76%	26,262	No Adjustment	
Other revenue	2,467	2,553	1,056	41%	2,303	Admin Fees	250
Total Revenue (excluding capital)	59,089	59,611	36,752		59,161		450

The following are highlighted from the schedule above:

- Adjust the electricity service charges revenue upwards with R 300 000.00
- Adjust interest on outstanding debtors downwards with R 500 000.00 distributed over all services.
- Adjust other revenue -administration fees downwards with R 250 000.00 due to EEDSM grant that will not realise.

OPERATING EXPENDITURE

The following table depicts the actual operating expenditure per type of expenditure against planned budget at 31 December 2019.

KAROO HOOGLAND LOCAL MUNICIPALITY

OPERATING EXPENDITURE 2019/2020							
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Expenditure by type	ORB Budget	ADJ BUD Nov	YTD Actual	% of Adj BUD	ADJ BUD Feb	Comments	ADJ amount
Employee related costs	27,074	26,624	13,442	50%	26,624	No Adjustment	
Remuneration of councillors	2,674	2,674	1,275	48%	2,674	No Adjustment	
Debt impairment	2,915	2,915	1,458	50%	2,915	No Adjustment	
Depreciation & asset impairment	7,500	7,500	3,750	50%	7,500	No Adjustment	
Finance charges	244	244	121	50%	244	No Adjustment	
Bulk purchases	9,424	9,024	4,321	48%	9,024	No Adjustment	
Other materials	1,188	1,188	518	44%	1,188	No Adjustment	
Contracted services	5,000	5,000	2,445	49%	5,000	No Adjustment	
Transfers and subsidies	539	336	158	47%	336	No Adjustment	
Other expenditure	9,567	9,567	4,138	43%	9,117	Various *	- 450
Total Expenditure (excluding capital)	66,125	65,072	31,626		64,622		- 450
		* Advertisements	-190				
		External Audit	-50				
		Water Testing	-140				
		Salga Fees	-20				
		Traffic Signs	-50				
			-450				

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

Other expenditure to be adjusted downwards with R 450 000.00 and include the following budget line items.

- Advertisements to be adjusted downwards with R 190 000.00 due to cost containment regulations
- External Audit fees to be adjusted downwards with R 50 000.00 in relation to invoices submitted.
- Water testing fees to be adjusted downwards with R 140 000.00 due to the department of water and sanitation that financed these expenses.
- Salga Fees to be adjusted downwards with R 20 000.00. The amount budgeted was R 600 000.00 and R 500 000.00 was paid.
- The traffic signs budget to be adjusted downwards with R 50 000.00 as this was budgeted for under repairs and maintenance.

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.

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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.

INVESTMENTS & LOANS

The following table includes the detailed investments as on 31 December 2019.

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 2019 is R 12.6 Mil and consists of conditional grants and cannot be spent on any other expenditure than the purpose of the grants.

<u>INVESTMENTS</u>				
Investments				
Institution	Account Number	Type	Account Use	Amount
Standard Bank	83212442	Current	Main account	8,325,843
ABSA Bank	2490000065	Current	Deposit	2,196,649
Standard Bank	288641922002	Investment	Wholesale Call deposit	1,099,874
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	483,620
Standard Bank	288644204001	Investment	MoneyMarket FMG	505,069
ABSA Bank	92-8398-9339	Investment	Call Account - INEG	1,022
			Total	12 664 878

The following table consists of all loans as on 31 December 2019 and it excludes the finance leases of the municipality.

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LOANS				
Loans Outstanding				
Institution	Account Number	Type	Account Use	Amount
DBSA	102367/1	Long Term Loans	Williston Electricity Network	1,772,651
Total				
The total monthly repayment is R25 045.94				
The amount of interest for the remaining period is R378 079.18				

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 7 years. The amount of interest for the remaining period is R 378 079. 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.

GRANTS AND SUBSIDIES		
Grants and subsidies		
Institution	Budget	ADJ Budget
Equitable Share	22,416	22,416
FMG	2,435	2,435
RBIG	20,000	-
INEP	2,000	2,000
EEDSM	5,000	-
MIG	8,087	8,087
LIBRARY	1,497	1,497
TOTAL	61,435	36,435

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The Municipality did receive the full complement of the FMG and INEP and MIG

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 748 500.00 is due in February 2020.

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

PERSONNEL EXPENDITURE

At 31 December 2019, the personnel expenditure to date amounted to R 13.4 Mil against the budgeted R 26.6 Mil. Thus 50% of the budget has been spent.

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 2019 a total of R 42.1 Mil was outstanding for debtors. This will result in cash flow constraints 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.

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Source Of Income	0 - 30 Days	31 - 60 Days	61 - 90	91 - 120 Days	121 - 150 Days	151 - 180	181 - 365 Days	366 Days	Total
DEBTOR AGE SERVICE									
Water	397,771	234,784	198,174	146,883	203,810	217,622	120,852	7,636,538	9,156,434
Electricity	446,752	125,340	- 49,150	- 259,553	- 399,269	- 165,443	- 185,005	1,096,919	610,591
Property Rates	537,918	366,095	228,584	188,997	598,931	41,572	199,017	5,235,488	7,396,602
Sanitation	338,818	230,147	186,816	183,396	182,658	182,001	160,530	7,170,620	8,634,986
Waste Management	259,891	165,148	134,901	121,189	135,083	137,821	118,596	6,311,859	7,384,488
Property Rental	30,537	18,672	18,625	14,929	8,999	12,717	24,621	308,131	437,231
Other	86,942	17,558	148,259	19,773	90,549	86,746	5,874,869	2,209,128	8,533,824
Income Source	2,098,629	1,157,744	866,209	415,614	820,761	513,036	6,313,480	29,968,683	42,154,156
DEBTOR AGE GROUP									
Organs of the State	515,043	399,904	233,130	- 141,669	143,451	- 99,846	678,115	-	1,728,128
Commercial	501,909	126,723	100,000	70,962	80,259	55,905	453,519	1,082,851	2,472,128
Households	1,047,952	619,247	523,240	477,507	585,036	544,890	5,136,711	29,438,846	38,373,429
Other	33,725	11,870	9,839	8,814	12,015	12,087	45,135	- 553,014	- 419,529
Customer Group	2,098,629	1,157,744	866,209	415,614	820,761	513,036	6,313,480	29,968,683	42,154,156

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 2019 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 2019/2020 and 2020/2021 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.

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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 30 August 2019 where the AFS 2018/2019 was presented.

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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: