

KAROO HOOGLAND LOCAL MUNICIPALITY



SECTION 72

MID -YEAR ASSESSMENT

2021/2022

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(1)(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. (mSCOA Data Strings)
- (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 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 revenue levels by ensuring the strict enforcement of the revenue 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.

KAROO HOOGLAND LOCAL MUNICIPALITY

- As the salary bill is already 38.4 % of total operating expenditure which is 2.4% higher than the norm, management should ensure that the salary bill in future do not exceed 36% of total operating expenditure.

Mr. JJ Fortuin

Municipal Manager

KAROO HOOGLAND LOCAL MUNICIPALITY

CAPITAL EXPENDITURE

CAPITAL EXPENDITURE						
000						
Type	DORA	Budget	Received	Expend	% Spent	ADJ budget
MIG	8276	8276	8276	8276	100%	8276
WSIG	10000	10000	8000	2933	37%	10000
TOTAL	18276	18276	16276	11209		18276

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

MIG funds are used for the internal water network in Williston.

WSIG funds are used for the bulk water supply in Sutherland.

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

WSIG funds are spent but at a low rate and Management must ensure prompt spending to ensure that funds are not forfeited.

OPERATING REVENUE

The following table shows the actual operating income per source against the planned budget as at 31 December 2021. It should be noted that the figures relate to billed income and not cash collected.

Karoo Hoogland Municipality									
Description	2020/2021	2021/2022							
	Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	Adjustments	Comments
R thousands	AFS								
Revenue By Source									
Property rates	6,850	7,824	7,524	567	3,761	3,912	(151)	(300,000)	Downwards
Service charges - electricity revenue	10,918	12,539	12,939	1,718	6,672	6,270	403	400,000	Upwards
Service charges - water revenue	3,693	4,158	4,198	377	2,096	2,079	17	40,000	Upwards
Service charges - sanitation revenue	3,368	3,562	3,592	283	1,795	1,781	14	30,000	Upwards
Service charges - refuse revenue	2,551	2,549	2,769	225	1,395	1,275	121	220,000	Upwards
Rental of facilities and equipment	622	507	587	49	297	254	44	80,000	Upwards
Interest earned - external investments	199	305	395	-	197	153	45	90,000	Upwards
Interest earned - outstanding debtors	2,617	2,678	2,928	262	1,490	1,339	159	250,000	Upwards
Fines, penalties and forfeits	4	13	43	-	28	6	22	30,000	Upwards
Agency services	99	52	52	-	-	26	(26)	-	On Budget
Transfers and subsidies	42,074	29,477	29,477	4,432	16,227	14,739	1,488	-	None
Other revenue	6,662	1,160	620	22	314	581	(267)	(540,000)	Downwards
Gains	-	0	0	-	-	0	(0)	-	-
Total Revenue (excluding capital transfers and contributions)	79,656	64,825	65,125	7,935	34,280	32,413	1,867	300,000	-

KAROO HOOGLAND LOCAL MUNICIPALITY

The following are highlighted from the schedule above:

- Adjust property rates downwards with R 300 000.00
- Adjust the electricity service charges revenue upwards with R 400 000.00
- Adjust water revenue upwards with R 40 000.00
- Adjust sanitation revenue upwards with R 30 000.00
- Adjust refuse revenue upwards with R 220 000.00
- Adjust rental of facilities upwards with R 80 000.00
- Adjust interest on external investments upwards with R 90 000.00
- Adjust interest on outstanding debtors upwards with R 250 000.00 distributed over all services.
- Adjust fines upwards with R 30 000.00
- Adjust other revenue downwards with R 540 000.00

The net adjustment for revenue by source is **R 300 000.00 upwards**.

OPERATING EXPENDITURE

The following table represent the actual operating expenditure per type of expenditure against planned budget at 31 December 2021.

Karoo Hoogalnd Municipality									
Description	2020/2021	2021/2022							
	Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	Adjustments	Comments
R thousands	AFS								
Expenditure By Type									
Employee related costs	27,560	28,375	28,175	3,653	14,325	14,188	138	(200,000)	Downwards
Remuneration of councillors	2,651	4,119	4,319	374	1,511	2,060	(549)	200,000	Upwards
Debt impairment	7,150	3,936	3,936	0	119	1,968	(1,849)	-	Year End Journals
Depreciation & asset impairment	12,032	9,500	9,500	-	8	4,750	(4,742)	-	Year End Journals
Finance charges	2,966	90	105	6	51	45	6	15,000	Upwards
Bulk purchases	10,163	10,811	10,611	492	5,176	5,405	(229)	(200,000)	Downwards
Other materials	-	1,447	1,227	94	591	724	(133)	(220,000)	Downwards
Contracted services	1,391	6,747	7,367	663	3,678	3,374	305	620,000	Upwards
Transfers and subsidies	-	67	122	-	60	34	27	55,000	Upwards
Other expenditure	12,079	7,725	7,755	308	3,873	3,863	11	30,000	Upwards
Losses	(238)	-	-	-	-	-	-	-	Year End Journals
Total Expenditure	75,754	72,816	73,116	5,590	29,392	36,408	(7,016)	300,000	-

The Municipality is still facing challenges to ensure that expenditure is correctly accounted for between the different votes as per the mSCOA chart and GRAP classification of expenditure, which are the Standards used for compilation of the AFS.

KAROO HOOGLAND LOCAL MUNICIPALITY

The following adjustments to be made on operating expenses:

- Salaries of MM and Finance to be adjusted downwards with R 100 000.00 per department (R 200 000.00)
- Remuneration of councilors to be adjusted upwards with R 200 000.00
- Finance charges to be adjusted upwards with R 15 000.00
- Bulk purchases adjusted downwards with R 200 000.00
- Other materials to be adjusted downwards with R 220 000.00
- Contracted services to be adjusted upwards with R 620 000.00
- Transfers and subsidies to be adjusted upwards with R 55 000.00 (PEMA)
- Other expenditure: maintenance vehicles adjusted upwards with R 30 000.00

The net adjustment for expenditure per type is **R 300 000.00 upwards**

Travel, accommodation and subsistence expenses to be curbed. It is the responsibility of **all managers** and **councilors** to ensure that costs are cut to the utmost especially with reference to travel, accommodation and subsistence expenses. Virtual Meetings must have priority over face-to-face meetings due to the pandemic. 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 and current accounts as on 31 December 2021.

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 utilised for the purposes of the grant or subsidy.

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

KAROO HOOGLAND LOCAL MUNICIPALITY

The closing balance of all investment accounts as on 31 December 2021 is R 16.3 Mil and also consists of conditional grants and cannot be spent on any other expenditure than the purpose of the grants.

INVESTMENTS			
Institution	Account Number	Type	Amount
Standard Bank	288641922002	Wholesale Call Deposit	8,295,264.79
ABSA Bank	9291944935	Call Account Eskom	18,050.45
Standard Bank	288641922006	Fixed Deposit Eskom	34,750.00
ABSA Bank	405352064	32 Day Notice Account	500,147.19
Standard Bank	288644204001	Money Market FMG	2,835,712.07
ABSA Bank	9283989339	Call Account INEG	-
Standard Bank	83212442	Current	3,352,504.31
ABSA Bank	2490000065	Current	1,281,745.38
		Total	16,318,174.19

The following table consists of all loans as on 31 December 2021 and it excludes the finance leases of the municipality.

LOANS				
Loans Outstanding				
Institution	Account Number	Type	Account Use	Amount
DBSA	102367/1	Long Term Loans	Fraserburg Electricity Network	1,328,607
Total				
The total monthly repayment is R25 045.94				
The amount of interest for the remaining period is R 175 653				

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 5 years. The amount of interest for the remaining period is R 175 653. 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.

KAROO HOOGLAND LOCAL MUNICIPALITY

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 & SUBSIDIES		
Institution	Budget	ADJ Budget
Equitable Share	25,231	25,231
FMG	2,650	2,650
WSIG	10,000	10,000
MIG	8,276	8,276
LIBRARY (Prov)	1,400	1,400
TOTAL	47,557	47,557

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 700 000.00 is due in February 2020. No amount was received for the first six months.

Management needs to ensure prompt expenditure on the WSIG to eliminate the forfeiting of the WSIG funds.

PERSONNEL EXPENDITURE

At 31 December 2021, the personnel expenditure to date amounted to R 14.3 Mil against the budgeted R 28.3 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.

Salary budget to be decreased with R 200 000.00 and Council Remuneration to be increased with R 200 000.00.

Salaries in relation to total operating expenditure is currently at 38.4 % which is 2.4% higher than the norm as per the ratio guidance from National Treasury.

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

KAROO HOOGLAND LOCAL MUNICIPALITY

OUTSTANDING DEBTORS - AGE ANALYSIS

The table indicates that on the 31 December 2021 a total of R 58.2 Mil was outstanding for debtors. This will result in cash flow constraints as well as the possibility of writing off of debtor's accounts in accordance to policies and regulations as well as National Treasury guidance's. Also note that write-off of accounts is subject to external audit and therefore management must ensure that if write-off of accounts is done it must be in accordance to guidelines provided.

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

Totals per Property Use	Total Balance	Current Amount	30 Days Amount	60 Days Amount	90 Days Amount	120 Days + Amount
Business	4436311.78	1338671.71	148319.62	106671.95	69957.58	2772690.92
Church	173832.26	1159245.88	122394.32	85370.11	53339.99	2163790.79
Farm	4400162.51	1179222.81	142573.22	104445.85	71740.91	2820030.78
Flat	-5.00	1156773.91	121077.94	84306.09	52217.00	2132699.66
Government	1656023.80	1173651.58	133598.22	95935.57	63952.78	2380621.78
Hospital	18339.87	1158729.15	121160.63	84386.89	52292.83	2133247.83
Municipal	1134604.05	1168672.01	128611.48	90385.83	58109.21	2470908.18
None	21881.17	1156990.15	121237.01	84460.34	52371.25	2136941.27
Residential	45982682.38	1472336.96	398138.30	346076.68	305796.04	14205180.40
School	335269.74	1162704.67	123894.96	88027.13	54662.86	2195262.54
Small Business	-70.55	1156773.91	121077.94	84306.09	52217.00	2132699.66
Sundry Debtor	47773.29	1157418.04	122229.39	84761.60	52666.91	2138769.19
Total	58206805.30	14441190.78	1804313.03	1339134.13	939324.36	39682843.00

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 2021 amount to R 5.5 Mil.

The main creditor is the Office of the Auditor- General to the value of R 3.9 Mil.

KAROO HOOGLAND LOCAL MUNICIPALITY

The amounts reflected as Duneco relates to retention monies due on capital projects and is payable on different times during the 2021/2022 and 2022/2023 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.

OUTSTANDING CREDITORS				
Supplier Code	Supplier Name	Balance per EMS	Supplier Statement	Difference
SCM/252	Ouditeur Generaal	3,890,850.92	3,890,850.92	-
SCM/256	SALGA	1,317,767.48	1,317,767.48	-
SCM/379	Jan Vlok	6,869.97	6,869.97	-
SCM/712	Duneco	337,872.45	337,872.45	-
SCM/746	Griefies Plaatjies	15,071.15	15,071.15	-
	Total	5,568,431.97	5,568,431.97	

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 such as the PPPFA, the SCM regulations, cost containment regulations and prescribes of the MFMA.

The amount of the deviations in terms of the SCM regulations amounts to R 1 718 760.12 from 1 July 2021 till 31 December 2021.

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

KAROO HOOGLAND LOCAL MUNICIPALITY

the Municipality will for the next financial year appoints its own committee. The latest sitting has taken place on 9 December 2021 where various internal audit reports were submitted.

CONCLUSION

- The purpose of the mid-year review is to guide the municipality, whether the annual budget needs to be adjusted or not.
- By analysing the current financial performance (opex and capex 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. Adjust budget per mSCOA vote structure.

Honourable Mayor: Mr Anthony Mietas

Date: 25 January 2022