



SECTION 72

MID -YEAR ASSESSMENT

2022/2023

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(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

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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 revenue levels by ensuring the strict enforcement of the revenue 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. A Gibbons

Acting Municipal Manager

KAROO HOOGLAND LOCAL MUNICIPALITY

CAPITAL EXPENDITURE

Capital Expenditure						
000						
Type	DORA	Budget	Received	Expend	% Spent	ADJ Budget
MIG	17,562	17,562	12,000	8,627	49%	17,562
WSIG	13,000	13,000	10,400	6,447	50%	13,000
TOTAL	30,562	30,562	18,500	12,749		30,562

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

MIG funds are used for the upgrading of Williston sports facility & Williston street and stormwater

WSIG funds are used for the sewerage reticulation for 127 Stands in Williston.

MIG funds are spent well within the timeframe of the projects, as half of the allocation has been spent to date.

WSIG funds are spent well within the timeframe of the projects, as half of the allocation has been spent to date.

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OPERATING REVENUE

The following table shows the actual operating income per source against the planned budget as at 31 December 2022. It should be noted that the figures relate to billed income and not cash collected.

Choose name from list - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) - M06 December										
Description	Ref	2021/22	Budget Year 2022/23							
		Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands										
Revenue By Source										
Property rates		7 024	7 735	7 735	581	3 841	3 867	(26)	-1%	7 735
Service charges - electricity revenue		11 269	13 401	13 401	968	6 395	6 700	(305)	-5%	13 401
Service charges - water revenue		3 958	4 395	4 395	345	2 184	2 197	(14)	-1%	4 395
Service charges - sanitation revenue		3 384	3 764	3 764	265	1 693	1 582	(189)	-10%	3 764
Service charges - refuse revenue		2 654	2 902	2 902	212	1 350	1 451	(101)	-7%	2 902
Rental of facilities and equipment		580	541	541	49	295	271	24	9%	541
Interest earned - external investments		416	583	583	71	290	291	(1)	0%	583
Interest earned - outstanding debtors		3 100	3 252	3 252	413	2 245	1 626	619	38%	3 252
Dividends received		-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits		28	13	13	-	0	6	(6)	-96%	13
Licences and permits		-	-	-	-	-	-	-	-	-
Agency services		-	60	60	-	-	30	(30)	-100%	60
Transfers and subsidies		29 404	35 449	35 449	10 196	24 871	17 725	7 146	40%	35 449
Other revenue		1 357	1 104	1 104	40	230	552	(322)	-58%	1 104
Gains		-	-	-	-	-	-	-	-	-
Total Revenue (excluding capital transfers and contributions)		63 185	73 199	73 199	13 139	43 395	36 599	6 795	19%	73 199

The following are highlighted from the schedule above:

- Adjust interest earned on outstanding debtors upward by R50 000
- Adjust other revenue downward by R50 000

The net adjustment for revenue by source will have a nil effect, movement within revenue.

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OPERATING EXPENDITURE

The following table represent the actual operating expenditure per type of expenditure against planned budget at 31 December 2022.

Choose name from list - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) - M06 December										
Description	Ref	Budget Year 2022/23								
		2021/22 Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands										
Employee related costs		27,083	28,030	28,030	-	9,681	14,079	(4,398)	-31%	28,030
Remuneration of councillors		3,813	4,421	4,421	-	2,193	2,211	(18)	-1%	4,421
Debt impairment		7,064	5,936	5,936	147	639	2,968	(2,329)	-78%	5,936
Depreciation & asset impairment		11,348	9,547	9,547	-	-	4,773	(4,773)	-100%	9,547
Finance charges		3,731	85	85	0	(40)	43	(83)	-194%	85
Bulk purchases - electricity		10,905	11,534	11,534	737	4,851	5,767	(916)	-16%	11,534
Inventory consumed		2,032	1,515	1,515	114	787	757	30	4%	1,515
Contracted services		5,697	10,267	10,267	476	3,176	5,100	(1,923)	-38%	10,267
Transfers and subsidies		60	64	64	-	5	32	(27)	-84%	64
Other expenditure		7,139	10,140	10,140	245	5,102	5,070	32	1%	10,140
Losses		2	0	0	-	-	0	(0)	-100%	0
Total Expenditure		78,874	81,539	81,539	1,719	26,395	40,800	(14,405)	-35%	81,539

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.

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The following adjustments to be made on operating expenses:

- Adjust disaster management downwards with R100 000
- Adjust ward committees' operational expenditure downward with R150 000
- Adjust for the travel, accommodation and subsistence of Council upwards by R250 000
- Adjust the Training for the MM office downward by R50 000
- Adjust the travel, accommodation and subsistence for the MM office upward by R100 000
- Adjust the telephone expenses for the BTO office downward by R50 000

The net adjustment for expenditure per type will have nil effect, movements within expenditure type

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.

INVESTMENTS & LOANS

The following table includes the detailed investments and current accounts as on 31 December 2022.

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.

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The closing balance of all investment accounts as on 31 December 2022 is R 16.4 Mil and also consists of conditional grants and cannot be spent on any other expenditure than the purpose of the grants.

Investment Register as at 31 December 2022			
Name of Institution	Account Number	Type of Instrument or Investment	Balance as at 31 December 2022
Standard Bank	288641922002	Wholesale Call deposit	9,164,068.85
ABSA Bank	92-9194-4935	Call Account - Eskom	18,050.45
Standard Bank	288641922005	Fixed deposit Eskom	34,750.00
ABSA Bank	40-5435-2064	32 day notice account	510,625.62
Standard Bank	288644204001	MoneyMarket FMG	6,769,007.57
Standard Bank	288641922008	Fixed deposit	-
Standard Bank	288641922009	Fixed deposit	-
Total			16,496,502.49

The following table consists of all loans as on 31 December 2022 and it excludes the finance leases of the municipality.

Outstanding Loans				
Institution	Account Number	Type	Account Use	Amount
DBSA	102367/1	Long Term Loans	Fraseburg Electricity Network	1,112,546.33

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 4 years. 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.

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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 SUBSIDY		
Institution	Budget	ADJ Budget
Equitable Shares	30,429	30,429
FMG	2,650	2,650
EPWP	1,073	1,073
WSIG	13,000	13,000
MIG	17,562	17,562
TOTAL	64,714	64,714

Equitable Shares

Thus far we have received 2 transfers amounting to R21 908 000, the third and last payment is expected in March 2023.

FMG

A total R 2 650 000 has been received and R1 957 979 spend thus far, the majority of the unspent portion relates to appointment of interns and the allocation for supporting council committee in reducing UIFW.

EPWP

First tranche amounting to R269 000 has been received and fully spent, currently in talks with the department to release the reminder of the grant.

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

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PERSONNEL EXPENDITURE

At 31 December 2022, the personnel expenditure to date amounted to R 9.86 Mil against the budgeted R 28.03 Mil.

As the salary bill thus far is within the original salary budget it will be recommended that vacancies be filled; more so the director's post and the internal audit, this to ensure the municipality is run optimally and stays within its original personnel expenditure budget.

Salaries in relation to total operating expenditure is currently at 34.3 % which is below the proposed 36% norm as per the ratio guidance from National Treasury.

Council remuneration is well within the budget.

OUTSTANDING DEBTORS - AGE ANALYSIS

The table indicates that on the 31 December 2022 a total of R 65.2 Mil was outstanding for debtors. This will result in cash flow constrains 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.

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Totals per Property Use	Total Balance	Current Amount	30 Days Amount	60 Days Amount	90 Days Amount	120 Days Amount
Business	3,866,653	362,720	169,994	69,107	61,020	56,044
Church	213,201	15,260	6,139	3,737	3,344	2,952
Farm	5,513,280	(11,042)	207,272	199,646	197,586	95,031
Flat	(5)	(5)	-	-	-	-
Government	1,991,870	53,157	43,726	42,886	41,729	34,374
Hospital	52,342	13,278	12,231	17,776	-	-
Municipal	1,504,921	47,974	30,600	27,298	27,077	32,209
None	23,562	(5,555)	-	-	-	-
Public Service Purpose	1,989	1,005	717	-	-	-
Residential	51,717,078	726,117	590,423	560,085	527,899	648,040
School	307,675	33,249	13,200	14,124	10,717	14,600
Small Business	(71)	(71)	-	-	-	-
Sundry Debtor	76,804	2,289	2,306	2,266	1,526	1,526
Vacant	323	285	-	-	-	-
Total	R65 269 622.41	R1 238 663.07	R1 076 609.75	R 936 924.95	R 870 898.90	R 884 776.09

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 help to improve the financial position of the municipality.

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OUTSTANDING CREDITORS

The total outstanding creditors as on 31 December 2022 amount to R 5.8 Mil.

The main creditor is the Office of the Auditor- General to the value of R 3.6 Mil.

The amounts of TG Electrics and JVZ construction with a total of R825 000 relates to retention on capital projects

The amounts reflected as retention monies due on capital projects and is payable on different times during the 2022/2023 and 2023/2024 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.

Supplier Code	Supplier Name	Balance per EMS	Supplier Statement	Difference
SCM/207	TG Electrics	11,586.25	11,586.25	-
SCM/252	Auditor General	3,601,755.33	3,601,755.33	-
SCM/256	SALGA	1,317,767.48	1,317,767.48	-
SCM/379	Jan Vlok	6,869.97	6,869.97	-
SCM/383	Vodacom	90,691.19	90,691.19	-
SCM/502	JVZ Construction	814,529.69	814,529.69	-
SCM/608	Tylors Electrical	20,760.00	20,760.00	-
Total		5,863,959.91	5,863,959.91	-

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.

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The amount of the deviations in terms of the SCM regulations amounts to R 1 797 172 from 1 July 2022 till 31 December 2022.

INTERNAL AUDIT AND AUDIT COMMITTEE

Section 165(1) of the Municipal Finance Management Act of 2003 requires municipalities to have an internal audit unit. Currently municipality does not have a functional internal audit due to the recent resignation by the internal auditor in December 2022.

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. The latest sitting has taken place on 03 November 2022 where various internal audit reports were submitted.

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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 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: JJ Van Der Colff

Date: 25 January 2022