KAROO HOOGLAND LOCAL MUNICIPALITY

SECTION 72

MID -YEAR ASSESSMENT

AND

PERFORMANCE REPORT

2017/2018

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.

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 are 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 the absence of a performance management system certain information on the SDBIP can be inaccurate.

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Mr. S Myburgh

Acting Municipal Manager

KAROO HOOGLAND LOCAL MUNICIPALITY

CAPITAL EXPENDITURE

CAPITAL PERFORMANCE 2017/2018									
000									
	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Total	Budget	YTD Budget
MIG	-	1 884	2 592	54	-	1 427	5 957	8 145	4 073
TOTAL	**-**	**1 884**	**2 592**	**54**	**-**	**1 427**	**5 957**	**8 145**	**4 073**

CAPITAL SOURCE OF FUNDING						
000						
	Budget	YTD Actual	Balance	% Spent	Funding Received	Type of funding
MIG	8 145 000	5 957 000	2 188 000	73%	6 675 000	National Grant
TOTAL	**8 145 000**	**5 957 000**	**2 188 000**		**6 675 000**	

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

The table reflects that there is currently 73% of the total allocation spent from MIG funding. The Municipal Manager and Director Technical Services in conjunction with the Contractors are continuously monitoring the expenses to ensure that the total allocation of MIG funds to be spent at year-end.

OPERATING INCOME

The following table shows the actual operating income per source against the planned budget as at 31 December 2017. It should be noted that the figures relate to billed income and not cash collected.

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

KAROO HOOGLAND LOCAL MUNICIPALITY

Operating Income - Performance				
Revenue by source	**Original Budget**	**YTD Budget**	**Actual to date**	**% Received**
Property Rates	6 238 000	3 119 000	5 418 862	87%
Property Rates Penalties	-	-	-	
Service Charges - Electricity	10 109 000	5 054 500	4 923 577	49%
Service Charges - Sanitation	3 070 000	1 535 000	1 848 179	60%
Service Charges - Water	3 055 000	1 527 500	1 884 777	62%
Service Charges - Refuse	2 313 000	1 156 500	1 515 193	66%
Service Charges - Other	9 000	4 500	-	0%
Rental of Facilities and Equipment	724 700	362 350	362 736	50%
Interest earned External Investments	300 000	150 000	130 479	43%
Interest earned Outstanding Debtors	1 544 700	772 350	798 723	52%
Fines	5 100	2 550	2 193	43%
Licences and Permits	-	-	6 438	
Agency services	-	-	122 808	
Transfers Operational	29 765 000	14 882 500	9 664 580	32%
Other revenue	2 052 300	1 026 150	1 041 260	51%
Totals	**59 185 800**	**29 592 900**	**27 719 805**	**47%**

The following are highlighted from the schedule above:

- The reason for the billed % of property rates to already be at 87 % is that most of the property rates are levied in July of each financial year.
- Service Charges Sanitation and refuse not to be adjusted due to indigent subsidies that was deducted from income when budgeted and per the section 71 it is included as expenditure
- Mainly all other revenue is above 50 % and that relates to an increase in levied income for the Municipality.
- Water Services charges not to be adjusted due to drought and usage can decrease in the latter part of the financial year. Water restrictions will also influence the usage negatively. The same is applicable to the indigent subsidies as with sanitation and refuse

- Licenses and Permits to the value of R 15 000.00 to be included in adjustment budget as this function is still executed by the Municipality
- Agency services to the value of R 245 000.00 to be included in the adjustment budget as this function is still executed by the Municipality.

OPERATING EXPENDITURE

The following table depicts the actual operating expenditure for each ***directorate*** against planned budget at 31 December 2017.

Operating Expenditure by vote				
Directorate	**Budget**	**YTD Actual**	**Projected**	**% Spent**
Mayor and Council	12 150 400	6 241 898	12 483 796	51%
Budget and treasury office	14 790 400	5 958 867	11 917 734	40%
Community halls and Facilities	1 821 400	918 744	1 837 488	50%
Sport and recreation	1 057 300	401 136	802 272	38%
Roads and Transport	2 549 200	1 306 954	2 613 908	51%
Electricity Distribution	14 596 000	6 563 964	13 127 928	45%
Water Distribution	5 766 220	3 528 403	7 056 806	61%
Sewerage	4 023 240	2 016 077	4 032 154	50%
Refuse	2 336 740	1 312 887	2 625 774	56%
Total	**59 090 900**	**28 248 930**	**56 497 860**	**48%**

The Municipality is still facing challenges to ensure that expenditure is correctly accounted for between the different departments. This matter is addressed with the implementation of mSCOA and reclassification between the different departments will be effected.

The total expenditure trend to date is at 48% which is in line with the original budget.

An amount of R 2.0 Mil will be added to the Adjustment Budget as surplus income from previous years for the acquisition of vehicles and the additional expenses for the implementation of mSCOA. This will be effected in the refuse and finance department respectively (Refuse R 1.3 Mil and Finance R 0.7 Mil)

The following table reflects the actual operating expenditure as per the ***type*** of expenditure against the planned budget as on 31 December 2017.

Operating Expenditure by type				
Expenditure by type	**Budget**	**YTD Actual**	**Projected**	**% Spent**
Employee related costs	22 225 200	10 421 444	20 842 888	47%
Remuneration of Councillors	2 613 000	1 072 634	2 145 268	41%
Debt impairment	2 438 400	-	-	0%
Depreciation	400 000	-	-	0%
Finance Charges	513 800	126 971	253 942	25%
Bulk purchases	7 990 200	3 687 022	7 374 044	46%
Other Materials	8 978 500	6 155 162	12 310 324	69%
Contracted services	1 046 000	1 930 390	3 860 780	185%
Transfers and grants		1 787 942	3 575 884	
Other expenditure	12 885 800	3 067 365	6 134 730	24%
Total	**59 090 900**	**28 248 930**	**56 497 860**	**48%**

Employee related costs is currently at 47 % of the total budget and is in line with the original budget.

The remuneration of councilor’s expense percentage will increase as the upper limits with back pay are due for payment.

Debt impairment and depreciation is book entries and will be journalized at year-end therefore the 0% spent.

Bulk Purchases which relates to the purchasing of electricity from Eskom is in line with the original budget.

Due to allocation challenges with the implementation of mSCOA, contracted services, transfers and grants and other expenditure should be add together and compared with the total budget of these types of expenditure. When added it is in line with the original budget.

Although only 25% of finance charges has been recorded it cannot be adjusted as the budgeted amount is compiled from the different amortization schedules for assets under lease. Incorrect allocation should be corrected.

Cost cutting measures to be implemented to curb expenses on other materials to ensure that the expend amount will be within the original budget allocated.

Travel, accommodation and subsistence expenses to be adjusted upwards with R 400 000.00 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. If the additional budget is exhausted you will have to finance these expenses from your own pockets. A recommendation in this regard can for example be that only half the amount of claims be paid from 1 March 2018.

Other expenditure to be adjusted upwards with R 700 000.00 to accommodate the additional expenses on mSCOA implementation. This is financed from the surplus funds.

Capital expenditure to be adjusted upwards with R 1.3 Mil to cater for the acquisition of the vehicles. This is financed from the surplus funds.

INVESTMENTS & LOANS

The following table includes the detailed investments as on 31 December 2017.

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 2017 is R 9.6 Mil and consists mostly of conditional grants and cannot be spent on any other expenditure than the purpose of the grants.

Investments			
Institution	**Type**	**Account Use**	**Amount**
Standard Bank	Current	Main account	5 462 197.23
Standard Bank	Current	Enatis	222 794.05
ABSA Bank	Current	Deposit	997 122.74
Standard Bank	Investment	FMG	213 957.05
Standard Bank	Investment	MIG	669 078.40
Standard Bank	Investment	EPWP	345 843.46
Standard Bank	Investment	Library	195 338.16
Standard Bank	Investment	INEP, WSIG, EEDSM	1 560 480.82
Total			**9 666 811.91**

The following table consists of all loans as on 31 December 2017 and it excludes the finance leases of the municipality.

Loans Outstanding			
Institution	**Type**	**Account Use**	**Amount**
DBSA	Long Term Loans	Williston Electricity Network	2 177 207.60
Total			**2 177 207.60**

The loan is payable on a monthly basis with an annual interest rate of 5 %. The total monthly repayment is R 25,075 and the end date is December 2026. Therefore the period remaining is 9 years. The amount of interest for the remaining period is R 767,969. 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.

Grants and Subsidies received								
Grants	Budget	Adjustment Budget	Total	Type	Roll Over	Received to date	Expend to date	Balance
Equitable Share	18 198 000	-	18 198 000	Operational	N/A	13 649 000		18 198 000
FMG	1 900 000	-	1 900 000	Operational	N/A	1 900 000	1 758 130	141 870
Library	1 667 000	-	1 667 000	Operational	N/A	833 500	712 663	954 337
MIG	8 145 000	-	8 145 000	Capital	None	6 675 000	5 957 128	2 187 872
EPWP	1 000 000	-	1 000 000	Operational	N/A	700 000	365 116	634 884
INEG	1 000 000	-	1 000 000	Capital	N/A	1 000 000	38 032	961 968
WSIG	4 000 000	-	4 000 000	Capital	N/A	2 000 000	3 364 376	635 624
EEDSM	2 000 000	-	2 000 000	Capital	N/A	2 000 000	143 782	1 856 218
TOTAL	**37 910 000**	**-**	**37 910 000**			**28 757 500**	**12 339 227**	**25 570 773**

The Municipality did receive the full complement of the FMG and INEG and EEDSM.

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 2017.

Management needs to ensure prompt expenditure on the MIG, INEG, WSIG and EEDSM to eliminate the forfeiting of the MIG funds.

No adjustment on Grants needs to be done as no funds will be withheld

There is a possibility that additional MIG funding will be allocated to the municipality and the CFO and Director Technical are visiting the MIG offices on Wednesday 7 February 2018 for discussions on this matter. If additional funding is received it will be incorporated in the adjustment budget.

PERSONNEL EXPENDITURE

At 31 December 2017, the personnel expenditure to date amounted to R 10.4 Mil against the budgeted R 22.2 Mil. Thus 47% 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.

The following table reflects the salary expenditure of employees and councilors:

PERSONNEL EXPENDITURE '000										
	Jul	Aug	Sep	Oct	Nov	Dec	YTD Actuals	Year Budget	YTD Budget	% Spend
Remuneration of Councillors	184	174	173	175	183	184	1 073	2 613	1 307	**41%**
Employee related cost	1 539	1 692	1 582	1 672	1 541	2 395	10 421	22 225	11 113	**47%**
TOTAL	**1 723**	**1 866**	**1 755**	**1 847**	**1 724**	**2 579**	**11 494**	**24 838**	**12 419**	46%

OUTSTANDING DEBTORS - AGE ANALYSIS

The table indicates that on the 31 December 2017 a total of R 25.8 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.

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Debtors Age Analysis									
Detail	0 - 30 Days	31 - 60 Days	61 - 90 Days	91 - 120 Days	121 - 150 Days	151 - 180 Days	181 Days - 1 Year	Over 1 Year	Total -
Water	203 517	92 984	30 372	72 891	87 838	151 215	459 282	3 566 089	4 664 188
Electricity	855 488	33 621	-44 058	-194 126	91 161	-86 846	444 499	256 429	1 356 168
Rates	410 935	143 511	362 394	-122 644	49 181	250 587	-110 235	3 698 015	4 681 744
Sanitation	204 678	109 075	38 649	89 192	115 156	101 421	538 395	3 215 819	4 412 385
Refuse	128 561	88 048	28 776	103 316	103 493	92 933	417 634	3 395 072	4 357 833
Rental	58 128	9 201	5 511	15 596	11 071	20 239	23 541	197 585	340 872
Interest	366 493	88 738	85 506	-11 033	92 162	79 232	339 090	3 007 124	4 047 312
Other	30 441	5 793	18 529	-11 969	40 212	-48 204	26 568	1 943 801	2 005 171
Total	2 258 241	570 971	525 679	-58 777	590 274	560 577	2 138 774	19 279 934	25 865 673
State	137 033	52 891	-74 726	-485 683	52 152	294 699	84 220	962 963	1 023 549
Commercial	475 683	-59 046	70 690	107	51 995	34 831	-44 341	876 954	1 406 873
Households	1 498 430	514 129	471 833	377 089	437 561	216 436	2 055 199	17 392 159	22 962 836
Other	147 095	62 997	57 882	49 710	48 566	14 611	43 696	47 858	472 415
Total	2 258 241	570 971	525 679	-58 777	590 274	560 577	2 138 774	19 279 934	25 865 673

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. Monthly credit control meetings are held and where all relevant officials is 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 2017 amount to R 2.8 Mil.

The main creditor is the Office of the Auditor- General to the value of R 1.9 Mil.

These expenses incurred when 3 years audit was conducted in one financial year

Unfortunately there was no provision made in the previous financial years for audit fees that did not realize in that financial year and resulted in the huge amount that is payable to the office of the Auditor General. Currently the municipality did arrange a down payment of R 180 000 per month and the arrears will therefore only be settled in full, in 1 years' time. Management reviewed this arrangement and negotiate the write-off of all interested charged if the arrangement is honored. The interest charged will also be classified as fruitless and waste-full expenditure and will be included in the 2017/2018 audit report.

Creditors Age Analysis									
Detail	0 - 30 Days	31 - 60 Days	61 - 90 Days	91 - 120 Days	121 - 150 Days	151 - 180 Days	181 Days - 1 Year	Over 1 Year	Total -
Trade Creditors	15 891	0	714 977	0	0	0	46 075	106 870	883 813
Auditor General	0	944 955	947 362	40 351	0	0	0	0	1 932 668
Other	0	0	0	0	0	0	0	0	0
Total	15 891	944 955	1 662 339	40 351	0	0	46 075	106 870	2 816 481

SUPPLY CHAIN MANAGEMENT REPORT

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

The Policy was aligned to the regulation 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 1 438 207.26.

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 is currently making use of a shared service with Namakwa District Municipality. However management observed that the unit is basically dysfunctional for the 2017/2018 financial year and are in the process of including such a position on the organogram and appoint a permanent official.

Section 166(1) of the Municipal Finance Management Act of 2003 requires municipalities to have an audit committee. The Municipality is currently using the audit committee of Hantam Local Municipality. The latest sitting has taken place on 29 August 2017 where the AFS 2016/2017 was presented. The Municipality had advertise for members of the audit committee and is in the process of appointing members

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 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.

(a) Licenses and Permits to the value of R 15 000.00 to be included in adjustment budget as this function is still executed by the Municipality

(b) Agency services to the value of R 245 000.00 to be included in the adjustment budget as this function is still executed by the Municipality.

(c) An amount of R 2.0 Mil will be added to the Adjustment Budget as surplus income from previous years for the acquisition of vehicles and the additional expenses for the implementation of mSCOA. This will be effected in the refuse and finance department respectively (Refuse R 1.3 Mil and Finance R 0.7 Mil)

(d) Other expenditure to be adjusted upwards with R 700 000.00 to accommodate the additional expenses on mSCOA implementation. This is financed from the surplus funds.

(e) Capital expenditure to be adjusted upwards with R 1.3 Mil to cater for the acquisition of the vehicles. This is financed from the surplus funds.

(f) If additional funding is received from MIG it will be included in Adjustment Budget

(g) mSCOA classification difference with original budget classifications needs to be included in adjustment budget.

(h) Capital and operational classification of grants to be adjusted where applicable

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Honourable Mayor: Me V Wentzel **Date:**