



SECTION 72

MID -YEAR ASSESSMENT

2023/2024

KAROO HOOGLAND LOCAL MUNICIPALITY

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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 after effect of the Covid-19 pandemic still have an adverse effect on revenue collection.
- The overall operating expenditure for the past six months is in line with the annual approved 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.
- As the salary bill is already 41.6 % of total operating expenditure which is 5.6 % higher than the norm, management should ensure that the salary bill in future do not exceed 36% of total operating expenditure.

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Mr. J Jonkers

Municipal Manager

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CAPITAL EXPENDITURE

Karoo Hoogland C4 Monthly Budget Statement Capital							
Description	Budget Year 2023 2024						
	Original Budget	YTD Actual	YTD Budget	Variance	Adjusted amount	Adjusted Budget	Comments
R thousands							
Expenditure By Function:							
Governance and administration	–	85	–	85	650	650	
Finance and administration	–	85	–	85	650	650	PMS
Community and public safety	600	2,705	300	2,405	6,205	6,805	
Community and social services	600		300	(300)	–	600	
Sport and recreation	–	2,705	–	2,705	6,205	6,205	Roll Over MIG
Economic and environmental services	1,963	–	982	(982)	–	1,963	
Road transport	1,963	–	982	(982)	–	1,963	
Trading services	19,770	6,281	9,885	(3,604)	1,400	21,170	
Water management	19,770	6,168	9,885	(3,717)	–	19,770	
Waste management	–	112	–	112	1,400	1,400	Landfill and Truck
Total Capital Expenditure	22,333	9,071	11,167	(4,801)	8,255	30,588	
National	21,733	8,873	10,867	(4,698)	6,205	27,938	
Own Funding	600	197	300	(103)	2,050	2,650	
Total Capital Expenditure	22,333	9,071	11,167	(4,801)	8,255	30,588	

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

An approved roll-over amount of R 6 205 254.00 is included in adjustment budget for sport facility in Williston.

MIG funds are used for the Waste Water in Williston to the amount of R 8 733 000.00

WSIG funds to the value of R 13 Mil are used for the Fraserburg Sewerage reticulation network.

Spending is 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 2023. It should be noted that the figures relate to billed income and not cash collected.

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Description	Budget Year 2023 2024						Comments
	Original Budget	YearTD actual	YearTD budget	YTD variance	Adjusted amount	Adjusted Budget	
R thousands							
Revenue							
Exchange Revenue							
Service charges - Electricity	14,468	6,335	7,234	(899)	(1,468)	13,000	Loadshedding
Service charges - Water	4,606	2,191	2,303	(112)	(206)	4,400	Faulty Meters
Service charges - Waste Water Management	3,943	1,701	1,971	(271)	(343)	3,600	Sharp increase in indigents
Service charges - Waste management	3,035	1,297	1,518	(221)	(235)	2,800	Sharp increase in indigents
Sale of Goods and Rendering of Services	118	62	59	3	7	125	Not Material
Agency services	63		32	(32)	2	65	Not Material
Interest earned from Receivables	3,780	1,623	1,890	(267)	(590)	3,190	Decrease in Debtors
Interest from Current and Non Current Assets	685	855	343	513	618	1,303	Invest Grants
Rental from Fixed Assets	654	253	327	(74)	(149)	505	Contracts not signed
Operational Revenue	543	360	272	88	177	720	Insurance Claim
Non-Exchange Revenue							
Property rates	7,432	3,947	3,716	231	268	7,700	Not Material
Surcharges and Taxes	1,485	–	743	(743)	715	2,200	Vat Reciev able
Fines, penalties and forfeits	12	0	6	(6)	(2)	10	Not Material
Transfers and subsidies - Operational	37,768	27,579	18,884	8,695	–	37,768	No Adjustment
Interest	971	371	486	(115)	(221)	750	Decrease in Debtors
Total Revenue (excluding capital transfers and contributions)	79,565	46,574	39,783	6,791	(1,427)	78,138	

The following are highlighted from the schedule above:

- Adjust the electricity service charges revenue downwards with R 1 468 000.00
- Adjust water revenue downwards with R 206 000.00
- Adjust sanitation revenue downwards with R 343 000.00
- Adjust refuse revenue downwards with R 235 000.00
- Adjust sales of goods upwards with R 7 000.00
- Adjust interest on external investments upwards with R 618 000.00
- Adjust interest on outstanding debtors downwards with R 590 000.00 distributed over all services.
- Adjust operational revenue upwards with R 177 000.00
- Adjust agency services upwards with R 2 000.00
- Adjust rental from fixed assets downwards with R 149 000.00
- Adjust property rates upwards with R 268 000.00
- Adjust surcharges and taxes upwards with R 715 000.00
- Adjust fines and penalties downwards with R 2 000.00

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- Adjust interest downwards with R 221 000.00

The net adjustment for revenue by source is **R 1 427 000 downwards**.

OPERATING EXPENDITURE

The following table represent the actual operating expenditure per type of expenditure against planned budget at 31 December 2023.

Karoo Hoogland C4 Monthly Budget Statement Operational							
Description	Budget Year 2023 2024						
	Original Budget	YearTD actual	YearTD budget	YTD variance	Adjusted amount	Adjusted Budget	Comments
R thousands							
Expenditure By Type							
Employee related costs	29,574	14,112	14,787	(675)	700	30,274	Additional Appointments
Remuneration of councillors	4,781	2,654	2,390	264	319	5,100	Upper limits backpay
Bulk purchases - electricity	13,600	5,626	6,800	(1,174)	(1,400)	12,200	Loadshedding
Inventory consumed	1,666	833	833	(0)	1,112	2,778	Water Meter Purchase
Depreciation and amortisation	10,400	5,200	5,200	0	–	10,400	No Adjustment
Interest	130	139	65	74	(35)	95	Not Material
Contracted services	9,124	3,796	4,592	(796)	(992)	8,132	Savings on legal and consulting fees
Transfers and subsidies	86	–	43	(43)		86	No Adjustment
Irrecoverable debts written off	5,400	2,700	2,700	0	–	5,400	No Adjustment
Operational costs	11,743	5,968	6,014	(46)	(1,236)	10,507	AG fees savings
Leases	286	–	0	(0)	(134)	152	Adjustment leases
Total Expenditure	86,789	41,028	43,425	(2,396)	(1,666)	85,123	
Surplus/(Deficit)	(7,224)	5,546	(3,642)	9,188	239	(6,985)	

The following adjustments to be made on operating expenses:

- Employee related cost upwards with R 700 000.00
- Remuneration of councilors to be adjusted upwards with R 319 000.00
- Bulk purchases adjusted downwards with R 1 400 000.00
- Inventory consumed upwards with R 1 112 000.00
- Interest paid to be adjusted downwards with R 35 000.00
- Contracted services to be adjusted downwards with R 992 000.00
- Operational cost adjusted downwards with R 1 236 000.00
- Leases adjusted downwards with R 134 000.00

The net adjustment for expenditure per type is **R 1 666 000 downwards**

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Summary original operational budget (cash)

Revenue: R 79 565 000

Expenditure: R 86 789 000

Minus: Depreciation R 10 400 000

Net Expenditure: R 76 389 000

Surplus: R 3 176 000

Summary adjusted operational budget (cash)

Revenue: R 78 138 000

Expenditure: R 85 123 000

Minus: Depreciation R 10 400 000

Net Expenditure: R 74 723 000

Surplus: R 3 415 000

Assets to be purchased from Surplus:

Refuse Truck R 700 000.00

PMS R 650 000.00

Landfill site Fencing R 700 000.00

Total to be included in capital budget **R 2 050 000.00**

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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. 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 2023.

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 2023 is R 34.1 Mil and also consists of conditional grants and cannot be spent on any other expenditure than the purpose of the grants.

Bank information				
Name of Institution	Account Number	Type of Instrument or Investment	Balance as at 31 Desember 2023	Funds
Standard Bank	288641922002	Wholesale Call deposit	7,010,205.71	Equitable share
ABSA Bank	92-9194-4935	Call Account - Eskom	18,050.45	Eskom Guarantee
Standard Bank	288641922005	Fixed deposit Eskom	34,750.00	Eskom Guarantee
ABSA Bank	40-5435-2064	32 day notice account	537,397.29	Leave Fund
Standard Bank	288644204001	MoneyMarket FMG	3,102,369.58	FMG,MIG,EPWP
Standard Bank	288641922013	Fixed deposit	3,900,000.00	WSIG
Standard Bank	288641922014	Fixed deposit	14,000,000.00	WSIG, MIG
Standard Bank	83212442	Current	3,154,565.65	Current
ABSA Bank	2490000065	Current	2,371,718.27	Current
		Total	34,129,056.95	

The following table consists of all loans as on 31 December 2023 and it excludes the finance leases of the municipality.

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Loans Outstanding				
Institution	Account Number	Type	Account Use	Amount
DBSA	102367/1	Long-Term Loans	Fraserburg Electricity Network	835,593.91
The total monthly repayment is R25 046.01				
The amount of interest for the remaining period is R65 971.01				

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 2 years. The amount of interest for the remaining period is R 65 971. The outstanding capital amount is as reflected in the table above.

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 and provincial allocations.

GRANTS AND SUBSIDIES		
Grants and subsidies		
Institution	Budget	ADJ Budget
Equitable Share	32,820	32,820
FMG	2,650	2,650
EPWP	950	950
WSIG	13,000	13,000
MIG	8,733	8,733
LIBRARY	1,252	1,252
TOTAL	59,405	59,405

The Municipality did receive the full complement of the FMG in the first quarter.

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 626 000.00 is

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due in February 2024. The first tranche to the value of R 626 000.00 of the library funds was received in the first quarter.

Management needs to ensure prompt expenditure on the WSIG and MIG to mitigate the forfeiting of these funds.

PERSONNEL EXPENDITURE

At 31 December 2023, the personnel expenditure to date amounted to R 14.1 Mil against the budgeted R 30.3 Mil.

Employee related cost is increased with R 700 000.00 for additional posts as per the approved organogram

Council Remuneration to be increased with R 319 000.00 to finance the backpay with the implementation of the upper limits for Councilors.

Salaries in relation to total operating expenditure is currently at 41.6 % which is 5.6 % higher than the norm as per the ratio guidance from National Treasury.

OUTSTANDING DEBTORS - AGE ANALYSIS

The table indicates that on the 31 December 2023 a total of R 49.3 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.

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Totals per Property Use	Total Balance	Current Amount	Current VAT	Current Interest	30 Days Amount	30 Days VAT	30 Days Interest	>60 Days Amount
Business	R 440 356.71	R 742 063.96	R 85 554.40	R 55 355.23	R 129 242.69	R 7 165.47	R 25 797.03	R 3 395 177.93
Church	R 645 129.41	R 23 728.61	R 3 765.75	R 8 703.33	R 5 760.70	R 864.06	R 4 235.63	R 598 071.33
Farm	R 1 012 409.71	(R 118 893.28)	R 975.98	R 20 285.96	R 75 576.54	R 177.18	R 8 951.44	R 1 025 335.89
Flat	(R 5.00)	(R 5.00)	R 0.00	R 0.00	R 0.00	R 0.00	R 0.00	R 0.00
Government	R 125 625.31	R 761.13	R 662.90	R 1 983.34	R 1 781.56	R 267.22	R 980.46	R 119 188.70
Hospital	R 47 836.19	R 27 235.99	R 4 085.38	R 1 033.44	R 13 462.07	R 2 019.31	R 0.00	R 0.00
Municipal	R 314 897.76	R 2 842.12	R 111.30	R 5 100.83	R 55.36	R 0.00	R 2 542.48	R 304 245.67
None	(R 15 699.47)	(R 15 964.25)	R 63.09	R 2.78	R 0.00	R 0.00	R 1.39	R 197.52
Protected Areas	R 23 733.30	(R 165.30)	R 0.00	R 276.64	R 0.00	R 0.00	R 138.32	R 23 483.64
Public Benefit organization	R 177 152.63	R 2 857.95	R 824.06	R 2 059.27	R 1 495.24	R 130.52	R 1 003.97	R 168 781.62
Public Service Infrastructure	R 131 423.07	R 3 368.63	R 388.78	R 2 020.08	R 1 642.74	R 152.00	R 979.57	R 122 871.27
Public Service Purpose	R 2 506 977.99	R 124 770.67	R 16 791.46	R 42 068.10	R 48 662.59	R 6 525.46	R 20 758.29	R 2 247 401.42
Residential	R 32 239 999.30	R 1 265 709.95	R 152 480.32	R 456 121.80	R 511 630.61	R 58 553.00	R 224 062.21	R 29 571 441.41
School	R 343 156.65	R 24 999.10	R 3 749.78	R 5 282.33	R 3 849.84	R 577.46	R 2 573.93	R 302 124.21
Small Business	(R 70.55)	(R 70.55)	R 0.00	R 0.00	R 0.00	R 0.00	R 0.00	R 0.00
Sundry Debtor	R 2 732 864.18	R 757.09	R 0.00	R 1 888.83	R 3 025.00	R 0.00	R 925.70	R 2 726 267.56
Vacant	R 4 609 841.28	R 122 748.69	R 19 303.33	R 70 131.19	R 66 055.28	R 8 195.10	R 34 126.90	R 4 289 280.79
Total	R 49 335 628.47	R 2 206 745.51	R 288 756.53	R 672 313.15	R 862 240.22	R 84 626.78	R 327 077.32	R 44 893 868.96

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 2023 amount to R 3.4 Mil.

The main creditors are the Office of the Auditor- General to the value of R 1 Mil and SALGA to the value of R 1.2 Mil. The Municipality is paying an amount of R 18 000.00 per month on the SALGA arrears. The AG amount is current and there are no arrears.

The amounts for JVZ and Geezfix is current amounts and it relates to infrastructure projects which is financed by WSIG and MIG respectively.

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

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Outstanding Creditors			
Supplier Code	Supplier name	Balance per EMS	Supplier Statement
SCM/252	ODITEURE GENERAAL	1,052,766.17	1,052,766.17
SCM/256	SALGA	1,209,767.48	1,209,767.48
SCM/379	JAN VLOK	6,869.97	6,869.97
SCM/502	JVZ CONSTRUCTION	891,393.96	891,393.96
SCM/882	GEEZFIX (PTY) LTD	260,595.32	260,595.32
	Total	3,421,392.90	3,421,392.90

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, regulation 36 amounts to R 1 629 092.91 from 1 July 2023 till 31 December 2023.

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.

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 and position (opex and capex revenue and expenses) it was found that adjustments to the current

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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 2024