



**Prince Albert Municipality  
Mid-Year Section 72 Report  
2017/18**

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## 1. INTRODUCTION

### 1.1 PURPOSE OF REPORT

- To submit to the Executive Mayor an assessment report on the Municipality's Performance covering the period 1 July 2017 to 31 December 2017.

Section 72(1) (a) of the MFMA prescribes that the accounting officer of a municipality must by 25 January each year assess the performance of the municipality during the first half of the financial year taking into account:

- (a) The monthly statements referred to in section 71 of the MFMA for the first half of the financial year;
- (b) The municipality's service delivery performance during the first half of the financial year, and the service delivery targets and performance indicators set in the service delivery and budget implementation plan;
- (c) The past year's annual report and progress on resolving problems identified in the annual report; and
- (d) The performance of every municipal entity under the sole or shared control of the municipality, taking into account reports in terms of section 88 of the MFMA from any such entities.

In terms of section 72(1)(b) of the MFMA, the Accounting Officer must also by 25th January of each year submit a report on such assessment to the mayor of the municipality, National Treasury and Provincial Treasury. Once the Mayor has considered the report, it must be submitted to Council by 31 January in terms of Section 54 of the MFMA.

Section 72(3) of the MFMA further states accounting officer must, as part of the review:

- (a) Make recommendations as to whether an adjustment budget is necessary; and
- (b) Recommend revised projections for revenue and expenditure to the extent that this may be necessary.

The mid-year performance reports and supporting tables of Prince Albert Municipality is prepared in accordance with MFMA Circular 13 and the Municipal Budget and Reporting Regulations, to illustrate the performance in graphical and tabular format as per Annexures E to G.

### 1.2 ORGANISATIONAL PERFORMANCE OVERVIEW

The staff establishment for the first 6 months was 97 posts after the amendment of the organogram. The newly approved organogram is aligned to address service delivery blockages. Prince Albert has a very flat organizational structure due to financial constraints and the Municipality is largely dependent on the Expanded Public Works Programme and Community Works Programme participants to assist with labor intensive aspects of service delivery. Of the positions on the organogram, 78 positions were filled as on 31 December 2017, with 19 vacant, representing a 19.58% vacancy rate during the year under review.

The contracts for Operational Manager: Corporate and Community Services and Chief Financial Officer was renewed for a further five years. The Municipal Manager's contract was renewed for a further five years in 2016.

The position of Manager: Technical Manager was advertised for a third time as no suitable candidates were found during the first two application rounds. This position was made permanent and an appointment was made in December with first day of employment on 2 January 2018.

The IDP coordinator was send for Performance Management training in November 2017 to ensure that the performance management capacity be improved. A second official was seconded to this division to assist with the administration.

The continued suspension of one of the Municipality's two traffic officers due to a Hawks investigation places an immense burden on traffic law enforcement. After more than a year, the investigation and subsequent disciplinary hearing are still ongoing. The traffic income is thus only a third of the budgeted amount. Interventions for collection will include the serving of summonses and road blocks. The Municipality also applied for permission to undertake law enforcement in the road works area on the N1, within their municipal jurisdiction as the area surrounding Prince Albert Road and Leeu Gamka have a high fatality percentage as once again illustrated during December 2017.

Prince Albert Municipality drafted their financial statements for the 2016/17 financial year in-house in collaboration with external consultants and obtained a clean audit report.

Council will continuously strive to fill the critical positions identified on the organogram to ensure continuous, equitable and sustainable service delivery.

### 1.3 HIGHLIGHTS AND CHALLENGES

The municipality reached the prescribed milestones in respect of the preparation of MSCOA on 1 July 2017. The Municipality decided to use the VISTA financial accounting system. Challenges to achieve the milestones to ensure that the financial system are fully compliant are still experienced and has been communicated to both Provincial and National Treasury, as well as the Department of Local Government. An intervention plan has been agreed upon and are monitored.

Financial and human resource capacity remains one of the biggest challenges in this aspect.

The Municipality is on schedule with the compilation of the first-year review of the fourth generation Integrated Development Plan, the drafting of the budget and the review of the Spatial Development Framework.

The Municipality has four wards with functional and trained ward committees. The ward committees play an integral role in mobilizing the community around the drought management strategy of the Municipality. The ward committees will also be undergoing Parliamentary training on 17 February 2018 as part of the Municipality's capacity training sessions.

The Municipality has a well-functioning public participation strategy to inform and mobilize the community around key service delivery and planning matters. This includes an hourly radio slot four times every week on Radio Gamakaland, which is especially effective in areas such as Leeu Gamka and the surrounding farms. The ward councilors are also very active with whatsapp-app groups that supports the municipality's official communication mechanisms.

The Municipality had sufficient water up to 15 December 2017 to provide in the Prince Albert community's demand needs. Since 15 December 2017 the demand increased significantly and far exceeded the supply. The Municipality as a result implemented stricter water restrictions that limited use to 90 liters of water per person per day as of 3 January 2017. As water storage is limited, the Municipality re-allocated their MIG allocation towards water resource management. A tender was placed to improve Prince Albert town's water storage capacity with the successful tenderer to be on site in January 2018.

The restriction of the water use to 90 liters per person per day, combined with temporary irrigation turns from the Kweekvallei Water Board as well as aggressive awareness campaigns saw to a significant reduction in water use in Prince Albert. The daily demand reduced from nearly 2 ML per day to 1.3 ML per day in Prince Albert, improving the water security significantly.

The erection of a reverse osmosis plant in Leeu Gamka, additional, non-equipped boreholes in Leeu Gamka and Klarstroom during the reporting period saw to it that Leeu Gamka and Klarstroom experienced no significant water challenges over the festive season and up to date.

To avoid Day 0 water use must be reduced in all areas and an investigation into the ground water availability must be undertaken. Artificial recharge possibilities must be investigated,

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the sunken boreholes must be equipped and if possible, an additional reservoir on the North End side of Prince Albert must be established. To ensure effective management of water resources and emergency situations, a fully functional telemetric system will be needed. The Municipality applied to Water Service Infrastructure Grant to equip the boreholes, but will need additional funding for the telemetric system and additional reservoir at North End.

## 2. BUDGET PERFORMANCE ANALYSIS

### 2.1 OPERATIONAL EXPENDITURE AND REVENUE PERFORMANCE

Approximately 37% of the original budgeted operating expenditure of **R66,867 million** was spent as at the end of December 2017 and 41% of the original projected revenue of **R57,482 million** was raised. The reasons for major deviations are explained in paragraphs (i) and (ii) below and in the Section 71 In-year Financial Report for the period ended 31 December 2017 that is attached as **Annexure A and B**.

Indications are that an adjustments budget will be required as there are numerous variances in expenditure and revenue items that need to be addressed in the final adjustments that must be approved by Council by 28 February 2018.

Items of revenue and expenditure with major deviations from the budget are as follows:

#### REVENUE

##### INCREASE IN REVENUE

Revenue source and reason for such decrease	Total original budget for 2017/18	Actual as at 31 December 2017	% Variance from expected 50%
	R'000		
Interest received	1,060	1,265	119%
Traffic Fines	4,013	2,823	70%

The slow spending on capital projects have caused higher than expected bank balances.

##### DECREASE IN REVENUE

There was no decrease in revenue.

The transfers recognised – capital decreased due to slow spending on capital grant expenses.

Also refer to **Annexure A and B**.

**OPERATIONAL EXPENDITURE**

**DECREASE IN EXPENDITURE**

There was no decrease in expenditure.

Expenditure item and reason for such decrease	Total original budget for 2017/18	Actual as at 31 December 2017	% Variance from expected 50%
	R'000		
Employee related costs	17,894	8,062	45%
Bulk purchases	8,474	3,289	39%
Other expenditure	40,500	27,295	67%

The municipality struggled to fill vacant post for example the Manager Technical services post.

Due to the fact that Eskom charges the municipality based on time of use, estimated correct usage is very difficult.

The above variances will be rectified in the adjustment budget.

Also refer to **Annexure A and B**.

**2.2 CAPITAL BUDGET PERFORMANCE**

The capital expenditure as at the end of December 2017 is **R2,365 million**, excluding committed costs (orders issued), which is **27%** of the budgeted amount. The Municipality's MIG expenditure is delayed due to drought declaration (Res 90b/2017), in terms of the Disaster Management Act. In light of the above it was decided to re-align our MIG allocation and redirect the project funding to address water security.

The Tender for the upgrade of the Prince Albert water storage was drafted and advertised. The Tender closed on 17 November 2017, and the adjudication was done. After the appeal period a tenderer was appointed to be on site in January 2018. The project is estimated to be more than R 7 million and therefore have to be a multi- year project. It is therefore necessary to ensure that the implementation of the project is continuous as additional cost will be incurred if the project have to be stopped to wait for the next financial year.

This an urgent project as Prince Albert does not have a dam upstream and all water must be stored in reservoirs.

The project will increase the capacity of the reservoirs with 62%.



### SERVICE DELIVERY PERFORMANCE ANALYSIS

#### CREATING A CULTURE OF PERFORMANCE

##### (I) PERFORMANCE FRAMEWORK

Regulation 7 (1) of the Local Government: Municipal Planning and Performance Management Regulations, 2001 states that “A Municipality’s Performance Management System entails a framework that describes and represents how the municipality’s cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organized and managed, including determining the roles of the different role players.” This framework, inter alia, reflects the linkage between the IDP, Budget, SDBIP and individual and service provider performance.

The municipality adopted a performance management framework that was reviewed and approved by Council on 24 June 2016. It was negotiated with the unions and tabled at the Local Labour Forum in November 2018.

The IDP coordinator underwent training in November 2017 to strengthen the performance management function and an additional official was assigned in support.

SALGA was engaged to assist with rolling out the performance management system to the lower levels at Prince Albert Municipality. This assistance programme will be rolled out in the next semester.

##### (II) IMPLEMENTATION OF PERFORMANCE MANAGEMENT

The IDP for 2017/18 was compiled and approved by council on 30 May 2017 per Council resolution 50/2017 with the budget for 2017/18 approved by Council on 30 May 2017 per Council resolution 57/2017. The time table and process plan for the compilation of the IDP, budget and reviewed SDF was approved by Council on 29 August 2017 per Council Resolution 79/2017. The organizational performance is evaluated by means of a municipal scorecard (Top Layer SDBIP) at organizational level and through the service delivery budget implementation plan (SDBIP) at directorate levels.

The SDBIP is a plan that converts the IDP and budget into measurable criteria on how, where and when the strategies, objectives and normal business process of the municipality is implemented. It also allocates responsibility to directorates to deliver the services in terms of the IDP and budget. The SDBIP were prepared and the Top Layer SDBIP was approved by the Executive Mayor on 28 June 2017.

##### (III) MONITORING PERFORMANCE

Monitoring of performance takes place as follows:

- (a) An automated mail is send via the web based system as a reminder to all staff responsible for updating their actual performance against key performance indicator targets by the 20th of every month for the previous month's performance.
- (b) The performance system administrator will ultimately remind all departments on a weekly basis to update their actual performance on the web based system as part of the ongoing monitoring of the total performance management model. At this time a computer generated reminder is sent via e-mail as mentioned above, reminding all KPI owners and users of the closing date for updating of actual performance results. Two closing dates are set on the automated system, on the16th as the first notice and the 20th of each month as the second and final notice.
- (c) Monthly performance reports should be submitted and discussed with the Executive Mayor, but has not been done due to further development and refining of the performance management model. It is envisaged that monthly reports will be generated from the beginning of the third quarter going forward.
- (d) Standard Operating Procedures have been developed for the Top Layer SDBIP and forms the basis for all future audits on predetermined objectives.

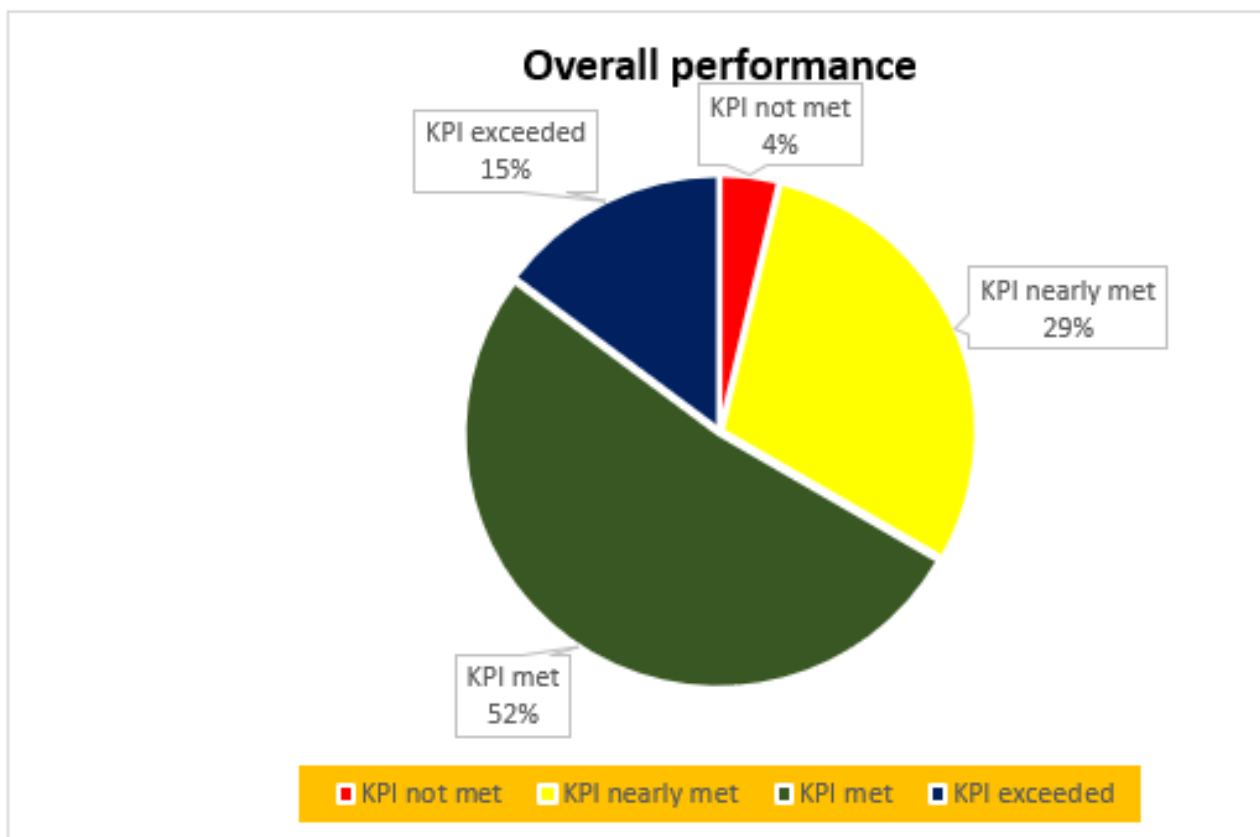
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#### **(IV) OVERALL SERVICE DELIVERY PERFORMANCE IN TERMS OF THE TOP LAYER SDBIP**

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It must be noted that the Top Layer SDBIP contains 43 KPI's of which 14 does not fall into the reporting period. The table below reflects the top layer SDBIP dashboard of overall performance of the respective Departments from 1 June 2017 to 31 December 2017.

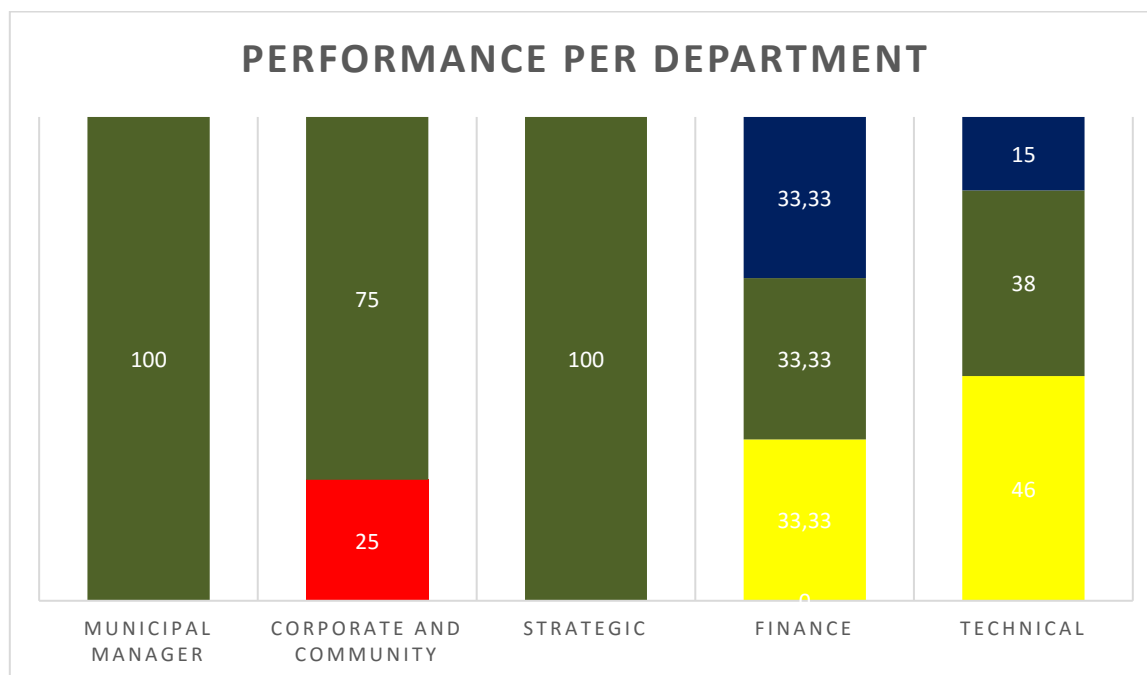
The table below illustrates the Municipality's overall performance for the reporting period of 1 June 2017 to 31 December 2017.



The table below illustrates the Municipality's performance per Directorate for the period July 2017 to 31 December 2017. 1

Category	Colour	Explanation
KPI's Not Met		0% >= Actual/Target < 75%
KPI's Almost Met		75% >= Actual/Target < 100%
KPI's Met		Actual/Target = 100%
KPI's Extremely Well Met		Actual/Target <= 150%

Colour coding	Office of the MM	Finance	Technical	Corporate & Strategic Services	Overall performance	
KPI not met				1	1	
KPI nearly met		2	6		8	
KPI met	1	2	5	3	3	14
KPI exceeded		2	2			4
<b>Total of KPI per Department</b>	<b>1</b>	<b>6</b>	<b>13</b>	<b>4</b>	<b>3</b>	<b>27</b>



### 3.2 Summary and challenges

Early indications are that the performance against the output and goals of the Service Delivery Budget Implementation Plan (SDBIP) are on track, with only one KPI reflecting non-performance towards the percentage of the training budget not spend. Due to an administrative oversight no budget vote was provided for training in the approved budget and thus performance cannot be measured at this stage. Training expenses are currently incurred under the respective Department's travel and subsistence votes. This matter will be addressed in the adjustment budget.

The KPI's nearly met is mostly due to the applications for free basic services that are lower than envisioned and the debt collection that is just missing the agreed upon target. Council launched awareness campaigns in this respect and will also be appointing three officials on contract to do door-to-door visits on debt collection and to ensure that outstanding debt is collected and that everyone is aware of the indigent support offered by the Municipality.

Notwithstanding the afore-mentioned challenges, the municipality met 52% of its Key Performance Indicators, with an additional 15% of the KPI's exceeding the set targets for the reporting period.

**Annexure I** reflects the organisation's performance against the national key performance indicators. Attached as **Annexure J** is the unaudited Top Layer SDBIP for the first half of the financial year ending 31 December 2017 which measures the municipality's overall performance per Directorate and indicates the corrective measures to be implemented.

During the 2016/17 audit conducted by the Auditor-General various aspects of non-compliance with regards to performance were highlighted in the management report issued at the end of the audit. The findings included, *inter alia*, the following:

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Audit Finding 2016/17 (Performance Information)	Management Response/ Status Quo
<b>Non compliance with evaluation of Snr Management</b> Performance evaluations not done according to agreement and regulations	Management agrees with the finding. Performance evaluations will be implemented according to contract.
<b>No performance contracts for lower level staff:</b>  The municipality limited its performance contracting to only the municipal manager and managers directly reporting to the municipal manager. Agreements were only entered into with the municipal manager and managers directly reporting to the municipal manager. This finding was raised in the prior years' management report.	This is due to capacity constraints. An official was delegated to provide support in respect of performance management and agreements should be in place by March 2018
<b>Reporting changes to SDBIP relevant authorities within timeframe</b> Changes to SDBIP not reported to relevant authorities within timeframe	Increase capacity by allocating staff member to performance management (done)
<b>Inconsistent description of KPI's in IDP and SDBIP</b> Review vs compilation of Asset Infrastructure Plan	This was an oversight. Capacity for oversight increased by allocating staff member towards performance management
<b>PDO not correctly classified</b> One PDO was incorrectly classified in terms of Strategic Objective	This is due to capacity constraints. An official was delegated to provide support in respect of performance management

Source: Auditor General (AG) Report 2016/17

### To eliminate the audit findings we have implemented the following corrective measures:

- The municipality will continuously and adequate review and monitor compliance with applicable laws and regulations. Sufficient oversight will be exercised to ensure that the definitions of the indicators are included in the IDP, SDBIP and eventually into the Annual Performance Report. Furthermore management will ensure that the FMPPi principals are adhered to and that adequate reviews take place to ensure that the annual performance report is complete.
- Management already ensured that the IDP coordinator underwent performance management training in November 2017.
- Management should ensure the regular and adequate reviews of the accuracy of source evidence used to measure indicators and the SDBIP will form part of the formal monthly management meetings.

The Adjustments Budget to be tabled to Council in February 2018 will necessitate an adjustment of the Top Layer SDBIP, with the necessary motivation where key performance indicator targets require adjustment as a result of the Adjustments Budget.

## 3. FINANCIAL PERFORMANCE ANALYSIS

### CASH MANAGEMENT

- Revenue is collected when it is due and banked promptly;
- Payments are made, including transfers, no earlier than necessary, with due regard for efficient, effective and economical programme delivery and the municipality's normal terms for account payments;

- Debtors are perused with appropriate sensitivity to ensure that amounts receivable by the municipality are collected and banked promptly;
- The municipality's cash flow requirements are accurately forecasted;
- Taking any other action that avoids locking up money unnecessarily and inefficiently, such as managing inventories to the minimum level necessary for efficient and effective programme delivery, and selling surplus or under-utilized assets in terms of the asset management policy;
- Bank reconciliation is performed on a monthly basis to detect any unauthorised entries; and
- Dishonored cheques are followed up immediately; and duties are separated to minimise the incidence of fraud.

Also refer to **Annexure 8 Table C7** for more detail on cash receipts and payments for the period.

#### OUTSTANDING DEBTORS

Attached as **Annexure 8 Table SC3** is a summary of outstanding debtors as 31 December 2017, analyzing age of debtors by income source and number of days outstanding and type of consumer. Although, approximately **67%** (R5.5 million) of the total outstanding debtors of **R 8.3 million** is more than 120 days outstanding, the Administration institute the following procedures to collect outstanding amounts:

- Implemented an approved credit control and debt collection policy.
- Cut off electricity on a monthly basis.
- Handing over of outstanding rates and taxes to our lawyers for collection.
- Provision is made for bad debts

## 4. ADJUSTMENTS BUDGET

Section 72(3) of the MFMA further states that the accounting officer must, as part of the review:

- Make recommendations as to whether an adjustment budget is necessary and
- Recommend revised projections for revenue and expenditure to the extent that this may be necessary.

Regulation 23 of the Municipal Budget and Reporting Regulations provides, *inter alia* for the following:

"An adjustment budget may be tabled in the Municipal Council at any time after the Mid-year Budget and Performance Assessment has been tabled in the Council, but not later than 28 February of each year. Furthermore, except under certain circumstances only one adjustment budget may be tabled in Council during a financial year."

Accordingly a report on adjustments to the budget will be submitted for consideration by Council before 28 February 2018. The Top Layer SDBIP will have to be adjusted accordingly.

## **5. ANNUAL REPORT**

The Annual Report of the 2016/17 financial year has been drafted and tabled to Council on 8 December 2017 and made public. Public comments are currently being awaited for consideration by the Municipal Public Accounts Committee, before tabling to Council.

As prescribed in section 72(1((a)(iii) of the MFMA the Accounting officer must assess the performance of the municipality in the first 6 months taking into account the past year's Annual Report, and progress on resolving the problems identified in the Annual Report. The draft Annual Report for 2016/17 was advertised for public comment and on receipt there-of the Oversight Committee will compile an oversight report.

## **6. RECOMMENDATIONS**

- (i) That the Executive Mayor considers the report and deals with it in terms of Section 54 of the Municipal Finance Management Act, as detailed in introduction of this report.
- (ii) That an adjustment budget be approved.
- (iii) That the Top Layer SDBIP be adjusted to accommodate the financial changes to the budget and ensure that all Key Performance Indicators are legally compliant.
- (iv) That Council strive to fill critical vacancies within their budgetary provision.

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**HEINRICH METTLER**  
**MUNICIPAL MANAGER**

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**DATE**

## 8. ANNEXURES

### 8.1 FINANCIAL AND BUDGET PERFORMANCE

- (i) ANNEXURE A TABLE C1 – MONTHLY BUDGET STATEMENT SUMMARY;
- (ii) ANNEXURE B TABLE C2 – MONTHLY BUDGET STATEMENT – FINANCIAL PERFORMANCE (STANDARD CLASSIFICATION);
- (iii) ANNEXURE C TABLE C3 – MONTHLY BUDGET STATEMENT – FINANCIAL PERFORMANCE (REVENUE AND EXPENDITURE BY MUNICIPAL VOTE);
- (iv) ANNEXURE D TABLE C4 – MONTHLY BUDGET STATEMENT – FINANCIAL PERFORMANCE (REVENUE AND EXPENDITURE);
- (v) ANNEXURE E TABLE C5 – MONTHLY BUDGET STATEMENT – CAPITAL EXPENDITURE (MUNICIPAL VOTE, STANDARD CLASSIFICATION AND FUNDING);
- (vi) ANNEXURE F TABLE C6 – MONTHLY BUDGET STATEMENT – FINANCIAL POSITION; AND
- (vii) ANNEXURE G TABLE C7 – MONTHLY BUDGET STATEMENT – CASH FLOWS
- (viii) ANNEXURE H TABLE SC3 – MONTHLY TRADE RECEIVABLES

### 8.2 SERVICE DELIVERY PERFORMANCE

- (ix) ANNEXURE I — TOP LAYER SDBIP 2017/18 PER NATIONAL KPA AND ASSESSMENT OF TARGETS ACHIEVED
- (x) ANNEXURE J — DASHBOARD OF OVERALL PERFORMANCE FOR 2017/18 PER NATIONAL KPA