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HERMANUS: ERF 9515 ZWELIHLE, WRITE-BACK OF AMOUNTS RAISED, PEMZO CONSTRUCTION CC

7/2/3/2

M Erasmus

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Hermanus Administration

20 October 2017

1. Executive Summary

The purpose of the report is to request Council to approve the writing back of an amount of R182,595.90 (ONE HUNDRED AND EIGHTY TWO THOUSAND FIVE HUNDRED AND NINETY FIVE RAND AND NINETY CENTS) of Pemzo Construction CC, incurred in terms of a lease agreement entered into between Pemzo Construction CC and the Overstrand Municipality in relation to Erf 9515 Zwelihle, due to the circumstances to be discussed in this report.

2. Service Delivery and Budget Implementation Plan - IGNITE

Directorate Finance
Department Revenue

3. Compliance with Strategic Priorities

Provision of democratic, accountable and ethical governance
Provision and maintenance of municipal services

4. Delegated Authority

None

5. Legal Requirements

Administration of Immovable Property Policy of the Overstrand Municipality, as amended

6. Background/Discussion/Evaluation/Conclusion**Background**

A tender was advertised for the lease of the building on Erf 9515 Zwelihle for business purposes. The lease agreement entered into with Pemzo Construction CC, hereinafter referred to as "Pemzo", is in accordance with the in principle decision, the tender specifications as well as the Administration of Immovable Property Policy and commenced on 1 October 2015 and will expire on 30 September 2018.

After the award of the tender by the Bid Adjudication Committee and before entering into a lease agreement with Pemzo the building was however

vandalised. The state of the building and the vandalism was discussed with Pemzo and after several site inspections with Pemzo and the Property Administration Department it was agreed that Pemzo would attend to the repairs to the building as they are in the construction industry and will be able to do the repairs quickly and at a lower cost. It was subsequently arranged with the Finance Department: Income that the approved amount for repairs be credited on Pemzo's account which was followed through as such. A further credit was later given to Pemzo for further repairs done to the building. To date a total amount of R87,556.87 credit was given to Pemzo on their account, which amount represents the expenses incurred by Pemzo for the repairs to the building in order to make it tenantable. During the period of repairs Pemzo was informed that the electrical supply to the property could not be switched on as there are no valid COC's (electrical certificates of compliance) for the respective units. It was further confirmed that the electrical supply to the building will only be switched on once Pemzo provided the Municipality with the COC for each unit. This meant that Pemzo was not able to start trading and making the individual units available to possible sub-tenants until such time the repairs to the building was finalized and the COC's were issued for the respective units within the building.

Pemzo opened a municipal services account inclusive of the levying of the rental and services and paid the required lease deposit. The COC's for the building were received on 9 May 2016 but the electrical supply could not be switched on at that stage as the account was so far in arrears. The electrical supply, after consulting with the Director: Infrastructure and Planning, was switched on on 6 June 2016, as a sign of good faith from the Municipality and more so to enable Pemzo to start trading, i.e. ensure that the building is occupied in order to collect an income to enable them to start paying the Municipality the monthly rental and hopefully the outstanding rental.

No rental payments were made on the municipal account before August 2015. As rental was levied from the commencement of the lease agreement and payments were only made in August the municipal account became in arrears. Various letters and telephone calls were made to Pemzo to inform them that their account is in arrears and that they are in breach of the contract and should attend to the necessary as a matter of urgency. As a response hereto a request was made that the outstanding amount be re-considered as they are of the opinion that the building was tenantable and not suitable for trading when the lease agreement commenced and they were given occupation. It took Pemzo approximately 7 months from date of commencement of the lease agreement to make the building tenantable and allocate sub-tenants to the respective units. According to Pemzo it took so long as they had to borrow money to repair the building and also had the extra costs of the COC's.

Discussion

In the last five months Pemzo improved with regard to the payments made on the municipal account for rental and services and taking the said improvement into account, it is foreseen that Pemzo will be able to pay their municipal account as levied monthly and be able to manage their business efficiently. They now also have full occupancy which will further assist them to pay the monthly municipal account.

In view of the above background and discussion in providing the background to this consideration, it is recommended that the rental, services and penalties levied for a period of seven months, when the electricity was switched on and Pemzo could commence trading, be written back as Pemzo were not able to trade during the said period and therefore could not generate any income in order to cover their expenses in terms of the agreement. The amount to be written back is R182,595.90 (ONE HUNDRED AND EIGHTY TWO THOUSAND FIVE HUNDRED AND NINETY FIVE RAND AND NINETY CENTS).

7. Financial Implications

An amount of R182,595.90 (ONE HUNDRED AND EIGHTY TWO THOUSAND FIVE HUNDRED AND NINETY FIVE RAND AND NINETY CENTS) levied on the account will be written back. This total amount represents an amount of R175,560.00 in rental, R6,675.90 in interest and R360.00 in collection charges.

8. Staff Implications

N/A

9. Comments from other Departments, Divisions and Administrations

None

10. Annexures

None

RECOMMENDATION TO THE COUNCIL:

that the arrear municipal account of Pemzo Construction CC for the leasing of Erf 9515 Zwelihle in the amount of R182,595.90 (ONE HUNDRED AND EIGHTY TWO THOUSAND FIVE HUNDRED AND NINETY FIVE RAND AND NINETY CENTS) representing an amount of R175,560.00 (ONE HUNDRED AND SEVENTY FIVE THOUSAND FIVE HUNDRED AND SIXTY RAND) in rental, R6,675.90 (SIX THOUSAND SIX HUNDRED AND SEVENTY FIVE RAND AND NINETY CENTS) in interest and R360.00 (THREE HUNDRED AND SIXTY RAND) in collection charges, **be written back**, due to circumstances.

RESPONSIBLE OFFICIAL :**M ERASMUS
E HOONEBERG****TARGET DATE FOR IMPLEMENTATION :****30 NOVEMBER 2017****TARGET DATE TO INFORM APPLICANT :****15 NOVEMBER 2017**