

MAHIKENG LOCAL MUNICIPALITY



MTREF FINANCIAL PLAN

3 JUNE 2016

1. Introduction

- 1.1. The purpose of the MTREF financial plan is to supplement the municipal 2016-17 MTREF budget to ensure that the current budgeted deficit is reduced to enable the municipality to have a cash funded budget through effective revenue enhancement and cost reduction initiatives.
- 1.2. The revenue enhancement and cost reduction initiatives have been formulated best on current practices performed by other municipalities in South Africa that have yielded remarkable results. Conservative estimates have been made throughout the financial plan to ensure that the estimated figures are not misleading. In essence, the initiatives have been aligned to the municipal financial recovery plans, revenue enhancements plan and the 2016-17 MTREF budget.
- 1.3. The initiatives are operationally extensive in nature and require all relevant directorates to work as a team to fulfil the mandate of the local municipality.
- 1.4. Careful consideration has been made on the planned initiatives to ensure objectivity and fairness to the community and the municipality. Socio-economic and administrative factors have, thus, been factored into the financial plan.
- 1.5. In consideration of the above, the accounting officer should ensure that the financial plan is reviewed at least half yearly to ensure the main objectives of the plan are achieved. Quarterly reviews are recommended to ensure adequate monitoring of the implementation of the MTREF plan.

Summary of financial implication on the 2016-17 MTREF budget.

Budget line item	Financial years			Timelines	
	R'000			Start Date	End Date
Revenue enhancement	2016-17	2017-18	2018-19	Start Date	End Date
Property rates (pg.5)	34 000	40 704	43 146	4 July 2016	-
Property rates (pg.18)	0	7 420	7 865	1 June 2017	-
Water services (pg.8)	38 906	41 240	43 715	1 July 2016	-
Sewerage services (pg.10)	7 123	7 550	8 004	1 July 2016	30 Sep 2016
Refuse services (pg.12)	11 773	12 479	13 228	1 July 2016	30 Sep 2016
Rental income (pg.13)	3 710	3 932	4 168	4 July 2016	31 July 2016

Payment incentive schemes (pg.14)	60 000	60 000	60 000	1 July 2016	31 Oct 2016
Fair values adjustments (pg.15)	9 124	9 575	10 049	6 June 2016	-
Total	164 636	182 900	190 175		
Cost savings					
Housing allowance contributions (pg.16)	1 250	1 250	1 250	1 August 2016	30 June 2019
EPWP (pg.20)	0	17 477	18 526	1 July 2017	-
Total	1 250	18 727	19 776		

2. Scope

2.1. The financial plan covers the MTREF period (2016-17 to 2018-2019) which in turn is a short to medium term financial plan.

3. Key focus areas of the financial plan

3.2. Revenue

- a) Completeness of revenue (all sources).
- b) High productivity in providing municipal services (including water losses).
- c) Obtaining an electricity distribution license.
- d) Revenue collection (debt collection, credit control, indigent management, customer care and management).
- e) Automated meter reading infrastructure.
- f) Implementation of a revenue enhancement project.
- g) Data extract and analysis models.
- h) Customer information audit.
- i) Data cleansing.

3.3. Expenditure

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- a) EPWP workers
 - b) Pension fund contributions
 - c) Housing allowance contributions
 - d) Implement effective budgeting and control techniques

4. Key focus areas of the financial recovery plan to be aligned to the MTREF financial Plan

- 4.1. Restructuring of the 2015/16 budget through an adjustments budget to address under collection of revenue and other significant weaknesses.
- 4.2. Appropriate tariffs taking into account the need to increase surpluses, the cost of rendering the service and the affordability of tariffs.
- 4.3. Conduct an audit of all unmetered consumers. Priorities repairs to faulty meters and installation of new meters to un-metered consumers. Introduce a process to confirm readings and verification of accuracy in bulk meters for bulk water consumption.
- 4.4. Continuous update of data and information relating to consumers. Cleansing of the database, updating land ownership records, postal addresses, updating indigent records, reviewing tariffs for correctness, different category of consumers and re-zoning, undertake house-to-house surveys and incorporate updated information.

5. Other considerations

Key Challenges

- a) Indigent management and free basic services.
- b) Budgeting, tariff determination and revenue planning.
- c) Little to no growth in the property rates base.
- d) Customer data accuracy.
- e) Meter reading & billing accuracy.
- f) Debt management and credit control.
- g) Non-technical losses due to meter tampering and illegal connections.
- h) Call centre & customer relationship management.
- i) Cash flow planning and management.
- j) High level of outstanding consumer accounts

6. Short term plan (next 6 to 12 months)

Revenue

6.1. Property rates

6.1.1. The last general valuation roll was prepared in the 2010 financial year, hence, ever since then the same property values (old) were used to compute the property rates taxes which was and still is not a true reflection of the property rates for the 2016-17 MTREF period. The revenue generated from property rates has, thus, been understated as a result of the aforementioned out-dated general valuation roll.

6.1.2. For the 2016-17 financial year, the tariff increase from the 2015-16 financial year is budgeted at 12% and 6% in the outer years of the MTREF. Though the increase is above the guideline in MFMA circular 79, the additional levied percentage basis points are meant to cater for the out-dated general valuation roll as mentioned in the previous period. To cater for the inaccurate increase in property rate tariffs based on municipal inefficiencies (i.e. unavailability of a new general valuation roll), the tariffs in the later financial years after 2016-17 might actually be reduced to cater for the increased property values on the new valuation roll to be implemented in the 2017-18 financial year.

6.1.3. To ensure an effective collection rate of outstanding property rates taxes for properties where tenants (as opposed to owners) are occupying the properties, the accounting officer and chief financial officer should send notifications to either the relevant estate agents or directly to the tenants notifying them of the outstanding property rates taxes and that the outstanding amounts should be withheld from the rentals payable to the owner and paid over to the municipality to settle the owners' outstanding debt in terms of section 28 and 29 of the Property Rates Act. This approach to effective collection of outstanding property rates taxes to be implemented as a long term approach. The initiative is expected to start on the 4th of July 2016 and continue till the 30th of June 2017. Progress and challenges on the implementation of the initiative should be discussed during the management meetings. In essence, the financial plan should be a permanent discussion point on the management meeting's agenda.

6.1.4. For property rates taxes owed by government institutions, the accounting officer and chief financial officer will engage the National Treasury to assist in collecting all the

outstanding debt. If deemed necessary, the accounting officer and chief financial officer should engage the relevant government departmental heads and chief financial officers to negotiate reasonable payment terms. This initiative has already been implemented in the 2015-16 financial year. Progress and challenges on the implementation of the initiative should be discussed during the management meetings from 4 of July 2016 going ahead.

6.1.5. *The financial impact of the above considerations is as follows for the MTREF which represents an additional financial impact to the initial draft budget.*

Basis for determining impact on the current budgeted figures	2016-17 R'000	2017-18 R'000	2018-19 R'000
The estimated increase in cash reserves is estimated at a conservative amount of R 600 000 per month which is the current average amount of debt owing from property rate taxes per month. This figure will be annualised to a conservative R 7.2 million per annum for the MTREF period plus the effects of inflation at an average 6%. This estimate excludes the effect of property rate taxes owed by government institutions.	7 200	7 632	8 090
The estimated increase in cash reserves is estimated at a conservative figure of R 2 600 000 which is the current average amount of debt owing from property rate taxes per month from government institutions. This figure will be annualised to a conservative R 31.2 million per annum for the MTREF period plus the effects of inflation at an average 6%.	31 200	33 072	35 056

6.2. Water services

6.2.1. Revenue from water services ranks second highest after revenue from property rates in contributing to the total revenue from operations (excluding operational transfers). Based on the cost data computed from the adjusted 2015-16 budget, the municipality was making a loss of 26% from water services. By basing the decision on the financial information available, this would mean that the revenue from water services out to be increased by 26% in-order to break even. This in turn would mean raising water tariffs by an average 26% across all water consumption brackets. Such an approach would mean that the water related tariffs are cost effective.

6.2.2. Upon consideration of non-financial information including socio-economic and administrative matters, it would be in the best interest of the municipality and

community members to increase the water tariffs only by the percentage guideline in the MFMA circular 79. Hence, the water tariffs will be increased by 6% in 2016-17 and in the MTREF.

6.2.3. The chief financial officer should evaluate the financial viability of reducing the number of consumption brackets (rising block system) on the water tariffs for residential customers from six to three which is in line with the Department of Water Affairs tariff setting guidelines. This will result in consumers being charged more for higher consumption above the basic water consumption or supply (six kilolitres). Hence, the rising block system should have fewer blocks for the water tariffs. The first block should ideally be for indigent debtors receiving a maximum of six kilolitres as free basic water. The second block represents the consumer, who utilises water more sparingly and such block is aimed at normal consumption. The third block represents the high end users termed, luxury consumption, and should reflect the economic cost of water as a scarce resource. This approach should be applied for the 2016-17 water tariffs to be implemented from the 1st of July 2016.

6.2.4. The accounting officer and chief financial officer should implement a basic water charge for business consumers. The determination of the basic water charge should be aligned to the Department of Water Affairs guidelines. The basic charge on water services should be implemented on the 1st of July when the new tariffs are implemented.

6.2.5. To initially address the deficit on water services, measures have to be formulated and implemented to address water losses to enable the municipality to reduce its bulk water purchases. **Annexure A** provides full details on how water losses will be managed in-order to reduce related expenditure.

6.2.6. As part of the initiative to address water losses, the municipality began purchasing new water meters to replace non-functional meters in the 2015-16 financial year. This will address water consumption currently not accounted for resulting in increased revenue from water services in the upcoming financial periods. The related revenue and cost effect of the initiative should be reasonably estimated and reflected in the final budget. As the initiative has been implemented in 2015-16 by purchasing a smaller percentage of the non-functional water meters, the remainder of the meters to

be acquired and installations should commence from the 4th of July 2016 and the project concluded by the 30th of September 2016. A detailed procurement plan should be prepared coupled with water metering system repairs and maintenance plan. The funding of the project should ideally be internally funded and the cost incurred recouped from the additional revenue generated from newly functional installed meters. Preference should be placed in the procurement plan to address bulk water meters as the majority of the water losses emanates from business consumers.

6.2.7. The financial impact of replacing water meters is significant and the impact in the accounting records has been estimated in the table below.

6.2.8. Secondly, consideration should be made on the use of automated metering infrastructure and related systems. The benefits of automated metering systems include, 25% water losses recovered and billed to customers (this is the percentage of water losses currently incurred), current functionality standing at 97% of billings that are collected, debt collection happens immediately, all services can be recover via a pre or post-paid basis, lack of funds in the system wallet system will automatically result in water restrictions, control of the metering system will be restored completely to the municipality. Installation of automated metering systems should ideally be implemented from the 1st of July 2017 after all planning and pre-implementation activities have been completed. Full implementation of the project is expected to take 12 months to ensure that the automated water metering system is fully functional.

6.2.9. For the MTREF period and beyond, only consumers who qualify for indigent services and have followed the prescribed application processes as per the indigent policy will receive the indigent benefits (free basic water at a maximum of 6 kilolitres). This resolves the matter were non-indigent consumers were benefiting from free indigent services, thus, having a negative effect on revenue from water services. All indigent debtors on the accounting system should be de-activated on the 30th of June 2016 and requested to re-apply from the 1st of July 2016 in-order to be registered as indigent if they indeed meet the qualification criteria as set out in the indigent policy. This procedure should be performed at the end and beginning of every financial year.

6.2.10. *The financial impact of the above considerations is as follows for the MTREF which represents an additional financial impact to the initial draft budget.*

Basis for determining impact on the current budgeted figures	2016-17 R'000	2017-18 R'000	2018-19 R'000
A reduction in the current consumption blocks for residential consumers under the tariff block system will result in an average increase of 10% per the monthly billed amount for water services from residential properties. Monthly revenue from water services averages R 1.2 million for residential properties. This will result in an increase averaging R 1.4 million per annum plus an average inflation percentage of 6%.	1 440	1 526	1 618
The introduction of a basic charge for water services will result in an increase of monthly revenue by R 97 500 based on 650 business consumers at an average cost of R 150 which represent the cost of the basic water supply of 20 kilolitres. The annual increase is estimated at R 1 170 000 plus inflation at an average percentage of 6%.	1 170	1 240	1 315
During the 2015-16 financial year, all indigent debtors on the accounting system were de-registered as indigent and are all now required to follow the prescribed application process as per the indigent policy. Only consumers who qualify to be indigent will benefit from the free indigent services. An estimated 2 600 consumers were benefiting from indigent services and it is estimated that at a minimum tariff of R 9.50 per kilolitre of water for basic water supply (6 KL), a conservative increase in revenue from water services as a result of disqualified consumers is R 1 778 400 per annum plus inflation at an average of 6% per annum.	1 778	1 885	1 998
Implementation of automated metering systems will result in a decline of water losses which is estimated at 38% per annum to reduce the current water losses standing at 32% to a targeted 20%. The saving from water losses will result in a decline of bulk purchases by R 9 463 per annum plus inflation at an average percentage of 6%.	9 463	10 031	10 633
The estimate of revenue to be recognised from the replacement of non-functional water meters has been based on the following information: <ul style="list-style-type: none"> 1. A total average of 1 639 residential meters were non-functional at the beginning of the 2015-16 financial year. As determined by the financial records, 50% of the residential consumers are levied in the water bracket of 1 – 15 kilolitres per month. An average of 15KL can be used to estimate the revenue forgone at a rate of R 7.95 per KL excluding VAT. 2. A Total average of 180 business meters were non-functional at the beginning of the 2015-16 financial year. As determined by the financial records, 80% of the 	25 055	26 558	28 151

<p>business consumers are levied in the water bracket of 1 – 300 kilolitres per month. An average of 120 KL can be used to estimate the revenue forgone at a rate of R 12.16 per KL excluding VAT.</p> <p>3. A Total average of 48 bulk meters were non-functional at the beginning of the 2015-16 financial year. As determined by the financial records, an average of 2447 KL can be used to estimate the revenue forgone at a step rate calculated in the 2016-17 tariff structure per KL excluding VAT.</p> <p>NOTE: The revenue to be generated will be increased annually for the MTREF periods by 6% which is the annual tariff increase determined in the 2016-17 budget structure. The expenditure to be incurred for replacing the meters mentioned above will be incurred in the 2014-15 financial year, hence, no effect on the 2016-17 MTREF budget.</p>			
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6.3. Waste water management (sewerage) services

6.3.1. As a result of rapid changes in customer information, customer verifications or customer information audits should be performed. Such an extensive exercise is mainly aimed at ensuring that the customer data on the financial system is correct to ensure complete and accurate billing for waste water management (sewerage) services. **Annexure B** provides full details on how the customer information audit should be performed. A data cleansing project should be implemented after the customer information audit.

6.3.2. The aforementioned activities will aid in increasing the revenue base and ultimately reduce financial statement deficits, thus, aiding in the preparation of a cash funded budget for the MTREF period. The customer information audit and the data cleansing exercise should commence on the 4th of July and be finalised by the 30th of September 2016. Progress and challenges in implementing the project should be discussed in the bi-weekly management meetings and corrective measures implemented thereof.

6.3.3. For the MTREF period and beyond, only consumers who qualify for indigent services and have followed the prescribed application processes as per the indigent policy will receive the indigent benefits (free basic sewerage). This resolves the matter where non-indigent consumers were benefiting from free indigent services, thus, having a negative effect on revenue from waste water management services.

6.3.4. All indigent debtors on the accounting system should be de-activated on the 30th of June 2016 and requested to re-apply from the 1st of July 2016 in-order to be registered as indigent if they indeed meet the qualification criteria as set out in the indigent policy. This procedure should be performed at the end and beginning of every financial year.

6.3.5. The tariffs for sewerage services should be increased by 15% per annum for the 2016-17 financial year and the MTREF outer years.

6.3.6. *The financial impact of the above considerations is as follows for the MTREF which represents an additional financial impact to the initial draft budget.*

Basis for determining impact on the current budgeted figures	2016-17 R'000	2017-18 R'000	2018-19 R'000
The customer information audit and data cleansing projects will result in a conservative average increase of 20% which represents the general increase in business activity as evidenced from the supplementary valuation rolls and town planning activities from the 2011 financial year to date. The annual increase on the revenue from sewerage services will be R 6 000 000 per annum plus inflation at an average percentage of 6%.	6 000	6 360	6 742
During the 2015-16 financial year, all indigent debtors on the accounting system were de-registered as indigent and are all now required to follow the prescribed application process as per the indigent policy. Only consumers who qualify to be indigent will benefit from the free indigent services. An estimated 2 600 consumers benefited from free basic services. Based on the possible number of disqualified consumers who will not be receiving free basic services, the increase in revenue from sewerage services is estimated at a conservative R 1 123 200 based on the minimal sewerage tariff of R36 plus an average inflation rate of 6% per annum.	1 123	1 190	1 262

6.4. Refuse collection services

6.4.1. As a result of rapid changes in customer information, customer verifications or customer information audits should be performed. Such an extensive exercise is mainly aimed at ensuring that the customer data on the financial system is correct to ensure complete and accurate billing for refuse collection services. **Annexure B** provides full details on how the customer information audit should be performed. A data cleansing project should be implemented after the customer information audit.

The customer information audit and the data cleansing exercise should commence on the 4th of July and be finalised by the 30th of September 2016. Progress and challenges in implementing the project should be discussed in the bi-weekly management meetings and corrective measures implemented thereof.

6.4.2. The aforementioned activities will aid in increasing the revenue base and ultimately reduce financial statement deficits, thus, creating a cash funded budget in the MTREF period.

6.4.3. All indigent debtors on the accounting system should be de-activated on the 30th of June 2016 and requested to re-apply from the 1st of July 2016 in-order to be registered as indigent if they indeed meet the qualification criteria as set out in the indigent policy. This procedure should be performed at the end and beginning of every financial year.

6.4.4. The tariffs for refuse services should be increased by 15.6% per annum for the 2016-17 financial year and the MTREF outer years.

6.4.5. *The financial impact of the above considerations is as follows for the MTREF which represents an additional financial impact to the initial draft budget.*

Basis for determining impact on the current budgeted figures	2016-17 R'000	2017-18 R'000	2018-19 R'000
The customer information audit and data cleansing projects will result in a conservative average increase of 20% which represents the general increase in business activity as evidenced from the supplementary valuation rolls and town planning activities from the 2011 financial year to date. The annual increase on the revenue from refuse collection services will be R 6 500 000 per annum plus inflation at an average percentage of 6%.	6 500	6 890	7 303
During the 2015-16 financial year, all indigent debtors on the accounting system were de-registered as indigent and are all now required to follow the prescribed application process as per the indigent policy. Only consumers who qualify to be indigent will benefit from the free indigent services. An estimated 2 600 consumers benefited from free basic services. Based on the possible number of disqualified consumers who will not be receiving free basic services, the increase in revenue from refuse services is estimated at a conservative R 5 273 000 based on the refuse tariff of R 169 per 240L bin plus an average inflation rate of 6% per annum.	5 273	5 589	5 925

6.5. Rental of facilities and equipment

- 6.5.1. Due to changes in property values and other economic factors, all municipal rental agreements should be reviewed on an annual basis and appropriate changes made to the rental charges levied on customers to reflect reasonable rental contracts.
- 6.5.2. A list of all municipal properties should be prepared and maintained by the chief financial officer to ensure that revenue from the rental of facilities and equipment is correctly and completely accounted for in the municipal records.
- 6.5.3. To ensure an effective 100% rental revenue collection rate, tenant statements should be sent to all tenants at the end of the month (within 7 days before month end) detailing outstanding balances and current rentals to be paid. Thereafter, non-payment of outstanding rental fees will be dealt with in accordance with the penalty clauses in the rental agreement.
- 6.5.4. Consider levying an initial deposit amount on newly occupying tenants at an amount equal to the monthly rental fees. Such a deposit will be used to pay for any damages to the rented property caused by the tenant's negligence.
- 6.5.5. Rental fees for after the above considerations will be increased by 6% per annum in the outer years of the MTREF.
- 6.5.6. A yearly maintenance plan should be prepared every financial year beforehand to ensure that facilities and equipment are kept in an acceptable physical condition and regular inspections of the facilities and equipment performed (half yearly for facilities and after use for equipment) and as and when tenants vacate the facilities.
- 6.5.7. The aforementioned activities should commence on the 4th of July 2016 and be finalised by the 31st of July 2016.
- 6.5.8. *The financial impact of the above considerations is as follows for the MTREF which represents an additional financial impact to the initial draft budget.*

Basis for determining impact on the current budgeted figures	2016-17	2017-18	2018-19
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	R'000	R'000	R'000
The abovementioned revenue management activities are estimated at collecting a conservative R 1 000 000 including long outstanding rental fees plus an average inflation rate of 6%. This figure is based on the fact that none of the rental agreements for municipal owned facilities and equipment have been reviewed for rental escalations and other occupants are occupying the facilities free of charge for longer than 3 years.	3 710	3 932	4 168

6.6. Consumer payment incentive initiatives and other debt collection schemes

6.6.1. The accounting officer and the chief financial officer to prepare a consumer payment incentive policy to aid in improving cash flow from consumer debtors utilising the incentive scheme to settle outstanding municipal accounts.

6.6.2. Such a policy should only be applicable for a short period of time (three to six months) to ensure that consumer debtors do effectively utilise the incentive with immediate benefits to the municipality in terms of increased cash resources.

6.6.3. The consumer payment incentive policy should be prepared and finalised by the 29th of July 2016 and tabled in the first council meeting thereafter. Implementation of the policy should be effected after approval in council.

6.6.4. The accounting officer and chief financial officer should evaluate other debt collection schemes that are procedurally effective in retrieving long outstanding debt from residential and business consumers. Consideration should also be made in restricting the water supply to defaulting consumers.

6.6.5. The accounting officer and chief financial officer to restrict the supply of water services to defaulting consumers. This initiative was implemented in the 2015-16 financial year and remarkable results have been achieved through increased in monthly collection rates. The initiative should be fully resourced and implemented for all the financial years in the MTREF. The financial impact of the improvement in the collection rates should be reflected in the projected cash flow statements for the MTREF.

6.6.6. The financial impact of the above considerations is as follows for the MTREF which represents an additional financial impact to the initial draft budget.

Basis for determining impact on the current budgeted figures	2016-17 R'000	2017-18 R'000	2018-19 R'000
Based on the current total debtors book balance that totals approximately R 300 000 000 for service charges excluding interest levied, a conservative 20% is expected to be collected through the introduction of an effective consumer payment incentive scheme and other debt collection schemes (restrictions or discontinuance of water services)	60 000	60 000	60 000

6.7. Fair value adjustments (Investment Property)

6.7.1. The municipal property valuers should perform a revaluation exercise on the investment property owned by the municipality. The last revaluation exercise performed according to the accounting policy (revaluation model) was done in the 2014 financial year instead of being performed on an annual basis.

6.7.2. This process will ensure that the fair value adjustments income is correctly reflected on the annual statement of financial performance and the investment property balance on the statement of financial position is correct based on the municipal accounting policy.

6.7.3. The revaluation exercise should commence on the 6th of June 2016 and be finalised on the 31st of July to ensure that the fair value adjustments are accounted for in the accounting records and reported in the annual financial statements to be submitted to the Auditor General on the 31st of August 2016.

6.7.4. *The financial impact of the above considerations is as follows for the MTREF which represents an additional financial impact to the initial draft budget.*

Basis for determining impact on the current budgeted figures	2016-17 R'000	2017-18 R'000	2018-19 R'000
Based on ABSA's average quarterly property index increase of 4.95%, the investment property ought to have increased on an average of 9.9% for the past two financial years. The account balance for investment property has been at R 167 342 145 for the past two financial years. The estimated fair value adjustment for the 2016-17 financial year is R 9 124 000. This fair value adjustment is expected to increase at the ABSA's average quarterly property index increase of 4.95% for the MTREF outer years.	9 124	9 575	10 049

Expenditure

6.8. Housing allowance contributions

- 6.8.1. The contribution to the housing allowances for municipal employees should be reviewed in detail to ensure that no municipal employees benefits unduly from high housing allowance contributions. Consideration should be made to determine why the housing allowance benefit was materially high in 2014 (R 5 million) as compared to the other financial years 2015 (R 900 thousand) and 2013 (R 500 thousand).
- 6.8.2. Any municipal employees who unduly benefited from the contributions, such an amount as determined by adequate supporting evidence should be refunded to the municipality in a manner to be determined by the accounting officer and chief financial officer.
- 6.8.3. The exercise should be implemented from the 1st of August 2016 and the re-payment periods determined by the accounting officer and chief financial officer.
- 6.8.4. *The financial impact of the above considerations is as follows for the MTREF which represents an additional financial impact to the initial draft budget.*

Basis for determining impact on the current budgeted figures	2016-17 R'000	2017-18 R'000	2018-19 R'000
Based on the comparison between the previous and current financial years, it is estimated that an overpayment towards housing allowances amounting to R 4 000 000 was made during the 2013-14 financial year. Such an amount could be retrieved in a manner determined by the accounting officer and chief financial officer.	1 250	1 250	1 250

6.9. Sports and recreation

- 6.9.1. Due to the increased expenditure on sports and recreational activities, the accounting officer and the chief financial officer should review the appropriateness of such activities both financially and other non-financial considerations. The non-financial factors should include among others the necessity to build employee morale and wellness which ultimately leads to increased productivity.

6.9.2. The accounting officer and chief financial officer to consider cancelling the national sporting event for the 2016-17 financial year as a result of lack of funding. The hosting of the sporting event is estimated at R 5 million.

6.9.3. *The financial impact of the above considerations is as follows for the MTREF.*

Basis for determining impact on the current budgeted figures	2016-17 R'000	2017-18 R'000	2018-19 R'000
If the event is cancelled, a saving of R 5000 000 will be made in the 2016-17 financial year.	5 000	0	0

7. Medium term plan (12 - 36 months)

Revenue

7.1. Property rates

7.1.1. The last general valuation roll was prepared in the 2010 financial year, hence, ever since then the same property values (old) were used to compute the property rates taxes which was and still is not a true reflection of the property rates for the 2016-17 MTREF period. The revenue generated from property rates has, thus, been understated as a result of the aforementioned out-dated general valuation roll. In view of this, the deficit on the 2016-17 MTREF budget ought to be reduced by ensuring that a new general valuation roll be prepared by the appointed municipal valuers. Due to the extent of the work to be performed in preparing the general valuation roll specifically mentioning time resources required, the new general valuation roll should be implemented in the 2017-2018 financial year.

7.1.2. Upon implementation of the new general valuation roll in 2017-18, periodic (quarterly) interim valuations should be performed by the appointed municipal valuers. Internal control and monitoring activities to be formulated and implemented by the chief financial officer to ensure that revenue from property rates is accurate and completely accounted for in the accounting records of the municipality. In-order to ensure that the internal control and monitoring activities are fully implemented, the internal audit unit should conduct periodic audits or reviews on the control and monitoring activities.

7.1.3. Reconciliations between the interim valuation rolls and the property details and values on the financial system should be performed on and as when a newly updated interim valuation roll is prepared. This is to ensure that revenue from property rates is correctly accounted for in the accounting records.

7.1.4. *The financial impact of the above considerations is as follows for the MTREF which represents an additional financial impact to the initial draft budget.*

Basis for determining impact on the current budgeted figures	2016-17 R'000	2017-18 R'000	2018-19 R'000
The revenue to be generated after implementing the new general valuation roll is estimated at an average rate of 5% which is ABSA's general property index rate. Thus, the revenue from increased property values is estimated at increasing property revenue by R 7 420 000 per annum plus an average inflation rate of 6% beginning 2017-18 when the new general valuation roll is implemented.	0	7 420	7 865

7.2. Electricity services

7.2.1. The municipality should engage the National Electricity (NERSA) to apply for an electricity distribution license. This will aid in improving the revenue streams of the municipality and ultimately the revenue base by a considerable amount.

7.2.2. *The financial impact of the above considerations is as follows for the MTREF which represents an additional financial impact to the initial draft budget.*

Basis for determining impact on the current budgeted figures	2016-17 R'000	2017-18 R'000	2018-19 R'000
The revenue associated with distributing electricity will be benchmarked with municipalities of the same size. Currently the financial impact will not form part of the budget.	0	0	0
The costs associated with distributing electricity will be benchmarked with municipalities of the same size. Currently the financial impact will not form part of the budget.	0	0	0

Expenditure

7.3. Expanded Public Works Programme Workers (EPWP)

7.3.1. Upon consideration of the grants received for the EPWP programme and total expenditure incurred in relation to the programme, the expenditure (in terms of wages) paid to workers on the EPWP programme should be fully funded by the relevant grant and should not be in excess of the operational transfer grant (EPWP) received from the relevant government department. In essence, the number of workers under this programme should be reduced to ensure that the municipality can afford to cater for the expenditure incurred which should be equal to the grant income received in that respect.

7.3.2. As a result of the above, the contracts for EPWP workers will not be renewed for the 2017-18 financial year onwards unless the funding from the grant supports the expenditure adequately. Hence, only a certain number of EPWP workers will be retained and have their contracts renewed accordingly. The financial impact of the aforementioned initiative will take effect from the 1st of July 2017.

7.3.3. Consideration should also be made if the respective donor government will increase the EPWP grant allocation to enable the municipality to retain a greater number of EPWP workers.

7.3.4. *The financial impact of the above considerations is as follows for the MTREF which represents an additional financial impact to the initial draft budget.*

Basis for determining impact on the current budgeted figures	2016-17 R'000	2017-18 R'000	2018-19 R'000
Currently the municipality receives a grant amounting to approximately R 3 600 000 per annum. The actual expenditure incurred towards the program is approximately R 20 008 000. In essence, a saving amounting to R 17 508 000 can be made per annum plus an average inflation rate of 6%.	0	17 477	18 526

8. Other financial aspects

8.1. Budgeting techniques

8.1.1. The chief financial officer should evaluate the most appropriate budgeting method between the zero based budgeting technique and the incremental budgeting

technique. The method to be used should clearly be aimed towards achieving the goals of the municipality as set in the IDP and SDBIP.