BELASTINGSBETALERSVERENIGING
HERMANUS
RATEPAYERS ASSOCIATION

Feedback of the Hermanus Ratepayers Association ("HRA") on the 2025/26 Budget

Comments submitted to cfo@overstrand.gov.za or mm@overstrand.gov.za.

## Introductory Comment

At the outset we wish to complement the Overstrand Municipality ("OM") on being one of the top performing municipalities in our country and having attained a clean audit over many years. We believe this shows that the municipality is performing an excellent function within an increasing challenging socio-economic environment.

However, as you will know the scope of the Auditor General's work is limited and does not cover all aspects of what ratepayers and residents of our ward consider to be important.

This comment letter of the Executive Committee of the Hermanus Ratepayers Association ("HRA") has been drafted in the spirit of making a positive contribution to these important processes and so we hope that our comments will be considered carefully in the spirit in which they are given.

In the past we have noted that few, if any, of the HRA's comments and suggestions have been given serious consideration and so in the spirit of constructive engagement we propose having a face-to-face meeting to discuss the more important of our concerns.

We remain supportive of the OM's Values, Vision and Mission as well as the Mayor's 3 C's and 5 Strategic Objectives which are unchanged in the year under consideration.

In addition, we are supportive of the OM's Eleven Strategic Risks as set out on page 16 and 17 of the draft amendments to the IDP.

Our commentary below has been prepared mindful of the fact that we live in a country and in a world which is challenged on many fronts and so it is critical that we use our resources sensibly in a prioritised fashion on the most critical strategic and risk areas in our region. We agree with the statement in the budget that the global economic outlook is presently unpredictable. We would suggest that this is true also for South Africa. We agree with the budget statement that "the risks to growth (in SA) are to the downside". It is in times such as this that we should be asking all OM role players to “do more with less” otherwise there will simply be no funding to continue cross subsidisation. That in turn will lead to undesirable outcomes. So, we must look at each budget line critically and not just assume that the ratepayer base will continue to accept the trends which have been underway for several years now.

We have observed that this year, not only in the Overstrand but elsewhere in our province and country, there is a need for funding to cross-subsidise poorer communities and to make up for deficit funding from national departments and service providers the largest of which is Eskom. With SOE debt our country is verging on high-interest rate borrowings of almost 100% of GDP. The demands on the state to provide social security payments and similar support is well understood.

However, if the funds we have at our disposal are not used optimally and efficiently then we are on a slippery slope to a failed municipality and state. We need a meeting to discuss what if anything can be done to manage the risks we face in this regard. Without timely risk assessment and planned mitigating actions we will find in the years to come that the problems of the Overberg and the state have slipped away from us. Greater engagement with the community which provides the funding to support the personnel and activities of the OM is critical if the successes of the past are sustained in the future.

**Commentary on the Budget 2025/6**

It is apparent that much work has gone into the drafting of the budget. The budget is a lengthy document of 608 pages containing a significant amount of data detail along with a limited number of explanations and so we have tried to approach our commentary at a high and strategic level as far as possible. We are however nevertheless grateful of the extensive detail which is provided by the OM on the proposed budget.

Having said that we do note that most ratepayers and leaders in the community do not even try to read the 608-page budget document. This is not helpful. The half page summary on page 35 does not cover all the significant changes from 2024/25 to budget 2025/26. It leaves many questions unanswered for the reader. Serious consideration should be given to developing a budget report which is shorter in length, easier to understand and locate explanations for significant questions. Perhaps there are other municipalities of similar size and complexity to the OM which have already succeeded in developing a more easily read and understood budget summary document?

We are mindful of the fact that much must be achieved with limited resources. However, we are also acutely aware of the fact that many of the residents above the exemption thresholds in the Overstrand earn low salaries when compared to other parts of the country and many pensioners whose earnings are above the thresholds are battling to eke out a living on their static and in some cases decreasing pension incomes.

For many years now it has been quite common for salaries and pensions to either not increase or increase by no more than the increase in the Consumer Price Increase and so for the budget to refer to increases of between 6% and 10% as being "reasonable" when pensioners and employees in the private sector are only getting no more than a 4,5% increase suggests that the OM is somewhat insensitive to the very people living in our municipal area.

Ultimately what is vitally important is that the existing sources of revenue must be used in the most efficient way. Strategic risk 7 states that one of the key risks faced by the OM is "Financial Viability and Sustainability – inability to generate and sustain adequate income/revenue to meet short- and long-term obligations".

Each year a process of challenging what our money is spent on must be undertaken. In recent times it has become evident that many countries including the United States and United Kingdom have realised, perhaps too late, that they have been grossly inefficient in the use of their resources. If corrective action is not taken in a timely manner, then it may be too late to remedy the situation. South Africa may already be going down that road. Regrettably the OM budget document for 2025/26 provides no information on what the OM has done to critically review the use of the resources entrusted to it.

An important point is made on page 15 of the budget namely that
"*It must be acknowledged that the whole of the Overstrand municipal area can to a large extent still be regarded as a holiday destination with many holiday homeowners. The municipal rates base also includes a substantial number of vacant erven with no improvements on. A metro municipality (city)with large industries and a vastly different and much larger customer / rates base, and a municipality as Overstrand cannot be compared…."*

This statement is only partly correct. The OM must accept that the service demands on the OM are significantly less in "holiday destinations" and therefore cost less than that of a large metro in which most if not all the property owners are residents for a full twelve months of each year. A holiday destination like the Overstrand means that most properties are not occupied by their owners for a full twelve months. That in turn implies that the demands on the municipality are far less than in a municipality which has a much higher annual occupancy.

**<u>Budget in Summary</u>**

1. In summary the budget states that the proposed tariff increases for 2025/26 tabled in Council on 31 March 2025 for the next financial year, are thus as follows –

    a. Property Rates (%increase on the cent in the Rand) at 9.7%,
    b. Refuse at 6.00%,
    c. Sewer at 6.00%,

d. Water at 6.20%,
e. Electricity at 9.96%, with the final increase per category of electricity consumer to be considered in relation with phase two

**<u>Inflation</u>**

2. The budget document rightly refers to inflation. The budget document correctly states that for now inflation appears contained.

3. The inflation rate published by Stats SA indicated that Consumer inflation was 3,2% in January 2025, up slightly from 3,0% in December 2024. South Africa's inflation rate held steady at 3.2% in February 2025. In 2025, South Africa's inflation rate is projected to be around 4.5%. This is based on the South African Reserve Bank's (SARB) Monetary Policy Committee (MPC) forecast. The SARB's target range for inflation is 3% to 6%, with 4.5% being the midpoint.

4. On face value therefore increases of 9,7% and 6% being budgeted are unacceptable. We believe that a property rates tariff increase more than inflation for rates is unacceptable. The other tariff increases are also more than the CPI expected for 25/26.

5. The increases are in spite of the fact that National Treasury continues to encourage municipalities to keep increases in rates, tariffs, and other charges as low as possible. National Treasury advises that inflation must be considered when preparing municipal budgets however there appears to have been a complete disregard for inflation when setting the tariff increases in spite of what the budget document says?

**<u>Top Down and Zero Based Budgeting</u>**

6. The first question we have once again this year is whether the budget in its entireity has been done on a "top up basis" or whether it has been done on the zero-based budget process? This does not appear to be so. No information is given on what the OM has done to challenge its expenses across the board. Successful organisations in the private sector have shown repeatedly that zero-based budgeting is critical if a business is to survive, and the OM is no different to a business. It is too easy simply to take existing numbers and adjust them upward rather than critically examining each category of expense.

7. In the absence of challenging every single line item of the budget the situation is created where resources are not adequate and therefore not successfully deployed to high priority areas.

8. A zero-based budget should also critically look at the human resources employed and challenge those in charge as to whether as many are needed and whether what they are doing can be done more efficiently in another way.

9. An effective budget and financial management process leads to more resources being available for critical strategic imperatives which, presently, there are no funds for. Then more can be achieved with less.

**Property Rates Increase**

10. Of key concern to Ratepayers is the fact that historically property rates and other municipal charges have exceeded the rate of inflation by some margin. This point has been made to previous administrations.

11. Tariff increases of 9,7% and 6% are therefore of serious concern to ratepayers and residents.

12. Page 25 shows a high-level estimate of how the tariff increases might affect households It is therefore of some concern that the total monthly basket of services is budgeted to increase by between 6,5% to 7,5% (page 25) given the inflation data above. This is unsustainable however there is one further concern and that is that the table on page 25 does not correctly reflect the fixed charges at fifty-three rand and fifty-four cents. The fixed charges are far higher than this amount, so the impact percentages are therefore not instructive.

13. In the context of significant increases in property values the year before last leading to increased rates revenue in the 2022/23 financial year for 2024/25, the rates TARIFF was increased by 8%, water tariffs by 6%, sanitation/sewerage tariff increases by 8,9% and refuse removal by 11%. For properties of the same value as last year these year-on-year levels of increase above inflation on higher property values are just not sustainable when Consumer Price Inflation in 2024 was between 5 and 6% and in 2025/26 it is estimated to increase by 4%.

14. And now the tariff increases go further – in fact double the rate of inflation expected in 25/26?

15. The budget argues that fuel price increases and maintenance costs are the reason for over inflation increases however in the CPI basket of goods these expense items are included as well. We understand and acknowledge that the basket of goods used in the CPI is not always an ideal benchmark. However please remember that pensions and salaries are adjusted based on CPI if at all our people are lucky enough to get an increase in pension or salary.

16. The budget on page 12 indicates that property rates are budgeted to increase from R367 000 000 in 2024/5 to a budget of R383 977 000 in 2025/26 which is an increase of 4,6%. However, the property rate tariff has been increased by a percentage of 9,7%? There is a significant difference in these data points which needs further examination and

explanation. The only conclusion we can come to is that this disparity is because of a significant increase in cross-subsidisation.

The statement is made on page 13 is as follows *"The above table, relating to percentage increases for the different revenue categories, could reflect percentage changes that are not consistent with the annual tariff increases. This would be due to the baseline for 2025/26 and the subsequent adjustments budget and further reclassifications of revenue categories relating to mSCOA".*

mSCOA is not understood by the HRA and so further explanation would need to be provided before we could be in any way comfortable with a 9,7% increase.

17. Page 14 of the budget deals with Operating Transfers and Grant Receipts. Why has the "Human Settlements Dev & Informal Settlement Upgrading Partnership Grant decreased from R79M to R42,7M?

**Cross Subsidisation**

18. Page 34 – foot of Budget Summary under the heading of "Free Services" indicates that the budgeted "Cost of Free Services" is R35M for 2025/26. However, the line "Revenue Cost of Free Services Provided" has not been completed? Also, the Households below minimum service level has not been completed at all? Whilst for 25/26 you can understand that this might take some time to determine surely the data for prior years can be determined? We have no idea of the history and trends which underpin the budgeting process. This data must be available and should be included in this document.

19. Based on some of the new bases of setting costs such as electricity charges and the changes in exemptions it is very difficult to understand how the high tariff increases can only result in much lower estimates of revenue shown on the budget schedules. One of the explanations for this would be that there is a significant amount of cross subsidisation. From time to time, it has been said that there is no cross subsidisation of the cost of running the municipality. Clearly that cannot be correct.

20. Regarding indigent households, one has a perception that if only the income of the registered householder is considered, then the system is open to abuse. With the critical housing shortage there must be many multi-family households whose combined income exceeds the indigency threshold and who are not making an adequate contribution to the cost of services. The budget makes no mention of what the OM is doing to ensure that there is no abuse taking place.

21. The municipality approved during the previous year (2024/25) additional relief in line with the municipality's focus to render support to vulnerable groups – For the calculation of property rates payable on residential

properties, an additional reduction of R250 000 (Two hundred and fifty thousand Rand) over and above the standard residential rebates was applied to owners of residential properties with a total municipal valuation below R300 000 (Three hundred thousand Rand). To be noted that is now recommended that the level of relief be raised, to R350 000, in effect meaning that no property rates will be payable on properties with a total valuation of R350 000 and below (Three hundred and fifty thousand Rand). Over two years we have seen a material increase in the threshold where revenue from lower valued properties will drop to zero. Why is the exemption threshold increase so steep? What is the financial impact of this on our budget in rands? Is this reasonable? And all in a short time frame?

22. On page 14 of the budget document, it states various reasons for exemptions and rebates however there is no table reconciling the impact which each of these has on the rates revenue so we remain unclear as to how a tariff increase of 9,7% can result in only a 4,6% increase in rates revenue? Each year we have asked for an indication of the rand value of rates which are being forgone on the lower valued properties, but this information is not provided to help us understand how significant this change is?

23. A rudimentary calculation of the impact which exemptions and cross subsidisation is taking place is the following:
    a) Forecast rates revenue for 2024/25 is R 367M
    b) Budgeted rates revenue for 2025/26 is R 384M
    c) Budget is higher than prior year forecast by 4,6%
    d) Tariff increase is 9,7%
    e) Had the prior year revenue increased by the tariff increase then budgeted rates revenue for 2025/26 would have been R 402M which suggests that the increase in the cross subsidisation built into this year's budget is R 18M however the prior periods of subsidisation are not aggregated and so the aggregate level of subsidisation is much greater than R 18M.
    f) If the same calculation was made for the prior year budget when there was an 8% tariff rates increase whilst revenue only increased by 5,6% then the increase in cross-subsidisation over the last year only was R 8,3M.
    g) So, in this year's budget [2025/26] there is a very material increase in the extent to which some ratepayers are subsidising certain property owners and residents.

24. For service charges the tariff increase is approximately 6% however the increase in service charge revenue is 8%. What is the reason for the difference in percentage increase? Is it simply the fixed charges which have increased or something else? compensated for by the households below the minimum service level?

25. A further question relates to the budgeted decrease in "Other Own Revenue" from R 209M last year to a budget of R 173M for 2025/26. What is the reason for this?

## Salary Increases and Staff Resources

26. One of the largest expense items is Employee Costs and the Remuneration of Councillors. Other significant expense items include Inventory Consumed and Bulk Purchases as well at "Other Expenditure".

27. We note the statement on page 69 that *"The proposed increase in the salary budget is 5.07%, and notch increases, which average 2.5%, have also been budgeted, in view of the signing of the multi-year agreement."* We note as well that the total Employee Related Costs is proposed to be increased by 5,6%.

28. Councillor costs increase by 0,7% which does not appear to be correct given the statement on page 28 where mention is made of a 5% increase however it could be a result of the way in which counsellor and employee related costs are allocated?

29. The question however we have is whether the OM have embarked on a Government Efficiency project to see if the people related budgets can be reduced?

30. In table 12 (Budget Summary) on page 27 we note the following comments
    a. the Original Total Expenditure budget of R 1,944 billion for 2024/25 was increased by R98 million to R2,042M. The main areas of increase in the budget adjustment were the Employee, Councillor and Contractor costs. These three categories increased by a total of R33M. So that is the adjustments to budget last year from the original budget.
    b. And now the budget for 2025/26 is increasing these cost categories by a further R68M. This means the proposed people related budgets will be increased over the original prior year budget by 8,5%
    c. Budgeted employee and counsellor costs budgeted for 25/26 amount to R633M.
    d. In addition, for 2025/26 Contracted in Services are budgeted to be R354 M which is an increase of 12% on the prior year original budget.

    There is therefore a huge people related cost base, and the question needs to be asked as to whether this has been critically evaluated and is it sustainable in the longer term? Is the remuneration of top earners skewed in relation to those lower down? A further question which arises annually is the 2% notch increase over and above the nationally negotiated increases as this continually pushes up the wage cost.

31. Contracted Services have been identified as an area for the OM to implement efficiencies is stated on page 28. We welcome the comment made in prior years and again in this year's budget document that "*Contracted services have been identified as an area for the municipality to implement efficiencies," and* that *"this group of expenditure was critically evaluated and operational efficiencies are being enforced, a process that will be continued with."*

    This was a statement made in last year's budget.

    Despite this however the budget includes an amount of R354M for contracted services which according to Table 62 on page 100 is for outsourced services, consulting and professional services and contractors. Despite the desire to reduce this line item it is still budgeted to increase by 12%. How can this be reflective of a genuine effort to "implement efficiencies"?

    The budget document says that more detail can be found on table 62 however when one looks at Table 62 on page 100 all we can see is a three-part data breakdown of

    - Outsourced Services of R177M
    - Consultants and Professional Services of R40M
    - Contractors of R136M.

    No further detail is given which gives us the ability to understand further

    - the nature of this significant budget item and
    - whether or not and
    - how has the OM made any effort at all to reduce this expense item?

    Similarly, no detail is given to help us understand what is contained in the Operational Cost budget of R129,8 M?

32. On page 17 you indicate that "overtime budgets are abnormally high". Page 82 shows that the OM spends R42,3M on overtime. This budget is an increase of 20% on the prior year's original budget. This is much higher than we would have expected.

    Which controls are in place to avoid abuse of the willingness of the OM to pay for overtime? This is often an area of abuse in large private and public sector corporations so it would be helpful to know that the OM has controls and safeguards in place to mitigate against the risk of abuse.

**Water , Refuse and Sewerage**

33. Why is the cost of water, which in turn affects sewerage, so much higher than inflation? especially since the infrastructure improvement spend is a national or borrowing funded capital expense and not paid for by the OM?

34. The draft budget document indicates that fuel costs are increasing when in fact petrol and diesel prices are dropping both locally and globally.

35. Furthermore, you indicate in various places the risk of loadshedding will impact on costs however the incidence of loadshedding has been significantly reduced compared to prior years?

36. You indicate that the cost of sewerage is affected by the "procurement of new fleet underway". Why should ratepayers who do not use the "new fleet" must fund this expense? Surely it is only the properties which use these vehicles that should meet the increased cost? And furthermore, surely expenditure on a "fleet" is a capitalised expenditure and not accounted for as an "expense"? Is it not a much more sustainable solution to rather install waterborne sewage systems?

37. Page 24 indicates that the Sewerage Charge is to be subsidised by other ratepayers in the case of Guest Houses and B&B Establishments. The unit per month is the same as all residential ratepayers but these establishments only pay in respect of 70% of the consumption of water. Why should this be so? the budget document leaves one with the impression that Guest establishments are getting preferential treatment for no apparent reason other than to benefit the owners of these establishments. This is true for "Departmental" – why should they only pay based on 70% of max 50kl water usage? Surely one of the principles the budget should be prepared on is to be even-handed and equitable.

**Ward Priorities**

38. In the IDP there are numerous "WARD PRIORITIES" which for Ward 3 and other wards clearly include several items which are of differing criticalities and urgencies. The Executive Summary of the Budget states that "The Municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes to maintain sound financial stewardship. A critical review was also undertaken of expenditure with regards to cost containment measures, non-core and 'nice to have' items." However, the IDP does not show how these many items in the IDP should be differentiated in terms of importance and urgency so that our limited resources can deal

with the most important first? Having a long list which is not prioritised into “must do soon” and “nice to do” will mean that when resources must be deployed to unbudgeted yet critical areas then there will be no money to attend to them? An example would be that water resource infrastructure projects are a much higher priority than traffic calming.

**Baboon management**

In terms of WARD priorities, we are concerned that insufficient provision has been made for baboon management. We are aware of the current interim Baboon Management programme, budgeted for a six-month period, that was put into place after the sudden withdrawal of Human Wildlife Solutions. We are concerned on how this programme will be effectively sustained into the future. We note that the current budget makes provision for the continuation of the current salaries and wages for the programme, but there is no provision for a service provider and/or tools and equipment that may be required. We believe that it remains important for the Municipality to continue to ensure that a relationship is maintained with both the Department of Environmental Affairs and Cape Nature and that they support endeavours to ensure that baboon Management is addressed in a coordinated manner. We believe that the wellbeing of the baboons is a primary responsibility of Cape Nature but contend that the municipality has the role and an obligation to ensure safety and security to its residents. Accordingly, the OM must participate in the development of and the contribution to funding of sustainable solution to ensure the safety, security and wellbeing of its community. We understand that OM may be looking to the HPP to play an active role in the baboon management function, but this requires changes to its mandate and is unlikely to be an immediate solution. We also argue that the OM still has an obligation to contribute to baboon management through its ordinary budget in accordance with its safety and security mandate. We strongly contend that the baboon issues affect residents’ quality of life, property values and ultimately tourism and economic activity if not managed effectively. We would like to see the budget be clearer on the municipal contributions to baboon management. We believe that the Municipality to which our rates are paid should fund the continued management of this quality-of-life risk. As noted last year, we do not agree with the stance previously taken by the Environmental Department to say that “baboons are a lifestyle choice and living on the urban fringe is a lifestyle choice. You will have to take [your own] preventative measures…” is not acceptable to the people of the HRA. This is a safety and security matter of no less importance than the overall safety and security issues which challenge us in the Overstrand.

**Electricity Charges**

39. In 2024/5 the fixed charges for electricity were increased from 2023/24 to 2024/25 by the introduction of a capacity charge and a significant increase in the infrastructure and basic fixed charge. The increase in these basic/fixed charges was from R600 to R727. We have several comments in this regard:
    a) This was a 21,2% increase which we find completely unacceptable.
    b) Why is the OM levying a significantly higher fixed charge than other municipalities? and higher than cost?
    c) Eskom does not levy such a significant fixed charge to suburbs receiving an electricity feed directly from Eskom.
    d) This is not consistently applied for wards across the OM. If there is a need for fixed charges, then this principle and the charges should be consistent whether you live in one of the free-standing properties in the suburbs or in a golf estate home.

    Either way the budget document provides no explanation for these fixed charges. In addition, it does not deal with the inconsistencies in this regard across the wards and suburbs of Hermanus specifically and the Overstrand generally.

    Any further increase in fixed charges is not acceptable.

*40.* Page 22 states the following extract from the Western Cape government Municipal Energy Resilience Project:" The *basic charge will decrease over the 4 years of the phased implementation, as part of the electricity tariff structure, since the costs of service rendering for this service also have a large component representing overheads/fixed costs." "Due to comprehensive nature of the tariff reforms, it was recommended that the proposed recommendations be phased in over 4 years, with a phased approach which started on 1 July 2024."*

    We cannot see how this has been factored into the budget of the OM for 2025/26.

    The reason we say this [refer page 23] is that inclusive of the capacity charge the fixed charge was R727 per month. OM have reduced the Basic Monthly Charge per meter BUT have increased the Capacity Charge from R171.81 to R378.12 which means the total fixed charge for residential properties will go up from R727 to R873.34 which is a total fixed charge increase of 20.23% increase. This is unacceptable.

41. We could find no analysis of the impact which private homes investing in solar energy panels and battery systems will have on the estimate of electricity being consumed and charged for.

42. We also cannot see any disclosure of the markup on the Eskom tariff which the Municipality charges. We have requested this of the OM on many occasions in the past. As you will be aware some time ago Andre De Ruyter was critical of many unspecified municipalities for the size of their markups on Eskom rates. We have requested this information from the Finance Manager on several occasions in the past and this information has not been forthcoming. The budget document should make this disclosure in the interests of transparency.

43. The third largest expense is bulk purchases of electricity amounting to R 556M in the budget and we note that the increase of 11.32% notified by NERSA to Eskom has been budgeted for. [ Page 28]. Table 20 however shows that the revenue charged by the OM amounts to R 745M which amounts to what appears to be a profit over cost of electricity of R 189M. In percentage terms it is a profit margin of 25,3%. It appears therefore that the OM is making a significant profit over cost which is what Eskom does not want municipalities to do? it also does not comply with the request of National Treasury to levy charges on ratepayers based on the costs incurred.

44. Page 17 Table 5 shows the change in surplus percentage recovered by the OM for electricity and water. These amounts do not align with Table 20 on page 38? The profit above cost according to Table 5 for electricity approximates 4% while the profit above cost for water is averaging 10%. Why do you need to profit from ratepayers when these expense items including sewerage are already so high? this is particularly since **both Eskom and National Treasury have urged all municipalities to ensure that tariffs are "cost reflective"?**

**<u>Renewable Energy Funding Foregone</u>**

45. Many years ago, the Western Cape Provincial Government indicated that Overstrand would be one of several municipalities in the Western Cape that would get funding for Renewable Energy investment. It is not clear as to whether this funding has been requested nor what it is planned to be invested in.

46. Table 16 on page 30 indicates Provincial Govt funding planned however it shows a decrease from R33M in the 23 years to a budget of R13M. What is the reason for this? and is any plan in place to take advantage of this funding promise or has it lapsed? The Top 10 Capital Projects on page 30 makes no mention of any planned investment in renewable energy.

47. There is no mention made of the move to "Renewables". In view of the huge increases expected from ESKOM one would expect some investment in this area. It is suggested that the OM once again

encourage households who have the capacity to supply surplus to the municipality at very favourable rates.

**Debt Impairment and Irrecoverable Debts Written Off**

48. We have noted the significant increase in debt impairment and irrecoverable debts written off when compared with prior years.

49. Comment on page 28 states that this set of amounts is based on (annual collection rate of 98%).

50. However, there is no indication of the reason why these two amounts have increased by so much?

51. It would have been helpful to understand from the budget document what the OM is doing to reduce if not eliminate bad and impaired debts.

**Other Expenditure**

52. In Table 17 on page 34 there is a Budget Summary. Under Expenditure is an amount of R609M for "Other Expenditure". This is 29% of the total expenditure of the OM. We have previously asked for supporting details and this is again requested as to how this is broken down as the amount is very material. On page 26 it is said that "*Other Expenditure, now classified as Operational Costs in mSCOA, comprises of various line items relating to the daily operations of the municipality."* and that *"This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved".* Table 62 MBRR SA1 does not give supporting details of this R609M.

53. On Page 28 states "*Other Expenditure, now classified as Operational Costs in mSCOA, comprises of various line items relating to the daily operations of the municipality. The introduction and reclassification resulting from mSCOA has caused a shift in expenditure previously classified and budgeted under general expenses to Inventory (materials) and contracted services. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved. Further details relating to other expenditure can be seen in Table 62 MBRR SA1. It is highlighted that the NT A Schedules, although revised, does not sufficiently reflect all mSCOA classifications relating to all types of expenditure."*

54. Table 62 MBRR SA1 does not give supporting details of R609M Other Expenditure. Refer to pages 102 to 104 of the budget document.

HRA April 05, 2025