

6 May 2025

The CFO
Overstrand Municipality
Hermanus

Dear Santie

Questions Regarding the Draft Budget (2025|26)

This document should be read in conjunction with the following documents (both appended for ease of reference):

- OCAN's Review of the OM's performance (Draft Audited Annual Report 2023|24)
- OCAN's Review of the OM's Draft Budget Report (2025|26).

Having perused the Draft Budget Report, OCAN has the following questions:

1. Property Rates

- How does an increase of 9.7% in the **Cents in the Rand valuation** of rateable properties across the Overstrand translate into a **budgeted Year-on-Year revenue increase of only 4.63%** (refer Schedule 2 of the Draft Budget Report 2025|26)?

2. Tariffs

- How are the **fixed charges** per service determined?
- Can you provide us with a Year-on-Year comparison of **fixed charges increases** for each service covering the period 2019|20 to 2025|26 (both financial years included)?
- Given the proposed rates and tariff increases, how did the OM determine '**tariff affordability**'?

3. Cost of Supply Studies

- Did the OM perform CoS-studies in respect of every service?
- When were these studies done, and by whom?
- Did the results of these studies serve before Council?
- Were the outcomes of these CoS-studies approved by Council? If yes, when?
- **Are the proposed tariff increases fully cost-reflective?**

4. Cross-Subsidisation

- What is the OM's approach to cross-subsidisation (one service to another, one community to another, one household segment to another)? Please elaborate.

5. Performance Bonus Payments

- How does the OM-Council justify the payment of a performance bonus to the Municipal Manager when the institution only meets or exceeds 70.22% of its Key Performance Indicators (KPIs)? Refer audited Annual Report for 2023|24.

6. Fleet Renewal

According to a recent statement by the Municipal Manager, the OM's fleet is in a 'dilapidated' condition.

- What will it cost to upgrade the fleet?
- How much has been provided for fleet renewal during the 2025|26 budget year?
- Provisions during the outer years?

7. Travel Expenses – Company Vehicles

Several OM-employees use OM-owned vehicles to travel between their residences and their place of work.

For example: The employee lives in Caledon, but his | her place of work is Hermanus.

- Is this practice being tracked? If yes, by whom?
- What is the total monthly spend on fuel and maintenance that can be attributed to this 'benefit'?
- Where is this cost reflected in the monthly reports and annual financial statements?
- What will the MM |Accounting Officer be doing to restrict this spend?

8. Overtime Spend

This is an ongoing area of concern, which the MM is struggling to contain.

- Why do Law Enforcement employees frequently travel four per car during weekends and after hours?
- At what cost?
- Does overtime spend, as reflected in the audited financial statements, provide the full picture?

9. Illegal Electricity Connections

Considering the in-your-face illegal electricity connections in townships across the Overstrand, it is hard to believe that electricity revenue losses only amount to 7.6% or R24.9 million for 2023|24 FY (refer final Annual Report, 2023|24). We suspect that the revenue loss must be considerably higher. These losses come at a cost to ratepayers, and are no doubt factored into the draft budget.

Quoting from p.231 (Annual Report):

Illegal connections are on the rise, and we are making every effort possible to curb the losses and prevent the loss of lives and damage to infrastructure. Discussions are underway with various key role-players to ensure that no stone is left unturned in the fight against illegal connections and electricity theft.

- What exactly is the OM doing to kerb this loss? Is the plan working? How do you know?

10. Anti-Land Invasion Unit

- How many employees in this unit?
- What is this unit costing ratepayers (Total Cost to Company)?
- Where is this cost reflected in financial reports?

11. Zero-based Budgeting (ZBB)

- Why does the OM not adopt zero-based budgeting as a method of budgeting?

12. Business Improvement Initiatives

What will the OM be doing to:

- Bring operating expenditure under control?
- Significantly reduce Contracted Services and overtime spend?
- Soften the impact of rates and tariff increases?
- Explore alternative | new revenue streams?
- Fill key roles?
- Mitigate the impact of cost drivers?
- Serve better and extract less?
- Improve the integrity of the financial data it produces?

13. Spending Cuts

On several occasions, the former Mayor referred to the OM as an 'expensive municipality'. We know that.

Going forward, the citizens of the Overstrand want to see dramatic spending cuts (without a deterioration in the level of service) and investments where it matters most (e.g. infrastructure development and renewal).

- Where will the Budget Steering Committee introduce spending cuts ahead of the adoption of the final budget for 2025|26?

14. Summary

OCAN holds the view that:

- The OM's financial reporting does not necessarily reflect a true picture of actual expenditure per vote
- Significant cost savings can be achieved through various interventions and effective business leadership
- The proposed rates and tariff increases can be reduced if the OM-leadership applied critical thinking, solicited external input and took bold decisions to cut cost (without sacrificing the institution's financial sustainability)
- We would like to see improved financial discipline.

During previous years, the Office of the CFO refrained from addressing challenging inquiries from ratepayers. This approach must come to an end. We seek clear, transparent responses to our questions and full disclosure on all relevant matters.

Given our vested interest, OCAN is looking forward to working with the OM-leadership to co-create solutions in respect of the challenges the institution faces.

