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Victor Khanye Local Municipality  
Revenue enhancement and debt collection  
strategy

DRAFT

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# PART 1: DEBT COLLECTION STRATEGY

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## 1.1 BACKGROUND

In order for the municipality to function properly through the implementation of our SDBIP the payment rate of the municipality needs to be 75%. Currently the payment rate is on average 60%.

## 1.2 DEBT COLLECTION

According to the credit control and debt collection policy the municipality may collect outstanding amounts through the following means:

- Disconnection / restriction
- Barring of prepayment services
- Allocating a portion of any payment of prepayment services to arrear debt
- Insisting on pre-paid supply meters being installed at debtors own costs
- Emoluments
- Withholding of clearance certificates
- Legal processes
- Withholding payments of grants-in-aid
- Withholding payment on contracts

As one can see from the above the available measures that can be used are well illustrated. The municipality needs to develop strategies regarding all the above to ensure that the best possible action is used per consumer or consumer group.

The debt collection problem can be broken down into several smaller problems, namely:

- Indigents,
- Areas where electricity is provided
- Areas where no electricity is provided
- Councillors and staff members,
- Poorer consumers,
- Churches,
- Government employees,

- Wealthier consumers,
- Vacant stands,
- Closed accounts and consumers,
- Insolvent businesses,
- Insolvent and deceased individual, and
- General.

Consumers should also be educated on why they should be paying and what they are paying for.

### 1.2.1 Indigents

Indigents are classified according to the indigent policy as consumers who do not earn sufficient income to pay their entire municipal account or part thereof.

#### **Problem areas**

The indigents have been verified. One of the major problems with indigents is the fact that they owe the Council vast amounts of money from the past as a result of their inability to pay. The probability of these amounts being collected is practically non-existent. This results in the debtors' figure of the Council being overstated at an unrealistic value.

The indigent register consists of 2,552 consumers. This figure is lower than what it should be as the demographics of the municipality indicate that it should be between four and five thousand.

There are indigents on the indigent register which is not properly verified by Ward Committee. It is possible that there are indigents on the list which should not have been on the list and they do not qualify for indigent status.

#### **Possible solutions**

The implementation of the indigent policy needs to be correct; the Ward Councillors need to review every indigent on a annual quarterly basis to ensure accountability as well as ensuring that the equitable share is in fact used for the correct individuals.

All outstanding amounts that accrued to the indigents before them registering as indigents should be written off. A R 248 million provision for bad debts has been provided for in the annual financial statements, which means that the Council can write off debts to the value of R 248 million. The value of indigent debtors is equal to approximately R 50 million. This will assist in the debt collection program because there will be fewer debtors to manage.

Statistics are readily available on the indigents and the subsidy given. The number of indigents per area has been calculated along with the subsidy provided in each area. This gives the Council an indication on whether the equitable share is running at a profit or a loss. The subsidy is currently running at a profit, the treasury staff will have to carefully work out to what level they can raise the minimum income by.

The indigent register should be verified by Ward Committee members and if there is an indigent on the list that should not have been approved, all subsidies should be reversed and recovered.

### **1.2.2 Areas where electricity is provided**

The municipality only provides electricity in certain areas. Where electricity is provided the procedures based on section 1.3.6 should be implemented.

### **1.2.3 Areas where no electricity is provided**

The areas where no electricity is provided have the following possible solutions:

#### **1.2.3.1 Water meter management**

The areas where the municipality does not provide any electricity is has the biggest debtors book. These areas included:

- Botleng Extension 3;
- Eloff town;
- Sundra;
- Rietkol;

Installation of pre-paid water meters in these areas in a phased approach whereby meters will be installed in various areas. The cost of these meters will be paid with the arrears that is recovered during the process. The sale of water will be linked to the electricity purchases and can also be purchased at vending stations, internet or cell phone. Should a consumer be in arrears, 50% of the amount tendered for water should be allocated to arrears and 50% of the amount tendered should be allocated to the purchase of water. Should the account be settled in full the consumer will enjoy the full benefit for the amount tendered.

#### **1.2.3.2 Implement garnishee**

If the first strategy does not work, we will need to implement garnishees against the consumer accounts through the services of a legal firm.

### **1.2.4 Councillors and staff members**

Councillors and staff members should pay for their services, as they should set an example to the community. Amounts are deducted on a monthly basis from the staff during the payroll runs. The addresses of all councillors and staff members should be verified to ensure that all the accounts that is linked to the afore-mentioned are collected. This process should include the verification of accounts that are in the name of a spouse that is not an employee of the municipality.

### **Problem areas**

A proper assessment should be made of staff members that owe the municipality money.

### **Possible solutions**

A list of all Councillors and employees including their spouses, to be provided to the Revenue Department so that their accounts can be verified with the deeds office and any other means of physical address verification.

All Councillor and employee accounts must be deducted from their salaries on a monthly basis. If the account is in arrears, the account should be settled before the end of the financial year.

## **1.2.5 Poorer consumers**

Poorer consumers are consumers who can barely afford to pay their municipal account but do not fall within the requirements to be declared indigent.

### **Problem areas**

The problems which is experienced with the poorer consumers is that they will not be able to afford the payment of their current account as well as the settling of arrears over the required time frame as stated in the credit control by-law.

The consumers will also not be willing to pay for their services due to the fact that the quality of service provided might not, according to them, be worth the money paid for that particular service.

### **Possible solutions**

The Municipality cannot compromise when it comes to the payment of any consumer's current accounts. The payment of arrears can be negotiated with the consumer, because if a consumer owes R 8 000 and according to the credit control policy will have to pay it in 24 months, which means that the minimum payment will be R 333. So the consumer will have to pay, at the current tariffs, the current account of R 200 plus the arrangement of R 333, which equals R 533 per month for the next 2 years. This seems a bit high considering the income levels of the community. Whoever the Municipality places in that position will have to use their discretion. The proposal placed onto the table

would be to see if the Municipality can recover the money within the next four years, therefore all arrears should be collected by 2015 and work out arrangements according to that date.

The Ward Committee members should communicate with their community to identify community leaders in their ward and task them to visit the community in their area, e.g. a block, and encourage them to pay for their services. Areas where the payment of services is good should be rewarded by improving the area and thereby making it one of the better areas to live in.

### **1.2.6 Churches**

Churches are organisations that are not responsible for assessment rates in accordance with our property rates bylaw.

#### **Problem areas**

The inability to pay for their accounts due to the lack of contributions by their members.

#### **Possible solutions**

Investigate the type of debt on the account and do the necessary adjustments in terms of Property Rates.

Conduct individual meetings with the Churches to:

- Obtain clarity regarding the possible problems they have with their accounts.
- Develop individual strategy for the collection of their accounts.
- If necessary prepare an item to Council to write off.

### **1.2.7 Government employees**

Government employees are those people that work for the State, either in the SAPS, teachers, etc.

#### **Problem areas**

This section has the funds to pay for their accounts, but are not willing to pay for their municipal services.

#### **Possible solution**

Consult directly with the Government Departments and agree on a method whereby the municipality submits the municipal account information to the relevant department, the amount is deducted from the employee's salary and subsequently paid over to the municipality.



### 1.2.8 Wealthier consumers

Wealthier consumers are consumers who can afford to pay their municipal accounts, but due to unknown reasons refuse or omit to pay their accounts.

#### Problem areas

Some of the domestic consumers who can afford to pay their municipal account do not pay it for unknown reasons.

There are businesses, which do not pay for their services due to poor cash flow or ignorance.

#### Possible solutions

Any consumer who enters into an agreement must produce their pay slips as well as any other income derived from other members living in the house. If it is deemed according to the credit control officer that the person can pay their account the consumer will have to pay off their arrears in 12 months along with their current account. If the consumer does not comply with agreement the water and electricity must be disconnected until the account is settled in full. Under no circumstances will exclusions or special arrangements be made. It is imperative that the Municipality target consumers who can afford to pay for their services and have no mercy when it comes to payment.

All businesses that owe the Municipality money should be highlighted and called upon telephonically to settle their account or else they will face disconnection. If the problem cannot be solved telephonically an appointment must be made with them to see how to settle the situation so that both the Municipality and the business do not suffer in the process.

If the consumer is unable to pay the full outstanding amount, suggest that they get an extension on their bonds to pay their arrear accounts.

### 1.2.9 Vacant stands

A vacant stand is a stand that does not have a building on the premises, but is levied availability levies and assessment rates.

#### Problem areas

Many consumers own vacant stands but cannot afford the levies charged on the stand due to the fact that they simply cannot afford it or that they are not willing to pay for it due to the fact that they feel that the Municipality can reposes the stand or sell it on public auction.

Many of the vacant stands if repossessed and sold on auction will not sell for the amount that is owed to the Municipality. That means that once the Municipality has sold the stand there will still be an amount owed to the Municipality.

## **Possible solutions**

All vacant stands that are in arrears with their municipal account should be identified and listed. If the debt on stand will exceed the cost of legal action then legal action should be instituted in order to sell the land in execution. Once the process is complete, the stand will revert back to the council for further development purposes.

### **1.2.10 Closed accounts**

Many accounts are opened for consumers who are merely tenants and are therefore only responsible for water, electricity and refuse. If a consumer moves without notifying the Municipality the money does not get collected and the account is then closed.

#### **Problem areas**

As stated above the consumers move into a premises and overnight move out without notifying the Municipality. The account does therefore not get paid and the deposit is used to settle the account. Sometimes the deposit is insufficient to settle the full account and an amount is still outstanding which cannot be recovered.

#### **Possible solutions**

There are two ways of addressing this problem, namely immediate action and preventative action.

##### **Immediate action (14)**

- A list of all the closed accounts should be made; indicating the amount outstanding and if there is still a deposit it should be credited to the respective account.
- If an account has been closed and there is still an amount outstanding the consumer should be traced and if still living in the Victor Khanye area all services should be immediately disconnected, even if the new account has been opened in someone else's name and the defaulter is living on the premises.
- If the defaulter was a tenant and cannot be traced the amount should be recovered from the landlord.

##### **Preventative action**

- The deposit of a tenant must be increased to an average of three months accounts so that if the tenant does leave without notifying the Municipality there will be a large enough deposit to cover the arrears.
- Tenant accounts should be monitored monthly for movement on the account, if there is no movement the matter should be investigated.

- Credit control must be strictly enforced on tenants so that the outstanding amount does not exceed the deposit already paid. If a tenant does not pay, all services to the premises must be discontinued within seven days of the account becoming due.
- If the tenant is not paying for the services the owner should be notified to request assistance in this regard.
- All tenant accounts be consolidated to the owners account except for the following instances:
  - Government departments;
  - Buildings with multiple tenants;

### **1.2.11 Insolvent businesses**

Many businesses are going insolvent, which leads to the Municipality losing the amounts owed to them.

#### **Problem areas**

If a business goes insolvent, the Municipality has to lay a claim against the executor in order to recoup the money owed to it by the insolvent business, this often leads to a delay in the collection of the money as well as the possibility that only a portion of the money owed will be received.

The municipality allows businesses to accumulate arrears and thereby incurring the risk that if the business does go insolvent the money owed will not be collected.

#### **Possible solutions**

There are no solutions to an insolvent businesses, the Municipality can only institute preventative action to prevent them from going into arrears. The Municipality must not allow businesses to go into arrears by the implementation of the credit control by-law.

Businesses who are unable to pay their accounts due to cash flow problems should be properly managed in order to assist them and reduce the risk of having to write off debt unnecessarily.

If a business goes insolvent and not all the money owed is recovered the outstanding balance should be written off, to make the debtors figure a true reflection of how much can be recovered from the businesses.

### **1.2.12 Insolvent and deceased individuals**

#### **Problem areas**

If an individual goes insolvent or passes away the amount owed by him/her is not always collected.

### **Possible solutions**

The solution is stated many times in this report; the consumer's accounts must be properly managed so that the account does not go into arrears and thereby reducing the risk of loss of income.

If the amount collected is less than the amount outstanding the difference should be written off.

#### **1.2.13 General**

It is clear that the implementation of the credit control by-law is imperative to keep the Municipality financially viable. Above there are various different problem areas highlighted and possible solutions thereto, but the most difficult problem is the management of the number of debtors. In order for debt collection to be successful each individual debtor's account needs to be managed.

It is very clear that data cleansing forms a crucial part for the collection of debt that is owed to the Municipality. Accurate data ensures that the debt collection process will be functioning properly and it will assist where legal action needs to be taken.

Ward councilors are the representatives of the community to the council therefore it is important that they educate the public about the seriousness of paying services. It is important that every ward councilor should report to the council about their ward debtors status. The political office plays an important role in the debt collection and revenue enhancement strategy.

A billing committee could be established in order to address issues regarding billing and solutions to any matters that arise.

## **1.3 ALTERNATIVE INCOME SOURCES / MAXIMISATION OF INCOME**

The Municipality needs to look for alternative income sources in order to address both the short and long-term cash flow deficiencies. This does not mean that the Municipality needs to deviate from its core business; it just means that existing income categories need to be enhanced. Some of the sources are the following:

- Municipal property,
- Property rental,
- Traffic income,
- Other income;
- Meter readings and cut-offs;
- Weigh bridge;

Tariffs may not be adjusted during a financial year but can only be adjusted in the next budget within the context of the MFMA.

### 1.3.1 Municipal property

The Municipality must identify possible land to sell in order to improve the cash flow of the Municipality in the short-term. As indicated this is a short-term solution with possible long-term side effects.

Process to follow:

- All municipal property needs to be identified which can be sold.
- The valuation of these properties needs to be obtained from the valuation role to use as a benchmark for the selling price of the property.
- The zoning needs to be established so that the long-term objectives of the Municipality are not paced in jeopardy.
- The Municipality needs to determine whether any of the properties are security for loans.
- It needs to be identified whether the properties have any lease contracts.
- A return on investment needs to be determined (possible the overdraft interest rate of prime plus one, plus another three percent) so that the Municipality can determine whether the return on investment is sufficient to keep the property or to sell it.
- A report on the findings needs to be prepared and presented to Council for approval.
- Then the process of requesting tenders for the sale of the property needs to be advertised and the sale of property needs to take place.

In making this decision the Council needs to look at both the short-term cash boost as well as the long-term implications of the sale. Some of the factors to look into are:

- Effect on property market,
- Long-term cash flow to the Municipality,
- Borrowing capability of the Municipality.

The asset transfer and disposal guide issued by National Treasury should be used as a guideline to ensure that any process is within the context of the MFMA.

### 1.3.2 Property rental

The Council owns several properties where rental is obtained; some of these properties are running at a loss. This is due to the fact that some of the properties are let out at sub-economical tariffs. The cost of the upkeep of the

flats needs to be determined and a return on investment needs to be determined (prime plus 4%) and from that the rental required can be determined. If the rental income is lower than a market related rental then the market related rental income, needs to be used. It is imperative that all municipal property is let out at economical tariffs. The municipal property belongs to the community and if the property is let out at a loss it impacts negatively on the community as well as the capability of the Municipality.

If the rental expenditure still exceeds the income the department will have to be stream lined to make it an economically viable department. If this is not possible the department will have to be outsourced to estate agents to see to the well being of the properties.

### 1.3.3 Other income

All departmental heads should look at ways and means of improving the income of their respective departments, devise a plan and lay it before Management for discussion and approval, after which implementation. The finance department can assist in this process.

### 1.3.4 Meter readings and cut-offs

~~The meter reading services are currently outsourced.~~ The municipality needs to address the following shortfalls identified with regards to the meter reading and cut-offs.

- Cut-off procedures
- Management of the exception lists
- Factors used in the metering process
- Audit of pre-paid meters for tampering
- Fixing of water meters
- Smart metering

### 1.3.5 Weigh bridge

A weigh bridge should be implemented for all the heavy vehicle transport that pass through Victor Khanye. As there are a lot of mines and industrial business the municipality could benefit by enforcing the use of a weigh bridge.

### 1.3.6 Cut-off procedures

At present there are extensive cut-off procedures, the lists are provided to the electricians and they are expected to cut-off as instructed. The following procedure is followed:

- A notice is delivered to the consumer in arrears;
- The list is developed after all possible efforts have been made to process all the receipts to ensure that the people are not incorrectly disconnected.

- That if the person gets disconnected and pay their account it will take up to 48 hours to be reconnected depending on the workload of the electricians.
- That there is synergy between the finance department and the electricians that disconnects the consumers.
- Ensuring that the draft credit control policy is implemented as per section 3. The municipality must first afford the consumer 7 days after payment date to settle their outstanding account.

One of the main reasons we need to perform this exercise is to comply with the credit control by-law and to ensure that the process is streamlined to ensure that the timelines are strictly adhered to. If we take the accounts that are payable on the 15<sup>th</sup> of March as an example. The following table will illustrate the date when actual cut-offs can be made:

| Action                           | Start date     | Days required  | Finish date |
|----------------------------------|----------------|----------------|-------------|
| Final payment date               | 15 March<br>15 |                | 15 March 15 |
| Prepare preliminary cut-off list | 16 March<br>15 | 1 Working days | 17 March 15 |
| Final cut-off list prepared      | 17 March<br>15 | 1 Working days | 18 March 15 |
| Disconnection                    | 19 March<br>15 | 7 Working days | 26 March 15 |

### 1.3.7 Vending of pre-paid electricity / pre-paid water

Currently pre-paid electricity can be bought at various vendors across the Victor Khanye area. The current policy in place regarding 50% arrear and 50% pre-paid electricity.

Due to the implementation of Inclining Block Tariffs the revenue from electricity sales decreased drastically and have a negative effect on the cash flow as electricity tariffs for most consumers decreased.

In order to address the matter the consumer must pay his 30 days account in full before electricity / water can be purchased. Should the consumer be in arrear, 50% of the amount tendered should be allocated to arrears and 50% of the amount tendered should be allocated to the sale of water or electricity. Once the account is fully settled the consumer will be able to get the full value for the amount tendered.

### 1.3.8 Management of exception lists

The meter readers and the technical department must provide the municipality with an exception list that highlights possible mistakes / failures with the meter of the consumer. These exceptions need to be placed into a schedule and provided to the relevant department (water or electricity) to be cleared before the next months billing cycle. A report needs to be submitted to the CFO on a monthly basis regarding the progress with regards to the list.

### **1.3.9 Factors used in the metering process**

Meters register in different units, these units are then multiplied by a factor that will then indicate the consumers Rand value bill. An audit of all the factors used and their applicable meters needs to be undertaken to ensure that the meters are linked to the correct tariff.

### **1.3.10 Audit of pre-paid meters for tampering**

It is a common known fact that some consumers tamper with their pre-paid meters in order to avoid paying for electricity. The following should take place to address possible tampering of meters:

- An audit of all pre-paid meters should be undertaken to ensure that they are working correctly and are not tampered with.
- The consumption of pre-paid users must be monitored to assess whether they are purchasing electricity. Exceptions need then to be followed up on a monthly basis.

### **1.3.11 Water meter management**

There are many water meters that are broken or malfunctioning, these meters are highlighted in the exception reports and should be addressed as soon as is possible to ensure that water consumed is billed correctly and to prevent any further water losses.



## PART 2: INFORMATION TECHNOLOGY

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With the change from the former financial system to Sebata some discrepancies have occurred with regards to the following:

- Reconciliation of tariffs
- Master files
- Knowledge regarding system

### 2.1 RECONCILIATION OF TARIFFS

The accuracy of the tariffs captured onto the system is subject to human error. There needs to be an exercise undertaken that will perform the following:

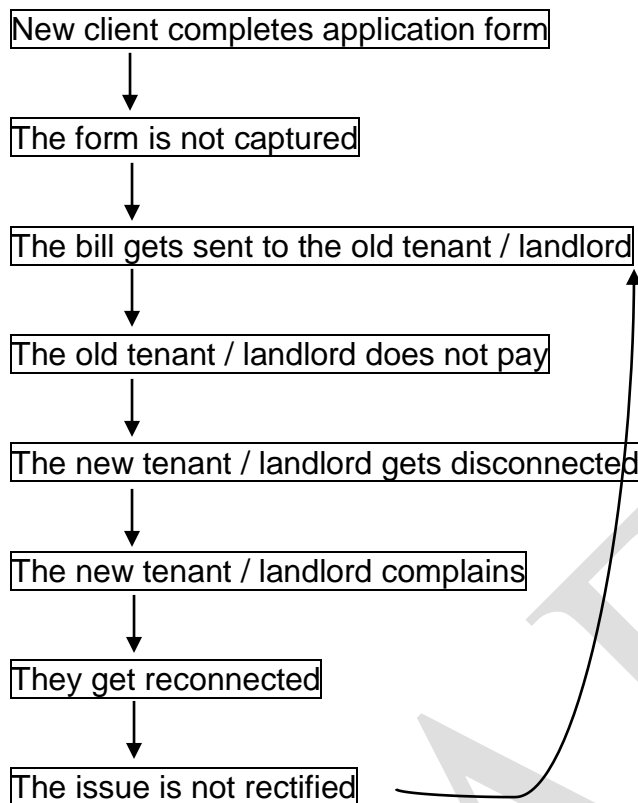
- Reconcile the calculations on the approved tariff list with those of the previous financial years to ensure that the correct tariff increases were approved by Council.
- Once the above has been performed, the corrected tariff list needs to be reconciled to the financial system and the appropriate corrections made.
- Once the above has been performed, a sample of consumers accounts need to be tested manually to ensure that the proper tariffs are being used and calculated by the financial system.

### 2.2 MASTER FILE

#### 2.2.1 New applications

In order for a new client to apply for services, they must complete a form and submit this form to the municipality for capturing, determining the deposit and connect their services. The form should be generated from the system and after it has been captured should be verified by the consumer and signed.

The following situation is currently taking place:



From the above it is clear that the following needs to take place to ensure that this situation is corrected and that it does not take place in the future:

### Correction

In order to correct this we need to capture all the outstanding application forms and bank the deposits to ensure that all funds received by the municipality are indeed in the bank. We therefore need to do the following:

- Capture the forms to ensure that the correct information is on the master file.
- Receipt all the deposits to ensure that the funds are in our bank account.
- Do the same for all the outer towns to ensure that they are also up to date.

### Prevention

Besides the above, we also need to prevent this from happening in the future. The following needs to take place:

- Allocate the task to a specific individual to ensure that this takes place on a daily basis.
- When a client comes into the headquarters the application form must be captured immediately to ensure the following:
  - The information is correct
  - The deposit amount is determined immediately

- The client can pay the deposit immediately
- The appropriate receipt can be captured
- The money can be banked the same or next day
- Application forms must be captured at the units so that they can be captured on a daily basis.
- There is not a review system in place, a person needs to be identified to ensure that the application form and the financial system are checked for accuracy.

### 2.2.2 Assessment rates

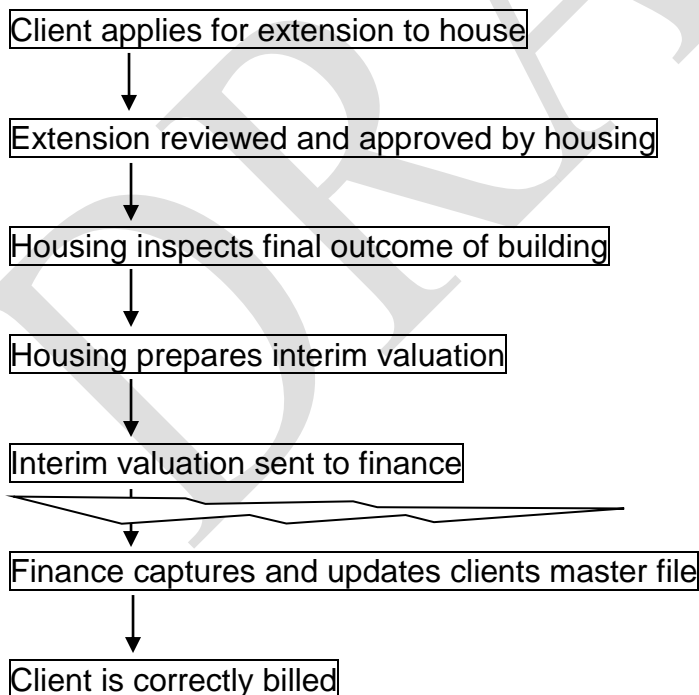
The following deficiencies are currently experienced with regards to assessment rates:

- No proper updating of the interim valuations.
- Updating of the valuation roll.

#### Interim valuations not properly captured

There is a gap between when the interim valuation is received and when it is updated onto the system.

The following process takes place:



Finance receives the interim valuations not timeously. The following needs to be implemented to ensure that this is corrected:

- Internal staff member needs to be identified
- Trained
- Capture backlog

- Update continuously
- Income manager to review on a monthly basis
- Report to CFO on progress

If this is not done on a monthly basis the municipality will stand a chance of forfeiting revenue.

### **2.2.3 Water services**

The following needs to be addressed with regards to the water master files:

- It is possible that not all water meters have been captured onto the system.
  - A project needs to be undertaken to ensure that all water meters are correctly captured onto the system.
  - Or a reconciliation of the meters on the system should be performed to the information that is obtained by the meter readers.
- It is possible that the basic water charges are not accurate:
  - All companies that are required to pay for basic water need to be listed and reconciled with the financial system.
  - Once reconciled the basic charge needs to be linked either to the tenant or the landlord, whichever is responsible for the account.
- There is no reconciliation between the water purchased by the community and the bulk water purified by the municipality. This will give us an indication on how well we are managing the water losses of the municipality.

### **2.2.4 Electricity**

The following needs to be addressed to ensure that the electricity income is maximised:

- There is no reconciliation between the consumers consumption bulk accounts received from Eskom on a monthly basis. This will assist the municipality to address the distribution losses and identify areas which need to be targeted first with regards to the prepaid meter audit.
- It is possible that the basic charges are not accurate:
  - All consumers are required to pay for basic electricity need to be reconciled with the financial system.
  - Once reconciled the basic charge needs to be linked either to the tenant or the landlord, whichever is responsible for the account.

### **2.2.5 Sewerage**

Sewerage is charged as a basic that is levied per toilet at a residence or business. The following needs to be addressed to ensure that the tariff is correctly levied:

- ~~• An audit of all the number of toilets per household needs to be undertaken. After which the master files need to be corrected.~~

### **2.2.6 Rental of Council property**

During the investigation of the rental of the municipal property the following was identified:

- The master files are not created immediately, resulting in the property rental not being collected immediately.
- The tariffs are not adjusted on the system, thereby resulting in loss of income.
- Some of the rentals charged are not market related. The service of an estate agent needs to be sourced to recommend possible rentals that can be charged.

It is suggested that an estate agent be contacted to provide the municipality with a proposal with regards to the management of the municipal property. This could relieve the municipality from unnecessary administrative burdens and could actually work out less expensive through outsourcing of function.

### **2.2.7 Businesses from home**

There is separate tariff for business that are run from their homes, these can include guesthouses and the like. An inspection to determine which houses are being used as business and the adjustments made to the master file.