



Bela-Bela Local Municipality

Budget Funding Plan

2024/2025

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Purpose

The purpose of this budget funding plan in a municipal context is designed to assist those municipalities that are facing financial challenges in meeting their operational expenditures against collected income and to show a road map of how the municipality is going to improve the financial situation through revenue collection and cost reduction.

Background

Chapter 4 of the Municipal Finance Management Act No.56 of 2003 ("MFMA") deals with the drafting and adopting of municipal budgets by municipalities. Section 18(1) of the MFMA states that an *"annual budget may only be funded from –*

- a) realistically anticipated revenues to be collected.*
- b) cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and*
- c) borrowed funds, but only for the capital budget referred to in section 17(2)." Section 18(2) adds that "revenue projections in the budget must be realistic, taking into account-*
- d) projected revenue for the current year based on collection levels to date; and*
- e) actual revenue collected in previous financial years."*

The Municipal Budget and Reporting Regulations ("MBRR") sets out standards for sound and sustainable management of the budgeting and reporting practices in municipalities. It states in paragraph 10(1)(b) that *"the funding of an annual budget must be consistent with the trends, current and past, of actual funding collected or received."* It further states in paragraph 10(4) that *"the cash flow budget required in terms of Schedule A must reflect all funds realistically forecast to be collected, including arrears."*

Discussion

The plan is based on the following five pillars:

1. Positive cash flows with focus on revenue trading services.

Description	2020/21	2021/22	2022/23	Current Year 2023/24				2024/25 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2024/25	Budget Year +1 2025/26	Budget Year +2 2026/27
R thousands										
Financial Performance										
Property rates	79 461	81 022	108 940	142 475	139 482	139 482	139 482	121 077	126 646	138 060
Service charges	178 992	189 393	190 056	205 488	206 818	206 818	206 818	258 102	269 975	296 292
Investment revenue	95	189	1 432	1 600	1 900	1 900	1 900	2 350	2 458	2 569
Transfer and subsidies - Operational	119 288	109 019	122 766	134 330	135 419	135 419	135 419	144 449	147 870	153 591
Other own revenue	41 034	64 324	84 511	71 976	73 268	73 268	73 268	73 062	76 423	79 871
Total Revenue (excluding capital transfers and contributions)	418 870	443 947	507 706	555 869	556 887	556 887	556 887	599 039	623 372	670 381
Employee costs	151 948	152 101	144 059	173 234	176 114	176 114	176 114	184 714	193 183	201 849
Remuneration of councillors	7 509	7 248	7 835	8 481	8 805	8 805	8 805	9 236	9 661	10 096
Depreciation and amortisation	37 706	51 160	48 137	38 000	38 000	38 000	38 000	39 862	41 696	43 572
Interest	4 618	8 597	21 336	15 000	15 000	15 000	15 000	17 000	17 782	18 582
Inventory consumed and bulk purchases	110 768	151 075	138 363	187 474	177 826	177 826	177 826	195 644	223 131	243 763
Transfers and subsidies	—	—	—	—	—	—	—	—	—	—
Other expenditure	308 157	113 580	114 909	120 815	124 015	124 015	124 015	129 291	129 239	135 178
Total Expenditure	620 705	483 761	474 638	543 004	539 759	539 759	539 759	575 747	614 692	653 041
Surplus/(Deficit)	(201 836)	(39 814)	33 068	12 865	17 128	17 128	17 128	23 292	8 681	17 340
Transfers and subsidies - capital (monetary allocations)	73 298	69 232	83 245	84 518	90 035	90 035	90 035	93 465	104 375	105 674
Transfers and subsidies - capital (in-kind)	—	—	—	—	—	—	—	—	—	—
Surplus/(Deficit) after capital transfers & contributions	(128 537)	29 418	116 313	97 383	107 164	107 164	107 164	116 757	113 056	123 014
Share of Surplus/Deficit attributable to Associate	—	—	—	—	—	—	—	—	—	—
Surplus/(Deficit) for the year	(128 537)	29 418	116 313	97 383	107 164	107 164	107 164	116 757	113 056	123 014
Capital expenditure & funds sources										
Capital expenditure	80 590	57 010	70 208	92 693	88 638	88 638	88 638	94 279	89 456	90 515
Transfers recognised - capital	76 461	71 249	56 747	84 518	78 292	78 292	78 292	81 274	89 456	90 515
Borrowing	—	—	—	—	—	—	—	—	—	—
Internally generated funds	4 151	(14 834)	13 271	8 175	10 346	10 346	10 346	13 004	—	—
Total sources of capital funds	80 612	56 415	70 018	92 693	88 638	88 638	88 638	94 279	89 456	90 515
Financial position										
Total current assets	112 209	204 071	302 366	256 376	267 504	267 504	267 504	372 183	520 104	624 391
Total non current assets	926 080	1 110 356	1 154 208	1 017 259	1 013 534	1 013 534	1 013 534	1 209 360	1 257 891	1 305 638
Total current liabilities	310 331	276 357	280 708	298 641	296 264	296 264	226 188	473 408	556 804	585 824
Total non current liabilities	89 957	124 758	150 942	83 515	83 515	83 515	83 515	156 240	156 240	156 240
TOTAL COMMUNITY WEALTH/EQUITY	681 263	906 670	1 025 609	891 479	901 260	901 260	901 260	951 896	1 064 951	1 187 966
Cash flows										
Net cash from (used) operating	328 111	174 839	216 368	36 782	38 262	38 262	38 262	139 955	134 320	141 865
Net cash from (used) investing	(70 870)	(64 795)	(77 848)	(90 738)	(90 738)	(90 738)	(90 738)	(77 792)	(72 755)	(67 726)
Net cash from (used) financing	—	—	—	—	—	—	—	—	—	—
Cash/cash equivalents at the year end	257 240	122 560	153 717	17 067	18 546	18 546	18 546	73 424	134 989	209 127

The above table illustrates the municipal projected cash flow statement.

The municipality has taken some stringent measures to ensure positive cash balances at the end of the financial period. The cash flow shows a positive growth in the outer years and the municipality need to ensure that it commits to raising cash in order to finance incoming commitments.

The cash flow budget was calculated using an individual collection rate per service charge on outstanding debtors and for all other revenue sources. These rates are based on the strategies which the municipality will put in place in the 2022/23 financial year and the current trends as a base for calculating the collection rate;

- Property rates collection rate - 96%.
- Electricity collection rate – 76%
- Water collection rate – 85%
- Sanitation collection rate– 65%
- Waste management rate –102%.
- Other revenue – 55%

The above scenario clearly proves that the municipality relies heavily on government funding (grants and subsidies), it is therefore important for the municipality to be effective in revenue collection and enforce cost containment measures.

The municipality need to implement effective cash flow management processes to monitor cash position in terms of annual cash flow budget.

Further to the management of cashflow, the municipality intend to do the following:

- Management of cash flow on a daily basis with weekly reporting to the Accounting Officer and in management meetings.
- Establish revenue enhancement and expenditure committee which meet weekly and manage cash flow of the municipality and specifically:
 - Set aside cash to meet critical operating expenditure.
 - Set aside cash to cash back unspent conditional grants.
 - Engage with creditors and finalise realistic payment arrangements and manage payments in accordance with revised agreements.
 - Continue to review committed contracts to determine which contracts have lapsed or which can be cancelled without the risk of legal action against themunicipality.
 - Developed and implement cost containment measures.
 - Reduce non-essential or wasteful expenditure.
 - Perform land audit to identify those assets that can be disposed.

1.1. Payment agreement with Eskom.

The funding plan takes note of the latest Eskom payment agreement entered into to settle a long outstanding debt which states as follows:

- Bela-Bela Local Municipality hereby undertakes to pay ESKOM as follows:
- R7 000 000.00 on or before 15 December 2022.
- R7 000 000.00 on or before 15 March 2023.
- R7 000 000.00 on or before 15 July 2023.
- R7 000 000.00 on or before 19 December 2023.
- R7 000 000.00 on or before 15 March 2024.
- R7 000 000.00 on or before 15 July 2024.
- R2 519 705.38 on or before 19 December 2024.

The above demonstrate that the municipality will make a total payment of R44 519 705.38 to Eskom. The payment will be allocated to the historical debt as per agreement. The municipality will continue to honor monthly payments to Eskom.

1.2. Payment agreement with Magalies Water.

- Bela-Bela Local Municipality hereby undertakes to pay ESKOM as follows:
- R7 000 000.00 on or before 15 December 2022.
- R7 000 000.00 on or before 15 March 2023.
- R7 000 000.00 on or before 15 July 2023.
- R7 000 000.00 on or before 19 December 2023.
- R7 000 000.00 on or before 15 March 2024.
- R7 000 000.00 on or before 15 July 2024.
- R2 519 705.38 on or before 19 December 2024.

The Bela-Bela Local Municipality acknowledges having a debt with Magalies Water amounting to R25 524 369.75 as at September 2022.

2. Implementation of cost containment measures and reduction of expenditure.

As a measure to ensure a reduced expenditure, the municipality intends to reduce major operational expenditures by six percent in the 2022/23 financial year.

It is therefore imperative for the municipality to effectively consider implementation of cost containment guidelines as stipulated under MFMA circular 97 and ensure spending is made in line with the approved budget.

The municipality's employee related cost drivers include overtime, standby allowance and travelling costs which are a concern and need stringent measures to ensure they are not abused and curbed to a minimum reasonable figure on a monthly basis.

The municipality will continue with cost reduction in relation to contracted services / professional services and prioritize which services can be done internally or do without.

The following measures will be put in place to ensure adherence to the approved budget:

- Implement budget controls to eliminate unauthorised expenditure.
- Develop, implement, and train employees on the Standard Operating Procedures (SOP's) for expenditure management.
- Review invoices on daily basis before capturing on the register to ensure that all invoices are paid within 30 days.
- Develop an invoice register to record all invoices received and paid to avoid duplication of invoices.
- Ensure all invoices received are captured timeously.
- Target top 10 outstanding creditors owing for a period of 90 days and over and finalize payment arrangements.
- Develop a repair and maintenance plan to prevent unnecessary breakdowns and ensure sustainable service delivery.

3. Realistic debtors' age analysis

ACCOUNT_TYPE	202303 (Current)	202302 (30 Days)	202301 (60 Days)	202212 (90 Days)	202211 (120 Days)	202210 (150 Days)	202209-202206 (180 Days to 1 Year)	202205+ (Over 1 Year)	Total
NON PROFIT ORG	R 429,295.59	R 32,627.54	R 14,376.29	R 13,223.72	R 13,090.83	R 15,209.87	R 51,257.74	R 290,887.72	R 859,969.30
COMMERCIAL	R 5,823,411.03	R 783,746.01	R (759,359.66)	R 495,428.05	R 463,860.24	R 414,734.77	R 1,730,484.78	R 12,490,059.48	R 21,442,364.70
LAND REFORMED	R 70,941.70	R 70,246.11	R 68,720.93	R 67,904.23	R 67,231.65	R 66,439.50	R 193,134.69	R -	R 604,618.81
RURAL DEVELOPM	R 16,655.88	R 21,227.55	R 17,496.13	R 17,266.10	R 17,138.00	R 16,187.95	R (69,588.10)	R 333,250.16	R 369,633.67
EDUCATION DEPT	R 171,413.57	R 83,996.17	R 91,602.44	R 83,751.36	R 73,350.48	R 74,106.26	R 176,884.99	R 7,419,633.35	R 8,174,738.62
AGRICULTURAL	R 1,657,511.77	R 1,462,848.64	R 1,180,639.85	R 1,215,304.43	R 882,098.84	R 1,118,458.60	R 4,615,311.97	R 46,162,326.60	R 58,294,500.70
HOUSING DEPT	R -	R -	R -	R -	R -	R -	R -	R (14,336.13)	R (14,336.13)
PUBLIC INFRASTR	R 20,566.26	R 17,661.31	R 17,675.40	R 17,457.49	R 17,311.70	R 16,975.74	R 66,093.61	R 338,568.49	R 512,310.00
PLCS OF WORSHIP	R 11,571.09	R 8,370.23	R 7,714.05	R 7,488.93	R 7,724.17	R 5,477.52	R 26,289.84	R 346,473.69	R 421,109.52
MUNICIPAL PROP	R 28,554.31	R 28,867.01	R 25,012.97	R 23,642.56	R 23,740.73	R 13,228.65	R 78,201.66	R 851,755.54	R 1,073,003.43
P/WORKS PROV	R 165,175.61	R 171,691.45	R 139,414.12	R 161,683.25	R 193,001.04	R 176,882.75	R 262,561.33	R 24,954.20	R 1,295,363.75
RESIDENTIAL	R 7,732,984.17	R 4,411,200.74	R 3,621,130.96	R 3,264,944.97	R 3,249,612.03	R 3,160,631.75	R 11,166,691.48	R 89,922,551.80	R 126,529,747.90
VACANT LAND	R 1,277,477.15	R 1,351,673.00	R 1,310,587.20	R 1,252,785.40	R 1,216,166.52	R 1,176,220.06	R 4,158,508.40	R 21,265,064.67	R 33,008,482.40
FARM-RES	R 976,199.18	R 560,075.92	R 552,732.99	R 535,714.25	R 497,104.66	R 471,988.11	R 1,929,675.61	R 13,396,933.05	R 18,920,423.77
FARM-COMMERCIAL	R 199,433.67	R 249,644.07	R 242,150.87	R 243,538.57	R 238,118.43	R 232,426.76	R 495,169.81	R 7,227,559.01	R 9,128,041.19
FARM-NOT USED	R 25,539.49	R 1,540.35	R 1,531.12	R 1,482.95	R 1,474.18	R 1,428.00	R 7,017.03	R 69,847.38	R 109,860.50
FARM-OTHER	R 40,878.31	R 56,229.90	R 55,858.18	R 55,059.90	R 54,926.31	R 45,821.34	R 177,783.25	R 718,503.20	R 1,205,060.39
HEALTH DEPT	R 156,723.20	R 3,520.12	R 746.35	R 746.35	R 746.35	R 746.35	R 2,972.75	R -	R 166,201.47
PROTECTED AREAS	R 172,818.96	R 163,658.85	R 142,335.14	R 124,354.12	R 114,834.08	R 111,193.98	R 493,527.05	R 1,215,521.48	R 2,538,243.66
P/WORKS NTL	R 121,459.93	R 142,347.27	R 47,815.68	R 47,815.67	R 46,562.25	R 47,815.67	R 163,226.82	R 638,027.98	R 1,255,071.27
PRIVATE EST-RES	R 974,224.15	R 650,837.76	R 537,046.58	R 506,584.56	R 452,362.25	R 466,061.56	R 2,029,099.26	R 14,422,344.02	R 20,038,560.14
RES-PENSIONER	R 88,785.85	R 14,968.80	R 11,685.66	R 7,488.15	R 4,865.96	R 5,500.17	R 20,665.86	R 29,520.09	R 183,480.54
SASSA	R 19,224.45	R 74.50	R -	R -	R -	R -	R -	R -	R 19,298.95
FARMSRES_PENSIO	R 18,296.19	R 8,298.62	R 8,884.42	R 6,791.27	R 6,575.04	R 5,410.96	R 18,532.21	R 262,417.18	R 335,205.89
RES-INDIGENT	R 385,567.12	R 286,436.10	R 205,945.52	R (69,910.51)	R 46,536.59	R (185,381.19)	R (94,378.71)	R (1,028,500.40)	R (453,685.48)
PRIVATE OPEN SP	R 16,105.52	R 14,957.82	R 13,914.41	R 13,753.94	R 13,626.60	R 13,241.30	R 41,682.17	R 160,667.92	R 287,949.68
TOWN-PROP DEV	R 33,896.97	R 9,146.56	R 1,272.21	R 2,536.77	R 1,995.89	R -	R -	R -	R 48,848.40
TOTAL	R 20,634,711.12	R 10,605,892.40	R 7,556,929.81	R 8,096,836.48	R 7,704,054.82	R 7,470,806.43	R 27,740,805.50	R 216,544,030.48	R 306,354,067.04

TYPE_OF_SERVICE	202303 (Current)	202302 (30 Days)	202301 (60 Days)	202212 (90 Days)	202211 (120 Days)	202210 (150 Days)	202209-202206 (180 Days to 1 Year)	202205+ (Over 1 Year)	Total
DEPOSITS	R (17,911.75)	R (8,584.63)	R (4,855.51)	R (1,646.25)	R (3,737.04)	R (2,219.27)	R (15,598.74)	R (257,311.11)	R (311,864.30)
RECEIPTS	R (1,786,647.85)	R (432,591.71)	R (1,712,741.22)	R (200,091.45)	R (252,538.24)	R (311,434.75)	R (1,830,574.86)	R (6,022,314.82)	R (12,548,934.90)
INTEREST	R 2,197,886.57	R 2,149,278.57	R 2,100,088.26	R 1,996,193.05	R 1,933,791.78	R 1,835,999.83	R 7,460,747.84	R 58,657,955.50	R 78,331,941.40
AGREEMENTS	R 123,992.05	R 77,865.71	R 42,566.28	R 39,816.54	R 35,994.52	R 63,878.97	R 123,095.98	R 363,737.04	R 870,947.09
SUSPENSE VOTE	R -	R -	R -	R -	R -	R -	R -	R (5,002.28)	R (5,002.28)
FEES	R 219,340.51	R 49,793.36	R 1,938.00	R 2,974.14	R 796.90	R -	R 71,356.14	R 2,445,008.69	R 2,791,207.74
ADMIN FEE	R 3,248.04	R 3,340.00	R -	R -	R -	R 2,505.68	R 1,286.00	R 12,511.14	R 22,890.86
WATER	R 3,246,840.96	R 1,591,930.28	R 1,133,126.99	R 891,002.54	R 946,394.72	R 807,435.29	R 3,149,024.99	R 28,314,366.43	R 40,080,122.20
ELECTRICITY	R 3,118,165.63	R 325,090.91	R 255,701.17	R 122,076.20	R 99,638.11	R 64,373.62	R 183,818.33	R 2,205,066.95	R 6,373,930.92
KVA	R 934,536.15	R 104,637.37	R 88,576.20	R 68,373.71	R (224,854.54)	R 69,326.14	R 193,554.36	R 1,831,070.61	R 3,065,220.00
BASIC ELECTRICITY	R 11,930.34	R 2,681.97	R 2,254.00	R 1,690.50	R 1,690.50	R 1,610.00	R 7,185.57	R 464,714.07	R 493,756.95
RE-IMBURSEMENT	R -	R -	R -	R -	R -	R -	R -	R (10,246.33)	R (10,246.33)
CASH POWER	R -	R -	R -	R -	R -	R -	R -	R 117,504.93	R 117,504.93
RENTAL CHARGES	R 46,489.69	R 28,206.43	R 23,292.00	R 19,517.34	R 16,960.00	R 16,960.00	R 102,054.73	R 1,103,328.64	R 1,356,808.83
HOUNDRY SALE OF LAND	R -	R -	R -	R -	R -	R -	R -	R (206,478.26)	R (206,478.26)
HOUSING	R -	R -	R -	R -	R -	R -	R -	R (17,363.56)	R (17,363.56)
RATES	R 8,928,522.71	R 4,937,026.33	R 4,259,497.68	R 4,026,034.48	R 4,029,023.11	R 3,944,385.35	R 14,084,136.37	R 93,989,441.91	R 138,198,067.94
REFUSE	R 749,364.27	R 355,484.83	R 280,557.24	R 221,408.09	R 236,896.75	R 208,978.61	R 883,063.41	R 6,247,485.49	R 9,183,238.69
SEWERAGE	R 1,433,688.04	R 870,026.36	R 710,307.86	R 623,636.39	R 600,489.09	R 520,773.26	R 2,249,989.55	R 16,405,435.54	R 23,414,346.09
MISCELLANEOUS VAT	R -	R -	R -	R -	R -	R -	R -	R 126,558.69	R 126,558.69
MISCELLANEOUS NO VAT	R -	R -	R -	R -	R -	R -	R -	R 813,791.30	R 813,791.30
VAT	R 1,429,578.76	R 500,613.32	R 376,620.86	R 285,851.20	R 283,509.16	R 249,901.97	R 1,077,665.83	R 9,662,768.85	R 13,866,509.95
INCENTIVE WRITE-OFF	R (4,313.00)	R (7,854.70)	R -	R -	R -	R (1,668.27)	R -	R 89,606.55	R 75,770.58
INDIGENT WRITE-OFF	R -	R 58,948.00	R -	R -	R -	R -	R -	R 212,394.51	R 271,342.51
TOTAL	R 20,634,711.12	R 10,605,892.40	R 7,556,929.81	R 8,096,836.48	R 7,704,054.82	R 7,470,806.43	R 27,740,805.50	R 216,544,030.48	R 306,354,067.04

The municipality has developed and implemented a revenue enhancement strategy which focuses on the following measures to improve the revenue collection and financial position of the municipality. The following interventions are proposed:

1. The total debt as at 20 April 2023 amount to **R 306 354 million** (R 168 156million)

being other services and R138 198 million being rates) **million**.

2. An amount of **R298 257 million** is sitting in the Over 90 Days category.
3. Establishment of a strong debt collection unit.

4. Creditors' Age Analysis

Creditor Name	Ageing :	0days	30days	60days	90days	120days	Total
ESKOM (5740387734)	Current					R 30,519,705.34	R 30,519,705.34
MAGALIES WATER	Current	R 1,640,960.04				R 21,924,165.70	R 23,565,125.74
G S M MOHLABI INC	Current	R 804,960.14					R 804,960.14
DEPT OF PUBLIC TRANSPORT	Current					R 800,788.10	R 800,788.10
Traffic Management Technologies	Current		R 259,900.00			R 500,480.00	R 760,380.00
THE AUDITOR-GENERAL P/BURG	Current					R 685,482.68	R 685,482.68
ZONK ENGINEERING	Current	R 407,857.45					R 407,857.45
DITLOU SUPPLIERS AND SERVICES	Current			R 283,437.72			R 283,437.72
WARMBAD GRASSNYERDIENSTE	Current	R 51,965.00					R 51,965.00
AGANG MASEDING TRADING AND PROJECTS	Current	R 50,945.00					R 50,945.00
TOTAL		R 2,956,687.63	R 259,900.00	R 283,437.72	R -	R 54,430,621.82	R 57,930,647.17

As part of the current plan, the municipality has entered into a payment arrangement with Eskom to service long outstanding debt. The payment agreement came into effect from the 12th of October 2022. The capital amount including interest incurred amounts to R44 520 million (as at October 2022).

A payment agreement has also been signed with Magalies Water to service the long outstanding debt. The municipality has is currently complying with MFMA section 65(1)(e) by ensuring that the payments are processed within 30 days of receiving the invoice and all relevant documents. This can be confirmed by the creditors age analysis denoted above. In addition to that latter, Magalies is not forming part of fruitless and wasteful expenditure as envisaged by s32 of MFMA due to compliance of s65(1) of the MFMA.

The following measures will be implemented to ensure that monthly obligations are honored:

- Develop a consultancy reduction plan.
- Review and assess adequacy of the procurement system.
- Monitor and assess reasons for non-compliance with SCM regulations and policies.
- Maintain a register of irregular expenditure and tabled in council.
- Address the use of S36 of the SCM Regulations. Valid reasons for all deviations and all requisitions to be authorized by the Accounting Officer.

5. Ring fencing of conditional grants and ensuring that conditional grant funding is cash backed.

As per the financial year 2023 DORA allocation, the municipality will receive conditional grants to the sum of R95 292 million. The spending on these grants will be made in line with the approved budget and business plans.

In the past financial years, the municipality utilized part of the conditional grants to finance operational expenditure which was not in line with the grant framework. It is therefore very important that the municipality need to ring fence the funds for the intended purpose.

The municipality will ensure that conditional grant spending is aligned to the IDP, SDBIP and budget. The municipality will also investigate and correct any expenses that do not align with grant conditions.

Conclusion

In order for the municipality to be financially sustainable, the municipality will ensure that

- It will strive to implement the above proposals effectively to realize improved revenue collection and reduced expenditure.
- Prepare a realistic projection and strive for achieving a positive cash and cashequivalent position in the cash flow statement over the three-year MTREF.
- Achieve at least break even or surplus position on the statement of financial performance and improving over the three-year MTREF.
- Conduct a feasibility study to implement cost-reflective tariffs.
- Data cleansing.
- Review all consumer accounts to ensure that they are being billed properly in accordance with approved tariffs.
- Conduct a new indigent registering process.
- Selling and disposing off assets.
- Implementation of revenue enhancement strategies.
- Filling of critical positions.