



Theewaterskloof
Municipality

**Financial Sustainability in
Theewaterskloof
Municipality**

CFO FORUM MEETING

(05 December 2011)

Defining Financial Sustainability

Financial Sustainability refers to its capacity to generate sufficient and reliable Revenues to finance short-medium- and long-term financial obligations in response to the Community's Demand for Services in terms of the Constitution.

It entails inter alia the following:

- **Strategic and Financial Planning** (Good Leadership, Effective Management Team, Sound Political, Administrative and Labour Stability, Responsible Decision-making)
- **Prudent Financial Management** (Good Governance, Accountability, Transparency, Policies, Procedures, Processes, Optimal Resource-allocation & Usage, Meaningful Reporting)
- **Revenue Enhancement** (Maximise Revenue-generation, New Sources of Revenue, Cost-recovery Tariff Structures)
- **Improved Expenditure Management** (Value for Money, Optimal Utilisation of Resources, Improved Productivity)

Major General Challenges in SA

- Unemployment
- High Unskilled Labour Force
- Migration of Unemployed, low/skilled and homeless people
- High School Drop-out Rate (what happened to these students?)
- High & Escalating Social Grant Dependence: Increased by $\pm 400\%$ over past 10 years
- Fraud & Corruption- Loss of Revenue, Low Trust, Lack of Consequences

8 Factors/Problem Statements Critically to the Financial Sustainability of the Municipality

1. Budgeting and Financial Management
2. Fast Growing Local Population
3. Unemployment & Community's Ability to Pay
4. Partnership
5. Political Stability
6. Institutional Capacity of the municipality
7. Expectation Management of the municipality
8. Central Government Fiscal policy

1. Budgeting & Financial Management



1. Budgeting & Financial Management

Key Areas:

- Revenue Optimization
- Tariff Re-engineering and Service Rationalization
- Investment Management
- Improved Resource Allocation (No over-reliance on Incremental Approach)
- Loan Management & Re-financing: Should be seen as a last option (taken up later in year and re-financed at lower rates)

Current Projects to address Revenue Optimisation:

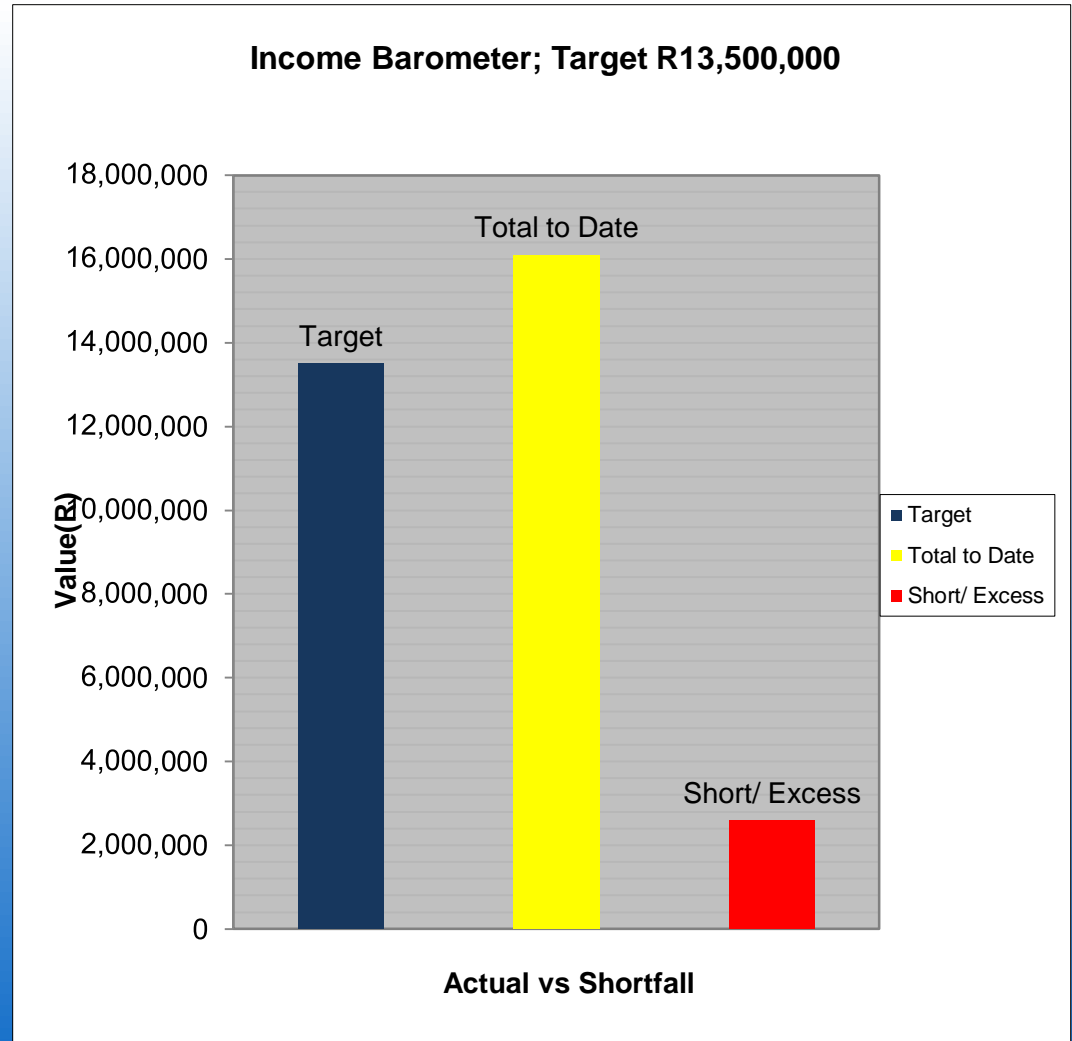
- **Established a Debt Collection Unit:**

Payment ratio improved from less than 70% over the last 10 years to above 90%. Debtor Profiling: increased from 5 to over 50. Attorneys were “milking” council & debtors-Now a win-win situation!

Installation of **Pre-paid Water and Electricity Meters** (Projected Savings of ±R5.75 m pa if complete: reduction of bad debt on Water & Electricity by 6.5%)

Monitoring Debt Collection Target

DEBT COLLECTION BAROMETER: AUGUST 2011				
Day	Target	Actual	Total to Date	Short/ Excess
31	13 500 000	1 206 616	16 099 000	2 599 000
30	13 500 000	783 070	14 892 385	1 392 385
29	13 500 000	382 373	14 109 315	609 315
26	13 500 000	995 598	13 726 942	226 942
25	13 500 000	6 954 122	12 731 344	-768 656
24	13 500 000	1 497 042	5 777 222	-7 722 778
23	13 500 000	1 282 793	4 280 179	-9 219 821
22	13 500 000	304 954	2 997 387	-10 502 613
19	13 500 000	32 304	2 692 433	-10 807 567
17	13 500 000	204 434	2 660 129	-10 839 871
16	13 500 000	221 764	2 455 695	-11 044 305
15	13 500 000	595 467	2 233 931	-11 266 069
12	13 500 000	32 878	1 638 464	-11 861 536
11	13 500 000	117 190	1 605 585	-11 894 415
10	13 500 000	224 103	1 488 395	-12 011 605
8	13 500 000	130 704	1 264 292	-12 235 708
5	13 500 000	343 198	1 133 588	-12 366 412
4	13 500 000	219 020	790 390	-12 709 610
3	13 500 000	111 398	571 370	-12 928 630
2	13 500 000	105 272	459 971	-13 040 029
1	13 500 000	354 699	354 699	-13 145 301



1. Budgeting & Financial Management

TARIFFS:

Major Focus on Tariffs (2011/2012)

Tariff Model and Re-engineering

- In partnership with P3 (SALGA/SALAR) the municipality was one of the pilots for the **Baseline Tariff Model**: improved tariff calculations
- We have taken it a step further: **Central Information Database**: assist with establishing activities per service, actual cost, demand for services, comparisons, etc.
- **Rationalization of Services** started by Costing Unit Eg. Garden Refuse.
- **Cost-recovery Tariffs** Eg. Under-recovery of Leiwater and Helderstroom Prison Refuse Collection Service, Sewer Vacuum Tanker Services. Stopped the incremental increases: **Calculated the Cost of Services (“User-Pay” Principle) based on the level & frequency of services.** (More expensive to Provide the Vacuum Tanker Services than Free Sewer Connections)
- **Tariffs** should also provide a return on investments, sufficient to allow for operating, capital, maintenance, expansion and replacements.
- **Tariff Policy & Description of Tariffs** reviewed and properly described to avoid ambiguity and wrong interpretation

1. Budgeting & Financial Management



- Debtors Data Cleansing Project:

Are all properties on the Financial System, are they all charged for Rates and all services and are the correct tariffs applied?

To ensure all consumers levies are complete and accurate. In excess of R2 million rand per annum have already been recovered due to incorrect and inaccurate levies.

Fleet Management System used extensively- detecting service delivery such as Vacuum Tanker services & Refuse Removal not charged / under-charged (also linked to Overtime).

- **Process Re-engineering**

The Debtors Data integrity and incompleteness- Symptom of Processes:

Lack of Processes; Silo-Processes: Non-Compliance: Poor/No Communication of Processes; Out-dated/Ineffective Processes

Consolidation of Systems & Processes



Stage 1

- **Preparation: 12 October 2010**
- Achieve Buy in from Management
- Contracting
- Release of resources
- Identifying the Service Improvement champion (Mr. Stephen Jacobs)
- Identify areas of service improvement
- Setting up of Steering Committee / Reporting Structures

Stage 2

- **Training**
- One Day Training of ALL STAFF Involved in the Process.
- The following one day training sessions were held to date:
 - 2nd of November 2010 with the Management team, 12th of November 2010 with the Income section from Caledon, 16th of November 2010 with the finance related personnel from the other Towns
- The following was the Purpose & Outcomes of the Training:
 - Understanding what is Service Improvement, Understand why the need to implement Service Improvement in Municipalities, Understand Input vs Output Thinking, Identifying Silo Thinking, Introducing and Understanding Process Management, Understand Process Mapping and Redesign, Understand the implementation of Service Standards

Stage 3

- **Process Mapping**
- **Mapping of the "AS IS" Process**
- During the training sessions conducted on the 12th and 16th of November 2010 the Current "AS IS" processes was distributed amongst the personnel and they were requested to go and discuss the mapped process with the other personnel within their sections in order to identify possible amendments, adjustments or new innovations for the next step being the redesign of the process.

Stage 4

- **Process Improvement**
- **Redesign of the "TO BE"**
- A session for the redesign / "TO BE" was held on the 2nd of December 2010 where the personnel from Caledon and the Town were combined in order to establish a uniform process which would be implemented throughout the Theewaterskloof Region.
- SALGA & P3 requested a meeting with both Mr. Jacobs and Mr. van Staden on the 1st of February 2011 in order to discuss the redesigned process and to set the date for feedback to Management with regards to the next step which is the implementation of the redesigned process.

Stage 5

- **Implementation and Monitoring**
- Implementation will be done after the finalization of the "TO BE"

1. Budgeting & Financial Management

Improved Expenditure Management:

Establishment of Costing Unit and adopting Costing as methodology.

- Cost Benefit Analyses and Value-for-money
- Improved Budgeting & Resource-allocation
- Departmental & Admin. Charge-out
- Trends in Budget vs Actual over years
- Monitoring of Costs (eg. Overtime: Reduced by 13%: 2010 – 2011)

Management and Financial Information Database

Development of a Management and Financial information Database to enhance and streamline: Planning and Budgeting, Reporting, Analyses (Trends, Variances and Behaviour Patterns), Tariff and Costing Modelling.

Accurate and reliable data is not readily available to produce information for critical planning and making strategic decisions.

Determination of demand and true cost of a service is

Enhance Transparency

Centralising of the SCM Unit

Pro-active Planning of Procurement

Competitive Bidding yields better value for money & Economic Procurement

Free Water Leak Repairs for Indigents: Cost of Water > Repairs

2 / 3 Fast Growing Local Unemployed Population & In/Ability to Pay



2. Fast Growing Local Population

- **Key Areas:**

- Safety and law-abiding culture: This is one of the least concerning issues in our area although Villiersdorp and Grabouw requires constant monitoring.
- Infrastructure and Bulk Service Capacity
- Competitiveness with other neighboring municipalities and local economies
- The National, Provincial & Regional Economy: Partnering with other municipalities in diverting some of the investor and developer interest rather than competing.
- Investor and developer-friendly and institutionally ready municipality
- SMME Potential
- Available Land
- Legal impediments E.g. Environmental legislation and red tapes delaying developments (EIA's, etc.)

2. Fast Growing Local Population

Current Projects to Address Unemployment

LED/ SMME's

DBSA Pilot- LED with Tourism Focus: The Cape Country Meander – including route development

Development & Support of SMME

Analyse Creditors Payments for 2009/10 to identify the areas of spending and how much is spent within and outside TWK's boundaries. This will provide the market/potential areas for SMME's to tap into. 79% Spent outside TWK.

Empowerment of SMME's:

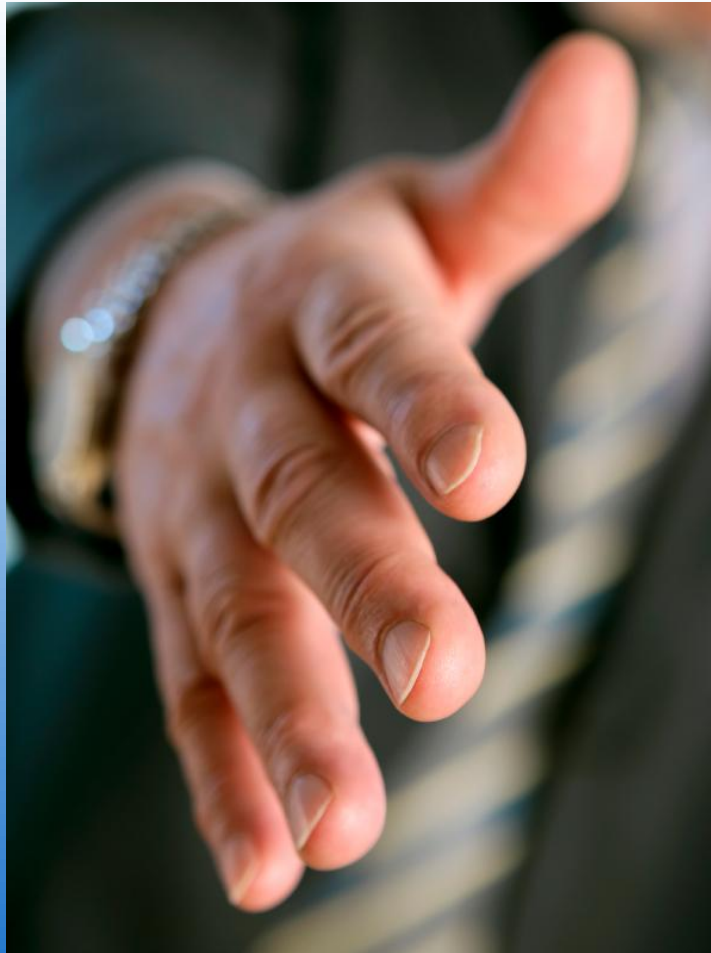
- Register on Suppliers Database
- Assist on how to Complete Tenders, SCM & to become competitive (How to score point i.t.o PPPFA)
- Develop SMME's i.t.o. Basic Business Skills (Marketing/ Draw up Business Plans etc)
- Supply Chain Management Unit Open Day planned for Local SMME: Impart knowledge on Tender Procedures, documents and other requirements in order to tender for goods and service
- SMME Open Day- 22 June 2011 (500 Delegates & 22 Agencies: SEDA, SARS, Banks, etc)
- [Point System Revised](#) to “Pro-Local”
- Paved Roads vs Tar Roads: Many Local Builders

3. Unemployment & Community's In/Ability Pay

Key Areas:

- **Excessive Influx** of unemployed, unskilled and homeless people. This is probably the most critical contributor towards the sustainability challenge of our economic and financial capacity
- **Squatter Control and Management**
- Acceptance of ownership of incoming people: Buy in from all components of a community to start working together and finding solutions.
- **Educational and Human Capital Development** capacity: partnerships with Learning Foundations and University's e.g. Stellenbosch and Han University.
- **SMME and SCM Initiatives** to develop entrepreneurial skills
- **Unfunded Mandates:** Division of Revenue states when a function is shifted, the resources to employ the to render the function shift with the function: Over 20% of Assessment Rates funds Unfunded Mandates (Libraries & Housing)
- **Social Impact:** Poverty, HIV/AIDS, Crime, Alcohol And Drug Abuse, etc Assistance are needed from National and Provincial Departments
- **Nature of Local Labor Market:** Agriculture is the backbone of our economy and to a large extent is able to offer **seasonal employment**.

4. Partnerships



4. Partnerships

Key Areas

- The Agricultural Sector: One of the largest contributors to our rate base and is also the recruiter of seasonal workers from other areas and should form part of the solutions in curbing the influx of unemployed, unskilled and Indigent people into the municipality.
- The Business/Private Sector : It is especially in the tourism sector and also bigger business interests like SAM, the Casino, Overberg Agri and Government Departments we need to encourage to expand their operations within the TWK area.
- Need to ensure that our tariffs and rates are structured to protect and stimulate businesses and that it does not become a threat to the future existence of local businesses
- Grant Sponsors: Eg.DBSA, University of HAN, Tyreso Municipality: Sweden
- Others; Neighboring Municipalities
- Regulatory Provincial Departments: Treasury, COGTA
- Ratepayers' Associations

Partnerships are critical: turn your Competitor into a Partner!

Political Stability



5. Political Stability

- Without all of the decision makers and policy makers working together, focusing on the same vision and tactics and showing the political will to achieve sustainability we will not even be able to get out of the blocks and be spending our effort and resources on irrelevant issues.

Key Areas:

- Willingness to co-operate with each other
- Willingness to co-operate with the Administration
- Political Will to address real and challenging longer-term issues and to make the right 'investments' decisions
- Willingness to be guided and to take informed professional decisions
- Willingness to Participate in Stakeholder Expectation Management and the management of the 'Mind The Gap' Model.
- Mind The Gap Model: Manage expectations of our communities down to a more realistic, reasonable and affordable level and the co-operation of all Councilors required to assist in increasing capacity .
- Willingness to Network and obtain the support of its provincial and national principals in serving the best interests of the TWK

You Cannot Succeed Without Credible Leadership, Unity & Shared Vision!

6. Institutional Capacity of the Municipality



6. Institutional Capacity of Municipality

Key Areas :

- Management Capacity: Retention of Experience Management Team
- Human Capital Capacity: Turnover of Staff and Productivity Study
- Technological Capacity: Enable us to simplify our financial analyses, oversight and diagnostic processes and enable us to make more Reliable, Timely Conclusions and Findings and which are required for appropriate Remedial Decision-making.
- Process: Process Re-engineering have started and investigate: – Why and what municipal services processes need to be improved. How to improve specific municipal processes in order to improve productivity
- Equipment and Fleet: critical assessment required of availability of Appropriate And Functional Tools to our employees in the field. Identify and Reduce Vehicle Running Costs (Fleet System used to monitor Overtime & Services Rendered)
- Functional Risk Management, Internal Audit, Audit/Performance Audit Committees

7. Expectation Management



Mind the Gap!

7. Expectations of the Communities

Key Areas:

- **Honest Engagement**
- **Create Awareness** of the seriousness of Financial Viability and Sustainability
 - Willingness to accept joint ownership
 - Community Participation in the IDP Process
 - Political support
- **Ward Committee** Management & Training
- **Town Management Model** in Decentralizing Service delivery, Stakeholder Management and Customer Satisfaction Management
- **SLA's:** Enhance Accountability & Transparency and to effectively Manage Community Expectations
- **Communication:** Quarterly Corporate Newsletters, Bi-Monthly Town Newsletters, Financial Reports & SDBIP to Ward Committees, Engagement with Ratepayers' Associations, Civics, Farmers and other Stakeholders, "Citizens' Budget" and "Citizens' Annual Report"

**Do not make Promises which you Cannot Fulfill, Be Honest,
Accountable & Transparent!**

8. Central Government Fiscal Policy



8. Central Government Fiscal Policy

Review of **Central Government Fiscal Policy**: Explore and obtain support from all spheres of organized local government for reviews in Central Government Policy and Financing and Fiscal Models to assist local government in meeting its longer term financial sustainability challenges more successfully.

Key Areas

Cost of Compliance: Cost and Red-tape (Too much emphasis on Compliance at the detriment of Service Delivery.

- **Equitable Share, MIG and EPWP Funding:**
- Revision of the **Equitable Share** formula.
- TWK have to cope with an extreme high influx of Indigent people.
- MIG is not matching the **Housing Allocations**
- **EPWP** might not be creating sustainable jobs and that it is providing symptomatic relieve only
- We need to use all our structures and networks to review the current approach and to find a way to use funding available for such a purpose to support more sustainable growth.
- **Urban Development Support:** Fast track growth in Rural Municipalities

8. Central Government Fiscal Policy

- We have, like most municipalities in the country **Financial Sustainability challenges**.
- **No Crises but a Gap** between the Service Delivery / Infrastructure/Resources and the Needs of the Local Communities.
- Presented this at the SALGA National Conference Finance/Fiscal Commission in Durban on 1 September 2011.
- **Drafted Financial Sustainability Strategy** which was work-shopped at our annual Strategic Planning session between Management and Councillors in August 2011. The following are worth noting and needs to be addressed with Government assistance which was appreciated by Mr. Kenneth Brown of National Treasury at the SALGA Conference:
- We need Government to Assist municipalities with at least the following to be self-sustainable (we are not asking for more grant funding):

Municipalities must be supported to become Financially Sustainable & Over-Regulation is Strangling Municipalities and Restricts Creativity!!

8. Central Government Fiscal Policy

Transferring of ESKOM Electricity Reticulation to municipalities or
Compensate

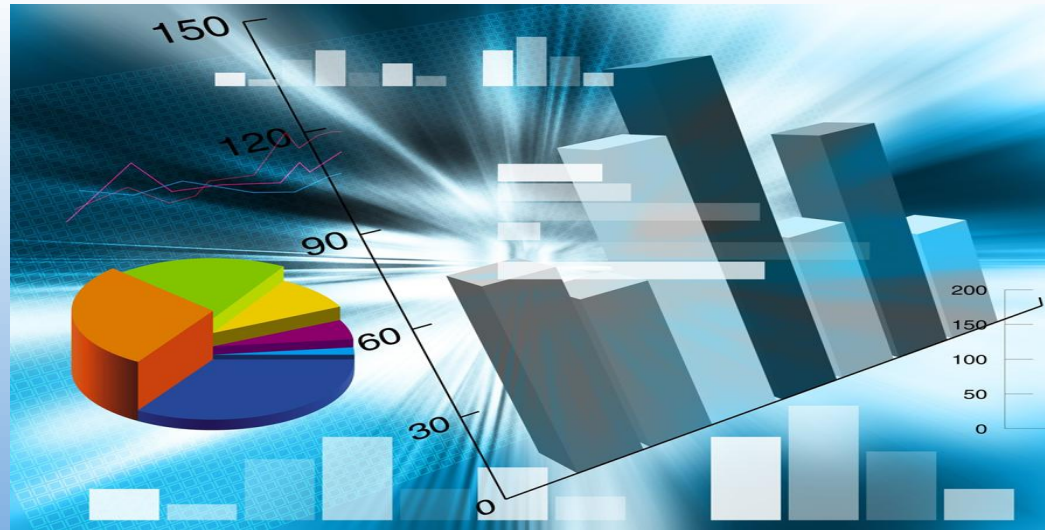
- Assistance Required to take over the Electricity Supply from Eskom in our towns
- Feasibility Study to be done (Take-over vs Surcharge)
- Eskom supplies in 6 of our 8 towns.
- TWK's Annual Revenue= R50 million (\pm 20% of total operating revenue)
- The norm = 30% -50% of operating revenue
- Losing \pm R75 million p.a. as a result of Eskom being the distributor.

Unfunded Mandates in respect of Libraries and Housing Administration need to be addressed as it claims over 20% of TWK's Assessment Rates Revenue.

AARTO: failed in Johannesburg and Tswane: SALGA to take forward and resulted in millions of rands Revenue Losses

Fiscal Review is Inevitable if Local Government is to Succeed!

FINANCIAL VIABILITY IS NOT A FINANCE FUNCTION: MUST BE OWNED ENTERPRISE-WIDE



Every Directorate had to submit a Departmental Financial Viability plan and implementation plan to be incorporated into Overall Financial Viability Strategy

Departmental FV Program: Finance

Efficacy Studies

Business Process Re-engineering

In conjunction With Dir Corporate and P3 Toolkit

Centralising of SCM

Pro-active Planning of Procurement

Competitive Bidding yields better value for money

ABC

improved financial reporting/Cost Benefit analysis

more efficient resource allocation

facilitating the assessment of performance and benchmarking

facilitating the evaluation of alternative mechanisms for delivery of services Etc

Other Cost Cutting Measures

Water Leak Repair

Indigent Verification

Prepaid and Water Electricity Meters

Cost Cutting Measures Required from all Dept.

Other Cost Cutting Measures

Monitor and Reduction of Cost (E.g. Overtime)

Distribution Losses

Revision of Billing Cycle

Productivity Monitoring Mechanism

Fleet Management

Departmental FV Program: Development Services

Parking Fees

- Feasibility Study
- Pilot Project

Community Trust from Wind farm

- Informing trust of the Infrastructure Needs and other Social Developments (IDP)

Tariffs

- Tariffs for Event (Events Policy)
- Building Fines
- Zoning Certificates - Establish Fees)
- New fee structure for low-cost Housing
- Signage Policy and Tariff Struct.

Other Revenue Generation Initiatives

- Town Planning Information (Maps, Zoning Certificates etc.)
- Data Cleansing
- Identification multi Land use Erven
- Encroach ment Agreements (Building a Stoep on Mun. Pavemetnt)

LED

- SMME Development
- Business Retention/Enabling Environment

Management Of Informal Settlements

- Appointment of Permanent Informal Settlement Officers

Departmental FV Program: Technical Service

Electricity

- Load Control System

Fleet Management

- Cost effective Management Model

Sewerage Treatment

- Analyse full Life Cycle costs to recommenend the most cost efficient model complying with Legislation
- Prevent Ingress of storm water into sewers - will result in less effluent to treat

Roads

- "save" existing Roads - Prevent Re-building

Stormwater

- Designing Flood Mitigation measures in such a way it can be build in phases - conveying sizeable floods in safety

EPWP programme

- Actively utilising EPWP programme to provide part funding for labour intensive projects – more work can be done.

Water Demand Management

- project started to install zone meters to determine more accurately where water is not being accounted for

Water Meter Audit

- planning to do meter audit, starting in Caledon

Departmental FV Program: Technical Service

Ingress of Stormwater into sewers

- when complete it will result in less effluent to treat resulting in lower operating cost as well as eliminating unnecessary upgrading of facilities

Investigating departmental construction

- Investigating departmental construction and re-sealing of roads as opposed to advertise tenders – needs to be evaluated to determine benefit Utilising more appropriate materials

Utilising more appropriate materials

- resulting in longer life spans such as interlocking pavers (more costly) as opposed to bitumen products where heavy vehicles are present.

Departmental FV program: Technical Service

Administration

- Saving on Photocopy Paper

Valuation

- Ensure all Properties are valuated

Councillor Support

- Cut Catering Costs for Meetings

Information Technology

- ECN Telephone Exchange Service (VOIP)

Human Resource

- Outsourcing the Administration of COID claims
- Implementation of ESS Leave Module

Departmental FV program: Operational Service

Rationalisation of services

- Outsourcing of the maintenance of public open spaces and pavements – cutting of grass
- Phasing out of the sewerage tanker services
- Dispose Villiersdorp Caravan Park
- Phase out Leiwat in Greyton and Villiersdorp

Increase income at Traffic Stations

- Income generation

Tariff Modelling

- Support and give inputs to Directorate Finance department

Other Cost saving measures

- Street Maintenance – implement more cost effective methods
- Improve material management
- Improve on overtime management
- Improve on technology
- Improve tender specifications on year tenders
- Implement waste recycling programmes

CONCLUSION

Thank You / Dankie / Enkosi

“I have walked the Long Walk to Freedom
I have tried not to falter.

I have made missteps along the way
But I have discovered the secret
That after climbing a good hill

One only finds that there are more hills to climb.

I have taken a moment here to rest
To steal a view of the glorious vista that surrounds me.

To look back at the distance I have come
But I can rest only for a moment
For with Freedom comes Responsibility.

For my walk is not yet ended”-

[Nelson R Mandela]

THERE IS HOPE: DON'T GIVE UP!!