

# Western Cape CFO Forum Lekgotla

## Part 1

### Synopsis of the local government budget reforms

Local Government Budget Analysis, National Treasury | 11 December 2012



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# Aims of the local government budget reforms

- Ensure that municipal budgets and financial management processes are **transparent**, aligned to the accountability cycle and facilitate democratic governance accountable to local communities
- Ensure municipal budgets generally support **the provision of basic services to communities**, facilitate social and economic development and promote a safe and healthy environment in a manner that is sustainable
- Ensure that budget and financial information is reliable and timely, and **consistent across municipalities**, and that municipalities, provinces and national government use it in management and policy decision-making
- The medium-term aim is to ensure that each municipality produces a **budget document** that is **aligned to the IDP**, that passes the **funding compliance** test and that contains accurate **financial information backed-up by useful, informative narratives**. The document must be user-friendly and facilitate engagements with communities and informed decision-making by Council.
- To improve financial governance by clarifying and separating **roles and responsibilities** of Mayors, executive and non-executive councilors vis-à-vis those of municipal officials.

# Budget reform focus areas (1)

- In our efforts to reform local government budget and budget processes, the focus is on the following areas:

1

Reviewing the **structure and allocation of functions of local government** to ensure the institutional framework for local government which facilitates sound budgeting processes.

2

Reviewing **the intergovernmental fiscal arrangements** as they relate to local government, including conditional grants, to ensure an equitable allocation of resources, and aligning the incentives to reinforce sound budgeting and financial management.

3

Ensuring that the **IDP priorities and budget allocations** are properly aligned. Sustainability of the MTREF is determined by the degree to which it is funded; municipalities are beginning to apply this principle within their budget planning framework.

4

Ensuring that the **new budget formats** inform the structure of all other elements of the accountability cycle, i.e. they need to align to the budget formats.

5

Strengthening **financial reporting systems**, particularly the forecasting component of the section 71 reports.

## Budget reform focus areas (2)

- In our efforts to reform local government budget and budget processes, the focus is on the following areas:

6

Building **capacity of the municipalities**, targeting Budget and Treasury Offices and through other initiatives.

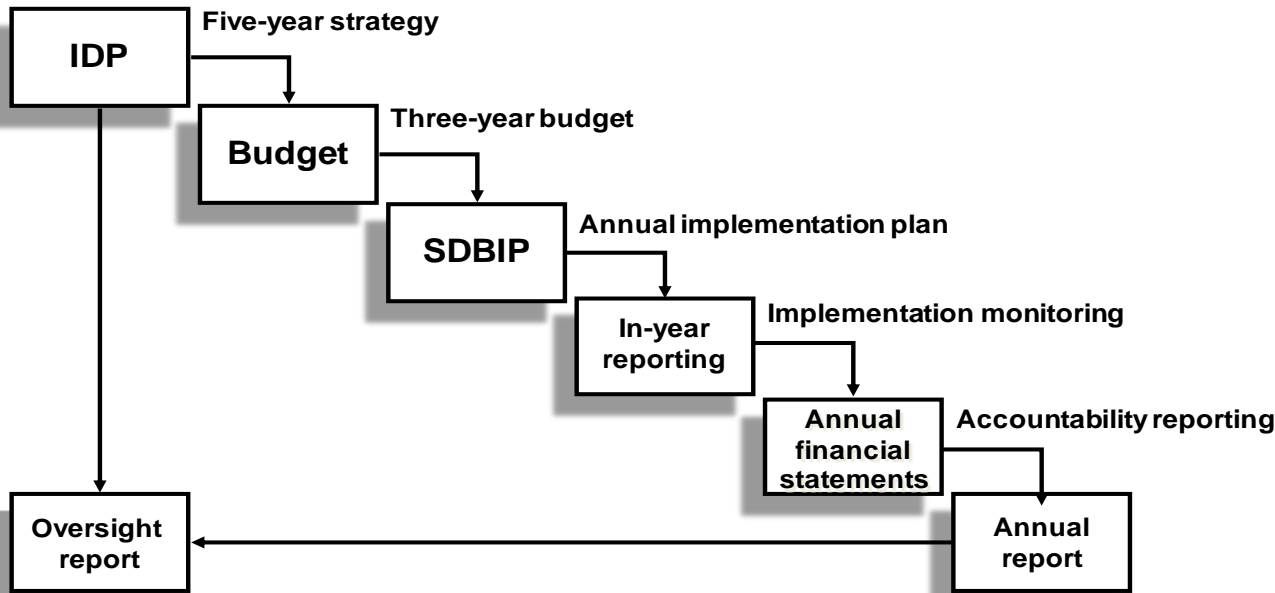
7

Enhancing **capacity at National Treasury and provincial treasuries** to exercise oversight of local government budgets, adjustments budgets and in-year reports.

8

Support **implementation of the MFMA and MBRR** by monitoring compliance with budget related prescriptions.

# MFMA aims to ensure alignment in the municipal accountability cycle



*Accuracy of information depends on:*

- Organisational structure aligned to basic services
- Sound municipal policies, processes and procedures
- Standard chart of accounts for municipalities

## Recent financial management reforms

- Municipal Budget and Reporting Regulations
- Strengthening in-year reporting
- Return of unspent conditional grants to the national revenue fund in line with DoRA
- Standard chart of accounts of local government

## Planned future reforms

- Strengthening revenue and cash management
- Structure of the Service Delivery and Budget Implementation Plan
- Strengthen reporting on non-financial information
- Regulations on financial misconduct to facilitate enforcement

# Description of performance evaluation

Symbol	Brief description
✓	The tick denotes 100 percent submission of reports in a given province. In other words, it reflects good or excellent compliance.
←	The leftwards arrow denotes a backward trend in the number of submissions.
→	The rightwards arrow depicts an improvement in the number of submissions.

Source: Own workings

# Submission of section 71 reports

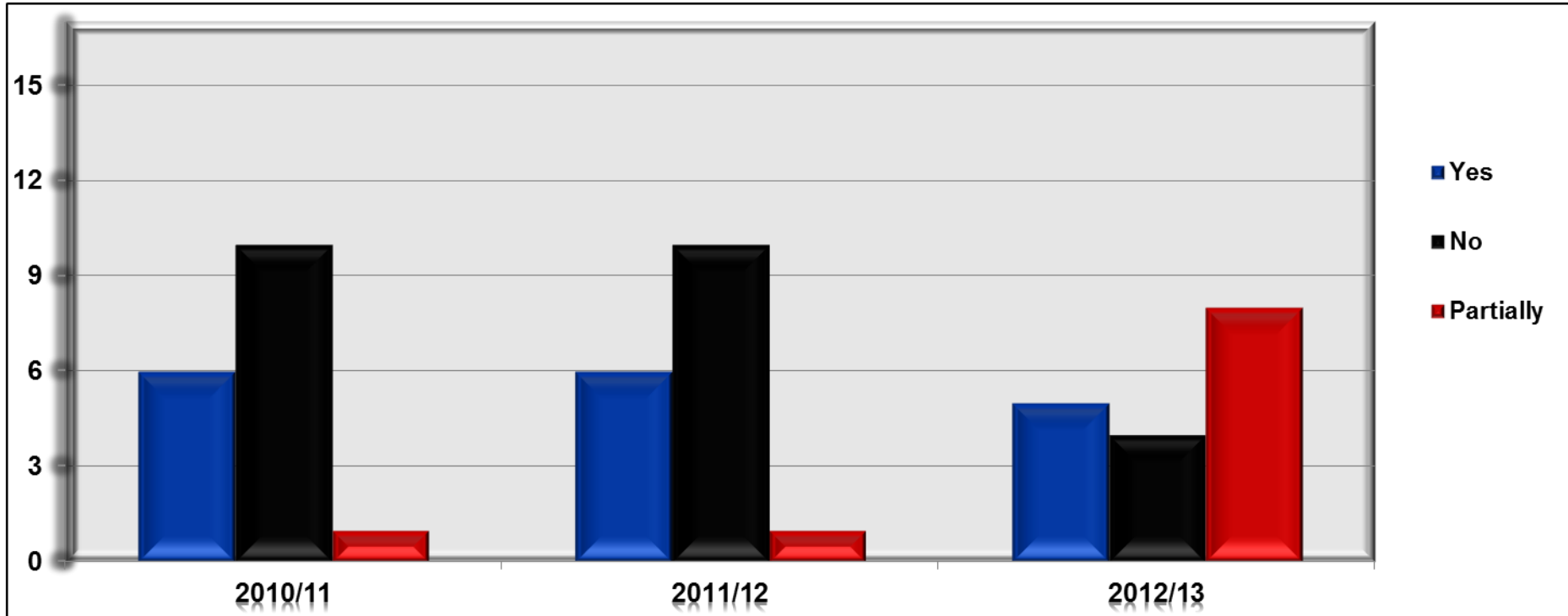
Province	No. of municipalities	2010/11 Quarter 1	2011/12 Quarter 1	2012/13 Quarter 1	Evaluation
Eastern Cape	45	42	45	45	→
Free State	24	24	23	24	→
Gauteng	12	12	12	12	✓
KwaZulu-Natal	61	58	61	61	→
Limpopo	30	30	30	29	←
Mpumalanga	21	20	21	20	←
Northern Cape	32	32	31	32	→
North-West	23	21	23	23	→
Western Cape	30	30	30	30	✓
<b>Total</b>	<b>278</b>	<b>269</b>	<b>276</b>	<b>276</b>	<b>→</b>

# Submission of signed-off conditional grant reports

Province	No. of municipalities	2011/12 Quarter 1	2012/13 Quarter 1	% Growth	Evaluation
Eastern Cape	45	14	28	100.0%	✓
Free State	24	10	16	60.0%	✓
Gauteng	12	7	9	28.6%	✓
KwaZulu-Natal	61	43	52	20.9%	✓
Limpopo	30	12	18	50.0%	✓
Mpumalanga	21	11	17	54.5%	✓
Northern Cape	32	32	30	-6.3%	←
North-West	23	15	14	-6.7%	←
Western Cape	30	21	28	33.3%	✓
<b>Total</b>	<b>278</b>	<b>165</b>	<b>212</b>	<b>28.5%</b>	<b>✓</b>

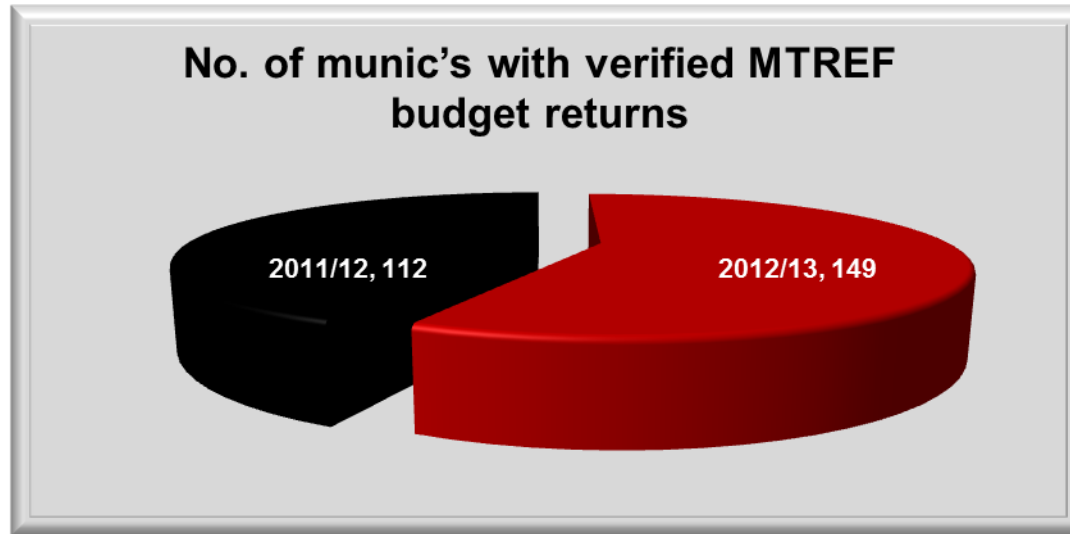


# Funding compliance test results: non-delegated munic's



Financial Year	Yes	No	Partially
2010/11	6	10	1
2011/12	6	10	1
2012/13	5	4	8

# Outcome of the adopted budget verification process



## 2011/12

- Eastern Cape: 15
- Northern Cape: 2
- Kwazulu-Natal: 34
- Limpopo: 7
- North-West: 17
- Free State: 8
- Mpumalanga: 1
- Gauteng: 7
- Western Cape: 21

## 2012/13

- Eastern Cape: 25
- Northern Cape: 12
- Kwazulu-Natal: 43
- Limpopo: 7
- North-West: 21
- Free State: 7
- Mpumalanga: 3
- Gauteng: 11
- Western Cape: 20

# Service delivery performance data

## Summary of service delivery mid-year performance (2011/12) - Metros

Performance Indicator	Buffalo City	Nelson Mandela Bay	Mangaung	Ekurhuleni Metro	City Of Johannesburg	City Of Tshwane	eThekwiini	City of Cape Town
<b>Financial viability</b>								
Percentage in water losses	42%		35%		38%		35%	18%
Percentage of water meters read each month			100%				93%	81%
Water meter reading methodology (Manual / Device)	Device	Device	Device	Device		Device	Device	Device
Percentage in electricity losses			11%				5%	Annual
Percentage of Eskom supply			-				95%	Unknown
Percentage of electricity meters read each month			85%				41%	87%
Electricity meter reading methodology (Manual / Device)	Device	Device	Device	Device		Device	Device	Both
Number of indigent households on the billing system			32 652				70 345	180 916
<b>Housing</b>								
Number of RDP housing units provided	595	337	6 301	-	-	-	1 763	2 059
Number of households allocated affordable social housing units	146	-	753	-	-	-	224	60
Number of households allocated affordable rental housing units	146	-	409	500	-	49	-	-
<b>Electricity</b>								
Number of formal households with access to basic electricity	92	299	169 437	-	-	630 531	1 973	562 784
Number of new households (RDP) provided with electricity connections	-	299	1 100	5 000	3 395	944	7 257	332
Number of households provided with access to free basic electricity	-	135 420	14 693	-	3 284	48 933	63 107	296 847
<b>Sanitation</b>								
Number of sanitation service points (toilets) installed for informal settlement dwellers	3 097	-	-	-	1 129	379	-	2 937
Number of new households (RDP) provided with sewer connections	-	3 196	604	-	1 129	397	-	815
Green drop status (Y/N)			-			No	No	Yes
<b>Water</b>								
Number of formal domestic customers receiving water services	160	-	157 235	-	-	596 233	444 651	596 392
Number of new households (RDP) provided with water connections	595	3 196	504	-	-	-	6 926	2 059
Blue drop status (Y/N)						Yes	Yes	Yes
<b>Roads</b>								
Total kilometres of tarred roads	4km	22km	-	102km	2km	-	6 252km	4km
Total kilometres of gravelled roads							1 457km	nil
Total kilometres of resurfaced roads	1037km	3km	2km	72km	152km	-	44km	4km
<b>Local Economic Development</b>								
Number of job opportunities created using the EPWP	76 212	5 823	1 435	4 049	-	10 767		11 405



# Service delivery performance data

## Summary of service delivery mid-year performance (2011/12) - Secondary Cities

Performance Indicator	O .R. Tambo	Msonduzi	uMhlathuze	Polokwane	Mbombela	Sol Plaatje	Mafikeng	Rustenburg	George
<b>Financial viability</b>									
Percentage in water losses		40.7%		-		58%	36%	36%	-
Percentage of water meters read each month		76%				74%	100%	95%	86%
Water meter reading methodology (Manual / Device)		Manual				Manual	Manual	Device	Manual
Percentage in electricity losses		11%				18%		26%	
Percentage of Eskom supply		100%				100%	100%	100%	
Percentage of electricity meters read each month		73%				79%		95%	4%
Electricity meter reading methodology (Manual / Device)	N/A	Manual	Device	Both	Device	Manual	N/A	Device	Manual
Number of indigent households on the billing system		NIL				18 979	756	5 399	15 591
<b>Housing</b>									
Number of RDP housing units provided		28				386	1 342	450	941
<b>Electricity</b>									
Number of formal households with access to basic electricity		134 359				47 242	48 585		33 448
Number of new households (RDP) provided with electricity connections		1 051		1 352		46		1 200	906
Number of households provided with access to free basic electricity	?	3 612	?	22 479		18 979	7 113	428	34 215
<b>Sanitation</b>									
Number of sanitation service points (toilets) installed for informal settlement dwellers		1 650					20 000		-
Number of new households (RDP) provided with sewer connections		187					30 000	2 427	-
Green drop status (Y/N)		N				75%	Yes	Yes	-
<b>Water</b>									
Number of formal domestic customers receiving water services		50		86 180		55 031	13 000		33 448
Number of new households (RDP) provided with water connections		NIL		542		787	44 179	1 487	906
Blue drop status (Y/N)		Y				84%	Yes	Yes	Yes
<b>Roads</b>									
Total kilometres of tarred roads		0.57km		4 km		3.5km	1.8km	34.4km	nil
Total kilometres of gravelled roads		55.8km		nil			3km	471km	nil
Total kilometres of resurfaced roads		nil		nil			1km		445km
<b>Local Economic Development</b>									
Number of job opportunities created using the EPWP		540				104 533	534	2 783	872

# Way forward

- In light of the current unfavourable economic climate, municipalities should still adopt a conservative approach when projecting their anticipated revenues and cash receipts.
- Municipalities are required to pay particular attention to managing revenue effectively and carefully evaluate all spending decisions.
- In preparation for the 2013 LGBER publication, National Treasury will be aligning the database to the Municipal Budget and Reporting Regulation formats to improve the analysis with the relevant budgeting framework – your full cooperation would be required.
- Efforts will continue to ensure all municipalities meet requirements and to further improve the quality of budget and reporting information.
- Lastly, the National Treasury will regularly communicate with all municipalities on progress during the process of finalising the SCOA for local government.

# Part 2

## Municipal Revenue Management Protecting and growing the revenue base

Local Government Budget Analysis, National Treasury | 11 December 2012



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# Background: escalating municipal debt

Category	2012/13 Quarter 1	2011/12 Quarter 1	2010/11 Quarter 1	2009/10 Quarter 1
Metros	R50 billion	R44.5 billion	R37.4 billion	R31.5 billion
Secondary cities	R14.5 billion	R12.7 billion	R12.8 billion	R10.5 billion
Local munic's	R22.4 billion	R17.6 billion	N/A	N/A
<b>National</b>	<b>R86.9 billion</b>	<b>R74.8 billion</b>	<b>N/A</b>	<b>N/A</b>

Source: Section 71 reports , N/A – figures not available at the time

**Collecting outstanding debts** – This requires political commitment, sufficient administrative capacity, and pricing policies that ensure that bills are accurate and affordable, especially for poor households.

# Legislative framework

- The Constitution
- Municipal Systems Act
- Municipal Structures Act
- Municipal Finance Management Act
- Municipal Property Rating Act
- Credit control
- Indigent policy
- Rates policy



# Clarification

- **Revenue management**

is similar to expenditure management, it is a fundamental and routine financial management function of the municipality's revenue generating business that encompasses billing and collection activities in respect of services delivered and property rates levied.

- **Revenue enhancement**

is about improving by making more, in the case of municipal revenue it may be associated with increasing the value of revenue generated or augmenting municipal revenue streams.

# Key Findings (1)

- A lack of understanding of the integrated revenue value chain
- Fragmented business processes
- No internal service level standards, which result in non-compliance
- No accountability for the revenue value chain
- Ineffective organisational structures
- Lack of skills
- Non-compliance to the legal framework; municipalities not fulfilling their core mandates (billing, collection, service delivery)

## Key Findings (2)

- Focus on debt collection, debt collecting agencies, credit control action rather than
  - Service delivery
  - Repair & maintenance of aging income generating infrastructure
  - Measuring consumption accurately, regularly
  - Timely distribution of statements to correct customer addresses/emails/cell phones
  - Data integrity (billing information & customer information)
- Municipalities contract services to assist with ‘diagnosing’ revenue management problems; implementation corrective action is lacking

# Introduction to the revenue value chain



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# Revenue value chain process

- Defining interdepartmental and external dependencies in the transaction processing environment
- Interrogating the flow of information along the revenue value chain
- Improving integration and workflows thereby improving the integrity of billing information
- To ensure the completeness of revenue so that property ownership information on the municipal Valuation Roll matches the Deeds Registry and the billing system (and land use management system where applicable)

# BILLING & COLLECTION (POLICIES, BY-LAWS & PROCEDURES)

COMMUNICATION

DATA INTEGRITY

ADMINISTER  
CUSTOMER BASE

PROPERTY RATES  
& SERVICES

BILLING

REVENUE  
COLLECTION

DEBT  
MANAGEMENT

Town Planning

Property Rates

Generate  
Invoice

Pay points

Issue Notices

GIS

Electricity

Distribute  
Invoice

Prepaid

Disconnect/  
Reconnect

Valuations

Water

Queries

Allocate  
payments

Arrangements

Infrastructure

Waste/Refuse

Sundries

Receipting &  
Banking

Clearances

HUMAN SETTLEMENTS

Collection Rates

INDIGENT MANAGEMENT

SERVICE LEVEL STANDARDS

# Town planning functions

- Township establishment
- Approve building plans
- Inspects properties
- Issues certificate of occupation
- Approve change of usage
- Identifies illegal usage
- Impacts revenue collection

# Geographic Information System (GIS)

- Where in the municipality is this function performed?
- Maintains the cadastre
- Analysis of geographic information
- Maps
- Physical addresses



# Valuations functions

- Local Government Municipal Property Rating Act 6 of 2004
- Municipal Rates Policy
- Where in the municipality is this function performed?
- Compiles the General Valuation Roll (GVR)
- Compiles Supplementary Valuation Rolls

# Infrastructure/metered services

- Metered services
- Installation, repairs and maintenance of meters
- Meter reading? Outsourced? Internal? Service standards?
- Disconnection and reconnection of metered services as required by credit control

# Housing functions

- Where in the municipality is this function performed?
- Hand-over of houses to beneficiaries
- Certificates of occupation?
- Property valuations?
- Indigent registration?

# Billing



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# Generating accurate invoices

- Effective processes and procedures whereby data is translated into accurate billing records
- Service level standards between the municipal departments along the revenue value chain
- Effective service level agreements particularly when functions impacting the revenue value chain are outsourced
- Optimally utilised billing systems to ensure that accurate statements of account are presented to customers for payment
- Data 'cleansing' efforts will be in vain if the data is not validated throughout the transaction processing environment

# Opening and closing accounts

- New property
  - Certificate of occupation
- Transfer of ownership (move-in and move-out)
  - Deeds Registry
- Tenant accounts?
  - New application for services
- Implications for consolidated billing
- What about 'terms and conditions'?
- The clearance process and S118

# Revenue collection



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# Billing and statement distribution

- Billing for all services
- Accuracy of information
- Exception reporting
- Timeliness of the bill
- Channels for statement distribution



# Cash collection

- Internal control
- Effective cash management processes
- Reconciliation to verify daily cash receipts and cash banked
- Effectively managed pay points, cashier services, channel management, that is other methods whereby customers can pay their municipal accounts
- Facilities for prepaid metered services

# Debtor management



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# Implementation of Credit control policy (1)

- Fundamental requirements:
  - Approved credit control policy and by-laws
  - Procedures for implementation
  - Accurate billing and customer information (data integrity)
  - Customer communication
  - Capacity to implement

# Implementation of credit control policy (2)

- Capacity to
  - issue warning notices in accordance with the policy
  - restrict water or administer electricity disconnections
  - resolve customer queries
  - make 'arrangements' for payment of arrears
  - verify applications for indigency
  - reconnect/restore services upon proof of payment
  - manage dependencies on other directorates or sub-directorates such as infrastructure, metered services, communications, cash management
  - monitor service level standards

# Targeted Approach to Debt Collection

- Top 100; 50; 20
- Categorise debtors (commercial, indigent, government)
- Target industries; vetting of suppliers
- Ensure accurate billing information
- Resolve queries
- Follow credit control policy procedures
- Be mindful of capacity constraints
- Raise public awareness

# What must change

- Ensure effective data handovers between departments along the revenue value chain
- Reconcile billing records to the data source
- Protect and grow the revenue base
- Ensure the correctness of the Valuation Roll
- Accurate metering of water and electricity services
- Improve refuse/waste management billing activities
- Credibility of billing information is paramount

# What we need to do

Protect and grow the revenue base:

- Effectively manage the revenue value chain
- Improve data integrity in the transaction processing environment
- Effectively implement legislation, policies and procedures
- Implement a targeted approach to debt collection
- Improve customer service
- Confirm the completeness of revenue
- Get the basics right!

# Municipalities must do more

- Appoint suitably qualified staff
- Improve customer service
- Improve organisational structures; consider functional requirements
- Comply with the legislative framework (valuation rolls, supplementary valuations, objections and so on)
- Maximise the revenue potential of property rates and trading services
- Implement effective policies; adopt by-laws
- Stop 'diagnosing' billing problems; fix it!



# THANK YOU!!!



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