

MEMORANDUM TO MINISTER SICELO SHICEKA
NATIONAL DEPARTMENT OF CO-OPERATIVE GOVERNANCE AND
TRADITIONAL AFFAIRS

COMPILED BY INCA AND CO-SPONSORS FNB AND GROUPE
AGENCE FRANCAISE DE DEVELOPPEMENT

RELATING TO

**THE LOCAL GOVERNMENT CAPACITY BUILDING SUMMER
SCHOOL OF 2009**



I N C A
CAPACITY
BUILDING FUND



INDEX

	Page Number
1. Memorandum to Minister Sicelo Shiceka	3
2. Annexure A – Summer School programme	9
3. Annexure B – Summary of the papers and inputs received	12
4. Annexure C - List of attending delegates	37

MEMORANDUM TO MINISTER SICELO SHICEKA: NATIONAL DEPARTMENT OF CO-OPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS

PURPOSE

The purpose of this memorandum is to:-

- Inform the Minister of the outcome of the Local Government Capacity Building Summer School 2009 arranged by Inca and co-sponsors, FNB and Groupe Agence Francaise de Development.
- Contribute towards the debate relating to Project Clean Audit.
- Suggest measures that can be implemented at municipal level to improve their financial viability and therefore service delivery backlogs.

EXECUTIVE SUMMARY

The annual Inca Summer School which took place during 26 – 28 October 2009. The organisers are aware that the National Department of Co-operative Governance and Traditional Affairs have launched various initiatives such as Projects Viability, Consolidate, and recently, Clean Audit to assist municipalities to fulfil their constitutional obligations. The debate around Project Clean Audit has not been concluded. Therefore, the organisers of the Summer School wish to contribute by focussing on aspects which they believe will have the biggest impact. There are many municipalities which achieve clean audits but they cannot contribute towards the eliminations of service backlogs and are totally reliant on government grants. Are there reasons for their existence? Shouldn't government rather assist viable municipalities to maximise the generation and collection of income and to become self-sufficient ? Hopefully this paper will contribute towards the debate.

The topic of the Summer School was "The elimination of service delivery backlogs through the improvement of financial viability". The theme was selected because it is generally perceived that municipalities do not maximise their income sources effectively. By managing their financial resources better they will be able to access the capital market, borrow externally and contribute

towards the elimination of service backlogs. Experts, as per the attached programme, delivered papers on a range of subjects related to municipal viability (Annexure "A"). Summaries of the papers are attached as Annexure "B". These topics were subjected to question and answer sessions, panel discussions and dissection by break-away groups.

At the end of the deliberations delegates came to the conclusion that municipalities can contribute to the eradication of service delivery backlogs by improving financial viability.

RECOMMENDATIONS

It is recommended that:-

- The Department of Co-operative Governance and Traditional Affairs roll out the Emma Plus Monitoring tool nationally to all provinces so that the viability of each municipality can be measured in the same manner.
- Municipalities be instructed to :-
 - Establish a data cleansing unit to control the quality of debtor's data.
 - Establish whether each developed municipal stand is linked to :-
 - A rates account,
 - an electricity, water, sewerage and refuse account; or when undeveloped link to
 - a rates and availability charges account.
 - Install a credit control and debt collection system which interfaces with the municipality's financial system and caters for :-
 - Automated dis- and reconnections and legal processes.
 - A query system.
 - Automated indigent register and audits.
 - Social assessments.
- The Auditor-General requested to monitor the regular write-off of uncollectible debt.
- Establish whether municipal staff is capable of managing and operating its financial systems and undertake the necessary training.
- Facilitate the co-operation of the Departments of Social Affairs, SARS and National Treasury to make information relating to indigent registration available to municipalities.

BACKGROUND

The Inca Summer School takes place annually in October of each year and is sponsored by the Inca Capacity Building Fund, First National Bank and Groupe Agence Francaise de Development. Selected municipal officials are invited to attend and based on their contribution at the Summer School, some are rewarded with a Study Tour to France. (The list of delegates is attached as Annexure "C"). The theme of the Summer School for 2009 was:- **"Elimination of service delivery backlogs through the improvement of financial viability"**, and was facilitated by Dr C Kapp a well respected authority in Local Government. Seven different speakers were invited to speak on subjects related to financial viability. Some of the more important conclusions at the Summer School were:-

Dr Iraj Abedian : Pan-African Capital Investments and Research Services

- The current funding budget to eliminate backlogs is totally inadequate.
- There is an emphasis on new projects and not on maintenance of existing.
- The loss of intellectual assets is going to slow down development.
- South Africa, with its African partners must find a solution for development in Sub-Saharan Africa to stop the migration to South Africa.
- The South African economy has been hit by the global meltdown but the construction section is unlikely to be hit as hard as some other countries.

Ms Louise Muller : Director Shareholding Management of the Finance Directorate, City of Cape Town

- Substantial progress has been made in service delivery.
- The level of backlogs cannot be handled by municipalities alone.
- Funding allocations are inadequate.
- Grant funding is uncertain due to national economic challenges.
- External pressure on other municipal expenditure categories is causing pressure on maintenance spending.
- The elimination of backlogs has impacted heavily on businesses through national taxation.

Practitioners

- High level of unemployment and consumers receiving grants or free services impacts on municipal ability to deliver services.
- High level of HIV/Aids.
- Huge service backlogs in the rural areas.

Ms Joey Krishnan : General Manager – Municipal Finance Department of Local Government and Traditional Affairs, KwaZulu-Natal Provincial Government

- The necessity of an electronic monitoring tool to measure viability.
- The role of provincial government to support, monitor and build capacity in local government.

Mr Yusuf Patel : Deputy Director-General : Free Basic Services DOGTA

- Municipal tariffs are not cost effective.
- Indigent registers are understated.
- Processes that manage indigent administration and data maintenance are ineffective. Credit control and debt collection work in isolation to indigent care.
- A framework for Free Basic Services is required.

Mr Robert Mann : National Co-ordinator of the Ukulungisa Project

- Project preparation is essential.
- Too many projects are implemented simultaneously.
- Communication between spheres of government is poor.

Mr Kris Kumar : Deputy City Manager : Treasure / CFO of the eThekweni Municipality

- Invest in an integrated billing and credit control system.
- All services linked to a property must be linked to GIS.
- Interface with the Deeds Office.
- Clean data on an ongoing basis.
- Consolidate accounts.

- Enforce credit control and debt collection.
- Adopt a zero-tolerance stance against tampering with services and political interference.
- Apply 80/20 principle.
- Introduce user-friendly customer support.

Ms Dudu Maseko : President ILGM and Managing Director of Johannesburg Road Agency

- Encourage community participation.
- Develop an Integrated Development Plan.
- Give feedback to the community.
- Develop a corporate strategy for service delivery.
- Lead and make suggestions.
- Enforce accountability.

Mr Noël Jelliman : Head of Government Business Unit and Ms Nicolette Botha: Portfolio Manager, both from Inca

- Set benchmarks and measure performance accordingly.
- Ask financial institutions to share internal assessments with the municipality.
- Consider official ratings.
- Be aware of external market influences.

LEGISLATIVE AUTHORITY

The legislative authority to assist municipalities is found in:-

- Section 154 (1) of the Constitution which provides that National and Provincial Governments, by legislative and other measures, must support and strengthen the capacity of municipalities to manage their own affairs, to exercise their powers and to perform their functions.
- Section 139 of the Constitution which provides that the relative provincial executive may intervene when a municipality cannot or does not fulfil an executive obligation in terms of the Constitution or other legislation.

BUDGETARY PROVISIONS

A large number of municipalities will not require financial assistance but some will have to be supported by national and provincial grants. A needs assessments will have to be undertaken and included in a provincial business plan.

**LOCAL GOVERNMENT CAPACITY BUILDING SUMMER SCHOOL 2009
PROGRAM**

**THEME: ELIMINATION OF SERVICE DELIVERY BACKLOGS THROUGH THE IMPROVEMENT
OF FINANCIAL VIABILITY**

DATE	SUBJECT	RESPONSIBILITY
26 OCTOBER 2009		
07H00 – 07H45	Breakfast (Main dining room)	
07H45 – 08H15	Registration (Entrance to auditorium)	
08H15 – 08H30	Welcome and domestic arrangements	Noël Jelliman and Chris Kapp
08H30 – 09H15	Key note address: The challenges of service delivery during an economic recession	Dr I Abedian – Founder and Chief Executive of Pan-African Capital Holdings. Chairman and board member of various SA companies, including Bigen Africa (Economist).
09H15 – 09H45	Question & Answer Session	Dr Chris Kapp to facilitate
09H45 – 10H30	Service delivery backlogs, constraints and possible solutions	Louise Muller – Director: Shareholding Management Finance Directorate City of Cape Town
10H30 – 11H15	Tea / Coffee (Photo session)	
11H15 – 12H15	Specific inputs from municipal practitioners relating to service backlogs, budgetary process, shortcomings and achievements	Invited members form municipalities to be briefed on input required
12H15 – 13H00	Panel discussion	Dr Kapp to invite panel members and facilitate
13H00 – 14H00	Lunch (Liquid Lounge)	
14H00 – 15H00	Measuring financial viability - Provincial perspective	Ms Joey Krishnan – General Manager : Municipal Finance, Dept Local Gov and Traditional Affairs, KZN
15H00 – 16H30	Question and answers	Dr Kapp to facilitate
16H30 – 16H45	Summary and closure - day one	Dr Kapp
18H30	Welcoming cocktail Foyer of the FNB centre)	

27 OCTOBER 2009

07H00 – 08H00	Breakfast (main dining room)	
08H00 – 08H15	Program arrangements	Dr Chris Kapp
08H15 – 09H45	Pragmatic approach to prioritize needs within the constraints of political aspirations and basic service requirements	Ms Dudu Maseko – President of Municipal Managers Association and Managing Director of JHB Road Agency
09H45 – 10H15	Questions and answers	Dr Kapp to facilitate
10H15 – 10H30	Tea and Coffee	
10H30 – 11h30	Extent of poverty, inability to pay for services and indigent support at municipal level	Yusuf Patel – Deputy Director-General : Free Basic Services DPLG
11H30 – 12H30	Importance of project preparation: a presentation based on case studies	Robert Mann – Project Preparation Trust of KZN
12H30 – 13H30	Questions and answers	Dr Kapp to facilitate
13H30– 14H30	Lunch (Liquid Lounge)	
14H30 – 15H30	Effect of data quality, billing procedures and credit control and debt collection on municipal cash flow	Krish Kumar – CFO of eThekweni Municipality
15H30 – 16H15	Questions and answers	Dr Kapp to facilitate
16H15 – 16H30	Summary and closure	Dr Kapp
16H30 – 18H30	Breakaway groups (Each with own subject relating to service delivery)	Dr Kapp to provide brief to group
19H00	Supper – Potjiekos (Pool area)	

28 OCTOBER 2009

07H00 – 08H00	Breakfast (Main dining room)	
08H00 – 10H00	Feedback – breakaway groups	Dr Kapp to facilitate
10H00 – 11H00	Key risk areas impacting on the municipality's overall financial viability/credit rating and the ability to raise additional capital funding for infrastructure projects	Joint presentation by INCA – Nicolette Botha and Noël Jelliman
11H00 – 11H15	Tea	
11H15 – 12H00	Questions and answers	Dr Kapp to facilitate
12H00 – 12H45	Report on visit to France 2008	Noël Jelliman CEO of ICBF
12H45 – 13H00	Vote of thanks / Conclusion	Dr Kapp
13h00 – 14h30	Closing lunch and announcement of prize winners of overseas study tour (Liquid Lounge)	

SUMMARY OF THE PAPERS AND INPUTS RECEIVED AT THE 2009 INCA SUMMER SCHOOL

INTRODUCTION

The theme of the 2009 Inca Summer School was : ***Eliminating infrastructure backlogs through improving financial viability***. The theme was chosen because it is generally perceived that municipalities do not optimise their own sources of finance and therefore are not in a situation to eliminate backlogs. Very few municipalities can borrow on the capital market because of poor ratings caused by financial mismanagement. The speakers recruited, their subjects and backgrounds are attached as Annexure “A”.

KEY NOTE ADDRESS

The key note address was delivered by Dr Iraj Abedian from Pan-African Investment and Research Services who addressed the delegates on : ***Service delivery and Recession Financing options and challenges***. The outline of his address was as follows:-

1. Government’s infrastructure deadline.
2. Trend in infrastructure expenditure.
3. Financial requirements of infrastructure backlogs.
4. Some underlying institutional problems.
5. Critical success factors.
6. The need for innovative project finance approaches.
7. Medium term challenge : A regional perspective.
8. Concluding remarks.

He highlighted the government’s deadlines for the elimination of municipal service backlogs which are as follows:-

- Eradication of sanitation buckets – 2007.
- Access of potable water – 2011.
- Access to sanitation – 2011.

- Infrastructure for FIFA World Cup – 2010.
- Universal access to electricity – 2013.
- Solid waste – 2014.
- Other municipal services – 2014.
- Housing – 2014.

Under the heading Public infrastructure 1960 – 2007 he emphasised that there is no correlation between infrastructural spending as a percentage of GDP during a recession or a period of growth. Governments tend to spend more during recessions to stimulate the economy and to create jobs. The accumulated capital spending to eliminate backlogs amount to more than R400b whilst the amount required to eliminate housing backlogs amounts to R120b. The current budgeted funding sources are totally inadequate to address backlogs and the process needs rethinking. Some of the underlying infrastructural challenges are:-

- Limited financial capacity with the main difficulties –
 - Inability to maintain existing infrastructure.
 - Tension between the funding sources and life-span of assets.
- Imprudent allocation of funds with an emphasis on new projects and not on the maintenance of existing infrastructure.
- Loss of intellectual assets.
- Dearth of guidelines, norms and standards. Best and bad practices need to be documented.
- Inadequate legislation relating to the maintenance of assets.

In Dr Abedian's concluding remarks he emphasised that:-

- SA's economy has been hit by the global meltdown.
- The State's capacity remains a critical factor.
- The private sector's strength is the country's most important asset.
- Government is likely to channel large resources to urban infrastructure over the next decade.
- SA's construction sector is unlikely to be hit as hard as that of some other countries.
- Cost-consciousness is bound to rise rapidly, locally and internationally.

He also highlighted the fact that South Africa needs to find a solution for the lack of development in Sub-Saharan Africa to avoid the migration of people to this country.

STATE OF SERVICE DELIVERY: BACKLOGS, CONSTRAINTS AND POSSIBLE SOLUTIONS
by Ms Louise Muller, Director Shareholding Management of the Finance Directorate, City of Cape Town

The presentation was divided into the following subsections:-

- Progress in the provision of services.
- Backlogs.
- Costs (and hidden costs of service delivery).
- Service delivery choices.
- Infrastructure development support programmes.
- Funding for infrastructure.
- Alternative revenue sources.
- Conclusion.

Ms Muller started her presentation by highlighting the National progress in service delivery, current backlogs and the cost of service delivery to businesses. The details are as follows:-

National improvement in service delivery between 2007 and 2008

- | | |
|---------------------------|-------|
| ○ Sewerage and sanitation | 17,4% |
| ○ Water | 16,3% |
| ○ Solid waste management | 15,6% |
| ○ Electricity | 6,0% |

National roll-out of services since 2004

- | | |
|---------------|-------------------------------|
| ○ Water | 835 093 household connections |
| ○ Sanitation | 399 662 household connections |
| ○ Electricity | 974 348 household connections |

Development indicators

- The subsidised housing programme reached a cumulative total of 2.8 million units completed or under construction in March 2009.

- Access to water infrastructure above or equal to the RDP standard increased from 61, 7% in 1994 to 91, and 8% in March 2009.
- The number of households with access to sanitation increased from 50% in 1994 to 77% (10 million) in March 2009.
- The number of children suffering from severe malnutrition decreased from 89 000 in 2001 to 26 000 in 2008.
- Foreign direct investment increased from R18 127b in 2007 to R103 497b in 2008.
- House ownership increased from 70, 4% to 75, 8%, with households receiving a government housing subsidy increasing from 5, 6% to 11, and 2%.

National access to free basic services

Service	Consumer units receiving service	Consumer units receiving free basic services	% Consumer units receiving free basic services
Sewerage and Sanitation	9,0m	3,1m	32,63%
Water	11,5m	7,0m	60,87%
Solid waste	9,0m	2,0m	22,22%
Electricity	8,1m	2,8m	34,57%

Service delivery backlogs

Service	% of households receiving service (13 104 966)	Backlog
Sewerage and sanitation	77,1%	22,9%
Piped water	70,9%	29,1%
Solid waste	60,5%	39,5%
Electricity	82,6%	17,4%

Impact of economic conditions on business. The delivery of services has had a profound impact on businesses. Details are as follows:-

- Corporate tax burden doubled since 1994, from 13% to 26%.

- PWC survey revealed that for every R1 in corporate tax, a further 54c is paid in other business taxes.
- 21 taxes are levied on companies.
- Liquidations for 1st 7 months of 2009 increased by 35,8%.
- Business Confidence Index declined to 33 in 4th quarter of 2008, down to 27 in 1st quarter of 2009.

Ms Muller emphasised that the current level of National subsidies to provide infrastructure to poor people is inadequate and that government needs to balance economic development needs versus the social investment needs by :-

- Identification of the change in basic service needs.
- Prioritisation of specific service needs.
- Clarity on sustainable tariffs and ability of the community to pay.
- Understanding maintenance requirements.
- Understanding of development initiatives.
- Identification of adequate resources.

Whether local government will be able to meet the challenges will depend on finding the balance between the following realities:-

- The envelope of indigents is growing.
- The demands on local government to eradicate backlogs by 2014.
- Increases in bulk tariffs exceed the increase in the equitable share allocations.
- Political pressure and realistic expectations need to be managed when determining tariff increases.
- Expectations of higher levels of basic services.
- Increased demands on local government with reduced own revenue streams.
- Grant funding may not be certain due to economic challenges (falling national revenues).
- External pressures on other line items causing pressure on repairs and maintenance spending.
- Infrastructure development funds don't come with operating provisions.

SPECIFIC INPUTS FROM MUNICIPAL PRACTITIONERS RELATING TO SERVICE BACKLOGS, BUDGETARY PROCESS, SHORTCOMINGS AND ACHIEVEMENTS

Three speakers were invited to give input on the above mentioned topic. They were:-

Mbuzeli Nogqala : Nelson Mandela Metro, Lerato Tshwane : Hibiscus Coast Municipality and Louis Fourie : George Municipality.

It was disturbing to learn that in the Nelson Mandela Metro:-

- The unemployment rate is over 35%.
- Approximately 37% of households are indigent and cannot pay for services.
- Approximately 44% of households have access to at least one social service grant.
- Approximately 30% of the population has HIV/AIDS.
- Approximately 20% of residents have no or limited schooling.

The backlogs are controllable and only 4,9% of households are not receiving minimum of services.

Hibiscus Coast Municipality has vast rural area with severe backlogs:-

- Electricity 30% backlog.
- Water and sanitation 40% backlog.
- Rural roads are of a poor standard and in some areas inaccessible.

In George, one of the fastest growing cities in South Africa, the backlogs are minimal. Housing is a problem and politicians have over compensated by spending too much on infrastructure. The area is currently battling with a severe water crisis and the envisaged borrowing requirements are going to push the municipality over the 50% level of debt versus income ratio.

All three municipalities are equipped to handle the budgetary constraints and employ acceptable processes.

Although all three municipalities are proud of their achievements huge challenges lie ahead complicated by unrealistic demands from consumers that do not contribute to service costs.

PANEL DISCUSSION

After the inputs on service backlogs a panel discussion was held to put the subject in perspective, field questions from delegates and to summarise the proceedings so far. The panellists were:-

- Ms Linkie Mohlala
- Ms Linna Malatjie
- Ms Louise Muller
- Ms Joey Krishnan

PROVINCIAL PERSPECTIVE : MEASURING FINANCIAL VIABILITY by Ms HB Krishnan, General Manager : Municipal Finance Department of Local Government and Traditional Affairs, KwaZulu-Natal Provincial Government.

Ms Krishnan addressed the topic under the following headings:-

- Provincial mandate.
- KwaZulu-Natal municipalities.
- Overview municipal financial profiles.
 - Compliance.
 - Institutional issues.
 - Performance.
- Financial viability – shift in focus.
- Monitoring tool.
- KZN service delivery priorities.
- Challenges.
- Key focus areas.

Provincial Government has a constitutional obligation to support, monitor and build municipal capacity to fulfil their responsibilities in terms of the Municipal Systems, Financial Management, Division of Revenue and Property Rates Acts. For this purpose the Provincial Government monitors:-

- The submission of annual financial statements.
- Annual reports.

- CFO's positions filled.
- Establishment of internal audit units.
- Audit Committees established.
- Audit plans approved.
- Audit opinions received.
- Adequacy of audit responses.
- Municipal debt.
- Revenue streams.
- Operational costs.

The KwaZulu-Natal Department of Local Government and Traditional Affairs have also taken the lead in South Africa by developing the first electronic monitoring tool that measures financial viability. Four other provinces have expressed interest in the monitoring tool and the National Department (DOGTA) has taken a resolution to roll out the system countrywide. Field pertaining to financial data will be uploaded by municipalities whereafter the system determines the viability by using financial ratios. Non-compliance and alerts are highlighted and made available through reports. The system also monitors a range of institutional and service delivery compliances. By accepting this system as a national monitoring tool, municipalities can be measured against each other and national programmes for improvement can be rolled out. Profiles like budgets, financial statements can also be drawn and compared nationally. After demonstrating key aspects of the monitoring tool, Ms Krishnan highlighted the KZN service delivery priorities, challenges, programmes and mile-stones.

EXTENT OF POVERTY, INABILITY TO PAY FOR SERVICES AND INDIGENT SUPPORT AT MUNICIPAL LEVEL by Mr Yusuf Patel, Deputy Director-General : Free Basic services DOGTA

The topic was dealt with under the following headings:-

- Purpose.
- Poverty.
- Indigent management.

- Free basic services.
- Integrated project development.
- Free basic services study.

After discussing the topic in detail Mr Patel came to the following conclusions:-

- Municipal tariffs are not cost effective.
- Municipalities do not know if individual services are self-sufficient or not.
- Indigent registers are understated (84% not registered).
- Current processes of managing indigent registration and data maintenance are ineffective.
- The majority of indigent municipal customers are not registered on any official municipal data base.
- Credit control, billing, customer care and indigent registration work in isolation resulting in the accumulation of uncollectible debt.
- The provision of Free Basic Services (FBS) is poorly managed by municipalities, no formal records exist.
- Electricity and water services show the greatest deficit in funding provision.
- The future accurate registration of indigents could have dramatic impact on future funding of FBS.
- Current legislation seems to be adequate in terms of providing the framework for the implementation of FBS.
- FBS subsidisation through municipal accounts would be a catalyst for FBS backlog eradication.
- The current basket of municipal services subsidised must be reviewed to include other essential community services (rates).
- Municipal access to equitable share must be derived from accurate municipal indigent register stats and not from national stats (bottom up).
- More resources should be allocated to support municipalities in the implementation of FBS.
- Municipalities require an indigent registration and FBS implementation blueprint that illustrates tried and tested solutions for indigent registration and FBS implementation.

CAPACITY CONSTRAINTS, PROJECT PREPARATION AND SERVICE DELIVERY by Robert Mann, National Co-ordinator of the Ukulungisa Project.

Mr Mann started his presentation by pointing out the lack of engineering capacity in South Africa. For example_:-

- The Department of Water and Environmental Affairs had only 39% of its engineering vacancies filled in 2008/2009.
- Forty seven percent of the Department's engineers will retire in the next 10 years.
- Municipalities in South Africa are in the same situation.
- Too many projects are implemented simultaneously.
- Communication between spheres of government is poor.

After dealing with project preparation, its advantages and why it is necessary he illustrated the effect of poor project planning with examples. He concluded the presentation by describing the role of the Ukulungisa Trust Fund in assisting municipalities with project preparation.

THE EFFECT OF DATA QUALITY, BILLING PROCEDURES AND CREDIT CONTROL AND DEBT COLLECTION ON MUNICIPAL CASHFLOWS by Mr Krish Kumar, Deputy City Manager : Treasurer / CFO of the eThekweni Municipality.

In his introduction Mr Kumar indicated that although the net cash/investment position of cities had increased significantly over the period 2003 to 2006, since the economic downturn, municipal consumer debt has increased dramatically. Approximately R30b is owed to the Metros with serious cash-flow consequences.

Johannesburg had to re-negotiate the repayment of its loans which has increased its debt revenue ratio from 42% to 50%, Tswane on the other hand has not been able to pay its bulk suppliers, Eskom and Rand Waterboard. All of this has been blamed on the non-payment of accounts.

The quality of data has a direct effect on cash-flows. Data cleansing is an ongoing process and must cater for :-

- Correct names and identity.
- Property addresses.

- Postal addresses.
- Contact numbers.
- E-mail and cell phone details.
- Meter numbers.
- Change of owner details.

A proper billing system that can cater for all municipal needs is essential. For this purpose eThekweni has decided to develop their own system which will include:-

- Revenue management.
- Supply chain management.
- Accounts and budgeting.
- General ledger.
- Contracts management.
- Asset management.
- Fleet management.
- Human resource management.
- Citizen services.

Correct billing is the first step to ensuring payment for services. Queries on accounts must be attended to timeously to ensure customer satisfaction and make payments possible. Regarding credit control and debt collection, Mr Kumar emphasised :-

- A proper policy.
- Credit control starting at the counter where obtaining all the information about the debtor is essential.
- Debtors must be profiled.
- An all inclusive system for credit control and debt collection is necessary because of the ever increasing defaults.
- Action must be taken timeously.
- Clamping down on illegal connections and meter tampering.
- The legal process must be automated.

His final tips to the delegates were:-

- Invest in a fully integrated bill and debt management system.
- Link to GIS and all services linked to a property.
- Interface with Deed Office to ensure properties on valuation roll are matched with their records.
- Data cleansing and continuous improvement of data.
- Consolidate accounts.
- Enforce credit control policies and by-laws.
- Sanctions for non-payment must be strictly managed.
- Zero-tolerance regarding tampering and political interference.
- Applying the 80/20 principle – Top 100 debtors.
- User friendly customer support.

He concluded with the following :-

- Data quality, billing procedures and credit control and debt collection all have a significant impact on the collection rates and cash-flow of a municipality.
- The above can be considered to be the lifeblood of a city considering the current economic climate.
- Negative or deficit cash flow situations and low cash collection rates affect the credit rating of a municipality which in turn affects the borrowing rate that a municipality qualifies for.
- The MFMA requires municipalities to reduce expenditure if they do not achieve income targets.

BREAKAWAY GROUPS

At the end of the second day delegates were divided into three breakaway groups to deal with the following topics:-

TASK ONE

Considering the difficulties facing Local Government in accessing the capital market, the need for a tool that can measure the readiness of the municipality to borrow is important. Joey Krishnan referred to such a tool. How important is it to measure:-

- The turnover rate of debtors.
- Cash available for operating purposes.
- Turnover rate of debtors.
- Debt (borrowing) as a percentage of revenue.
- Salaries as a percentage of expenditure.
- Maintenance as a percentage of expenditure.
- Cash-funded budgets.

What do you understand about the above-mentioned ratios? What standard will you set for the above ratios and what can municipalities do to improve on their performances relating to the above ratios?

FEEDBACK – TASK ONE

No	Tool	Importance	Understanding	Benchmark	Improvement required
1	Turnover rate of debtors	Very important	Rate (in days) at which the debtors pay their accounts Consumer debtors before provision/total revenue X 365	30 days	<ul style="list-style-type: none"> • Understand your community and the salary payment dates • Targeted approach to various categories (eg business, government, top 100) • Implement stringent credit control as per approved policy and by-law • No political interference • Debtor profiling • Ongoing education and communication • Integrated debt collection software system • Data cleansing exercises • Daily monitoring of collections • Consolidation of debt/consolidated

					billing
2	Cash available for operating purposes	Very important – to avoid cash flow problems, determines liquidity	Cushion, serves as buffer to fund day-to-day operations, pay employees, pay creditors in terms of MFMA requirements, risk mitigating factor Going concern factor	1,5 : 1 as minimum	<ul style="list-style-type: none"> • Cut costs to align to income (eg overtime, events, S & T etc) • Understand the trends in income and expenditure • Cash flow forecasting – daily and monthly • Improve debt collection / implement credit control effectively • Timing of accounts payable – within the law • Stricter budgetary control • Negotiate offsetting of government debt • Take advantage of supplier settlement discount • Bring in operational efficiencies • Link take up of loans to date of implementation of capital projects / financing from revenue • Refinancing of loans – depending on the penalty clauses • Fix water leaks and deal with illegal connections • Improved planning to limit deviations
3	Debt (borrowing) as a % of revenue	Very important – if too high then no further loans will be available, interest will be high due to risk of lender	Amount of debt as a % of the own operating revenue collected Dependant on cash backed reserves	10 – 15%	<ul style="list-style-type: none"> • Link take up of loans to date of implementation of capital projects / financing from revenue • Refinancing of loans – depending on the penalty clauses • Increase revenue & collections / Debt management and credit control • Re-phasing of capital projects • Improve credit rating • Increase in basic charges
4	Salaries as a % of expenditure	Important - major expenditure on the operating budget; legislative imperative to pay salaries; long term commitment	Total staff remuneration as a % of operating budget (excluding grants)	30-30% but dependant on various local scenarios	<ul style="list-style-type: none"> • Improve efficiencies and effectiveness • Productivity and outcome orientated • Improved supervision and management skills / good working relationships • Well equipped officials / multi skilling, staff rotation and transfer of skills • Limit overtime • Provision of suitable resources • Improve accountability • Employee assistance programme • Strict HR policies leading to quick discipline procedures • Retention policies
5	Maintenance as a % of expenditure	Important – ensure that infrastructure (PPE) remains in a good condition, in operational condition and	All PPE should be contributing to service delivery Maintenance as a % of service delivery	10 – 15%, dependant on condition of municipal assets and infrastructure	<ul style="list-style-type: none"> • Asset maintenance plan • Asset management policy and procedures • Best practice for maintenance • Maintenance contracts • Risk management and mitigation

		sustains service delivery, reduce operating costs			<p>strategy</p> <ul style="list-style-type: none"> • Inspection of fleet, machinery etc • Security of assets • Accountability (eg fleet management) • Appropriate insurance • Monitoring of breakdowns//cost benefit of repairs vs. replacement • Correct training on maintenance of PPE • Qualified engineers and skilled operators and artisans
6	Cash-funded budgets	Important – realistic and credible budget. Avoid cash flow problems	<p>Take into consideration only cash income and expenditure</p> <p>Realistic revenue projections and expenditure</p>	<p>Ensure cash revenue at least meets cash expenditure</p> <p>Balanced budget</p>	<ul style="list-style-type: none"> • Monitoring of income and expenditure on a monthly basis with user friendly and relevant reports • Proper and timely budget preparation • Ensure that tariffs are both affordable and sustainable • Striking a balance between affordability, sustainability and level of service • Ensure trading services yield surpluses and economic services break even • Realistic revenue and expenditure projections taking into account the previous 2 years actual revenue as well as current year budget and year to date projections • Test relevant assumptions • Adjust budget prepared when revenue expectations are not met or are exceeded

TASK TWO

Kris Kumar has covered the topic of the effect of data quality, billing procedures, credit control and debt collection on municipal cash flows. What can a municipality do to improve the above? Cover the requirements of systems that will enhance all the aspects of proper administration.

FEEDBACK – TASK TWO

CONTENT

- Introduction
- Historical background
- Legal framework

- Data quality
- Billing procedures
- Credit control
- Debt collection
- Conclusion

INTRODUCTION

Problem Statement:

IT CAN GENERALLY BE ACCEPTED THAT LOCAL AUTHORITIES HAVE KEY CHALLENGES WITH THE FOLLOWING THAT NEGATIVELY IMPACT CASH FLOWS:

- Data quality.
- Billing procedures.
- Credit control.
- Debt collection.

HISTORICAL BACKGROUND

- Consolidation Phase
 - Local authorities amalgamated into one.
 - Integration of various financial systems.
 - Demarcation process compounded the problem.
 - No data audit during takeover.
 - Different billing cycles and systems.
 - No policy framework on credit control and debt collection.

LEGAL FRAMEWORK

- Constitution.
- MFMA.
- MSA.
- MPRA.

DATA QUALITY

- Continuous data cleansing.
- Contract/Agreement with all customers.
- Internal meter audit.
- Centralised database/warehouse.
- Built business rules (mandatory fields).
- Interface capabilities e.g. GIS, etc.
- Systems integration.
- Public awareness.

BILLING PROCEDURES

- Timeously according to set timeframes.
- Minimise interim billing.
- Ensure correct meter reading.
- Consolidated billing.
- Staggered monthly billing and payment date.
- Account layout – KISS (user-friendly statements).
- Exception reports.
- Determine cost effective distribution mechanism.
- Authentic statement and customer awareness.
- Implement smart metering/data card.

CREDIT CONTROL

- Credit Control Policy.
- Electricity cut offs.
- Community awareness and participation.
- Utilise councillors- manage debtors per ward.
- Publishing payment rates per ward.
- Identify and effectively manage Top100 accounts.
- Consolidated accounts.
- Actively manage government accounts.

- Standard indigent policy.
- Annual review of indigent register.

DEBT COLLECTION

- Electricity cut offs.
- Social assessment.
- Establishment of regional municipal courts.
- Effectively utilise debt collectors through performance management clause.
- Credit control managers per debt classification.
- SMS facility – Repetitive follow-up.
- Integrated debt collection system.
- Last resort- black listing.

CONCLUSION

- Improved collection.
- Stable tax base.
- Reliable cash-flow forecasts.
- Sustainable budget.
- Improved credit rating.

TASK THREE

What can municipalities do to improve:-

- Indigent administration?
- Long-term planning?
- Urbanisation / population explosion / Housing shortages?
- Differences between rural and urban administration?
- Over regulation (Which aspects of administration are over-regulated)?

FEEDBACK – TASK THREE

What can municipalities do to improve administration?

- Develop and redefine our Indigent Policy.
- Look at use of ward committee / stakeholders / school masters and clergymen.
- Annually do social assessments.
- Electricity usage / consumption.
- Undertake a socio-economic survey at local level / link with other systems of data gathering eg valuation rolls.
- Register with ITC.
- Link indigents to supplier data base.
- Review SCM process to leverage employment of indigent.

What can municipalities do to improve long-term planning?

- LTDF is the vision of a city over 20 years.
- Use MTEF to set priorities for the long-term.
- Invest in strategic infrastructure development including development of rural areas.
- Develop realistic / measurable master plans for all units.
- Formulate asset management plans.
- Demarcation Board needs to review boundaries to consolidate non-viable municipalities.
- Look at creativity around scarce resources.
- Alternative sources of income.
- Engage with government to recover its own debt owed to municipalities.
- Engage resources on asset management.
- Engage government on unfunded mandates eg libraries, hostels and museums.
- Enter capital markets to fund backlogs and infrastructure development.
- Housing accreditation.
- Increase skills levels of youth through access from government learner HIP and Seta's.
- Improve relationships between labour and management.
- Develop an access modelling for social services.

- Develop a financial model to determine viability.

What can government do to improve urbanisation/population explosion / housing shortages?

- Release land from relevant stakeholders for housing development.
- Increase densification through construction of high-rise buildings.
- Develop areas with all social services.
- Creation of economic opportunities in the rural areas (LED).
- Leverage corporate social investments to assist with infrastructure challenges that result from population explosion.
- Look at public transport to reduce carbon footprint.

What can government do to improve differences between rural and urban administration?

- Introduce alternative ways of service delivery.
- Town planning schemes to be introduced in rural areas.
- Introduce mobile services eg clinics and one-stop shops.
- Thusong centres – all government services.

What can government do to improve over regulation?

- Adjust legislation to accommodate differentiation between the various categories of municipalities and capacity within municipalities.
- Simplify PPP.
- Simplify reporting formats and frequency and duplication of requests by other inter-governmental departments.
- Accounting standards need to be practical, cost-effective and viable and some budgets should be withdrawn.
- Relax financial and budget regulations and review the practical necessity and implementation thereof.
- More consultation with practitioners in local government should take place before implementation of regulations.

A PRAGMATIC APPROACH WITHIN THE CONSTRAINTS OF POLITICAL ASPIRATIONS AND BASIC SERVICE REQUIREMENTS by Duduzile Maseko, President ILGM and Managing Director of Johannesburg Road Agency.

Ms Maseko addressed the delegates by dividing the topic under the following headings:-

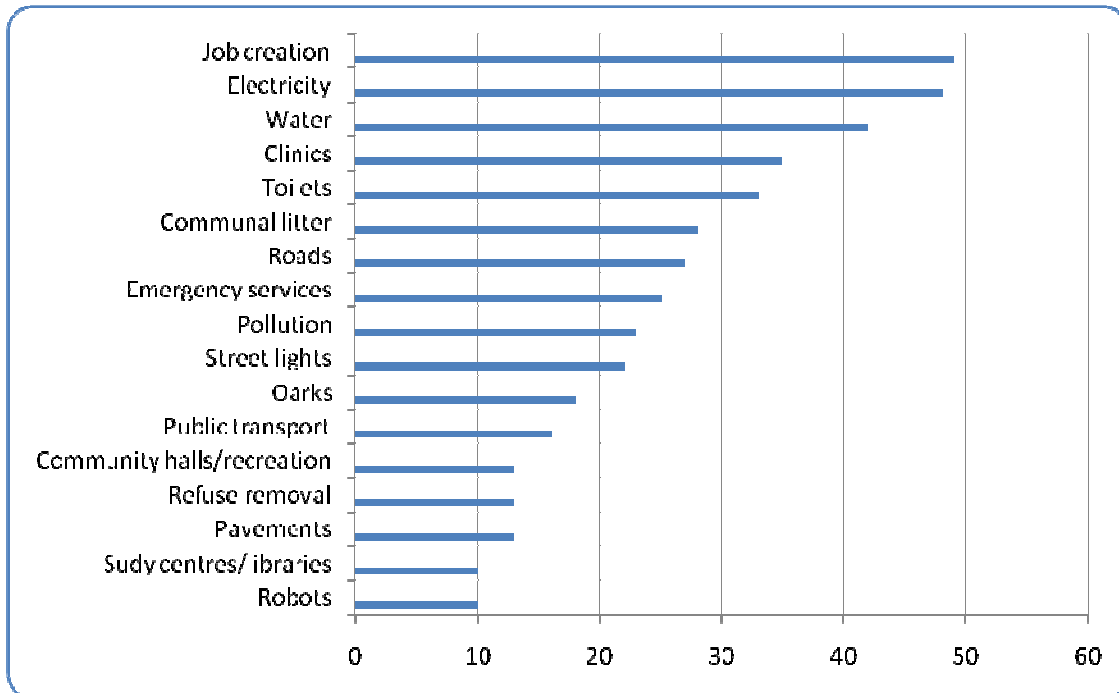
- Introduction.
- The SA context.
- The SA process on monitoring needs.
- The political –community needs interface.
- The political – administration interface.
- Alignment of the troika.

The SA process on monitoring needs has its foundation in the Systems Act which requires:-

- A community participation process.
- The compilation of an integrated development plan.
- Informing communities of outcomes.

A recent case study on service priority ranking by residents indicates the following needs: _

SERVICES PRIORITY RANKING BY RESIDENTS



Communities in each municipality must have opportunities where they can express their needs and requirements. The requirements and priorities of political leaders will differ from those of communities. Politicians focus on visible projects, legacies that they can refer to, for example community halls. Officials need to be street wise to manage the conflicts between planned priorities (official), community requirements and political aspirations. This can be achieved by:-

- Developing a corporate strategy.
- Ongoing needs processes.
- Proper IDP processes.
- Astute leadership and decision making.
- Enforcement of performance and account liability.

Inter-governmental relations also need to be enhanced and pursued.

KEY RISK AREAS IMPACTING ON THE MUNICIPALITY'S OVERALL FINANCIAL VIABILITY/CREDIT RATING AND THE ABILITY TO RAISE ADDITIONAL CAPITAL FUNDING FOR INFRASTRUCTURE PROJECTS by Noël Jelliman, Head of Government Business Unit and Nicolette Botha, Portfolio Manager, both from Inca.

Content:-

- Definition of viable.
- Core focus of municipalities.
- Funding Sources for Capital Infrastructure.
- External assessment of viability.
- Suggested internal measurements.

Financial viability

Municipal Financial Viability is about the ability to generate sufficient income to meet operating expenses, debt commitments and where applicable, to allow growth while maintaining service levels.

Core focus of a municipality:-

- Provide municipal services to all of its residents.
- Create new infrastructure for growth.
- Eradicate backlogs.
- Rehabilitate existing infrastructure.
- Maintain current infrastructure.
- Manage the finances of the municipality within the regulatory framework provided.
- Create a financially sustainable entity whilst rolling out service delivery.

Funding sources for capital infrastructure

Grant
Funding
Source

- Municipality may have access to only one or all of the funding sources.
- Grant funding will be subject to conditions set by the donor be it Government or other.

Surplus
Income

- Surplus income will be subject to the internal management of financial affairs.
- External funding (local or international) will be subject to external assessment by the provider of funds.

External
Funding

- Gaining access to all three sources can speed up the service delivery process.

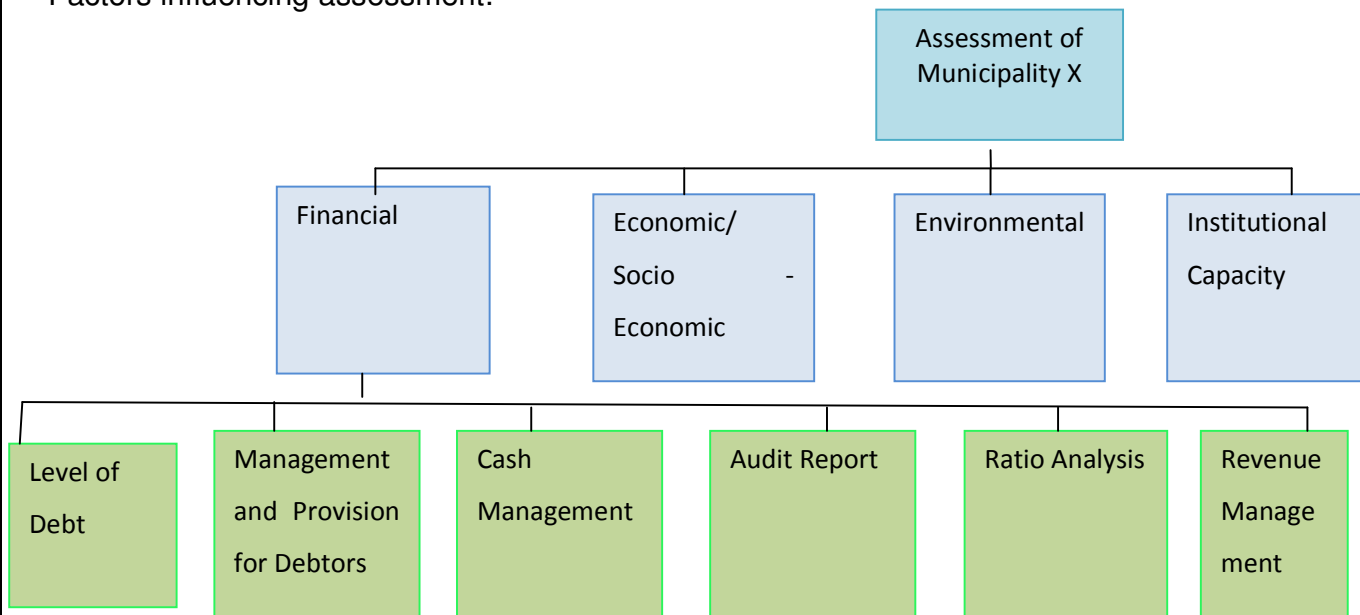
External assessment of viability:-

- What influences the thinking of international/local financial institutions?
- What influences the assessments of banks and credit rating agencies?
- What is the history of external funding in SA?
- Let's take you into the mind of an investor/ banker/ rating agency

Sources of information used in assessment:-

- Audited Financial Statements.
 - Historical view of the financial affairs.
- Audit Report.
- Medium Term Expenditure Framework.
 - Future view of the financial affairs.
- Multi-year Capital Programme.
 - Future financial needs.
- Integrated Development Plan.
- Socio-economic potential of area.
- Local/International news reports on the sector.
- Reports from market analysts.
- Comparison to peers in the market.

Factors influencing assessment:-



Results of assessment:-

- Classification as investment grade or non-investment grade.
- Will highlight risks and concerns.
- Will dictate the level of funding, duration and pricing of funding.
- Peer comparison.
- What can be drawn from this for internal management?

Suggested internal measurements:-

- Set financial benchmarks and measure performance accordingly.
- Ask financial institutions to share their internal assessments with your Council.
- Consider official rating for international funders.
- Be aware of external market influences.
- Keep the core of your Municipality sound.

DELEGATES

ANNEXURE "C"

	Guest name	Guest Surname	Municipality	Position
1	YIMILE (MR.)	ZOTE	AMATHOLE DISTRICT MUNICIPALITY	CFO
2	CANZI	LISA	BUSHBUCKRIDGE LOCAL MUNICIPALITY	MUNICIPAL MANAGER
3	LOUISE	MULLER	CITY OF CAPE TOWN	DIRECTOR SHAREHOLDING MANAGEMENT FINANCE DIRECTORATE
4	KHOMOTSO	MAPONYA	CITY OF JOBURG	TREASURER
5	LUNGELWA	SONQISHE	CITY OF JOBURG	DIRECTOR:SHAREHOLDER UNIT
6	GERHARD	LANDMAN	EHLANZENI DISTRICT MUNICIPALITY	CFO
7	LINKIE	MOHLALA	EMAKHAZENI MUNICIPALITY	MAYOR
8	LINNA	MALATJIE	EMALAHLENI MUNICIPALITY	MAYOR
9	BHARTIE	RANCHODDAS	ETHEKWINI MUNICIPALITY	CORPORATE EXECUTIVE
10	SIHLE	MKHIZE	ETHEKWINI MUNICIPALITY	DEPUTY HEAD: INTERNAL AUDIT
11	CHARLES	PHUTI	GAMAGARA MUNICIPALITY	MUNICIPAL MANAGER
12	CHRIS	MARAIS	GEORGE MUNICIPALITY	DEPUTY DIRECTOR: FINANCE
13	LOUIS	FOURIE	GEORGE MUNICIPALITY	DIRECTOR: FINANCE
14	CHRIS	TAUTE	HESSEQUA MUNICIPALITY	MAYOR
15	LERATO	TSHWANE	HIBISCUS COAST MUNICIPALITY	CFO
16	NTOMBI	BAART	MAKANA MUNICIPALITY	MUNICIPAL MANAGER
17	BONOLO	MODISE	MAMUSA LM	MUNICIPAL MANAGER
18	MBUZELI	NOGQALA	NELSON MANDELA METRO	DIRECTOR REVENUE MANAGEMENT AND CUSTOMER CARE
19	WESSEL	RABBETS	OUDTSHOORN MUNICIPALITY	MUNICIPAL MANAGER
20	SANTIE	REYNEKE	OVERSTRAND MUNICIPALITY	MANAGER EXPENDITURE & ASSET MANAGEMENT
21	TREVOR	BAGUS	SALDANHA MUNICIPALITY	CFO
22	CHRIS	GROENEWALD	SIYACUMA MUNICIPALITY	MUNICIPAL MANAGER
23	MANTLHAKENG	MAHLANGU	STEVE TSHWETE MUNICIPALITY	EXECUTIVE MAYOR
24	JAN	JANSEN	SWELLENDAM MUNICIPALITY	MAYOR
25	STEPHEN	JACOBS	THEEWATERSKLOOF	CFO
26	JOHNNY	LYNCH	THEMBISILE HANI MUNICIPALITY	FINANCIAL MANAGER
27	NATHI	NHLEKO	UMHLATHUZE MUNICIPALITY	DEPUTY CITY MANAGER