

CIGFARO

Sustaining service delivery
amidst the current
economic climate

*Presented by:
Jon Williams &
Sheldon Goncalves*



C o n t e n t s

F i n a n c i a l
r e s i l i e n c e &
s u s t a i n a b i l i t y f o r
m u n i c i p a l i t i e s

R e v e n u e
m a n a g e m e n t
P r o g r a m m e
m a n a g e m e n t o f f i c e

Financial resilience & sustainability for municipalities

National Finance - 2017

Main budget framework







Outcome					Revised Est.	Medium-term estimates		
R billion	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
Total Revenue		887.4	965.5	1076.2	1136.9	1242.4	1351.0	1471.5
National departments		420.4	453.4	490.0	546.1	557.5	590.2	631.4
of which:								
Indirect trnsf to provinces		8.0	8.5	5.8	3.5	3.7	4.3	1.8
Indirect trnsf to Local Gov.								
Integrated national electrification (R15.5bn)								
Regional bulk infrastructure (R12.2bn)								
Water services infrastructure (R2.3bn)								
Provinces								
Equitable share		810.5	886.5	950.9	386.5	410.7	441.3	471.5
Conditional grant								
Human settlements development (R81.7bn)								
Public transport operations (R23.4bn)								
Local Government								
Equitable share		76.2	82.6	87.6	98.3	103.3	112.5	121.5
Conditional grants								
Municipal infrastructure (R65.4bn)								
Water services infrastructure (R13.5bn)								
USDG (R46.8bn)								
Metro: fuel sharing								
Sub-Total		877.5	940.0	1,017.1	1,115.8	1,161.2	1,240.9	1,434.9
% of GDP		26.7%	26.7%	27.8%	26.9%	26.6%	26.5%	26.4%
<i>Non-interest growth</i>		7.9%	7.4%	9.7%	4.1%	6.9%	7.3%	7.8%
Debt-service costs	88.1	101.2	114.8	128.8	146.3	162.4	180.7	197.3
Contingency reserve	-	-	-	-	-	6.0	10.0	20.0
Main Budget Expenditure		965.6	1,047.8	1,131.9	1,244.6	1,307.5	1,409.3	1,652.2
<i>Main budget exp. Growth</i>		8.5%	8.0%	10.0%	5.1%	7.8%	8.0%	8.5%
% of GDP			29.7%	31.0%	30.3%	30.3%	30.3%	30.4%
Main Budget Deficit		-160.4	-166.4	-168.4	-170.6	-166.9	-171.2	-180.7
% of GDP			-4.4%	-4.2%	-3.9%	-3.6%	-3.4%	-3.3%
GDP		3549.2	3812.6	4013.6	4322.3	4657.5	5029.9	5440.6

National Finance - 2018

Main budget framework

R billion	Outcome					Revised Est.	Medium-term estimates		
	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021
Total Revenue		887.4	965.5	1076.2	1137.9	1194.6	1321.1	1427.8	1542.7
National departments	420.4	453.4	490.0	546.1	555.7	599.9	+R9.7bn 628.6	685.9	736.6
of which:							+R11.2bn (+0.6%)		
Indirect trnsf to provinces				3.5	3.6	3.8	3.8	4.4	4.7
Indirect trnsf to Local Gov.				10.4	8.1	7.8	R-	7.3	7.7
Provinces				471.4	500.4	538.2	-R16.8bn (-1%) 8	8	657.50
Equitable share				386.5	410.7	441.3	470.3	505.0	542.4
Conditional grant				84.9	89.7	96.8	-R1.8bn	106.7	115.0
Local Government				98.3	102.9	110.7	118.5	126.9	137.5
Equitable share				49.4	50.7	55.3	-R10.2bn (-2.8%) 0	0	75.7
Conditional grants				38.3	40.9	43.6	43.5	44.8	47.8
Metro: fuel sharing				10.7	11.2	11.8	12.5	13.2	14.0
Allocation not assigned to vote							6.0	2.3	2.1
Sub-Total	877.5	946.6	1,017.1	1,115.8	1,159.0	1,248.8	1,324.1	1,426.9	1,533.7
% of GDP		26.7%	26.3%	27.1%	26.3%	26.6%	26.3%	26.9%	26.4%
Non-interest growth		7.9%	7.4%	9.7%	3.9%	11.9%	6.0%	7.8%	7.5%
Debt-service costs	88.1	101.2	114.8	128.8	146.5	163.2	180.1	197.7	213.9
Contingency reserve	-	-	-	-	-	-	8.0	8.0	10.0
Main Budget Expenditure	965.6	1,047.8	1,131.9	1,244.6	1,305.5	1,412.0	1,512.2	1,632.6	1,757.6
Main budget exp. Growth		8.5%	8.0%	10.0%	4.9%	13.5%	7.1%	8.0%	7.7%
% of GDP			29.3%	30.2%	29.6%	30.0%	30.1%	30.8%	30.3%
Main Budget Deficit		-160.4	-166.4	-168.4	-167.6	-217.4	-191.1	-204.8	-214.9
% of GDP			-4.3%	-4.1%	-3.8%	-4.6%	-3.8%	-3.9%	-3.7%
GDP		3549.2	3867.9	4122.6	4404.5	4699.4	5025.4	5309.1	5805.3

Municipalities in the Western Cape – AFS 2017

Municipality	 Total Revenue	 Total Expenditure	 Outstanding Debt	Total Assets	Value of PPE	Total Liabilities	Value of Borrowings	 Net Assets	 Total Transfers	 Total Own Funds	Total Capital Expenditure
	R'000	R'000	R'000					R'000	R'000	R'000	
City	38,162,346	32,857,718	5,724,863	58,821,945	40,377,585	-20,665,249	-5,789,616	38,155,834	2,055,505	3,849,115	5,904,620
Secondary Cities	5,066,673	4,608,566	615,270	15,278,434	12,164,932	-3,728,359	-1,551,778	11,550,075	253,401	443,772	697,173
Municipalities	10,880,160	9,391,870	1,044,591	26,094,862	19,903,683	-5,772,004	-1,331,559	24,327,753	691,621	772,761	1,464,382
Districts	1,319,701	1,238,638	55,516	2,035,502	677,215	-666,617	-43,159	1,368,886	10,076	26,161	36,237
Total	55,428,880	48,096,792	7,440,240	102,230,743	73,123,415	-30,832,229	-8,716,112	75,402,548	3,010,603	5,091,809	8,102,412

- Protecting (at least) revenues [*SCARCITY* & *CHOICE* impacts] and managing costs is fundamental. Do key own revenues don't cover key expenditure areas?
- What is the right approach to outstanding debt position? (R7.4bn, 70% is aged beyond 90 days)
- Do municipalities report of the balance sheet position monthly? What opportunities are being considered as a result?
- What approaches are in place to manage key liability exposures?
- What opportunity exists to leverage the balance sheet position?

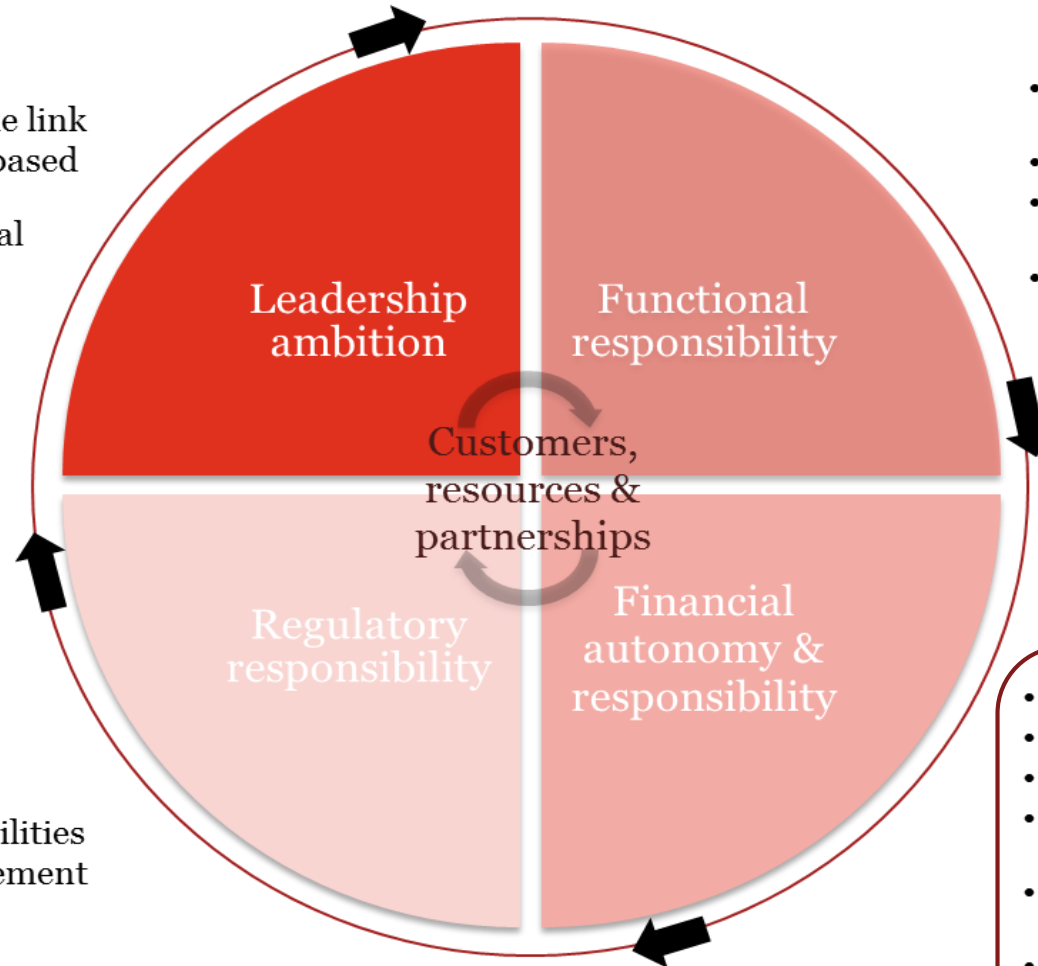
A model for municipal financial viability & sustainability

- Clear political mandate
- Democratic, accountable link
- Contextual and reality based direction
- Strategic and operational plans are aligned and resourced

Environment (local, regional/provincial):

- Technology constraints or opportunities
- Environmental issues
- Legislative change

- Fiduciary structures;
- Constitutional arrangements;
- Decision making capabilities
- Organisational improvement tracking



- Service delivery through structures
- Needs vs. ambition
- Enabling structures & technologies
- Economic growth

Environment (local, regional/provincial):

- Macro-political
- Economic landscape
- Social indicators

- Revenue management
- Expenditure management
- Capital expenditure
- Balance sheet management
- Cash & treasury management
- Reserves and provisions
- *Fiscal in/dependence*

Integrated PFM

Revenue Management PMO



Revenue Management PMO

Purpose:

To oversee, advance, co-ordinate and report on the efforts associated with implementation of the Revenue enhancement strategy

Approach

- Data analytics (focus on high impact opportunities first)
- Verification of exceptions noted (evidence based)
- Stakeholder engagement and processing of corrections

Critical success factors:

- Clear communication with stakeholders around the objective to achieve accurate and complete billing and enhanced cash flow for the municipality (i.e. not a blame game)
- Commitment and support at the highest level (Officials and Councillors);
- Support from the Directorate heads (Finance, Technical, Planning etc.)
- Open relationship with the Valuer
- Sufficient and appropriate evidence to support assertions made
- Time (to follow up and follow through)

Priorities:

- Timely and accurate reporting
- Improvement of the process and the control environment
- Skills transfer to municipal staff





Examples of identified issues

1. Rateable properties incorrectly categorised in the GV (Classification)
2. Rateable properties undervalued in the GV (Accuracy)
3. Properties omitted from the GV (Completeness)
4. Incorrect billing factors applied on Water Meters (Accuracy)
5. Incomplete billing for Refuse services (Accuracy & Completeness)
6. Incomplete billing for basic service charges (Accuracy & Completeness)

1. Rateable properties incorrectly categorised in the GV

Example: Residential Estate

- Inspection revealed **10** improved properties **incorrectly** categorised as vacant in the valuation roll.
- Building Control provided **4** occupation certificates.
- 10 Interim valuation forms were submitted to request change of category to improved, and to review the valuation.
- Additional revenue for the 2017/18 year amounted to **R382,153.88**

Erf	GV Category	GV Valuation	Inspection Category	Occupation Certificate	Revised Category	Revised Valuation	Additional Rates	Photo
9791	Vacant	R2,500,000	Improved	06/10/2015	Improved	R12,000,000	R48,051.48	
9792	Vacant	R1,800,000	Improved	05/11/2015	Improved	R11,000,000	R50,837.58	

1. Rateable properties incorrectly categorised in the GV

Example: Residential Estate

Erf	GV Category	GV Valuation	Inspection Category	Occupation Certificate	Revised Category	Revised Valuation	Additional Rates
13850	Vacant	R1,200,000	Improved	Not Available	Improved	R10,000,000	R52,230.78



Fits	Room type
4 people	Family Suite 2 single beds and 1 double bed
2 people	Twin Room 2 single beds
2 people	Double Room 1 double bed
2 people	Honeymoon Suite 1 double bed



Our reference : MUNKNY639
For attention : Chantelle Freiboth
31 July 2017
Krynsna Municipality
P O Box 21
Krynsna
6570

Dear Sir / Madam

SUPPLEMENTARY VALUATIONS SV1 (2017/2022):

With reference to interim valuation requests received from Hein Stander, please amend as follows:

DELETE	ERF	PTH	SIDE	SUBURB	OWNER	VALUE	CATEGORY	REMARKS	DATE
	10815	-	5.1125	KRYNSNA	INTERFRONT KRYNSNA QUAYS PTY LTD	2000000	BUSINESS - RETAIL/OFFICES	SECT 7B(1)(i)	2017/08/01
	13850	-	1.1189	KRYNSNA	G P H PRINTING & SIGNAGE PTY LTD	1200000	RESIDENTIAL - VACANT	SECT 7B(1)(g)	2017/07/01
INSERT	ERF	PTH	SIDE	SUBURB	OWNER	VALUE	CATEGORY	REMARKS	DATE
	10815	-	5.1125	KRYNSNA	INTERFRONT KRYNSNA QUAYS PTY LTD	2000000	BUSINESS - RETAIL/OFFICES	SECT 7B(1)(i)	2017/08/01
	13850	-	1.1189	KRYNSNA	G P H PRINTING & SIGNAGE PTY LTD	10000000	RESIDENTIAL - IMPROVED	SECT 7B(1)(g)	2017/07/01

Kind Regards

CORNE THERON
Professional Valuer



1. Rateable properties incorrectly categorised in the GV

Our process:

➤ Data Analytics

- ❖ We use the Municipal Property Rates Act, General Valuation Roll, municipal financial data, **GIS and cadastral data** as source data.
- ❖ We compare the municipal categories to the actual status of properties to identify properties which have been incorrectly categorised in the valuation roll.

➤ Verification of exceptions

- ❖ Exceptions are verified through physical inspection and by obtaining occupation certificates.

➤ Stakeholder engagement and processing of corrections

- ❖ We follow the formal process of requesting corrections through submission of interim and/or objection forms in terms of s78(1) & s50 of the Act.
- ❖ We liaise with the municipal valuer throughout the supplementary/objection process to track changes to property valuations.
- ❖ We calculate the impact of changes and implement in terms of s78(4) of the Act.
- ❖ We object/appeal when necessary.

2. Rateable properties undervalued in the GV

Example: 5 star Hotel

- The hotel consists of 79 registered sections.
- Sections 1-78 represents the accommodation suites.
- Section 79 represents the commercial component that consists of a Spa, Restaurant, gym, conference facilities etc.
- Comparative sales indicate that Section 79 was sold for R28,500,000 in 2014.
- This section was categorised as business and is currently valued at **R1,000** in the General Valuation roll.
- In response to an interim form submitted to request revaluation, the municipal valuer increased the property valuation to R28,000,000.
- Additional rates revenue for the 2017/18 year amounted to **R433,340.52**

2. Rateable properties undervalued in the GV

Other examples:

Erf	GV Category	Valuation	Inspection Category	Occupation Certificate	Revised Category	Revised Valuation	Additional Rates	Photo
10915	Business	R2,500,000	Business	n/a	n/a	R25,000,000	R319,213.13	
15269	Res Imp	R30,000	Business	n/a	Business	R1,540,000	R21,706.49	
9801	Res Imp	R1,100,000	Res Imp	n/a	n/a	R11,000,000	R63,200.12	
12455	Res Imp	R1,100,000	Res Imp	n/a	n/a	R4,500,000	R21,705.09	

2. Rateable properties undervalued in the GV

Our process:

➤ Data Analytics

- ❖ We use the Municipal Property Rates Act, General Valuation Roll, municipal financial data, GIS and cadastral data as source data.
- ❖ We compare the municipal valuations to the actual and **surrounding properties** to identify properties which have significantly **lower valuations** compared to similar properties.

➤ Verification of exceptions

- ❖ Exceptions are verified through physical inspection and photographs, building plans and comparative sales (when available) are submitted to support interim requests.

➤ Stakeholder engagement and processing of corrections

- ❖ We follow the formal process of requesting corrections through submission of interim and/or objection forms in terms of s78(1) & s50 of the Act.
- ❖ We liaise with the municipal valuer throughout the supplementary/objection process to track changes to property valuations.
- ❖ We calculate the impact of changes and implement in terms of s78(4) of the Act.
- ❖ We object/appeal when necessary.

3. Properties omitted from the GV

Example:

- Erf 1394 was omitted from the General Valuation roll.
- In loco inspection revealed numerous improvements on the property.
- An interim valuation request was submitted to request inclusion and valuation of the property.
- The property was subsequently included as a commercial property and valued at R6,7m
- Additional rates revenue for the 2017/18 year amounted to **R103,695.90**
- Additional service revenue for 2017/18 amounted to: **R78,778**



3. *Properties omitted from the GV*

Our process:

➤ Data Analytics

- ❖ We use the Municipal Property Rates Act, General Valuation Roll, municipal financial data, **deeds registrations**, GIS and cadastral data as source data.
- ❖ We validate **registered properties** against properties included in the General Valuation roll to identify properties which have been **omitted**.

➤ Verification of exceptions

- ❖ Exceptions are verified through physical inspection, photographs, building plans and comparative sales (when available) are submitted to support interim requests.

➤ Stakeholder engagement and processing of corrections

- ❖ We follow the formal process of requesting corrections through submission of interim and/or objection forms in terms of s78(1) & s50 of the Act.
- ❖ We liaise with the municipal valuer throughout the supplementary/objection process to track changes to property valuations.
- ❖ We calculate the impact of changes and implement in terms of s78(4) of the Act.
- ❖ We object/appeal when necessary.

4. Incorrect billing factors applied on Water Meters

Example: 5 star Hotel

- Billing information indicated monthly water consumption of 65 kilolitres.
- In loco inspection revealed meter readings are measured in kilolitres with a factor of x10.
- Billing was subsequently corrected to account for multiplication times 10.
- Additional revenue for corrections over the last 6 months amounted to **R85,104**



5. Incomplete billing for Refuse services

Example: 4 star Hotel

- Erf 198 consists of 26 free standing homes, accommodation suites and a restaurant.
- Billing information indicated that 1 refuse bin was charged to the property under the Category 1 tariff.
- Preliminary feedback indicated an average of 46 bins collected to which the Category 13 tariff applies.
- Billing was subsequently corrected to account for Category 13 tariff.
- Additional revenue for the 2017/18 year amounted to **R171,007**

5. Incomplete billing for Refuse services

Example: Rural Area

- One of the main roads through a rural route was inspected with technicians from the Waste Management department.
- 120 farm portions and 35 collection points were identified along this route.
- 5 refuse bins and 297 refuse bags were counted during the survey (excluding cartons).
- Billing information indicated only 2 of the properties were charged for refuse removals.
- Billing was subsequently corrected.
- Additional revenue for the 2017/18 year amounted to **R135,455**



6. Incomplete billing for basic service charges

Example: Commercial Sectional Scheme

- Erf 9305, situated in the local town, consists of 121 registered sections.
- Billing information indicated that 1 sewerage levy and 1 basic water tariff was charged to the Body Corporate account.
- Service fees in respect of basic water and sewerage for the 121 units were subsequently corrected.
- Additional revenue for the 2017/18 year amounted to **R974,897**

Service Category	Tariff	Tariff Description	Status	Pts
(003) RATES / BELAST	RT - 8046	Business S/T Unit	00-ACTIVE	0
(008) WATER BASIC	SV - 1550	WTR-BUSINESS	00-ACTIVE	1
(004) REFUSE	SV - 1776	REF-BUSINESS CAT 11	00-ACTIVE	1
(007) SEWERAGE	SV - 1850	SEW-BUSINESS	00-ACTIVE	1

4, 5 & 6. Incorrect & Incomplete billing for services

Our process:

- Data Analytics
 - ❖ We use the Municipal Tariff Policy and municipal financial data as source data.
 - ❖ We validate services through extensive investigation of billing information.
- Verification of exceptions
 - ❖ Meter reading exceptions are verified by physical inspection (e.g. meter validation) with assistance of relevant technical departments where possible.
- Stakeholder engagement and processing of corrections
 - ❖ We submit corrections per the formal interdepartmental processes (including formal documentation and proper communication channels).
 - ❖ We liaise with relevant departments to install/replace meters where necessary.
 - ❖ We calculate the impact of changes in terms of the relevant policies and by-laws.
 - ❖ All service validations follow the same process.

8. Summary

Additional Rates Revenue

- The addition rates, based on interim submission outcomes and correction of anomalies between the Finance Billing system and the valuation roll, identified during the 9 month period July 2017- March 2018, amounts to **R4,324,952** (3% of annual Rates revenue).
- The revised valuations and/or categories are subject to the objection process as provided for in subsection 50 of the Municipal Property Rates Act, Act 6 of 2004.

Additional Services Revenue

- The additional revenue in respect of services, identified during the same period, amounts to **R4,614,232** (2% of annual Services revenue).
- **Total additional revenue for 9 month period: R 8,939,184**

Thank you



Jon Williams
Partner

Telephone +27 (0) 21 529 2293
Mobile +27 (0) 71 382 1073

Jon.x.williams@pwc.com

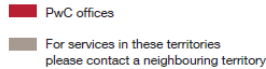


Sheldon Goncalves
CA(SA)
Managing Director

Telephone +27 (0) 21 529 2289
Mobile +27 (0) 71 353 1415

sheldon.goncalves@pwc.com

T h a n k y o u



RSA: 5000 people with 56% women

To build trust in society and solve important problems

G16J02547

The PwC SA Local Government Value Proposition

