JOURNAL
CIGFARO
Chartered Institute of Government Finance, Audit and Risk Officers

VOLUME 18 • NUMBER 1 • SPRING ISSUE

Mr. Muwandi
CEO of CCG Systems
ONE-ON-ONE 8

12 WATER TARIFF'S SECTORAL DIFFERENTIATION

28 Independent economic regulation for water
Is it a solution to the water sector woes?

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GREETINGS COLLEAGUES.

Finally, spring has sprung, the flowers are blossoming and the birds are singing. We wake up to warm mornings after long nights of rest. As we welcome spring, we also look forward to welcoming you to our 88th Annual Conference at the CTICC. This year we are hosting our Annual Conference under the leadership of Dr. Krish Kumar, our President. The conference theme this year is "Sustaining service delivery amidst the challenging economic climate", this is an indication that we are in line with our current realities as a country.

Early this year, South Africa received shocking news from Fitch Rating as we were downgraded to Junk status (also known non- investment grade). This has had huge consequences to our country's economy. In line with our economic challenges, our conference promises to be the best as this is our biggest activity for the year. In preparation to this conference, the program is loaded with great presenters from different remarkable organizations.

This issue has interesting articles on different topics and since we are in Cape Town we saw it fit that we feature an article on water crisis. A few articles on water have been featured with great help from the Department of Water & Sanitation. On pg10 you can read about the Volumetric management of water and on pg12 you can read about Water tariff's sectoral differentiation. We do hope you will enjoy them. Another interesting read on water is an article on Green bonds to the market which can be located on pg14. We have other publications that you can familiarize yourself with at the conference and I hope you will grab a copy of our daily newspaper that will be found in the exhibition hall at the CIGFARO stand. Delegates are also encouraged to get more involved in our publications by submitting articles to communication@cigfaro.co.za.

I would like to express a special gratitude to our loyal sponsors for the continued support they have shown us through the years namely, our Platinum Sponsor CCG Systems, our Diamond Sponsor Development Bank of South Africa and the Gold Sponsors Sebata Group Holdings, ABSA and Oracle EOH. Your support is much appreciated. Do not forget to download our CIGFARO Mobile App and steps on how to download can be found on pg4 of this journal.

Welcome to the Mother City and to the CIGFARO 88th Annual conference we look forward to hosting you for the next three days. Keep in touch with us on our social media platforms Facebook and Twitter.

- **Follow us on Twitter:** @CIGFARO-editor
- **Like us on Facebook:** Chartered Institute of Government Finance, Audit & Risk Officers - CIGFARO

Ciao!

CIGFARO
Chartered Institute of Government Finance, Audit & Risk Officers

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DOESN'T MATTER WHICH PHONE YOU USE. SIMPLY DIAL **43 606,** TEXT YOUR QUESTION AND SEND.

As part of the drive to improve our services every year, CIGFARO will once again continue to use the sms system for communication during conference sessions. CIGFARO is doing away with the roaming microphones and writing questions on paper during sessions. Delegates will send a text message with their questions to a 5 digit number. The Chairperson will access all the questions and facilitate the answers to the questions as they appear on screen. **Before sending a text, please check the Session Code which you wish your question to be posed. Refer to conference programme. Each session has its own code!**

In short, the procedure will be:

STEP1: SMS S1/S4 (Your question) sent text to 43 606
STEP2: You (the sender) will receive a SMS acknowledging receipt of your question
STEP3: Listen out to hear the chairperson raise your question to the speaker

Please note:

- The explanation of the procedure will be repeated at the beginning of every session
- Remember to add your name and municipality if you want a direct response or acknowledgment
- Standard SMS rates apply

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Benefits of the new way of communication during the sessions:

- Time saving during sessions
- The Chairperson accesses questions posed via a web site during presentations by speakers
- More questions anticipated to be answered in a short space of time
- Text messages are more legible than hand written questions
- All question are stored in a database – easier and improved record keeping
- Every delegate's question could be answered personally, thereby enhancing the quality of feedback.
- The solution is embracing current technologies and enhances the image of CIGFARO
- CIGFARO embraces going green

WHO'S HOLDING YOUR LADDER?

I just finished reading a book called ***"Who's Holding Your Ladder"*** by Dr Samuel R. Chand. In this book Dr Chand recalls an experience he had that led to a poignant and sudden moment of realization and insight. While waiting for an appointment, he observed a workman on a ladder painting a building. The painter had climbed the ladder to the uppermost rung but then had to extend his arm to paint where he needed to.

Dr Chand observed that the painter could only reach to a certain height without losing his balance. In addition, he also detected that if the ladder was not held steady, it significantly reduced the painter's confidence about stretching beyond the ladder. This took Dr Chand's focus to who was holding the painter's ladder? Was the ladder holder watching the painter so that he could anticipate what the painter's needs may be while up he was up at the top of the ladder and stretching out, or was he merely holding the ladder in place and not really paying attention to the painter?

Dr Chand's epiphany suggests that the person/s holding your ladder, and more importantly, their focus while you are on the ladder can greatly influence how far you climb the ladder and how far you can stretch beyond the ladder. This means that leaders must be anchored by a supportive team that holds the leader's vision. It is a powerful insight picked up from an apparently simple and ordinary incident.

According to Dr Chand, a lot of our success and motivation comes from our own sense of ambition and direction. Our own thoughts, our own feelings, our own self-confidence, and our own self-actualisation. Undoubtedly, at the end of the day it is down to ourselves. However, who do you have in the vital post of ladder holder? Are they capable and reliable? Are they highly regarded, humble, dutiful and honest? Can they anticipate your needs or assist you in avoiding potential disasters? However, most importantly, are they aligned to your vision and mission?

There is great appeal in trying to do everything yourself. Accordingly, we begin the climb on our own, but encumbered with our own expectations and doubts, as well as that of others. However, when we have the top of the ladder within reach, the most crucial issue is not where the ladder leads us to, instead it's how the ladder is secured. Similarly, Dr Chand observed that the painter had extended as far as he could, and if he wanted to go any higher or reach any further, he needed help or support.

Dr Chand notes, "No leader gets to the top without those down below who hold the ladder." He further notes that "whether in management or systems, the effectiveness of a leader depends on the person or persons who hold the ladder – those who are in support roles." Moreover, Dr Chand says he couldn't see who was holding the painter's ladder. That's often the case, he says, that the people in support roles do their work in the background, often unseen. But the fact of the matter is, they are just as important as the leader.

According to Dr Chand, this is applicable to our private lives too. Who is in your inner circle? What is the type of the energy they bring to your life? Are they encouraging and uplifting, leaving you feeling full of energy and inspired? Or are they negative and toxic leaving you feeling unconfident, tired and lacking energy? It is imperative that our closed group of family, friends, confidants and spiritual advisors are carefully selected and comprise of people who wish for us nothing but our highest good.

You also need to be clear about what you need in your ladder holders in your professional and personal lives. Do they identify and subscribe to your values, qualities and vision? According to Dr Chand, the qualities of an effective ladder holder are STAFF:

- S - **Strong** – people who can handle instruction and correction.
- T - **Teachable** – people who are still curious and want to learn.
- A - **Attentive** – people who learn quickly.
- F - **Firm** – people who are not blown around by manipulative people.
- F - **Faithful or loyal** – people who believe in me (trust me) as a leader.

Whilst the above details some of the main traits ladder holders should have, Dr Chand, through his life experiences, also identifies four types of ladder holders that he doesn't like:

- Those who need constant reminding. Chasing after people is too much work.
- Those who behave casually. Leadership is intentional.
- Résumé builders. Looking at other ladders while holding another one isn't a confident builder.
- Unhappy people. Anyone can have an unhappy day or two, but not an unhappy life as a ladder holder.

Selecting the right people as your ladder holders requires you to study them closely as your potential ladder holders. The question is: If you were on a huge extension ladder, would you choose her as your ladder holder? Your answer to this question and pursuant decision defines you as a leader. Make the right choice.

Ladder holders need to be trained. According to Dr Chand the greatest tragedy is to climb to the top of the ladder, only to find your ladder is leaning against the wrong building! Also remember that as a leader, you also hold someone else's ladder. You need to have the humility to do so. How do you measure up against the traits of an effective ladder holder?

According to Dr Chand leaders must also be grateful and acknowledge the ladder holders in their lives. We all had someone open a door for us in our careers and lives. Someone gave us our first break. Someone took a risk and believed in us. Someone used their reputation for our benefit. Someone forgave us and gave us another chance. Someone knew we had messed up yet defended us. Someone gave us our first job. Acknowledge them.

In conclusion, I want to leave you with this thought, "'Real' isn't who's with you at your celebration. 'Real' is who's standing with you at rock bottom." C

KRISH KUMAR
CIGFARO PRESIDENT

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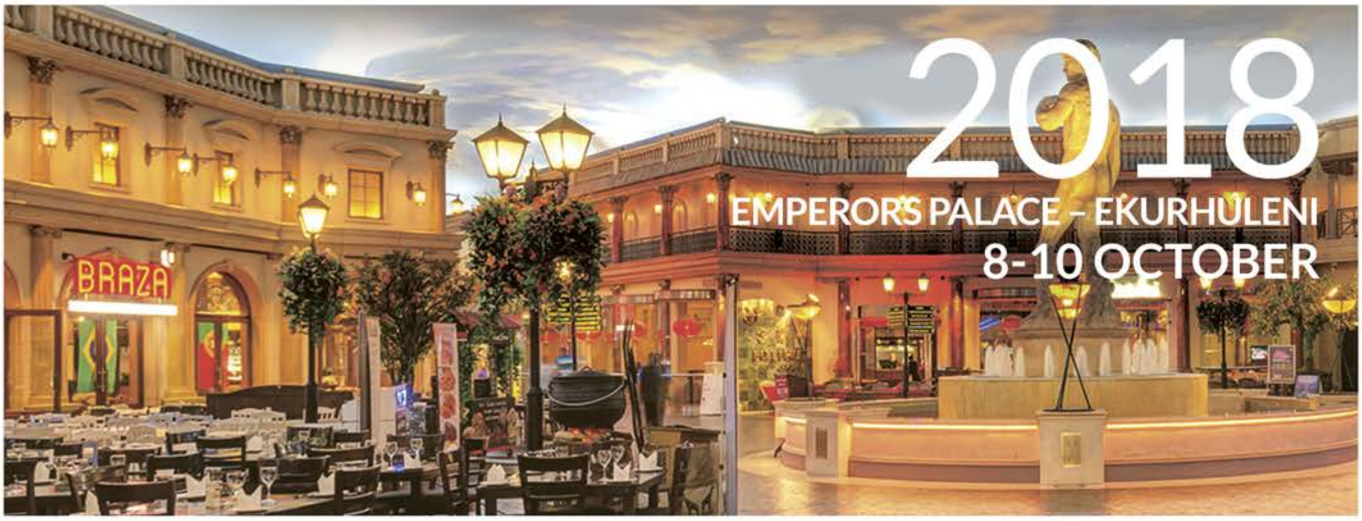

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The spring season has landed with its positive signs that are associated to its natural characteristics such as the blossoming of trees and new life given to flowers and plants. All these bring a spark of hope for good things to follow. There are animals that hibernate and some move to warm areas of the continent during the winter season. This is now the right time for all to take a stance of making their presence felt.

The same phenomenon applies to CIGFARO. It is our peak season period during which we host our prime event, the Annual Conference, as well as the Annual General Meeting (AGM). It is our 88th Annual Conference after having gone through the different hurdles over years which have made this institute much more stronger year in and year out.

We are sending a message of confidence and encouragement through this year's Conference that, even though our economic situation has not been improving, that does not justify the decline of service delivery (quantity and quality) to our communities and all other beneficiaries. It is important to make all aware that there is light at the end of the tunnel. It is however, not a light of an oncoming disaster train but rather the good governance spring light that enlightens a dire need for the Professionalization of the Public Finance Management (PFM) within the entire Government institutions.

We hope and trust that the much envisaged cross pollination of ideas at our 2017 Annual Conference will give rise to the blossoming of new and much more equipped Professionals in the field of Public Finance, inclusive of Audit, Risk and Supply Chain, amongst others . It is anticipated that all Conference attendants will enjoy and most importantly benefit from the three busy days of hard work scheduled, knowledge gathering, informative presentations, thought provoking discussions, enriching conversations, empowering networking sessions and the mind unlocking master classes to be launched.

We finally take note of the wise person's words; ***"All hard work and no play, made Jack a dull boy".*** We will provide you with a soul, mind and body refreshing/relaxing entertainment. C

WELCOME TO OUR 88TH ANNUAL CONFERENCE!!!

ABBEY TLALETSI
CIGFARO CEO

One on One with our Platinum Sponsor - CCG

CCG Systems, formerly Camelsa Consulting Group (Pty) Ltd, started exhibiting with the Institute in 2013 taking up two exhibition stands at the CIGFARO Annual Conference. In 2015 CCG Systems CEO Mr. Walter Muwandi doubled the exhibition exposure and took four stands which then lead them to boldly decide to be the Platinum sponsor for the Annual Conference for three consecutive years starting in October 2016. This was indeed great news for the Institute and from that day a strong working relationship has been built. Since then the Institute has been working hand in hand with CCG Systems to establish a collaborative stakeholder relationship which will be embedded in all communications strategies. This nurturing of stakeholder relationships, building and leveraging on the long-term investment relationship, will in turn pave the way for growth opportunities for both organizations within the marketplace.

The Editor of CIGFARO Journal, Ms. Esther Gumata, sat with Mr. Muwandi, the CEO of CCG Systems to find out more about the company and its future plans.

Editor: Thank you for taking time to answer these few questions. Please tell us more about CCG and the core business for CCG.

Mr. Muwandi: CCG Systems, formerly Camelsa Consulting Group (Pty) Ltd, is an information systems, communications and technology (ISC&T) company specialising in the supply, development and implementation of systems including: Enterprise Resource Planning (ERP); Supply Chain Management (SCM); Performance Management (PMS); Asset Management; Human Resource and Document Management Systems and mobile applications, etc. in the Public Sector.

CCG Clients include Municipalities, State-Owned Entities, Non-Governmental Organizations, Institutions of Higher Learning and Private Companies.

CCG is on the National Treasury Panel of service providers for an integrated financial management and internal control system for local government (RT25-2016) and have implemented the Municipal Standard Charts of Accounts (mSCOA) at 38 municipalities.

CCG is an accredited partner for the following organisations:

- Sage
- SAP
- Caseware Africa
- Dell

CCG is currently engaged in projects to make Artificial Intelligence a reality in South Africa.

Editor: This sounds exciting! We have been wondering about the name change and we noticed that CCG Systems has also undergone a process of rebranding. Please tell us more about the change.

Mr. Muwandi: Rebranding can either be 'Evolutionary' or 'Revolutionary' but regardless of the process, the intention for rebranding is always the same, and that is to differentiate the business or service in the minds of their target market. It is one of the most rewarding and transformational processes an established business can undertake.

CCG Systems is now a diversified group of companies offering different services other than just municipal ERP, hence the need to change through rebranding. We have expanded beyond our original scope and geographical name. Forces in the market have played a part and the digitization of society has made it necessary for CCG to reinvent itself. We have evolved over the years and so our corporate identity has developed hence the need to rebrand and diversify into different sectors/divisions namely:

- CCG Systems
- CCG Technology
- CCG Advisory
- CCG Training

Editor: Wow! This is music to my ears. It is always lovely to see organizations grown expand and diversify in different sectors, all in the name of growth. I am sure though that many are curious to know why you have chosen to be a Platinum sponsor yet again at the CIGFARO Annual Conference.

Mr. Muwandi: CCG fully appreciates the work done by CIGFARO to promote growth of the Government Finance, Audit and Risk Officer professionals. As an entity whose clientele is mainly municipalities, CCG felt it should plough back into the growth and development of municipal staff. In addition, exposure at the Conference gives an opportunity for our clientele and potential clientele to interact with us and be first to experience our great new innovations and ideas.

Editor: When and how did you hear about CIGFARO?

Mr. Muwandi: In 2008, when I was Acting as Chief Financial Officer, I undertook research to identify training and developmental opportunities for municipal staff members. That is when I learnt about what the Institute of Municipal Finance Officers (IMFO) was involved in and the service offering provided.

Editor: I am glad we caught your attention. What are key things you are expecting from this year's conference?

- CCG want to understand and help public sector representatives comprehend how municipalities and stakeholders will assist in achieving sustainable development goals.
- We also trust that this years' conference will be bigger and better than the ones before, as there are so many challenges that need to be addressed to ensure relevant developmental local government takes place efficiently, effectively and economically.

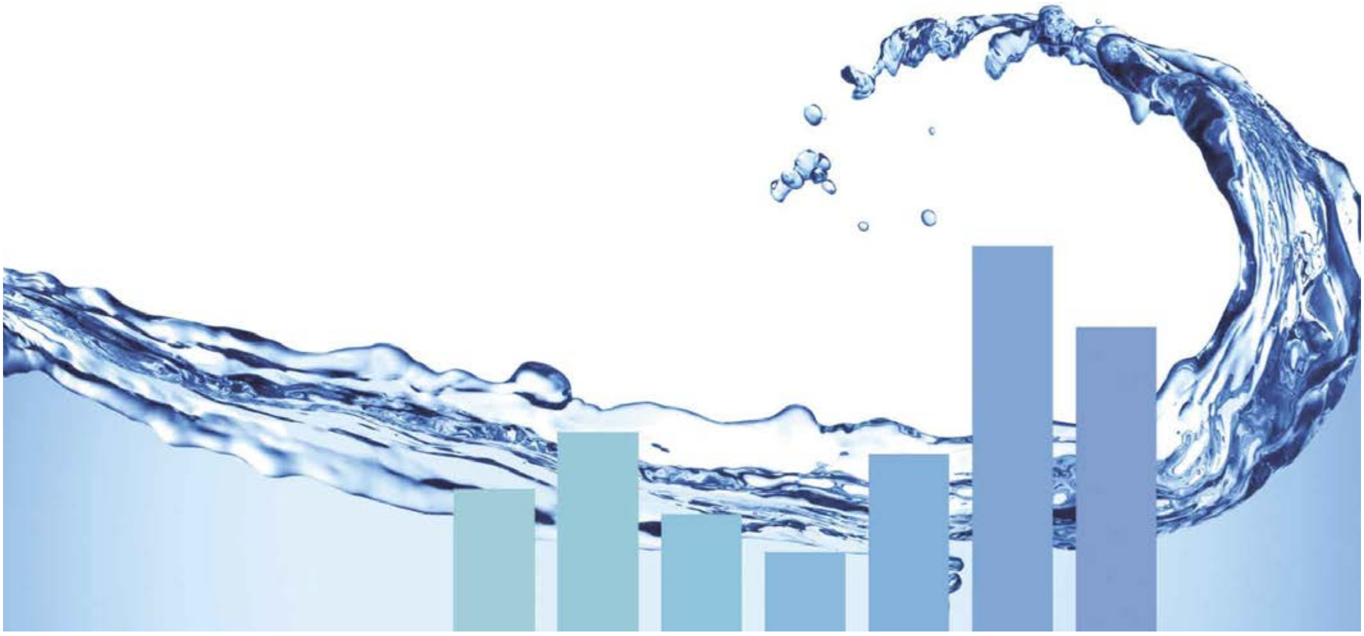
Editor: Wow, I hope we meet your expectations. Lastly as the Host sponsor and CEO of CCG Systems, what message would you like to convey to our delegates this year?

Mr Muwandi: CCG Systems would like to wish all delegates a fruitful three days where they will not only learn but contribute to achieving sustainability in spite of the challenging times. We encourage delegates to visit all exhibitions stands and incidentally feel the love of the Mother City.

Editor: Thank you once again Mr. Muwandi for your time and I do hope that you will also get an opportunity to feel the love of the Mother City! It has been an honour and great privilege to speak to you. Thank you for your investment into Service Delivery in South Africa.

Volumetric Management of Water

by Cameron Tylcoat - Department of Water & Sanitation



Often simplified statements of water measurement have been made which amount to; what you don't measure you cannot manage and therefore measure at any or regardless of cost.

It seems that at municipal level the cost to measure is about 6% of the selling price of water in the EThekwini Metro. The exact price does not matter but the order of magnitude does. Therefore the cost to measure is about 60c/m3. The current maximum tariff for raw water for CMA's is almost 5c. At sixty cents just for measurement, it would mean a 12 fold increase in tariff. Even if DWS/CMA managed to halve the cost, it is still significant.

One could write regulations if not already in place, which prescribe a safe type of water meter which are sufficiently accurate and tamper proof and put an internet system in place to collect the data from the water users. Many systems have "outliers" which if working at best can quickly show what sites need visits or simply email or telephonic queries to the owner to justify large changes. The system could require for example that an agricultural user place their hectares to be planted and crop on the site even before the actual measurement is done.

An incentive of a 30% reduction in billed amount (up to perhaps a maximum of say R20000) could be offered with serious disincentives to avoid cheating the system. It would only require a small percentage of speedy prosecutions to seriously limit those who try to manipulate their figures.

Those not taking part in the system might pay perhaps 10% more because the effort to manage them would cost more. There is an under collection possible but the value of the measurements to the country are significant. This would of course be discussed with the treasury who have in the past shown good understanding of managing the water and hence justifying the shortfall.

The knowledge of the volumes used would be beneficial in very many ways. When there is drought there will not need to be a vacuum in terms of what the users are currently using. There is no intention here of making the CMA collect on actual water use as the charges in this sector are based on the legal allocations. Also when compulsory licencing is done there would be real figures available to know to what extent users can be cut to limit the economic prejudice.

The water use in agriculture is much more difficult in terms of crop requirements when compared to the domestic and industrial sector. There are some who, if the user was abstracting only one third of their water (i.e. 150 of 450mm) in a particular year might want to reduce the allocation to one third. One must remember that if the climatic conditions only required 200mm then that user will have used 75% of the requirement. This is often forgotten, but the act of collecting water use efficiently will enable the water management institution to manage the water much more knowledgeably and effectively.

There are some who might say the poor would not be able to take part. It may insult their intelligence to exclude them because a very large percentage have cell phones and actually know how to use them. C

Water Tariff's Sectoral Differentiation

by Cameron Tylcoat - Department of Water & Sanitation

If there is any talk of tariff reduction or subsidisation in the early years of a Catchment Management Areas (CMA) it is proof that the CMA has an unsustainable income base or inappropriate economic model.

In a municipal environment an increase of CMA tariff of 4c/m3 to 8c/m3 (true a 100% increase of this facet) would be equivalent to 0.4% of a R12/m3 municipal tariff. In an agricultural environment this increase as an input could/would be far higher than 0.4% and would hurt the production of food a lot more than the nation can afford. Structural changes in the economy and the ability of certain sectors to pass it on are far more difficult. It is understood that agriculture is often a price taker and not a price maker, hence the difficulty to pass on significant input cost components. If it was easier to pass on cost increases the current model might suffice.

A statement made by very senior people in the water sector, perhaps 20 years ago, was that a cubic meter of raw water should cost the same to all sectors i.e. Domestic and Industrial (D&I) and Agriculture (Agric) and Stream Flow Reduction (SFR which will not receive direct attention here). The contention here is that this is in fact not fair and some attempt will be made here to prove this. To use an example from the gambling environment: If someone would say "Would you be interested in buying a ticket for R100 to stand a chance of winning half a million", one would be very silly if one did not ask "But how many tickets are being sold?" It is only on that answer that one would decide the advantage of taking that risk. In the same way the risks often built into sectors should have an effect on the original statement made. For D&I the assurances are frequently 98-99.5%, though mostly 98%. Given this country's stressed water supply, components of this supply might even be lower i.e. higher for drinking versus lower water for gardening. In the Agricultural sector it varies from 70-90%. When assurance was mentioned the response was "Well then everyone will want higher assurance water". The appropriate answer to that is "Not if they are paying for higher assurance water".

Some have said that the model should be simple. That need not be the case with a very high value commodity. Einstein said to keep a thing as simple as possible but not more simple. You cannot teach just anyone to build a spaceship; that is very complicated. The point is that the method must be transparent even if difficult.

One simple illustration of getting an assurance factor might be in a particular catchment if you were prepared to accept 70% assurance you would get 28% more water out of that system i.e. you would sell 28% more water than at 98% assurance. A differentiation of 1.28 would change the tariff ratio. This uses the availability of water and not its risk, directly. It would be worth a few master's dissertations to determine the relative risk factors as an actuary would do in the insurance industry. This would be different to 1.28 as above.

Another method would be to take the value of each use (by volume or graphically by percentage) and arrange by value in ascending order and then plot as a curve. For example 1 ton of aluminium sells for R1m and requires 10000 cubic meters of water. The value would be R100/m3 used but only 0.2% of the water is used in that sector. Place R100 on the vertical axis and add the 0.2% to the previous perhaps 50 uses which the last was at R90, which for the 50 summed to 87.5% hence plot at 87.7% on the horizontal axis. The nuances of netto and gross value and say input costs could also be examined, but provisionally this would be tedious to obtain but easy to understand for the relevant professional. There is no shortcutting the professionals needed to ascertain the correct approach but a simple outcome may be if the median value of water in agriculture was R20/m3 and the median value in D&I R40 then a factor a 2 would be applicable to economic value.

Some would argue that in current economy water is too cheap for agriculture. There may be an approach to over time lessen the ratio but the fact of the matter would be that the real and current value in the economy may be two and hence a fair reflection and NOT an emotive one.

There are currently small cost differences between the two sectors but the major difference is based on subsidies and not on the current formulae/economic approach. The factor varies from 1.09 to 2.26 at present, but for different reasons.

This would be an accurate approach and the resultant tariffs could be absorbed by the sectors and sustainable CMA's would result. C

City of Cape Town took Green Bonds to the market: Resounding success!

by Councillor Johannes Van Der Merwe - City of Cape Town

City of Cape Town Executive Mayor, Patricia De Lille, together with Mayoral Committee Member for Finance, Councillor Johan van der Merwe, City Finance officials, and Rand Merchant Bank took the City of Cape Town's Green Bond to the market earlier this year. They embarked on a Green Bond roadshow across Cape Town and Johannesburg and engaged with investors and representatives from the banking sector.

Cape Town is currently experiencing the harsh impacts of climate change, with the worst drought in 100 years. We have seen reduced annual average rainfall for the past two winters and abnormal weather patterns are set to continue.

While we are asking residents and businesses to reduce their consumption, we have to find innovative ways of bringing alternative water resources into our system. The City is currently accelerating emergency water schemes which include drilling boreholes into the Table Mountain Group Aquifer and a small-scale desalination package plant, located along Cape Town's north-western coastline.

In the event that there is another winter of below average rainfall, the City will be expanding and accelerating the abovementioned emergency schemes even further. The capital costs of the emergency schemes are currently estimated at R3.15 billion over three financial years.

In implementing these projects to address the drought and mitigate and adapt to climate change, we need to be innovative and diversify our financing mechanisms and these efforts will require partnership with the private sector.

More people are living in cities than ever before and by 2050 around 70% of the global population will live in urban areas. In Africa alone, there will be nearly 800 million more people living in cities than today. For example, the population of the City of Cape Town is growing by 3% per annum.

To provide for all these new urban dwellers, we need more buildings, more bridges, more public transport, and more energy. Above all, we need investors to come to the table.

Despite the challenges, the economic and environmental arguments for increasing our investments are crystal clear. Investing in more compact, connected, efficient cities with world-class public transport systems can spur economic growth – ensuring returns for cities and investors, while also having positive side-effects for the well-being of residents and for the climate.

Sustainable cities also have healthier air, reduce the time wasted in traffic, and have lower greenhouse gas emissions. We need to spend a little now to save a lot in the future. Devising ways to scale financing for infrastructure in cities and to shift capital flows to make sure new projects are sustainable is the next great challenge.

To do this, we need to empower cities financially and boost local resources for urban infrastructure. The first step for cities is to improve access to private finance by improving creditworthiness. The City of Cape Town has been a leader in managing public funds having received four consecutive clean audits and being the only metro to have received a clean audit in the last financial year. We also have the highest possible local credit rating, Aaa.za, for a South African municipality from Moody's.

These standards must be put to good use and this is where we started our journey to find more innovative and diverse financing models as we can no longer do things the way we used to do them and expect greater results.

In developing the associated Green Bond Framework, we have identified a suite of eligible projects for which the proceeds of the bond will contribute towards the overall funding thereof. The projects to be funded by the green bond are a mix of adaptation and mitigation initiatives, all of which are aligned to the City's Climate Change Strategy. The projects include:

- water management initiatives
- sewerage effluent treatment
- rehabilitation and protection of coastal structures
- purchase of electrical buses
- floodplain mitigation

The City had the abovementioned projects and the application of the framework audited against the Climate Bonds Standard and external assurance was provided by KPMG.

The City has embarked on an Organisational Development and Transformation Plan where we are taking Cape Town to the next level by being more responsive, more proactive and positioning Cape Town as a forward-looking globally competitive business destination. Our transformational priorities also include a focus on resource efficiency and dense transit-orientated development.

Within two hours, 31 investors made offers totalling R4.893 billion in response to the R1 billion bond that was being offered. Of the 31 bidders, 8 bids were successful and received allocations. The R1 billion cleared at 133 basis points above the R186 government bond.

This response from the market was overwhelmingly positive and demonstrates the great appetite among investors to invest in sustainable projects. The market's enthusiasm was also a resounding vote of confidence by investors in the City's governance, strong financial standing, and ability to deliver on sustainable projects.

Our green bond has been certified by the Climate Bonds Initiative, while international ratings agency Moody's also awarded the bond a GB 1 rating – which means they have been impressed enough with the green credentials and controls around this bond and assessed it 'Excellent'.

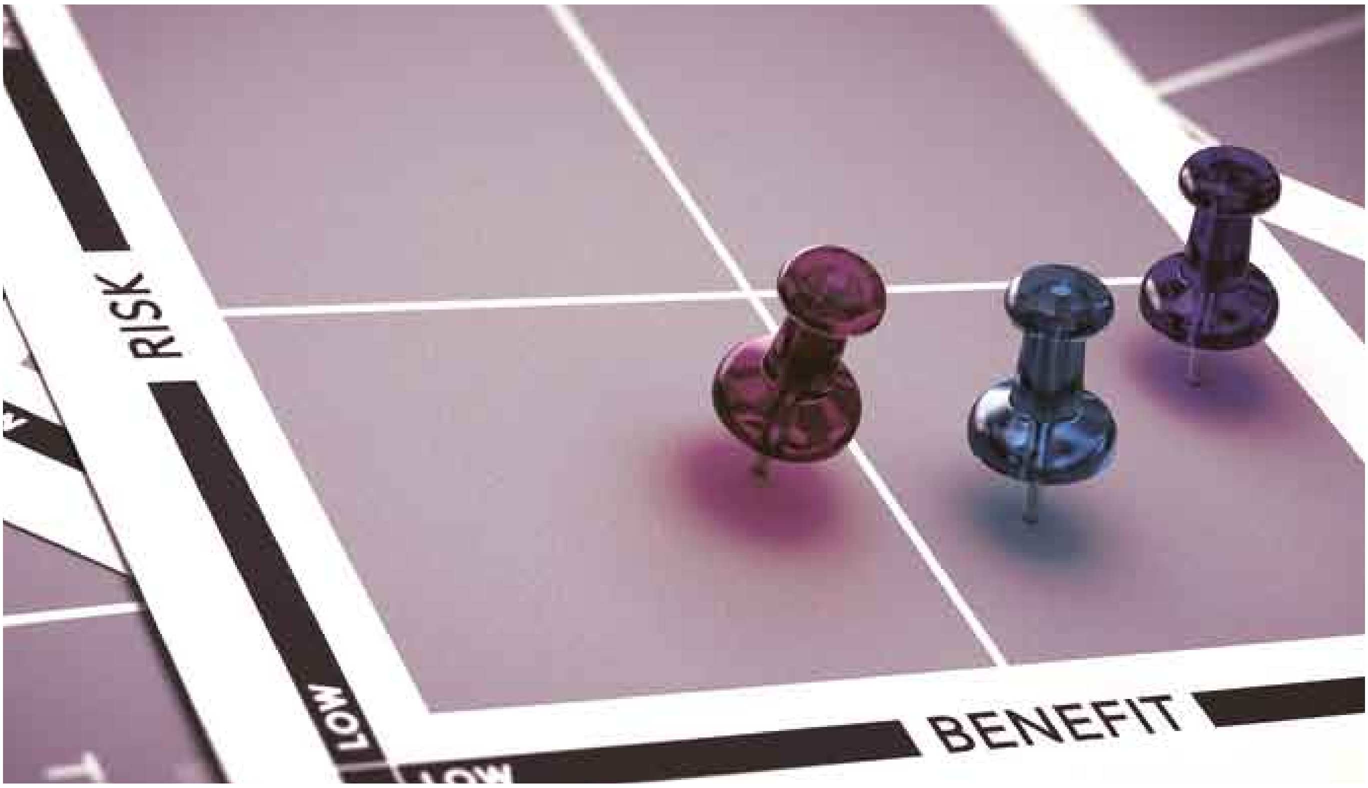
The auction was a demonstration that it pays to go green. This is a first for Cape Town and South Africa. It has been a tremendous learning curve and it proves that there are many innovative ways to raise the finance to address infrastructure needs and to respond to climate change.

In line with our Organisational Development and Transformation Plan's governance principles to enhance resilience and sustainability and improve resource efficiency, and as illustrated green bonds can certainly be one of the ways forward for us in terms of how we finance projects.

The City is ready to continue with building a Cape Town which future generations can thank us for and with overlaying all our work, from financing to implementation, with innovation.

Combined Assurance as an element of Effective Corporate Governance

by Sedie Jane Masite - CIGFARO



INTRODUCTION

As organizations expand and become more complex, so does the number of functions required to ensure that the board can properly perform their duties for effective control and risk management.

In this case, there is the problem of how to prevent management becoming overwhelmed by large volumes of information, thereby creating an **"assurance fatigue".** Combined assurance is an instrument of solving this problem by integrating alignment processes, controlling effectiveness and optimizing overall assurance for audit in the organisation.

In accordance with the King III and The International Standards for the Professional Practice of Internal Auditing, 2013: 23 report, combined assurance is considered as the process of integration and harmonization of support in the business to help ensure maximum risk management and oversight and improve management efficiency, and optimize overall assurance to the Audit Committee and Risk Committee, taking into account the relevant risk expectations. In addition, combined assurance should help to improve the understanding of the general levels of confidence and how to solve and / or mitigate areas of risk (The small business environment, 2012: 16).

Benefits from the implementation of the combined assurance model include such factors as coordinating and related processes which have to ensure a focus on key risks;

- minimizing operational failures of business;
- improving reporting and accountability; and
- possible reduction of provisions.

In addition, it was discovered that a combined assurance model will provide a better understanding within organizations, whose assurance providers are confident in some areas of work.

Through the effective use of integrated software, a number of combined assurance models could be designed:

- more coordinated and relevant assurance efforts focusing on key risk exposures;
- eradication of assurance fatigue;
- a possible reduction in assurance costs;
- a common view of risks and related issues across the organization is created;
- improved reporting to the Council / Governance and Oversight Committees, including reducing the repetition of reports being reviewed by different committees;
- minimizing business/operational disruptions; and
- cost savings.

This view is further illustrated by Felix (Felix, Gramling, Maletta, 2001), who found that the coordination of internal and external activities ensure the audit has a positive effect on reducing external audit fees. This inverse correlation between the fees of external audit and coordination of only two assurance providers can therefore possibly be enhanced through coordination of all assurance providers, i.e. the combined provision.

Combined Assurance: Understanding, Models and its Application in Corporate Governance

Combined assurance is an important area of research due to the requirement for Council members to comment on the effectiveness of their risk management and management system for all types of risks. In a nut shell, the main idea of combined assurance is to provide complete assurance to the public Sector on the effectiveness of systems of risk management and internal control through coordination of the provision of different sources of support.

Organizations have traditionally used numerous providers to help their boards of directors fulfil their responsibilities for the control and effective methods of management, legal departments, quality control, compliance, health and safety, corporate social responsibility and internal and external audits, etc. As assurance providers carry out measures to ensure isolation, check, control and cost governing bodies may suffer from fatigue and assurance gaps that lead to their inefficient reporting. After receiving various opinions, the Board is consequently not able to perform its oversight role effectively. As a result, coordination among these various assurance providers is necessary.

Bringing many assurance providers together to perform assurance activities helps to rationalize combined assurance and makes it more efficient, where the number of parties involved in the provision of assurance and their activities will require coordination and harmonization, (see figure 1) below. In the management zone, people are responsible for ensuring a robust risk management and control system so that deviations are identifiable in time and still adequately fixable. In internal assurance providers' area, people are responsible for auxiliary controls such as risk management, internal controls and internal audit. In external assurance providers' area, people are responsible for the independent external audit, such as external financial audit, etc.

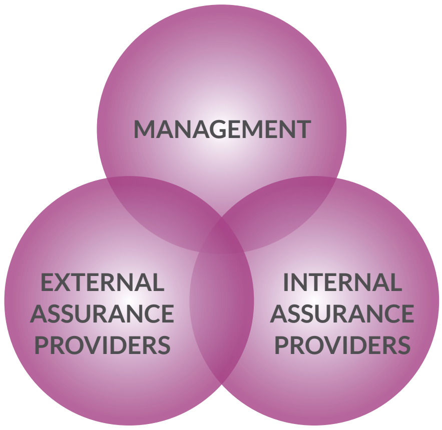


Figure. 1. Parties Involved in the Combined Assurance

The following information describes these standards and provides an overview of different ways of combining assurance, including special attention to the role of the internal auditor in particular to ensure the independence of auditors. The applicable standards and guides are made according to the Three Lines of Defence model.

The IIA's International Professional Practices Framework (IPPF), which provides internal audit professionals worldwide with authoritative mandatory and recommended guidance. Although there is no specific standard in the IPPF on how combined assurance should be provided, several standards are closely related (see figure 2).

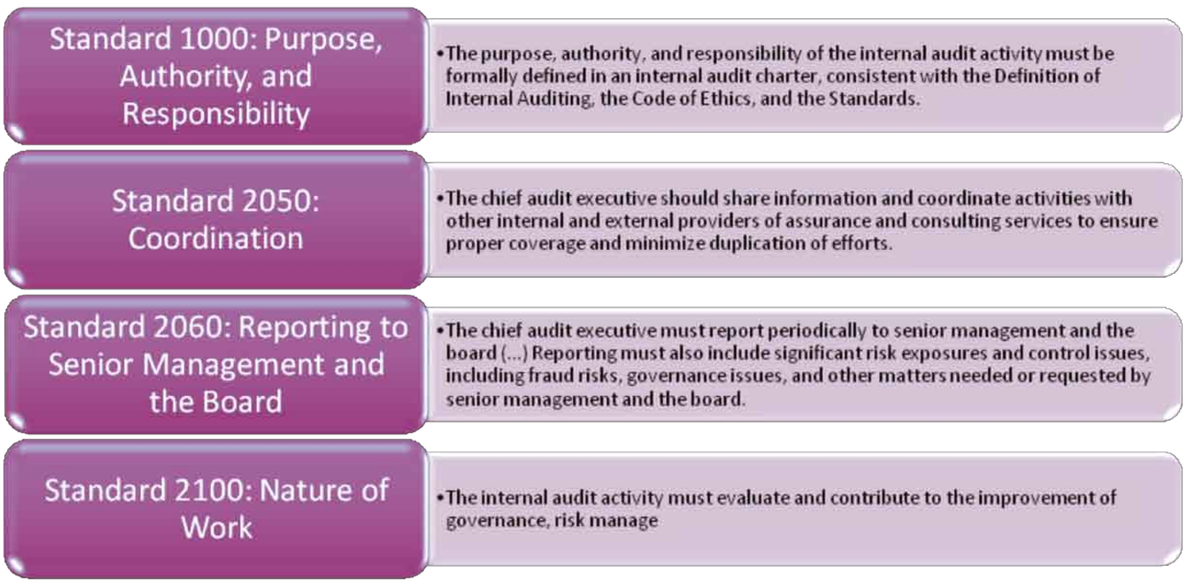


Figure. 2. IIA Standards - Combined Assurance

Combined Assurance as an element of Effective Corporate Governance

by Sedie Jane Masite - CIGFARO

There are various methods of combining assurance and existing standards do not offer specific definition.

When it comes to deciding on the type of coordination, variations depending on the specific requirements and kind of integration of individual organizations the following methods should be considered:

- **Integrated Audits.** Coordination takes place through audit activities; specifically performing audits together with supporting functions and/or the external auditor.
- **Process of integration.** Coordination is through planning and reporting. The risk-based audit plan fully meets second-line management functions. Integrated reporting may be internally or externally focused. MFMA Circular 63 describes an integrated report as comprehensive and inclusive report. It is considered to be *PERIODYK NAUKOWY AKADEMII POLONIJNEJ 21 (2017) nr 2* a short message on strategy of organization, management, efficiency and prospects in the context of the environment, leading to the creation value in the short, medium and long term.
- **Alignment through activities.** Coordination is made through specific activities.
- **Functional integration.** Coordination takes place on hierarchical lines by combining internal audit functions, management (such as risk management) and internal control through compliance standards.

Internal audit is separate from other control features, the first three methods of combined assurance are comprehensive audit, process integration, and coordination activities. Thus, these methods are not mutually exclusive and should be seen as complementing each other. To achieve sound corporate governance, combined assurance may be implemented in any organization and should address the requirements of that specific organization.

Various models may be used to implement combined assurance. The model that is used should be specific to the organization's needs and appropriate to the requirements of the industry in which the organization operates. The combined assurance model that is used should address, link and utilize all the lines of defence present in the organization, in cases where the defence model is used. Similarly, in cases where the assurance model is used, all the assurance providers should be appropriately and effectively drawn into a single team.

To conclude, the role of internal audit is essential to the combined assurance process. The following key concepts were noted pertaining to combined assurance:

- Combined Assurance is a process of integrating and aligning the various assurance processes with
each other and with reference to the organization's risk appetite;
- Combined Assurance should optimize overall assurance feedback to the Audit Committee, particularly as it pertains to the significant risks with which the organization is faced;
- Internal Audit should play an advisory role and should be seen as the custodian of the combined assurance process within the organization;
- The Combined Assurance process should be seen as one of Internal Audit's key responsibilities within the organization;
- The Audit Committee should support the combined assurance model that is to be used by the organization; and
- Effective Combined Assurance has the potential to eliminate silos and enhance decision-making within the organization. C

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The journey to building an effective and efficient system of Risk Management

by Musawakhe Khumalo - Ekurhuleni Metropolitan Municipality

The implementation of risk management in the public sector and for us in the City of Ekurhuleni Metropolitan Municipality has come a long way. From the early challenges of a risk immature environment characterized amongst others by lack of buy in, insufficient resources to the recent challenges of operating at higher maturity levels which demands locating risk management as a strategic enabler, integrating risk management to daily operations and building a strong culture of accountability for risks faced and taken by the institution.

Reflections and value of systematic planning

This article reflects on the journey of building a risk management system from a lower maturity level to sustained higher maturity levels. As Chief Risk Officers (CRO) we are often tempted to try to be everything to everyone in the organization and often due to limited capacity this approach limits our efforts and impact on our organizations. Building an effective and efficient system of risk management as envisaged in the MFMA and PFMA is not an 'overnight' feat and requires CROs to be systematic and methodological in their approach.

The approach we followed was to first complete a status quo maturity assessment which gave us a clear indication of where gaps were and this allowed us to do a long-term risk management plan which has seen the institution moving from initially a level 1 maturity to level 4 in a 5-scale maturity assessment over a period of 4 years. From the maturity assessment, we were able to segment our approach into different pillars which are Risk Culture, Systems, Policy and Strategy, Processes, Structures and Methodologies.

This allowed us to systematically plan on what we needed to do to in each of these focus areas. Having a supportive and appropriate risk culture is the most imperative step in the successful implementation of risk management in any organization. The location of the risk office within the organizational structure, direct reporting to the accounting officer by the Chief Risk Officer, approved policies, strategies and methodologies, appointment of risk champions to drive implementation within business units are some of the key attributes of a risk culture required for an effective system of risk management.

Implementing a value adding system of risk management

One of the most difficult task for Chief Risk Officers is being able to demonstrate the value add of risk management in the organization. With the competition for limited resources, risk management is usually one of the last functions to be considered for funding. This places an enormous responsibility on risk officials to ensure that maximum value is shown with limited resources. It is therefore critical for risk officers to ensure that beyond putting in place basic policies and frameworks, there must be concerted effort to ensure that risk assessments are conducted on a regular basis, that training and awareness is conducted; that sufficient attention is paid towards value creating activities.

The value of risk management lies in influencing planning, achieving impact in the implementation of institutional activities as well as timeous and beneficial reporting to management and oversight structures. It is critical that risk assessments and development of mitigation strategies is part of the organizational planning process to achieve alignment in the risk management process and organizational processes of planning, budgeting and reporting.

Good risk management manifest itself in the successful implementation of projects and organizational activities and in turn achievements of organizational goals with minimal deviation and overruns. Risk Officers must therefore ensure that risk assessments and reporting on the implementation of mitigation strategies is integrated into the continuous organizational process of planning and quarterly reporting. One of the key actions undertaken by the municipality was to introduce quarterly reporting by business units on risk management activities as part of quarterly reporting on performance. This allows the institution to think about deviations into performance in the context of managing reports. Simply put, where organizational objectives and targets are not being achieved, the institution is able to reflect on the risks that caused variations and how these will be managed to ensure targets are achieved by the time of the final reporting period. These quarterly risks based performance reports are in addition to those presented at Risk and audit Committees which purely focuses on the risk registers.

Ensuring that risk management is part of implementation is one of the most difficult tasks in implementing risk management however if this is attained, the organization is able to fully mature in risk management. Risk Champions in each business unit become a critical pillar in achieving this objective as they play a critical role in actively promoting risk and assurance activities within their area of responsibility whilst the risk management sets the standard in templates for implementation and reporting.

This approach to implementing risk management has enabled us to link governance, risk and compliance to the four critical processes in the organization namely, planning, budgeting, implementation, performance reporting or monitoring and evaluation. The critical interface between these disciplines is represented in the diagram below:

This interface is key in ensuring that the institutional plans and targets are risk based, mitigation plans and controls are adequately budgeted for, management of risks forms an integral part of implementation and finally that there is proper accountability for management of risks and reporting to relevant oversight structures such as the Risk and Audit Committees. It is through a proper interface between these disciplines that risk management is able to add value to the organization and higher maturity is attained in appearance and fact.

Conclusion

In conclusion, the journey to operating at higher risk management is a long and difficult one in the public service, especially at local government. It is therefore important that an incremental and systematic approach is followed as institutions may not have the luxury to implement and meet the requirements of higher maturity's at once. The more we have local government institutions demonstrating the value add of risk management, the better for the discipline and sector as a whole.

Considering the Institutional Environment in Realising the Benefits of Prepaid Meters

by Emmanuel Ngcobo - iLembe District and Dr Pieter Crous - SMEC South Africa

OVERVIEW OF PREPAID METERS

The Prepaid meters are installed throughout South Africa for electrical and water services as a means of enabling local authorities to manage the billing and collections from metered services. The design philosophy of prepaid metering is that the customer pays upfront for their service charges, whether for electricity or water consumption based on the approved tariff rates. The prepaid metering systems for water services are robust, having an extensive history within South Africa over the last 25 years. Prepaid meters form part of the smart meter bouquet of products that are available. Importantly, prepaid meters differ from automatic meter reading in that customers have to pay upfront for services and the prepaid meter system restricts supply where customers do not pay for services.

The increasing consumer debt for municipal services has prompted municipalities to explore alternative ways to recover monies for the services rendered. This being in line with section 8 (3) of the Municipal Finance Management Act 56 of 2003, that enforces municipalities to take all reasonable steps available to ensure all monies due to the municipality are received.

The upfront payment through the installation of prepaid meters has been predominantly viewed as the most effective means of revenue collection, but this does pose a number of challenges if proper due diligence has not been carried out.

The typical meter management lifecycle can be reflected as follows:

The article focuses on the example of prepaid water meter systems and is written from the perspective of implementing prepaid metering systems at Water Service Authorities within the South African context. The article explores the institutional environment required to ensure that prepaid meters are not only implemented, but the potential revenue enhancement benefits are realised.

Prepaid Water Meters

The prepaid water metering system includes a physical prepaid meter installation and the prepaid vendors and prepaid billing system to manage the customer information and purchases. The physical prepaid meter installation consists of a water meter and ancillary devices that include a valve to open and close the water supply and a device to allocate the proportionate volume of water for an amount of monetary credit. Prepaid meters are sold as a single unit, which means that the capital cost associated with the meters is significantly higher than the cost of conventional meters. The prepaid metering device is able to rapidly identify whether the customer meters have been tampered with, or there are on-property leaks. These functionalities are mutually beneficial for the customer and the local authority.

In South Africa, the communication between the prepaid water meter and the vendor purchase system is performed either through a token-based prepaid system or a Standard Transaction System (STS)-based prepaid system. These communication systems are implemented for both domestic and bulk customer meter applications.

Once the credit has been purchased through the prepaid vendor system, the customer loads the credit onto the water meter through the electronic communication device or user interface, and the valve is opened by the metering system.

The prepaid vendor systems have benefits to the authorities, in that the systems can generate standard reports for water service authorities as required. These reports include customers with low or no purchases, cash collection, sales by area, monthly meter management summary, sales vs. consumption reporting, and leak, tamper and valve status reports.

Implementation

Yet, despite all the benefits, the implementation of prepaid water meters has had mixed results. A critical success factor is in community acceptance - not only of the metering system, but the entire meter management lifecycle associated with the prepaid metering system.

The potential benefits include:

Local Authority Advantages

- Upfront payment (improved cash flow)
- Reduction in bad debt
- Minimise meter reading errors as the meters manage the consumption.

Customer Advantages

- Consumption is managed by customer needs
- Potential simplified payment methods

The potential disadvantages include:

Local Authority Disadvantages

- High capital start-up costs
- Increased monitoring and evaluation requirements
- Additional operating and maintenance costs
- Tariffs may need adjustment for prepaid meters

Customer Disadvantages

- Payment is enforced
- No water services if system malfunctions
- No refunds when property is sold

Risks

Some generic risks relating to the prepaid water metering system include:

- Customers cannot buy credit when the prepaid vending systems are offline or the meter battery is empty;
- Local authorities will not generate revenue from meters where the prepaid meters are vandalised, tampered with, or damaged;
- Local authorities will not generate revenue from meters where the prepaid meters are incorrectly linked to the customer on the billing system; and
- Meters will be inaccurate where the prepaid meters are incorrectly installed per the relevant meter installation guidelines and standards.

Requirements

The installation or rollout of prepaid water meters includes the consideration of a number of items that exceed the considerations about the capabilities (and limitations) of the meters. The critical considerations are discussed below:

- **Capital Investment** – Prepaid meters are significantly more expensive than conventional meters. You will need to manage the cashflow to manage the successful rollout of prepaid meters on the annual budgets.
- **Rollout Prioritisation** – It is important that areas for prepaid meter rollouts are not only based on areas where payment is not received for services, but must also consider affordability and capacity of the areas to maintain the prepaid metering system, which includes the type of vendors used and the location to the customers.
- **Meter Installation Monitoring Support** – It is critical that the meters are installed correctly and that all meter and customer information is accurately reflected on required information management systems. These risks can be managed through the use of standard processes and municipal guidelines for meter installations, and quality control of the meter installations to ensure that the meters are installed per the relevant standards, municipal guidelines, and supplier specifications.
- **Meter Operational Monitoring Support** – Develop key performance indicators for the rollout of the prepaid meters so that you can monitor the implementation of the system to ensure that value for money is achieved in the prepaid metering system. These indicators must be applicable to the entire meter management lifecycle.
- **Procurement structure** – Each prepaid metering system is bespoke and will require that the meters are managed through specific suppliers. It is important to ensure that the relevant Service Level Agreements are in place to support the sustained use of the prepaid metering system with nominal contractual disputes or system downtime. Ensure that you have sufficient vendors allocated to each area to allow for customers to be able to adequately reach the vendors.
- **Inventory management** – It is critical to make sure you have sufficient stock for replacements and spares. Prepaid water meters rely on battery powered solutions, and despite the capacity of the batteries, these need to be replaced. Ensure that the suppliers are held to the prescribed performance of their solutions. Further, manage stock and warrantees such that the meters do not stay on the shelf for long (and the batteries are depleted), or that you don't wait too long for lead-times (where meters require replacement).
- **Consider lifecycle impact on the business processes** – The installation of prepaid meters will significantly affect the business processes of the conventional meter management lifecycle. It is critical that workshops are run to ensure that

Considering the Institutional Environment in Realising the Benefits of Prepaid Meters

by Emmanuel Ngcobo - iLembe District and Dr Pieter Crous - SMEC South Africa

adequate resources and processes are in place to manage each component within the lifecycle and that adequate processes are in place to ensure that any defects or faults can rapidly be identified and attended to.

- Review and update bylaws – It is critical that the relevant bylaws, such as the water bylaw or credit control bylaw are in place and reflect the operations of the prepaid meters – such as the fact that the supply will be stopped where there is no credit on the meter. The lack of such bylaws can have significant legal implications to the institution.

Closing Remarks

Prepaid metering technologies are an enabler for enhanced revenue collection. It is important to consider all aspects of the institutional environment prior to the adoption of prepaid metering, as this will ensure that the technology aligns with institutional capacity and systems to ensure that there is sufficient support for the realisation of the proposed benefits from prepaid meters.

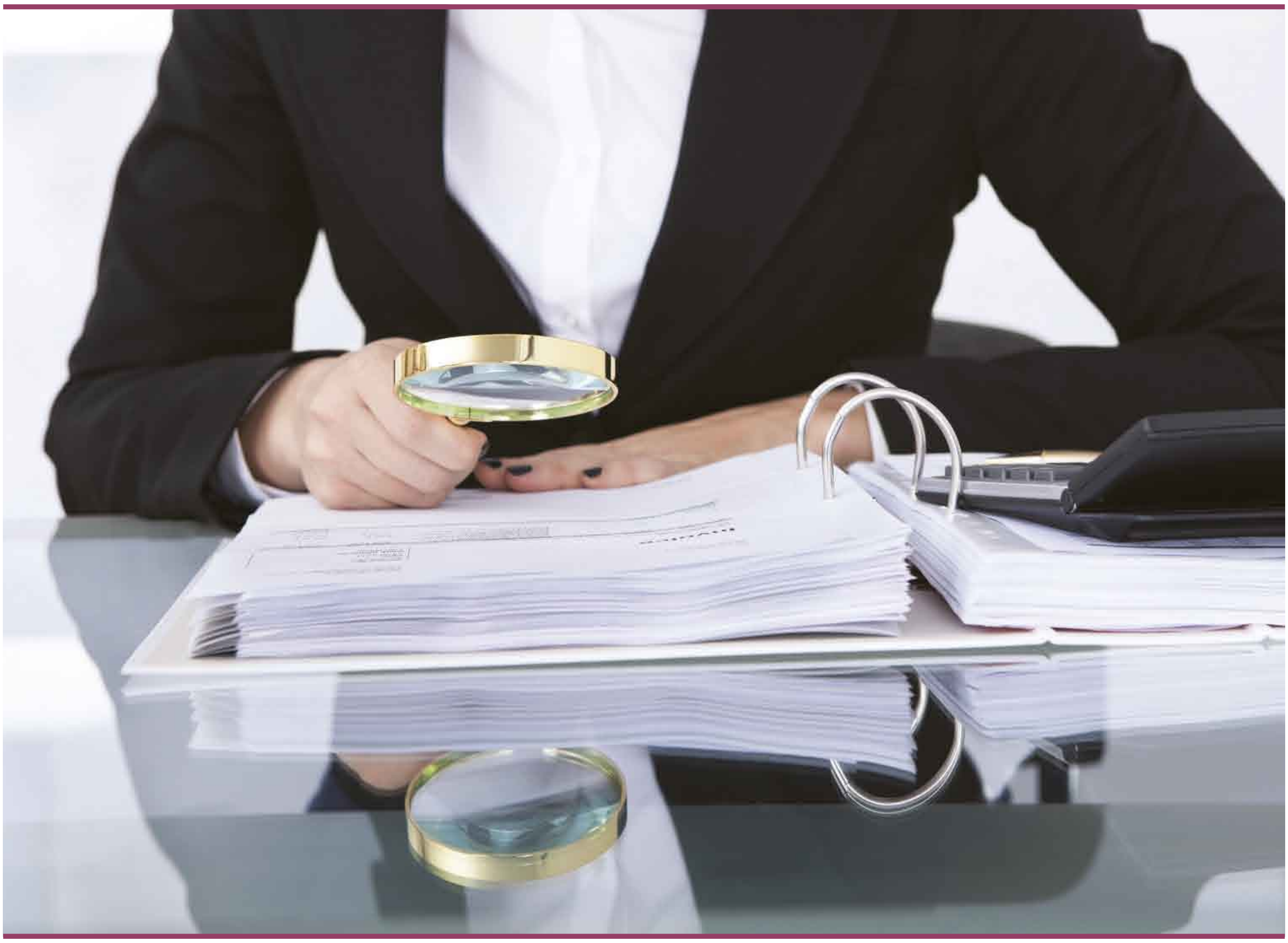
Prepaid and other smart metering solutions will require extensive capital to rollout within the entire supply area, and this rollout will not be implemented overnight. There is an opportunity to use National Treasury's Municipal Public-Private Partnerships Guideline to develop a feasibility study to determine whether it would be applicable to make use of an external private party to fund and manage the entire meter management lifecycle. The use of a Public-Private Partnership is not only applicable to local authorities who cannot fund the rollout internally, as the feasibility study focuses on the entire meter management lifecycle at the institution and considers whether the approach would provide value for money to you.

Prepaid meters are not a replacement for the meter management processes, as the metering lifecycle will continuously require quality control measures and support to ensure that all metered consumption is accounted for in the billing processes – specifically related to calculating distribution losses. Where more than one metering system is implemented, it is recommended that a meter management system be implemented to integrate the various billing systems into a centralised system, which preferably provides spatial analysis of the customer consumption and revenue generated thereof. C

The Insightful Internal Auditor

by Sedie Jane Masite - CIGFARO

The International Professional Practices Framework (IPPF) includes a mission statement that describes the role of internal audit as "to enhance and protect organizational value by providing risk-based and objective assurance advice and insight". **But what exactly makes for an insightful internal auditor?**



HERE ARE SOME CHOICE TIPS:

Develop your knowledge of the organisation and the sector it operates in.

Keep abreast of the organisation's strategic objectives, major change initiatives and key risks by looking at business plans, annual reports, newsletters, briefing notes and other relevant material. This should include looking beyond the organisation at the market and competitors, issues raised by government and regulators and the impact of technology.

Talk to more people, inside and outside of the organisation.

Gain a better understanding of the risks facing line managers through internal networks and routine departmental meetings, both formal and informal. Start with what really matters to management and establish the positives. Recognise success stories and the things that work well in audit reports so they can be appreciated and recommend these to other sectors of the organisation.

Keep track of what is happening in the profession.

This should include attending training events, seminars and conferences of CIGFARO as well as keeping up to speed with the IPPF. Join a sector audit group and maintain regular contact with other auditors working in your sector. Get the best out of the appraisal process and continuous professional development (CPD).

Keep track of what is happening in the profession – this should include attending training events, seminars and conferences as well as keeping up to speed with IPPF and visiting CIGFARO website.

Identify a mentor who is willing to be your coach

Find someone with whom you can share issues and ideas, whether a senior internal auditor or senior manager you have regular contact with, or even someone you do not work with or audit.

Change your perspective.

Put yourself in the shoes of a client, a supplier or the regulator and consider how you would expect procedures to work and the sort of behaviour you would expect from the organisation.

Put yourself in the shoes of a client or the regulator and consider how you would expect procedures to work

Draw parallels.

Benchmark best practice and consider what is good and bad in, say, the organisation's approach to customer service and weigh this up against an organisation that has perfected its approach.

Ask more questions.

This will help you to gain a full appreciation of how and why things are done in a particular way. Ask questions that encourage people to share their view of the world and try not to impose your perspective on them. It is important to listen to other people.

Don't take things for granted.

Obtain a diverse set of viewpoints and don't accept everything at face value. Note differences of opinion and build evidence on top of the results of interviews and discussions to support audit recommendations.

Identify trends and connections.

Use audit software and reporting tools that enable statistical analysis to reveal patterns, correlations and issues people may be unaware of.

Change the way you get the message across.

Look critically at audit reports to ensure both the structure and language to get the key messages and opinions across. Are reports concise, clear and to the point?

There is no single correct way to become an insightful internal auditor; rather it is a process of continuous development. Try applying these tips and see what works most effectively for you. C

10 TIPS FOR CREATING A FUNTIONAL INTERNAL AUDIT

1. **Engage with all your stakeholders and continually nurture those relationships.**
2. **Position your team as one that will help the organisation to achieve its strategic objectives.**
3. **Establish and clearly communicate the vision and culture of your audit team.**
4. **Where appropriate, pull individuals from the business into guest auditor roles – this accelerates the team's acceptance in the business and brings in vital business knowledge.**
5. **Seek information and advice from professional bodies, especially Chartered Institute for Government Finance, Audit and Risk Officers (CIGFARO).**
6. **Use audit planning and benchmarking data to shape the team.**
7. **Design roles carefully to attract the right people.**
8. **Be forward-looking – for example, try to anticipate the strains that rapid growth might put on your organisation.**
9. **Understand in the broadest sense what the organisation needs from internal audit – for instance, think about what every member of the board could want from your team.**
10. **Work with the organisation, but remain a critical friend.**

Independent economic regulation for water: Is it a solution to the water sector woes?

by Humbulani Nevondo - Department of Water & Sanitation

Source: www.news24.com/SouthAfrica/News/what-is-government-doing-about-cape-towns-water-crisis-20170719

INTRODUCTION

The Constitution of South Africa (Constitution, 1996) assures everyone in the country of access to sufficient water and has made it a prerogative to the state at various spheres to take reasonable measures to ensure that the rights in questions are realised. It is then necessary that someone is assigned responsibility to watch and take necessary action to ensure that this right in the Bill of Rights becomes a reality.

Prior 1994 communities mostly in the rural areas had no one to hold responsible for their lack of access to piped and clean water which has been available for the privileged only. Water would be harvested from the rain, fetched from the streams and wells over long distances regardless of the quality of the water and it has been the practice of the underprivileged. Government today has control over water resources, responsible for the supply at all levels of the water value chain and does so at a price. State control over the water is a good option for equitable access and distribution of water both as a factor commodity and final commodity. Rural communities depended on water for domestic use and their subsistence uses which is hardly met with piped system of supply and cost thereof; for years millions of litres of water are lost through leaks in the systems of supply; huge capital investments that are made in the water infrastructure remain white elephant due to poor planning.

Urban communities in metropolitan areas and small towns are experiencing water shortages; water quality issues; flowing raw sewerages in the streets and heavily polluted rivers and streams; continuing dilapidation of infrastructure due to lack of maintenance threaten the sustainability of access of water. Most of all, there are major inefficiencies in the sector (resources under-utilised but costed for recovery, huge labour supplier exceeding demand, lagging technology). All the challenges are trade-offs for the effective realisation of the Constitutional rights. The authorities that have to ensure that everything is done properly are the same that are supposed to do things properly. The State supplies and delivers water while on the hand regulating the water sector on its own activities. Are there facts for maintaining the status quo in terms of the supply of water and the regulation of the water sector in the face of the challenges that the water sector is confronted with?

The South African water legislative framework

Section 27(2) of the Constitution has created monopoly system out of the State over water in the entire value chain for the better control of the scarce resource and strategic reasons. The Constitution and the Water Services Act (Act 108 of 1997) have both designated municipalities to perform functions over water services systems limited to potable water. As a government which has both executive and legislative authority over its functions, it provides the services and regulates the services at the same time at local government sphere. The national department responsible for water and sanitation develops water resources and provides raw water for various uses as per section 21 of the National Water Act and potable bulk water through its entities mainly water boards. The department also wields regulatory authority over its functions and the local government function through section 155(7) of the Constitution leaving the water sector characterised by two factions which are monopoly and self-regulation. Has this phenomenon worked effectively elsewhere in the world before, is it able to properly address the challenges the local water sector is faced with?

The nature of monopoly

A monopoly is defined as an economic system wherein only one specific seller is the only supplier of a particular commodity to many buyers. The system lacks economic competition in the supply of the good or service due to barriers to market entry. The commodity or service does not have a viable substitute and thus a likelihood of pricing well above the seller's marginal cost that leads to a high monopoly profit or below cost which compromising the fulfilment of the financial obligations of the entity. In the event that the monopoly is a private entity, government intervenes through regulation to ensure that the goods or services are safe and affordable to consumers. The regulator also regulates pricing of goods to ensure that prices are appropriate and able to address the market failure that is brought about by the absence of competition in the supply of the goods or services.

The South African water sector

The department responsible for water and sanitation finds itself with authority to play a role in the water resources space of the water value chain. It protects, conserve, allocates, plans and develops water resources in the country and the custody is with the Minister. Infrastructure for raw water is developed through government's funding mainly for social objectives and borrowed funding for other objectives including productive business. The largest portion of the investment is recovered through user charges which all users have to pay for their respective use of water. There is likely to be huge backlogs in the maintenance and refurbishment of the aging infrastructure. The water resources management charge is levied to the users as well but with many complaints over the quality of water that users are getting from the resources. Are the consumers getting any value for the money they are paying for the water they receive? The person who has to determine whether the price and charges are appropriate is the same person supplying the water and the same person who has to protect the water from pollution. Furthermore the custodian of the South African water is sole provider of raw water otherwise may authorize someone to supply, however the choices of consumers are completely disregarded.

The water and sanitation services are the functions of the municipalities according to schedule 4b and schedule 5b of the Constitution. These 145 municipalities have both legislative and executive authority over the functions to make laws that govern the functions inclusive of regulation of the function thereof. This is another area of the water value chain wherein self regulation is the order limited to organs of state only. Consumers are subjected to the same circumstances that happen with any

Independent economic regulation for water: Is it a solution to the water sector woes?

by Humbulani Nevondo - Department of Water & Sanitation

monopolised industry since there is no substitute for water in a situation where water is life and sanitation being dignity. Municipalities have authority to outsource the provision of water and sanitation services to external entities but with a limitation that public entities has to be prioritised at no competent bidding and the entities are still under the oversight of the same authorities of the State. In the entire value chain at its current state, the utilisation of revenue generated from water users cannot be directly accounted for in terms of reinvestment or any related benefits to the users.

The existence of the monopoly water industry may be justified as emerging from the following sources. Firstly, capital requirements for investment in the water infrastructure both raw and reticulation is so huge that the costs are unbearable without state intervention. Large research and development costs or substantial sunk costs to attain economies of scale go with the capital requirements to have the water sector running. Secondly, the fact that there are no substitute goods makes the demand for water to be relatively inelastic which then enable monopolies to generate positive profits. Lastly, water is a scarce natural resource in the country with some areas relying on ground water entirely. For the efficient utilisation of the scarce resource to satisfy all the social and economic needs in the country, the resource requires to be strategically managed in order to address the historical imbalances and equitable distribution across. A monopoly is thus the best option for the proper control of the scarce resource for the interests of everyone.

Challenges in the water sector

It is common knowledge that a situation of monopoly is remedied through state intervention which creates a pseudo competitive environment which can enable appropriate pricing that mutually benefits the seller and the buyers. Efficient allocation and application of resources in the production line will always incur the entities reasonable costs that are not a burden to consumers to pay to enable recovery. Research and employment of technology can enhance efficiency and productivity which eventually gain economies of scale in the sector, however (Ebenhard, 2003) has identified the following pertaining to water services regulation:- Firstly, the regulator which is a Water Services Authority is also a shareholder which may cause conflict of interests which may require national oversight. Secondly, self- regulation which dominates the water sector where the Water Services Authority which is the regulator is also the Water Services Provider which is the operator may not make it possible for economic regulation to happen. Thirdly, the regulation of the water boards is not transparent, methods unclear and lack of adequate capacity to undertake effective economic regulation which if properly done could bring important economic benefits.

The full might of economic regulation may also not be significantly felt in the department wherein the same authority accounts for both economic regulation and responsibility over water resources which becomes a source of another conflict of interests.

The Minister prescribes norms and standards in terms of the Water Services Act for technical, tariffs and contracting as provided for in sections 9, 10 and 19 respectively while the Pricing Strategy takes care of the raw water tariffs. The monitoring of compliance with the norms and standards and the pricing strategy is not at its best mainly due to the self- regulation that overwhelms the sector. The combined impact of monopoly practices in the respective entities within the sector, the player and referee conducts are inefficient service provision, neglect in infrastructure maintenance, alarming rate of unaccounted for water, continued lack of access and consequently service delivery protest out of dissatisfaction.

Conclusion

The socio-economic population mix in South Africa is such that the state is seen playing a major role in ensuring that water is indiscriminately accessible to all. The position of the state in the provision of water in the entire value chain is critical in the efficient utilization of the scarce resources for the benefit of all people and economic sectors.

The monopoly market structure of the water sector enables the state to protect, develop and equitably allocate the water resources over all the user categories. The state is also better positioned to provide funding for the huge capital investment

THE NATIONAL DEVELOPMENT PLAN OF GOVERNMENT HAS IDENTIFIED THE ESTABLISHMENT OF INDEPENDENT REGULATORS AS A ONE OF THE STRATEGIC TOOLS TO FAST TRACK TRUE NEEDS SATISFACTION WHICH IS SUSTAINABLE AND SUSTAINABLE ECONOMIC GROWTH.

requirement at all levels of the water value chain which would be difficult for users to recover the investment through user charges and tariffs. Regardless of whether water is highly or under priced, the fact is the supplier has own interests to meet with a price or charge imposed for any water use leaving water being inappropriately priced with less fairness in the pricing regime.

Sectors such as this require a nonpartisan regulator who amongst other things will ensure that pricing and investments in the sector are appropriate and meet the macroeconomic and socioeconomic objectives of the country. Self- regulation is never neutral except to focus only on the interests of the providing institution and less of the consumers in their categories.

The National Development Plan of government has identified the establishment of independent regulators as a one of the strategic tools to fast track true needs satisfaction which is sustainable and sustainable economic growth. With one identified for the water sector, the cooperation amongst all stakeholders to ensure that an independent water economic regulator is established will be a major achievement of the sector since the dawn of the new order with mutual benefits for all involved.

Newsclip - What is Government doing about Cape Town's water crisis?

Government has several projects on the go to increase the water supply to Cape Town. We explain these in this article. But all of them added together come to fewer than 100 million litres per day in the short to medium term, about 15% of our daily water consumption. It's not enough. We have to use less water.

Cape Town - Cape Town's dam levels were at just over 26% on July 17, almost 17% down on the same week last year. The City says it is hard to use the last 10% of water in dams, meaning the dam levels are essentially about 16%, GroundUp reported.

WATER, DAM

Theewaterskloof Dam in May 2017. (Ashraf Hendricks, GroundUp)

For a city that relies on historically wet winters, these figures are daunting. What is more, the future looks drier.
The Western Cape Government's Disaster Management Directorate estimates rainfall will decrease by 30% by the year 2050. We asked various government officials what the plan is to prevent the city's taps running dry.

Organisations and people who claim there is some panacea other than reduction of consumption (which also might not be enough if we don't get more rain) are simply wrong. This is not to say that ways of providing more water to the city should not be explored, but neither should their effect be exaggerated.

MORE RESTRICTIONS

Xanthea Limberg, the mayoral committee member responsible for water, says that stricter restrictions will be implemented to reduce consumption. Currently, the City is under level 4b restrictions which limits water usage to 87 litres per person per day. The City wants daily water consumption to drop to 500 million litres. Average daily consumption for the week ending July 16 was 613 million litres, an improvement over the past few years, but still too high.

City-supplied figures report that 65% of its water goes to formal residential customers. Half of that is used for non-essential purposes – filling pools, watering gardens, washing cars and so forth. Fixing leaks and targeting industrial customers (who use 4% of municipal water) "will not make the required difference", says Limberg.

MORE STAFF

Limberg said about 75 people have been employed in the past month to handle water complaints. They have to identify problems, find leaks and make sure leaks are repaired. A Water Advisory Committee made up of experts from various fields – academia, business, and civil society – will provide advice and oversight to the City. A Water Resilience Task Team has also been established, led by Craig Kesson, to co-ordinate the City's response to the crisis. Limberg said the team "is working on a number of sub-projects across the short term". Water consumption is stabilising despite population growth. But consumption needs to go down further.

DESALINATION ON THE HORIZON

On June 19, the City posted a Request for Information (RFI) to find possible not-for-profit and for-profit businesses willing to enter into a partnership with the City to establish water reclamation and desalination plants. Desalination means purifying seawater into fresh water. The partners would "supply, install, and operate temporary plants at various locations along the sea shore and at certain inland locations", said Limberg.
The goal is to have the first plant in operation by the end of August for a minimum of six months. The RFI closed on July 10. Further plans for medium-term desalination and water reclamation will be guided by the results of the RFI. It's not yet known how much water this will yield.

Limberg said the City was looking into renting off-shore desalination units. These units could "yield up to 500 million litres per day", said Limberg. As for details on the timeframe, provider, and number of units being considered, Limberg said, "It is too soon to say at this stage." Water consumption is stabilising despite population growth. But consumption needs to go down further. (City of Cape Town, GroundUp)

AQUIFER EXTRACTION

Aquifer extraction is when natural underground rock layers, saturated with water, are drilled into and the water pumped to the surface. According to a 2012 map of Cape Town's aquifers, the City has significant underground water. The City has been studying extraction from the Cape Folded Mountain Belt, or Table Mountain Group (TMG) aquifer, which runs from Vanrhynsdorp to Mossel Bay. The project is scheduled for 2022 to 2026. Limberg said the reason for the delay is due to a national project that takes priority: the Berg River to Voelvlei Augmentation Scheme. The TMG project will only begin after phase one of the national project is completed.

However, the City is accelerating pilot drilling into the TMG Aquifer for a yield of two million litres per day. The plan is to incrementally add boreholes and reach the goal of ten million litres per day. The estimated cost of building this is R85m.

RECLAIM CAMISSA

The Camissa spring water flows through a series of underground tunnels from Table Mountain into the sea. An advocacy group called Reclaim Camissa is urging the City to use this water.

The potential of harvesting this water has been explored by the City for its ability to contribute to potable water supplies. However, Limberg said the City has found that it is not worth the expense, "Filtration and disinfection barriers would be required to protect community health, as would a pressure feed into the adjacent network and additional staff to control the treatment process," Limberg said.
However, she said it would be most cost-effective and simple to use the water for alternative purposes, like irrigation and industry. The City is currently preparing a licence application for further use of the springs.

More research is needed to estimate the yield of the Camissa spring water, and no doubt many supporters of Reclaim Camissa disagree with the City's assessment.

WATER RECLAMATION

Water reclamation is a polite way of saying "extracting water from shit". Limberg said the City "has set the wheels in motion" for a wastewater reuse plant at the Zandvliet Waste Water Treatment Works.

She said the plant would be capable of producing ten million litres of "high quality drinking water per day" for the central and southern suburbs. Estimated cost is R120m to build the plant.

WHAT ABOUT NATIONAL AND PROVINCIAL GOVERNMENT?

The provincial government did not address any of GroundUp's questions but referred us to Limberg and the City. The National Department of Water and Sanitation (DWS) has plans to divert water from the Berg River to the Voelvlei Dam under the Voelvlei Augmentation Scheme.

The project has been approved for acceleration by the Minister of Water and Sanitation for final delivery in 2020, though this date is dependent on "securing the funding off-budget and finalising the designs of the civil engineering works", said Ratau Sputnik, spokesperson for the DWS. Construction is supposed to commence in 2019 and the projected cost is R550m. Currently, the project is undergoing an environmental impact assessment. Sputnik said that "at this stage no dredging of dams are planned". He said that most of the dams that supply water to the City are constructed in regions with little silt deposit accumulation.

When asked if there were plans to build additional dams, Sputnik said "not at present", citing lack of available water and suitable, undeveloped sites. However, Sputnik said "options to raise one or two smaller dams in the system exist and are under consideration". For example, the tender for the raising of the Clanwilliam dam (located on the Olifants River) is in its "final stages of consideration". As soon as the project is awarded to a construction company, it will begin.

Renewable energy programme hampered by policy uncertainty

Nedbank - Media Release

In recent years, South Africa's renewable energy strategy has been recognised not only for its progressive goals, but also for the success of its implementation. This year, however, both local and international investors are adopting a 'wait-and-see' approach as uncertainty about policy begins to hamper progress.

This is according to Mike Peo, Head of Infrastructure, Energy and Telecommunications for Nedbank Corporate and Investment Banking, who says the country's renewable energy programme is currently running 18 months behind schedule.

"The implementation of the renewable energy strategy depends almost entirely on the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP), which is designed to encourage private investment from both local and foreign sources," he says. "While the REIPPPP delivered on more than 25% of government objectives in a period of just four years after it was launched, Round 4 projects are mired in delays. This is despite the fact that the Independent Power Producer Procurement (IPP) office has been granted several extensions on the implementation of this round of projects."

The knock-on effect, he says, should not be underestimated, as the delays are impacting on investor confidence, job creation and the pace of economic transformation.

"We find ourselves in an almost impossible situation," says Peo, "with neither Eskom nor the Department of Energy being prepared to commit to a timeline for the completion of these projects. Eskom says it cannot afford to buy in additional power from independent producers, while the producers claim government has a contractual obligation to complete the projects outlined in Round 4. The result is a deadlock that is causing international investors in particular to review their options."

In terms of the REIPPP, Nedbank has provided 42% of the project finance required by the independent power producers to date, and has committed R35 billion to the projects envisaged in Round 4. Foreign investors are, however, expressing concern about the on-going political and socio-economic uncertainty in South Africa, and may start diverting their investment to other destinations.

"Should this happen, the cost to the country will be multi-faceted," says Peo. "Apart from the immediate impact on a number of economic variables, it could cost us the opportunity to be the leading producer of renewable energy on the African continent."

In a globalised economy, he stresses, international investors have a wide range of options, and are most likely to invest in stable countries where their return on investment will be secure.

What, then, is the solution?

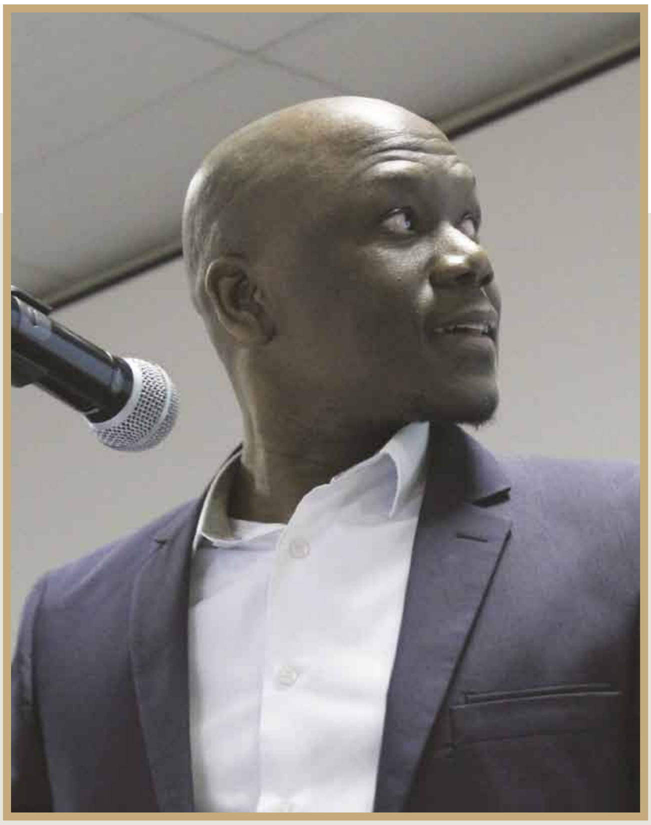
"Nedbank remains committed to the renewable energy programme," says Peo, "and we intend to maintain our leadership position in terms of market share in this space. We nevertheless believe it is essential to clearly define the policy framework for the sector as a matter of urgency in order to get international investment flowing again."

As South Africa is a signatory to both the Paris Agreement on climate change and COP 21, the way in which the country manages its renewable energy strategy and its implementation has implications from a broader political viewpoint. A new Integrated Resource Plan (IRP), which will allow not only for expansion of the electricity supply but for a greater mix of source technologies, is scheduled to be presented to Parliament early next year. However, until the plan is adopted, investors are likely to remain cautious, resulting in the country's renewable energy programme losing ground.

"The most pressing issue facing the renewable energy sector today is not one of vision or one of technology, it is one of political will. Policy uncertainty has to be addressed if we are to move beyond the current impasse." C

GALLERY - GRAP MSCOA SCM WORKSHOP

Emmanual Ngcobo - Branch Chairperson KZN



Mthokozisi Sibisi - AGSA

Alain Jacquet - National Treasury,
David Garege - CIGFARO Board Member

Galaletsang Matseliso - National Treasury,
Cheryl Reddy - CIGFARO Board Member

Elizina van der Westhuizen - Accounting Standards Board

Delegates in Plenary

Delegates Question and Answer Session

Delegates in Plenary

GALLERY - LIMPOPO BRANCH BREAKFAST SESSION

Abbey Tlaletsi - CIGFARO CEO

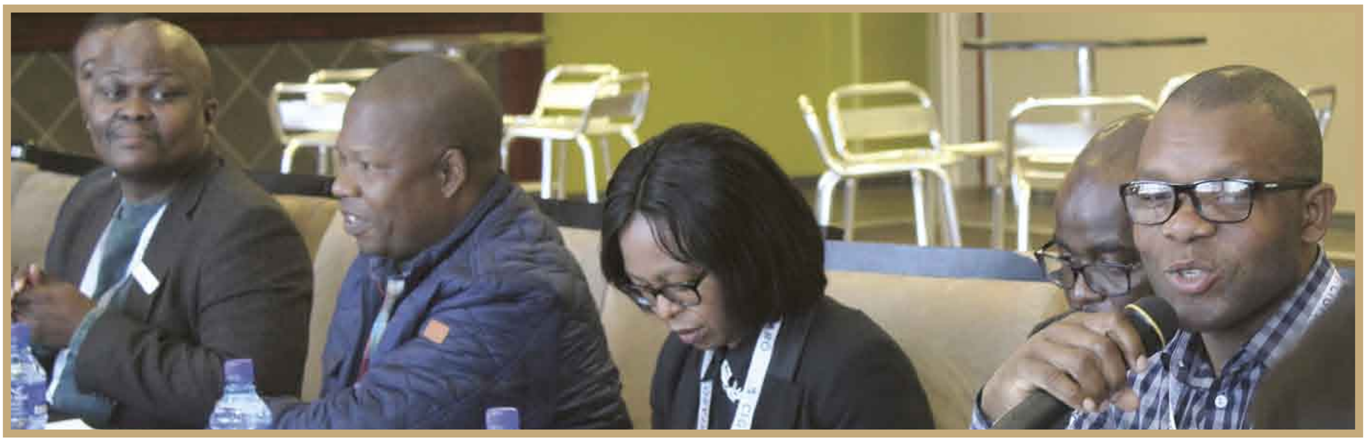
Paledi Marota - CIGFARO Vice President Technical

Khomotso Phelane - CIGFARO, Ennie Tema - Limpopo Provincial Treasury Cllr Charles Molepo - Polokwane Municipality, Nwabisa Gwele - ARMS, Umesh Madhav - ABSA & Lufuno Davhana - CIGFARO

Thapelo Matlala - SALGA Limpopo

Maria Makhongela - Branch Chairperson

Delegates attending Limpopo Branch Breakfast Session



Delegates in Plenary

How we support TVET colleges

The ReadytoWork and ReadytoWear Programmes

The ReadytoWork initiative is one of the flagship Absa Shared Growth initiatives. It empowers young people with the training and development they need to enhance their employment or self-employment prospects.

TVET colleges have been included in the implementation of the programme.

ReadytoWear, born from the ReadytoWork programme, aims to empower TVET college students with corporate wear as they start their career journey.

Over 7 000 clothing items collected

Estimated at more than R1.2m

R1.2m

Corporate clothing items have already been donated to:

- Ekurhuleni West TVET College in Gauteng
- Motheo TVET College in Bloemfontein

Work Based Experience Programme

For a period of five days, TVET college students come to Absa during the holidays to be exposed to the various areas within the bank. This helps students link what they are learning to the practical world of work. We aim to host 2 000 TVET students in 2017.

BANK

5 days

Benefits

- Positive mindset change in students
- In KZN seven students were offered permanent positions
- Sourcing of talent for Absa Business Units

Internships

As part of a pilot initiative in partnership with SETA and three TVET colleges, we offer 12-18 months on-the-job training to final year TVET college students.

12

- 2015 -2017 we have taken in 98 interns
- 68 interns are still going through the programme
- The majority of interns are filling positions in Wealth and Investment Management
- 14 students are currently undergoing risk assessments to be onboarded in Corporate Real Estate Solutions (CRES)
- 20 interns have been permanently employed
- 17 students have been placed in our Contact Centre on a 12 month internship

Benefits

- Provides interns with the practical experience to attain their NQF Level five qualification
- Interns obtain needed work experience aligned to their qualifications and are able to enter the job market more easily
- Adds value to business through the roles the interns fulfill

Graduation financial support

Financial support is given to TVET colleges to host graduation ceremonies. Top performing students in business and management courses are awarded.

Institutional strengthening

Corporate Real Estate Solutions (CRES), with support from Public Sector, help strengthen TVET colleges through:

Lecturer/facilitator workshops

Exposing lecturers and facilitators to the latest engineering standards and trends in the market to support an improved offering at TVET colleges

Expanding networks and building relations between institutions and the private sector

Guest lecturing

Our Subject Matter Experts volunteer to lecture for a day

Asset donations

Donating redundant assets such as desks, chairs, cabinets, white boards and computers (where possible) to improve TVET colleges' infrastructure

Curriculum development (in the pipeline):

Using our expertise to help raise the college curricula to the latest standards (where possible) and to develop new courses in line with industry expectations

- ± 25 engineering lecturers and facilitators from six Gauteng TVET colleges have participated in workshops
- A total value of R220 000 has been donated to Ekurhuleni East TVET College's Benoni campus on refurbishments and asset donations:
- One computer lab, two simulation rooms and a teachers' room have been refurbished
- A total of 50 Windows desktop computers have been donated and the supporting network infrastructure installed

Virtual incubation

Small and medium enterprises are critical to stimulating the economy of the country. Young people are encouraged to be innovative and start their own businesses. Public Sector and Citizenship, in collaboration with Awethu Project, are developing an Olympiad-style competition specifically for TVET college students.

8 winners

The competition will run for six months and eight winners will be chosen. These winners will receive support through mentorship; a cash prize that can be used to startup their business or give their existing business a capital injection; and registration on the Virtual Incubation Application, a smartphone app.

Benefits

- Contributes to job creation through the promotion of entrepreneurship
- Mentorship and virtual incubation of startup business
- Practical application of the knowledge gained from use of the app
- Further development and improvement of the app to aid future students

Our Public Sector's support of education and development in South Africa

Our commitment as an organisation to empower our people and the communities within which we operate is firmly located in our Shared Growth strategy. We understand our role in the African economy and the ability we have to create an enabling environment for real growth and development in our society. We endeavour through our relationships with civil society and the public sector to continue to empower our communities. In short, we are here to make people's lives better.

Ordinary school education sector | Financial management programmes for schools

Our 'Schools Financial Planning and Control for Non-Financial Practitioners' programme is aimed directly at up-skilling School Governing Bodies (SGBs). It will help the Department of Basic Education improve the financial management and governance of schools across the country.

- Absa entered into a three-year MOU with the Department of Basic Education to collaborate on the financial upskilling of SGB members
- 2 725 — In 2016 the SGB financial management programme was successfully implemented in four provinces: KwaZulu-Natal, Eastern Cape, Limpopo and Mpumalanga.
- By the end of 2016 Absa trained 10 000 SGB members and 1,200 Circuit Managers in the four provinces
- 500 schools will be trained in 2017

Higher education institutions | Technical and Vocational Education and Training (TVET) colleges

We started supporting TVET colleges as part of our Shared Growth strategy and in alignment with the South African Government's 'Adopt-a-TVET'.

- There are currently 50 TVET colleges in SA
- ± 700 000 students being taught in 240 campuses
- TVET colleges address the artisan skills shortage in the country
- 2016 — We supported 16 of the 50 TVET colleges
- 2017 — We bank and support 34 of the 50 TVETcolleges. We aim to support all 50 colleges in the country.

We have the largest market share among the banks

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NEW MEMBERS

Province	Initials	Surname	Designation	Employer
GENERAL MEMBERS				
Province	**Initials**	**Surname**	**Designation**	**Employer**
Gauteng	J	Mavuso	Director	Bavuse Training Enterprises
KZN	S B	Mthethwa		Ethekwini Municipality
JUNIOR MEMBERS				
Province	**Initials**	**Surname**	**Designation**	**Employer**
Eastern Cape	M	Madikizela	Accountant	Mbizana Municipality
KZN	Z	Masumpa	Intern: Finance	Umdoni Municipality
KZN	K D	Wells	Officer: Risk	Uthukela Water Company
KZN	NP	Ndlovu	Officer: Expenditure	Umgungundlovu District Municipality
KZN	L	Mbatha	Intern: Finance	Jozini Municipality
KZN	TV	Mzobe	Clerk: Principal	Ethekwini Municipality
North West	A	Ratau	Intern	Madibeng Municipality
North West	LL	Kgwete	Intern	Madibeng Municipality
North West	A	Letsoko	Intern	Madibeng Municipality
North West	T	Piroe	Intern: Finance	Madibeng Municipality
Northern Cape	L	Cetywayo	Accountant: Supply Chain	Pixley ka Seme District Municipality
Northern Cape	AT	May	Accountant: Budget	Emthanjeni Municipality
Western Cape	NE	Samyeli	Assistant	City of Cape Town
Western Cape	N	Fortuin	Accountant: Senior	Matzikama Municipality
LICENTIATE MEMBERS				
Province	**Initials**	**Surname**	**Designation**	**Employer**
Gauteng	G	Chengeta	Consultant	First National Bank
Gauteng	TE	Moeketsane	Director: Municipal Finance	Department of Finance - NW
KZN	AT	Khashane	Practitioner: Supply Chain	Alfred Duma Local Municipality
KZN	S	Ngema	Manager: Internal Audit	Umlalazi Municipality
KZN	KWG	Thusi	Manager: Finance	Big 5 Hlabisa Municipality
KZN	SI	Mthethwa	Assistant: Finance	Maphumulo Municipality
KZN	MJ	Tshabalala	Accountant	Ethekwini Municipality
North West	WM	Phoshoko	Accountant: Budget	Moretele Municipality
North West	LK	Lithako	Accountant	Madibeng Municipality
Rest of Africa	T	Chamhungwe	Officer: Revenue	Zimbabwe National Water Authority
Western Cape	MT	Abrahams	Officer: Professional	City of Cape Town
Western Cape	E	Abbott	Officer: Senior Finance	Department of Health - WC
Gauteng	F	Sibanda	Chief Executive Officer	EECSA Consulting (Pty) Ltd
Gauteng	AJ	Fourie	Manager: Asset	JBFE Consulting (Pty) Ltd
Limpopo	MC	Nkuna	Director: Deputy	Provincial Treasury - LP
Western Cape	RF	Booysen	Manager: Senior	Mubesko Africa
Limpopo	T	Makhubedu	Student	Tshwane University Of Technology
ASSOCIATE MEMBERS				
Province	**Initials**	**Surname**	**Designation**	**Employer**
Eastern Cape	M	Zamane	Executive: Director	Unakho Business Solutions
Gauteng	RJ	Magongwa	Manager: Supply Chain	Merafong City Municipality
Gauteng	SC	Malope	Internal Auditor	Ekurhuleni Metro Municipality
Kwa Zulu Natal	MT	Nkosi	Chief Financial Officer	Ndwedwe Municipality
Kwa Zulu Natal	NC	Dladla	Accountant	Ethekwini Municipality
Kwa Zulu Natal	NP	Ntuli	Accountant: Senior	Okhahlamba Municipality
Kwa Zulu Natal	SP	Stemela	Manager: Supply Chain	Umuziwabantu Municipality
Kwa Zulu Natal	SC	Khoza	Manager: Assistant	Greater Kokstad Municipality
Northern Cape	RA	Jacobs	Accountant: Budget	Ubuntu Municipality
Northern Cape	ME	Basson	Chief Financial Officer	Richtersveld Municipality

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About Phoenix

Phoenix is a high-volume, high-availability system developed in a 4th generation CASE tool which can be deployed on a number of mainstream infrastructures. Phoenix utilizes a fully web enabled client interface which is specifically suited to the SAAS model. Phoenix currently interfaces to 16 ancillary systems and can be configured to interact with any number of ancillary sub-systems at any level of integration using odbc connectivity.

The Phoenix system is very strong on maintaining referential integrity between its modules and between its data entities The Phoenix system has comprehensive auditing and multi-layer security, embedded in the system and inherited from the Host operating system The Phoenix system utilizes a unique peripheral navigation system which makes the user interface experience hassle free and productive.

The Phoenix system is tried and tested and has been in operation for more than twenty years. During this time it has evolved through a number of major upgrades and improvements.

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Unpacking Historical Debts

The recent Constitutional Court judgment of Jordaan & Others vs City of Tshwane Metropolitan Municipality & Others has taken the country by storm with property owners and agents celebrating while Municipalities count their losses.

What does this judgment really mean?

The central issue is whether Section 118(3) of the Municipal Systems Act (MSA) permits a municipality to reclaim, from a new owner of property, debts that a predecessor in title incurred.

The court delved into the origins of the phrase "charge upon the property" in South African Statute law and found its roots in Section 50 of the Transvaal Local Government Ordinance. This section imposed a "charge upon the land in respect of rates and taxes owed and shall be preferred to any mortgage bond registered against such land."

The embargo meant that the rates and taxes had to be paid before transfer and the preferent charge meant that the Municipality enjoyed priority in the debt-collecting process. Since the embargo operated only until the arrears were paid, there was no question that the "charge" survived transfer. Only the original owner was liable.

The Constitutional Court did not consider that the phrase "charge upon the property" was actually foreign to South African law as it stems not from Roman Dutch law that governs South African legislation, but from English law which is largely foreign to us.

In English law, a creditor in entitled to approach the courts to register a charge against the property so that the creditors' debts will be paid before any mortgage bond on the property. The debts therefore become a secured debt and is payable prior to a mortgage bond when the owner sells his property. The creditor is also entitled to sell the property in a sale in execution to realize the debt.

Further, before buying property in the U.K. the solicitor acting on behalf of the purchaser performs a "Local land charges search." This search is done via the Local Municipality and informs potential buyers whether they will inherit any obligation on the property INCLUDING outstanding debts. The concept was imported into the South African statutes in form of Section 50 of the Transvaal Ordinance and then Section118 (3) of the MSA.

Section 118(3) reads:

"An amount due for municipal service fees property rates and other municipal taxes, levies and duties is a charge upon the property in connection with which the amount is owing and enjoys preference over mortgage bond registered against the property"

This Section gave the Municipality, as a creditor a secured the right without having to apply to court for it and without quantifying it. This was the problem.

The Supreme Court of Appeal in both Kaplan and Fedbond correctly pointed out that any amount due for Municipal debts that have not prescribed is secured by the property and if not paid, <u>and an order of court is obtained</u>, may be sold in execution and the proceeds applied in payment of the debts.

The Constitutional Court points out that there is therefore no magic in the word "charge". It renders the property specially executable but in order to be transmissible, it must be blessed by an order of court or be registered against the Title Deed of the property.

Why then the confusion?

Prior to the introduction of the MSA , ALL municipal debt had to be paid prior to transfer of property. The MSA somewhat disingenuously introduced a two tiered system of Revenue clearance on property transfers.

S118 (1) state that:

(1) A registrar of deeds may not register the transfer of property except on production to that registrar of deeds of a prescribed certificate

(a) Issued by the municipalities in which that property is saturated; and

(b) Which certifies that all amounts that became due in connection with that property for municipal service fees, surcharges on fees, property rates and other municipal taxes, levies and duties during the two years preceding the date of application for the certificate have fully been paid.

Therefore, in order to register a transfer, the Registrar of Deeds is obliged only to check if the Municipal debts over the preceding two years have been paid.

The security provision of Section 118(3), that works in the U.K. because of the Local Land charge search, has no protection in S.A. Law. South African Municipalities have therefore been left severely prejudiced. To complicate matters, the debts that fall outside of the two year period have been erroneously termed "historical debt". It is clearly not historical debt but current debt due, owing and payable by the owner of property.

LEGAL CORNER

For some strange and unknown reason, sellers feel that they are “entitled” to a write off, of this “historical debt”. That by fate or fortune, all of their bad debts and payment records, their disinterest in paying their debts and their flouting of the Municipal laws are wiped clean by applying for the Rate Clearance in terms of Section 118(1).

For the Municipalities, the rate Clearance process provides an ideal opportunity in its collection process, where property debts are cleared.

In order to enforce the security afforded by S118(3) the municipality has two options:

1. To interdict the transfer once a Revenue Clearance is issued to ensure that the “charges against the property” are paid prior to transfer.

This in not only a costly process, but one that will delay property transfers thereby causing increasing costs to the property market. Metro’s receive approximately 200 applications for Revenue Clearances per day. Interdicting each transfer is simply not practical. The charging orders that work in the UK is not practical in the South African context for as long as the debts are not registered against the Title deeds of the property.

2. To collect all the debts prior to transfer.
   The court processes are slow and cumbersome. Moreover, the recent amendments to the Magistrates’ Court Act has hampered the Municipalities ability to arrest the debts and sterilize the property.

Municipalities are obliged to collect All debt in terms of Section 96 MSA. The path followed by the municipalities in the revenue clearance process clearly brings to the attention of the seller and purchaser all debt on the property. When the Conveyancer (who acts for both seller and purchaser) applies for a Revenue Clearance, he is given an assessment of the amount of the TOTAL debt owed to the Municipality. This is done so that both parties are aware of the debt on the property.

If this process is applied correctly, the purchaser should never "inherit" a surprise "historical" debt that he is totally unaware of.

While the courts have recognized that S118 (3) is a security provision, they have failed to recognize that the application of this provision is impractical in its current form.

Section 118(3), the court challenges, has no provision to fulfil the publicity requirement of a real right. It stands alone, isolated and unsupported without foundation or undergirding and with no express words carrying any suggestion that it is transmissible.

The Constitutional Court looked at the Land & Agricultural Development Bank Act that also creates a "charge upon the property". However, this charge, as in English Law, is quantified and recorded against the Title Deed.

The Municipalities were quick to offer a solution. The court could oblige the Municipalities to supply information to the purchaser. This would afford the purchaser ample options like cancelling or renegotiating the deal, or shouldering the debt. The Constitutional Court would not hear of it. It found that the Section 118(1) embargo provision of collection of debt two years prior to application gave the Municipality full power to recover ALL debt before transfer. I cannot see how this would be possible. While it is correct the Municipality has other collection instruments at its disposal to collect its debt, the collection of debt prior to transfer remains the most cost effective.

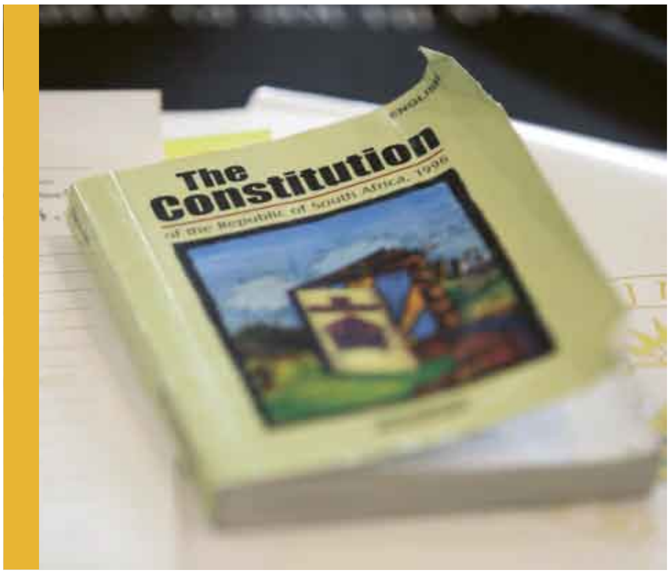
It is clear however, that the imposition on a new owner of un-prescribed debt without historical limit would constitute an arbitrary deprivation of property as the municipality would be able to sell the property to recover the debt. Section 25(1) of the Constitution (Bill of Rights) prohibits "arbitrary deprivation of property". In order to curtail the arbitrary deprivation of property, the debt must be quantified and recorded against the Title Deed.

The court found that upon transfer of a property, a new owner is not liable for debt arising before transfer from the charge upon the property under Section 118(3) of the MSA.

What then becomes of the debt left behind after transfer? If the Municipality is unable to interdict the transfer, the debt becomes a personal debt against the seller. The Municipality could interdict payment of the purchase price to the seller or transfer the debt to any account of the seller in terms of section 102 of the MSA. Inevitably, the Municipality will be forced to find creative ways of collecting its debt. C

Adv. Fathima Khan
Ethekwini Municipality
Director: CIGFARO

Reference:
Jordaan and Others v City of Tshwane metropolitan Municipality & Others [2017] ZACC 31
Local Government: Municpal Systems Act 32 of 2000
Transvaal Local Government Ordinance 17 of 1939
City of Johannesburg v Kaplan N.O. [2006] ZASCA 39
Steve Tshwete Local Municipality v Fedbond [2013] ZASCA 15
Land and Agricultural Development Bank Act 15 of 2002
Constitution of the Republic of South Africa 1996



NOVEMBER

NO	REPORTING REQUIREMENT	LEGISLATION	LEGISLATION DEADLINE	RESPONSIBLE PERSON	TO WHOM
1	Change of Primary Bank account details	MFMA 8(5)	30 Days before effecting	Accounting Officer	Nat Treas, Prov Treas, AG
2	Details of a new bank accounts	MFMA 9(a)	90 Days after opening	Accounting Officer	Prov Treas, AG
3	Unauthorised, irregular, wasteful or fruitless expenditure	MFMA 32(4)	Promptly	Accounting Officer	Mayor, MEC (Loc Govt), AG
4	Advertise/advise new long-term debt	MFMA 46(3)(a)(ii)	Promptly	Accounting Officer	Nat Treas, Prov Treas, Public
5	Serious financial problems	MFMA 54(2)	Promptly	Mayor	Mun Counc, MEC (Loc Govt)
6	Impending shortfalls in budgeted revenue & over-spending & steps taken to prevent / rectify	MFMA 70(1)	Promptly	Accounting Officer	Municipal Council
7	Overdrawn bank accs, reasons, rectifying	MFMA 70(2)	Promptly	Accounting Officer	Nat Treas
8	Statement: Budget etc per requirements	MFMA 71(1)	1-10 Days after month-end	Accounting Officer	Mayor, Prov Treas
9	Failure to adopt / implement budget related policies	MFMA 73	Promptly	Accounting Officer	Prov Treas
10	Returns, documents, information, explanations & motivations as prescribed	MFMA 74(1)	As prescribed	Accounting Officer	Nat Treas, Prov Treas, AG, Lgovt
11	Entity - details of a new bank account	MFMA 86(1)(a)	90 Days after opening	Entity Acc Officer	Acc Officer of parent Mun
12	Entity - Stmnt: budget etc per requirements	MFMA 87(11)	1-10 Days after month-end	Entity Acc Officer	Acc Officer of parent Mun
13	Entity - Impending shortfalls & steps	MFMA 101(1)	Next meeting	Entity Acc Officer	BOD of entity, Parent Mun & Counc
14	Table report above	MFMA 101(2)	Next Council meeting	Accounting Officer	Municipal Council
15	Entity - Unauthorised, irregular, wasteful or fruitless expenditure	MFMA 102(1)	Promptly	BOD of entity	Mayor, Mun Mngr of parent mun
16	Entity - Returns, documents, information, explanations & motivations as prescribed	MFMA 101(1)(b)	As prescribed	Entity Acc Officer	Nat Treas, Prov Treas, AG, Lgovt
17	Entity - Improper interference by Cllrs	MFMA 103	Promptly	Entity Acc Officer	Speaker of parent mun Council
18	Deviations from a recommended tender	MFMA 114(1)	Promptly	Accounting Officer	Nat Treas, Prov Treas, AG
19	Entity - Deviations from a recom. tender	MFMA 114(1)	Promptly	Entity Acc Officer	Nat Treas, Prov Treas, AG
20	Entity - Submit annual report	MFMA 127(1)	1-6 months after Fin Y-end	Entity Acc Officer	Municipal Manager
21	Table mun & entity annual report	MFMA 127(2)	1-7 months after Fin Y-end	Mayor	Municipal Council
22	Reasons for delay of tabling annual report	MFMA 127(3)(a)	Promptly	Mayor	Municipal Council
23	Submit Annual report	MFMA 127(5)	Immediately after report is tabled in Council	Accounting Officer	AG, Prov Treas, Prov Lgovt
24	Non-compliance & reasons of non-complia	MFMA 128©	Promptly	Accounting Officer	Mun Council, Prov Treas, AG
25	Submit copies of Council mtngs (annual report discussions)	MFMA 129(2)	Promptly	Accounting Officer	AG, Prov Treas, Prov Lgovt
26	All monthly returns (MFMA, DORA, etc)		10 Days after month-end	Acc Officer etc	Nat Treas

DECEMBER
(2ND QUARTER OF FINANCIAL YEAR)

NO	REPORTING REQUIREMENT	LEGISLATION	LEGISLATION DEADLINE	RESPONSIBLE PERSON	TO WHOM
1	Change of Primary Bank account details	MFMA 8(5)	30 Days before effecting	Accounting Officer	Nat Treas, Prov Treas, AG
2	Details of a new bank accounts	MFMA 9(a)	90 Days after opening	Accounting Officer	Prov Treas, AG
3	Unauthorised, irregular, wasteful or fruitless expenditure	MFMA 32(4)	Promptly	Accounting Officer	Mayor, MEC (Loc Govt), AG
4	Advertise/advise new long-term debt	MFMA 46(3)(a)(ii)	Promptly	Accounting Officer	Nat Treas, Prov Treas, Public
5	Serious financial problems	MFMA 54(2)	Promptly	Mayor	Mun Counc, MEC (Loc Govt)
6	Impending shortfalls in budgeted revenue & over-spending & steps taken to prevent / rectify	MFMA 70(1)	Promptly	Accounting Officer	Municipal Council
7	Overdrawn bank accs, reasons, rectifying	MFMA 70(2)	Promptly	Accounting Officer	Nat Treas
8	Statement: Budget etc per requirements	MFMA 71(1)	1-10 Days after month-end	Accounting Officer	Mayor, Prov Treas
9	Failure to adopt / implement budget related policies	MFMA 73	Promptly	Accounting Officer	Prov Treas
10	Returns, documents, information, explanations & motivations as prescribed	MFMA 74(1)	As prescribed	Accounting Officer	Nat Treas, Prov Treas, AG, Lgovt
11	Entity - details of a new bank account	MFMA 86(1)(a)	90 Days after opening	Entity Acc Officer	Acc Officer of parent Mun
12	Entity - Stmnt: budget etc per requirements	MFMA 87(11)	1-10 Days after month-end	Entity Acc Officer	Acc Officer of parent Mun
13	Entity - Impending shortfalls & steps	MFMA 101(1)	Next meeting	Entity Acc Officer	BOD of entity, Parent Mun & Counc
14	Table report above	MFMA 101(2)	Next Council meeting	Accounting Officer	Municipal Council
15	Entity - Unauthorised, irregular, wasteful or fruitless expenditure	MFMA 102(1)	Promptly	BOD of entity	Mayor, Mun Mngr of parent mun
16	Entity - Returns, documents, information, explanations & motivations as prescribed	MFMA 101(1)(b)	As prescribed	Entity Acc Officer	Nat Treas, Prov Treas, AG, Lgovt
17	Entity - Improper interference by Cllrs	MFMA 103	Promptly	Entity Acc Officer	Speaker of parent mun Council
18	Deviations from a recommended tender	MFMA 114(1)	Promptly	Accounting Officer	Nat Treas, Prov Treas, AG
19	Entity - Deviations from a recom. tender	MFMA 114(1)	Promptly	Entity Acc Officer	Nat Treas, Prov Treas, AG
20	Entity - Submit annual report	MFMA 127(1)	1-6 months after Fin Y-end	Entity Acc Officer	Municipal Manager
21	Table mun & entity annual report	MFMA 127(2)	1-7 months after Fin Y-end	Mayor	Municipal Council
22	Reasons for delay of tabling annual report	MFMA 127(3)(a)	Promptly	Mayor	Municipal Council
23	Submit Annual report	MFMA 127(5)	Immediately after report is tabled in Council	Accounting Officer	AG, Prov Treas, Prov Lgovt
24	Non-compliance & reasons of non-complia	MFMA 128©	Promptly	Accounting Officer	Mun Council, Prov Treas, AG
25	Submit copies of Council mtngs (annual report discussions)	MFMA 129(2)	Promptly	Accounting Officer	AG, Prov Treas, Prov Lgovt
26	All monthly returns (MFMA, DORA, etc)		10 Days after month-end	Acc Officer etc	Nat Treas

JANUARY

NO	REPORTING REQUIREMENT	LEGISLATION	LEGISLATION DEADLINE	RESPONSIBLE PERSON	TO WHOM
1	Change of Primary Bank account details	MFMA 8(5)	30 Days before effecting	Accounting Officer	Nat Treas, Prov Treas, AG
2	Details of a new bank accounts	MFMA 9(a)	90 Days after opening	Accounting Officer	Prov Treas, AG
3	Cons report - all withdrawels each quarter	MFMA (11(4)	Within 30 days	Accounting Officer	Prov Treas, AG
4	Unauthorised, irregular, wasteful or fruitless expenditure	MFMA 32(4)	Promptly	Accounting Officer	Mayor, MEC (Loc Govt), AG
5	Advertise/advise new long-term debt	MFMA 46(3)(a)(ii)	Promptly	Accounting Officer	Nat Treas, Prov Treas, Public
6	Implementation of the budget & financial state of affairs	MFMA 52(d)	Within 30 days of each quarter	Mayor	Municipal Council
7	Serious financial problems	MFMA 54(2)	Promptly	Mayor	Mun Counc, MEC (Loc Govt)
8	Impending shortfalls in budgeted revenue & over-spending & steps taken to prevent / rectify	MFMA 70(1)	Promptly	Accounting Officer	Municipal Council
9	Overdrawn bank accs, reasons, rectifying	MFMA 70(2)	Promptly	Accounting Officer	Nat Treas
10	Statement: Budget etc per requirements	MFMA 71(1)	1-10 Days after month-end	Accounting Officer	Mayor, Prov Treas
11	Mid-year budget & perform assessment	MFMA 72(1)(b)	25 January	Accounting Officer	Mayor, Nat Treas, Prov Treas
12	Failure to adopt / implement budget related policies	MFMA 73	Promptly	Accounting Officer	Prov Treas
13	Returns, documents, information, explanations & motivations as prescribed	MFMA 74(1)	As prescribed	Accounting Officer	Nat Treas, Prov Treas, AG, Lgovt
14	Entity - details of a new bank account	MFMA 86(1)(a)	90 Days after opening	Entity Acc Officer	Acc Officer of parent Mun
15	Entity - Stmnt: budget etc per requirements	MFMA 87(11)	1-10 Days after month-end	Entity Acc Officer	Acc Officer of parent Mun
16	Entity - Mid-year budget & perform assessm	MFMA 88(1)	20 January	Entity Acc Officer	BOD of entity, Parent Mun
17	Entity - Impending shortfalls & steps	MFMA 101(1)	Next meeting	Entity Acc Officer	BOD of entity, Parent Mun & Counc
18	Table report above	MFMA 101(2)	Next Council meeting	Accounting Officer	Municipal Council
19	Entity - Unauthorised, irregular, wasteful or fruitless expenditure	MFMA 102(1)	Promptly	BOD of entity	Mayor, Mun Mngr of parent mun
20	Entity - Returns, documents, information, explanations & motivations as prescribed	MFMA 101(1)(b)	As prescribed	Entity Acc Officer	Nat Treas, Prov Treas, AG, Lgovt
21	Entity - Improper interference by Cllrs	MFMA 103	Promptly	Entity Acc Officer	Speaker of parent mun Council
22	Deviations from a recommended tender	MFMA 114(1)	Promptly	Accounting Officer	Nat Treas, Prov Treas, AG
23	Entity - Deviations from a recom. tender	MFMA 114(1)	Promptly	Entity Acc Officer	Nat Treas, Prov Treas, AG
24	Table mun & entity annual report	MFMA 127(2)	1-7 months after Fin Y-end	Mayor	Municipal Council
25	Reasons for delay of tabling annual report	MFMA 127(3)(a)	Promptly	Mayor	Municipal Council
26	Submit Annual report	MFMA 127(5)	Immediately after report is tabled in Council	Accounting Officer	AG, Prov Treas, Prov Lgovt
27	Non-compliance & reasons of non-complia	MFMA 128(c)	Promptly	Accounting Officer	Mun Council, Prov Treas, AG
28	Submit copies of Council mtngs (annual report discussions)	MFMA 129(2)	Promptly	Accounting Officer	AG, Prov Treas, Prov Lgovt
29	All monthly returns (MFMA, DORA, etc)		10 Days after month-end	Acc Officer etc	Nat Treas
30	All Quarterly returns (MFMA, DORA, etc)		20 Days after end of Qrtr	Acc Officer etc	Nat Treas
31	Quarterly statistics of Local Government	Stats Act (1999/16)	3 Weeks after qrtr end	Acc Officer etc	Statistics SA
32	Actual & expected Cap Exp	Stats Act (1999/16)	3 Weeks after qrtr end	Acc Officer etc	Statistics SA

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