LOCAL GOVERNMENT BUDGET PROCESS

CIGFARO – LOCAL GOVERNMENT BUDGET PROGRAMME

Presented by National Treasury: Chief Directorate Local Government Budget Analysis – September 2021

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LEGISLATION GOVERNING THE BUDGET PROCESS IN LG

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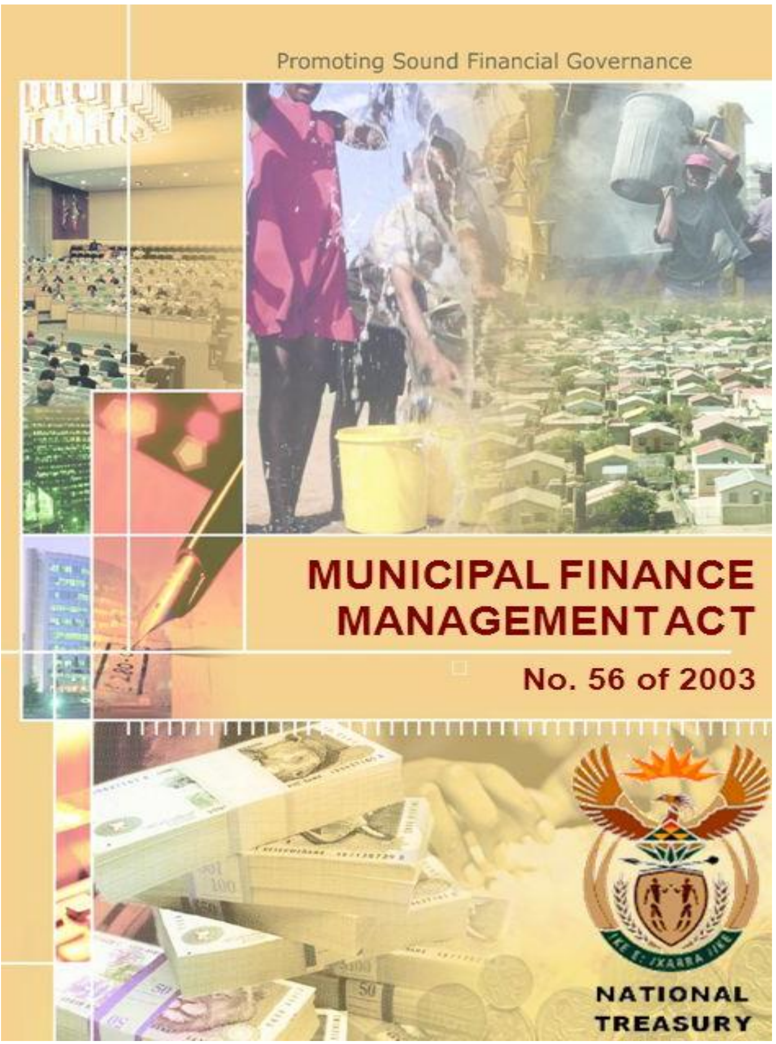

MBRR

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IMPORTANT SECTIONS AND DATES FOR BUDGET PREPARATION AND APPROVAL (MFMA)

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S16

- Council must approve budget before the start of the financial year (that is before 1 July) and the Mayor must table budget to Council at least 90 days before start of financial year (that is by 31 March)

S17

- Tabled budget must be accompanied by draft resolutions imposing tariffs and taxes and proposed amendments to IDP and budget related policies and service delivery agreements

S21

- Mayor must table time schedule of key deadlines at least 10 months before start of budget year (31 August) for annual review of the IDP, preparation, tabling & approval of budget and public consultations

S24

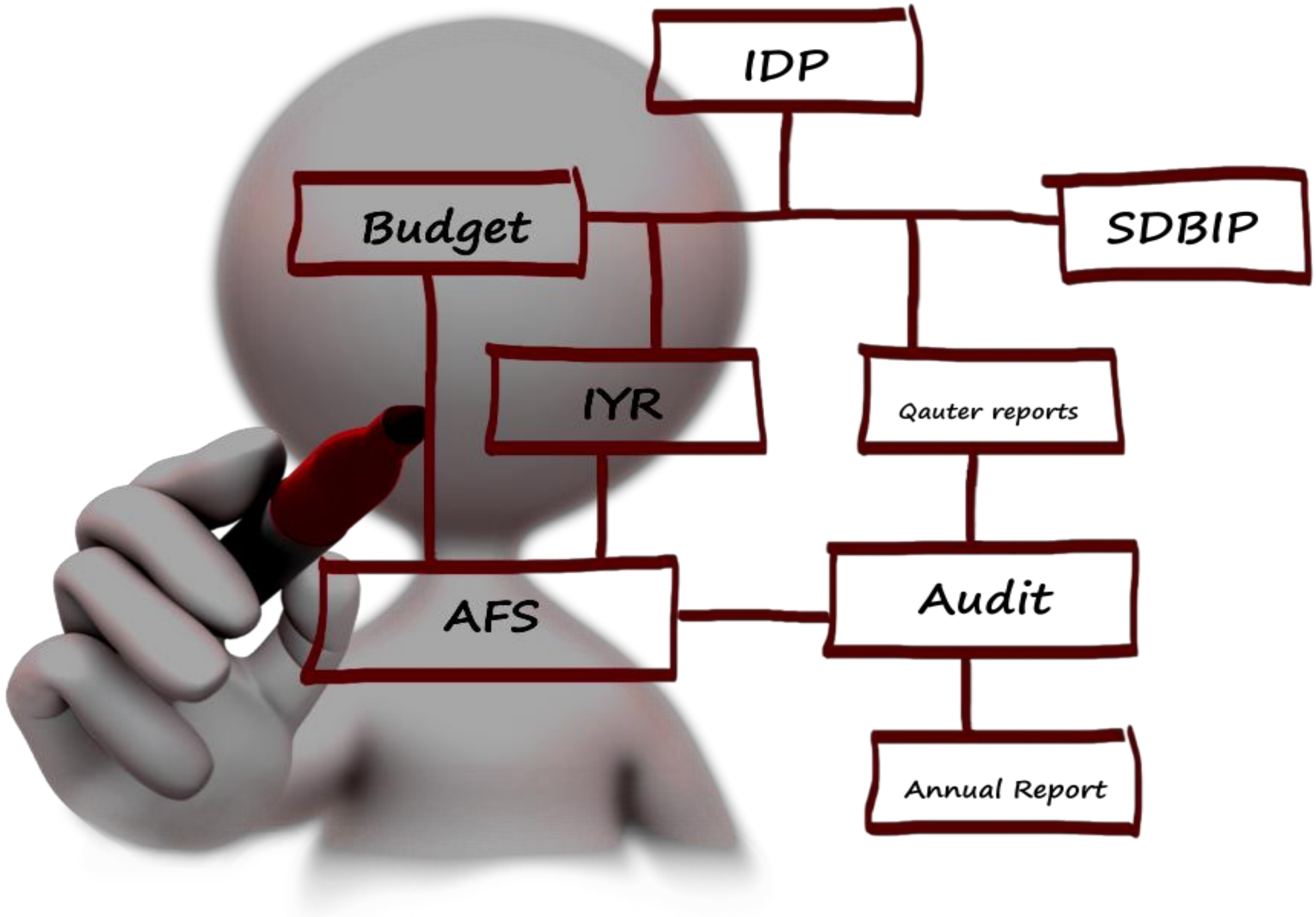
- Council must consider budget for approval at least 30 days before the start of the budget year (that is by 31 May)

LEGAL FRAMEWORK

Failure to approve IDP and Budget by 30 June

- In case of failure to approve the IDP and budget by the 1st day of the budget year, the following applies:
  - Mayor must **immediately** report to the MEC for LG
  - Provincial Executive may intervene i.t.o S 139(4) of the Constitution, including dissolving of Council and appointment of administrator
  - S26(4) funds may be withdrawn only with the approval of the MEC for Finance to defray capex and opex for votes appropriated in the previous year
  - S32 any expenditure incurred will be unauthorised
  - Municipality will receive an audit qualification

LOCAL GOVERNMENT BUDGETING PROCESS
LOCAL GOVERNMENT ACCOUNTABILITY CYCLE



PLANNING, BUDGETING AND REPORTING CYCLE

Strategic Plans
- SDF – 15 Year spatial transformation plan
- IDP - 5 Year Strategy

BEPP
- Spatial transformation plan & process

Budget
- 3 Year Budget

SDBIP
- Annual Plan to Implement

IYR
- Monitoring & Council Oversight

AFS
- Oversight

Annual Report

Accountability Cycle

Standard Chart of Accounts

Improved Service Delivery

- mSCOA creates the environment to enable the execution of the accountability cycle (improved transparency)

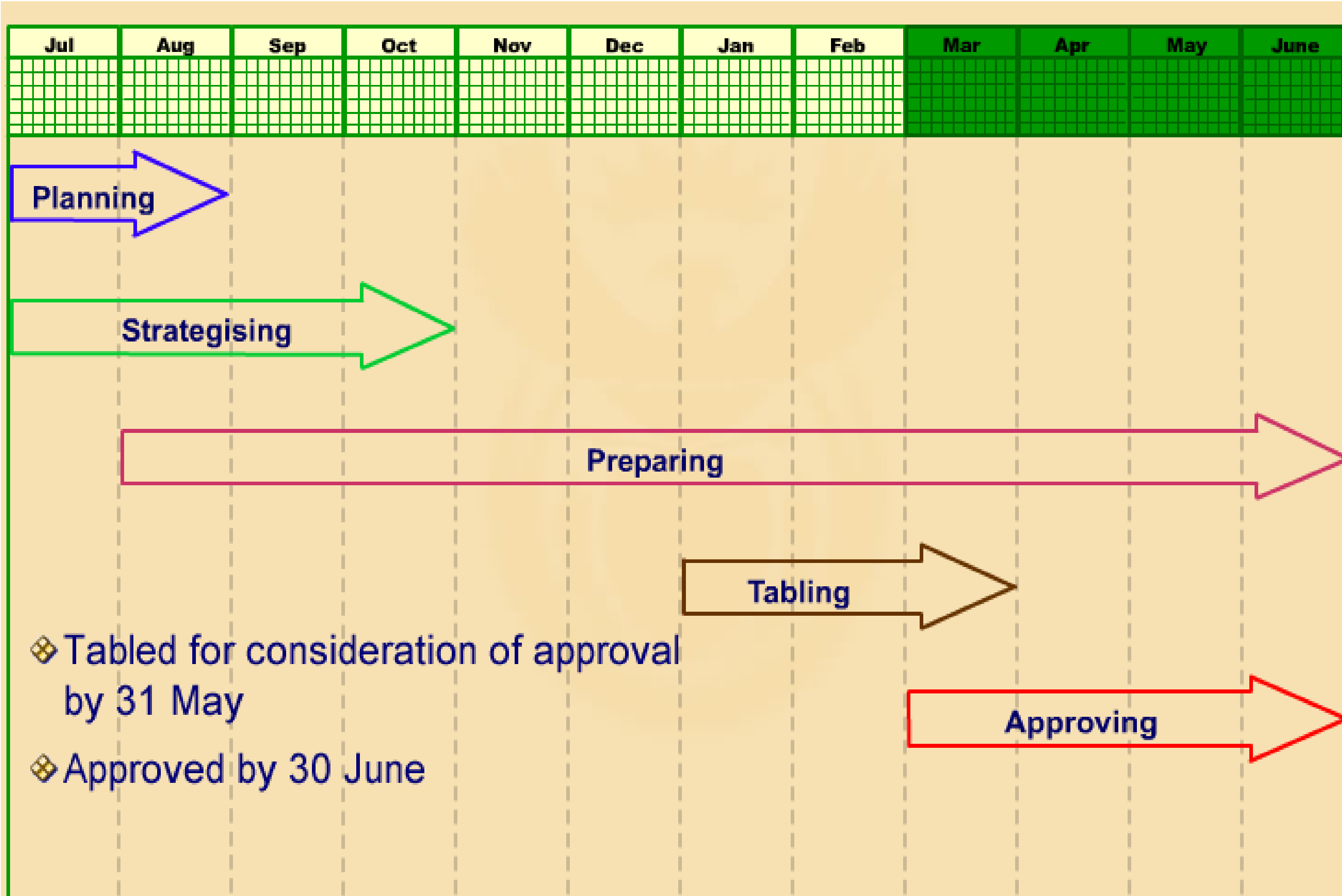
OBJECTIVES OF OVERALL LOCAL GOVERNMENT REFORM AGENDA

- Quality local government **information contributing to national policy debates**
- **Information comparable** across all municipalities to **aid resource allocation decisions**
- Ensuring a **credible budgeting process** is a key **ingredient to improving financial management**
  - Facilitate the **alignment of the budget to national priorities** with the aim of **improving service delivery outcomes**
  - Over time, one should be able to draw a **direct correlation between credible budgeting and the audit outcomes**
- Prevention of **municipal financial difficulties before they occur** through the application of budget and Section 71 analysis - an early warning tool!
  - Must form the basis of recovery plan where difficulties/challenges are experienced
- **Strengthening the link** between policy formulation, planning, budgeting, implementation, reporting and monitoring i.e. accountability!

SIX STEPS TO PREPARING THE BUDGET

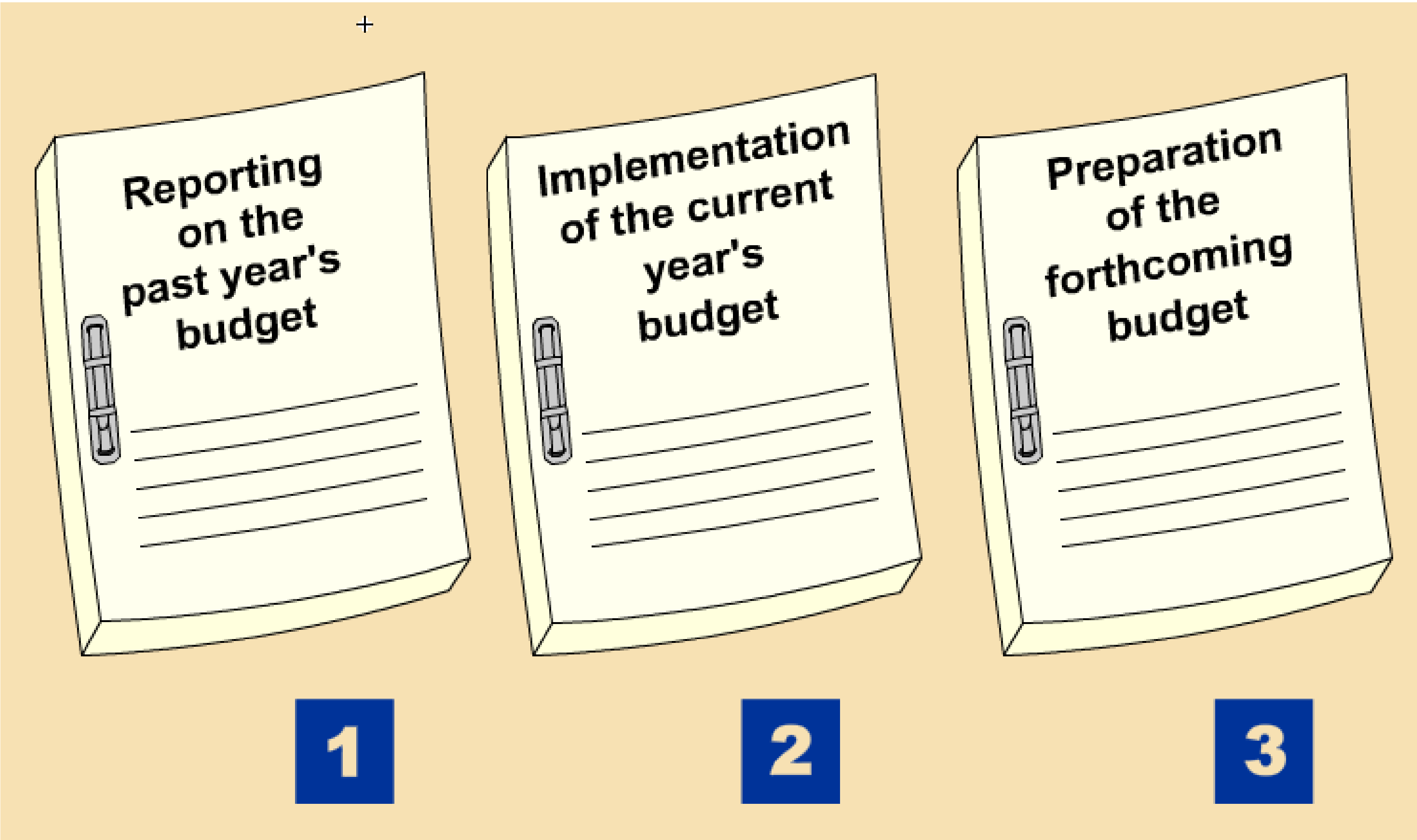
1	**Planning**	Schedule key dates, establish consultation forums, review previous processes
2	**Strategising**	Review IDP, set service delivery objectives for next 3 years, consult on tariffs, indigent policies, credit control policies, free basic services and consider local, provincial and national issues, previous year's performance and current economic and demographic trends
3	**Preparing**	Prepare budget, revenue and expenditure projections, draft budget policies, consult, consider local, provincial and national priorities
4	**Tabling**	Table budget, revised IDP and budget related policies before council. Consult and consider formal local, provincial and national inputs and responses
5	**Approving**	Council approves budgets, revised IDP and budget related policies
6	**Finalising**	Publish budget and approve and publish SDBIP and annual performance agreements and indicators

BUDGET PROCESS TIMELINE

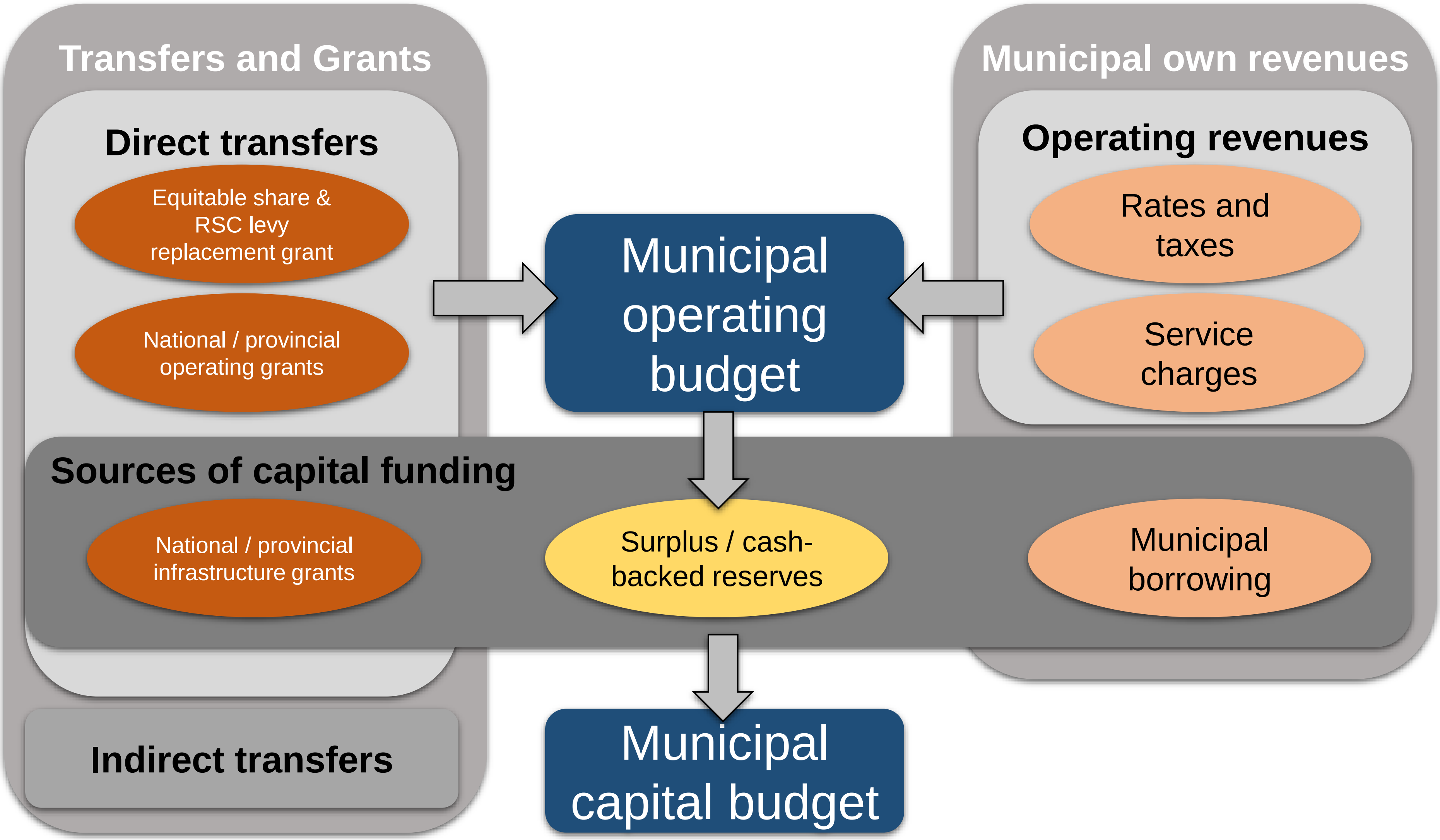


- Tabled for consideration of approval by 31 May
- Approved by 30 June

THREE BUDGETS PROCESSES IN OPERATION ALL THE TIME



THE LOCAL GOVERNMENT FISCAL FRAMEWORK IS DESIGNED TO FINANCE MUNICIPALITIES



Chapter 3 Intergovernmental relations and the local government fiscal framework

BUDGETING SYSTEM FOR LOCAL GOVERNMENT

- **Promulgated Municipal Budgeting and Reporting Regulations (MBRR) in 2009 to** standardise the formats for the compilation of a municipal budget – *all municipalities are legally compelled to compile budgets in this format*
- Compiled a funding compliance assessment tool to enable municipalities to assess the level of funding of a budget prior to adoption to ensure that budgets are FUNDED
- Issued a "Dummy Budget Guide" to ensure a balance between financial and narrative information contained in the budget document
- Institutionalised formal engagement processes with the 17 non-delegated municipalities
  - Budget and Benchmark Engagements (during April and May)
  - Mid-year Budget and Performance Assessments (during Feb and March)
- Continuously issue guidelines and circulars based on leading practice
- Assisted the Provincial Treasuries in replicating the above processes in respect of all delegated municipalities

The monitoring and oversight of 240 municipalities have been delegated to the provincial treasuries, while the National Treasury is responsible for 17 non-delegated municipalities (including all the metro's)

MUNICIPAL BUDGET AND REPORTING REGULATIONS – STANDARDISED FORMAT

- A1 – Budget Summary
- A2 – Budget Statement of Financial Performance (revenue and expenditure by standard classification)
- A3 – Budgeted Statement of Financial Performance (revenue and expenditure by vote)
- A4 – Budgeted Statement of Financial Performance (revenue and expenditure)
- A5 – Budgeted Capital Programme
- A6 – Budgeted Statement of Financial Position
- A7 – Budgeted Cash Flow Statement
- A8 – Cash backed reserves / Accumulated surplus reconciliation
- A9 - Asset Management
- A10- Basic Service Delivery Measurement
- Various supporting schedules (SA Schedules)

PRINCIPLES OF MUNICIPAL PLANNING AND BUDGETING – MBRR

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Statement of operating performance	• 'Funded' budget not 'Balanced' • Consideration for cash flow items and none cash flow items, such as depreciation and debt impairment • Generating surpluses • Credible and realistic budget appropriations
Capital programme	• Must be funded (expenditure must balance with funding) • Consideration for asset renewal versus new asset creation • Funding mix – grants, internal funding and borrowing • Internal funding should be cash and not limited to AFS
Cash flow forecasting	• Consideration for cash flow projections, that is, collection rates versus billing • Has the operating statement of financial performance been translated into actual cash movements for the MTREF • Is the forecasting indicative of a positive cash position • Cash coverage of the municipality
Cash backed reserves & accumulated reserves reconciliation	• How much cash, cash equivalents of investment? • Is this sufficient to cover liabilities such as unspent conditional grants & borrowing • Working capital requirements • Conditional grants should be cash backed
Statement of financial position	• Has the impact of the OSFP been factored and forecasted into the balance sheet position • Issues include increased borrowing liabilities, increased outstanding debtors, debt impairment provision • Has the outcome been considered and measured as part of the planning process
Asset management & basic service delivery measurement	• What resources are spent on asset renewal and maintenance • Which asset class is receiving appropriations • What is the level of depreciation • What are the service delivery backlogs and related performance objectives • Is the cost of free basic services (social package) adequately provided for?

THE BUDGET ARE ASSESSED AGAINST FOLLOWING CRITERIA:

Credibility

- to determine if the budget is funded in terms of Section 18 of the MFMA
- if the municipality adopted a budget process with evidence of sufficient political oversight and public participation
- revenue planning framework and associated budget assumptions are realistic and indicative of multi-year budgeting
- audit outcomes used to determine trends are as per audited AFS

Relevancy

- to test if the budget is aligned to the reviewed IDP and SDF
- the extent to which national and provincial priorities are taken into consideration including the latest MFMA Circulars (107 and 108)

Sustainability

- to determine whether budget gives effect to long-term financial and operational sustainability of the municipality

mSCOA

- to determine if the tabled budget was prepared directly on the financial system and whether the municipality is using the *m*SCOA segments correctly

MFMA BUDGET CIRCULARS


National Treasury
MFMA Circular No. 75
Municipal Finance Management Act No. 56 of 2003
Municipal Budget Circular for the 2015/16 MTREF
CONTENTS

Gives guidance to municipalities twice a year on:

- Inflation targets – CPI increases
- Revenue matters eg.
  - Electricity and water bulk increases
  - Tariff setting
  - Maximising revenue generation of the revenue base
- Grant information - criteria for roll over process
- Other important notices – elections and the budget process
- Any other topical issue that must be communicated

DESPITE ALL THE LEGISLATION AND REFORMS

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- On a national level, the challenge of local government is best described as:
  - 43 municipalities (including Lekwa) in a crisis, 6 involved on going court cases
  - 163 municipalities in financial distress (pre-covid)
  - **112 municipalities adopting an unfunded budget**
  - 102 municipalities identified as requiring support in terms of S154 of the Constitution
  - 219 municipalities currently show signs of meeting legislated criteria for financial problems and financial crises (S138 and S140 of the MFMA) requiring intervention
  - 151 municipalities fall into the category of Bankruptcy and Insolvency and are unable to pay creditors, 3rd party payments – SARS, medical aid and pensions

- Challenges of local government take root mainly from challenges in local government – put simply:

Weak Governance + Institutional ineptness = Financial mismanagement + Service Delivery failures

- The recent AGs MFMA 2019/20 LG Audit outcomes confirms this position:
  - It raises doubt of some municipalities as a going concern as a result of increasing debtors and creditors, high unauthorised expenditure and inability to collect what is due
  - Above this, the AG raises that municipalities may not be sustainable due to poor control environment and deteriorating accountability coupled with lack of consequence management and active leadership supervision

KEY OBSERVATIONS ON BUDGET COMPILATION

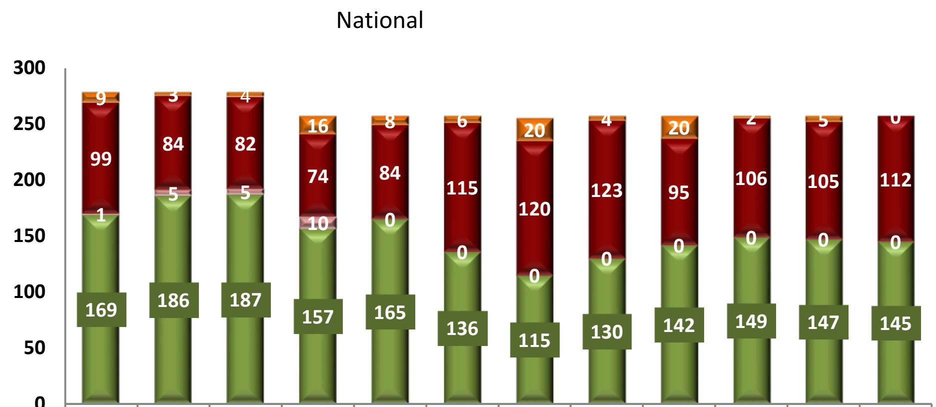
Budget document observations:

- Incomplete MBRR schedules – audit years inaccurate
- Budget assumptions – unrealistic
- Overstatement of debtors
- Understatement of creditors
- Tariff increases are not cost reflective
- Ambitious capital programmes

OTHER IMPEDING FACTORS

- Socio economic factors
- Political influence on the budget not always inline with financial management principals
- In cases where an unfunded budget is adopted by Council consequence management must be enforced by PT and NT to held senior officials and political office bearers responsible – relates to interventions
- Fiscal arrangements for local government
- Available revenue sources and ability to raise own revenue
- Inappropriate allocations for asset maintenance (repairs and maintenance)
- Turnover of staff, and failure to make appropriate appointments resulting in under-expenditure of the capital budget
- Budget Steering committees are non-existent or non-functional in the majority of Municipalities that adopted unfunded budgets

UNFUNDED BUDGETS



	2013/14 Adopted budget	2014/15 Adopted budget	2015/16 Adopted budget	2016/17 Adopted budget	2017/18 Adopted budget	2018/19 Adopted budget	2018/19 Adjusted budget	2019/20 Adopted budget	2019/20 Adjusted budget	2020/21 Adopted budget	2020/21 Adjusted budget	2021/22 Adopted budget
Undetermined	9	3	4	16	8	6	20	4	20	2	5	0
Unfunded	99	84	82	74	84	115	120	123	95	106	105	112
Funded with risk	1	5	5	10	0	0	0	0	0	0	0	0
Funded	169	186	187	157	165	136	115	130	142	149	147	145

One of the most common denominators amongst municipalities with unfunded budgets is the operating deficits

Some municipalities are living beyond their cash generating capacity

- The graph represents funded/unfunded budget position for period 2013/14 to 2021/22
- 112 unfunded budgets adopted
- SOLGF – 2018/19 – 163 municipalities
- 134 of the 163 municipalities adopted unfunded budgets2018/19 – rendering this attribute one of the most common denominators amongst municipalities that are in financial distress
- In comparing this with 2019/20 audit outcomes for operating results (surplus/deficit) and the funding assessments of adjustments budgets indicates that 95 budgets assessed as unfunded ended with operating deficits

SIMPLE METHODOLOGY TO PREPARE A FUNDED BUDGET

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- The implementation of the operational and capital budgets has a direct impact on assets, liabilities and cash flow position of the municipality
- The funding compliance methodology is designed to calculate the cash and cash equivalents as at yearend after implementation of the operating and capital budgets
- It then measures to what extend the cash and cash equivalents at year-end is encumbered by the assets/liabilities considered under the "Application of cash and investments"
- Any surplus cash after the application of the liabilities is the "free cash flow" of the municipality
- A surplus cash position is indicative that the budget is fully funded and in compliance with section 18 of the MFMA.
- The surplus cash may be transferred to a capital replacement reserve established to fund CAPEX from cash backed internally generated funds

1

The first step to a funded budget is to ensure that each financial year is fully funded by budgeting for at least a breakeven or a surplus position on the Statement of Financial Performance (Table A4) after adequately providing for depreciation and debt impairment. The inclusion of these two items in the setting of tariffs will provide for a cash surplus on the Cash Flow Statement (Table A7) that will allow the municipality to make payments towards arrear creditors and funding of capital projects from internally generated funds. National Treasury encourages municipalities to budget for operational surpluses on the Statement of Financial Performance to enable them to utilise surplus cash generated from operations towards the internally funded capital expenditure

2

The second step is to achieve a positive cash position on the Cash Flow Statement over the MTREF. To assist with achieving a positive cash and cash equivalent position there should be no or a very conservative contribution towards internally funded capital expenditure during this phase. The inclusion of "non-cash" transactions such as depreciation and adequate provision for debt impairment as part of the full cost of providing the service will ensure that there is adequate cash generation

3

The third step is achieving a surplus position on Table A8. This is often only achieved over a longer period of time and is dependent on the successful implementation of the previous two steps

COMPREHENSIVE STRATEGY

Budgeting for a funded budget requires a comprehensive strategy focussed towards addressing all of the following separate components into a single consolidated approach

The strategy should be aimed at improving budget and financial management practices to improve the overall financial sustainability:

- Revenue value chain
- Setting of cost reflective tariffs that will recover the full cost of rendering the service
- Adequacy of Expenditure management and cost containment
- Budgeting for operational surpluses
- Adequate revenue collection and credit control
- Adequacy of the Capital budget and optimising of finance sources
- Funding of internally generated capital expenditure whilst there are no cash backed reserves available for this purpose - deficit position on Table A8
- Proper cost allocation to ensure full costing of services rendered
- Addressing inefficiencies in the system
- Indigent management and utilisation of the Equitable Share Provision for funding of free basic services to indigent customers
- Customer care
- Funding Compliance (section 18 of MFMA)

REVENUE VALUE CHAIN

National Treasury compiled a Single and Integrated Revenue Management Framework for Local Government that gives an overview to building a capable institution for sustainable revenue management

The framework encompasses the following dependencies integral to an effective revenue management strategy:

- **Functions within the revenue management value chain includes:**
  - Billing, collections and payment receipting, credit control, customer care, rates clearances and refunds
- **External factors to the revenue management system includes:**
  - Infrastructure services relating to new services rehabilitation/refurbishment, operations and maintenance and addressing of backlogs, preparation of a general and supplementary valuations rolls and attendance to valuation appeals processes
  - It includes close co-operation with the Town Planning unit as it relates to usage and zoning of properties, building regulations and building plan approvals and issuing of occupancy certificates to ensure consistent growth in the customer base is aligned to the growth in the municipal services and own generated revenue streams
  - External factors also includes alignment between the information included in the GIS system, the Deeds Registry, the Office of the Surveyor General and the financial billing system
  - Finally there is a close relationship with the Legal Services component to complete the loop of the entire revenue management dependencies

REVENUE VALUE CHAIN - INCOMPLETE REVENUE SOURCES/NOT OPTIMISING EXISTING REVENUE SOURCES

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One of the fundamental reasons for the approval of unfunded budgets are found in the inability of municipalities to provide for adequate revenue generation by making the following common mistakes/not giving adequate attention to:

- Un-realistic revenue (billing) projections that are not aligned and reconciled to the customer base or established consumption patterns and levels for the different categories of customers;
- Completeness of available revenue sources – optimising the municipalities' revenue generation potential across all sources should focus towards:
  - Regular review of valuation roll and compilation of annual supplementary valuation rolls;
  - Resolving objections and valuation appeals without unnecessary delays;
  - Validation of correct tariffs linked to each property – should be an on-going process;
  - Reconciliation of meter registers that are maintained in the Infrastructure Directorate with the meters in the billing system;
  - Follow up of newly issued occupation certificates with opening of consumer accounts on the financial system;
  - Regular updating of the billing system with new subdivisions and consolidation of properties and changes in zoning and usage of properties;
  - Regular reconciliation between the information included in the GIS system, the Deeds Registry and the financial billing system; and
  - Monthly reconciliation of actual revenue billed for rates and service charges to the value of properties on the valuation roll and the rate in the rand applicable for each category of properties and the number and value of service charges and tariffs as per the number of properties in the valuation roll. The published valuation roll should always be used as basis to confirm all services linked to properties.

REVENUE VALUE CHAIN - INCOMPLETE REVENUE SOURCES/NOT OPTIMISING EXISTING REVENUE SOURCES

- Inadequate growth in own revenue base
  - Optimise use of investment properties, e.g. regular review of market related leases on all lease renewals;
  - Encourage development of vacant land parcels informed by Spatial Development Framework (SDF) to facilitate growth in own revenue base as far as possible;
  - Prevention of unaffordable high levels of subsidised services, e.g. allowance for revenue forgone by giving away free basic services above the norms of 6 kl of water and 50 kwh of electricity and rates rebates in excess of the impermissible values as prescribed in the Municipal Property Rates Act.

This is of utmost importance especially if the municipality is operating at an operational deficit

- Billing and receipting:
  - Annual review of tariff of charges to ensure steady growth in own revenue and to prevent unaffordable jumps in tariffs;
  - Regular reading of meters;
  - Exception report generation and follow up of defective/inactive meters and incorrect meter readings;
  - Regular distribution of accounts to the customers;
  - Reconciliation between valuation roll, billing system and deeds registry information; and
  - Adequacy and ease of accessibility of payment facilities and methods of payment of accounts.

SETTING OF COST REFLECTIVE TARIFFS

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Setting of cost reflective tariffs that will recover the full cost of rendering the service

- Municipalities are often setting tariffs that are not fully cost reflective;
- Tariffs for trading services are set too low and are subsidised from rates, or if not subsidised, contributes to operational deficits in the trading services and an overall operational deficit;
- Often depreciation and debt impairment is budgeted under the Budget Office instead of allocating these expenditure items to the relevant trading service for inclusion in tariff setting;
- Secondary costs are often not allocated to the relevant trading service resulting in underbudgeting of the total cost of rendering the service; and
- Not allocating the Equitable Share to the trading services to fund the cost of free basic services resulting in the use of this resource for other purposes than supporting poor households with paying customers being burdened with the cost of subsidising of the indigent customer.

ADEQUACY OF EXPENDITURE MANAGEMENT AND COST CONTAINMENT

As indicated in earlier slide a significant percentage of unfunded budgets can be related to yielding operational deficits

- This is as much an expenditure related issue as it is revenue related.
- Municipalities fails to produce adequate revenue generating capacity to fund all their operational needs.
- Municipalities do not align their expenditure projections to their inadequate revenue generating capacity with the result that the majority of municipalities simply live beyond their revenue generating capability - Inadequacies include:
  - Municipalities base their expenditure projections on un-realistic billing and revenue collection projections;
  - Bloated staff structures combined with excessive use of consultants and other contracted services often leads to the duplication of services;
  - Municipalities are not utilising the costing segment of the mSCOA chart to allocate indirect costs to the four main trading services. As a result services are not costed at the true cost of rendering the service;
  - Non-priority spending - adequate provision should be made for operational expenditure, R&M, non-cash items and allowance for the elimination of non-priority spending;
  - Inadequate implementation of austerity measures - Travel & Subsistence Policy / Cost Containment Measures Policy;
  - Inadequate provision for depreciation and debt impairment – items should be included in the budget for tariff setting purposes;
  - Inadequate provision for repairs and maintenance;
  - Stringent implementation of the cost containment measures:
  - Employee costs vs productivity and
  - Excessive contracted services;
  - Improve forward planning, demand management and procurement;
  - Initiatives to ensure settlement of creditors in accordance with the MFMA's section 65(2)(e);
  - Review of which expenditure items realised savings and which expenditure items experienced price spikes to manage and to ensure that it does not adversely impact on the finance of the municipality and
  - Apart from COVID-19 related savings, the municipality must report on the trends and the results on the implementation of cost containment measures.

BUDGETING FOR OPERATIONAL SURPLUSES

Budgeting for operational surpluses is of utmost importance to ensure adequate revenue generation:

- Majority of municipalities are simply living beyond their means and budget to spend more than what they raise in revenue – In 2021/22 FY 112 Municipalities adopted unfunded budgets (43.6%) ;

- Persistent operational deficits are not sustainable over the medium to longer term and in most cases will inevitably lead to the consumption and depletion of reserves and an un-funded budget position and

- Focus should be to eliminate operational deficits in the four major trading services and on the Statement of Financial Performance Budget after adequately budgeting for debt impairment and depreciation.

ADEQUATE REVENUE COLLECTION AND CREDIT CONTROL

Adequate revenue collection and credit control - Poor collection of revenue combined with inadequate provision for debt impairment is probably the single most important contributing factor to budgeting for operational deficits and unfunded budgets

The following contributing factors should be identified and mitigated as far as possible:

- No or inadequate indigent management
  - Results in inappropriate use of the equitable share to fund other operations than indigent support; and
  - Lack of indigent management complicates the process of taking legal action in the event of non-payment for services and leads to legal action being instituted against indigent households;
- No or poor credit control and debt collection strategies leads to unacceptable levels of non-payment for services and inadequate revenue generation by municipalities.
  - This may go undetected until the actual results for a financial year is compared to the adopted and adjusted budget projections often resulting in projected surpluses ending in significant operational deficits; and
  - Municipalities end up consuming their cash reserves with an increasing inability to maintain sustainable service delivery to their communities;
- Focus only on payment toward current account whilst neglecting collection of long outstanding arrears in excess of 90 days;
- Debt incentive schemes are not utilised to its full potential;
- Regular review of actual collection targets should be undertaken to compare the actual collection of revenue vs the budgeted projections – downward adjustment of expenditure levels should be made immediately when under collection of revenue is detected; and
- Determination of Covid-19 on the actual collection target and downward adjustment in the event of under collection of revenue.

FUNDING OF INTERNALLY GENERATED CAPITAL EXPENDITURE

The following should be considered when budgeting for internally generated funding for capital projects:

- Budgeting for operational surpluses on Table A4 is important to fund internally generated capital projects and municipalities are encouraged to budget for substantive operational surpluses;

- Care should however be taken to avoid funding of internally generated capital expenditure whilst the municipality is still budgeting for operational deficits on the Financial Performance budget and/or an unfunded budget position;

- It takes considerable judgement to establish the level of internally generated funds to be applied to the capital budget; and

- Special consideration needs to be given to the budget funding position on Table A8 to ascertain if funds are genuinely available considering all other commitments of funds available and that the MFMA requirements are complied with.

PROPER COST ALLOCATION TO ENSURE FULL COSTING OF SERVICES RENDERED

One of the fundamental requirements of a funded budget is that proper cost allocation is achieved to ensure that municipalities budget for the full cost of providing the services especially with reference to the rates and four trading services

- For this purpose the recent mSCOA budget reform has made provision for a Costing Segment in terms of which municipalities can now ensure that departmental charges and recoveries, activity based costing elements and internal billings are charged to the appropriate service for inclusion in the tariff setting for that service
- National Treasury has also developed a Costing Methodology Guideline to identify what it costs to produce services for their customers. The utilisation of the mSCOA reform process, especially the Costing Segment and the Costing Methodology Guideline will assist municipalities to better understand their costs and the factors that have the greatest influence on these costs (i.e. the cost drivers) and will help to:
  - Improve the understanding of the fundamentals of costing principles and concepts;
  - Provide a basis for implementing full cost recovery on tariff services;
  - Provide a common cost allocation framework;
  - Improve the understanding and application of the techniques of cost allocation;
  - Determine the full cost of tariff services provided by municipalities, and assist with resource allocation for a particular service;
  - Ensure that costs are transparent, efficient and consistent;
  - Plan to recover the full cost of tariff services (cost-reflective tariffs); and
  - Support a consistent approach across municipalities and so allow for cost comparisons and benchmarking.

ADDRESSING INEFFICIENCIES IN THE SYSTEM

Municipalities tend to simply rely on tariff increases to augment revenue and to eliminate operational deficits rather than eliminating structural inefficiencies in the system that contributes to the operational deficits

It is essential to develop strategies to minimise or to eliminate altogether the impact of inefficiencies in the system to ensure the profitability and sustainability of the trading services

Factors that needs to be considered are:

- Unattended distribution losses – municipalities tend to recover this from tariff increases rather than addressing the real problem;
- Unreliable and incomplete customer data;
- No or incorrect meter data and infrequent meter reading and extended periods of estimating of water and electricity meters;
- The installation of Smart Electricity Metering will assist in curbing illegal connections, theft and assist with the identification of meter tampering;
- Electrification of informal areas to reduce the number of illegal connections; and
- Revenue protection units should be established and perform raids through collaborations with other law enforcement agencies to reduce illegal connections, theft and tampering with meters.

INDIGENT MANAGEMENT AND UTILISATION OF THE EQUITABLE SHARE

Municipalities must provide basic services to its indigent households in a sustainable manner - It is not expected that a municipality will provide free basic services beyond its financial and other capacities

- For this purpose it is important for municipalities to perform proper indigent management and to separate the indigent customer from other paying and non-paying customers in the financial system, failing which the indigent customers will form part of the non-payment component of the municipality;
- This will complicate any credit control action being considered when indigent households are confused with non-payment and possible legal and other debt collection processes are being instituted against indigent households;
- It is important to identify the cost of free basic services within each service and to allocate the appropriate amount of the Equitable Share towards subsidising the cost of free basic services being used by indigents;
- This will ensure that the Equitable Share is used for its intended purpose and prevent the paying customer subsidising the cost of free basic services;
- Proper identification and management of the indigent households will enable the Municipality to accurately identify the actual level of non-payment and to adequately provide for it;
- Realistic provision should be made on the Cash Flow Statement for the collection of non-current debtors in future years; and
- Failure to comply with this National Treasury methodology for the provision of debt impairment results in expenditure being aligned to revenue billing rather than revenue collection.

CUSTOMER CARE

The municipality should employ a focussed approach to consistently improve their customer care and relationship management

Focus should be placed on :

- Opening and closing of accounts;
- Ensuring that account enquiry services are readily available to the public via the customer care unit for consumers that have queries or want to find out the status on their accounts - they should be able to phone in and receive service;
- Enabling consumers to make payments through other virtual means like online payment including paying to the municipality's prepayment vending system network (garages, food chain stores, easy pay etc.);
- Allow consumers to take their own readings and email them to the municipality and for consumers that don't have access to emails to call the call centre to submit their meter readings;
- WhatsApp platform for submission of meter readings;
- Reduction in estimated and disputed accounts; and
- Debtor management systems to ensure that actual billing result in revenue optimisation

FUNDING COMPLIANCE (SECTION 18 OF THE MFMA)

The process to move from an un-funded budget to a funded budget position require that all the above-mentioned issues be addressed adequately through specific strategies, processes and procedures

The National Treasury funding methodology focus on three main trendlines:

- Achieving at least break even or a surplus position on the Statement of Financial Performance and improving over the MTREF – Table A4 – this is however not the final test for a funded budget (scope - short term)
  - No or conservative funding of capital from internally generated funds until surplus position is achieved; and
  - Re-configuration of the funding mix to fund capital expenditure – possible inclusion of additional borrowing to reduce the immediate impact on cash flow – This will however be subject to the liquidity position (ability to repay additional debt) and should be directed toward acquisition of revenue generating assets

- Achieving a positive cash and cash equivalents position for the Cash Flow Statement and improving over the MTREF – Table A7 (scope - short to medium term)
- Reconciliation of available cash and cash equivalents vs liabilities – achieving a positive cash position over the entire MTREF after offsetting liabilities against the available cash and cash equivalents – Table A8 (scope - medium to longer term)

THANK YOU

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