

FINANCIAL AND FISCAL COMMISSION: PUBLIC HEARINGS- “SUSTAINABLE FINANCING OF LOCAL GOVERNMENT”

The funding arrangement required to ensure that Local Government and individual Municipalities are financed sufficiently to fulfil their constitutional mandates to render adequate services to communities, is insufficient especially for small and rural Municipalities.

The ever-increasing Legal, Reporting and GRAP-compliance place a further burden on municipalities.

Background of Theewaterskloof Municipality



- The Municipality covers an area of 3,248 km and consists of 8 towns (Caledon, Grabouw, Villiersdorp, Botrivier, Riviersonderend, Greyton, Genadendal and Tesselaarsdal) which amalgamated in December 2000 to form the Theewaterskloof Municipality.
- Decentralized Town Management Model
- The Municipality is highly reliant on agriculture which amounts to 41% of the economic activity and is of a seasonal nature.
- Agri Products: Apples, Pears, Grapes, Wines, Dried Fruit, Canola, Corn, Fruit Juices, Sheep
- The 8 towns have a rich history and culture and share the same authentic country flavour and charm – united as The Cape Country Meander.
- It is the largest local authority in the Overberg District, embracing the City of Cape Town on its western boundary and sharing the eastern coastline with the Overstrand Municipality

Unemployment

The Municipality has an unemployment rate of $\pm 40\%$ and high seasonal employment (Semi-Indigents) due to the highly agricultural economy (41%). We are also faced with a very high influx of foreigners and people from Eastern Cape who are mostly unemployed, unskilled and homeless.

Grabouw: is the most populous town ($\pm 40\ 000$ of the 106 000 population) is supplied with Electricity by Eskom. It has the highest number of informal settlements and influx of people, the lowest collection rate and the highest service backlogs which receives over 60% of the Budget and 70-75% of the Capital Budget and MIG Funds. In 2010/11 the full R30 m Housing Budget was spent in Grabouw.

It is believed that if we did not have Grabouw as part of our Municipality we would have been significantly more sustainable. It should have best been part of Cape Town (10km from Somerset West).

The effect of the following on local government is under-estimated and present serious threats to the sustainability of municipalities:

- Unfunded Mandates
- Escalating Fuel Prices
- The escalation of Social Grant Dependence (from ± 2 million in 2000 to ± 13-15 million in 2011).
- High School Drop-out rate, most of these youth are unemployed / not employable, adding to the already high unemployment rate.
- High Unemployment and Seasonal Employment especially in the agricultural sector.
- High Influx of Unemployed/Homeless/Unskilled people into certain municipalities which places a huge burden on its bulk infrastructure and service delivery capacity
- Failure of Government to pay Municipal Debts (it is not always true that municipalities are blamed: we have all the facts to prove this)
- Most consumers have limited disposable income after tax (25-42%) has been deducted, along with Medical Aid, Pension Contribution, Bonds/ Rental, Travel Cost, Garnishee Orders (mostly from so-called "loan sharks"), Education Fees, Insurance Policies have been deducted.
- Many businesses collapsed / on the brink of collapse due to Global Economic Melt-down.
- High Eskom increases have placed strain on consumers and Municipalities alike
- Collection Rates are significantly lower in area/ towns where Eskom distributes Electricity.
- Legal Action is a very time consuming and onerous process

Protests

There are various reasons for the protests including inter alia the following

- Fraud and Corruption (and the perceptions thereof)
- Lack of Accountability and Transparency
- Over-promises and Under-delivery
- Poor Service Delivery
- Impatience of Communities for Houses

Some Solutions

- Expectations must be managed down to affordable levels and at the same time resources must be optimally used to the best advantage of the community, in a responsible and prudent manner.
- There must be zero-tolerance on fraud and corruption.
- Stakeholders must be engaged pro-actively.
- Service Level Agreements with various Wards must be entered into and quarterly assessments must be conducted and remedial actions agreed upon where there is under-performance.
- Protests are sometimes in respect of services which are not the responsibility of municipalities such as Housing and Electricity where Eskom is the supplier. Housing Grants are not sufficient and homeless people become impatient.
- IDP's and Budgets need to be more responsive to community needs and Grants and Budgets must be fully spent.
- Municipalities must clearly indicate to communities during IDP engagements which are municipal functions and what is non-core which will be communicated to relevant sector departments.
- Training of Ward Committees on IDP, Budget and Municipal Functions is critical as they have a very important duty and must therefore be empowered.

- Credible Leadership is very important and this will ensure Political Stability.
- No interference in administration is not negotiable and the foundation to a smooth-operating and progressing municipality.
- Regular and user-friendly Reporting and Communication is very important to keep community informed and to avoid wrong perceptions and spreading of wrong and destructive information.

(Theewaterskloof has adopted its Turnaround Strategy in September 2006 at its Strategic Planning Workshop and the Strategic Objectives are reviewed annually to determine what has been achieved, what has not been achieved, why not, what is new, what is recurring, diagnostic analyses conducted. Financial Sustainability has been determined to be the Major Focus Area for the next 5 years and the Financial Sustainability Strategy was adopted unanimously at our Strategic Planning Session held in August 2011).

What is it that Municipalities can do for themselves?

- Improved Credit Control and Debt Collection
- Indigents Management and regular screening and update of registers
- Prepaid Water and Electricity Meters (top avoid consumption in excess of affordable or Free Basic levels)
- Debtors Data Cleansing: Credible Accounts and Maximise Revenue (ensuring that all properties are on the debtors financial system, charged for all services and rates and that the correct tariffs are charges).
- Tariff Re-Engineering and Cost-Recovery calculations (to ensure that tariffs are affordable and sustainable and covers operating and capital costs instead of just adding a percentage increase every year)
- Fleet Management and Tracking system to control Overtime and to ensure that no services are rendered and not charged for and to eradicate abuse of fleet.
- Service Rationalisation
- Outsourced Non-core Services
- Tariff Modelling Tool developed by P3 Partnership (SALGA & SALAR of Sweden)
- Appropriate Policies endorsed by Council, regular reviews.
- Improve Processes for improved efficiency
- Improved Expenditure Management: improved Internal Control to avoid fraud and financial losses
- Costing to ensure value-for-money and improved budgeting and resource-allocation
- Avoid purchasing of nice-to-haves and squandering of money on excessive entertainment, hiring of venues, mayoral vehicles, festivals, tickets for events for officials and councillors, excessive use of consultants, workshops and meetings at expensive venues, courses presented by “fly-by-night” service providers, etc.
- Hold Officials and Councillors accountable for loss of revenue, fruitless, wasteful and irregular expenditure and for damage and loss of municipal properties
- Anti-vandalism Campaigns
- Auditing and strict allocation/approval of indigents
- Avoid filling of positions where Officials will not be busy for 8 hours a day/5 days a week/12 months a year.
- Improve Stakeholder Engagement and Management (Organised Agriculture, Business Forums, Ratepayers’ Associations and turn them from competitors to partners)
- Ensure that Income-generating Assets yield the necessary returns; if not outsource or sell
- Implement Risk Management and functional Internal Audit Unit and Audit and Performance Audit Committee and Performance Management System beyond compliance

Credit Control and Debt Collection

It is acceptable that there is a lot that Municipalities can do to improve Debt Collection. It required inter alia, Credit Control, Debt Collection and Indigent Policies which are work-shopped, approved and respected by administration and councilors. The implementation must be fair, equitable, transparent and without fear or favour.

Municipal Bills must be Credible and if required Debtors Data Cleansing Assignments must be conducted. Debtor information must be updated and properly profiled or categorized for ease of identification. Adequate resources (competent staff and electronic system is required and attorneys must be avoided as most municipalities abdicate responsibilities to attorneys and they lose control and get ripped- off)

Debt Collection Staff must be empowered, supported, motivated and held accountable for targets set. Regular Reporting and write off of irrecoverable debts must be affected. Work to Attorneys has been stopped and we have a win-win situation with our customers.

Government Departments send municipalities from pillars to post: departments do not want to take responsibility for debts. Public Works do not know their Properties and also not where they are leasing properties.

Municipalities must make it easy for consumers to part with their money by providing the best Service and Customer Care which it could provide.

Improved, Communication and meaningful Public Participation in the IDP/Budget Processes in order for communities to accept ownership of budgets and understand the constraints and to bridge the gap between high expectations and lower available resources.

Municipalities must be transparent, accountable and adopt a Zero- tolerance on Fraud and Corruption: this will ensure that Ratepayers can trust the municipality with their money.

Good Governance and a Good Reputation are very important.

It is also important to have an Account Query Mechanism in place for consumers to communicate queries/perceived queries on account. Small Municipalities and those with low revenue base are inclined to be slower in writing off debt because of extra effort to try and recover as much as possible.

On the other hand it is easy to say that Municipalities are not competent to collect the outstanding debt. The following are worth noting:

Municipalities are at a disadvantage from the date when consumers apply for services because unlike the private sector you may not refuse the provision of services even if a person is not credit worthy. The only way of restricting Indigents and other consumers, to consume within the free basic limits and affordability limits, respectively is by way of Prepaid Meters after proper consultation and provided that it is included in the municipality's By-laws.

What is it that Government can / must do?

- Government must settle Debts without delay
- Transfer Electricity Distribution to Municipalities or compensate for the loss of revenue. Electricity is also an effective Credit control/Debt collection Tool
- Unfunded Mandates (Libraries and Housing) must be paid for

Compliance

- Minimum Competency Regulation has a major impact on the organization with scores of people out of office on a weekly basis. Attending to Financial Statements, Monthly/ Quarterly Reports, External Audit, Continuous Community Participation, IDP, Budget and other day-to-day Service- Delivery and operational commitments especially when operating with limited staff, is a challenge. Training and especially Travelling and Accommodation Costs are very high and along with the cost of 5 Financial Interns and other Financial Management Reforms on Budgeting, Reporting and GRAP etc. the Finance Management Grant is not sufficient. The overall cost of compliance has a crippling effect on especially smaller and rural municipalities and those with a narrow revenue base.
- Legal, Financial Reporting and GRAP Compliance has become the order of the day. It places severe pressure on especially smaller municipalities. Municipalities are over regulated and cause restrictive creativity and innovation and a strangulation of municipalities. Compliance has become the primary focus and service delivery the secondary focus instead of service delivery being the core business within a Good Governance framework.
- It would be interesting to see the outcomes of a municipal survey on their impressions on the Cost of Compliance.

Fiscal Policy Review

Electricity is an effective Credit Control Tool and accounts for between 30%- 50% of most municipalities' Operating Revenue. In the case of Theewaterskloof, a local Municipality consisting of 8 towns stretching over 100 km (most towns \pm 50km from the central town, Caledon, which is the Head Office), it is only R50m (20%) as Eskom distributes in more than 60% of the area, these areas also have the lowest collection rate. \pm R75 m Revenue is generated by Eskom. Electricity accounts for 60% of the Metros' Service Charges and in our municipality it amounts to 46%

Unfunded Mandates (Libraries and Housing Administration) is funded by from 20% of our Assessment Rates Revenue.

Joint Efforts to Address Challenges in Local Government

It is recommended that an Indaba between COGTA, Treasury, SALGA and IMFO, along with the Financial Fiscal Commission be held.

A robust and honest debate is inevitable in order to find a cohesive approach to the issues facing Local Authorities. Senior, Experienced Local Government officials from Small, Rural, Large Municipalities and Metros must be co-opted into these debates to improve consultation with those who are experiencing the challenges.

It is unfortunate that there is a lack of cohesion; E.g. SALGA held its National Conference and clear resolutions were formulated. IMFO Conference followed two weeks thereafter and should have taken note of such resolutions and/ or challenge the resolution.

It is unfortunate that IMFO Conferences take place annually but there are no firm resolutions to issues faced by Municipalities with a view of influencing policy formulation.

A lot of the issues are presented every year but without any significant positive results.

The above views are that of the writer (SN Jacobs) and not the Theewaterskloof Municipality.