



MUNICIPAL ELECTRICITY DEBT:
PRESENTATION TO THE SELECT COMMITTEE
ON APPROPRIATIONS

02 May 2017

For an Equitable Sharing of National Revenue

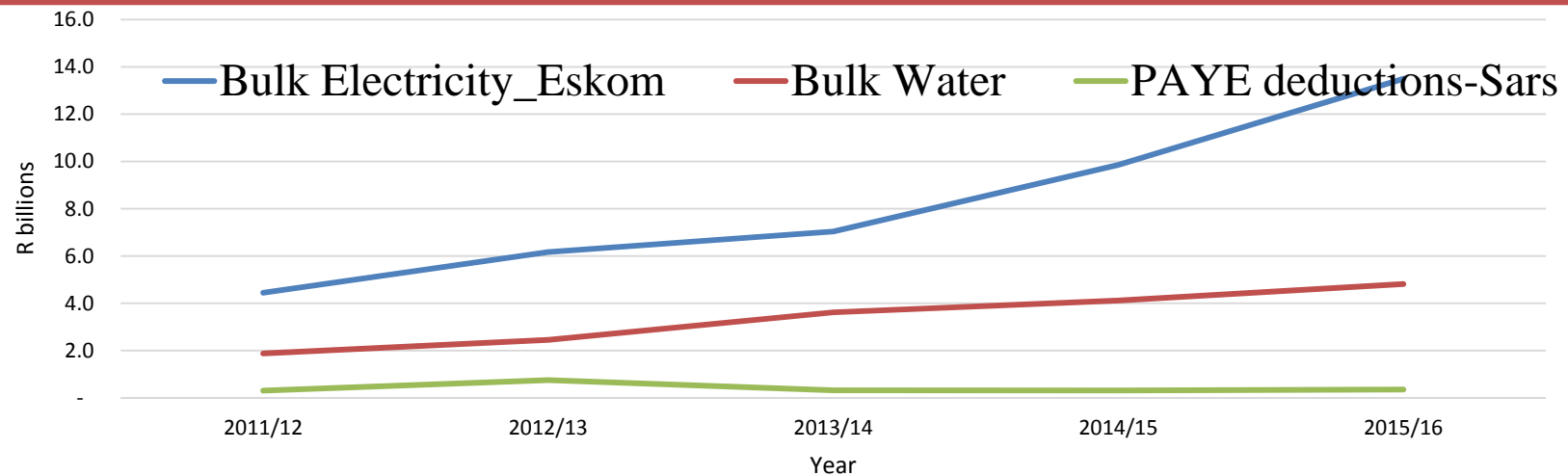
STRUCTURE OF PRESENTATION

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- Aggregate Municipal Debt
- Creditors as Share of Total Debt Owed by Municipalities
- Total Debt Overview
- Top 20 Defaulting Municipalities
- Municipal Debt by Province
- Small Power Users Debt
- Recent Developments
- What Municipalities are Owed by Organs of State
- What Municipalities are Owed by Provincial and National Departments
- Recommendations

BACKGROUND

- The Electricity Regulation Act, 2006 (Act No. 4 of 2006) gives the National Energy Regulator of South Africa (NERSA) a mandate to regulate the supply of electricity through the provision and approval of tariffs.
- From the tariffs given by NERSA, Eskom sells electricity to municipalities in bulk which in turn the municipalities resell to their respective clients (households).
- According to Eskom, 42% of the company's revenue is derived from municipalities, suggesting that the defaulting municipalities are adversely affecting the power utility's financial health.
- As of February 2017 Eskom was owed R10billion (i.e. overdue debt only).
- The top 10 defaulting municipalities owe about R6.2 billion, whilst the top 20 defaulting municipalities are overdue by about R7.4 billion.

AGGREGATE MUNICIPAL DEBT, 2011/12 – 2015/16



- The diagram depicts a five year over-view of three municipal creditors and the total amounts owed to them by municipalities year on year, from 2011/12 to 2015/16.
- Municipal debt to Eskom shows a serious increase in the amount from 2014/15 to 2015/16.
- Debt for bulk water has had a moderate increase over the past 5 years, whereas debt to SARS on PAYE deductions shows a steady decline over the years.

CREDITORS AS SHARE OF TOTAL DEBT OWED BY MUNICIPALITIES, 2011/12 – 2015/16

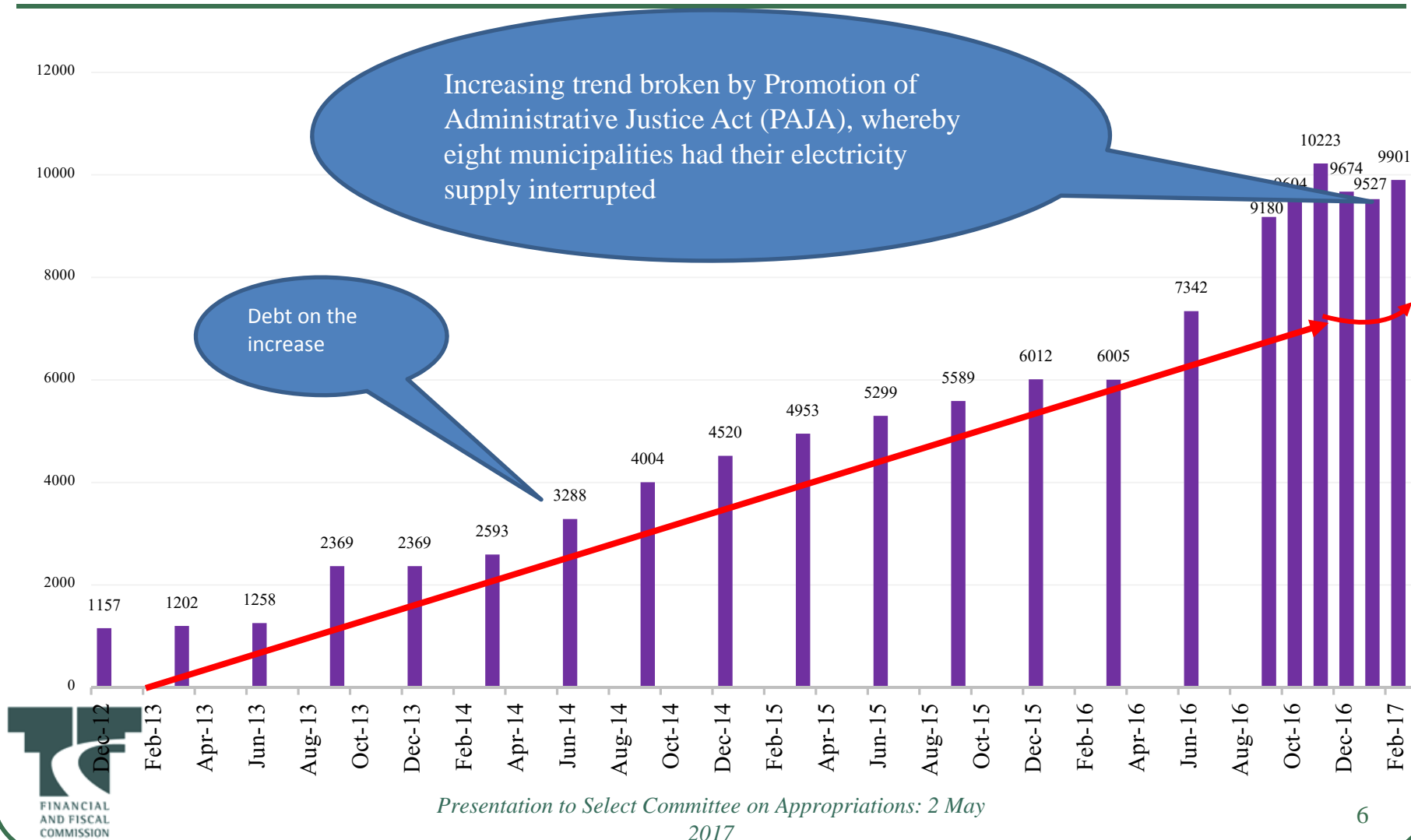
- The table illustrates the contribution of each creditor to the total creditors owed by municipalities,
- In 2011/12 the highest debt by municipalities was for trade creditors (39%) followed by Eskom (28%).
- In 2015/16 Eskom debt was the highest (35%) followed by Trade creditors (27%).

Creditors as a share of the total Debt owed by municipalities, 2011/12- 2015/16

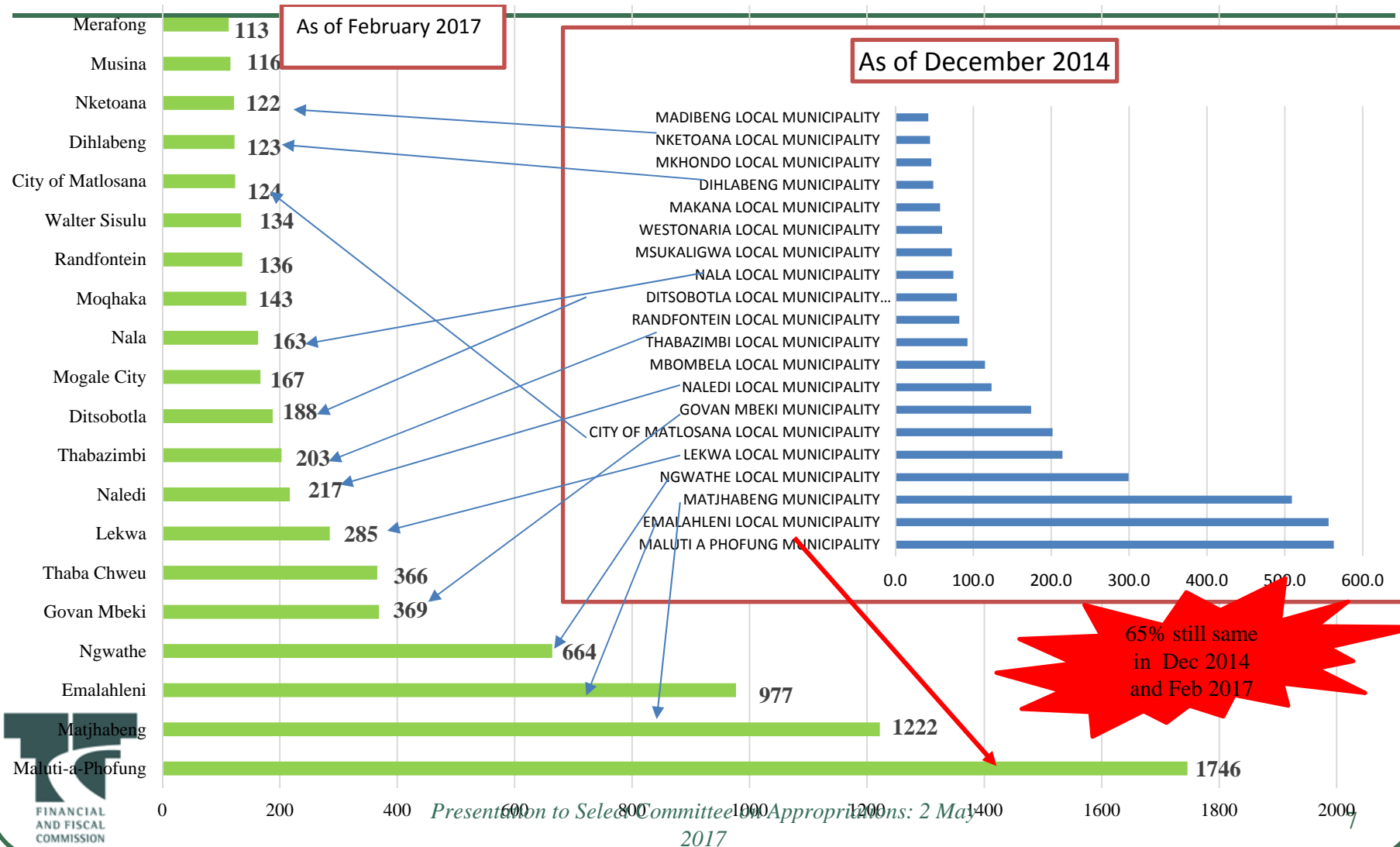
Creditor	2011/12	2012/13	2013/14	2014/15	2015/16
Bulk Electricity_Eskom	28%	34%	28%	30%	35%
Bulk Water	12%	14%	14%	13%	12%
PAYE deductions-Sars	2%	4%	1%	1%	1%
VAT (output less input)	0%	-1%	0%	0%	0%
Pensions / Retirement	2%	2%	1%	1%	1%
Loan repayments	3%	8%	8%	7%	7%
Trade Creditors	39%	31%	33%	29%	27%
Auditor-General	1%	1%	1%	1%	1%
Other	14%	7%	14%	19%	16%

TOTAL OVERDUE ESKOM DEBT TREND

DEC 2012 – FEB 2017

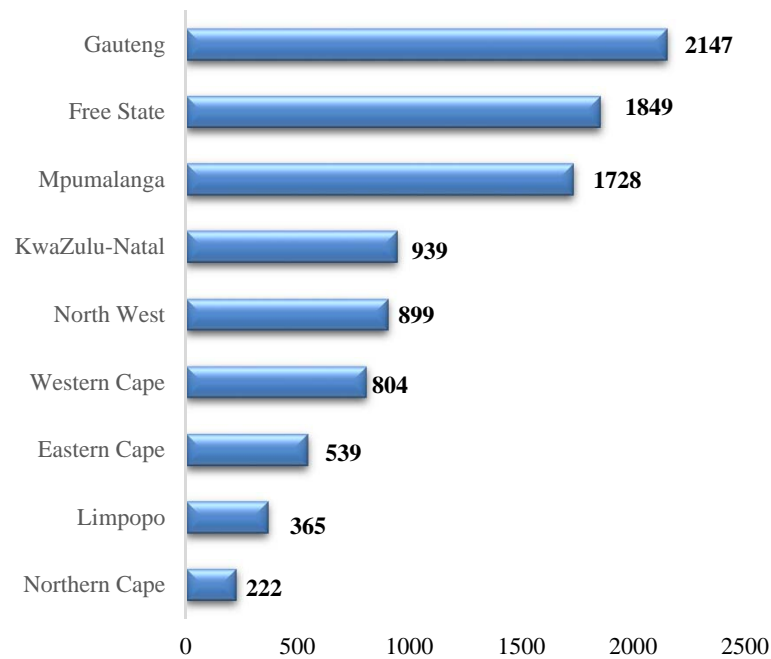


TOP 20 DEFAULTING MUNICIPALITIES

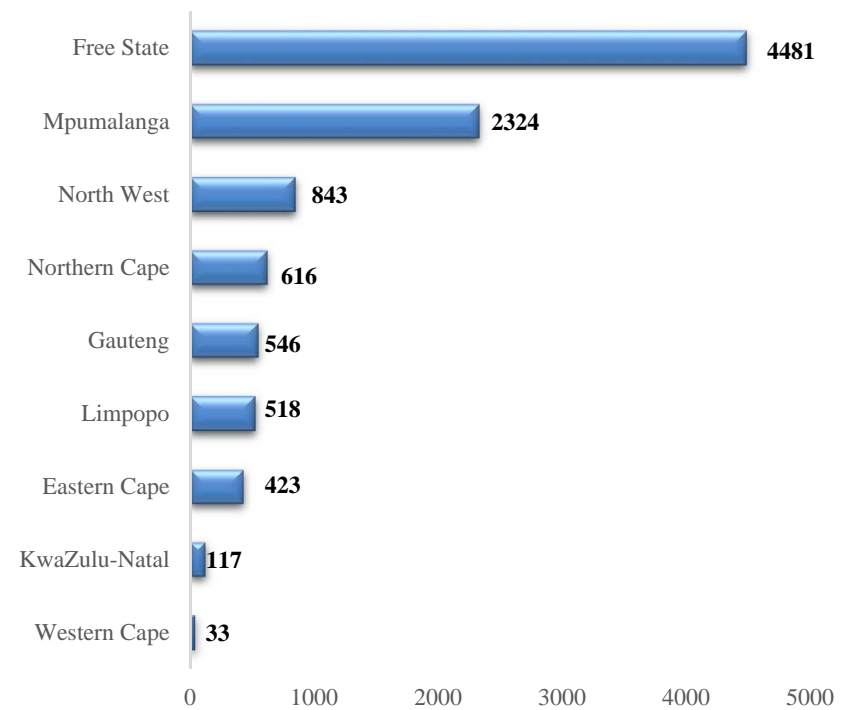


TOTAL OUTSTANDING DEBT BY PROVINCE, NOVEMBER 2014 VS FEB 2017

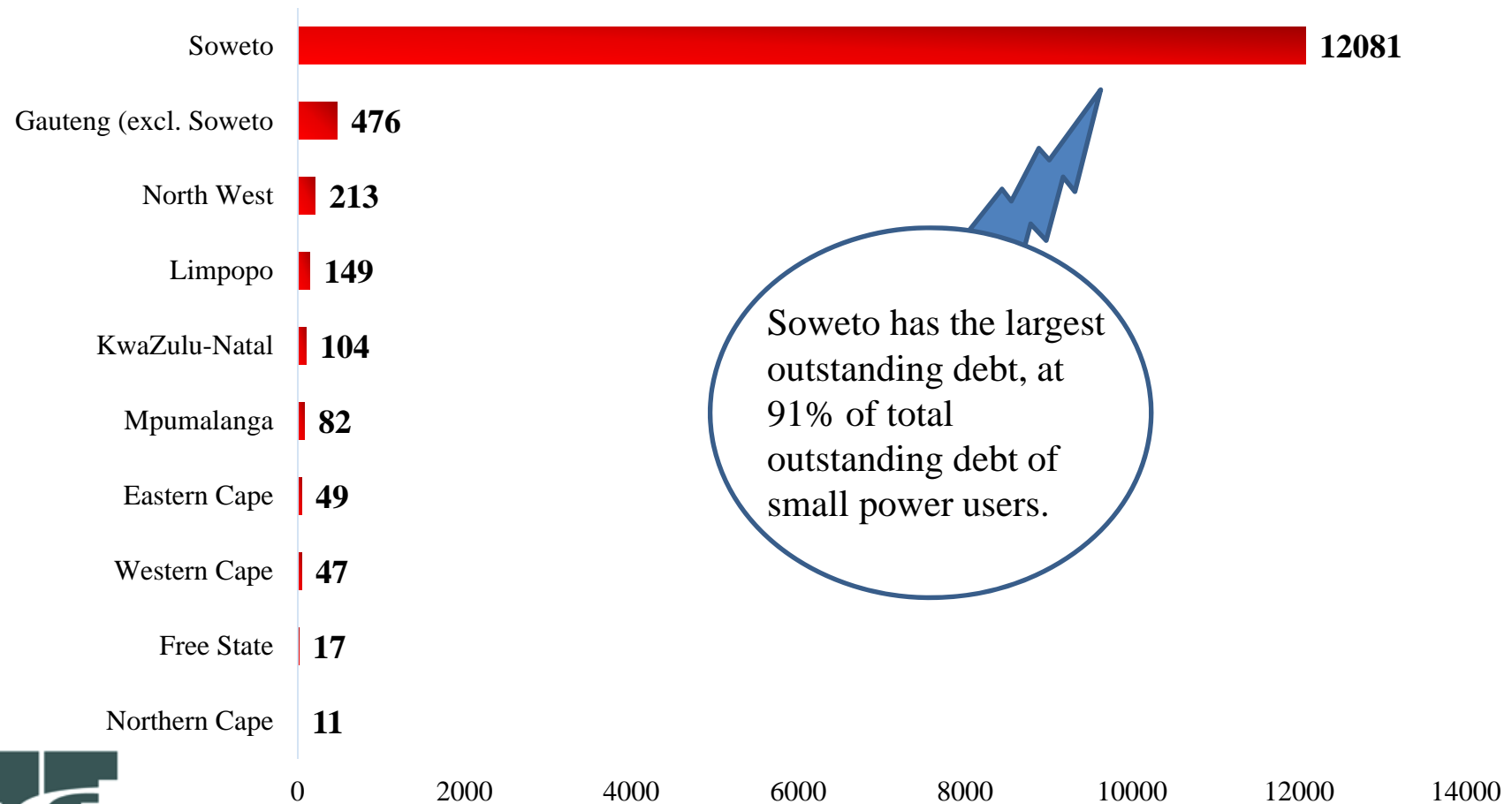
December 2014



February 2017



SMALL POWER USERS DEBT PER PROVINCE, END JAN 2017





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RECENT DEVELOPMENTS

*Presentation to Select Committee on Appropriations: 2 May
2017*

RECENT DEVELOPMENTS

- Following the process of the Promotion of Administrative Justice Act (PAJA), eight municipalities have had their electricity interrupted since 16 Jan. 2017, in North West, Northern Cape and Mpumalanga:
 - North West
 - Naledi
 - Kgetleng River
 - Lekwa-Teemane
 - Ventersdorp
 - Northern Cape
 - Renosterberg
 - Ubuntu
 - Mpumalanga
 - eMalahleni
 - Msukaligwa

RECENT DEVELOPMENTS

- Eskom has proposals on the table to resolve the Eskom debt quandary: (Partly in response to concerns raised by SALGA)
 - Eskom reducing the interest rates charged on overdue balances from prime plus 5% to prime plus 2%,
 - The reduction of municipal tariff options from 11 to 3,
 - Eskom changing the payment period on municipal bulk accounts from 15 to 30 days to give municipalities more time for payment, and
 - Eskom changing its payment allocation policy to allocate payments to capital first and then interest.



• The Commission notes these proposals and if implemented, will lead to some improvements

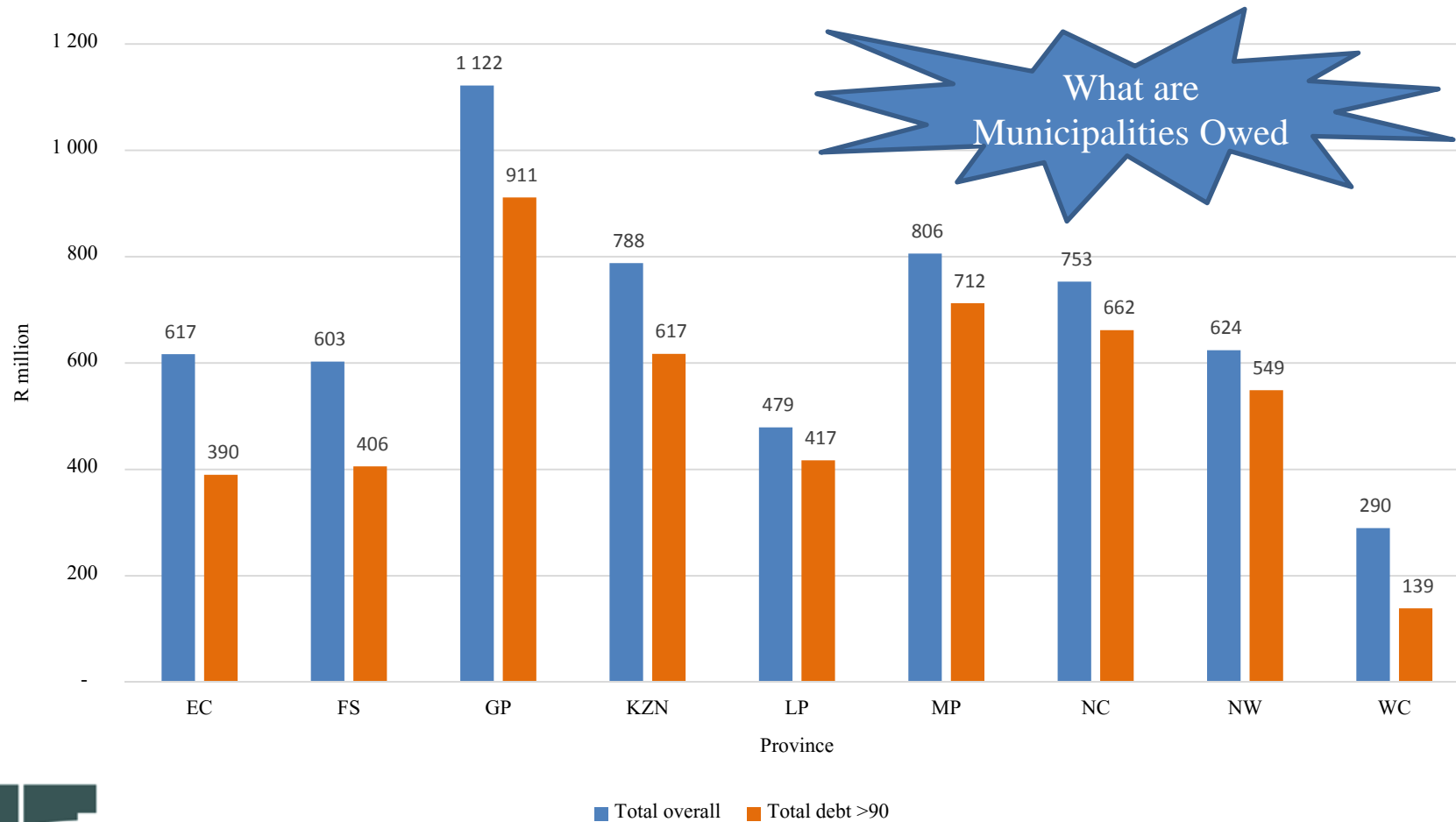


WHAT ARE MUNICIPALITIES OWED?

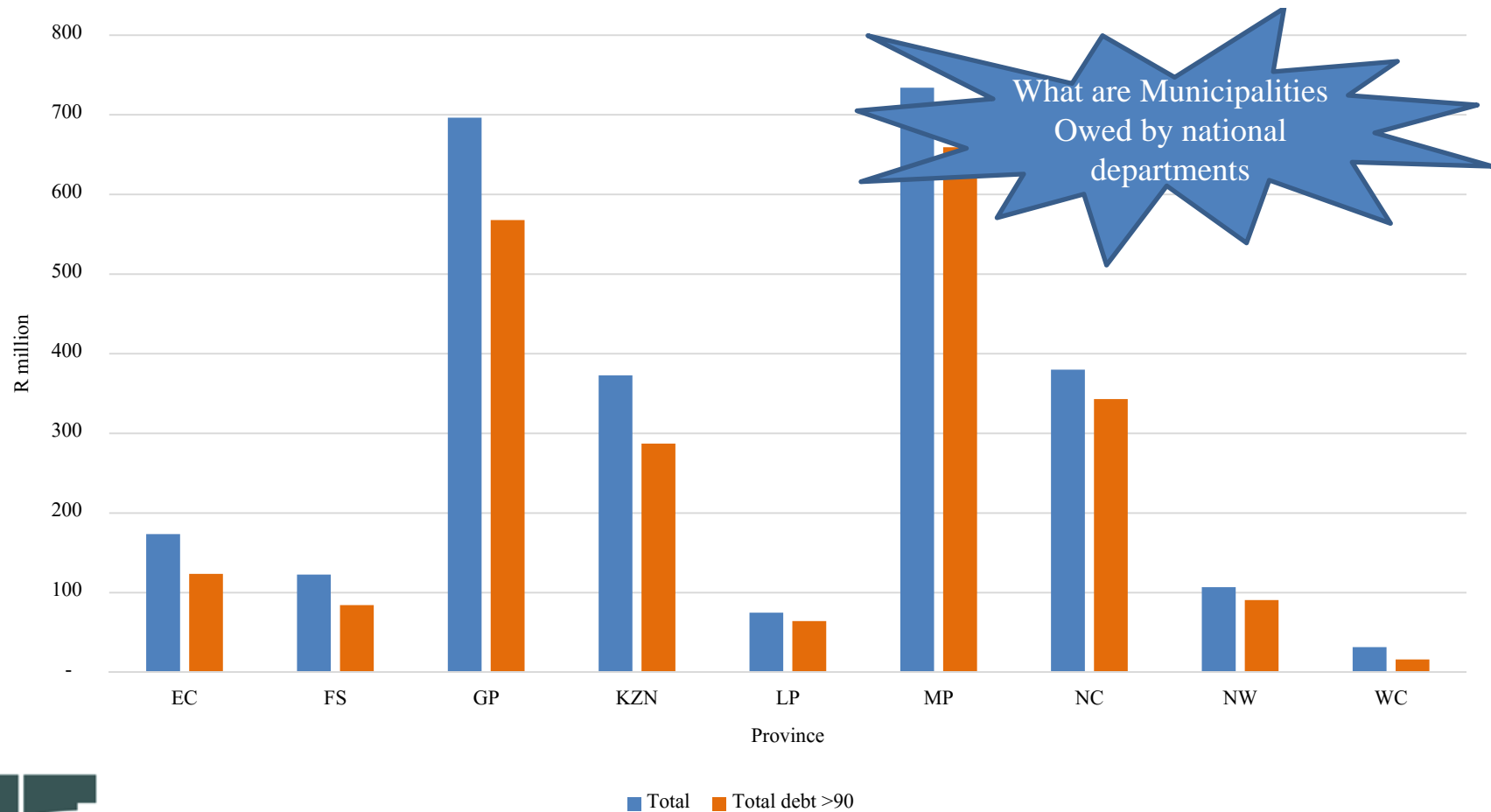
Of concern to the Commission is also that even some national and provincial government departments are not complying with the 30 day payment rule, (i.e. Section 38(1) of the PFMA (and Treasury regulations 8.2.3 (2001) and Treasury Instruction note No. 34). For example (Next 2 slides)

*Presentation to Select Committee on Appropriations: 2 May
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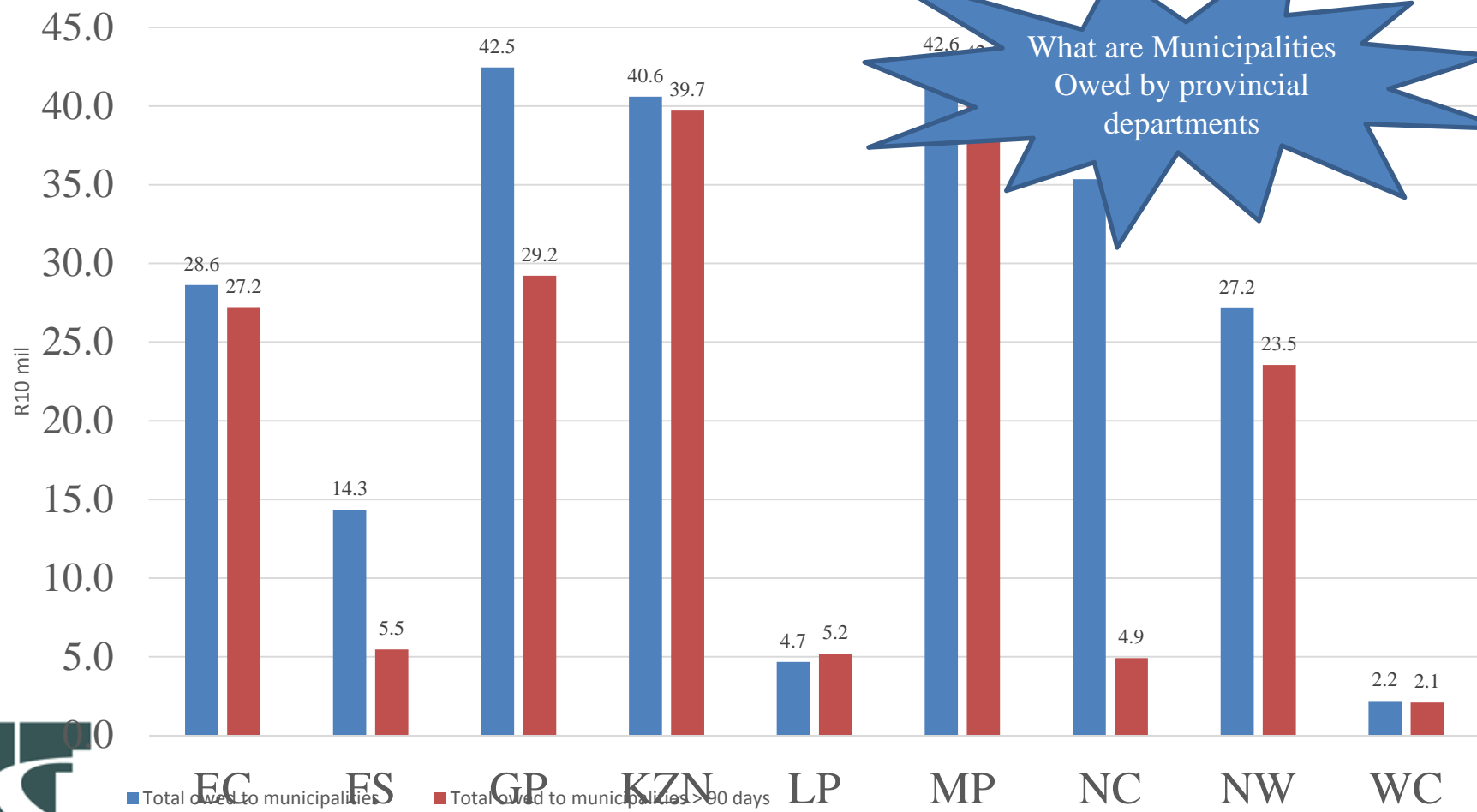
WHAT MUNICIPALITIES ARE OWED BY ORGANS OF STATE, 2015/16



WHAT MUNICIPALITIES ARE OWED BY NATIONAL DEPARTMENTS



WHAT MUNICIPALITIES ARE OWED BY PROVINCIAL DEPARTMENTS





COMMISSION'S RECOMMENDATIONS

*Presentation to Select Committee on Appropriations: 2 May
2017*

COMMISSION'S RECOMMENDATIONS

1. Need to Improve efficiencies in the System

- Avoidable electricity losses should be minimized (e.g. graphs below on electricity losses)
- Prepaid metering is one option that can be considered, albeit it requires careful balancing its side effects against the benefits
- The rollout of prepaid metering is progressing slowly in metros while in the rest of local government sector, the rollout is insignificant

ELECTRICITY LOSSES

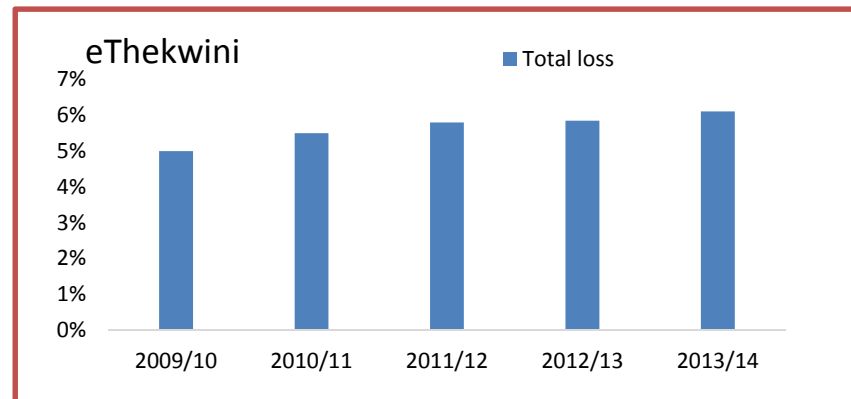
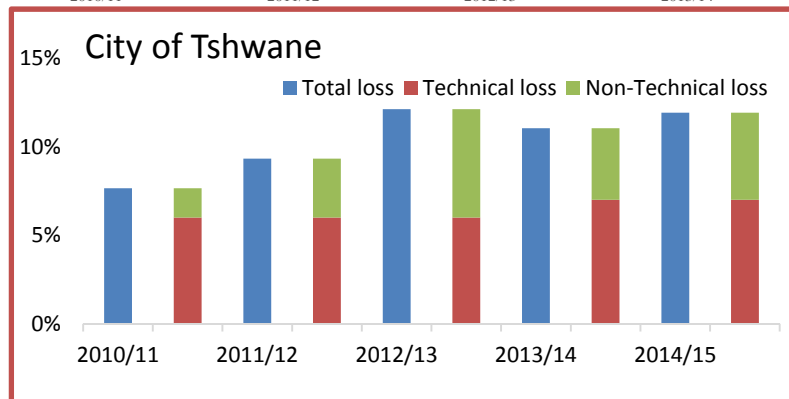
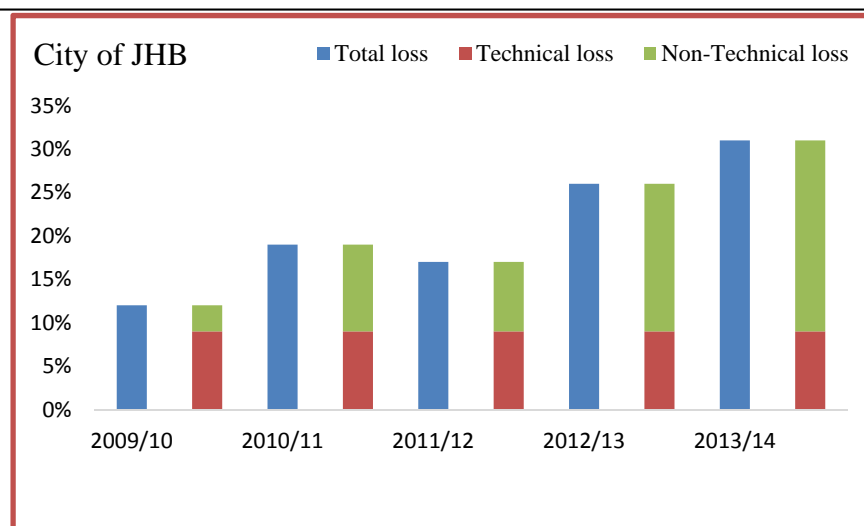
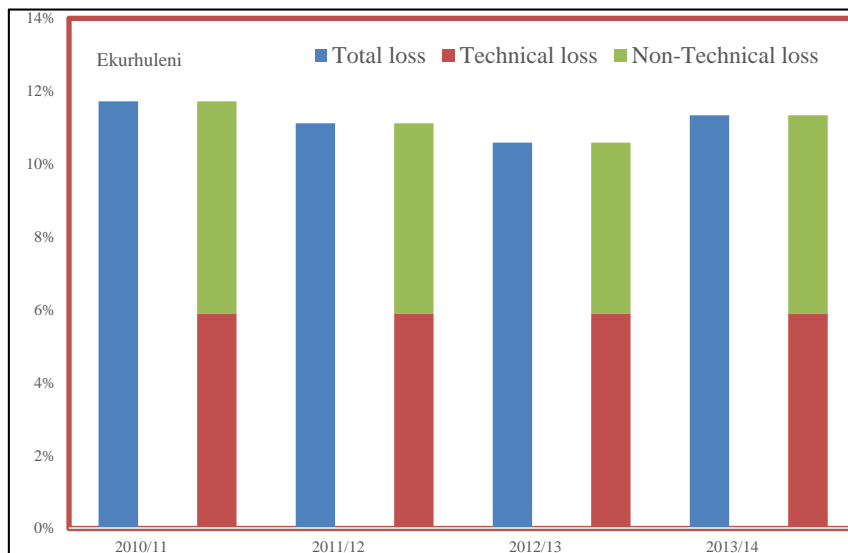
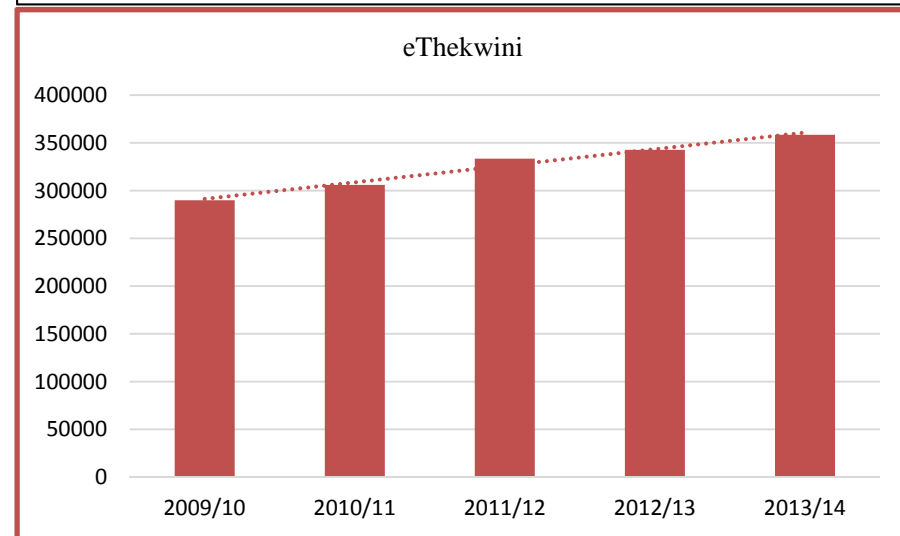
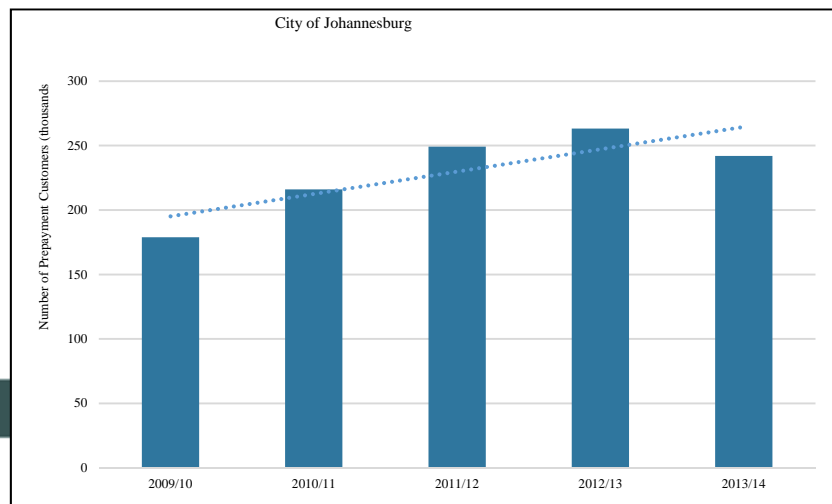
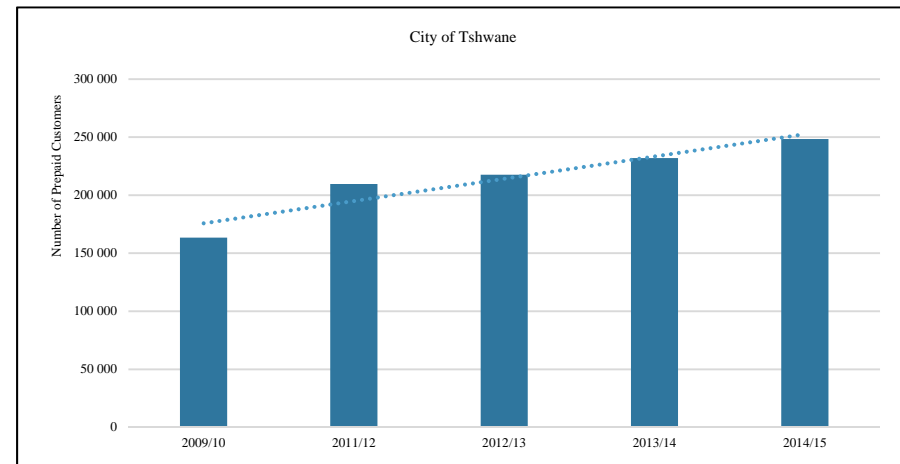
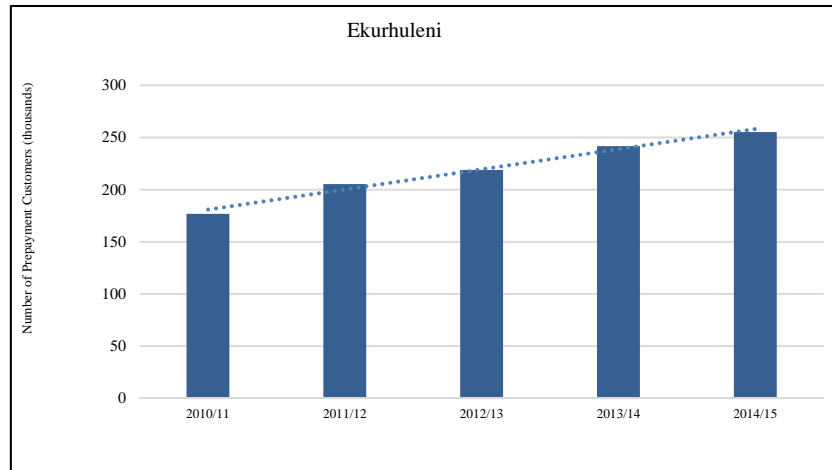


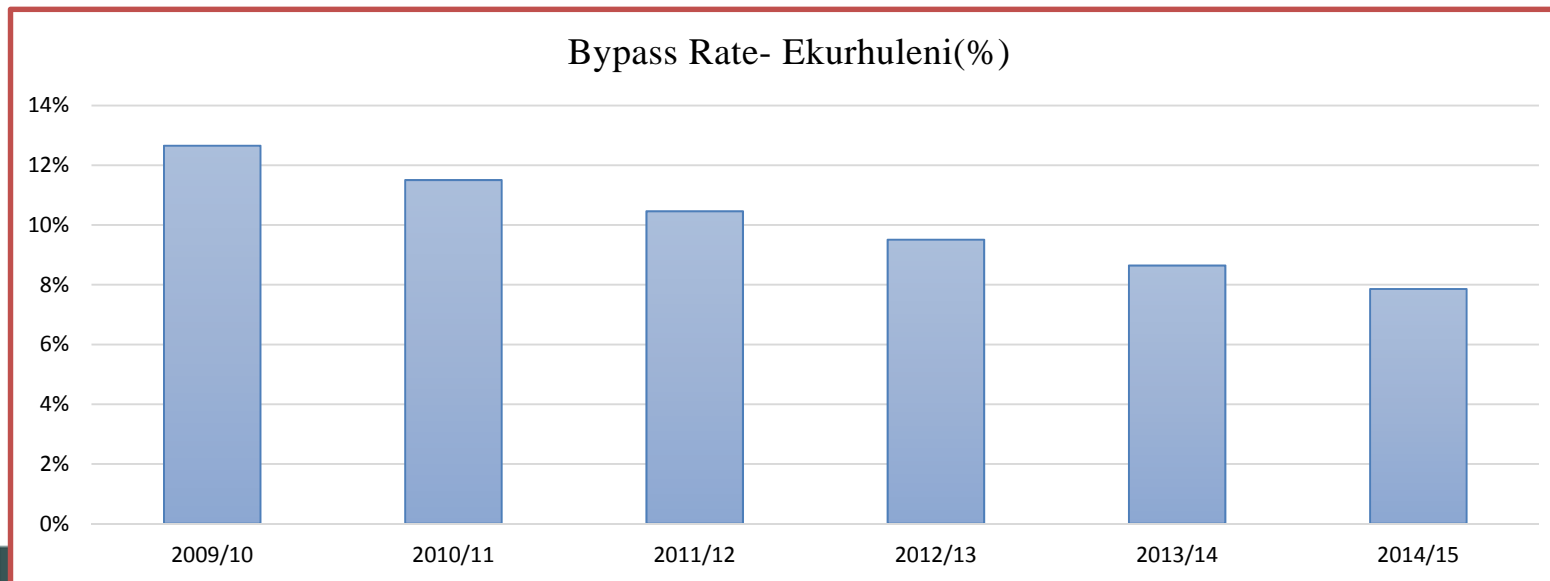
Figure 1: Electricity Prepaid Metering Rollouts (2009/10-2013/14)

PREPAID METERING ROLLOUTS



WEAKNESS OF PREPAID METERS

- Incidences of bypassing of prepaid meters are high in some municipalities, and this render this method of minimising electricity loses ineffective. For example, in 2014/15 Ekurhuleni had an 8% bypassing rate....which is very significant. There is a need to move towards smart metering technology to minimise electricity loses.



COMMISSION'S RECOMMENDATIONS

2. A proper diagnostics of the root cause of non-payment be done and if it is due to bad management, appropriate consequences should be rendered especially the perennial defaulters
 - Stricter measures should be imposed on individuals within municipalities that are responsible for continued flouting of MFMA rules.
3. Municipalities must produce balanced budgets and in addition the electricity and water undertakings must be ring fenced.
4. That IGFR forums dedicate sufficient time to find lasting solutions to the debt problems within the Local government sector.
5. Prepaid metering (use of smart technologies) is one option that can be considered, albeit it requires carefully balancing its side effects against the benefits.



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THANK YOU.

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