

# **FINANCING ISSUES PLAGUING LOCAL GOVERNMENT**



**FFC PUBLIC HEARING  
4 – 5 JUNE 2012**

**PEET DU PLESSIS  
HEAD REVENUE MANAGEMENT  
ETHEKWINI METRO**

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# Funding VS Political Expectations



# MUNICIPAL FISCAL REVIEW (2011)

(Source: National Treasury LG Budget and Expenditure Review 2006/07 – 2012/13)

# INSTITUTIONAL ISSUES

# KEY ISSUES IN REVENUE AND EXPENDITURE MANAGEMENT



- **Increased budgets**
  - Is it expansion of services?
  - Poor Financial control
  - Higher personnel and admin cost
  - Inappropriate service standards
  - Inefficiencies in service delivery
  - Fraud and corruption which could reduce resources to focus on the core responsibility of services to the poor and poverty reduction

# REVENUE MANAGEMENT



- **Integrity of Billing information**
  - Sending of bills to correct person
  - Access to information to update date
  - Fraud detection (e.g. Incorrect classification of Prop -75%)
- **Accuracy of Billing System**
  - Correctness of Valuation roll
  - Reading of Meters
- **Ability to Collect**
  - Delivery of bills at the correct address
  - Delivery of bills with correct information
  - Revenue Collection is not optimised

# REVENUE MANAGEMENT



- **Failure of Political backing to collect**
- **Failure to allocate more resources in the collection process**
- **Unwillingness by Council to disconnect services to collect (Including Eskom not willing to follow Legislation)**
- **Poorly designed Policies e.g. CC, Indigent, Tariffs**
- **Affordability of Municipal bills**
- **Ratepayer boycotts as result of poor service delivery**



# REVENUE MANAGEMENT



- **Underprising of services**
  - Lack of adequate statistics on services and properties
  - Lack of proper cost management systems
- **Overly generous rates rebates, reductions and exemptions**
- **Revenue collection is not only a revenue management responsibility but a Municipal responsibility.**

# EXPENDITURE MANAGEMENT



- **Underspending Repairs & Maintenance on Existing Assets**
  - Deterioration of quality of service delivery
  - Crisis management rather than planned
  - Increasing future cost of rehabilitation and refurbishment
  - Shortening the useful life of assets
- **Increase distribution of losses in water and electricity**
  - Technical – aged of assets  $\pm 10\%$
  - Non technical – theft  $\pm 35\% - 40\%$

# EXPENDITURE MANAGEMENT



- **Spending non-priority items**
  - Sponsorships
  - Non service delivery items e.g. celebrations
  - Excessive catering and events
  - Workshops in expensive venues
  - Luxurious offices
  - Foreign travel
  - Councillor and staff perks
  - Donations to individuals not in indigent policy
  - Cost on suspended staff
  - Use of consultants to perform routine management functions

# EXPENDITURE MANAGEMENT



- **Underfunding of Budgets of 283 only 43% fully funded**
- **Underspending of**
  - Capital budgets
  - Conditional grants
- **Poor planning in the budget process**
- **SCM – Compliance irregular expenditure.**

# INSTITUTIONAL STRENGTH CAPACITY



- **Lack in technical skill and knowledge in financial management**
  - Skills gap include
    - ✦ Planning
    - ✦ Engineering
    - ✦ Project Management
    - ✦ Plant operating including Water and Sewer purification works
- **High turnover in senior management – CFO's**
  - Including vacancy rates in senior management
- **Decrease in staff in key areas (Electricity and Waste management)**

# AG AUDIT OUTCOMES (2011)

(Source: Audit Outcomes of LG 30 June 2011, Presentation to NCOP 25 April 2012)

# OUTCOMES



- **SCM findings**
  - Uncompetitive or unfair procurement processes
  - Awarding of contracts to Employees, Councillors and employees of the state
  - Misuse of Regulation 36
  - Irregular expenditure
- **HR Issues**
  - Unskilled staff
  - Appointment of Consultants to perform basic accounting functions
- **IT systems and controls**
- **Non compliance with Legislation and Regulations**

# OWN EXPERIENCES



# ISSUES IN ETHEKWINI



- **Stagnant TAX Base**
  - Build houses year on year but does not contribute to tax Income (90% RDP Housing projects)
  - Recession and its impact
  - Need to address taxation of properties in Traditional land areas
  - Vacant Land – Punitive rate to develop
- **Access to Bond market and borrowing**
  - Cost of bonds still higher than Vanilla loans
  - Borrow from foreign lenders
- **Cash Management**
  - Ensure Reserves are cash backed
  - Daily cash flow management
- **Onerous Judicial processes for revenue collection**

# ISSUES IN ETHEKWINI



- **Efficient billing system**
  - Need to keep up to date with changes in technology
- **Accurate information with regard to consumers**
  - No recourse to the municipality if consumers do not update information regularly
  - No sanction similar to RICA & FICA
  - Indigent identification (register not feasible vs targeting approach)
- **Ensure Value for Money**
  - Benchmarking and cost analysis
- **SCM and the tendering processes**
  - Sometimes goods are more expensive than it should be.

# ISSUES IN ETHEKWINI

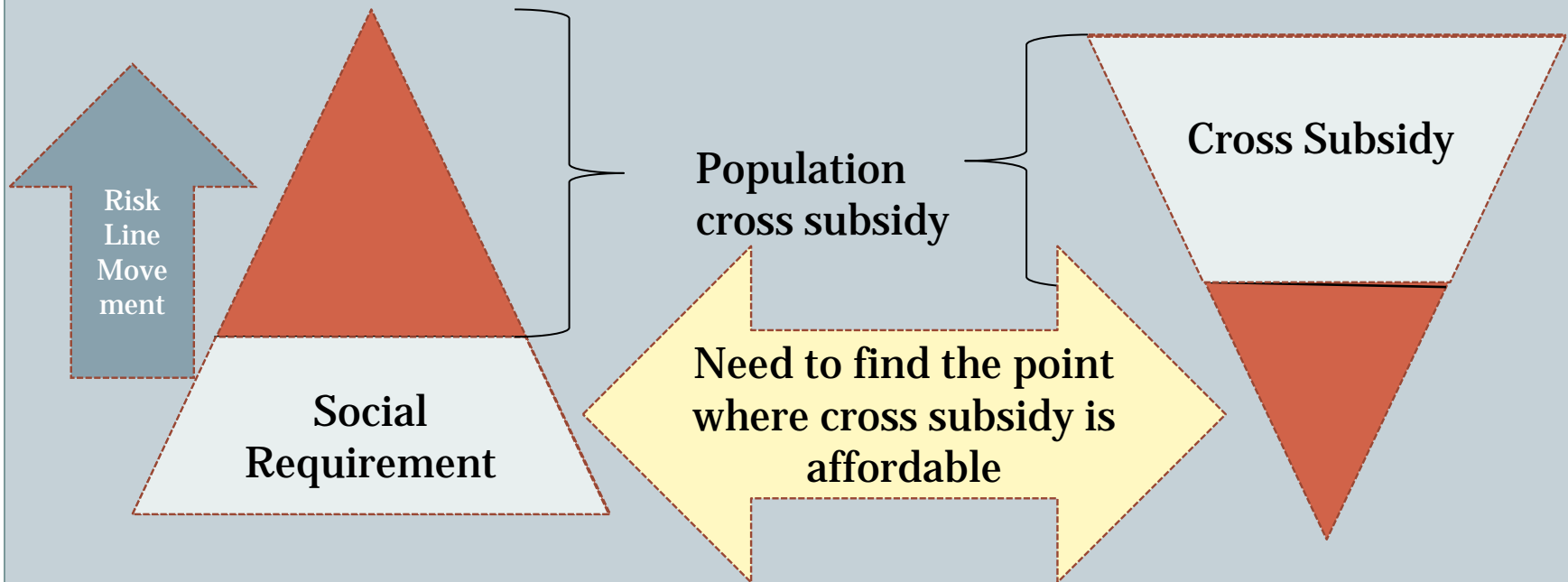


- **Drop in Electricity Demand**
  - $\pm R 300$  Million @ 1.6 = R 780 million in revenue without change in Fixed Costs
- **Capital Infrastructure for Events (Stadium)**
  - White elephants
  - Maintenance & Running Cost  $\pm R60$  million
  - More than 1% of Rates income
- **HR**
  - Aged employees
  - Institutional knowledge losses
- **Social and Ability to pay break even point**
  - Need further research to find the break even point

# ISSUES IN ETHEKWINI



- **Social VS Ability to Pay**



# POSSIBLE REMEDIES

# HOW TO ADDRESS ISSUES?



- **Proper management of personnel is critical to the effective and efficient functioning of municipalities (Treasury :105)**
  - Appointment of competent staff including legal compliance officer
  - Limit vacancies for long period of time
  - Deal with disciplinary actions effectively (Suspensions)
- **Implement cost management systems**
- **Review current IT systems for controls and compliance**
  - Design reports to detect Fraud through exception reporting

# HOW TO ADDRESS ISSUES?



- **Implement internal control unit and review internal control on all business processes**
- **Review policies and by-laws ensure staff are properly trained**
- **Provide for capacitation of Councillors in their oversight role(MPAC)**
- **Ensure that there is a workable and effective internal audit department with an audit committee**
- **Ensure that all disciplines in the Municipality are professionalised**

# HOW TO ADDRESS ISSUES?



- **Ensure that there is a specific qualification for Municipal Financial management**
- **Implement a responsive system that embraces:**
  - LG Legislation
  - Stewardship of public funds,
  - Goods rendered to the municipality are value for money,
  - Risk management
  - Efficient management system for cash and borrowing
  - Account for all assets
  - Balanced budget with realistic revenues and expenditure
  - Cash management with realistic achievable tariffs
  - Ensure all expenditure is budgeted for and any transfers to non-governmental organizations are in accordance with S 67 of the MFMA
  - Reduce unfunded mandates



# HOW TO ADDRESS ISSUES?



- Implement a system whereby organs of state can share relevant information that will help with confirming personal information.
- Get all organs of state to comply with legislation including Eskom
- Implement a proper planning system for capital and operational expenditure budgets.
- Implement a proper tariff setting system to ensure realistic revenue estimates
- Fill the revenue gap with additional sources of revenue (e.g. LBT)

# HOW TO ADDRESS ISSUES?



- **Legislative Framework**

- **Some areas are over regulated e.g. Property Taxation**

- ✦ **Ratios limit Municipalities ability to increase revenue**
- ✦ **Residential used as proxy**

- **Some areas need further regulation or changes to legislation**

- ✦ **Ability to collect revenue more effectively similar to SARS**
- ✦ **Dealing with Deceased Estates, Deregistering of Companies Directors and trustees of trusts**
- ✦ **Setting of benchmark ratio's (e.g. Range for personnel cost to total expenditure)**
- ✦ **Cost management systems to be implemented and report on as part of Budget reporting requirements S71 of MFMA**

# CONCLUSION

# SUMMARY



- **Not everybody can be an engineer or CFO**
- **Make sure the focus of spending is on basic service delivery**
- **All organs of state should assist LG to achieve its Constitutional Mandate**