

# Institute of Municipal Financial Officers

## Conference 2003

### Summary Presentation



# EMERGING TRENDS OF MUNICIPAL FINANCIAL MANAGEMENT

## 4 SESSIONS :

### – Partnership in Municipal Finance

- Financial solution that complies with accounting standards
- Partnership with DPLG, SALGA, ASB, IMFO and other role players
- Partnership with the rate payer
- Cash management as the anchor for sustainability
- Linking of strategic roles between the Financial and Fiscal Commission

# EMERGING TRENDS OF MUNICIPAL FINANCIAL MANAGEMENT (cont.)



## – General Finance Matters

- MFMA to raise capital in the South African bond market
- Credit risk management
- The crisis of municipal arrears
- Motivation of rate payers
- Collection powers of Municipalities

# EMERGING TRENDS OF MUNICIPAL FINANCIAL MANAGEMENT (cont.)



## – Focus on local Government Finance

- REDS – DME view
- Effective client service
- Capacity building within the LA financial fraternity
- Determining service levels according to affordability
- Risk and insurance management
- Striking a balance between social and economic expenditure in Local Government

# EMERGING TRENDS OF MUNICIPAL FINANCIAL MANAGEMENT (cont.)



## – Financial Legislation in Municipalities

- Implementation of the MFMA
- The Property Rates Bill

# PARTNERSHIP IN MUNICIPAL FINANCE

## Topic : -

## Key Issues : -

Financial solution that complies with accounting standards

- Lack of capacity (systems and human resources)
- Implement the MFMA and GAMAP
- Management accountability and transparency of financial information

Partnership with DPLG, SALGA, ASB, IMFO and other role players

- Partnerships must be mutually beneficial to drive common goals and objectives
- Partnerships only successful if all parties subscribe to decision making process

Partnership with the rate payer

- Re-establish relationships and trust within local communities

# PARTNERSHIP IN MUNICIPAL FINANCE (cont.)

Topic : -	Key Issues : -
Cash management as the anchor for sustainability	<ul style="list-style-type: none"><li>• Monthly forecasts</li><li>• Take the budget and make it work</li><li>• Measure forecasts against actuals</li><li>• Take action on variances</li></ul>
Linking of strategic roles between the Financial and Fiscal Commission	<ul style="list-style-type: none"><li>• Credibility of officials</li><li>• Provision of sufficient resources across all provinces</li><li>• Debt management critical</li></ul>

# GENERAL FINANCE MATTERS

## Topic : -

## Key Issues : -

MFMA to raise capital in the South African bond market

- Understand the capital markets
- Municipality must be rated (credit rating)
- R 500 million can be borrowed
- Ability to service the debt must be determined
- Timing of borrowings need to be accurate to the current economic climate

Credit risk management

- Data cleansing
- Verification and tracing of customers
- Debt collection, administration and debtor performance monitoring

# GENERAL FINANCE MATTERS

## (cont.)

Topic : -	Key Issues : -
The crisis of municipal arrears	<ul style="list-style-type: none"><li>• Continuous financial performance measurement</li><li>• Municipalities to benchmark themselves against others to determine financial position</li><li>• Prioritise municipal debt (implement measures to collect amounts owed)</li></ul>
Motivation of rate payers	<ul style="list-style-type: none"><li>• Adopt alternative approach</li><li>• Strong leadership</li><li>• Interact with communities based on accurate and reliable information</li><li>• Understand community requirements and provide alternative methods of payment</li></ul>

# GENERAL FINANCE MATTERS

## (cont.)

### Topic : -

Collection powers of municipalities

### Key Issues : -

- Adopt, implement and maintain credit control and debt collection policy
- Focus on own revenue and measures to increase this instead of borrowing from other sources to cover expenses
- Metering and billing must be accurate
- Lack of common vision between municipal officials and politicians regarding collections
- Distinguish between able but unwilling and willing but able to pay to ensure credit control efforts are focussed
- Implement appropriate technologies to support processes

# FOCUS ON LOCAL GOVERNMENT FINANCE

## Topic : -

REDS – DME view

## Key Issues : -

- Electricity Distribution Restructuring Bill (EDRB) still to be enacted
- Compulsory or voluntary movement to REDS to be prescribed by EDRA
- 18 months to plan and ring fence electricity businesses
- Followed by 24 months to establish REDS
- REDS to be owned by asset contributors through a share scheme
- Current surplus earned from electricity to be assured through dividends and levy (National Treasury to fix levy)
- Employees to be transferred as part of sale of business as going concern
- Ring fencing toolkit to be provided by EDIH to municipalities by Jan 2004

# FOCUS ON LOCAL GOVERNMENT FINANCE (cont.)

## Topic : -

Effective client service

## Key Issues : -

- Deterioration of debtor payments goes hand in hand with poor customer care
- Debts increase due to inadequate credit control, inability to pay for services, incorrect billing, customer queries not dealt with, level of service not in line with what customers can afford
- Legislation support debtor management and customer care
- Improve debtor management through trustworthy partnerships between customers and Council, customers and administration, Council and administration

# FOCUS ON LOCAL GOVERNMENT FINANCE (cont.)

## Topic : -

Capacity building within the Local Authority  
financial fraternity

## Key Issues : -

- Skills analysis and data collection
- Develop training objectives in line with municipality core business
- Design training methodologies
- Provide training on financial management
- Provide training on project and programme management (ability to spend)
- Measure performance
- Leadership must enable, teach, motivate, provide knowledge and skills

# FOCUS ON LOCAL GOVERNMENT FINANCE (cont.)

## Topic : -

Determining service levels according to affordability

## Key Issues : -

- Emphasis should move from how much is being spent to how money is being spent
- Providing proper services to the community requires a shared vision of the preferred future
- Develop economic base of the municipality through the development of infrastructure, the local economy and the people
- Get closer to consumers and their needs

# FOCUS ON LOCAL GOVERNMENT FINANCE (cont.)

## Topic : -

Risk and insurance management

## Key Issues : -

- Insurance broker and actual insurer roles should be split to provide independent opinion
- An enterprise wide risk management approach must be established
- Continual monitoring of factors that can influence risks
- Synergy must be obtained between strategy, processes, people, technology and knowledge
- Ensure that proper policies and procedures are implemented

# FOCUS ON LOCAL GOVERNMENT FINANCE (cont.)

## Topic : -

Striking a balance between social and economic expenditure in Local Government

## Key Issues : -

- Budgets should be aligned to national MTEF
- Balance must be achieved between delivering basic services and the economic development of the municipality
- Sustainability of the capital expenditure must be catered for in the operational budget for the following years
- Use IDP as central point of reference to prioritise different projects

# FINANCIAL LEGISLATION IN MUNICIPALITIES

## Topic : -

Implementation of the MFMA

## Key Issues : -

- MFMA still to be enacted
- Still subject to changes
- All municipalities to implement MFMA
- Implementation timeframe will range from two to five years based on three phased implementation plan to coincide with the timeframes allocated to different levels of municipalities
- Financial and non-financial assistance to be provided to municipalities based on capacity and pilot programme participation

# FINANCIAL LEGISLATION IN MUNICIPALITIES (cont.)

**Topic : -**

The Property Rates Bill

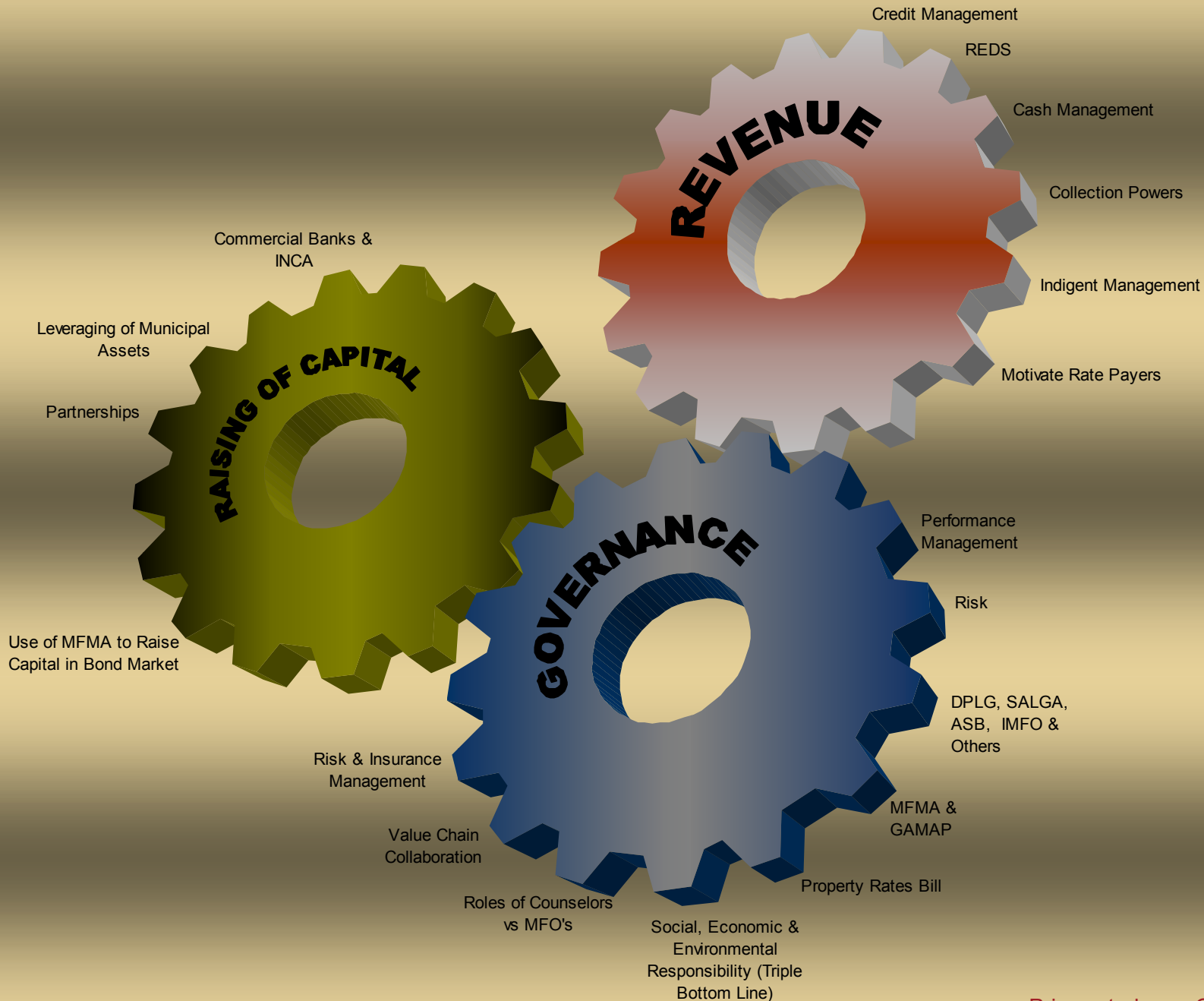
**Key Issues : -**

- Implementation to take four years from effective date of legislation
- Metros and type B municipalities will not be provided with financial assistance for implementation
- Financial assistance to be considered for rural councils

KNOWLEDGE MANAGEMENT

CAPACITY BUILDING

PARTNERSHIPS



# CONCLUSION



- **Local Government is faced with many challenges**
- **These challenges are not unique to South Africa**
- **We can leverage off international best practice and benchmarks**
- **Conferences such as IMFO highlight the important role you as Councilors, Municipal Managers, Chief Financial Officers and officials fulfill in determining the future of Local Government**
- **You hold the key to not only reshaping service delivery but also to promote accountability and transparency as the face of Government within your communities**