

National Treasury's Local Government Budget Reform Roadmap – Creating sustainable municipalities

Department of Water Affairs – 2013 Provincial Workshops

Presenter: Carl Stroud & Kevin Venter | Chief Directorate: LGBA, National Treasury | 16 April 2013



Objectives of the local government financial management reform programme

- To modernise local government budgeting and financial management processes and practices, particularly with regards to:
 - Budgeting and financial reporting
 - Accounting
 - Asset management
 - Supply chain management
- To improve financial governance by clarifying and separating roles and responsibilities of Mayors, executive and non-executive councilors vis-à-vis those of municipal officials.
- To maximise municipal capacity to deliver services by attending to issues of efficiency, effectiveness and sustainability, and dealing with corruption.
- To set-up the accountability cycle by ensuring proper linkages between IDPs, budgets, SDBIPs, in-year reports, annual financial statements, annual reports, oversight reports and audit reports.



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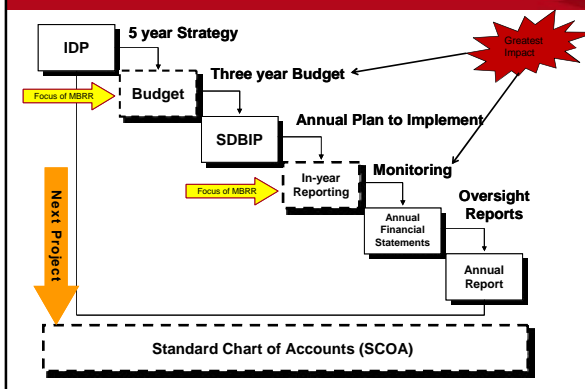
Aims of the local government budget reforms

- Ensure that municipal budgets and financial management processes are transparent, aligned to the accountability cycle and facilitate democratic governance accountable to local communities
- Ensure municipal budgets generally support the provision of basic services to communities, facilitate social and economic development and promote a safe and healthy environment in a manner that is sustainable
- Ensure that budget and financial information is reliable and timely, and consistent across municipalities, and that municipalities, provinces and national government use it in management and policy decision-making
- The medium-term aim is to ensure that each municipality produces a **budget document** that is aligned to the IDP, that passes the funding compliance test and that contains accurate financial information backed-up by useful, informative narratives. The document must be user-friendly and facilitate engagements with communities and informed decision-making by Council



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Influencing the LG accountability cycle



Improving the quality of budget information

- Introduction of the standardised budget formats supported by:
 - Schedule A1, plus a helpline service
 - Budget Formats Guide
 - Funding Compliance Guide
 - Dummy Budget Guide
- Evaluation of tabled budgets – for all 278munics
- Benchmark process for 17 non-delegated munics
- Ensuring all numbers align across adopted budgets, Schedule A1s and budget return forms
- Publication of municipal budgets on NT website



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Persistent under spending of conditional grants (1)

Over and under spending of conditional grants adjusted allocations for the 4th quarter ended 30 June 2012 (Preliminary results)

		Main allocation	Revised allocation	Year to date: 30 June 2010	Total Expenditure as % of main allocation	Total Expenditure as % of revised allocation	(Over)	Under	(Over) spending as % of adjusted budget	Under spending as % of adjusted budget
R thousands	Code									
Summary per Province										
Eastern Cape	EC	3 880 679	3 867 849	2 940 802	75.8%	76.0%	(23 894)	950 940	0.6%	24.6%
Free State	FS	1 000 526	1 022 080	923 885	92.3%	90.4%	(19 653)	118 148	2.0%	11.6%
Gauteng	GT	2 803 333	2 860 851	1 630 303	58.2%	57.0%	(31 200)	1 281 838	1.1%	44.1%
KwaZulu-Natal	KZ	3 494 055	3 482 500	3 611 526	103.4%	103.7%	(417 093)	287 726	12.0%	8.3%
Limpopo	LP	2 710 465	2 793 405	2 289 574	85.7%	81.2%	(70 055)	963 916	2.5%	21.3%
Mpumalanga	MP	1 538 959	1 496 408	1 211 760	80.3%	81.0%	(51 691)	336 336	3.5%	22.5%
North West	NW	1 598 674	1 519 344	1 152 482	73.5%	75.9%	(83 366)	450 246	5.5%	29.6%
Northern Cape	NC	625 324	572 450	426 621	68.0%	76.3%	(12 764)	149 810	2.3%	26.0%
Western Cape	WC	2 463 751	2 482 351	1 578 261	64.1%	64.1%	(64 270)	949 350	2.6%	38.5%
Total		20 055 984	20 077 335	15 755 625	78.0%	78.5%	(774 415)	5 086 125	3.9%	25.4%
						Net	4 321 710			



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Persistent under spending of conditional grants (2)

Aggregated conditional grants expenditure per programme for the 4th quarter ended 30 June 2012 (Preliminary results)

		Main allocation	Revised allocation	Year to date: 30 June 2012	Total Expenditure as % of main allocation	Total Expenditure as % of revised allocation	(Over)	Under	(Over/Under as % of adjusted budget)
R thousands	Code								
Summary per Province									
Municipal Infrastructure Grant	IMG	11 443 325	11 443 325	9 635 335	84.2%	84.2%	-	1 808 170	15.8%
Finance Management Grant	FMG	384 641	423 641	422 827	109.9%	99.8%	-	814	0.2%
Neighbourhood Development Partnership Programme: Capital	NDPP 6	750 000	750 000	710 600	94.7%	94.7%	-	39 400	5.3%
Neighbourhood Development Partnership Programme: Technical	NDPP 7	100 000	100 000	-	-	-	-	-	-
Municipal Systems Improvement Grant	MSIG	219 420	220 210	223 161	101.7%	101.3%	(2 951)	-	(1.3%)
Public Transport Infrastructure and Systems Grant	PTIS	4 803 347	4 803 347	2 341 221	48.7%	48.7%	-	2 462 126	51.3%
Rural Transport Infrastructure Grant	RTIS	36 440	36 440	11 174	31.0%	31.0%	-	25 266	68.0%
Expanded Public Works Programme Incentive Grant	EPWP	679 583	679 583	-	-	-	-	-	-
Integrated National Electrification Programme: Eskom	INEP 6	1 086 612	1 086 612	1 019 842	93.0%	93.0%	-	70 771	7.0%
Integrated National Electrification Programme: Eskom	INEP 7	1 737 811	1 737 811	-	-	-	-	-	-
Backlogs for electrification at schools and clinics	IBESC	-	-	-	-	-	-	-	-
Electricity Demand Side Management (Municipal)	EDSM 6	280 000	280 000	254 795	91.0%	91.0%	-	25 205	9.0%
Electricity Demand Side Management (Eskom)	EDSM 7	118 800	118 800	-	-	-	-	-	-
Water Services Operating and Subsidy Grant: Direct	WSOS 6	560 794	542 346	752 504	134.2%	138.7%	(210 158)	-	(38.7%)
Water Services Operating and Subsidy Grant: Indirect	WSOS 7	99 935	128 442	-	-	-	-	-	-
Regional Bulk Infrastructure Grant	RBIG	1 704 140	1 686 102	-	-	-	-	-	-
Municipal Drought Relief Grant	MDRG	450 000	450 000	364 285	81.0%	81.0%	-	85 715	19.0%
Backlogs for sanitation and water at schools and clinics	BSWS	-	-	-	-	-	-	-	-
2010 FIFA World Cup Stadiums Development Grant	WCKD	-	-	-	-	-	-	-	-
2010 FIFA World Cup Stadiums Development Grant	FWCSD	-	-	-	-	-	-	-	-
Rural Households Infrastructure Grant	RHIS	231 500	257 500	-	-	-	-	-	-
Unallocated amounts									
Total		24 695 528	24 793 346	15 735 741	63.7%	63.6%	(213 110)	4 522 468	36.4%

Outcome of the previous Benchmark Engagement: Summary of tabled 2012/13 MTREF - 8 Metro's

Compliance and Sustainability Measure	City of Johannesburg	Cape Town	eThekweni	Ekurhuleni	Tshwane	Nelson Mandela Bay	Mangaung	Buffalo City
Tabled or Adopted Budget	Tabled	Tabled	Tabled	Tabled	Tabled	Tabled	Tabled	Tabled
Compliance to Overall Budget Process: In accordance with the MFMA time schedule	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Political Oversight Undertaken	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Mid-year Review Undertaken	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Alignment of Budget with National, Provincial and IDP Priorities	Yes	Yes	Yes	Fair	Yes	Fair	Fair	No
Provided Adequate Budget	Yes	Yes	Yes	Yes	Yes	Partially	Partially	Partially
Adequate Public Participation	Yes	Yes	Yes	Yes	Yes	Yes	Fair	Fair
Backlogs Adequately Addressed as informed by available funding / funding constraints	Yes	Yes	Yes	Partially	Yes	Partially	Partially	Partially
Ability to Borrow as part of the MTREF	Limited	Yes	Limited	Yes	Limited	Limited	Yes	Yes
Status of the Cash flow / Liquidity	Fair, with risk	Good	Good	Fair	Poor	Poor	Good	Poor
Is the Budget Funded	Yes	Yes	Yes	Yes	Only Year 1	No	No	Only Year 1
Is the Budget Multi-year	Yes	Yes	Yes	Yes	Yes	Partially	Partially	Partially
Is the Budget Credible & Sustainable	Yes	Yes	Yes	Yes	Yes, with risk	No	No	Yes, with risk

Outcome of the previous Benchmark Engagement: Summary of tabled 2011/12 MTREF – 8 Secondary Cities and 1 District

Compliance and Sustainability Measures	Musikuzi	Rustenburg	uMhlathuze	Mbombela	Polokwane	Sol Plaatje	George	O.R. Tambo	Mafikeng
Tabled or Adopted Budget	Tabled	Tabled	Tabled	Tabled	Tabled	Tabled	Tabled	Tabled	Tabled
Compliance to Overall Budget Process: In accordance with the MFMA time schedule	Yes	No	Yes	Yes	Yes	Yes	Yes	No	No
Political Oversight Undertaken	Partially	Yes	Yes	Yes	Yes	Yes	Yes	Partially	Yes
Mid-year Review Undertaken	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Alignment of Budget with National, Provincial and IDP Priorities	Partially	Partially	Yes	Yes	Partially	Partially	Partially	Partially	Partially
Provided Adequate Budget	Partially	Partially	Yes	Yes	Partially	Partially	Yes	Partially	Partially
Adequate Public Participation	No	Yes	Yes	Yes	Yes	Yes	Yes	Partially	Partially
Backlogs Adequately Addressed as informed by available funding / funding constraints	Fair	No	Fair	Fair	Fair	No	Fair	Fair	No
Ability to Borrow as part of the MTREF	No	Yes	Limited	Yes	Yes	Yes	Limited	Limited	No
Status of the Cash flow / Liquidity	Poor	Good	Poor	Fair	Poor	Fair	Good	Good	Poor
Is the Budget Funded	No	Only Year 1	Only Year 1	Only Year 1	Only Year 1	Only Year 1	Yes	Only Year 1	No
Is the Budget Multi-year	No	No	Partially	No	No	No	Partially	No	No
Is the Budget Credible & Sustainable	No	No	Yes, with risk	Yes, with risk	Yes, with risk	Yes, with risk	Yes, with risk	Yes, with risk	No

Outcome of the previous Benchmark Engagement: Tabled 2012/13 MTREF

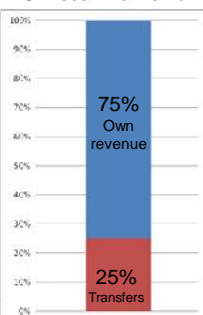
Common risk areas among the non-delegated municipalities include:

- Costing of services and tariff setting;
 - Budgeting for a longer-term horizon; including the compilation of a long-term financial strategy;
 - Budgeting for surpluses;
 - Asset management strategies;
 - Revenue value chain; and
 - Business process shortcomings; including financial system limitations
- Can you associated with any of the above?*
- Collection rate - 17 non-delegated municipalities (secondary cities 87 per cent; metro's 92 per cent)
 - Structuring of tariffs is an area of concern!

What is the Local Government Fiscal Framework?

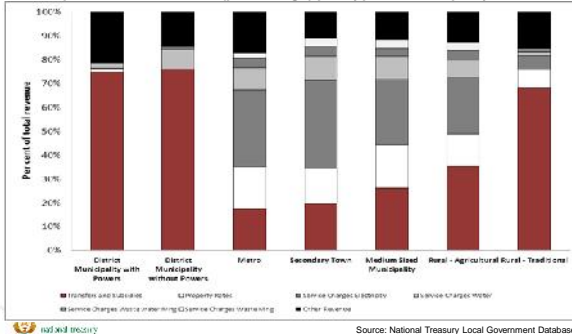
- The LGFF refers to all the revenues municipalities have at their disposal to meet their expenditure obligations
 - These include own revenue, borrowing and transfers
- Own revenue makes up 75% of the total LG Fiscal framework
 - But as the next slide shows the proportion own revenue and transfers contribute to the revenue of different municipalities varies greatly
- It does not make sense to look at municipal finances without considering both own revenues and transfers

LG Fiscal Framework



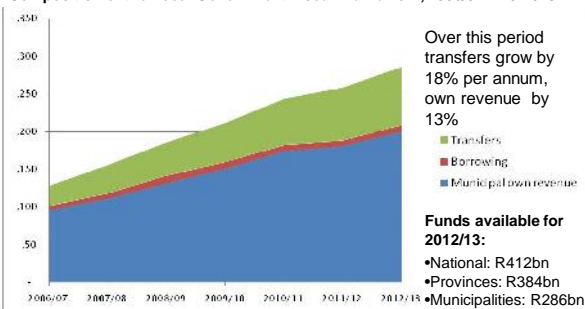
Importance of different sources of revenue is very different for different types of municipalities:

Municipal Revenue Sources (percentage) per Type of Municipality, 2010/11



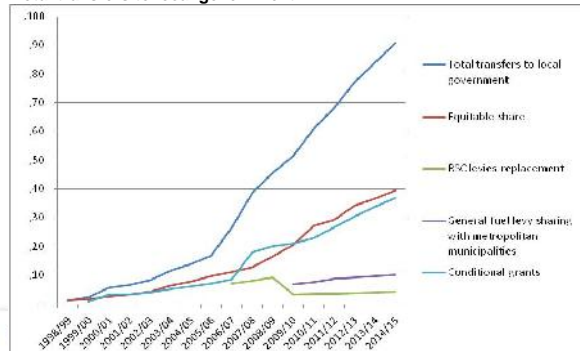
Transfers have become a larger part of the LGFF over time

Composition of the Local Government Fiscal Framework, 2006/07 – 2012/13



The value of transfers to local government has increased dramatically since 1998 (when the LGES was introduced)

Total transfers to local government



LG conditional grant allocations - Infrastructure

Infrastructure transfers to local government, 2009/10 – 2015/16

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
	Outcome		Revised estimate	Medium-term estimates			
R million							
Direct transfers	18 699	20 871	24 643	28 029	31 092	33 548	36 971
Municipal infrastructure grant	8 728	9 704	11 443	13 882	14 352	14 684	15 448
Municipal water infrastructure grant	—	—	—	—	603	1 059	2 672
Urban settlements development grant	4 418	4 968	6 267	7 392	9 077	10 335	10 700
Integrated national electrification programme	900	1 033	1 097	1 151	1 635	1 565	2 056
Public transport infrastructure development grant	2 421	3 700	4 612	4 988	4 669	5 126	5 279
Neighbourhood development partnership grant	508	832	738	578	598	591	600
2010 FIFA World Cup stadiums development grant	1 661	302	—	—	—	—	—
Rural roads asset management systems grant	10	10	35	37	52	75	98
Rural households infrastructure grant	—	—	—	—	107	113	118
Municipal drought relief grant	54	320	450	—	—	—	—
Indirect transfers	2 763	2 682	2 553	4 823	5 399	7 029	8 617
Integrated national electrification programme	1 616	1 720	1 165	1 879	2 141	2 488	3 680
Neighbourhood development partnership grant	70	50	50	80	55	58	65
Regional bulk infrastructure grant	577	851	1 260	2 523	3 203	4 483	4 872
Backlogs in water and sanitation at clinics and schools	350	—	—	—	—	—	—
Backlogs in the electrification of clinics and schools	149	—	—	—	—	—	—
Rural households infrastructure grant	—	62	78	341	—	—	—
Total	21 462	23 553	27 196	32 852	36 492	40 577	45 588

LG conditional grants – Capacity and other

Capacity building and other current transfers to local government

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
				Revised estimate			
R million							
Direct transfers	2 194	1 951	1 862	2 586	3 364	3 351	3 632
Municipal systems improvement grant	200	212	220	230	240	252	261
Local government financial management grant	300	365	385	403	425	449	470
Public transport network operations grant	—	—	—	—	881	745	862
Integrated city development grant	—	—	—	—	40	150	150
2010 FIFA World Cup host city operating grant	508	210	—	—	—	—	—
2013 African Cup of Nations host city operating grant	—	—	—	123	—	—	—
2014 African Nations Championship host city operating grant	—	—	—	—	120	—	—
Water services operating subsidy grant	849	664	542	562	421	450	470
Expanded public works programme	101	280	364	662	611	632	661
Integrated grant for municipalities infrastructure skills development grant	—	—	39	75	99	154	179
Energy efficiency and demand-side	175	220	280	200	181	155	202
Municipal disaster grant	61	—	32	330	347	364	376
Indirect transfers	318	257	217	133	139	142	151
Energy efficiency and demand-side	75	109	119	—	—	—	—
Water services operating subsidy	243	148	98	133	139	142	151
Total	2 512	2 208	2 079	2 719	3 503	3 493	3 783

The new LG equitable share formula structure

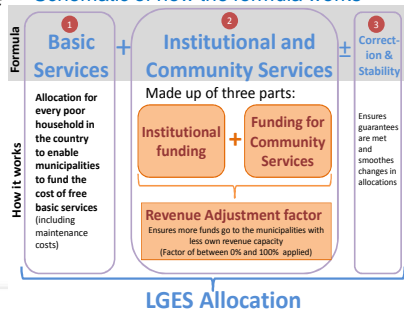
The new LGES formula :

$$LGES = BS + (I + CS) \times RA \pm C$$

Where:

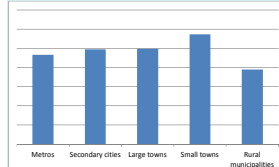
- LGES is the local government equitable share
- BS is the basic services component
- I is the institutional component
- CS is the community services component
- RA is the revenue adjustment factor
- C is the correction and stabilisation factor

Schematic of how the formula works

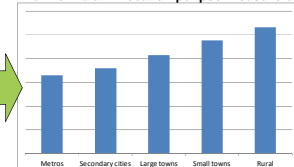


Impact of the new formula

Old formula - Allocation per poor household



New formula - Allocation per poor household



- The old formula produced allocations per poor household that were lowest for municipalities with the least ability to raise their own revenue
- The new formula corrects this with a much more redistributive structure (figures presented here exclude the impact of the phase-in)

Municipal Budget and Reporting Regulations



MBRR...*budgeting system for LG*

We have developed a *budgeting system* for local government:

- Promulgated Municipal Budgeting and Reporting Regulations in 2009
- Standardised 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
- 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)
- Assisted the Provincial Treasuries in replicating the above processes in respect of all delegated municipalities

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MBRR...*Provides for a reporting system for LG*

We have developed a *reporting system* for local government:

- Created a Local Government Database to facilitate the collection and storage of local government data
- Institutionalised a culture of monthly reporting in terms of S71 of the MFMA by all municipalities
- Publish S71 information on a quarterly basis for all municipalities
- Continually strive to increase the scope and quality of these publications to increase the value add
- Publications are used extensively by the press, sector departments and outside institutions
- In 2006, only 43 municipalities reported in-year information. Currently all 278 municipalities on average are reporting in terms of S71 of the MFMA
- municipalities are legally compelled to compile reports in a standardised format

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Schedules A1 to A10

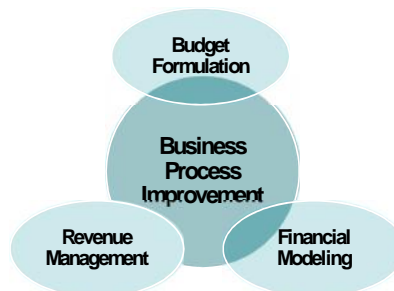
- Provides for multiple budget dimensions such as operating and capital statement, cash flow and funding compliance
- Incorporates non-financial information e.g. non-revenue water
- Incorporates asset management; and
- Service delivery measurement
- **Importantly, not just the responsibility of the CFO and the Finance Department!**
- [City of Johannesburg_DWA.xls](#)

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Costing, tariff setting and managing sustainability – Core services such as water



Financial management reform focus areas



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Approach to financial modeling

- The introduction of financial modeling targets all costing activities with particular focus on tariff determination and cost benefit analysis for capital projects
- Financial modeling is fundamental to improving the quality of municipal MTREF submissions and thereby positively influencing financial sustainability and service delivery



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Tariff determination

- Tariff modelling that ensures cost recovery requires a structured process whereby cost accounting (management accounting) is applied; this will enable municipalities to determine the real cost of municipal services provided and in turn the financial 'burden' or affordability to households can be factored into the process.
- Effective costing of municipal services will also provide a more accurate indicator of what municipalities are spending in terms of providing 'free' basic services to disadvantaged communities.
- A tariff modelling tool will ensure a consistent approach to tariff determination processes across municipalities; provide for scenario planning; and be responsive to local circumstances and conditions such as backlogs, demographics, social disparities and economic conditions.



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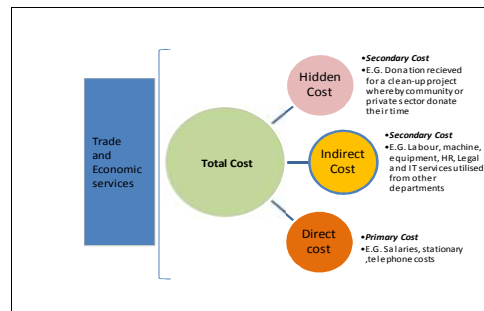
Cost accounting (Management accounting)

- Cost accounting is not a rocket science
- It is the application of basic cost accounting principles.
- Is an approach to capture, store, and report cost data for internal use
- It is a valuable tool for understanding and reporting your trading service costs
- Most municipalities do not know the real cost of managing their trading
- Cost accounting is a systematic approach for identifying, summing and reporting the full cost incurred to render a service to the community.
- Cost accounting uses generally accepted accounting principles to quantify all direct, indirect and hidden costs
- Understanding cost drivers is important for sound budgeting
- Application of cost accounting principles will better equip municipalities with the allocation of costs in respect of shared services
- Effective cost accounting will contribute to optimal utilisation of resources and achieving efficiency, effectiveness and value for money



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Elements of accounting for costs



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Why Should You Implement Full Cost Accounting?

- The cost of rendering a service will be transparent
- Explain costs to citizens more clearly
- Will be able to justify tariff increases
- Adopt a more businesslike approach to managing tariff services
- Operating surplus will be cost reflective
- Compare your costs with those of other municipalities
- Better control and application of resources
- Fine-tune your programs to increase cost-effectiveness
- Duplication of activities can be identified
- Shared services costs can be correctly allocated to user departments



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Risks of not implementing full cost recovery

- Potential for cross subsidization from the property rates or other tariff services
- A widening gap between full cost and current expenditure resulting in huge tariff increases
- An increase in emergency repairs
- A steady degradation of system infrastructure, resulting in reduction of service levels and loss of revenue
- Reduced ability to attract new business
- Can result in higher insurance costs
- A lower credit rating and higher lending costs



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Findings of benchmarking engagements (1)

- Basic accounting principles and costing methodologies are not applied to determine the 'real' cost of providing services
- Tariff determination is not informed by accurate costing that incorporates direct, indirect and hidden costs of services
- There is rarely a correlation between the annual tariffs in respect of basic services and the cost of providing such services
- The traditional approach of incremental tariff increases is widely applied
- The financial imbalance of the basic services is becoming increasingly greater with the costs exceeding the revenue generated by service charges



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Findings of benchmarking engagements (2)

- Decreased cash coverage and depleted cash backed reserves is a further concern
- In general municipalities are becoming more and more grant dependent
- Cost efficiency does not seem a widely applied practice
- Inadequate allocations for asset renewal & maintenance



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Findings of benchmarking engagements (3)

- An analysis of the 17 non-delegated municipalities 2012/13 MTREF found that 8 municipalities budgeted for a cost reflective tariffs, others applied an incremental approach

2012/13 FY	Electricity Services		Water Services		Waste Water Services		Waste Management Services		Trading Services Consolidated	
	Surplus	Deficit	Surplus	Deficit	Surplus	Deficit	Surplus	Deficit	Surplus	Deficit
Metros										
City of Johannesburg	316,093		468,649				(48,656)		736,096	
City of Cape Town	579,618		54,464		218,202		(734,796)		117,498	
eThekweni	440,385			(152,613)	52,948		(209,244)		131,377	
Ekurhuleni	207,820		76,730		325,611		146,406		756,566	
City of Tshwane	34,852				52,045					
Nelson Mandela Bay		(79,399)		(329,966)					(711,629)	
Mangosuthu		(167,846)	43,385	(15,388)	136,117	(87,283)	14,901	(18,718)	(167,168)	
Buffalo City		(132,739)		(86,916)		(35,796)		(26,098)	(281,559)	
Secondary Cities										
Moundlet LM	287,742				56,729		57,329		135,186	
Rustenburg LM		(45,247)	22,021	(276,613)	1,869		(6,548)		(27,893)	
uMhlabuthi LM	18,535		18,831	(80,207)	12,539		9,104	(23,046)	(51,178)	
Mountain LM	93,828			(13,694)	2,947	(8,193)			124,710	
Pretoria LM		(56,281)							(96,941)	
Sol Plaatje LM		(8,748)	18,914		261		(1,924)		8,503	
George LM		(365)	18,833				58,833		111,062	
OR Tambo LM				(203,041)	35,749	(5,239)			(203,041)	
Mafikeng LM				(14,638)			(32,542)		(52,408)	
Total	1,989,872	(490,623)	721,829	(1,153,065)	894,920	(136,912)	286,574	(1,585,105)	2,120,971	(1,657,683)



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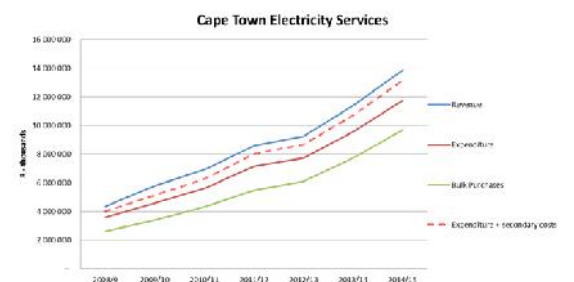
Findings of benchmarking engagements (4)

- These deficits reflected on the table above mean that municipalities are:
 - Cross subsidising tariff services with property rates
 - Depleting the limited reserves available
 - Budgeting for deficits or adopting the mythical "balanced budget approach"
- This is detrimental to financial sustainability and consequently places service delivery at risk



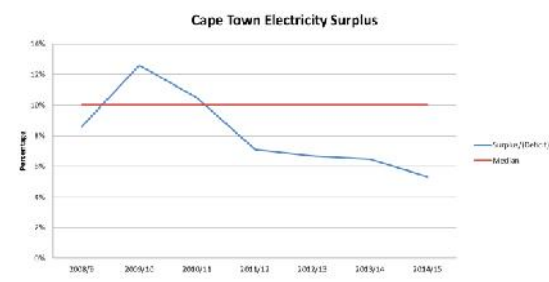
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Findings of benchmarking engagements (5)



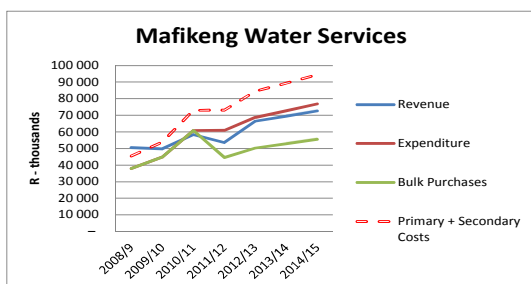
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Findings of benchmarking engagements (6)



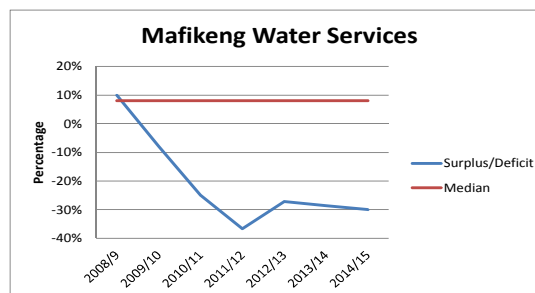
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Findings of benchmarking engagements (7)



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Findings of benchmarking engagements (8)



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Shortcomings in costing practices (1)

- Engagements were held with the various financial system vendors in order to establish if their systems catered for internal cost recoveries (cost accounting).
- It must be noted that only **22 %** of municipalities do apply some sort of cost allocation, but the manner in which they allocate direct and indirect costs is weak
- A summary of the costing modules currently being utilised by municipalities is depicted in the following table:



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Shortcomings in costing practices (2)

Vendor	System	Number of municipalities utilising the system	Number of municipalities utilising costing modules
BCX	Venus	71	28
Sebata	Sebata FMS	43	14
Bytes	Samras	32	7
Munsoft	Munsoft	32	7
Fujitsu	Abacus	17	0
R Data	Promun	16	9
Fujitsu	ProMe	13	5
Other	In House /Other	10	3
SAP	SAP R3	5	2
Vesta	Phoenix	3	3



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Shortcomings in costing practices (3)

- Only 10 of the systems make provision for costing
- Of the 242 municipalities whose systems provide for the costing function, only 78 utilize this capability. In most cases there is no planning upfront, costing is only applied as an after effect
- Where municipalities are attempting to cost for services, there calculations are usually limited to direct costs such as remuneration and bulk purchases, with little or no consideration for indirect costs
- The traditional approach of incremental tariff increases is widely applied
- The financial imbalance of basic services is becoming increasingly greater with costs exceeding the revenue generated by service charges.
- As depicted in the following table, these services are the main revenue source for municipalities (60.6%)



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Shortcomings in costing practices (4)

Source of Revenue	2011/12 Budgeted Revenue (R'000)	% of Total Revenue
Property rates	31 694 849	15.2%
Electricity	64 763 989	31.0%
Water	19 959 256	9.6%
Waste Water	5 736 830	2.7%
Waste Management	4 438 394	2.1%
Sub Total	126 593 318	60.6%
Transfers and Subsidies	54 048 904	25.9%
Other revenue	28 261 356	13.5%
Total	208 903 578	100.0%



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Conclusion (1)

- Costs, cost management and a costing methodology should not be informed by a specific approach i.e. ABC, absorption costing etc., but should rather be a hybrid solution aimed at the specific requirement of LG in a South African context.
- The time, effort and cost should always be justified by the outcome.
- Municipalities that work to a longer planning horizon and understand the impact of cost drivers and cost management will be in a position to:
 - Test the likely impact of different income scenarios;
 - Seek out alternative models for sharing local resources more effectively;
 - Increase the impact of spending and influence;
 - Challenge the status quo of the design, management and delivery of services;
 - Improve efficiency by streamlining business processes;
 - Be in a position to decide on trade-offs in meeting the current challenges and preserving capacity for the longer term; and
 - And start understanding the costs of specific service delivery i.e. agency services, underfunded mandates etc



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Conclusion (2)

- Quality local government information input into national policy debates
- Information comparable across all municipalities to aid resource allocation decisions
- Ensuring 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
- Prevention of municipal financial difficulties before they occur (e.g. budget analysis as an early warning tool) together with S71 reports
- All the efforts is to improve the link between policy formulation, planning, budgeting, implementation, reporting and monitoring i.e. Accountability!



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Thank you



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