The South African Cities Network

The State of South African Cities
3rd SACN Urban Conference
24 -25 November 2009

MUNICIPAL FINANCE BREAKAWAY

Municipal Revenue

1. Trends (data analysis)
2. Challenges

Conference briefing notes: since 2007….

- Financial position of most cities have deteriorated
- Tshwane and Joburg – cash flow
- All cities report declining revenue from rates and service charges and escalating capital project costs

SOURCES OF DATA

1. SACN 2009 Draft Cities Finance (Akhile)
2. 2009 National Treasury IYM Press Statement
3. 2009 SACN/WB/NT Municipal Infr Finance
4. 2008 Local Government Review
5. SACN 2007 State of City Finance Report
6. SoCR 1 (2004) & 2 (2006)
7. PSU Mun Revenue Data Analysis & Results

TRENDS

- Revenue Collection
- Consumer Debt
- Debtor Age Analysis
- Creditor Age Analysis
- R&M Expenditure
- Sources of Revenue (growth; proportionate share)
- Operating Surpluses; Cash Flow & WC

REVENUE COLLECTION TREND

- Improving since 2002/3? – NT states that "mun rev's are holding up well…despite recession."
- 30 June 2009 YTD aggregate: collected 92.5% of adjusted revenue budget
- 30 June 2009 YTD metros: collected 84.8% of adjusted revenue budget

CONSUMER DEBT

- Upward Trend; but not due to recession since it has been a consistent upward trend
- R50.4 billion as at 30 June 2009 with metro's owed R29.4 billion (10.4% annual increase) and secondary cities owed R8.3 billion (36.6% annual increase) with 70-80% aged 90 days+

CREDITOR AGE ANALYSIS

- Provincial disparities with NC and NW mun's worst off in terms of creditors outstanding for more than 90 days
- CASH FLOW PROBLEMS!!! EVEN SOME METRO'S

R & M EXPENDITURE

- On aggregate 5.5% of total adjusted budget (operating + capital)
- BUT NOT ENOUGH!!

SOURCES OF REVENUE

- Positive growth (aggregate); but unsure if due to tariff increases or expansion of services arising out of economic growth
- Proportionate share by major source: Increase in grants/transfers with decrease in Prop Rates and especially Service Charges
- 3 Non-metro mun’s grants (27%) account for greater share than property rates (18%)!

OPERATING SURPLUS, CASH FLOW & WC

- Increasing operating surpluses; yet cash flow crisis?!

CHALLENGES

- Trend analysis (SACN & NT) is that the financial strength of the Metro's and 3 secondary cities has improved in the past 5 years and are in a healthy financial position (with the exception of Mangaung and Tshwane) on the basis that:-
  - that operating surpluses have been growing
  - that net debtors as % of billed revenue have remained relative constant
  - that cash and investments have been increasing
  - that working capital has increased

CHALLENGES

- Revenue trend analysis draws a slightly different picture:
  - Akhile report indicates a decrease in **own revenue** from about 81% in 2003 to about 74% in 2008 with a corresponding increase in govt grants
  - Increase in outstanding debtors to R50.4 billion and in particular the proportion of debtors aged 90 days+
  - Despite the increase in long-outstanding debtors, bad debt provision has remained the same in proportion of operating expenditure since 2006. This is evidenced by an analysis by Akhile that indicates only 3 of 9 cities have an acceptable net debtors to billed revenue ratio of 17%.

CONTRADICTION?

Balance Sheet Analysis
tells a different story from the
Revenue Trend Analysis?

EXPLORE CONTRADICTION

The change of accounting policy, in particular revaluation of assets, has resulted in a significant increase in operating paper surpluses.

The fact is that these surpluses will in all likelihood never be turned into cash.

So any premise that operating surpluses are an indication of good health for municipalities should be dispelled.

EXPLORE CONTRADICTION

The consolidation of reserves in line with GRAP / GAMAP has distorted the comparative financial position analysis of the municipalities.

In the past most reserves had to be backed up by actual cash in the bank. This meant all future medium term capital commitments had to be backed up by cash or investment. This is no longer the case. What this implies is that working capital represented in form of cash and investments is not only for the short term working capital, but also for medium term capital commitments.

A simple comparative analysis such as the one done in the Akhile Report, could therefore be misleading unless it is understood in the context of old and new accounting policies. An more useful analysis would be to compare working capital as a % of operating costs?

EXPLORE CONTRADICTION

Unsure about why at 30 June 2008 metros had so much own cash in the bank (about R15.3b). What happened to this strong cash position to 30 June 2009?

Is part of the answer to be found in an analysis on long term borrowing?

PSU ANALYSIS & RESULTS

- Insufficient focus on completeness and correctness of **Own Revenue** (Property Rates & Service Charges) based on data integrity of
  - Property
  - Account
  - Account holder
  - Meters
  - Interfacing of different systems
- Indigent identification and management
- Credit Control
- Consumer Debt Reduction Strategy (strategies based on probability of recovery)

PSU ANALYSIS & RESULTS

- Balance Sheet Analysis needs to be accompanied by detailed data analysis that must be forward looking – performance audit with appropriate indicators (number of properties; number of accounts; number of account holders; number of meters; un/under-employed people irt indigent people

PSU ANALYSIS & RESULTS

- Pricing of municipal services (true costs) in respect to ability to pay (FBS)
- Financing rehabilitation of infrastructure as well as new infrastructure