

# Financial sustainability sector plan

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## High level overview

The overall mandate of the Financial Sustainability Sector is to oversee good governance and to provide for equitable and affordable service to the City's citizens. The strategic roles and responsibilities of this particular mandate inform the coordination of the City's efforts through formulation and enforcement of policies, rules and regulations to facilitate financial sustainability.

The Financial Sustainability Sector comprises of two departments, namely Finance and Revenue and Customer Relations Management (R&CRM). The Sector is driven by the following objectives:

- Empowered customers enjoying highest standards of customer care and responsiveness;
- A city that creatively evolves its resourcing/expenditure system to ensure long-term fiscal stability and growth, and optimal spending to support accelerated and sustainable development;
- A city with stable and growing revenue streams;
- Expanding range of capital funding options, supported by strong capital finance risk management; and
- Sustained excellence in financial management.

The Finance Department is primarily responsible for the following:

- Planning and allocation of budgets according to IDP and ensure effective cash flow management, loan financing, investment planning and financial risk management;
- Manage centralised treasury functions and act as the City's central banker, which involves managing the primary bank accounts, borrowings, investments and financial risk management for the City and its MEs;

- Develop and review the City's Rates Policy, ensure effective billing of rates and manage and monitor performance standards across the revenue value chain;
- Draw up and implement general and supplementary valuation rolls for the City in terms of relevant legislation;
- Enable an effective control environment to ensure compliance with acceptable financial and accounting practices. Ensure that the City maintains an effective, efficient and transparent financial and risk management and internal control systems, and provide financial administration functions. Set up group financial policy and framework and monitor group financial performance and reporting;
- Develop and implement an effective and efficient supply chain management system; and
- Reviewing, monitoring and "overseeing" of the affairs, practices, activities, behaviour and conduct of the MEs to satisfy CoJ that the MEs' affairs and businesses are being conducted in the manner expected and in accordance with the normal commercial, legislative and other prescribed or agreed norms.

The core functions of the Revenue and Customer Relations Management (R&CRM) Department include amongst others the following areas:

- Collection of revenue for rates and services;
- Credit management in respect of rates and services;
- Facilitation and implementation of the billing cycle from inception;
- Management of city-wide customer relations through a single customer view;
- Management of the city-wide policy and strategy in respect of CRM; and
- Overseeing electronic and physical Customer Relations Management (CRM) channels.

R&CRM Department is the face of the City of Johannesburg, the ultimate contact point. The inherent nature of the department necessitates that the department works with all departments and municipal-owned entities. While the Department is not directly responsible for the management of municipal entities and other core departments, functions of the Department are intertwined with the operations of the municipal entities and other core entities. The department relies on municipal-owned entities on functions such as the reading of meters to enable the Department to produce an accurate bill, issuing of prompt statements, etc.

The business and sector planning for the financial year 2010/11 does not seek to deviate from the above outlined objectives but seeks to be perceptive to the current realities of financial and revenue conditions by focusing on revenue maximisation efforts. The revenue maximisation drive is focused on multiple projects geared towards enhancing all revenue streams of the City. It is important to note that not all revenue maximisation projects reside with the Financial Sustainability Sector.

The revenue maximisation is an initiative and intervention driven by the Member of Mayoral Committee (MMC) for Finance. Key amongst these objectives is to harness the value add of the seamless property value chain, valuation roll, meter reading, implementation of credit control, query resolution and billing, which seek to respond to revenue gaps in the City. The revenue maximisation effort extends from departments to municipal entities with each business unit presenting projects aimed at revenue maximisation. The multiple projects report to a team convened by the MMC.

The current Mayoral Term presented a juxtaposition of a financial and revenue environment, characterised by economic decline and the determination to increase revenue collection while advancing green choices. As a result there is a need to maximise and sustain all revenue streams under prudent financial control.

### **Five-year promise**

The following revisions are proposed in the Financial Sector Plan to guide deliverables for 2010/11:

Five-year strategic objective	Five-year IDP programme	Section changed	Reason for change
Availability of cost-effective capital finance to fund the Capital Programme	Pursue the City's public borrowing programme (Domestic Medium Term Notes) to raise at least R6 billion to 2010	IDP Sub-programme	Within the approved R6 billion from the DMTN, the City has borrowed an accumulated amount of R3,8 billion from the beginning of the term, with R1 billion planned for 2008/09. The remainder of R1,2 billion will be left for the 2009/10 financial year
Over the five year term an average of 10% of city-wide capital spending funded through public private partnerships	Public Private Partnership Programme	IDP Sub-programme	Due to the legislation not being passed at the time of the IDP signing off, it is therefore difficult to quantify the 10% as it has a lot of other interactions. The Sector will, however, continue to provide progress on the implementation of this IDP Programme
Equitable and competitive tariff system that is informed by national inflation data and targets, comparable Metros and circumstances of citizens to ensure affordability	Effective Tariff Management Programme  An evaluation of the tariff methodology to assess whether it is relevant to the current changes in local government and that they are industry specific is completed	<ul style="list-style-type: none"> <li>• Ensure compliance with the amended tariff policy of the City</li> <li>• Enhance engagements with regulators and bulk service providers to help the City manage long-term decisions on tariff determination</li> <li>• Maintain separate property rates tariffs for category of property</li> <li>• Improve the 2010/11 tariff consultation</li> </ul>	Equitable and competitive tariff system that is informed by national inflation data and targets, comparable Metros and circumstances of citizens to ensure affordability

Five-year strategic objective	Five-year IDP programme	Section changed	Reason for change
A budget system, structure and format that enables sound resources allocation	<p>Financial Management Programme</p> <p>The revised budget management policy has been implemented since 1 July 2008</p> <p>The department uses the business case documents to determine the allocation of funding to departments and entities</p>	<ul style="list-style-type: none"> <li>• Implement Functional Areas (group of cost centres) within core administration on SAP where the programme budgeting must link and balance</li> <li>• Redevelop formats to ensure that they are in line with the National Treasury's requirements</li> <li>• Develop and determine Medium Term Budget Framework (MTBF) and long-term financial framework</li> <li>• Ensure that the budget system is maintained and is at par with the latest trends in the economy</li> </ul>	A budget system, structure and format that enables sound resources allocation

### Financial sustainability sector indicators

The Financial Sustainability sector indicators are informed by the objectives as outlined in the 2006/11 IDP. The sectors fundamentals include: ensuring financial sustainability, accountability, and responsiveness to the needs of the City.

Indicator	Five-year target (2006/11)	Progress against the five-year target (accumulated)	2010/11 delivery agenda
Increase revenue collection	Annually determined target (a consistent R6,4 billion per annum)	R46,7 billion	<ul style="list-style-type: none"> <li>• Increase revenue collection to minimum R18 billion (city-wide including platinum accounts)</li> </ul>

Indicator	Five-year target (2006/11)	Progress against the five-year target (accumulated)	2010/11 delivery agenda
Percentage improvement with regards to turnaround times in respect of clearances	Annually determined target (overall target 60%)	72,7 clearances issued within 30 days	<ul style="list-style-type: none"> <li>• 80% clearance certificates issued within 30 days of application (excluding properties with meter-related issues)</li> </ul>
Percentage increase in active customers receiving bills	Annually determined target (overall target 82%)	93,54% customers receiving bills	<ul style="list-style-type: none"> <li>• 95% active customers receiving bills</li> </ul>
Percentage reduction in time taken to answer calls at Contact Centre – CRC	Annually determined target (a consistent 90 seconds)	An average of 60 seconds	<ul style="list-style-type: none"> <li>• An average of 58 to 60 seconds</li> </ul>
Sustained Excellence in financial management	The target is to implement the short-term goals of the financial turnaround strategy by 2010/11	Financial turnaround strategy document complete – awaiting approval	<ul style="list-style-type: none"> <li>• Do a city-wide VAT review</li> <li>• Leveraging of non-strategic property</li> <li>• Restructuring the loan book</li> <li>• Finding alternative revenue sources</li> <li>• Consider alternative funding besides bond market, e.g. bilateral loans, and explore available borrowing options</li> </ul>
Implementation and management of new rates policy and valuation roll with minimum disruption	<p><b>Rates Policy</b> Effectively monitor and evaluate both Venus and SAP systems and align to new rates policy</p> <p><b>Valuation roll</b> Effectively implement and finalise the objection process</p>	<p>Rates Policy drafted and implemented in 2008. Extensive communication and consultation with the public was done</p> <p>Approximately 22 000 valuation objections were received and addressed. Just over 2 300 have gone for appeal. Compiled supplementary valuation rolls in compliance with the Act</p>	<ul style="list-style-type: none"> <li>• Monitor impact of the policy and tariff structure to inform possible policy changes</li> <li>• Review the policy on an annual basis in line with the budget process and legislation</li> <li>• Data collection and property verification for the 2012 general valuation roll</li> <li>• Formulate and implement additional supplementary valuation rolls as part of the audit of the general valuation roll 2008</li> </ul>
Ensure ongoing improvement in financial management systems	The target is to implement the short-term goals of the financial turnaround strategy by 2010/11	Financial turnaround strategy document has been approved at the January MayCom	<ul style="list-style-type: none"> <li>• Do a city-wide VAT review;</li> <li>• Leveraging of non-strategic property</li> <li>• Restructuring the loan book</li> <li>• Finding alternative revenue sources</li> <li>• Consider alternative funding besides bond market, e.g. bilateral loans, and explore available borrowing options</li> </ul>
Secure adequate funding	Raise capital funding for R6 billion	R6 billion	<ul style="list-style-type: none"> <li>• The borrowing to be done within the approved extended DMTN</li> </ul>

Indicator	Five-year target (2006/11)	Progress against the five-year target (accumulated)	2010/11 delivery agenda
Implementation and management of new rates policy and valuation roll with minimum disruption	<b>Rates policy</b> Effectively monitor and evaluate both Venus and SAP systems and align to new rates policy	Rates Policy drafted and implemented in 2008 Extensive communication and consultation with the public was done  The policy was reviewed and the necessary amendments made in the 09/10 financial year. It is currently undergoing reviews for the 10/11 financial year	<ul style="list-style-type: none"> <li>• Monitor impact of the policy and tariff structure to inform possible policy changes</li> <li>• Review the policy on an annual basis in line with the budget process and legislation</li> </ul>
	<b>Valuation roll</b> Effectively implement and finalise the objection process	The necessary amendments made in the 09/10 financial year. It is currently undergoing reviews for the 2010 financial year  Approximately 22 000 valuation objections were received and addressed. Just over 2 300 have gone for appeal. Compiled supplementary valuation rolls in compliance with the Act	<ul style="list-style-type: none"> <li>• Data collection and property verification for the 2012 general valuation roll</li> </ul>
Ensure financial sustainability by maintaining prudential ratios and benchmarks	Ratio of group cost coverage of 30 to 35 days  Ratio of group cost coverage of 13:1 (the higher the ratio the better)	54 days (for the quarter ending 30 September 2009) 41 days (for the quarter ending 31 December 2009) 31,42 times (for the quarter ending 30 September 2009) 4,34 times (for the quarter ending December 2009)	<ul style="list-style-type: none"> <li>• Ratio of group cost coverage of 30 to 35 days</li> <li>• Ratio of group debt coverage of 13 times (the higher the ratio the better)</li> </ul>
	95% spent on the City's capital budget.	Was at 93% with the exception of the 08/09 financial year.	<ul style="list-style-type: none"> <li>• 95% is targeted to be spent for 2010/11</li> </ul>
Overall financial oversight and ongoing improvement in financial management systems	5% variance on the City's operating budget. Long-term domestic credit rating improvement to at least AA rating	A variance of less than 5% obtained Maintain an investment rating of AA and above  Obtained clean audit for 2006/07, 2007/08 and 2008/09 financial years	<ul style="list-style-type: none"> <li>• Should not be more than 5% over budgeted amount.</li> <li>• Fitch: credit rating is maintained at AA-</li> <li>• Moody's: credit rating was upgraded by two notches to Aa2.za</li> <li>• To obtain a clean audit report</li> </ul>

Indicator	Five-year target (2006/11)	Progress against the five-year target (accumulated)	2010/11 delivery agenda
Development of an integrated asset management plan and system	Update the movable and immovable asset registers and develop a system for regularly collecting asset performance information and maintenance requirements going forward	Implemented a consistent method across all parts of the City to account for assets and account for future investment requirements	<ul style="list-style-type: none"> <li>Continuous update of the movable and immovable asset registers</li> </ul>

### Challenges and opportunities

- Recessionary environment contributes to reduced payment levels;
- Retention of scarce skills;
- Financial implications for the set objectives given the municipality's current financial status;
- Inability to meet cash flow obligations due to cash flow management; and
- Limited enforcement muscle due to the governance structure of the City.

### Strategic priorities

A careful analysis conducted by the Sector led to the identification of three chief drivers for the financial year 2010/11. Below is the table of the anchor drivers:

Key indicator	Implementation plan
Financial turnaround strategy	<ul style="list-style-type: none"> <li>• Expenditure review and implementation of recommendations</li> <li>• Stringent financial control city-wide</li> <li>• Revenue maximisation plan</li> <li>• Credit control</li> <li>• Implement new billing and customer relations management systems (SAP)</li> <li>• Increased collection levels</li> <li>• Focus on audit of the valuation roll 2008 and preparation of the valuation roll 2012</li> <li>• Fraud and corruption</li> </ul>
Customer services	<ul style="list-style-type: none"> <li>• Monitor turnaround time on query resolution</li> <li>• Improve call centre performance and functionalities</li> <li>• Customer feedback</li> </ul>
Overall financial oversight	<ul style="list-style-type: none"> <li>• Attainment and maintenance of clean audit</li> <li>• Maintaining and/or improving credit ratings</li> </ul>

### Inter-governmental relations

The sector strives to create engagements with other spheres of government. The national Department of Corporate and Traditional Affairs conducted an assessment of the bill of health of all municipalities. The assessment provided the City with some degree of benchmarking and consequently trend analysis.

The benchmarking has opened opportunities for engagements with other municipalities tapping into recognised pockets of excellence. Through the Finance Department, there are ongoing engagements and reporting with National Treasury. The Budget Office liaises with other provincial departments on matters related to budget, for example,

Housing. The Finance Department is currently involved in assisting other municipalities to achieve clean audits through “Operation Clean Audit”, facilitated by the national Department of Provincial and Local Government (DPLG).

### Financial sustainability sector plan

The table below is an outline of the Financial Sustainability Sector Plan. In addition to this tabulated Sector Plan, the above-mentioned chief drivers must be read in conjunction with the IDP five-year Sector indicators’ table earlier in this chapter.

#### Delivery agenda 2010/11

The Financial Sustainability Sector embarked on an exercise to examine performance and delivery commitments that were first forwarded at the beginning of the term in 2006. The commitments are found in the 2006/11 IDP documents. When examining the performance commitments it emerged that a lot of work was already accomplished with significant work needed to be done to seal the term. As a result the delivery agenda for the year ahead is not premised on the newness of initiatives rather on the completion of the key projects for R&CRM and Finance. Furthermore, emphasis has been placed on responding to the external environment forces that may threaten financial and revenue sustainability. Key areas in the delivery agenda include:

Five-year strategic objectives	IDP programmes and key achievements (accumulated to date)	2010/11 delivery agenda
Empowered customers enjoying highest standards of customer care and responsiveness	<b>Roll-out of Programme Phakama</b> <ul style="list-style-type: none"> <li>Monitoring progress on Programme Phakama to ensure due diligence and clear roll-out plan</li> <li>Process and transaction training on track</li> <li>Finalisation of in-scope staff migration completed</li> </ul>	<b>Roll-out of Programme Phakama</b> <ul style="list-style-type: none"> <li>Harness the implementation of Programme Phakama implementation</li> <li>Complete migration of staff and budget provision</li> </ul>
	<b>Responsive customer care</b> <ul style="list-style-type: none"> <li>Complaints raised vs resolved</li> <li>Embracing new business</li> <li>Demands MPRA aims</li> </ul>	<b>Responsive customer care</b> <ul style="list-style-type: none"> <li>Harness the single customer experience from optimisations of Customer Service Centre</li> <li>Address challenges related to technology improvement on the Contact Centre</li> <li>Further reduction in time taken to answer calls to an average of 58 to 60 seconds</li> <li>Sustain customer satisfaction despite forces of NCA, MPRA and credit control</li> </ul>
A city that creatively evolves its resourcing/ expenditure system to ensure long-term fiscal stability and growth, and optimal spending to support accelerated and sustainable development	<b>Maximise revenue collection and billing</b> <ul style="list-style-type: none"> <li>Increase in revenue collection to R46,7 billion city-wide</li> </ul>	<b>Maximise revenue collection and billing</b> <ul style="list-style-type: none"> <li>Increase in revenue collection to minimum R18 billion (city-wide including platinum accounts)</li> <li>Facilitate property value chain initiatives.</li> <li>Address interim reading</li> <li>Reducing impact on refunds and clearance figures</li> <li>Increase telephone collections</li> </ul>
	<b>Financial control and reporting</b> <ul style="list-style-type: none"> <li>Staff trained to respond to the NCA, closely monitoring its effect on income</li> </ul>	<b>Financial control and reporting</b> <ul style="list-style-type: none"> <li>100% compliance with NCA</li> <li>Support the implementation of MPRA</li> </ul>
	<b>Debtors book</b> <ul style="list-style-type: none"> <li>Analysis of the debtors book</li> <li>R3 billion collection against debtors book</li> </ul>	<b>Debtors book</b> <ul style="list-style-type: none"> <li>Reduction of the recoverable portion of the debtors’ book by R1,5 billion</li> </ul>



Five-year strategic objectives	IDP programmes and key achievements (accumulated to date)	2010/11 delivery agenda
Sustained excellence in financial management	<b>Completeness of revenue</b> <ul style="list-style-type: none"> <li>• Increase in number of matched accounts reaching more than 90%</li> <li>• Fostering completeness of revenue partnering with property value chain</li> </ul>	<b>Completeness of revenue</b> <ul style="list-style-type: none"> <li>• Realise all revenue maximisation projects under property valuation relating to the following areas: <ul style="list-style-type: none"> <li>– Valuation roll</li> <li>– Reconciliation of property data</li> <li>– Overall completeness of data</li> <li>– Priority projects to raise additional billion rand</li> </ul> </li> <li>• Return on investment of revenue maximisation</li> <li>• Harness value add of property value chain</li> <li>• Sustained incremental concise completeness of revenue project</li> </ul>
	<b>Refunds and clearances efficiencies</b> <ul style="list-style-type: none"> <li>• Increase of active customers receiving bills to 90%</li> <li>• 98% refunds issued within 30 days</li> <li>• 74% clearance certificates issued within 30 days</li> </ul>	<b>Refunds and clearances efficiencies</b> <ul style="list-style-type: none"> <li>• Accurate billing management</li> <li>• Automation of clearance processes</li> <li>• 93 to 97% clearance certificates and refunds issued within 30 days of application (excluding properties with meter-related issues)</li> <li>• 97% properties on the billing system metered and billed with accurate bills</li> <li>• 97% increase in active customers receiving bills to minimum</li> <li>• 97% of rates and refuse account holders receiving accurate bills by June 2011</li> </ul>
A city with stable and growing revenue streams	<b>Credit control enforcement</b> <ul style="list-style-type: none"> <li>• Expansion of credit control</li> </ul>	<b>Credit control enforcement</b> <ul style="list-style-type: none"> <li>• Strengthened credit management controls through reduction of areas where no credit control is taking place</li> <li>• Increase on e-statements received by City customers on the current baseline</li> <li>• Management ATTCOL (panel of attorneys) through strict performance management for purposes of targeted and predictable revenue collection</li> </ul>
Availability of cost-effective capital finance to fund the Capital Programme	<b>Capital Financing Programme</b> <ul style="list-style-type: none"> <li>• Pursue the City's public borrowing programme (Domestic Medium Term Notes) to raise at least R6 billion by 2010</li> <li>• Within the DMTN, explore and, if appropriate, offer a retail bond</li> <li>• Where appropriate, and within a policy framework, raise project finance for specific infrastructure projects</li> </ul>	<b>Capital Financing Programme</b> <ul style="list-style-type: none"> <li>• Aggressive public borrowing and issuing of commercial paper. The budgeted external borrowing requirement is R1,308 billion</li> </ul>

Five-year strategic objectives	IDP programmes and key achievements (accumulated to date)	2010/11 delivery agenda
Long-term domestic credit rating improved to at least AA	<ul style="list-style-type: none"> <li>The City as managed to obtain and maintain the credit rating of AA-</li> </ul>	<ul style="list-style-type: none"> <li>Maintain at AA- or above</li> </ul>
A budget system, structure and format that enables sound resource allocation decisions	<p><b>Budget Reform Programme</b></p> <ul style="list-style-type: none"> <li>Revise the budget format to facilitate flexible programme-based budgeting</li> <li>Empower departments and MEs to conduct programme costing in line with the requirements of the evolving budget format</li> <li>Refine the overall budget process to enable more effective case-building by departments and MEs, as well as more empowered political decision-making in allocations between programmes</li> <li>As required by MFMA, continue to build the systems and practices enabling more effective and efficient budget tracking</li> </ul>	<p><b>Budget Reform Programme</b></p> <ul style="list-style-type: none"> <li>Implement functional areas within core on SAP that link to the programme budget template</li> <li>Redevelop formats that line up with National Treasury requirements</li> </ul>
Measurable improvements in unit cost and allocative efficiency on a key set of indicators	<p><b>Expenditure review programmes</b></p> <ul style="list-style-type: none"> <li>As part of the overall framework of performance tracking and strategic decision-making, build a system and practice of annual budget review that tracks trends and issues in personnel spending; unit-cost efficiencies; allocative efficiencies of, and social, economic and financial returns from, key service investments; and whether expenditure responsibilities are being adequately matched by resources</li> <li>Develop methods for evaluating unit cost efficiencies in expenditure on key service and conduct regular benchmark-comparison studies with comparable metropolitan municipalities</li> </ul>	<p><b>Expenditure review programmes</b></p> <ul style="list-style-type: none"> <li>Develop an expenditure review document on an annual basis</li> <li>Produce quarterly SDBIP reports in line with National Treasury</li> <li>Review budget policies</li> </ul>
Stabilisation of fiscal architecture within which the City operates	<p><b>Fiscal Risk Management Programme</b></p> <ul style="list-style-type: none"> <li>Through engagements with National Treasury, explore options to replace RSC levies with a local revenue instrument strongly linked to economy</li> </ul>	<p><b>Fiscal Risk Management Programme</b></p> <ul style="list-style-type: none"> <li>Through engagement with SALGA and other cities, engage with National Treasury on finding RSC levy-replacement tax, exploring taxes such as large business and parking tax</li> </ul>