WATER BUDGET MONITORING EDUCATION TOOL

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i) List of Abbreviations and Acronyms

BS	Basic Share
CoJ	City of Johannesburg
DM	District Municipality
DoRA	Division of Revenue Act
DPLG	Department of Provincial and Local Government (now Department of Cooperative Governance and Traditional Affairs)
DWEA	Department of Water and Environmental Affairs (formerly Department of Water Affairs and Forestry)
DWQM	Drinking Water Quality Management
ES	Equitable Share
FBS	Free Basic Services
FBW	Free Basic Water
IDP	Integrated Development Plan
LM	Local Municipality
MFMA	Local Government: Municipal Finance Management Act 56 of 2003
MIG	Municipal Infrastructure Grant
MIGPMU	Municipal Infrastructure Grant Project Management Unit
MSA	Local Government: Municipal Systems Act 32 of 2000
MTEF	Medium Term (Revenue and) Expenditure Framework
PPE	Property, Plant and Equipment
SDBIP	Service Delivery and Budget Implementation Plan
VAT	Value Added Tax
WSA	Water Services Authority
WSP	Water Services Provider

ii) List of Relevant Legislation and Policy

- Constitution of the Republic of South Africa Act 108 of 1996 (Constitution)
- Division of Revenue Act 12 of 2009 (DORA)
- Free Basic Water Implementation Strategy (August 2002) (FBW Implementation Strategy)
- Intergovernmental Fiscal Relations Act 97 of 1997
- Local Government: Municipal Finance Management Act 56 of 2003 (Municipal Finance Management Act)
- Local Government: Municipal Finance Management Act: Local Government Capital Asset Management Guideline (Guideline)
- Local Government: Municipal Finance Management Act: Municipal Budget and Reporting Regulations (Notice 393 of 2009) (Municipal Budget and Reporting Regulations)
- Local Government: Municipal Property Rates Act 6 of 2004 (Municipal Property Rates Act)
- Local Government: Municipal Structures Act 117 of 1998 (Municipal Structures Act)
- Local Government: Municipal Systems Act 32 of 2000 (Municipal Systems Act)
- Local Government: Municipal Systems Amendment Act 44 of 2003 (Municipal Systems Amendment Act)
- Municipal Fiscal Powers and Functions Act 12 of 2007
- Norms and Standards in Respect of Tariffs for Water Services (20 July 2001) (Norms and Standards)
- Public Finance Management Act 1 of 1999
- Regulations relating to Compulsory National Standards and Measures to Conserve Water (June 2001) (Compulsory National Standards)
- Strategic Framework for Water Services: Water is life, sanitation is dignity (September 2003) (Strategic Framework)
- Water Services Act 108 of 1997 (Water Services Act)

iii) Definition of Key Concepts and Terms

- **Act**
  This is a law passed by Parliament.

- **Amendment**
  This is a law that has been passed to change or add to an existing law.

- **Asset**
  This is something from which future financial benefits or services will be received e.g. money in the bank (which earns interest) or a power station (which can produce electricity).

- **Asset life cycle**
  This is the cycle of activities that an asset goes through, from planning to acquisition to maintenance and disposal.

- **Asset manager**
  This refers to any official who is responsible for a municipality's assets.

- **Asset registry**
  This is a record of information on each asset. It has to fulfil a number of requirements, and is the ultimate responsibility of the Chief Financial Officer (CFO) of a municipality.

- **Balance sheet**
  This is a financial statement reflecting the position of a company or person at a particular point in time. Balance sheets contain *assets* and *liabilities*, which are used to calculate the net value of the company or person (see *equity*).

- **Basic services**
  At the local government level this refers to water, sanitation, electricity, and refuse removal.

- **Break-even point**
  This is either a) the minimum amount of a *good* that a seller must sell in order to cover their costs of producing the good, or b) the minimum price that someone must charge for their good in order to cover their costs of producing the good e.g. a t-shirt seller might calculate her break-even point at a minimum of 100 t-shirts or at a price of R40 per t-shirt.

- **By-law**
  This is a law made by local government.

- **Capital asset**
  This refers to an *asset* with a life in excess of one year, or above a minimum value.

- **Capital expenditure**
  This refers to expenditure on *capital assets*. It is normally associated with time periods of more than a year.

- **Cash flow / Cash flow statement**
  This is a financial statement which reflects the movement of cash into and out of a business over the period of a year.

- **Community wealth**
  See *Equity.*

- **Conditional grant**
  The amount of this type of *grant* can be adjusted and it may have special spending conditions attached to it.

- **Cost-recovery**
  This refers to a seller's efforts to recover the costs of producing a good by charging the buyer for the good. It can also refer to the degree to which the *revenue* from sales covers the costs of sales.

- **Demand**
  This is the relationship between the *price* of a good, and how much of the good a person is willing and able to buy.

- **Depreciation**
  This refers to the revaluing of an *asset* as it gets older.

- **District municipalities**
  District municipalities are one level higher than local municipalities and contain a number of local municipalities, normally ranging from three to seven in number. This is known as the two-tier system of local government. District and local municipalities are required by law to work together to achieve service delivery, and they share legislative and executive powers with each other in their respective areas.

- **Drinking Water Quality Management (DWQM)**
  This refers to the comprehensive process of designing and maintaining a programme of water quality control.

- **Economic life**
  This is the period over which an asset is expected to deliver *economic benefits*.

- **Economic benefit**
  This refers to a benefit that can be measured in terms of money.

- **Equitable Share (ES)**
  This is the share of national revenue that each municipality and province receives, and is an unconditional grant used to subsidise the current costs of service delivery.

- **Equity**
  This refers to the total balance on a *balance sheet* i.e. the difference between total *assets* and total *liabilities*. If assets exceed liabilities, this results in positive equity. For government statements, equity is reflected as *community wealth*, since government departments are non-profit organisations. This means that, since residents of South Africa in effect own government, they have an interest in ensuring it functions well.

- **Executive**
  This refers to the branch of government responsible for implementing laws, formulating policy and carrying out the administrative functions of government.

- **Expense / Expenditure**
  This refers to money spent and therefore transferred from a company or person e.g. money spent on food, transport and car repairs are all expenses.

- **Free Basic Water (FBW)**
  The free allocation of water provided to households, either universally, through property value or through means-testing via the indigent register. In terms of national policy, municipalities must provide a minimum of 6 kl FBW per household per month.

- **Good**
  A good is any physical object or product that increases satisfaction or utility e.g. a t-shirt or a unit of water.

- **Grant**

  This is the movement of money from one area to another, usually from a government department to another government department, or to an individual or company. In this education tool, it mainly refers to transfers (from taxes) from national government to local government.

- **Historical value**

  This refers to the value of an *asset* based on its costs at the time of purchase.

- **Income / Revenue**

  This refers to money earned by a company or person, for example from the sale of goods or from performing a job. Municipalities generally refer to their income as *revenue*.

- **Income statement**

  This refers to a financial statement which reflects the performance of a company or individual over the period of a year. It looks at all flows into (income/revenue) and out of (expenditure/expenses) the company.

- **Integrated Development Plan (IDP)**

  This refers to a municipality's planning and strategy document, which covers a five-year period and is reviewed annually to see if it needs to be amended.

- **Judicial**

  This refers to the branch of government responsible for adjudicating legal disputes, and is made up of all of the courts of the country - Magistrate's Courts, High Courts, Supreme Court of Appeal and Constitutional Court, including the judiciary i.e. Judges and Magistrates.

- **Kilolitre (kl)**

  1 000 litres is one kilolitre. Water is bought and sold to households in kilolitres. There is a national policy of 6 kl *free basic water (FBW)* per household per month.

- **Legislature**

  This refers to the branch of government responsible for creating the laws of the country. National and provincial spheres of government have legislatures and legislative powers (meaning they can make laws). Local government can make *by-laws.*

- **Liability**

  This refers to something which is expected to result in future expenses for a company or individual. For example, a mortgage from the bank results in monthly bond repayments.

- **Local government**

  Local government is the third sphere of government (along with national and provincial government). It is sometimes called municipal government. It includes *district municipalities*, local municipalities and *metro municipalities*, and is responsible for delivering *basic services* to residents.

- **Maintenance**

  This refers to the actions needed to ensure that the condition of an *asset* is maintained. It can include repairs or changes to the asset e.g. if it needs to be modernised.

- **Medium-Term Expenditure Framework (MTEF)**

  This refers to the three-year planning period which is a requirement of the government budgeting process. Under this framework, all levels of government are required to include a forecast for the coming financial year and for the two subsequent financial years whenever they are compiling annual financial information.

- **Metro municipalities**

  These are the municipalities which have the largest populations of all the municipalities in South Africa. There are only six of them in the country (Johannesburg, Tshwane, Ekurhuleni, eThekwini, Nelson Mandela and Cape Town).

- **Municipal council**

  This is the *executive* branch of government at the local government level. In each municipality, the council has to approve all by-laws, tariffs, policies and budgets etc. which are developed.

- **Municipal Infrastructure Grant (MIG)**

  This is a conditional grant from National Treasury to municipalities. It is a *capital grant*, intended to be spent on maintaining and extending infrastructure to poorer citizens.

- **Operating expenditure**

  This refers to expenditure on short-term items (for matters not exceeding a year in length) e.g. routine maintenance, telephone and stationery costs.

- **Potable water**

  Water that is of drinking water quality is 'potable'.

- **Replacement value**

  This refers to the value of an *asset* based on its current cost in the market i.e. the costs that the municipality would incur if it had to replace the asset tomorrow. It is almost always higher than the *historical value*.

- **Residual value**
  This refers to the value of an *asset* if it were sold at the end of its *useful life* i.e. it is its scrap value.

- **Revenue**
  This is the amount of money that a seller receives from selling goods e.g. how much a municipality gets as *income* for selling water.

- **Rising-block tariff**
  This describes the price of a good that is not constant, but is different for different ranges of consumption e.g. household water prices are calculated using a rising-block tariff structure which means that there are different levels (blocks) of prices depending on the volume of water usage. This pricing system is used to ensure that low-volume users e.g. poor people are charged a low per kl amount for water, while luxury consumers e.g. rich people with swimming pools and large gardens, are charged much more per kl. The name comes from the appearance of the tariff – when drawn on a graph it looks like a series of blocks that increase in size.

- **Separation of powers**
  This refers to the division of powers between the *legislative*, *executive* and *judicial* branches of government. It is intended to prevent any one branch of government from having too much power, and is an important principle of most modern democracies.

- **Service delivery and budget implementation plan (SDBIP)**
  This refers to an annual budgetary document which provides quarterly targets for a municipality's *Integrated Development Plan (IDP)* service delivery strategies.

- **Solvent / solvency**
  This refers to whether or not an entity has a net positive or negative value at a particular point in time i.e. if its *balance sheet* reflects positive *equity* or *community wealth*. If a municipality is solvent it means that the difference between its net *assets* and its net *liabilities* is positive.

- **Transfer**
  See *Grant*.

- **Unconditional grant**
  This is a grant which cannot be adjusted, and is not subject to special spending conditions or requirements. For example, the *Equitable Share (ES)* is an unconditional grant from National Treasury to local municipalities, to subsidise the current costs of service delivery.

- **Useful life**

  This refers to the period for which an *asset* is expected to be available. An asset's useful life can be shorter than its *economic life* e.g. municipal vehicles may be sold off before they have to be scrapped (become too old or broken).

- **Year-on-year (YoY)**

  This refers to comparing data in one time period with similar data from the previous year e.g. prices in January 2009 can be compared with prices in January 2008 in order to calculate the year-on-year inflation rate in January 2009.

A. Introduction to the Water Budget Monitoring Education Tool

The Centre for Applied Legal Studies (CALS) and Mvula Trust's work on municipal tariffs and local government budgeting processes has clarified that in order for engagement and participation by civil society and communities to take place – essential to ensure accountability by local government and to maximise service delivery – it is essential to understand the budget processes of municipalities and how these processes affect service delivery.

This requires an understanding of the rights of access to information and to public participation, as well as a basic understanding of law, economics and financial accounting relevant to analysing municipal tariffs and financial statements**.** This educational tool is intended to provide such knowledge in order to assist civil society to interpret budget information, as well as other documents related to service delivery.

While the education tool focuses on water specifically, the same principles can be applied to other basic services e.g. electricity and sanitation. The more people understand municipal budgets and service delivery frameworks, the more they are able to ensure good functioning and accountable government, to the benefit of all.

A1. What is the water budget monitoring education tool?

The water budget monitoring education tool (referred to as 'education tool') is made up of this **booklet**, which includes an attached **training outline** and a **questionnaire for municipal officials**.

- This **booklet** is divided into five educational modules. Background information is provided by way of a section which defines key concepts and terms, an overview of the functioning and structure of government, and an introduction to law and a summary of relevant legislation as it affects each module. The five modules are:

  Module 1: Analysis of Tariffs
  Module 2: Basic Financial Accounting and Budget Documents
  Module 3: Asset Management
  Module 4: Equitable Share (ES) and Municipal Infrastructure Grant (MIG)
  Module 5: Water Quality Management and Water Education

- The **training outline** (Annexure 1) serves as a guide to civil society wanting to train members on the five modules.

- The **questionnaire for municipal officials** (Annexure 2) is to be used as a checklist once participants have gone through the modules. Participants can tick off the questions that they can answer successfully, and can submit the remaining questions (with possible changes) to their municipal authorities, ideally by setting up a meeting with the municipal manager.

Participants should ensure that they are contacting the correct municipal officials when submitting their revised questionnaires. For example, questions on tariffs should be submitted to the technical department of the municipality, whereas most of the budget-related questions can be answered by the financial department of the municipality.

The booklet also refers to an **information pack**, which contains some of the relevant laws that are referred to the 'introduction to law and summary of relevant legislation' section, as well as extracts from eThekwini Metropolitan Municipality's 2009/10 budget documents.

A.2. How to use the water budget monitoring education tool

Each module contained in this booklet requires some background understanding relevant to the specific content of each module. Before going through each module, it will be helpful to read through the definition of key concepts and terms, the overview of the functioning and structure of government and the introduction to law and summary of relevant legislation, to get this background.

As you go through the specific modules, it will be necessary to refer back to the summary of relevant legislation as it relates to the module, and possibly to the definition of key concepts and terms.

The five modules are all interrelated and are meant to be read holistically. The analysis of laws, tariffs financial statements, budget documents and asset registers etc. should ultimately be linked to the bigger question - how will a better understanding of these documents lead to improved basic services delivery in my municipality?

Once there is a basic understanding of the laws and of financial accounting, these new skills can be applied to analysing various themes in basic services delivery including:

- Tariff analysis;
- Public participation in municipal affairs, particularly in the budgetary process;
- Asset management;
- Equitable Share (ES);
- Municipal Infrastructure Grant (MIG);
- Water quality management and education.

Budget monitoring is a journey - a very important one. This education tool is just the first step and is meant to empower civil society and communities to hold their local government accountable for delivering basic services.

B. Overview of the Structure and Functioning of Government

'Government' is a very broad term, and there are actually a number of different branches and spheres of government, all with different functions and responsibilities. This section provides a brief introduction to the different branches and spheres of government in South Africa.

B.1 Three branches of government: the 'separation of powers'

Government is divided into three different parts: the **legislative**, **executive** and **judicial** arms or branches of government. This division is called the **separation of powers** and it is an important part of democracy, as it is intended to prevent any one part of government from having too much power and to keep each branch in check.

- **Legislature**

  The **legislative** branch of government is responsible for making laws (also known as legislation).

  - The national legislature is called Parliament, which is made up of the National Assembly (NA) and the National Council of Provinces (NCOP). The latter represents provincial legislatures.
  - When a citizen votes in a national and provincial election, their votes result in the election of members of Parliament (MPs) and members of the executive council (MECs) respectively, which form the legislative arm of government. These members then appoint the **executive** arm of government.
  - Laws made at the national level affect all levels of government, while provincial laws affect provinces and the municipalities within them.

- **Executive**

  The **executive** branch of government is responsible for carrying out laws, making and implementing policy, and carrying out the day-to-day administrative tasks of government including coordinating government departments.

  - At the national level, the head of the executive is the President and other members include the Deputy-President and the Ministers. The national executive is also called the Cabinet.
  - At the provincial level the executive is made up of the Premier and the members of the executive council (MECs).

- At the local level, the executive is made up of the the Mayor as the head of the council, assisted by an executive or mayoral committee (similar to the Cabinet at the national level).

- **Judiciary**

  The **judicial** branch of government is responsible for deciding legal disputes (including between residents and the state) in respect on the law.

  - The judiciary is made up Judges and Magistrates who make decisions in courts - the Magistrates Courts, High Courts, Supreme Court of Appeal and Constitutional Court.
  - The judiciary must judge whether the laws, policies and practices of the executive are consistent with the intentions of the legislature.

B.2 Three spheres of government

Government is divided into three different spheres or 'levels of government': **national**, **provincial** and **local government**. The roles and responsibilities of each sphere of government are clearly defined in the Constitution, however the different spheres are meant to cooperate and coordinate on policies, budgets and activities.

- **National government**

  This sphere is the highest level of government, where national laws governing the entire country are made and judged. National government consists of:

  - **Parliament** (which is made up of the National Assembly and the Council of Provinces) which makes national law.
  - **Cabinet** (the President, the Ministers and all their deputies) which enacts the law.
  - The courts which judge the law.

- **Provincial government**

  This sphere of government makes and enacts law for the nine provinces and consists of:

  - The **Provincial Legislature** (where law is made).
  - The **Executive Council**, which enacts the law and is made up of the Premier and members of the Executive Council (MECs).

- **Local government**

  This sphere is made up of district municipalities, local municipalities and metros.

- Municipal councils in district and local municipalities make and enact local government laws, also known as by-laws.

  The municipal council, made up of elected members, elects the Mayor as the head of the council. The Mayor is assisted by an executive or mayoral committee. The council passes the budget for its municipality each year and decides on service delivery plans. The work of the municipality is done by the municipal administration that is headed by the municipal manager and comprises other municipal officials. They are responsible for implementing the programmes approved by the council.

- Local government is responsible for delivering basic services to citizens, which include water, sanitation, refuse (rubbish) removal and electricity.

C. Introduction to Law and Summary of Relevant Legislation

C.1. Why is the law important?

- The law defines our rights and responsibilities and tells us what we are entitled to expect from government.
- Knowing the law empowers us to claim our rights:
  - if we know our rights, we can more effectively approach government to fulfill them.
  - if we know the law, we are better able to frame our demands.

C.2. Structure of this section

This section begins with a brief explanation of **how to read legal references** and then lists the most relevant legislation that is applicable to municipal service delivery, including the Constitution. A copy of this legislation is included in the information pack of supporting documents.

Legislation is dealt with in this section in a two ways:

- **General themes**: general rights of citizens, responsibilities of municipal government, public participation in municipal affairs.
- **Per module:** legislation applicable each module is dealt with separately, which makes it easy to refer back when going through each module.

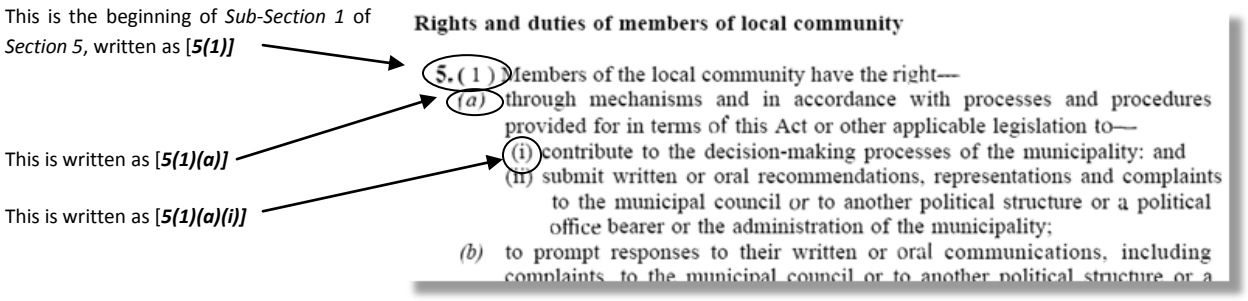
There is some legislation that applies to more than one module, and this will be made explicit.

C.3. How to read legal references

The extract below will be used to illustrate how to read legal references. All future references to the law will use the same format, and the exact wording of the law can be found in the information pack.

Analysing pieces of legislation can often seem very complex and confusing. However, it gets easier with practice. With laws, every word is important and carries weight.

The extract below is from Section 5 (s 5) of the Municipal Systems Act.



The interpretation of this Section, with the relevant reference, would look like this:

"Members of the community have the right - through mechanisms and in accordance with processes and procedures provided for in terms of this Act or any other applicable legislation to - to contribute to the decision-making processes of the municipality" [s 5(1)(a)(i)].

TIP: Whenever reading an Act, ALWAYS read *Section 1* FIRST. It always contains the definitions of all important terms. Often these terms are defined in terms of other laws. You will need to reference these other laws to get the full picture.

C.4. Which laws are important for service delivery?

There are a number of laws that are important for service delivery, and some of the most important national legislation is discussed below, starting with the Constitution.

The **Constitution** is the highest and most important law in the country. It must be considered whenever any other law is being created, applied or judged. It has many sections affecting service delivery.

The Bill of Rights, which refers to human rights, is contained in Chapter 2 of the Constitution.

- Section 27 is most important for our purposes because it provides everyone with the right to have access to sufficient water.
- Electricity is not a direct right (as water is) but can be inferred indirectly from the right to have access to adequate housing (section 26) and environmental rights (section 24).

Other important chapters in the Constitution, relevant to service delivery deal with local government (Chapter 7) and finance (Chapter 13):

- Chapter 7 on local government is relevant to understanding how service delivery at municipal level is achieved. This chapter has had a direct influence on the creation of laws such as the Municipal Structures Act, Municipal Systems Act and the Municipal Finance Management Act.

- Chapter 13 on finance contains valuable information for civil society on the rights and responsibilities of municipalities.

Other legislation that has been written to give effect to some of the sections of Chapters 2, 7 and 13, include:

- the Water Services Act of 1997
- the Municipal Structures Act of 1998
- the Municipal Systems Act of 2000 (and the Municipal Systems Amendment Act of 2003)
- the Municipal Finance Management Act (MFMA) of 2003
- the Division of Revenue Act (DoRA) of 2009

In some cases, the later Acts have amended portions of the earlier Acts.

Regulations been developed in order to provide greater detail to the abovementioned Acts, and are legally binding. They include the following:

- Local Government: Municipal Finance Management Act: Municipal budget and reporting regulations
- Norms and standards in respect of tariffs for water services in terms of Section 10 (1) of the Water Services Act
- Regulations Relating to Compulsory National Standards and Measures to Conserve Water

There are also guidelines and frameworks developed in respect of the abovementioned Acts:

- Local Government Capital Asset Management Guideline (MFMA)
- Strategic Framework for Water Services (Water Services Act)

C.5. Overview of relevant legislation by Act

C.5.1 Water Services Act

This Act:

- provides for access to basic water and sanitation rights;
- provides for the setting of national norms and standards for tariffs.

The chapters and sections of the Act which are relevant to service delivery are:

- **Chapter 1** (Introductory Provisions, Sections 1 – 8)

– Chapter 1 mentions the right of citizens' access to basic water and sanitation [s 2(a)] and the responsibility of water services authorities to provide for measures to realize these rights [s 2(b)].

- **Chapter 2** (Standards and Tariffs, Sections 9 – 10)

– Chapter 2 mentions the development of norms and standards for tariffs for water services. This provision [s 10(1)] led to the creation of the "Norms and standards in respect of tariffs for water services in terms of Section 10 (1) of the Water Services Act" which is mentioned below, in legislation for Module 1.

C.5.2 Municipal Structures Act

This Act speaks about the general make-up of municipalities and municipal authorities. It provides information which is important to civil society - how mayors and councillors are legally elected, how they can be replaced, and what their powers are. It also:

- provides details for the establishment of municipalities;
- defines municipalities powers and their structure;
- details the roles of municipal office-bearers;
- details how local government electoral systems work.

The chapters and sections of the Act which are relevant to service delivery are:

- **Chapter 3** (Municipal Councils, Sections 18 – 41), particularly s 19 on municipal objectives.
- **Chapter 4** (Internal Structures and Functionaries, Sections 42 – 82), particularly s 44 on functions and powers of executive committees, s 49 on functions and powers of mayors, and s 56 on functions and powers of executive mayors.
- **Chapter 5** (Functions and Powers of Municipalities, Sections 83 – 89).

C.5.3 Municipal Systems Act

This Act places emphasis on municipal service delivery, community participation in municipal affairs, and social and economic upliftment of communities. It also provides detail on the rules for:

- tariff and credit control policies, credit control and debt collection;
- service delivery agreements;

- support, monitoring and standard-setting.

There are a number of chapters and sections of the Act which are relevant to service delivery. Chapters 2, 3 and 4 are generally applicable and are expanded upon below. Chapter 5 (Integrated Development Planning, Sections 23 – 37) deals with the development of the IDP and will be explained in the section on legislation for Module 2. Chapter 8 (Municipal Services, Sections 73 – 94), particularly section 74, links the use of tariffs (Module 1) with asset management (Module 3):

- **Chapter 2** (**Legal Nature and Rights and Duties of Municipalities, Sections 2 – 7**)
  - The community is part of the municipality [s 2(b)(ii)].
  - The council has duties to serve the local community [s 4(2)(a)], involve the local community [s 4(2)(c)], provide sustainable services [s 4(2)(d)], consult the local community on service delivery [s 4(2)(e)], provide equitable access to municipal services [s 4(2)(f)], undertake development [s 4(2)(g)] and promote a healthy environment [s 4(2)(j)].
  - A municipality must respect the rights of citizens protected by the Bill of Rights [s 4(3)].
  - Members of the community have the right to contribute to decision-making [s 5(1)(a)(i)], to make submissions to the municipal political structures [s 5(1)(a)(ii)] and to prompt responses to these [5(1)(b)], to be informed of decisions made by these structures that affect them [s 5(1)(c)].
  - Members of the community have the right to regular disclosure from the municipality [s 5(1)(d)], to view the proceedings of the municipal council and committees [s 5(1)(e)(i)], to use public facilities [s 5(1)(f)], and to have access to services if members comply with duties in s 5(2)(b) [s 5(1)(g)].
  - Members of the community have the duty to pay for basic services where applicable [s 5(2)(b)], and to respect the rights of fellow residents of the municipality [s 5(2)(c)].

- **Chapter 3 (Municipal Powers and Functions, Sections 8 – 15)**
  - The municipal council is the legal authority of the municipality [s 11(1)]. Authority is exercised by setting targets for service delivery [s 11(3)(a)], implementing by-laws [s 11(3)(e)], and providing services to the local community [s 11(3)(f)].
  - The municipal council must prepare budgets [s 11(3)(h)], collect rates, taxes and service fees [s 11(3)(i)], set tariffs [s 11(3)(i)], monitor service delivery [s 11(3)(j)], and measure its own performance [s 11(3)(k)].
  - There should be written evidence of all decisions taken by the municipal council [s 11(4)].

- Proposed by-laws have to be published for public comment, allowing the public an opportunity to make representations [s 12(3)(b)].

- All by-laws passed must be published in the Provincial Gazette, in local papers, and in any other format to bring to the attention of the local community [s 13(a)].

- Municipalities must publish all of their by-laws [15(1)], and this is known as the municipal code [s 15(2)]. These bylaws must be updated constantly [s 15(2)(a)] and kept at the municipality's head office [s 15(2)(b))]. Members of the public can request an extract from the municipal code [s 15(3)].

- **Chapter 4 (Community Participation, Sections 16 - 22)**

  The community should use this specific chapter to lobby and pressure the municipality into involving in community participation.

- The municipality has to involve the local community in municipal affairs [s 16(1)(a)], including the IDP [s 16(1)(a)(i)], the municipal performance management system [s 16(1)(a)(ii)], the monitoring and review of municipal performance [s 16(1)(a)(iii)], and the preparation of the budget [s 16(1)(a)(iv)].

- The municipality has to build the capacity of community participation [s 16(1)(b)].

- This section deals with the ways in which community participation must occur [s 17(1)], with the responsibility lying with the municipality and councilors to engage with the community.

- The municipality must establish how it will receive the community's comments [s 17(2)(a)], must notify the community of opportunities to contribute [s 17(2)(b) and s 17(2)(c)], and must report back to the community [s 17(2)(e)].

- Community organizations can insist on meeting with the municipality if they can prove that they represent the interests of the community [s 17(2)(d)].

- Communities must know just how their municipalities are able and willing to engage with them [s 18(1)(a)], and what provisions have been made for their participation [s 18(1)(b)].

- Municipalities have the duty to ensure that communities are communicated with in their home languages [s 18(2)(a)], and to include illiterate members of the community [s 18(2)(b)].

- The municipal manager must give the public notice of the date, time and venue of every meeting of the municipal council [s 19].

- The community has the right to attend municipal meetings [s 20(1)], and there are circumstances under which it can be excluded [s 20(1)(a) and s 20(1)(b)].

- Civil society has the responsibility to interrogate any reasons that communities might be given for being excluded from public meetings.

- The public cannot be excluded from some crucial budget meetings [s 20(2)] that involve the following documents: by-laws [s 20(2)(a)], budgets [s 20(2)(b)], IDPs [s 20(2)(c)], performance management systems [s 20(1)(d)], and service delivery agreements [s 20(1)(e)].

- Municipal councils must provide space for the public at meetings [s 20(4)(a)] and may regulate access and conduct at meetings [s 20(4)(b)].

- Section 21 and its amendment speak specifically of the format that municipalities must use to notify the local community of municipal matters.

- Municipalities must notify the local community through local newspapers [s 21(1)(a)], including those identified as 'newspapers of record' by the council [s 21(1)(b)]. The municipality must also communicate through radio broadcasts [s 21(1)(c)].

- All notification must be done in languages determined by the council [s 21(2)], and there must be a hard copy of every notice at the municipal offices [s 21(3)].

- Municipalities must assist illiterate community members, both in terms of public participation [s 21(4)] and in terms of accessing municipal services [s 21(5)].

- It is important for civil society to realise that illiterate members of the community have the right to a proper explanation of their services bills, for example or to applying to be on an indigents' register, for example. Civil society must think carefully about how they can safeguard the rights of illiterate community members.

- The amendment to Section 21 (labeled Section 21A) specifies that all documents must be made available to the public via a municipal website [s 21A(1)(b) and s 21A(1)(c)]. It is quoted extensively in the MFMA and related documents.

- Civil society groups with access to the internet should monitor whether municipalities are fulfilling this obligation.

- Municipalities should try and establish their own website [s 21B(1)].

- Many municipalities do have websites, but some are so badly maintained that they fall short of fulfilling the aims of the Act. Civil society might be able to exert pressure by threatening to contact National Treasury and asking it to assist if it feels that the municipality is unable to fulfill its obligations.

- The municipal manager is directly responsible for maintaining and updating the municipal website [s 21B(3)].

C.5.4 Municipal Finance Management Act (MFMA)

The Municipal Finance Management Act (MFMA) has as its intention "to secure sound and sustainable management of the financial affairs of municipalities….to establish treasury norms and standards for the local sphere of government."

The MFMA creates rules and standards for how municipalities report on their financial affairs. These contain important information on the format and publication of the municipality's annual budget and service delivery and budget implementation plan (SDBIP).

The Act is important to understanding how budget documents are prepared, what the municipality's obligations are in terms of reporting on their budget, and what are the specific responsibilities of the mayor, municipal manager, and other municipal officials.

The following chapters of the Act are relevant to budget monitoring and service delivery, and contain general rules for creating and reporting on municipal budgets (which is discussed further in Module 2):

- **Chapter 4** (Municipal Budgets, Sections 15 – 33);
- **Chapter 7** (Responsibilities of Mayors, Sections 52 –59);
- **Chapter 8** (Responsibilities of Municipal Officials, Sections 60 - 79);

In April 2009, the **Municipal Finance Management Act: Municipal Budget and Reporting Regulations** (Notice 393 of 2009, National Treasury) were published in terms of s 168 of the MFMA. These Regulations are in the form of a report and a series of spreadsheets. It is the format that municipalities will use to report on their budgets in the future.

The Regulations make specific reference to improving free basic service delivery. They address issues of financial sustainability and will hopefully lead to better medium-term planning of service delivery.

Municipalities must be willing and able to report their budgets according to the Regulations. This will help to achieve transparency, accountability and 'understandability' of municipal finances.

If civil society can understand how the Regulations work, it can improve its monitoring of municipalities. Eventually (over the next two years) all municipalities are expected to use the tables found in the Regulations to report on their budgets.

The use of the Regulations in this manual:

- The first part of the Regulations describes how all of the financial statements must be prepared, and the second part is a copy of all the related spreadsheets. We will be examining those tables that relate to the budget documents (Tables A1 – A10), and their related supporting tables (Tables SA1 – SA35).

- The first municipality to publish its financial statements in the format of the Regulations was eThekwini. eThekwini's budget statements are the best current example of how the Regulations work in practice.
- The supporting documents to this manual include a full version of the Regulations, with the related tables A1 – A10, and a copy of eThekwini's tables A1 – A10 and supporting tables SA1 – SA35.
- These tables contain the three basic financial statements described in Module 2, as well as a new format for reporting on capital spending and asset management (covered in Module 3) and for reporting on basic services delivery (some of this will be covered in Module 4).

C.6. Overview of legislation relevant to each module

C.6.1 Legislation for Module 1: Tariff Analysis

Water Services Act

Section 10(1) of the *Water Services Act* states of that "The Minister [of Water Affairs] may, with the concurrence of the Minister of Finance, from time to time prescribe norms and standards in respect of tariffs for water services."

In 2001, these regulations came into effect with the publishing of the Norms and standards in respect of tariffs for water services in terms of Section 10 (1) of the Water Services (Norms and Standards). These Norms and Standards provide for, amongst other things:

- the provision of free basic water (FBW) of six kilolitres (6 kl) per residential household per month
- a rising block tariff system
- the need for the tariff system to be socially equitable, financially sustainable, and environmentally sustainable.

Municipal Systems Act (MSA)

Section 74 of the MSA links the use of tariffs (Module 1) with asset management (Module 3). The MSA states that:

- tariffs must reflect all the costs of providing a service, including capital costs [s 74(2)(d)]; and
- that tariffs must be set at levels that facilitate financial sustainability [s 74(2)(e)].

C.6.2 Legislation for Module 2: Basic Financial Accounting and Budget Documents

Municipal Systems Act (MSA)

Chapter 5 describes the Integrated Development Plan (IDP) which is discussed in Module 2. It states that:

- Municipalities must be developmentally oriented to achieve sections of the Constitution [s 23].
- Organised local government must be consulted before legislation is introduced [s 24(4)].
- A municipal council must adopt an IDP within a certain time of coming into power [s 25(1)]. It may also keep the existing IDP as is [s 25(3)(a)] or amend it [s 25(3)(b)].
- A municipality must, within 14 days of adopting its IDP, give notice to the public of the IDP [s 25(4)(a)(i)] and must make copies of the IDP available to the public [s 25(4)(a)(ii)].
- An IDP must focus on the municipality's most critical development and transformation needs [s 26(a)], it must identify communities without access to basic services [s 26(b)]. It must include the council's local economic development (LED) aims [s 26(c)].
- The IDP must have a financial plan, which includes three-year budget projections [s 26(h)] and performance indicators and targets for the municipality [s26(i); s 41].
- District municipalities (DMs) and local municipalities must coordinate their IDPs and follow a consultative process for integrated development planning [s 27]. They must take into account the IDP proposals and processes of each other when drawing up their own IDPs [s 29(2); s 29(3)].
- A municipal council must set out in writing the process of how its IDP is produced and reviewed [s 28(1)]. It must consult with the local community before adopting this process [s 28(2)] and it must give details of the process to the local community [s 28(3)].
- There must be a timeframe for the municipality to draft its IDP [s 29(1)(a)], and it must include the local community in the consultation [s 29(1)(b)(i)] and drafting of the IDP [s 29(1)(b)(ii)].
- The executive committee, executive mayor, committee of councillors and municipal manager all have responsibilities in the drafting and submission of the draft IDP to the municipal council [s 30].
- A municipal council must review its IDP annually with respect to assessing the performance of the municipality [s 34(a)(i)] or when changing circumstances demand [s 34(a)(ii)]. It may amend its IDP [s 34(b)].

Municipal Finance Management Act (MFMA)

Chapter 4 (Municipal Budgets, Sections 15 - 33) of the MFMA states that:

- Municipalities may only spend money (incur expenditure) in terms of an approved budget [s 15(a)] and within the amounts of money allocated to different votes [s 15(b)].
- The annual budget of the municipality must be approved by the municipal council before the start of the financial year [s 16(1)]. The mayor must therefore table the budget at least 90 days before the financial year [s 16(2)]. The rules for allocating money for capital spending allow for spreading this spending over three years [s 16(3)].
- The budget must be in a format that adequately describes revenue and expenditure [s 17(1)]. The budget must be divided into a capital and an operating budget [s 17(2)] and it must be accompanied by information [s 17(3)] on

Draft resolutions on tax and tariffs	Measurable performance objectives
A monthly cash flow projection	Amendments to the IDP
Amendments to budget-related policies	Municipal investments
Existing and new municipal entities	Service delivery agreements
Grants from the municipality to others	Salaries of municipal managers

- Budgets have rules on funding expenditure [s 18(1)] and projecting revenue [s 18(2)].
- Municipalities may only spend money on large capital projects under certain conditions [s 19(1)] and they must consider all costs, including future operational costs [s 19(2)].
  - any analysis of capital assets (see Module 3), especially new ones, must include an analysis of future operating costs. The Guideline (mentioned below in this section) estimates that every rand spent on new assets contributes 10 cents to every subsequent budget in maintenance, operations and renewal costs.
- The mayor must coordinate the preparation and review of the annual budget [s 21(1)] and must table the deadlines for producing and reviewing all budget-related documents and amendments.
- The accounting officer in the municipality must make the annual budget and related documents public [s 22(a)(i); Chapter 4 of Municipal Systems Act] and invite the local community to comment on it [s 22(a)(ii)].
- The municipal council must consider the views of the local community [s 23(1)] and the council must give the mayor time to respond to comments and to amend the budget if necessary [s 23(2)].

Chapter 7 (Responsibilities of Mayors, Sections 52 - 59) states that:

- The mayor must submit a quarterly report to the council on budget implementation and the municipality's finances, within 30 days of the end of each quarter [s 52(d)].

- The mayor also has obligations to oversee the IDP [s 53(1)(b)], annual budget [s 53(1)(c)(i)], service delivery and budget implementation program (SDBIP) [s 53(1)(c)(ii)], and annual performance agreements of all managers [s 53(1)(c)(iii)] and make sure they are approved on time. The mayor is accountable if these documents are late [s 53(2)].

- The mayor must ensure that monthly revenue and expenditure projections, quarterly service delivery targets and performance indicators [s 53(3)(a)], and performance agreements of officials [s 53(3)(b)]are made public promptly.

- The mayor is obligated to exercise budgetary control [s 54(1)] and to identify financial problems [s 54(2)], and if there are revisions to the budget as a result of problems, to make these public promptly [s 54(3)].

Chapter 8 (Responsibilities of Municipal Managers, Sections 60 - 79)

- There are general rules for accounting officers of a municipality to use municipal resources efficiently [s 62(1)(a)], to keep proper financial records [s 62(1)(b)], to have transparent financial systems [s 62(1)(c)], to prevent unauthorized, irregular or fruitless and wasteful expenditure [s 62(1)(d)].

- Accounting officers must ensure that the municipality has and implements a tariff policy [s 62(1)(f)(i)], and a credit control and debt collection policy [s 62(1)(f)(ii)].

- Accounting officers have obligations under asset and liability management [s 63], and revenue [s 64] and expenditure [s 65] management.

- Accounting officers have to assist the mayor in preparing the budget [s 68], and they are responsible for implementing the approved budget [s 69(1)], including preparing adjustment budgets [s69(2)], draft SDBIPs [s 69(3)(a)], and draft annual performance agreements [s 69(3)(b)].

- The accounting officer must report in writing to the municipal council if there are any shortfalls, overspending and overdrafts [s 70].

- The accounting officer must submit the monthly budget statements [s 71] and the mid-year budget and performance assessment [s 72] to the mayor and provincial treasury.

Note: In line with Section 21A (the amended section of the Municipal Systems Act mentioned above), the accounting officer must place the following documents on the municipality's website: annual and adjusted budgets and budget-related documents [s 75(1)(a)], budget-related policies [s 75(1)(b)], annual report [s 75(1)(c)], performance agreements [s 75(1)(d)], service delivery agreements [s 75(1)(e)], long-

term borrowing contracts [s 75(1)(f)], a list of assets disposed in the previous quarter [s 75(1)(h)], all quarterly reports [s 75(1)(k)].

C.6.3 Legislation for Module 3: Asset Management

Municipal Systems Act (MSA)

Section 74 of the MSA:

- links the use of tariffs (Module 1) with asset management (Module 3). Tariffs must reflect all the costs of providing a service, including capital costs [s 74(2)(d)]. They must be set at levels that facilitate financial sustainability [s 74(2)(e)].

Municipal Finance Management Act (MFMA): Municipal budget and reporting regulations

- Table A5 of the Regulations (Budgeted capital expenditure) gives a summary of all capital expenditure, and a summary of all sources of expenditure.
- Table A9 of the Regulations (Asset management) gives a breakdown of all capital expenditure, dividing it into spending on new assets and the renewal of existing assets. There is also an asset register summary of property, plant and equipment (PPE), a measurement of depreciation, and of repairs and maintenance. All expenditure is reported by type of asset, and there are specific categories for the assets that provide different basic services.
- Supporting Table SA34 of the Regulations (Capital expenditure on new and existing assets) gives a further breakdown of the information contained in Table A9.

Local Government Capital Asset Management Guideline

The Local Government Capital Asset Management Guideline (Guideline) has been developed by National Treasury to assist municipal managers to fulfil the requirements of Section 63 of the MFMA.

- It is intended to help municipalities to manage their assets better, in order to fulfil all of their requirements for service delivery.
- The Guideline uses some of the abovementioned legislation (Constitution, MSA, MFMA) as its framework.

C.6.4 Legislation for Module 4: Equitable Share (ES) and Municipal Infrastructure Grant (MIG)

Division of Revenue Act (DoRA)

Section 214(1) of the Constitution speaks about an Act of Parliament that must provide for "[T]he equitable division of revenue raised nationally among the national, provincial and local spheres of government…any other allocations to provinces, local government or municipalities form the national government's share of that revenue, and any conditions on which these allocations may be made."

This Act is the Division of Revenue Act (DoRA).

- The DoRA is an annual Act which is published as part of National Treasury's annual Budget documents. It provides information on all of the tax revenue which is transferred from national government to provincial and local government in the form of grants and other transfers.
  - The two grants which we will examine in Module 4 (due to their relevant to service delivery) are the equitable share (ES) and the municipal infrastructure grant (MIG).

Municipal Finance Management Act (MFMA): Municipal budget and reporting regulations

The Regulations contain information on how municipalities must report on their basic services spending.

C.6.5 Legislation for Module 5: Water Quality Management and Water Education

Water Services Act

Section 9(1)(b) of the Water Services

> "The Minister [of Water Affairs] may, from time to time, prescribe compulsory national standards relating to the quality of water taken from or discharged into any water services or water resource system."

Regulations Relating to Compulsory National Standards and Measures to Conserve Water

- The compulsory national standards referred to in s 9(1)(b) of the Water Services Act are found in Clause 5 of the Regulations Relating to Compulsory National Standards and Measures to Conserve Water (Compulsory National Standards), available online at www.dwaf.gov.za/Documents/Notices/Water%20Services%20Act/SEC9DREG_20_April_2001.pdf.

- The municipality is legally required to have a programme for sampling the quality of drinking water [s 5(1)]. The municipality is also required to specify the location and frequency of sample testing, as well as which substances will be tested for [s 5(2)].
- The municipality has a legal requirement to inform the community if there are problems with the quality of the drinking water [s 5(4)(a), s 5(4)(b) and 5(4)(c)], and how long the community will have to wait for the problem to be fixed [s5(4)(d)].

Strategic Framework for Water Services

- The Strategic Framework for Water Services can be found online at www.dwaf.gov.za/dir_ws/waterpolicy/vdFileLoad/file.asp?ID=22.
- Clause 6.3.2 of the Strategic Framework states that: "Water supplied by water services providers intended to be used for drinking or domestic purposes (potable water) must be of a quality consistent with SABS 241 (Specifications for Drinking Water), as may be amended from time to time."
- SABS 241 is the common link between the two references, and specifies various classes of water in terms of physical, microbiological and chemical quality.

D. Educational Modules

Module 1: Analysis of Tariffs

a) Learning Objectives

The objectives of this module are to give civil society:

- an understanding of the basic issues behind water tariff modelling;
- an understanding of how to apply this theoretical knowledge to analysing service delivery in a particular municipality.

b) Learning Outcomes

At the end of the module, you should understand:

- the concepts of rising block tariffs, break-even point, cost-recovery and putting curves to tariffs;
- problems with tariffs;
- how to analyse the cost to households of services;
- how to benchmark municipal service costs and tariff policy;
  how to analyse tariff price increases.

c) Suggested Resources

- A copy of your municipality's water tariffs would be very useful.

1.1 Brief background to tariffs

A **tariff** is the pricing structure of how a product or good is sold. Municipalities set tariffs on a yearly basis for basic services like water, sanitation and electricity. Previously, some services in some areas used to be charged on a **flat rate system** i.e. when there is a single fixed price regardless of usage or time of use. This, however, it is not a sustainable or equitable way to charge for services.

For the pricing of water there are national principles, norms and standards for the setting of tariffs, as set out in section 10 of the Water Services Act, which state that water services authorities (generally local or district municipalities who oversee water delivery) must implement pro-poor tariffs. National government cannot prescribe the precise levels or prices of tariffs, however, and this function is left up to the municipality.

In terms of the national Norms and Standards, tariffs for an uncontrolled supply of water must include a charge based on how much water is used, and which supports the sustainability of water supply services to the poor and discourages wasteful use. A rising block tariff structure must be implemented, which must include three or more tariff blocks with the tariff increasing for higher consumption blocks. The first (lowest) tariff block should be set at the lowest price at the minimum volume of six kilolitres. In practice, since the national FBW policy of 2002, the first block (at least 6 kl) should be free. The tariff for the last (highest) consumption block should be set at an amount that discourages wasteful or inefficient water use. Furthermore, there should be different tariff structures for different types of users e.g. residential, industrial and commercial water users.

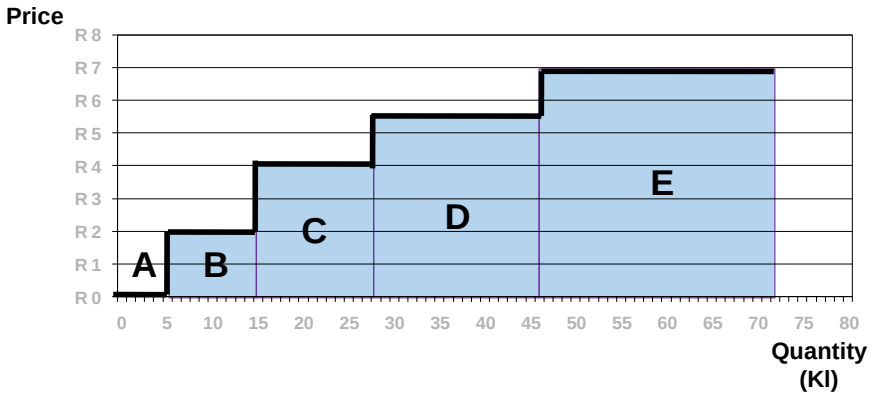
While there are national Norms and Standards regarding how tariff structures should operate in principle, it is up to civil society to ensure that their municipality is pricing water and setting its tariffs in line with these principles, and that water is being delivered in a manner that is fair, equitable and sustainable. This requires analysing tariffs in more detail.

1.2 Water tariffs: rising block tariff structure, break-even and cost recovery points

1.2.1 Analysing the rising block tariff

The graph below shows a curve plotted on a graph, which describes a municipality's tariff for water. It is characterised by a different price (in rands) per unit (kilolitre of water) for different levels of consumption. The same information plotted on the graph could be written as illustrated in the two columns below.

Unit	Price
0 – 6 kl:	R0.00 per kl
7 – 15 kl:	R2.00 per kl
16 – 28 kl:	R4.00 per kl
29 – 46 kl:	R5.50 per kl
47 – 72 kl:	R7.00 per kl



If a household consumed just 0 – 6 kl of water in a month, it would pay nothing (R0) for this consumption, marked by 'area' **A**. In this case, there is no area. The total revenue to the municipality, and total price the household would pay for water if it consumed 6 kl, is equal to 6 x R0 = R0.

If the household consumed 15 kl of water, it would pay 6 x R0 for the first 6 kl of water, and 9 x R2.00 = R18.00 for the next 9 kl of water. The total cost to it would be R18.00, equal to areas **A + B**, which is equal to the total revenue to the municipality.

If the household consumed 26 kl of water, it would pay 6 x R0 for the first 6 kl of water = R0, 9 x R2.00 = R18.00 for the next 9 kl, and 11 x R4.00 = R44.00 for the last 11 kl of water. The household thus pays R62.00 in total for water for that month. As a household uses more and more water, the price per unit (kl) of water consumed becomes more and more expensive.

By law, municipalities MUST have a rising block tariff for water, and they must provide FBW (at a cost of R0) for at least the poor (indigent) households living in their municipality as per the national FBW policy.

1.2.2 Why a rising block tariff for water?

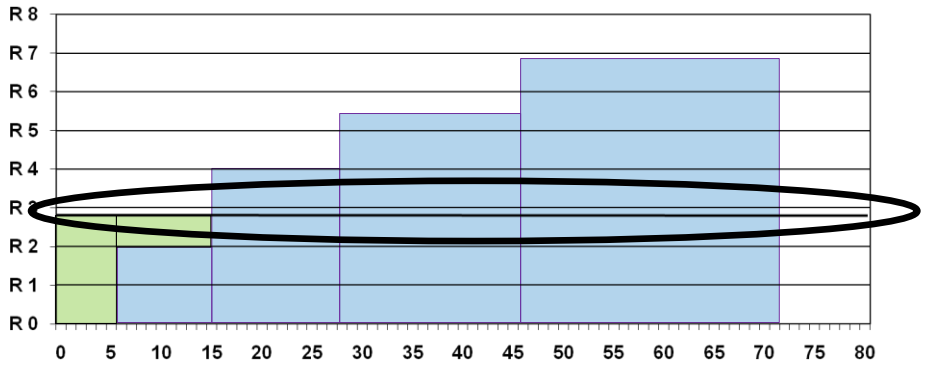
There are three things that a rising block tariff structure is supposed to help achieve:

- **Equity**: Those that can afford to consume water for 'luxury purposes' (like swimming pools and gardens) can afford to pay more to cross-subsidise basic water services for poor households.
- **Conservation**: More expensive water gives an incentive for people not to waste water and to rethink how they use their water more efficiently.
- **Economy / Financial Sustainability:** New infrastructure has to be built to accommodate higher consumption of water. The revenue from higher charges can be used to cover the cost of future capital expenditure. The link between tariffs and asset management is covered in Module 3.

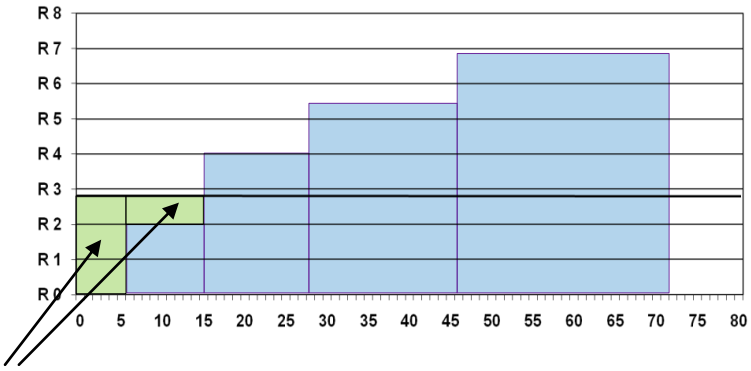
1.2.3 Break-even and cost recovery points

Municipalities buy water in bulk and resell it to different users using a tariff pricing structure. They incur costs when buying and providing the water and will pass these on to the users so that they are not losing money as they provide the service. Municipalities like to 'balance their books' and recover all costs ('full cost-recovery') from the services they provide.

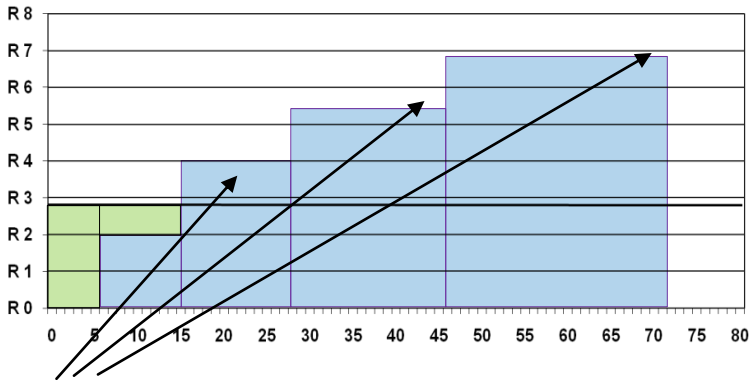
The graph on the right is the same graph as above, and relates to the same tariff structure. In this municipality, it costs R2.80 to provide 1 kl of water to a residential water user. This price is known as the **break-even point.** The encircled line indicates this price.



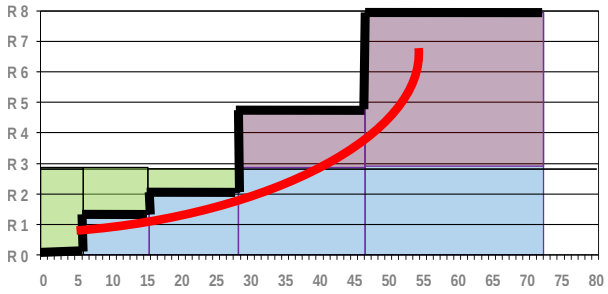
From the graph, we see that first two tariff blocks (0 - 6 kl and 6 – 15 kl) are priced **below** the break-even price of R2.80/kl. The municipality makes a **loss** on every kilolitre consumed in these two bands. The loss is equal to R2.80 per kl for the first six kilolitres, and is equal to R0.80 (R2.80-R2.00) for the block 6 - 15 kl. This loss must be covered by a subsidy of some kind.



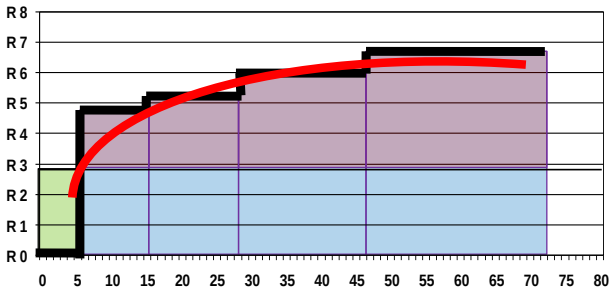
Each of the blocks above 15 kl is priced above the break-even point of R2.80, and consumption at these levels effectively subsidises households that consume below 15 kl. Depending on the number of households that consume within the various tariff bands, the municipality may cover all the costs of consumption below 15 kl by cross-subsidisation. This principle is a very important part of structuring rising block tariff structures, and it vital to ensure that water is affordable for poor residents.



1.2 Concave and convex graphs



The graph on the left shows a tariff structure where the price of water is relatively cheap for the first two or three blocks, but then rises sharply for subsequent blocks of higher consumption. This graph has a **convex** shape. A convex graph has relatively gradual price increases per unit of consumption at lower consumption levels, with price increases becoming steeper at higher consumption levels.



The graph on the right shows a tariff structure where the first 6 kl is free but in the next two blocks there are sharp price increases, and then for the subsequent, higher blocks the increase in price decreases. Water become cheaper per unit consumed at higher levels of consumption. The curve used to model the shape of the graph has a slope increasing at a decreasing rate. This graph is **concave** in shape. A concave graph sees water tariff prices rise steeply per unit of consumption at relatively low levels of consumption, with lower relative increases for higher levels of consumption.

1.2.1 Can we tell if a tariff is pro-poor or not from the shape of the tariff curve?

It is definitely possible. In general, it would seem that a **convex curve is more pro-poor** than a concave curve, because it provides cheaper water in the lowest and intermediate tariff blocks, but raises the price significantly for levels of higher consumption.

In theory, rich households consume in the higher consumption blocks as they use more water for filling up swimming pools, watering the garden, washing cars etc. Those using the most water can thus afford to pay more for it, and this means that more cross-subsidisation can take place of poorer users. It also means that excessive water usage is discouraged. Concave graphs are highly undesirable as they do not facilitate cross-subsidisation, do not encourage water conservation and mean that poorer users are paying MORE for water.

In reality, some tariff curves are both concave AND convex, because they contain so many different blocks. When we examine in more detail the actual tariff curves of South Africa's metro municipalities, we will see how the shape of the graph is connected to the relative costs of water in the metros.

1.3 Problems with tariff design

In our theoretical analysis of tariff structures, we have made a number of assumptions. These are:

- that municipalities have reliable information about the demographics (nature of size of population) of their residents;
- that revenue from water does not subsidise the provision of other services and that it is not subsidised by revenue from other sources itself;
- that there are rich residents living within the municipality from which to cross-subsidise;
- that there is no cross-subsidisation between different categories of water consumers e.g. between residential and industrial customers; and
- that municipal officials are setting tariffs strictly according to their mandate described in the norms and standards, and are not influenced by or have their own political agenda.

In many cases, these assumptions are wrong, and there are also other factors which need to be taken into account. For example,

- our model does not include the subsidies that municipalities receive from National Treasury in the form of the Equitable Share (ES), Municipal Infrastructure Grant (MIG) or other grants and transfers. These subsidies have the effect of lowering the break-even cost for the municipality, and are particularly important in very poor communities as they provide below-cost provision to poor people.
- even if our model were based on perfect information, there are qualitative issues of access to free services e.g. universal access vs. means test based system (indigent register), as well as quality of water services received e.g. high-pressure water system vs. gravity-based system, which are also very important.

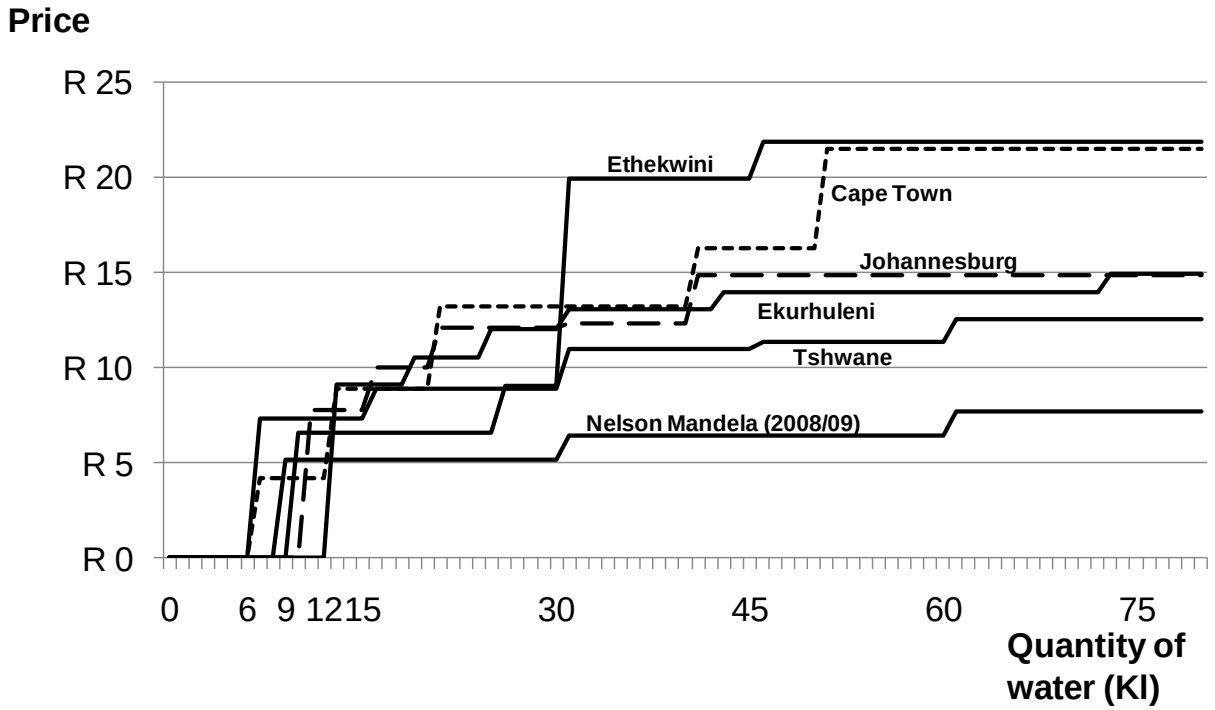
While it is important to acknowledge the challenges that are outlined above, they do not prevent us from using our knowledge of tariffs to analyse the costs of water services to poor households. We should also be able to make a comparison across municipalities, of the cost of consuming different amounts of water and the quality of different water services.

1.4 How to analyse tariffs in order to benchmark the costs and quality of services to the poor

The following sections are based on research conducted in the six metro municipalities, analysing their water tariff documents and related policies.

1.4.1 Tariff graphs for the metro municipalities

The graph below shows the latest water tariffs for poor (indigent) domestic consumers in the six metro municipalities (City of Johannesburg, City of Cape Town, Ekurhuleni, eThekwini, Tshwane and Nelson Mandela), plotted on a graph like in the example given above. The graph thus illustrates the price of each unit of water consumed (in kl), charged to indigent households across the metros. These tariffs all apply to the 2009/10 financial year (1 July 2009 to 30 June 2010), except for Nelson Mandela Metro, for which the latest available data was for the 2008/09 year.



In most cases, indigent households are treated differently to other households

- quantitatively: they receive more FBW, or they may pay cheaper prices for other consumption bands.
- qualitatively: they may receive a different kind of service (low-pressure, yard tap), they may have a different metering systems (e.g. prepayment meter), or they may have to apply for additional FBW through registering as an indigent household.

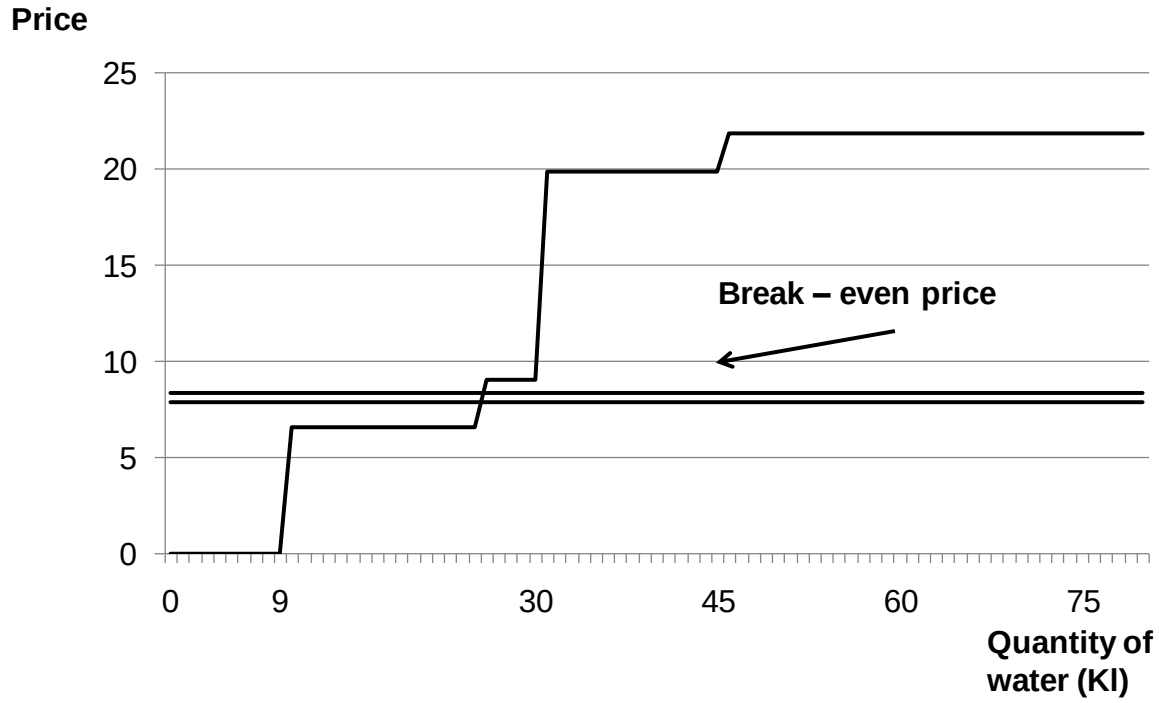
Note that these tariffs are inclusive of VAT, but that most municipalities will list their tariffs exclusive of VAT. Users will want a VAT-inclusive number to calculate their total costs.

This graph was calculated according to the real tariff schedules produced by the metros, taking into account any extra non-tariff treatment of indigent households. For example, City of Cape Town supplies a R30 voucher to poor households, which is a subsidy for water and sanitation consumption. This subsidy was then subtracted from the normal tariff.

The example of the water tariff structure for eThekwini is provided below, drawn from its 2009/10 water tariff document. It will be examined in more detail.

1.4.2 Analysis of the eThekwini 2009/10 water tariff

The graph below illustrates the water tariff curve for indigent households in eThekwini. The break-even price of water has been calculated by eThekwini's Department of Water and Sanitation, however this is not an easy exercise and it is true that eThekwini is one of the most capacitated municipalities in the country and therefore able to do this kind of research. They were able to calculate a monthly break-even cost, which ranges from R7.83 per kl to R8.32 per kl. eThekwini provides the first 30 kl to poor households at below cost (it is the VAT in the 25 kl – 30 kl range that pushes the price to households above R8.32.)



Would we characterise the shape of the curve as convex? It seems fair to do so as it is relatively flat after the FBW provision (9 kl) up to 30 kl. It then rises steeply for consumption above 30 kl. It provides a full or partial subsidy for all consumption up to 25 kl (VAT inclusive).

1.5 Moving from tariff graphs to calculating household costs

Another interesting way to compare how pro-poor the tariff structures of different metros are, is to look at how much an indigent household in each metro would pay for consuming different amounts of water, and what is the average price across the metros.

The table below is a comparison of the costs of water consumption across five of the metros (Nelson Mandela Metro is excluded as it has not updated its website with its latest water tariffs, and its tariff information appears to be less reliable than the others).

Cumulative cost of residential water consumption per household						
Kl	**Ethekwini**	**Cape Town**	**Johannesburg**	**Ekurhuleni**	**Tshwane**	**AVG**
10	R 6.58	R 0.00	R 0.00	R 7.30	R 0.00	R 2.77
15	R 39.47	R 35.06	R 38.93	R 43.78	R 27.36	R 36.92
20	R 72.36	R 79.57	R 89.03	R 88.24	R 75.81	R 81.00
25	R 105.24	R 145.52	R 149.68	R 132.70	R 130.04	R 132.64
30	R 150.33	R 211.47	R 210.33	R 177.16	R 190.29	R 187.92
40	R 348.81	R 343.37	R 333.79	R 286.60	R 320.70	R 326.65
60	R 775.34	R 721.16	R 631.10	R 511.46	R 597.95	R 647.40
80	R 1,211.73	R 1,150.94	R 928.42	R 762.26	R 884.87	R 987.64

- eThekwini's column has been calculated from the tariff schedule attached in the information pack. In eThekwini, to consume 10 kl of water an indigent household would pay R0 for the first 9 kl (the FBW amount) and R6.58 (R5.77 plus 14% VAT) for the tenth kl. Three of the other metros obviously provide more FBW and therefore it is free for households to consume 10 kl.
- eThekwini's indigent households pay less than the overall average for amounts between 20 kl and 30 kl. They are slightly higher than the average below 20 kl (which may be due to the municipality's high costs) and they are more expensive than the average above 30 kl.
- It appears as though the convex shape of the first part of eThekwini's tariff curve does correlate with the assumption of a more redistributive tariff structure.
- Civil society can use this exercise to create a benchmarking system, comparing their own services costs with those in other municipalities. Suggestions for benchmarking include comparing your municipality's water tariffs with surrounding municipalities and/or comparing to municipalities with similar populations or household sizes, and/or incomes.

1.6 Summary table of basic water and sanitation costs to poor households in five metros, 2009/10

The table below is a brief summary of the relevant tariff and non-tariff information for water provision in the five metros. All calculations are based on the costs and conditions facing indigent households. There may be other relevant information in the metros' tariff, credit control and indigent policies.

	Ethekwini	Cape Town	Joburg	Ekurhuleni	Tshwane
# of blocks	5	6	6	6	7
Price of last block	R21.82	R21.49	R14.87	R12.54	R14.93
FBW per HH per month, indigents	9Kl	6K / 10.6Kl***	10Kl	9Kl**	12Kl
Universal FBW?	Yes, 9Kl	Yes, 6Kl	Yes, 6Kl	Yes, 6Kl	No
Subsidised consumption above FBW, indigents?	No****	Yes***	Yes*	No	No

* For HHs with metered connections ** No independent occupants allowed on the property

*** Indigents receive an additional R30 grant, which is equivalent to a total FBW provision of ±10.6Kl / FBSan of 7.4Kl

****Low- and semi-pressure systems do not have to pay the R69.30 fixed charge

- The use of a voucher system in Cape Town is included in the analysis (although the calculations are based on 2008/09 tariffs and may need to be revised), as is the fact that eThekwini provides a lower-pressure service for indigent households (these households do not pay the service charge that households with high-pressure connections do).
- Ekurhuleni does not allow indigent households to have backyard shacks or tenants on their property.
- There are potential complications that might be experienced when comparing costs across municipalities, or even across different classes of residential users in the same municipality. A municipality's indigent policy, credit control policy and tariff policy can contain valuable non-tariff information (similar to that used by the Cape Town and Ekurhuleni metros) that needs to be included in a comparison of tariff costs.

1.7 Residential tariffs in the City of Johannesburg: how to calculate year-on-year (YoY) increases

The table below is a summary of seven years of residential (domestic) water tariffs in the City of Johannesburg (CoJ), VAT exclusive, from the 2002/03 financial year to the 2008/09 financial year. It only applies to those with a metered water connection i.e. not a communal standpipe. Year-on-year (YoY) refers to comparing data in one time period with similar data from the previous year in order to calculate the year-on-year increase.

This exercise is important, as it shows the progression or regression of the municipality in its tariff setting policies and indicates relative increases per band of consumption. Generally speaking, a

municipality should try to minimise YoY increases for the second block and rather focus increases in the higher blocks.

Domestic water tariff - metred areas

	02/03	03/04	04/05	05/06	06/07	07/08	08/09
0 - 6 kl	Free	Free	Free	Free	Free	Free	Free
7 - 10 kl*	R 2.49	R 3.30	R 3.60	R 3.90	R 4.20	R 4.40	R 4.40
11 - 15 kl	R 4.48	R 4.40	R 4.80	R 5.15	R 5.60	R 5.90	R 6.28
16 - 20 kl	R 5.00	R 5.50	R 6.00	R 6.45	R 7.00	R 7.40	R 7.93
21 - 30 kl	R 5.81	R 6.60	R 7.19	R 7.75	R 8.40	R 8.80	R 9.52
31 - 40 kl	R 5.81	R 6.60	R 7.19	R 7.75	R 8.40	R 8.80	R 9.60
41+ kl	R 7.09	R 7.80	R 8.50	R 9.15	R 9.90	R 10.40	R 11.46

*This consumption band is free for registered indigent consumers from 2008/09

- In CoJ, the size of the tariff blocks did not change over these seven years, apart from the splitting of the 21 kl – 40 kl block into two equal blocks (21 kl – 30 kl and 31 kl – 40 kl) in 2008/09.
- In 2008/09, the metro decided to provide the 7 kl – 10 kl block free to registered indigent households, in addition to the universal provision of 6 kl FBW i.e. all residential users in CoJ, rich or poor, receive 6 kl FBW, and registered indigent households receive 10 kl free.
- To calculate the year-on-year (YoY) percentage increase in a tariff block, you divide the price of the block in one year by the price of the same block in the previous year and subtract 1, therefore to calculate the YoY increase in the 7 kl – 10 kl block from 2002/03 to 2003/04, you would divide R3.30 by R2.49 and subtract 1. The YoY increase is 3.30/2.49 - 1 = 32.5%.
- In this way, we can create a table of YoY tariff increases for the different tariff blocks, as seen in the table below.

Annual percentage increase in tariffs per consumption band

	02/03	03/04	04/05	05/06	06/07	07/08	08/09
0 - 6 kl		-	-	-	-	-	-
7 - 10 kl*		32.5%	9.1%	8.3%	7.7%	4.8%	0.0%
11 - 15 kl		-1.8%	9.1%	7.3%	8.7%	5.4%	6.4%
16 - 20 kl		10.0%	9.1%	7.5%	8.5%	5.7%	7.2%
21 - 30 kl		13.6%	8.9%	7.8%	8.4%	4.8%	8.2%
31 - 40 kl		13.6%	8.9%	7.8%	8.4%	4.8%	9.1%
41+ kl		10.0%	9.0%	7.6%	8.2%	5.1%	10.2%

*This consumption band is free for registered indigent consumers

- By grouping the numbers by column, we can compare tariff increases across high- and low-consumption blocks in a single year.
- In terms of pro-poor analysis, there is an assumption that poorer households do not consume beyond a certain level, therefore the lower consumption blocks (7 kl – 10 kl, and so on, up to 20 kl)

should have low YoY increases. We can compare the YoY increases in these blocks to higher consumption blocks to see if a municipality is considering the effects of annual tariff increases on poor households.

- For example, in 2004/05 tariff increases were in a narrow range of 8.9% to 9.1%. In 2005/06 the range was 7.3% to 8.3%. However, in 2008/09 the range was very wide, ranging from 6.4% to 10.2%. It appears in the higher consumption bands there was a greater percentage increase compared to lower bands.

- In 2003/04 a very strange pair of numbers is seen for the 7Kl – 10Kl and 11Kl – 15Kl YoY increases. The inflation of previous years could have affected input costs for the CoJ. They would need to have explained to households and civil society why they had such a large percentage increase in that year.

- If we summarise the table, we can draw a number of conclusions:

    - In the past, the CoJ hasn't always increased its tariffs in a pro-poor manner. In many of the financial years, the tariff increases for the consumption bands that affect poorer households (i.e the 7 – 10Kl and the 11 – 15Kl bands) have been higher than the increases for higher consumption bands.

    - In particular, in the 2003/04, 2004/05 and 2005/06 financial years, the 7 – 10 Kl band saw the largest YoY price increases.

    - In the last three financial years (i.e. 2006/07 onwards) there appears to have been a more pro-poor approach by the City, with the lowest consumption band having the lowest YoY increases. However, in 2009/07, the 11 – 15 Kl band still had the highest YoY tariff increase, which would affect poorer households to a larger degree than richer households.

    - Just by considering this brief summary of the CoJ's tariff increases, we can develop a clearer picture of what a 'pro-poor' tariff policy should look like, and how tariff increases can be designed to benefit the poor or to penalise them.

- When we define what are 'low YoY increases', there is an absolute and a relative component to consider:

    - increases should be below inflation in order to provide relief to poor households; and

    - increases should be less in lower consumption bands than those in the higher consumption bands.

1.8 Conclusions

Civil society should benefit from Module 1 in the following ways:

- The module highlights the importance of identifying the total costs of service delivery in order to calculate whether or not a municipality is delivering a financially sustainable service. In particular, the focus on break-even costs provides a simple way to understand how a municipality must cover its costs.
- The module describes the importance of a rising-block tariff, and the aims of using such a tariff structure. The reader will be able to construct a graph by using appropriate tariff data, and will be able to calculate the total costs of service usage from this tariff data.
- The reader can compare different tariff structures across different municipalities now. She can compare the total costs of service usage and can calculate whether a service in a particular municipality is cheaper or more expensive than in similar municipalities.
- The reader can use the concepts of tariff curve shapes and tariff increases to determine whether a particular municipality's tariff policy is aligned to a pro-poor agenda.

Some further steps that civil society can take, using the knowledge of Module 1, include the following:

- Calculating the cost recovery of a municipality by comparing its tariff structure to its break-even cost.
- Constructing a tariff curve for its municipality and comparing this to tariffs in other municipalities.
- Comparing the total costs of service delivery across muncipalities.
- Determining whether a municipality's tariff policies and tariff structures are pro-poor or not.
- Armed with the above tools, civil society can lobby their respective municipalities for tariff reforms including: providing more relief for poorer users by keeping tariff increases low for low consumption blocks; and providing larger increases for tariffs at high consumption levels.
- Civil society can also lobby municipalities to calculate accurate break-even costs if they do not do so currently, and can place pressure on municipalities whose costs of consumption for poorer users are significantly higher than similar municipalities.

Module 2: Basic Financial Accounting and Budget Documents

a) Learning Objectives

The objectives of this module are to give civil society:

- an understanding of basic financial accounting;
- an understanding of the most important budget documents.

b) Learning Outcomes

At the end of the module, you should understand:

- basic accounting concepts problems with tariffs;
- what are basic financial statements and how to interpret them;
- the concept of medium-term planning;
- what are the most important budget documents;
- how new legislation is influencing how municipalities prepare their financial statements.

c) Suggested Resources

- Copies of the balance sheet, income statement and cash flow statement from Tables A1, A4, A6, A7 in eThekwini's MTEF (see information pack)
- Extracts from the eThekwini's IDP Review 2009/10 (see information pack)
- Extracts from the eThekwini's SDBIP 2009/10 (see information pack)

2.1 Introduction to basic financial accounting and budget documents

Municipalities own and maintain infrastructure, have loans and bank accounts, pay salaries, sell goods and services, receive income from these services etc. The way they keep track of all this is through financial accounting, and the way they plan their finances and how they are going to operate into the future is through the budgeting process.

It is important to have an idea of how these processes work, as they impact directly on service delivery. It is vital that civil society is aware of the 'financial health' of municipalities - where money is being spent and where money is NOT being spent. Public participation in the budget process is encouraged in theory, but in reality it is very difficult to participate meaningfully without unpacking the often rather complex world of financial accounting.

This module outlines some key financial concepts, together with explanations and illustrative examples of three of the most important financial statements in the municipality: the balance sheet, income statement and cash flow statement. It also provides basic budget concepts, explains the annual budget and the concept of medium-term planning, and gives a brief explanation of the Integrated Development Plan (IDP) and the Service Delivery Budget Implementation Plan (SDBIP).

2.2 Assets, liabilities and equity – the balance sheet

- **Asset**: an asset is something from which financial benefits are derived e.g. a person's car used for transport to work to earn a salary; savings in a bank account earn interest; and a house can be used to earn rent.
  - some examples of municipal assets are land, machinery, cash (money), inventory items (e.g. stationery) and equipment (e.g. a municipality's water infrastructure).
  - assets can be bought or sold, and their value can increase or decrease over time.

- **Liability**: a liability is something which creates expenses or losses e.g. a mortgage on a house; a loan on a car; money owing to someone who has performed a service for you.
  - some examples of municipal liabilities are bank overdrafts and money borrowed by the municipality which must be paid back.

- **Equity**: equity is the difference between net assets and net liabilities.
  - for municipalities, the concept of equity is also expressed as **community wealth**, as the community is considered to be the 'shareholder' in the municipality. While private companies

can pay out dividends to shareholders, public entities, including municipalities, retain their equity/community wealth to be used in the future.

A **balance sheet** is a financial statement that lists an entity's assets and liabilities at a certain point in time. It describes an entity's solvency at a point in time i.e. whether or not the entity has a net positive or negative value at that point in time.

It is also important to differentiate between current and capital assets on the balance sheet

- **Current items** are assets or liabilities which have a life of a year or less. For example, stationery and fuel would be used by the municipality within the financial year.
- **Capital items** are assets or liabilities with a life of more than one year and/or items above a minimum value. Examples would include municipal vehicles and infrastructure. They are treated differently in terms of their reporting and analysis. We will look at capital assets in greater detail in Module 3.

2.2.1 Balance sheet – an illustrative example

Let us look at some examples taken from the balance sheet of an imaginary municipality.

Description	Current year
R thousand	
ASSETS	
Current assets	
Cash	R 4,000
Debtors	R 1,000
Inventory	R 500
Total current assets	**R 5,500**
Non current assets	
Investments	R 10,000
Property, plant and equipment	R 50,000
Other non-current assets	R 20,000
Total non current assets	**R 80,000**
TOTAL ASSETS	**R 85,500**

The table on the left describes the assets of the municipality.

The 'R thousands' describes the unit of measuring the numbers in the right column. Here, 'R4,000' actually means R4 million.

Totals are usually in bold. Here, total current assets are the sum of the three numbers above.

Total assets is the sum of the two other totals.

- Current assets are assets with a short life span, normally a maximum of one financial period (which is usually a year). This municipality has R5.5 million worth of current assets.
- Non-current assets have a life-span of over a year. There is R80 million worth of non-current assets.
- The total value of the municipality's assets is R5.5m + R80.0m = R85.5m.
- Assets and liabilities are listed in terms of how liquid (able to be sold for cash) they are i.e. cash is most liquid, followed by debtors (which could result in cash income of less than R1.0m if some debt is bad debt), and then inventory (which may only be sold for a fraction of its value).

Description	Current year
R thousand	
LIABILITIES	
Current liabilities	
Bank overdraft	R 10,000
Borrowing	R 2,000
Total current liabilities	R 12,000
Non current liabilities	
Borrowing	R 30,000
Provisions	R 5,000
Total non current liabilities	R 35,000
TOTAL LIABILITIES	R 47,000

The table on the left describes the liabilities of the imaginary municipality.

Current liabilities are similar in concept to current assets. There is R12.0m (million) worth of current liabilities.

Non-current liabilities total R35.0m.

Therefore the total value of the municipality's liabilities is R12.0m + R35.0m = R47.0m.

- Community wealth = total assets - total liabilities. This municipality has a community wealth of R85.5m – R47.0m = R38.5m. The municipality's balance sheet is positive, which is good. The municipality is therefore solvent, i.e. has a positive net value. If the municipality's liabilities exceeded its assets, it would technically be **insolvent**.

2.3 Income/revenue and expenditure – the income statement

- **Income/revenue**: this is money earned or received by a financial entity.
  - Municipalities normally refer to revenue, not income.
  - This could be in the form of basic services charges, interest from money in the bank, rates and taxes, and grants received from National Treasury.
- **Expenditure**: this is money spent or transferred by a financial entity.
  - Municipalities refer to expenditure, but this is also sometimes called expenses.
  - Expenditure would include salaries for councillors, buying bulk water and grants paid to other municipalities.

An **income statement** is a financial statement that lists an entity's income and expenses over a time period, usually a year. The income statement will show whether the entity had a net positive or negative income or revenue for the time period.

Important to note is that income/revenue and expenses/expenditure are not always in the form of cash, and the income statement is not the same as the cash-flow statement.

2.3.1 Income statement – an illustrative example

Description	
R thousand	
Revenue By Source	
Property rates	R 600
Service charges - water revenue	R 1,200
Service charges - sanitation revenue	R 250
Transfers recognised	R 400
Other revenue	R 150
Total Revenue	**R 2,600**
Expenditure By Type	
Employee related costs	R 350
Remuneration of councillors	R 400
Debt impairment	R 350
Depreciation & asset impairment	R 250
Finance charges	R 120
Bulk purchases	R 300
Total Expenditure	**R 1,770**
Surplus/(Deficit)	**R 830**

The table on the left describes an imaginary municipality's revenue and expenditure.

The municipality has a total of R2.6m in revenue for the year and R1.77m in total expenditure. Thus the net surplus of the municipality is R830 000. If the there was a net deficit i.e. total expenditure exceeded total revenue, then the figure would be negative.

The municipality has to reflect its bad debt as 'Debt impairment' under expenditures. This would be offset against its revenue from service charges and property rates. 'Bulk purchases' would be subtracted from services revenue to calculate net revenue.

2.4 Cash flow

- **Cash flow**: cash flow describes the movement of money or cash into and out of an entity over a period of time, usually a year.
  - a **cash flow statement** shows whether the entity received more cash than it paid out over the year, or whether it had to pay out more cash than it received.
  - even if an entity is solvent and is generating a net income, if it is having short-term cash-flow problems then it may be in a bad financial position. It may even have to sell some of its assets or scale back its activities in order to achieve a positive cash flow.

2.4.1 Cash flow statement – an illustrative example

Description R thousand	
CASH FLOW FROM OPERATING ACTIVITIES	
Receipts	R 300
Payments	R 210
NET CASH FROM/(USED) OPERATING ACTIVITIES	**R 90**
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipts	R 100
Payments	R 130
NET CASH FROM/(USED) INVESTING ACTIVITIES	**-R 30**
CASH FLOWS FROM FINANCING ACTIVITIES	
Receipts	R 40
Payments	R 25
NET CASH FROM/(USED) FINANCING ACTIVITIES	**R 15**
NET INCREASE/ (DECREASE) IN CASH HELD	**R 75**
Cash/cash equivalents at the year begin:	**R 24**
Cash/cash equivalents at the year end:	**R 99**

The table on the left is the cash flow of an imaginary municipality. It is a high-level summary of cash received and paid from different activities.

The municipality generated a positive cash flow of R75 000 in the financial year, which it added to its cash reserves (cash carried over from the previous year) of R24 000 at the beginning of the year to reach a total of R99 000 in cash at the end of the year.

Income is not the same as cash. Debtors might never pay what they owe, and sometimes the grants from National Treasury are paid earlier or later than the municipality budgets. The cash flow statement tells us how comfortable the municipality is right now, if they had to pay for something.

2.5 Budget monitoring information

2.5.1 Basic budget concepts

A **budget** is basically a list of all planned expenses and revenues and is in essence an organisational plan stated in financial terms.

Most budgets focus on a 12-month period, often called an **annual budget**. This can be a calendar year (1 January to 31 December), or it can be any other 12-month period. The **municipal financial year** is from 1 July to 30 June (the last half of one calendar year and the first half of the next calendar year).

Annual budgets are divided into quarters, which are three-month periods. The first quarter of the municipal financial year is therefore from 1 July to 30 September. Quarters are then divided into months. Certain information has to be reported on a monthly basis, certain information on a quarterly basis, and certain information only on an annual basis.

There are certain budget decisions which have an effect on the municipality's decisions beyond just a year or the annual budget. The most typical examples are large capital investments which must be reported over a three-year period, as specified in the law.

Different budgetary documents have different reporting requirements for different time periods. It is important for civil society to be aware of the exact time periods stipulated in law for Mayors, municipal managers and accounting officers to review and make public the documents mentioned in, and related documents. These can be found in the MFMA and the Regulations (see the section on the law and relevant legislation for more on this)

It is also important for civil society to know its municipality's budget timeline – the dates and deadlines given for the creation of draft budget documents, the public's comments on them, and the release of the final versions. Municipalities should publish these on their websites at the start of every financial year, and civil society should request them directly if they are not available.

Civil society has a right to know this information, and it is important in order to be able to participate meaningfully in municipal budget monitoring and to ensure local government accountability.

2.5.1.1 Medium Term Expenditure Framework (MTEF)

All levels of government (national, provincial and municipal) are required to plan their budgets and to present their financial statements according to the Medium Term Revenue and Expenditure Framework (MTEF). This is a framework that includes not only the budget forecasts for the next financial year, but also the forecasts for the subsequent two financial years. In such a way, government departments are required to take a medium-term (i.e. over the next three years) view of their budgets and finances. This framework is designed to help government plan more effectively for the future.

The table below shows the standard of how all levels of government must report their financial affairs. It refers to a statement prepared in the 2007/08 financial year, for the 2008/09 budget year, but planning for the next three years.

	2004/05	2005/06	2006/07	Current Year 2007/08				2008/09 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2008/09	Budget Year +1 2009/10	Budget Year +2 2010/11

- The financial information for the previous three years must be included.
- The financial forecasts for the next three financial years must also be included.
- By understanding how this system of reporting works, civil society can understand what a particular municipality's medium-term strategies are for service delivery, and there is scope to preempt and influence decisions that will be made.

2.5.2 Integrated Development Plan (IDP)

According to Section 35(1)(a) of the *Municipal Systems Act,* the Integrated Development Plan (IDP) of a municipality is:

> *the principal strategic planning instrument which guides and informs all planning and development and all decisions with regard to planning, management and development.*

The IDP is a five-year strategic document which outlines the municipality's most important goals, and is an important budgetary document that includes service delivery targets and performance targets for municipalities. While the IDP is a medium- to long-term planning document, it is reviewed every year as part of the budgetary process. The IDPs of municipalities are supposed to be used to feed into provincial government funding and planning, and therefore need to be accurate, representative and visionary.

IDPS are meant to be consultative and participatory

Every other budget document is influenced by the IDP and in accordance with the IDP. The laws governing the creation of the IDP are covered in the introductory section on legislation above (section C).

2.5.3 Service Delivery Budget Implementation Plan (SDBIP)

The Service Delivery Budget Implementation Plan (SDBIP) is a detailed plan approved by the Mayor for implementing the municipality's delivery of municipal services and its annual budget. Like the annual budget, it also has a three-year projection of targets and achievements and focuses on the same time periods as the budget. The SDBIP should include:

- monthly revenue projections (by source);
- monthly operating and capital expenditure;
- quarterly service delivery targets;
- quarterly performance indicators; and
- any other matters prescribed.

The SDBIP is expected to be approved within 28 days after the approval of the budget. The monthly and quarterly projections and targets as outlined above must be made public within 14 days of their approval.

The diagram below describes how the IDP, annual budget, SBDIP, and annual report relate to each other.

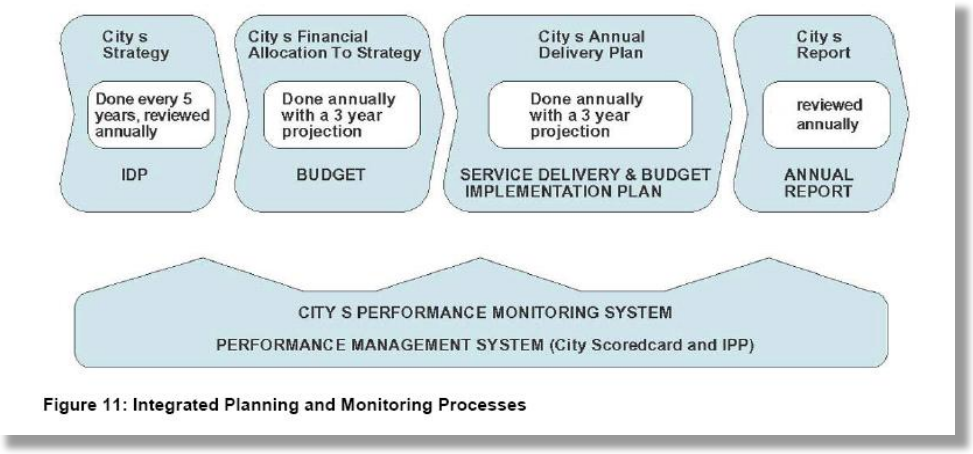


Figure 11: Integrated Planning and Monitoring Processes

From eThekwini 2009/10 IDP review

- The IDP is a five-year document, but it is reviewed every year as part of the budgetary process. This IDP covers the 2006/07 to 2010/11 period. The IDP is a medium- to long-term planning document
- The budget is prepared annually, but covers a three-year forward-looking period. It has short- and medium-term elements to it.
- The SBDIP also has a three-year projection of targets and achievements. It focuses on the same time periods as the budget.
- The annual report is a review of the previous financial year.

Note: It is important for civil society to be aware of the exact time periods stipulated in the Acts for mayors, municipal managers and accounting officers to review and make public the above documents, and related documents. These can be found in the MFMA and the Regulations. For example, the draft IDP has to be completed within a certain time period. Following this, the draft IDP has to be given to the public for review within a certain amount of time.

It is also important for civil society to know of its municipality's budget timeline – the dates and deadlines given for the creation of draft budget documents, the public's comments on them, and the release of the final versions. Civil society has a right to know this, and needs to know this in order to be effective budget monitors. Municipalities should publish these on their websites at the start of every financial year, and civil society should request them directly if they are not available.

2.5.4 Other important documents for water service delivery: the water services development plan (WSDP)

- The WSDP forms the water sector plan of the IDP, and the IDP principles and goals have to be incorporated into the WSDP. Local municipalities need to prepare a separate Water Sector Plan in their IDP in which they outline water services requirements. The WSDP then aligns these projects at district level.
- The WSDP should take into account the water-specific aspects of the municipality, including available resources; water conservation and demand management; and existing water resource infrastructure.
- Just as with any other aspect of the IDP, municipalities are required to create annual reports against the WSDP. Sadly, many municipalities do not do this.
- Civil society can contribute to the monitoring of WDSPs in its general monitoring of IDPs. It can contribute to the overall strategic planning of the WDSPs and should be giving comment at each annual review.

2.6 Conclusions

Civil society should benefit from Module 2 in the following ways:

- The module provides a basic understanding of vital financial documents and the overall structure of public financial reporting. Civil society should be able to read a municipality's balance sheet, income statement and cash flow statement after completing this module.
- Civil society will also have knowledge of the MTEF requirements from this section, and will be able to better understand a muncipality's medium-term goals and projections by applying this knowledge.
- Civil society will have gained an understanding of the most important municipal budget documents from Module 2, including the IDP and SDBIP. Civil society will be aware of the requirements to include public participation in the creation and review of these documents.

Some further steps that civil society can take, using the knowledge of Module 2, include the following:

- Reviewing a municipality's financial statements and be able to interrogate a municipality on its financial solvency and liquidity.

- More effective participation in municipal budget meetings, including vital input during IDP reviews.
- Lobby to include performance goals and targets in a municipality's SDBIP that are of importance to society and that are pro-poor.

Module 3: Asset Management

a) Learning Objectives

The objectives of this module are to give civil society:

- a deeper understanding of assets;
- an understanding of the duties of municipalities in respect to reporting on their assets; and
- an understanding of the duties of municipalities in respect of how they look after assets used to deliver basic services to the community.

b) Learning Outcomes

At the end of the module, you should understand:

- why assets are important for service delivery;
- why proper asset management enhances services delivery;
- how proper reporting on a municipality's assets is essential for development planning;
- asset life cycles;
- the costs associated with buying and maintaining assets;
- how municipalities report on their borrowings and their debt;
- how the Guide can assist civil society with understanding a municipality's asset management.

3.1 What is asset management?

In the previous module we defined an 'asset'. **Asset management**, as defined by the Local Government Capital Asset Management Guideline is therefore:

> *a broad function and includes a structured process of decision-making, planning and control over the acquisition, use, safeguarding and disposal of assets to maximise their service delivery potential and benefits, and to minimise their related risks and costs over their entire life.*

Asset management is thus concerned with the entire asset life cycle - from how to buy the asset to its use, maintenance and eventual sale. It is intended to maximise service delivery potential and is necessary for effective service delivery by municipalities. Service delivery is maximised when assets are properly maintained, ensuring that the quality of service delivery is not compromised by things like leaky pipes, for example.

Asset management is also about making sure that a municipality does not have to spend extra money on its assets because it failed to maintain them properly in the first place.

Asset management is concerned with capital assets (those assets with a life span of more than a year).

3.2 Why the focus on asset management?

Over the last decade, many assets which were in the hands of national government (e.g. DWAF) have been transferred to local government. Municipalities now collectively own assets that are worth hundreds of billions of rands.

The demand for basic services has increased over this time, as has the pressure from national government to accelerate infrastructure development, particularly in areas where there has historically been underdevelopment i.e. in rural areas and poor communities.

There is now a greater need than ever for municipalities to manage their assets with high levels of expertise and knowledge, increasing the need for suitably trained and skilled personnel and more sophisticated management systems. If assets are properly managed, they will last longer and perform better, and they will therefore deliver services for a longer period of time.

If municipalities know the value and condition of their assets, they will be able to make better decisions about buying new assets and maintaining existing assets and will be able to budget accurately for this.

If civil society understands asset management basic principles, it can participate in important decision-making about how assets are managed and thereby ensure maximum efficiency of asset management within the municipality.

3.3 Some examples of capital assets and the asset life cycle

The capital assets a municipality owns can cover a wide range of objects. In terms of water delivery, some that are relevant include dams, water standpipes and water meters, while for sanitation provision some major capital assets are sewerage pipes, pump stations, wastewater treatment plants. The general life cycle approach that municipalities must take to all capital assets is as follows:

- **planning** phase – refers to service delivery planning that will determine which assets must be bought by the municipality. This phase includes input from the IDP and budget.
- **acquisition** phase – this is the buying or construction of the new asset.
- **operation and maintenance** phase – this refers to operation of the assets, maintenance/refurbishment, enhancement/rehabilitation, depreciation and impairment.
- **disposal** phase – this refers to selling or dismantling the assets at the end of their useful life.

Let us use the examples of a water dam and a water standpipe to illustrate different concepts relating to the asset life cycle. A municipality may have to install standpipes in a growing informal settlement or plan for the construction of a new dam because its IDP has highlighted a growing population more generally:

- The municipality will plan the installation of water standpipes, taking into account its delivery targets (for households with water) and costs of the standpipes. It will probably contract a company to install the pipes, and it will calculate the costs associated with maintaining the pipe. It will have a procedure in place on the disposal of the pipe (maybe selling for scrap).
- The municipality will plan the construction of the dam, taking into account different dam designs. It will enter into agreements to 'acquire' the dam, either by contracting an outside company to build the dam, or by building it using municipal employees. It will have a detailed plan containing the costs of running the dam and the costs of maintaining the dam. It is unlikely to dispose of the dam – there are some capital assets that can be used indefinitely if they are properly maintained.

3.4 Costs associated with the asset life cycle

Municipalities must clearly identify all costs associated with capital assets. They have to do this in order to properly exercise budget control.

Tariff-setting is a very important component of asset management, and tariffs should reflect the current and future costs. In Module 1, when we spoke about a break-even cost, we can now understand whether our break-even cost includes capital costs, or whether it is only based on current costs.

In the above examples, water tariffs should be set with an understanding that some of the tariff revenue could be used to maintain or rehabilitate our dam (through desilting, for example), or to repair and maintain pipelines.

3.5 Economic life, useful life and depreciation

A municipality is interested in the useful life of its assets, because it may dispose of them before the end of their economic life e.g. municipal vehicles might be sold off before they have to be scrapped (when they are too old or broken)..

Using our example, a water pipe may have a useful life of up to 20 years. It might cost the municipality R10 000 rand to buy the pipe, and it can be sold for R2 000 at the end of its useful life. Using this simplified example, we can work out what is the asset's depreciable amount.

- **Depreciable amount** is defined as the difference between the cost of the asset and its disposal value. The depreciable amount of the pipe is R10 000 – R2 000 = R8 000.

There are different ways to allocate the depreciable amount of an asset over its useful life, but we will use the simplest and most common, which is straight-line depreciation.

- Straight-line depreciation is calculated by dividing the depreciable amount by the useful life and allocating the depreciation equally over the useful life of the asset. Here, we divide R8 000 by 20 years: R8 000/20 = R400.

In our example, a simple way to understand the process is that we buy a pipe for R10 000, and every year the pipe decreases in value by R400. After 20 years, the pipe has lost R8 000 in value and is worth R2 000. At this point, the pipe must be disposed of, and the asset replaced.

3.6 Historical costs and replacement costs

The value of an asset can be calculated by **historical cost** or **replacement cost:**

- **Historical cost** refers to the cost of the asset when it was purchased. In our example of the pipe, this would be R10 000.

- **Replacement cost** refers to the current market price of the asset. In our example, it could be that if we had to replace the pipe three years after installing it, it would cost R13 000, due to inflation.

It is clear that we need to value the municipal assets by using replacement costs, if at all possible. It is a more responsible system of accounting, because it takes into account the costs of inflation. Municipalities should value their assets at replacement cost.

3.7 Asset registers

The above sections demonstrate how important it is to know how old municipal assets are, and how long their useful life is. It is also vital to know when assets will need to be replaced, and how much they will cost to be replaced.

The establishment of an **asset register** is therefore vital for a municipality to have effective asset management.

According to the Local Government Capital Asset Management Guideline (Guideline), an asset register is "a complete and accurate database of the assets that is under the control of a municipality and that is regularly updated and validated".

An asset register should contain information on all assets above a certain value, with the age and description of the asset. It should also contain the historical and replacement value of every asset, its useful life and any impairment. Where possible, there should be an asset management plan for major assets, describing how they will be maintained and replaced.

Note: This is a very big task for any municipality, and most do not have an asset registry that contains this much detail. However, civil society should pressure their municipalities to make all efforts to adhere to the required reporting format. This is important because in order to provide effective basic services in the medium and long term, a municipality must maintain and replace as appropriate. An asset register is a very useful tool for such purposes.

eThekwini incorporates all of the above details in its asset register and assesses the replacement value of its assets every five years, to see if any adjustments are needed. Some extracts from its budget-related tables are found in the next sections.

3.7.1 Reading asset registers: an example from eThekwini

eThekwini has a comprehensive register available to the public. The table below, from eThekwini's 2009/10 MTEF document, shows the standard format for reporting on the purchase of new assets as per the Guideline (see the section on law for more information on this). Here the spending on new water infrastructure is encircled.

Table A9 Asset Management

Description	2005/06	2006/07	2007/08	Current Year 2008/09			2009/10 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2009/10	Budget Year +1 2010/11	Budget Year +2 2011/12
CAPITAL EXPENDITURE									
Total New Assets	1 810 438	2 440 138	4 462 974	4 758 519	5 005 138	5 005 138	4 957 196	4 557 061	4 486 231
Infrastructure - Road transport	308 440	370 339	520 969	63 585	63 585	63 585	265 500	301 430	356 930
Infrastructure - Electricity	252 159	292 929	335 168	85 500	85 500	85 500	788 460	810 771	946 693
Infrastructure - Water	192 400	254 296	554 649	950 380	950 380	950 380	1 318 802	1 010 089	862 100
Infrastructure - Sanitation	257 308	335 344	335 541	164 478	164 478	164 478			
Infrastructure - Other	305 585	194 989	139 748	818 884	818 884	818 884	728 356	856 509	856 896

The following extract summarises eThekwini's asset register, and highlights all assets that are used for water.

ASSET REGISTER SUMMARY - PPE (WDV)									
Infrastructure - Road transport	2 182 791	2 506 502	664 570	1 059 573	1 060 352	1 058 434	1 681 239	2 487 317	3 313 933
Infrastructure - Electricity	1 291 448	2 215 939	240 575	781 332	781 906	780 492	1 555 962	2 292 401	3 118 768
Infrastructure - Water	1 192 704	1 369 851	1 847 005	2 406 724	2 408 328	2 403 972	3 068 282	3 585 664	3 894 562
Infrastructure - Sanitation	1 163 811	1 424 890	1 698 092	2 212 708	2 214 183	2 210 179	2 820 935	3 236 609	3 580 606
Infrastructure - Other	1 596 895	1 391 871	5 410 460	5 787 675	5 905 246	5 894 565	5 791 334	5 815 352	5 924 794

The last four lines of the table are some of the most important. They calculate various ratios based on the information entered into the rest of the sheet.

% of capital exp on renewal of assets	*3.0%*	*2.0%*	*5.9%*	*24.6%*	*23.9%*	*23.9%*	*10.0%*	*9.3%*	*9.8%*
Renewal of Existing Assets as % of deprecn"	*6.8%*	*5.6%*	*26.8%*	*100.3%*	*102.5%*	*99.4%*	*34.8%*	*25.7%*	*24.8%*
R&M as a % of PPE	*8.1%*	*7.6%*	*8.0%*	*8.1%*	*8.1%*	*8.6%*	*8.0%*	*7.5%*	*7.4%*
Renewal and R&M as a % of PPE	*8.0%*	*8.0%*	*9.0%*	*14.0%*	*14.0%*	*14.0%*	*10.0%*	*9.0%*	*9.0%*

They calculate respectively:

- What percentage (%) of capital expenditure is on the renewal of assets: This is important as it tells us what the municipality is spending on maintaining its assets. If the percentage is very low, this might lead to assets breaking down and a poor quality of service delivery. However, if the municipality is overspending on asset renewal, it may not have enough money to spend on new infrastructure. Both of these would result in a reduced ability to deliver basic services. The eThekwini metro is forecast to maintain this ratio at around 10% over the next three years, which appears to be a healthy ratio.

- What percentage of asset depreciation is spent on actually renewing assets: This tells us whether the municipality is doing enough to maintain its assets, or whether it is letting them degrade by not maintaining them. If it is not maintaining them, this is known as asset stripping, and it is an unsustainable policy.

- What percentage of plant, property and equipment (PPE) is being spent on repairs and maintenance (R&M): This gives an indication of whether the municipality is budgeting enough for repairs and maintenance. There are differing international opinions as to what the ideal ratios are to target. Australia, for example, has a target of 4% of PPE value to be spent on R & M. A simple calculation is to use the reciprocal of the percentages, and express the number in years:

    - For example, if eThekwini is spending 8.0% of the value of its PPE on R&M, this is equal to 1 / 8.0% = 12.5. This means that every 12.5 years, the metro will have spent the equivalent of its entire PPE asset base on repairs and maintenance. That must be seen in the context of the average useful life of its asset base.

3.8 Conclusions

Civil society should benefit from Module 3 in the following ways:

- Civil society should understand what effective asset management is, and why it is important for proper service delivery.
- Civil society should understand the important link between asset management and the setting of tariffs, and how tariff policy affects asset management.
- Civil society should appreciate the importance of creating and maintaining a proper asset register for overall asset management.

Some further steps that civil society can take, using the knowledge of Module 3, include the following:

- Lobbying municipalities to create and update their asset registers.
- Making overall asset management part of the municipality's performance management goals and targets.

Module 4: Equitable Share and Municipal Infrastructure Grant

a) Learning Objectives

The objectives of this module are to give civil society:

- an understanding of grants and transfers from National Treasury to local government;
- an understanding of how the Equitable Share (ES) and Municipal Infrastructure Grant (MIG) must be spent to deliver services;
- an understanding of how municipalities must report on their ES and MIG spending.

b) Learning Outcomes

At the end of the module, you should understand:

- what the ES and MIG are;
- where to find evidence of ES and MIG spending in the budget; and
- how they can be used to drive service delivery.

c) Suggested Resources

- Extracts from eThekwini MTEF 2009/10 (see information pack)
- Tables A4, A10 and SA1 from the MFMA: Municipal Budget and Reporting Guide (see information pack)

4.1 What are grants and transfers?

In the language of public finance, a transfer is the movement of a resource from one area of government to somewhere else.

- a transfer can be from government to taxpayers in the form of a grant e.g. disability grant or child care support grant.
- it can be from one area of government to another, which is what will be examined in this module. Specifically, the movement of revenue from national government (National Treasury) to local government.

The Constitution recognises that most revenue is raised by national government, mainly through personal income taxes, company taxes, VAT, and import duties.

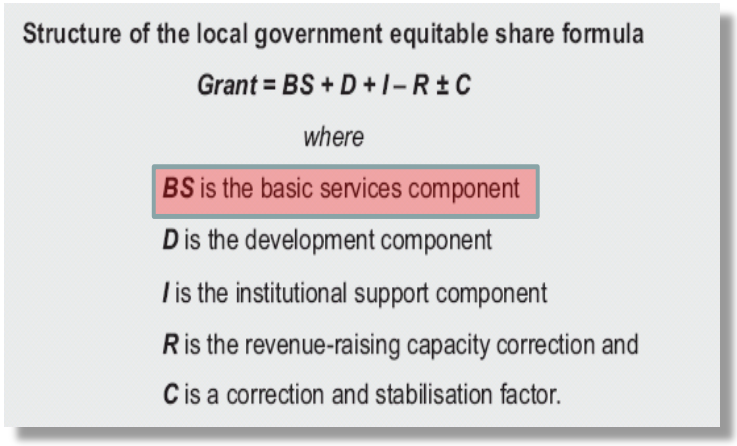
Richer municipalities, especially metros, have a large number of middle- and upper-class residents, and large numbers of commercial and industrial customers, and can fund most of their basic services provision through user fees and cross-subsidisation. Some metros make billions of rands in revenue from selling water and electricity to residents and do not need national government grants.

However, many poorer and rural municipalities have high levels of poverty and unemployment and are unable to generate much revenue through their own efforts. They do not have well-developed infrastructure or enough capital assets to provide the levels of service that they are required in terms of the law.

4.2 Equitable Share (ES)

According to the Division of Revenue Act (DoRA), "municipalities have a constitutional mandate to deliver crucial services that meet the public service". The ES is designed to subsidise the costs of service provision for municipalities. Service delivery refers to basic services including water, sanitation, electricity and refuse removal, and in this case also refers to municipal health services.

The ES is an unconditional grant, meaning that the municipality cannot have its ES allocation reduced through any penalty as a result of something the municipality has done or not done with it. The ES is calculated according to a formula described below:



The purpose of the basic services component (BS) is to assist municipalities in providing basic services to poor households and with meeting municipal health service needs for all.

The BS component of the ES formula is by far the largest portion – it amounts to over 90% of the total ES allocation.

It is designed to support poor households earning below a certain income and is supposed to distinguish between two different types of poor households:

- those that are connected to municipal services; and
- those that are not connected to municipal services.

The BS component is determined by a formula based on the number of poor households in a municipality, and this number should be further divided into those households connected to services and those households not connected to services.

4.2.1 Average subsidy to poor households from the ES

The table below (contained in the DoRA) was produced through research done by the Department of Provincial and Local Government (DPLG). It is based on calculations showing the average monthly subsidies needed to provide basic services, based on the BS formula, and adjusted by inflation:

Table W1.22 Actual average monthly basic services subsidies per poor household

Monthly	Serviced households			Households not connected to services		
Rand	2009/10	2010/11	2011/12	2009/10	2010/11	2011/12
Electricity	136.9	172.0	188.4	50.6	63.3	69.2
Water	97.0	122.1	133.8	28.9	36.0	39.4
Sanitation	64.0	80.9	88.7	42.7	53.3	58.2
Refuse	60.3	76.3	83.7	44.5	55.6	60.7
Total	**358.1**	**451.2**	**494.5**	**166.7**	**208.1**	**227.6**

- On average, a municipality will provide a monthly subsidy of R358.10 to a poor household connected to municipal services, and R166.70 to a poor household not connected. This rises to R494.50 and R227.50 respectively per household by the 2011/12 financial year.
- Municipal health subsidies amount to R48 for all poor households (rising to R68 in 2011/12).

4.2.2 Examples of in ES the DoRA

The DoRA can be used to find the ES allocations for any municipality, and there should be a connection between the number of poor households in the municipality, both connected and not connected to services, and to the size of the ES allocation.

The table below is an extract from Schedule 3 of the 2009/10 DoRA and it shows the ES allocations for four of the Eastern Cape's municipalities for the 2009/10 financial year, and the projected allocations for the following two financial years.

SCHEDULE 3

DETERMINATION OF EACH MUNICIPALITY'S EQUITABLE SHARE OF THE LOCAL GOVERNMENT SPHERE'S SHARE OF REVENUE RAISED NATIONALLY

			National Financial Year		
			Column A	Column B	
Number		Municipality	2009/10 Allocation	Forward Estimates 2010/11	2011/12
			R'000	R'000	R'000
EASTERN CAPE					
A	NMA	Nelson Mandela	456 625	579 518	636 311
B	EC101	Camdeboo	23 014	28 512	31 135
B	EC102	Blue Crane Route	24 450	30 271	33 049
B	EC103	Ikwezi	9 111	11 236	12 260

- Nelson Mandela is a metro municipality, and it receives a relatively large ES (R456.6m in 2009/10, rising to R636.3m in 2011/12), because its population is much larger than the other three municipalities (Camdeboo, Blue Crane Route and Ikwezi).

4.2.3 Problems with the ES and challenges for civil society

The ES is unconditional, therefore municipalities cannot be penalised if they misspend the ES on interventions that do not improve basic services delivery. This means that municipalities are not accountable to national government for the ES. They do need to be accountable to communities and civil society, however, as they have the most to gain from seeing the ES spent appropriately.

It is easy to track the transfer of the ES to the municipality, as it is reflected in the DoRA and should be reflected in the municipality's budget (by checking Supporting Table SA18.) Historically it has been hard to track how much the municipality has spent of the ES on basic services provision, if anything at all.

'Costs of service provision' can be very broadly defined by municipalities and some municipalities do not publish how much it costs them, in terms of lost revenue, to provide free basic services (FBS). Some municipalities may have not historically provided information on how many households receive FBS.

However, if municipalities adhere to the Regulations mentioned in the introduction to law, it should be relatively easy to track:

- how many households are receiving FBS;
- the costs to the municipality of providing FBS; and
- whether the ES could, in theory, cover the costs of FBS provision.

If this information is found, civil society can map what municipalities are currently doing in terms of FBS provision against what they could be doing with their ES grants, and hopefully influence the municipalities' service delivery targets by insisting on **greater transparency in the reporting of the ES grant**.

4.3 How to track municipalities' spending of the ES on FBS

One of the problems that has been identified with the ES allocation is that it is an unconditional grant, and therefore municipalities have not always been transparent in how they spend it. In fact, some municipalities, when challenged to spend more of their ES grant on FBS, and even to disclose the amount of the ES that they spend on FBS, have claimed that it is difficult to calculate the cost of providing FBS.

The Regulations aim to make the cost of FBS provision more transparent. Using the Regulations, it is possible to track how much it costs a municipality to provide FBS, and to compare this cost to the value of the municipality's ES.

We will use eThekwini as an example to calculate the cost of FBW.

4.3.1 An example from eThekwini's 2009/10 MTEF

The example below uses extracts from eThekwini's MTEF tables, which show the total value (in rands) of FBW that eThekwini provides to users. This value is reflected as '**revenue foregone'** to the municipality and is deducted from the total water revenue that the municipality receives. Revenue foregone basically means the possible or potential revenue that could have been received but was not. In this case, it is because of the obligation to provide FBW.

eThekwini uses its break-even cost of water to calculate the value of its revenue foregone. So, for example, if the average break-even cost of water in 2009/10 was R8.00 per kilolitre, and eThekwini provided one million (1 000 000) kilolitres of water free, its total 'revenue foregone' for 2009/10 would be R8m. Civil society has the right to know how municipalities value their revenue foregone, and then compare this to the value of the ES they receive from Treasury.

The extract below from Table A10 in the MTEF gives the costs to the municipality of providing FBS to poor households.

Cost of free basic services provided (R'000)								
Housing								
Property rates	56,000	81,000	855,777	855,777	855,777	1,071,754	1,177,825	1,422,614
Water	119,180	145,354	140,238	140,238	140,238	259,364	285,041	313,260
Electricity/other energy	1,027	9,452	17,197	17,197	23,732	32,292	35,986	40,305
Refuse	N/a	N/a	N/a	N/a	N/a	240,131	263,904	290,031
Total FBS provided (total social package)	**176,208**	**235,806**	**1,013,212**	**1,013,212**	**1,019,747**	**1,603,541**	**1,762,756**	**2,066,210**

- The metro is estimated to lose R259.4m in revenue foregone in 2010/11, rising to R313.3m in 2011/12.

These estimated figures are then subtracted from the water revenue provide a consolidated revenue figure, as shown in Table SA1 below.

Supporting Table SA1 Supporting Detail to 'Budgeted Financial Performance'

Description	2005/06	2006/07	2007/08	Current Year 2008/09			2009/10 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2009/10	Budget Year +1 2010/11	Budget Year +2 2011/12
REVENUE ITEMS:									
Property rates									
Property rates	2 823 077	3 141 393	3 660 408	4 938 355	4 938 355	4 900 694	5 246 228	5 752 600	6 448 313
Revenue foregone				(855 777)	(855 777)	(1 034 636)	(1 071 755)	(1 177 824)	(1 422 614)
Total Property rates	**2 823 077**	**3 141 393**	**3 660 408**	**4 082 578**	**4 082 578**	**3 866 058**	**4 174 473**	**4 574 776**	**5 025 699**
Service charges - electricity revenue									
Service charges - electricity revenue	3 021 130	3 272 164	3 631 136	4 344 822	4 830 040	4 603 463	5 882 712	6 882 874	7 838 108
Revenue foregone				(17 197)	(17 197)	(23 732)	(31 293)	(35 986)	(40 305)
Total Service charges - electricity revenue	**3 021 130**	**3 272 164**	**3 631 136**	**4 327 625**	**4 812 843**	**4 579 731**	**5 851 419**	**6 846 888**	**7 797 803**
Service charges - water revenue									
Service charges - water revenue	1 241 251	1 374 320	1 531 291	2 011 352	2 011 352	1 904 268	2 127 244	2 337 676	2 568 932
Revenue foregone				(236 000)	(236 000)	(236 000)	(259 364)	(285 041)	(313 260)
Total Service charges - water revenue	**1 241 251**	**1 374 320**	**1 531 291**	**1 775 352**	**1 775 352**	**1 668 268**	**1 867 880**	**2 052 635**	**2 255 672**

- In 2009/10, the municipality is projected to receive R2.13bn (R2,127m) in revenue, less the R259.4m revenue foregone from providing FBW, for a consolidated total of R1.87bn. This is expected to rise to R2.57bn in revenue in 2011/12, less R313.3m, for a total of R2.26bn.

These figures are then entered as revenue items in Table A4, as below.

Table A4 Consolidated Budgeted Financial Performance (Revenue and Expenditure)

Description	2005/06	2006/07	2007/08	Current Year 2008/09			2009/10 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2009/10	Budget Year +1 2010/11	Budget Year +2 2011/12
Revenue By Source									
Property rates	2 823 077	3 141 393	3 660 408	4 082 578	4 082 578	3 866 058	4 174 473	4 574 776	5 025 699
Property rates - penalties & collection charges	248 152	203 761	168 391	163 200	163 200	171 100	151 000	150 900	150 800
Service charges - electricity revenue	3 021 130	3 272 164	3 631 136	4 327 625	4 812 843	4 579 731	5 851 419	6 846 888	7 797 803
Service charges - water revenue	1 241 251	1 374 320	1 531 291	1 775 352	1 775 352	1 668 268	1 867 880	2 052 635	2 255 672
Service charges - sanitation revenue	63 960	66 012	65 177	69 645	69 645	69 245	76 259	83 809	92 106

- It is simple to see how this enhances transparency in term of service delivery
- Municipalities must now give an account of their past and present performance, and future targets, as far as FBS provision is concerned. They must openly disclose how many households are receiving FBS, they must clearly disclose the costs of FBS provision to the municipality and they must use this to present a consolidated view of revenue in their financial accounts.
- Note: It is important to remember that stating 'revenue foregone' is only an accounting mechanism to reflect FBW. It is not the same as non-payment of billed water or arrears. It is the right of poor people to receive FBW and an obligation on municipalities to provide – whether through ES and/or cross-subsidisation.

4.4 The Municipal Infrastructure Grant (MIG)

According to *Section* [*16(1)*] of the DoRA, the MIG "set out in Schedule 4 supplements the funding of infrastructure programmes from municipal budgets, to enable municipalities that do not receive the Municipal Infrastructure Grant (Cities) to address backlogs in municipal infrastructure required for the provision of basic services."

The MIG is a conditional grant for municipalities to spend on infrastructure. It is therefore intended for capital spending (on physical infrastructure i.e. dams), as opposed to the ES, which is intended for current spending. The MIG (Cities) referred to in this passage is the MIG allocation for the six metro municipalities, and it is treated slightly differently to the MIG for other municipalities.

All MIG spending is intended to prioritise the poor, through addressing infrastructure backlogs in poor areas. Because it is conditional, it can be adjusted by National Treasury, either up or down, and municipalities can be penalised for not spending their MIG grant by having the following years' allocation reduced.

Note: Most municipalities have infrastructure backlogs (areas with no or unsatisfactory services). Thus there is an infrastructure 'wish list' in every municipality. And yet, many municipalities do not properly spend their MIG allocation. The inability or unwillingness of a municipality to spend its MIG, or underspending of the MIG, is highly problematic.

There are a number of reasons why municipalities might underspend. A municipality might not receive its MIG grant from Treasury timeously, but this is rare. More common reasons include the inability of municipalities to adequately plan for infrastructure spending, or a shortage of technical skills in the municipality to implement capital spending plans. Civil society should lobby strongly against any irregularities in the spending of the MIG and push for their municipalities to address any issues that prevent the MIG from being spent.

4.4.1 MIG and the rights of the civil society

Civil society has a number of rights with regard to how the MIG is spent, and how they are consulted to decide on MIG spending. Municipalities should specify in their MTEF and SBDIP which projects are MIG-funded and which are funded by other sources of revenue.

Civil society also has a right to give input during council meetings and at general community meetings on what type of infrastructure investments they would like, and in which areas.

The spending of the MIG (and all other capital spending) should be measured within the municipality's own performance management system. The municipality must either establish a MIG project management unit (MIGPMU) to specifically monitor and manage all MIG spending, or it must be able to demonstrate that it does not need to have a MIGPMU.

Civil society could use this point as leverage to demand proper management and oversight of the MIG allocation process if it feels that the municipality is not performing adequately. Underspending of the MIG would be communicated to Treasury in any event, through the municipality's financial documents. However, Treasury might lack useful information on why a particular municipality failed to spend its MIG properly. Civil society should monitor the MIG spending closely so that it can assist Treasury in its investigations.

Civil society can become involved in monitoring MIG spending by identifying projects for funding. This is best done during the IDP process, where communities should make their priorities clear to the municipality, and where they can request information on the various options available, e.g. what are the different costs, employment creation opportunities and timeframes for different project options. The Department of Provincial and Local Government has created a guide to help municipalities to involve local communities during the planning phase.

Civil society should lobby their local councillors to keep them informed of the entire project planning process. Civil society should insist on regular public meetings during the construction and before the completion of the projects. This will ensure that the broader community is better-informed of the details of the projects, and will give the community the chance to raise questions and voice their concerns.

4.5 Conclusions

Civil society should benefit from Module 4 in the following ways:

- They should now be aware of the different grants that municipalities receive for service delivery purposes.
- They should be aware of the relationship between different sources of funding; i.e. service charges and grants, and how the municipality must consider all funding sources in order to provide effective service delivery.

- They should know how to use the *MFMA Regulations* to calculate how municipalities are reflecting the costs of service provision and how they are allocating the ES and MIG to service delivery.

Some further steps that civil society can take, using the knowledge of Module 3, include the following:

- Lobbying municipalities to be more transparent in how they report on their spending of the ES and the MIG, by pressuring them to adhere to the guidelines in the *Regulations*.
- Lobbying municipalities to include civil society in every step of infrastructure project management. This can be done by creating more pressure during the IDP process, by holding local councilors responsible for organising feedback meetings for project developments, and by insisting that councilors attend feedback sessions once the infrastructure is in place, so that the community can query any problems with the operating of the infrastructure.

Module 5: Water Quality Management and Water Education

a) Learning Objectives

The objectives of this module are to give civil society:

- an overview of water quality management (DWQM) and how it can be budgeted for;
- an overview of water education.

b) Learning Outcomes

At the end of the module, you should understand:

- the importance of DWQM;
- the rights relating to safe drinking water
- how municipalities can fund DWQM;
- what tools are available to assist civil society with budgeting for DWQM;
- how community education can assist them with service delivery.

5.1 Drinking Water Quality Management (DWQM)

5.1.1 Introduction to Drinking Water Quality Management (DWQM)

A safe and reliable drinking or **'potable'** water supply is vital for the wellbeing and development of individuals, households and communities.

It is also a legal requirement of municipalities that they take steps to safeguard the quality of drinking water, as described in the introduction to law (section C).

Apart from the metros, it appears that many municipalities do not undertake proper or regular water quality testing because of lack of technical and skilled staff etc. Reactionary approaches by municipalities to the monitoring of deteriorating and aging infrastructure, and the testing of water quality, are a major cause of water quality scares and disease outbreaks in South Africa e.g. cholera.

5.1.2 Role of the DWAF in developing DWQM tools

The former Department of Water Affairs and Forestry (DWAF) has created a Water Quality Management System (WQMS) resource to assist water services authorities (WSAs), mostly municipalities, and to improve the tracking and reviewing of water quality across South Africa. This tool is available at www.wqms.co.za.

A spreadsheet has been created for use by WSAs to determine the costs and budgeting of meeting minimum DWQM requirements. The model can be found at www.wqms.co.za/download/reference/general/costmodel.xls. It is in the form of an Excel spreadsheet where total costs can easily be calculated, provided that municipalities enter their costs accurately. The model includes the costs of staff training, preparation of an Operator's Manual, and operational and compliance monitoring. It does not include the cost of treatment materials, maintenance costs and information management costs (which would have to be budgeted for separately).

This spreadsheet can be used by civil society to work out the overall costs of water quality management provision as well as the per consumer costs of this service.

There are also other supporting documents released by DWAF, which inform relevant stakeholders about DWQM. DWAF's Consumer Awareness Booklet is an important resource for civil society.

5.1.3 Funding sources and budget reporting of DWQM programmes

Obviously, for municipalities to comply with national drinking water quality standards and undertake DWQM, funding is needed. This means funding must be allocated in the budget. The table below gives a useful summary of the different funding options that are available to municipalities to fund DWQM. These are subject to different requirements. Civil society should be aware of the options available for

funding DWQM, and use this information to lobby their municipalities to adequately fund DWQM.

Table 1: Funding mechanisms for Drinking Water Quality Management

Funding mechanism	Source of funds	Notes
WSA internal funding	WSA	Funds obtained from within the WSA exchequer from either commercial sources or from within the WSA budget.
Municipal infrastructure grant (MIG)	DPLG	Funding for basic service infrastructure investment. The funding requirement must be contained within the Integrated Development Plan (IDP) and Water Services Development Plan (WSDP) and requires a registration process as well as a feasibility study.
Special municipal infrastructure fund (SMIF)	DPLG	Special funding for innovative infrastructure investment (approximately 3% from MIG budget available). Access to funding is *via* a business plan.
Masibambane	DWAF	Donor and DWAF funding for both infrastructure development, and capacity and support to WSAs. Requires the compilation a business plan to access the funding.
Capacity building grant (CBG)	DPLG	Funding of WSA capacity support requirements. Requires the compilation a business plan to access the funding.
Equitable share	State Treasury	Unconditional grant made to WSA based on number of indigent population, which is used for the provision of services.
Donor funding	Direct from donors	Direct funding from donor countries and organisations for specific programmes.

5.1.4 Problems and challenges with DWQM

There are a number of problems with DWQM, and the capacity of municipalities to undertake regular and useful water quality testing.

A municipality might also, for example, be selecting its testing sites so that they are not near major polluters or pollution problems, which they are fully aware of but do not have the political will to tackle. It makes a big difference to the results if water testing is done 100m upstream from a big factory, compared to doing the same testing 100m downstream of the factory.

Civil society must be aware of the potential sources of pollution, and should lobby for these to be tested.

Furthermore, a municipality might not be testing its results at an accredited laboratory, or it might be waiting too long to send its samples off to be tested. If there is a lag between sampling and testing, then the results of the tests might not be useful (for example, bacteria in a sample can breed and multiply in the time between sampling and testing, and this will provide an inaccurate test result).

5.2 Community education around service delivery

Education is important to ensure health, hygiene and water conservation. Apart from the requirements described in the MSA for municipalities to consult with and inform communities on budget decisions, there are legal requirements for the municipality to educate the community on how to use basic services.

- For example, if a municipality were to install a new standpipe in a township, there would be a **legal requirement to educate the community on water conservation and safety**, so that access to the service could be enhanced.

It is very difficult to calculate what resources a municipality is committing to **community education** by just looking at its budget documents. This category of spending has **not been well-reported historically**, and references to it may appear in a number of different sections.

Civil society should be better-placed to lobby for the inclusion of training programs.

Often, service delivery education is seen as targeting poorer communities with an aim to get them to use less of the service e.g. conserve water. There is a perception that poor households merely represent a cost to municipalities, and that municipalities would not like richer households to reduce their consumption of services, as this might result in less revenue to the municipality.

5.3 Conclusions

Civil society should benefit from Module 5 in the following ways:

- Civil society should understand why DWQM is important, and what are the problems with monitoring drinking water quality.

- Civil society should understand the general funding sources available to the municipality for a DWQM program.
- Civil society should understand why community education is an important aspect of general service delivery.

Some further steps that civil society can take, using the knowledge of Module 5, include the following:

- Lobbying municipalities to fund a DWQM program
- Involving the community in a DWQM program by, for example, suggesting testing sites in areas where there are suspected water quality issues. Civil society can also ask for the monthly results of testing and lobby municipalities to improve drinking water quality if there are persistent problems with test results.
- Lobbying municipalities (at IDP meetings) to commit funding to community education programs.
- Lobbying municipalities to make community training a compulsory part of service provision.

Annexure 1 – Training outline for educational tool

This annexure is an additional resource for members of the community who wish to educate other community members. It consists of suggested training outlines and related supporting documents for each module contained in section D. Community members who wish to train others should have read through the whole document before attempting any training.

D. Educational Modules

Module 1: Tariff Analysis

Suggested outline for the workshop

1. Provide an overview of tariffs. Answer any initial questions .

2. Break-out session 1:
   - Put people into groups. Provide them with paper, a marker, and a copy of **[TM1a].**
   - Ask them to calculate the monthly water usage of their household. They must include the number of people in the household, and specify which functions are daily, weekly, etc.
   - The groups report back.

3. Explain the concepts of rising block tariffs, break-even / cost recovery, and graph shapes.
   - With the use of the background material**:**
     a) Explain the rationale of rising block tariffs and show a graphic example
     b) Explain the concept of break-even costs and the need for the municipality to cover the costs of service provision
     c) Explain how the shape of the graph and its steepness can help to analyse the effects on poor households

4. Explain the problems and limitations with the tariff approach.
   - Mention the issues of quality of service vs. quantity;
   - Mention the need for civil society to monitor tariffs and to lobby for pro-poor tariffs;
   - Brief discussion: what do we know about the tariffs in our municipality?

5. Break-out session 2:
   - Put people into groups. Provide them with paper, pencil, ruler, eraser, and a copy of the municipality's latest tariffs **[TM1b].**
   - On one piece of paper, get them to plot the tariff curve that applies to an indigent household / household with subsidised tariffs.

- On another piece of paper, get them to calculate the cost to their household to consume a) the FBW amount allocated by the municipality b) 10Kl c) 15Kl d) 20Kl. They must compare these costs to the table in Module 1.
- Feedback and discussion: how does our municipality compare to others?

6. Explain tariff increases in detail
   - With the use of **[TM1b]** and **[TM1c] :**
     a) Explain how to calculate tariff increases
     b) Explain how changes to tariffs in your municipality are likely to be affecting the poor

Handouts and extracts from the information pack

- **TM1a =** a chart of all household water usages, with the amount of water consumed in Kl
- **TM1b =** a copy of your municipality's equivalent tariffs (must be done by trainer)
- **TM1c** = a copy of the YoY tariff increases table from section 1.7

Module 2: Basic financial accounting and budget documents

Suggested outline for the workshop

1. Provide an overview of financial accounts. Answer any initial questions.

2. Explain the basic accounting concepts
   - With the use of the background material**:**
     a) Briefly explain assets, liabilities, equity, income and expenses
     b) Explain the concept of a balance sheet, income statement and cash flow statement
     c) Go through the extract from **[TM2a]** to explain how eThekwini metro reported its overall balance sheet, income statement and cash flow statement
     d) Make reference to the MTEF and the need for medium-term planning
     e) Answer any questions.

3. Break-out session 1:
   - With the use of **[TM2a,** a marker and paper, have the groups draw up balance sheets, income statements and cash-flow statements for their households.
   - Let them then discuss the challenges that their households face in terms of balancing their own budgets.

4. Explain the importance of the IDP and SDBIP.

- Talk about the rights that communities have regarding these two documents, and the duties of the municipality to produce these documents within a certain time-frame and to consult the local community.
- Using **[TM2b]**, **[TM2c]** and your own municipal documents, compare extracts from the IDPs and SDBIPs of eThekwini to those of your municipality. Discuss.

Handouts

- **TM2a** = copies of the balance sheet, income statement and cash flow statement from eThekwini's MTEF (Tables A1, A4, A6, A7), and copies of the model income statements, balance sheets and cashflow statements at the end of this outline.
- **TM2b** = extracts from the eThekwini IDP Review 2009/10
- **TM2c** = extracts from the eThekwini SDBIP 2009/10

Balance sheet

Description	Current year
ASSETS	
Current assets	
Total current assets	
Non current assets	
Total non current assets	
TOTAL ASSETS	

Description	Current year
LIABILITIES	
Current liabilities	
Total current liabilities	
Non current liabilities	
Total non current liabilities	
TOTAL LIABILITIES	

Income statement

Income / Revenue By Source	
Total Revenue	
Expenditure By Type	
Total Expenditure	
Surplus/(Deficit)	

Cash flow statement

CASH FLOW FROM OPERATING ACTIVITIES Receipts Payments	
NET CASH FROM/(USED) OPERATING ACTIVITIES	
CASH FLOWS FROM INVESTING ACTIVITIES Receipts Payments	
NET CASH FROM/(USED) INVESTING ACTIVITIES	
CASH FLOWS FROM FINANCING ACTIVITIES Receipts Payments	
NET CASH FROM/(USED) FINANCING ACTIVITIES	
NET INCREASE/ (DECREASE) IN CASH HELD	
Cash/cash equivalents at the year begin:	
Cash/cash equivalents at the year end:	

Module 3: Asset management

Suggested outline for the workshop

1. Provide a brief explanation of capital assets and asset management .

2. Explain some basic concepts around asset management.
   - With the use of the background material:
     a) Explain the concept of an asset life cycle, with reference to purchasing, maintaining and disposing of an asset;
     b) Explain the concepts of maintenance costs and the relationship between maintenance and the performance of an asset;
     c) Explain the concepts of depreciation and residual value. Explain how to calculate simple straight-line depreciation, using the example in the background material .

3. Break-out session 1:
   - With the use of a marker and paper, have the groups draw up a simple asset management plan for the purchase, maintenance and disposal of a family car for their household. Remind them of the need to consider the useful life of the car, the running costs (petrol, oil), maintenance costs (tyres, services, repairs), the scrap value of the car and the annual depreciation on the car.
   - Have the groups compare their calculations and findings.

4. Explain the need for asset management on the municipal level.
   - With the use of the background material:
     a) Explain the need for asset registers;
     b) Explain the concepts of historical and replacement cost, and the need to reflect the value of assets at replacement cost;
     c) Explain how the use of the Guide can enhance asset management and service delivery.

Module 4: Equitable Share and Municipal Infrastructure Grant (MIG)

Suggested outline for the workshop

1. Explain some basic concepts around grants and transfers.
   - With the use of the background material:
     a) Explain the concepts of grants and transfers;
     b) Explain the need for transfers in the meeting of service delivery obligations, and describe the intentions of the ES and MIG;
     c) Mention some of the problems with the use of the ES.

2. Explain some basic concepts about how ES and MIG spending should be reported.
   - With the use of the background material:

a) Explain the historical problems with measuring ES spending;
b) Explain how the provisions in the Guide should make it easier to measure ES spending;
c) Explain the rights and obligations behind MIG spending and reporting on MIG-related projects.

Handouts

- Extracts from eThekwini MTEF 2009/10
- Tables A4, A10 and SA1 from the Regulations

Module 5: Water quality management and water education

Suggested outline for the workshop

1. Explain some basic concepts around DWQM.
   - With the use of the background material**:**
     a) Explain the concept DWQM, referring to the legislation that provides for this;
     b) Describe the rights of communities when it comes to safe drinking water, and mention the legal obligations that municipalities face in DWQM;
     c) Discuss some of the challenges that communities can face with DWQM.

2. Explain the basic concepts around education.
   - With the use of the background material**:**
     a) Describe the municipality's obligations in educating communities on service use;
     b) Have a general discussion on the aspects of community education that people would like to see in their communities; what kind of education is needed, who needs it, what format would people like to see it appear in;
     c) Conclude with a brief mention of eThekwini's work in this area, so that people have ideas for future lobbying.

Annexure 2 – Questionnaire for municipal officials

1. Public participation

	Questions	How to…	Rationale	Notes
1.1	How does the municipality inform residents about budget-related meetings?	Evidence of print advertisements, oral testimony from residents, budget policies	There are legal requirements to inform residents; it speaks to the **accountability** of the municipality	Are there notices in community papers? Are there visible posters in public places?
1.1.1	What structures does the municipality use to promote community participation?	IDP, evidence of print advertisements	Has the municipality made an effort in this regard	Are these structures well-communicated to residents of the municipality?
1.2	How is the community involved in public participation during the planning phase of the budget, and at which stages of the budget?	Oral testimony, minutes from public participation meetings	This speaks to the **accountability** and **transparency** of the municipality when it coms to public participation, and whether the municipality is fulfilling its **legal obligations** in this regard	Community participation should be prioritised during the IDP process, during the project planning phase of capital projects, during the setting of tariffs.
1.3	How does the municipality incorporate and evaluate public opinion and dissent?	Oral testimony, minutes from public participation meetings, any evidence of policy / implementation changes. Check public submissions	This also relates to the **accountability** of the municipality, and the degree to which the **rights of residents** are recognised	It's not enough just to 'involve' the community if the council has already made a decision and is determined to implement it, regardless of public opposition
1.4	What mechanisms are in place for recourse by communities?			What happens if a complaint / grievance is not resolved?

2. Tariffs

	Questions	How to…	Rationale	Notes
2.1	What percentage of the municipality's water is metred?	May be contained in AR / IDP / SDBIP	This informs the degree to which the municipality is able to accurately determine cross-subsidisation potential, ability of residents to pay, and may indicate how well-informed is the tariff policy	There are often targets for rolling out water meters, mentioned in the IDP / SDBIP
2.2	How does your tariff structure make provision for a free basic water (FBW) allocation?	Check tariff policy and municipal water tariffs	FBW is an indicator of pro-poor thinking and planning	Most municipalities have a FBW policy; information can be found in most cases from website
2.3	Is there a separate tariff structure for indigents?	Check tariff policy, indigent policy, actual water & sanitation tariffs	This may indicate a tariff policy which is too complicated (we favour an integrated tariff policy) and fragmentory / divisive (into rich vs poor)	Can include a greater allocation of FBW and/or subsidised tariffs for higher consumption levels and/or rebates
2.4	How does the tariff structure conform to the norms and standards as laid down by the **Water Services Act**?	Check current tariff structure, compare with the Norms and Standards of the Water Services Act	Progressive tariff structures address the three objectives of **financial viability** (cost recovery), **social equity** (ensuring access to water services for poor people), and **environmental sustainability** (conservation)	Should have a progressive tariff structure ('rising block'), minimum of three tariff blocks, first block should be at or close to zero (FBW provision) for high pressure stand connections
2.5	In what ways are tariff adjustments made with poor consumers in mind / are adjustments pro-poor?	Check current and past tariffs: calculate YoY tariff increases for different consumption bands. Check against official inflation figures (from StatsSA)	If there are above-inflation increases for lower consumption levels, this increases the cost of services for poor people as a percentage of their income	YoY tariff increases for the first one / two blocks should be lower than increases for subsequent blocks
2.5.1	Are year-on-year (YoY) % tariff increases for different blocks identical? Higher (lower) for lower blocks? Higher (lower) for higher		If the increase in the cost of lower consumption bands is higher than that of higher bands, the **degree of social equity achieved** through the tariff structure is reduced	
2.6	What is the break-even cost of service (water and sanitation) provision?	Calculate input costs, ask municipality for details of input costs and break-even point	Speaks to the **financial sustainability** of the tariff structure, and possibly hints at long-term sustainability if coupled with a view of demographic forecasts (population growth, employment growth, income growth)	Input costs include: raw water charge, bulk charges, quality management charges, personnel costs

3. Asset management

	Questions	How to…	Rationale	Notes
3.1	Has an audit been made of the existing water & sanitation infrastructure?	Check IDP / AR / possible separate document	This informs the municipality's strategy for asset management and replacement, which is vital for **long-term sustainability**	Some metros are using a phased-in approach, many (most?) municipalities have not done this yet
3.2	If yes, has the budgeting for replacement of infrastructure been explicitly included in the opex / capex budgets?	Check IDP / SDBIP / opex & capex budget documents	This speaks to the **financial sustainability** of basic service provision	First prize would be a specific line item representing the annual depreciation amount for existing infrastructure
3.3	Is the asset register updated?	Check past & present municipal budget documents (balance sheets)	This speaks to **financial sustainability** of basic service provision	What kind of benchmarks are there for this question? Based on experiences with the metros, there don't seem to be good precedents
3.3.1	How often is it updated?			
3.3.2	How much of the existing infrastructure does the register cover?			
3.4	Is there a system for regularly collecting asset performance information & maintenance requirements?	Check IDP / SDBIP / any policies around financial performance	This will inform the need for reserves (reserve policy), asset disposal policy, procurement policies, etc	There are documents which suggest the range of useful lifespan for various items of infrastructure
3.4.1	Has the municipality developed a medium- to long-range assessment of maintenance requirements on all current and planned assets?			
3.4.2	What is the evidence that there is adequate / inadequate maintenance of infrastructure	Check IDPs / SDBIPs, ask for key performance indicators, maintenance policy & logs	Maintaining infrastructure is cheaper than replacing it, records of many infrastructure faults & complaints may suggest less emphasis placed on maintaining infrastructure for poor people => anti-poor	Examples of faults include: burst pipes, blockages, pressure issues. Length of time taken to respond to initial complain / level of adequate response is also important to monitor
3.5	What is the value of the municipality's cash reserves, and how does this compare with depreciation values?	Municipal balance sheets, reserves policy (if there is one)	This describes how the municipality provides for future maintenance, whether it has sufficient reserves or will need to hike tariffs / issue debt - **financial viability**	The municipality's reporting on cash flow should be compared with annual depreciation charges.
3.6	How much of its capital budget has the municipality been able to spend, and how much is being rolled over (last year? Further back?)?	Municipal budget documents (capital budgets) / DoRA (MIG info)	Does the municipality have the capacity and the political will to spend its budget timeously and effectively - particularly its MIG spending?	If the municipality is a serial underspender of its capital budget, civil society should report this to Treasury
3.7	What proportion of asset value is spent every year on repairs and maintenance?	Compare asset value (balance sheets) to repair and maintenance expenditure	This is a measure of how often municipal assets are 'turned over', i.e. how quickly the assets need to be replaced	International standards are 2%/4% of total asset value

4. Equitable share

	Questions	How to…	Rationale	Notes
4.1	Is the ES spending ringfenced?	DoRA, municipal accounts (revenue & costs of service provision), IDP (may include number of poor HHs)	If ES allocations are matched to actual spending, this enables the municipality to determine the shortfall between the costs of service provision and the available grants. It enhances **transparency** and **accountability** to national policy objectives	ES spending is confined to spending on poor residents for the four basic services
4.2	What % of the ES goes to water services (water & sanitation) for the poor?	DoRA, municipal accounts (revenue & costs of service provision)	There are rough ratios available (see Notes) for the cost of basic service provision for poor households	According to the DPLG document referenced by the 2009 DoRA, this should be in the region of 43%-45% of total ES
4.3	What have been the ES allocations over the past three years	DoRA, municipal accounts (should corroborate each other)	This is necessary to see if there have been any significant changes in the amount of money allocated by Treasury, which will affect the muncipality's capacity for social spending	Have changes in ES allocations been matched by spending on services for the poor?
4.4	Are there any processes for monitoring ES spending?	See Module 4 for assistance in monitoring ES spending	This is about **acountability** and **transparency**	Check DWAF ES monitoring?

5. MIG

	Questions	How to…	Rationale	Notes
5.1	In which geographical areas is the MIG being spent?	DoRA (for MIG allocations), SDBIP / IDP / budget docs (to calculate actual spending in poor areas)	The MIG is meant to be spent on infrastructure for POOR areas.	The municipality should specify which projects are funded by the MIG (poor areas) and which by other sources of funding
5.2	Are communities being asked to help identify projects that can be funded through the MIG?	Records of public meetings, communication between municipal officers and community	Since the MIG can only be used for poor communities, their input is vital to the process.	There is little current evidence that this is happening
5.3	Is infrastructure development incorporated into other municipal functions, such s the IDP process, municipal monitoring and performance management systems?	IDP / SDBIP / budget documents	Approach to the MIG should be holistic, and MIG spending should be **monitorable, predictable, and linked to performance management**	There is little current evidence that this is happening
5.4	How are MIG-related programmes monitored and reported on?	IDP / SDBIP / budget documents / documents produced by the PMU	This s a requirement for MIG spending. Is there **transparency** and **accountibility** in spending on MIG projects?	This includes preparation of all necessary reports to the Council and the MIGMU
5.4.1	Does the municipality have a project management unit (PMU) for MIG projects, or has it demostrated that it can manage the projects without a PMU?			
5.4.2	Is there a monitoring database for MIG-related projects?			
5.5	Is the municipality producing medium term capital plans and operational budgets which reflect projects to be funded in	IDP / SBDIP / budget documents	This is required by the DoRA	This is being done to some extent by the metros
5.6	What project planning phase been followed?	IDP / documents produced by the PMU	This must include a **feasibility study** and **business plan** for each project. These two stages of the project cycle MUST include **community participation and awareness**.	Civil society should ensure that feasibility studies and business plans are present for each project.

6. Drinking water quality management

	Questions	How to…	Rationale	Notes
6.1	Does the municipality have to treat its own raw water, or does it receive treated water?	Contact the technical department of the municipality's water service provider	If the WSA (municipality) is also the WSP, there are additional legal requirements for the municipality	Can differ between coastal and inland municipalities
6.2	How often are water samples taken and tested?	Contact the technical department of the municipality's water service provider	There are legal guidelines for the number of tests taken	How many samples are taken per month? Per year? From how many sites are samples taken?
6.3	Where are samples taken?	Contact the technical department of the municipality's water service provider	Samples can be chosen from places which will minimise the probability of returning an adverse testing sample, but this would not be an honest assessment of drinking water quality	Are they taken just downstream of potential pollutors? Or are they deliberately taken far away from potential pollutors?
6.4	Where are the samples tested	Contact the technical department of the municipality's water service provider	Testing the samples too far from and/or too long after the place and time of testing could lead to contaminated samples	Accredited labs, distance from tests, contaminated samples
6.4.1	What is the time lag between sampling and testing?			Too long between sampling and testing results in contaminated samples
6.5	Who receives the results of testing?		The municipality may be part of a provincial initiative to benchmark water quality	Civil society should be receiving the results of testing
6.6	How are the results of the samples benchmarked against national drinking water standards?	Contact the technical department of the municipality's water service provider	The municipality has legal requirements in this regard; see the laws pertaining to Module 5	WSAs are legally required to do this
6.4	How are any potential health risks communicated to consumers and to the appropriate authorities?			WSAs are legally required to do this

7. Education

	Questions	How to…	Rationale	Notes
7.1	What provision does the municipal budget make for training or educational programs for water and sanitation of any kind?	Check budget documents: ARs, SDBIPs	This informs the municipality's policies on demand management	The answers to these questions may not appear in budget documents, and civil society may have to work harder to get the answers to these questions, including approaching the municipality directly for answers.
7.2	Does the municipality employ education officers?	Check budget documents: ARs, SDBIPs	This informs the municipality's policies on demand management	
7.3	What form of ongoing water services-related education is there?	Check budget documents: ARs, SDBIPs	This informs the municipality's policies on demand management	
7.4	In which areas is water education carried out?	Check budget documents: ARs, SDBIPs	This informs the municipality's policies on demand management, whether it places the burden of demand reduction on the poor alone, or includes richer households	Is education only seen as targeting poorer communities without trying demand management in rich areas?
7.5	Does the municipality provide a 'dummy rates invoice' on its website to indicate the range of service charges a consumer could face?	Check budget documents	This will give an indication to a resident of the possible range of their monthly rates bill	eThekwini does this, but whether or not it is reflective of actual charges has not been determined at this stage