

# Standing Committee on Public Accounts

Eskom Municipal Debt

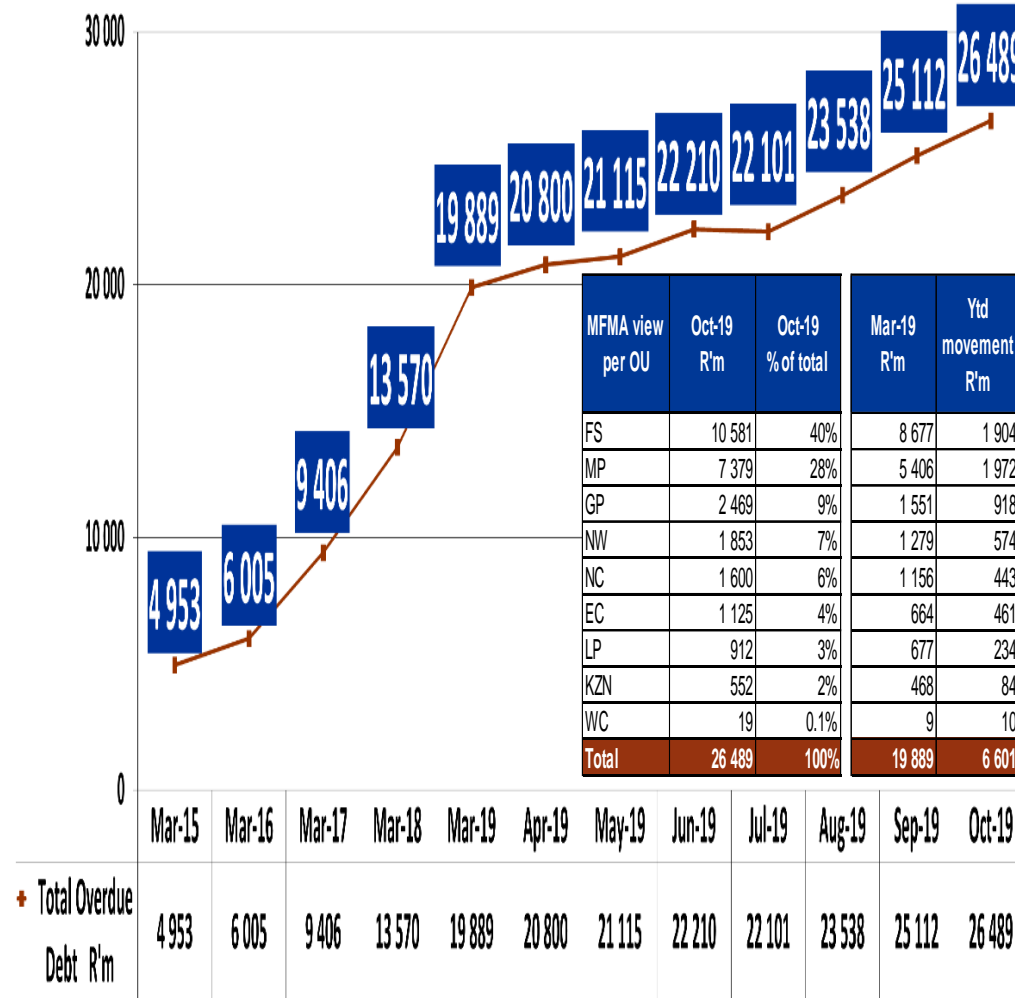
3 December 2019



1. Municipal debt levels have reached alarmingly high levels; The trend since 2007 is only negative;
2. High correlation between Municipality defaulters and Auditor General report on Municipalities
3. Various Government and Eskom Stakeholder interventions (IMTT) but the debt keeps on increasing. IMTT resolutions long term focussed and not focussed on Municipality debt alone.
4. Interruption of supply not good for the country and the economy, but the current trend cannot continue unabated. The PAJA process and interdicts not assisting with debt collections either but exacerbate the issue of non-payment.
5. Eskom will take all lawful steps to recover debt owed by defaulting Municipalities.

# Municipal overdue debt reached unprecedented levels: October 2019 Status

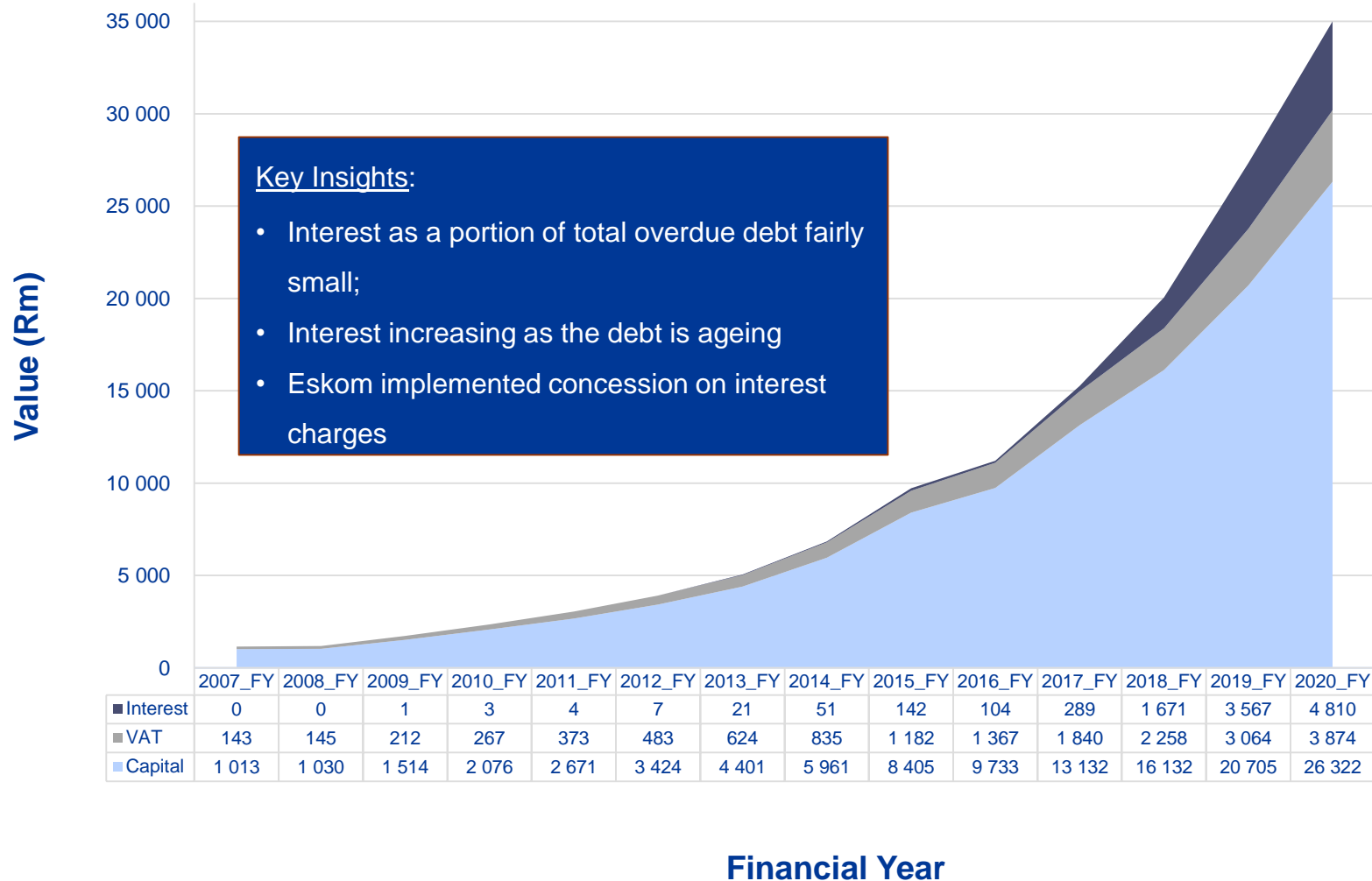
Municipal Overdue Debt - R'm



- The overdue debt increased from R1.2Bn as at March 2013 to R26.5Bn at end October 2019.
- The debt has grown by R6.6Bn for the first 7 months since March 2019
- Since inception of IMTT the debt has grown from R9.4Bn to R26.5Bn
- The Top 10 accounts for 67% of debt and the Top 20 for 79% of debt
- 48 valid payment (Oct'19) arrangements however, only 11 are being fully honoured.
- The Top 20 payment levels have dropped from a peak of 91% in March 2016 to 31.3% in October 2019.

# Redistributor Debt Composition

## Total Debt Due for respective Financial Years



# Background on Inter-Ministerial Task Team (IMTT)

- Inter-Ministerial Task Team (IMTT) was established to address the systemic and structural issues behind the debt owed to Eskom and to municipalities, the constitutional matters relating to the executive authority for electricity distribution as well as related operational challenges between Eskom and municipalities.
- The Minister of Cooperative Governance and Traditional Affairs appointed an advisory panel to assist the IMTT.
- The advisory panel's report has been finalised, and contains a number of recommendations.
- The advisory panel concluded that municipalities have exclusive executive authority over electricity distribution and reticulation within a municipal boundary, finding that Eskom must supply electricity on behalf of municipalities in terms of a service delivery agreement.
- It further suggested that municipal debt be unbundled and restructured by Eskom, as well as several recommendations regarding charging interest to municipalities.
- Eskom continues to engage the IMTT on these recommendations

# IMTT Recommendations In Planning Since November 2018

Recommendation	Owner	Status
The installation of prepaid meters - details on rollout plans, the funding manner, the mechanism for roll-out, as well as measures to ensure improved revenue collection, etc.	Government led Work Group including Eskom	Draft proposal being finalised
The establishment of independent debt collectors for municipalities – composition, roll-out plans, etc.	Government led Work Group including Eskom	Draft proposal being finalised
<b>A campaign to encourage a culture of payment for municipal services so that municipalities are able to pay their debts</b>	<b>Government led Work Group including Eskom</b>	<b>Draft proposal being finalised</b>
The strict management of payment defaulters with firm actions by government before the court process even comes to effect	Government led Work Group including Eskom	Draft proposal being finalised

Recommendation	Owner	Status
A performance based model that is linked to incentives be implemented	Eskom driven with government consultation	Pending further consultation with National Treasury
The restructuring of debts	Government led Work Group including Eskom	On-going consultation - Initial proposal by the National Treasury shared and under discussions with Eskom
The exclusive executive authority of the municipalities regarding electricity distribution and reticulation (Implementation of Service Delivery Agreement required)	Eskom – SALGA Work Group	<p>Due to legal and regulatory risks identified, a full SDA cannot be immediately implemented.</p> <p>Due to disagreements with SALGA on implementation IMTT escalated to National Treasury for facilitation</p> <p>National Treasury also proposed a phased implementation</p> <p>Awaiting implementation approach from National Treasury and SALGA still in dispute</p>

## Objective

The National Payment Campaign's objective is to instill a culture of payment for services rendered, educate consumers about the benefit of paying for municipal services (for those who can pay) and the impact of electricity theft

## Proposed campaign:

- ❑ The Minister of COGTA will be the champion at the **national launch of the campaign** assisted by the Deputy Ministers, and the MECs responsible for Local Government will be the Provincial champions
- ❑ Visible support from the Presidency, Ministers and Office of the Premiers
- ❑ Mayors will be responsible for the municipal rollout of the campaign
- ❑ This campaign needs to be institutionalised: Reminders by Ministers and provincial bodies at least every two months. All national and provincial government to include this messaging in all their scheduled engagements

## Governance Approval

- **Eskom Exco approved the Framework**
- IMTT has approved the strategy but it now needs to be shared with the new CoGTA Minister and go to Parliament for approval of funding. CoGTA is steering the progress of the campaign. Eskom and SALGA are supporting



## **Some of the activities Eskom identified in National Treasury Proposal include:**

1. National Treasury ensuring municipality budgets are funded and current accounts are provided for
2. A stronger supervision of municipalities to adhere to budgets
3. Ring-fencing of arrear debt in order to contain its growth
4. Possible debt write-offs subject to identified performance conditions
5. Possible National Treasury contributions to the cost of write-offs
6. Identification of municipalities for National Treasury focus and attention
7. Devising a support plan to address financial challenges and realigning resources
8. Enforcement of compliance and possible invoking of section 216(2)
9. A PFMA clearance with regard to the write-off and interest suppression

**Eskom and National Treasury Officials started discussions to unpack and refine the proposal before finalising and approval by Eskom and National Treasury.**

# IMTT Developments on the Service Delivery Agreement

- On 13 March 2019 the Eskom Board supported Phase 1 of a phased approach towards the implementation of Service Delivery Agreements (SDA) after considering the Legal and Regulatory Risks. Rest of the phases subject to industry restructuring guidance by the shareholder
- Eskom shared the Board position as well as the Legal and Regulatory risks with IMTT in April 2019
- IMTT then requested National Treasury to facilitate the development of the SDA Framework
- At the Technical IMTT on 31 July 2019 National Treasury Made the following recommendations which were accepted by the Technical IMTT
  - An “interim SDA” is proposed
  - On route to finalisation that a phased approach be followed
    - Phase 1 - Incorporate those elements that can be done now as part of an Interim SDA
    - Phase 2 - Identify the various pieces of Legislation and Policies that will require amendment to enable Eskom to comply with the interim SDA requirements
    - Phase 3 - Affecting and implementation of the amendments identified undergo a public consultation processes
    - Phase 4 - Municipalities to conduct Sect 78 consultation as per MSA
    - Phase 5 - Full Implementation of Service Delivery Agreement as per MSA
- Eskom supports the proposal but SALGA has withdrawn its support
- National Treasury undertook to proceed to develop an implementation plan for consultation with Eskom and SALGA

# Despite Eskom Concessions to Assist Municipalities - Debt still growing



**The following municipal concessions were approved during July 2017 to assist municipalities with their cash flow:**

Concession	Implemented (Y/N)	Comments
<ul style="list-style-type: none"><li>Rationalisation of Eskom's Municipal Tariffs(Reducing tariff options from 11 to 3) – currently with NERSA for approval</li></ul>	No	<ul style="list-style-type: none"><li>Not approved by NERSA</li></ul>
<ul style="list-style-type: none"><li>Decreased the interest rate charged on overdue balances to Prime plus 2.5% (from Prime plus 5%)</li></ul>	Yes	<ul style="list-style-type: none"><li>Only for municipal bulk accounts</li></ul>
<ul style="list-style-type: none"><li>Changed payment terms from 15 to 30 days (excluding Metro's due to cash flow impact)</li></ul>	Yes	<ul style="list-style-type: none"><li>Metro Municipalities in KZN and FS has not changed back to 15 Days</li></ul>
<ul style="list-style-type: none"><li>Changed payment allocation policy to settle capital and VAT first before interest</li></ul>	Yes	<ul style="list-style-type: none"><li>Allocation changed in SAS model when presenting CAP/VAT/Interest split</li></ul>
<ul style="list-style-type: none"><li>Allow municipalities to pay connections charges over a period at relevant interest rate in stead of Cash Up Front</li></ul>	Yes	<ul style="list-style-type: none"><li>Implemented 1st July 2018</li></ul>

# Key Challenges and Required Support

	Description	Support Required/Action
<b>Payment Agreements (PA's) not honored</b>	<ul style="list-style-type: none"> <li>Despite negotiating PA's in good faith that are fair to both Eskom and Municipality, these are often not honored</li> </ul>	<ul style="list-style-type: none"> <li>Support of both Provincial Treasury and COGTA in evaluating affordability of PA's and enforcement</li> </ul>
<b>Interruptions of Supply</b>	<ul style="list-style-type: none"> <li>Provincial government often get involved to stop the interruptions with less regard for the growing debt and failure to comply with PA's</li> </ul>	<ul style="list-style-type: none"> <li>Formal provincial government monitoring and assistance of municipalities in financial distress to avoid interruptions</li> </ul>
<b>Interdict Impact on Debt</b>	<ul style="list-style-type: none"> <li>Interdicts often lead to payment holidays which exacerbate the debt situation and failure to comply with court orders</li> </ul>	<ul style="list-style-type: none"> <li>Provincial and National government to ensure municipalities pay what they can afford during litigation period</li> </ul>
<b>Burden of Debt Sharing</b>	<ul style="list-style-type: none"> <li>It often seems as if the burden of debt is seen as an Eskom challenge alone and yet when Eskom enforces its rights that is perceived negatively</li> </ul>	<ul style="list-style-type: none"> <li>Parliament, National and Provincial government should hold all role-players equally accountable for their roles</li> </ul>
<b>Lack of Urgency</b>	<ul style="list-style-type: none"> <li>Too often a lot of time is spent discussing debt with very little practical solutions to resolve it</li> </ul>	<ul style="list-style-type: none"> <li>National government to drive with urgency the development and execution of plans for both short and long terms (e.g. Equitable Share allocations to debt in the short term)</li> </ul>

# The Revised Eskom Redistributor Debt Management Strategy has Three Focus Areas



## Reduce/Eliminate Overdue Debt

1. **Incentivized Payment Arrangement** (with conditions)
2. Engagement with **National Treasury** - Equitable Share allocation (direct payment)
3. **Prioritise paying customers** for fault repairs
4. **Review existing Supply Agreements:**
  - Restrict, Interrupt and Terminate Supply
  - Consideration of take-over of networks and customers
5. **Attach & Sale of Assets**  
-Movable and Immovable

## Stop Defaulting

1. Focus is on **Payment of Current** Accounts
2. **Enforce** Eskom Revenue Policy & **Procedure**
3. **Support Munics** on Request
4. **Direct Customer Payments**
5. **Revenue Collections** on behalf of Municipality
6. Upfront/Prepayments of Current Accounts
7. **Network Handover/Takeover** for Eskom Operating

## Prevent Defaulting

1. Timely & Accurate **Billing**
2. Ensuring **Timely Payments**
3. **Reconcile Bills & Payments**
4. Strengthen **Relationship Management**
5. **Prepayment** of Accounts
6. Municipal **Capacity Support**

**Key Enablers: Mandate to execute, Legal Support, Funding, Communication & Advocacy**

- Eskom remains committed to actively engaging the industry and further commits that should institutional deficiencies be addressed Eskom is willing to provide support as needed.
- **We must all ensure a viable energy sector to support Government agenda for economical Growth**
- **National Treasury to continue looking at ways of supporting municipalities to deal with their debt situation and keep municipalities accountable**
- **Eskom is strengthening its debt collection strategies to improve its financial sustainability and in fulfillment of the National Treasury Equity Injection Conditions to collect debt**

- Commitments made by Municipalities and concessions made by ESKOM are not being implemented, as agreed. We find this comment concerning. The only concession not implemented was the reduction of Municipal Tariffs from 11 to 3 which was not approved by NERSA after Eskom submitted proposal for approval.
- The current SDA impasse caused by SALGA changing its position on the IMTT adopted National Treasury proposal on phased implementation is not coming up but Eskom is being presented as being intransigent on the matter. It is however true that Eskom does not agree that we can implement Surcharges, Credit Control and Public Lighting on the SDA based on the current legislative framework and National Treasury seems to think so too.
- In our view the Cabinet Decision was also clear on evaluating the current framework on implementing the SDA – *“Cabinet noted the recommendation that an SDA must be signed and requested IMTT to develop an implementation plan taking into consideration the status quo of both ESKOM and municipalities in continuing to supply electricity.”*

- This presentation is partly explaining why municipalities are defaulting but falling short on a plan to “rescue” the deterioration other than saying Eskom is a problem. Some of the facts like Eskom failing as requested by IMTT to reconcile accounts seem inconsistent with our understanding of what has been the decisions of the IMTT.
- There is a lot of progress being reported on which had not been shared as part of IMTT records and yet we thought this presentation ought to reflect what IMTT has been doing.
- The pre-IMTT positions (including legal stance) is probably unnecessary and seem to emphasise SALGA position with scant reference to Eskom position
- Lastly, after participating for the past two weeks in compiling this presentation and requesting a consolidated feedback so that we can review, Eskom was given only 2 hours before the deadline to review and comment on a 72 pages presentation. Eskom is therefore unable to support the presentation.