

RESTRUCTURING: - WHERE DO WE START



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1. Introduction

This paper is primarily aimed to be of assistance to the medium and smaller municipalities who do not have the necessary resources to embark on their Electrical Distribution Service ringfencing exercise themselves.

We at Rustenburg would like to take the opportunity to share our experience with you and hopefully save you some unwanted stumbling blocks. Most of the procedures followed work for us but might not necessarily do so in your circumstances.

We do realise that the Metros and bigger municipalities normally have the resources to embark on a project of this magnitude. We beg you to bear with us for in the end it will not be **they** and **us**, but rather **WE**, for in the end **we will be one**, whether we like it or not!

2. Why Ringfence?

Firstly, each and every licensee in possession of a temporary license to distribute electricity that was issued by the NER in terms of the Electricity Act (41 of 1987 as amended), must be ringfenced. In terms of Section 5.2.1 of the license, a condition of the license states:

“The licensee shall maintain separate electricity distribution business affairs from the licensee’s other affairs so that the revenue, costs, assets, liabilities, reserves and provision for the electricity business are separately identifiable in the books of the licensee from those of any other business.”

Secondly, the Municipal Systems Act (Act 32 of 2000 as amended) states in terms of:

Section 77:

“A municipality must review and decide on the appropriate mechanism to provide a municipal service in the municipality or a part of the municipality-

(a)(iii) the municipality is restructured or reorganised in terms of the Municipal Structures Act.”

Section 78:

“When a municipality has in terms of section 77 to decide on a mechanism to provide a municipal service in the municipality or a part of the municipality or to review any existing mechanism-

(a) it must first assess-

(i) the direct and indirect costs and benefits associated with the project...”

(It should be noted that the Municipal Systems Act, sections 77 and 78 should be read as a whole for the statement above to become apparent.)

Thirdly, and most importantly at this stage, Ringfencing is the **critical starting point** towards the establishment of the REDs.

3. How do we start?

Budget:

The rough estimate of the cost for a proper ringfencing project might be between R500 000 and R2 000 000, depending on the size of the municipality and the availability of the necessary information. Most municipalities have massive problems balancing their budgets. How to obtain the necessary funds for ringfencing might prove a stumbling block especially if there is not even sufficient funds for urgent refurbishment and critical maintenance.

Convince your colleagues:

This might not be as easy as it sound. For reasons rather left alone, your Director Finances will not be too happy to co-operate. Some of the reasons are mentioned above. One approach that might prove successful is by making use of the politicians. We all know that restructuring of the EDI is a given, it was approved at National Government level. Somehow politicians understand this better than the financial people. (Please financial colleagues, we are freefalling – provide us with a parachute to land safely.)

Council Resolution:

Provide your Council with all the facts to enable them to take an informed decision. Ensure that they understand the necessity of ringfencing. Make use of EDI Holdings to provide you with the necessary ammunition or better still asked them to conduct a presentation at your Council. For some unknown reasons Councillors do not always believe employees and the use of Government employees (EDI Holdings) might be required. Make sure that the resolution your Council took is the right one and that everything is covered.

Appoint Consultants:

Smaller municipalities do not always have the necessary resources in manpower (and even the know-how) to conduct a project of this nature. We at Rustenburg would have made one great big blunder had we attempt the ringfencing project on our own. Even with consultants it was difficult to convince some employees that what they were busy doing must wait and information must be provided for the ringfencing project. Consultants know *what* to do and *how* to do it, but the

municipal employee must give them the *information* to complete the project.

Ensure that reputable consultants are employed. Beware of the so called “fly by night” consultants whose main aim is to make a quick buck and disappear.

Toolkit:

A wonderful tool by means of the Ringfencing Toolkit, developed by EDI Holding is available free of charge to any municipality. It is widely recommended that this toolkit be used so as to compare apples with apples by the end of the day.

The purpose of the Toolkit is to jump-start the ringfencing project at the municipality with a set of standard work plans, processes, definitions, templates, formats, communication and interviewing checklists which will make the process more efficient and effective.

Information:

Ensure that all employees and especially organised labour are well informed of the intension of Council as well as progress to date. Employees always assumes the worst when something they do not understand is in the pipeline. The only thing that enters their mind is; “I am going to lose my job,” or “they are trying to get rid of me.” This presumption must be rebutted to ensure a peaceful ringfencing project.

Prevent a possible strike or down tools or even a riot by informing everybody properly. It is essential that at least one presentation be presented in the tribal language of the area. We almost had a riot when we assume that people were informed. **Never assume – always inform.**

4. The process

Partnership Approach:

The municipality and the consultant, with the use of the EDI toolkit can now concentrate on the elements to be ringfenced namely:

- Human Resources.
- Assets, operations and systems.

- Liabilities.
- Costs.
- Revenue.
- Rights and obligations.

Project Team Structure:

The actual team should consist of a Senior Manager of the Electricity Distribution Service as the team leader, assisted by a senior official from the consultant group. Each of the team elements must be assisted by competent personnel of the various disciplines.

The project should be sponsored by the Councillor responsible for the Electricity Distribution Service as well as the Director Electricity Services or Director Infrastructure, depending on the structure of the specific municipality.

Engage the Management Committee (Directors of all disciplines) as a steering committee, not so much to steer, but rather to keep them involved and informed.

EDI Holdings will always be available to provide high level inputs or assist when specific problems may occur.

Project Approach:

Project initiation

- Understand EDI Holdings context
- Understand the municipality expectations
- Define the scope
- Mobilise the team
- Agree with the stakeholders.

Manage communications and change management throughout the project.

By way of the toolkit, the following can now be done by means of a National Standard.

Operational Ringfencing:

Review and identify Internal and External core and non-core activities.

- Assets
- Employees
- Contracts
- Policies and procedures
- IT components
- Service Level Agreements
- Define transitional arrangements.

Financial Ringfencing:

- Format Financial Statements
- Prepare opening balances
- Agree on expense allocations
- Prepare for liability transfers
- Prepare accounting procedures
- Format budgets.

Human Resources Ringfencing:

- Employee register
- Conditions of service
- Competency analysis
- New functions
- Benefits – Accrued & Liabilities
- HR processes
- Organisation structure

Approval:

- Prepare the final report
- Obtain Council's approval of final report
- Provide for data transfer to EDI Holdings

Macro steps towards RED formation:

- Separate Operating Entity (SOE) – Completion of the Financial- Operating- and HR separation.
- Municipal Entity (ME) – Legal separation.
- Regional Electricity Distributor (RED) – Completion of the section 78 process and ownership separation.

5. The way forward

With the paper ringfencing completed, the next steps are:

- Completion of the MSA section 78 process

- Acceptance of the EDI Co-operative Agreement by Council
- Preparation and forming of SOE
- Preparation for Legal separation
- Prepare for Ownership separation
- Final incorporation into RED

6. Conclusion

It is a jungle out there and the lion may have waked up already. To most of us it is an unknown road ahead and in the process we have to cross bridges we don't even know exists and if the bridge does not exist, we must build them. If we all want to be part of the new dispensation, we had to start somewhere to achieve that. The right way to start is to ring-fence the Electricity business of your municipality.

Whatever the obstacle - however big the challenge - **NEVER SURRENDER.**

Above all, whilst whatever process is underway; keep the lights burning and the pumps turning.

Thank You.