Guidance Note 5: Implementation of Minimum Commitments for Metro Trading Services Reform

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TITLE:	**GUIDANCE NOTE 5: IMPLEMENTATION OF MINIMUM COMMITMENTS FOR METRO TRADING SERVICES REFORM**
Purpose	To offer guidance on the implementation of the minimum commitments.
Scope	The scope of the reform includes water & sanitation, electricity & energy, and solid waste management services of metropolitan municipalities.
Phasing	Metros are participating in the reform in 2 cohorts, based on achievement of entry requirements. Metro trading services in Cohort 1 enter the reform in 2025/26. Metro trading services in cohort 2 enter the reform in the 2026/27.
Target audience	Metro leadership and officials who are responsible for the management of trading services and shared services that support the delivery of the trading services (engineering, financial, and shared services such as billing & revenue, customer relations, human resources, etc.).
Must be read together with	• Division of Revenue Bill, 2024 (as published in GG No. 50099 on 8th February 2024): • Explanatory Memorandum, Annexure W1, p108 (Urban Settlements Development Grant), p121 (improving efficiency of urban utility services); • USDG framework, p231 (infrastructure financing reforms); • Schedule 4, Part B, p44 (USDG allocations); • Guidance Note 1: Metro preparations for the introduction of trading services infrastructure financing reforms (1 April 2024); • Resource document A: Developing and implementing municipal water business turnaround strategies (1 April 2024); • Updated *m*SCOA Specimen for parent, consolidated and Water & Sanitation AFS (5 July 2024); • Guidance Note 3: MTSR Institutional Arrangements (9 September 2024); and • Guidance Note 4: Addendum: Completing the A3-PIAP (28 February 2025).

1. Introduction:

This Guidance Note (GN5) provides an overview of the eight Minimum Commitments and key definitions, to support the implementation of the Minimum Commitments over the diuration of the programme.

Guidance for the Minimum Commitments are presented separately, as annexures to this document, as follows:

- Annexure A: M1 Service Compact Guideline;
- Annexure B: M5 Business and Investment Plan: Minimum Content Template; and
- Annexure C: M5 Business and Investment Plan: Best Practice Guideline.

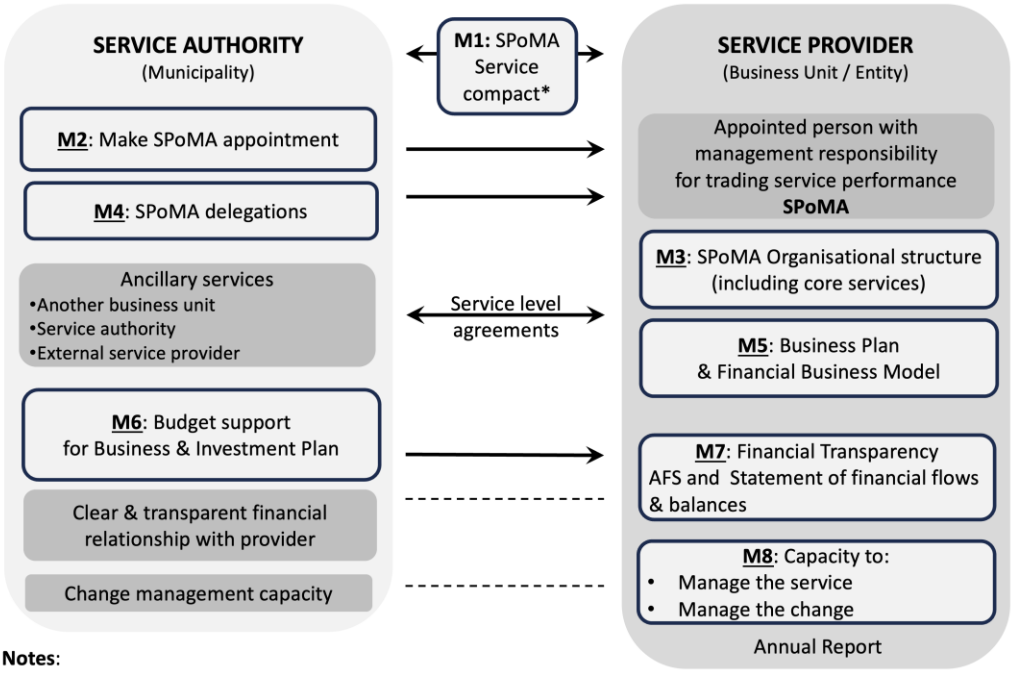
Further annexures may be issued as required.

2. Overview of the eight Minimum Commitments:

This section provides a summary description of the Minimum Commitments, key definitions, and how they relate to one another. The purpose of the Minimum Commitments (Ms) is to establish the foundational building blocks for effective performance of each trading service.

Ms (minimum commitments)	**Accountability Performance Minimum commitments** as defined in Guidance Note 4: *Formalisation of metro commitments in Annexure 3: Performance Improvement Action Plan (A3: PIAP) of Metro Trading Services Reform Strategies*

The eight minimum commitments and their relationship to each other are shown in Figure 1 and the description that follows. The commitments are inter-related, and are presented in a sequence to best explain the relationships.



Notes:
* Where trading service is set up as a company (Municipal Entity), M1 is a shareholder compact and M2 is the Entity CEO
For M4, delegations are made in terms of the Shareholder Compact to the Company. SLA = Service Level Agreement

Figure 1 Relationships amongst the eight minimum commitments.

The starting point of the trading service reform is to establish conducive conditions for the effective management and delivery of the trading service. This requires defining a clear relationship between the municipality (the **service authority**) and the trading services business (the trading **services provider)**, as per the terms defined below:

Service Authority	A municipality that has the constitutional and legislative responsibility to ensure that the respective trading services are provided within the law. The metropolitan municipalities are service authorities with respect to electricity, water services, solid waste management, as defined in the legal framework.
Service Provider	For the purposes of this document, a service provider refers to the Business Unit or municipal entity undertaking the service (water and sanitation, electricity and energy, solid waste management), with delegated executive management authority (**SPoMA**). *(Note: A service provider can also be a private company).*

The indicators are dealt with in the sequence that is most sensible for explaining the natural relationship amongst them. The relationship between the service authority and the service provider must be defined in a **service compact (M1)**.

M1: SPoMA Service compact	Defines the relationship between the **Service Authority** and the **Service Provider,** with clearly defined division of responsibilities across value chains for service authority to service provider with clear performance and accounting metrics, incl. the financial relationship between the two (See Guidance Note 4).

The Service Provider must be clearly defined in an **organisational structure** (**M3**) that gives expression to the concept of a Single Point of Management Accountability.

M3: SPoMA Organisational Structure	An organisational structure with a single point of management accountability for all elements of the infrastructure and commercial value chain, with the necessary supporting business processes and systems (**core services**) under an appropriate capable and professional management and governance framework, in line with the seven-box model. This can be a **Business Unit** or a **municipal entity (**See Guidance Note 3: Institutional Arrangements for Reforming Metro Trading Services).
	Business Unit: An organisational structure with a Single Point of Management Accountability and with all elements of the infrastructure and commercial value chain, with the necessary supporting business processes and systems under an appropriate capable and professional management and governance framework, as defined in **M3 (SPoMA Organisational Structure)**, and operating as a Business Unit within the municipality.
	or
	Municipal Entity: As defined in the Municipal Systems Act, 2000 (Act No. 32 of 2000), but in this context, refers specifically to a **company,** which operates under the ownership-control of the municipality. A municipal entity must therefore, also meet the definition of M3. In this context, the municipality acts as the shareholder and owner of the company and is not involved in the day-to-day management decisions of the company. The CEO reports to the Board of the Company, and the Board exercises oversight over the management of the company.

Guidance Note 3 defines the core services required under the executive management authority of the Single Point of Management Accountability are defined in Guidance Note 3.

Core services	The responsibilities and functions pertaining to/or supporting operational, financial management and overall management of the Trading Service, as defined in **M4 (SPoMA delegations)** below and the delegations document. **Core services** are defined as the technical, commercial and supporting functions of providing the service which include asset creation, asset maintenance and operations, finance, human resources, supply chain management, customer and commercial services (including revenue management), fleet management and IT (See Guidance Note 3).
Ancillary services	**Non-core services** refer to services typically contracted on an ad hoc basis, either from the Service Authority, another service provider or a private company (For example: legal services).

The metropolitan municipality must appoint a Head of the Business Unit trading service that has executive authority and accountability for the performance of the trading service (**SPoMA appointment M2**).

***Note**: Where the organisational structure is a company (municipal entity), then the CEO/MD of the company is appointed by the Board of the Company, not by the municipality.*

M2: SPoMA appointment (Single point of management accountability)	The appointment of a Head of the Business Unit (in the case of a Business Unit arrangement) or CEO/MD (in the case of a municipal entity) of the trading service with an appropriate job description, reflecting all delegated powers and responsibilities, and an appropriate performance contract (See Guidance Note 4). The Head/CEO/MD must have executive authority and management control of all **core services** for the effective operation of the Trading Services Business as a Single Point of Management Accountability (SPoMA).

The appropriate delegations must be made to ensure that the appointed trading services business unit head (or municipal entity CEO) has the necessary executive management authority to effectively manage the performance of the trading services business. These are defined in the **SPoMA Delegations (M4)** and summarised in a delegations document.

M4: SPoMA Delegations	Minimum commitment ensuring that the responsibilities and functions pertaining to/or supporting operational, financial management and overall management of the trading service are delegated and fully accounted for within that Trading Service SPoMA, as per Guidance Note 4.
Delegations document	Capturing a summary of the delegations made in fulfilment of indicator **M4 (SPoMA delegations)**, either as an annexure to the service compact or referenced as a separate document.

The head of the trading service Business Unit must ensure that it fulfils its obligations (as presented in the **service compact**) through the development and execution of a **business plan**, anchored to a **financial model**. The business plan must show how the business will achieve its obligations and performance goals, and how its activities will be resourced.

M5: Business and investment plan	The business and investment plan must provide for the financial sustainability, turnaround and improvement of the business. It must address all areas of the business and be anchored to a **financial business model**. It must incorporate a long-term strategic perspective, and medium-term capital and operational planning (See Guidance Note 4).
Financial Business Model (FBM)	A multi-year utility financial model reflecting the utility characteristics and requirements, to underpin utility reform priorities and strategy development (See Guidance Note 4).

The Council of the Service Authority approves the Business Plan and must ensure that it honours its commitments, including providing the budget support and facilitating the financing necessary to support the business plan (**Budget Support, M6**).

M6: Budget Support for Business and Investment Plan	The metro budget must be structured to provide the required funding for its utility businesses. This includes metro own revenue funding, equitable share allocations, grant funding, allocations specified in DORA, borrowing, and other funding sources (See Guidance Note 4).

The municipality (or municipal entity) must publish separate annual financial statements for each trading service (**Financial Transparency, M7**) as communicated by the National Treasury.

It is also standard practice for utilities to publish **annual reports**, and this is required of municipal entities and of trading services Business Units. This does not exclude other reporting obligations the service provider may have in terms of the MFMA or its license or other legislative requirements.

M7: Financial Transparency (**AFS**)	Complete AFS for each trading service (statements of financial performance, financial position, and cash flow with notes and tables as regulated) (See Guidance Note 4).
Annual report	Annual report, published with the Annual Financial Statements on progress against performance indicators, and progress and challenges encountered in implementing the Business Plan and meeting performance obligations and targets.

The municipality must publish, together with its Annual Financial Statements, an annual statement of the financial flows and balances between the Service Authority and the Service Provider.

M7: Financial Transparency (**statement of financial flows and balances**)	Minimum requirements of the Statement of Metro Trading Services Flows and Balances are: • Grant allocations: Equitable share, USDG, incentive grants, ISUPG, HSDG, ISDG and other; • Transparency and ringfenced cost of individual shared and internal services (shared costs and activity-based costing) such as revenue, treasury, facilities management, HR, City Manager and Council, etc.; • Contributions and subsidies: contributions by trading service (including any dividends) to metro rates account, subsidies paid by metro to trading services including transparency on non-licenced support service by the service provider eg. street/public lighting; • Cash balances: Trading services cash balances held by the metro, amounts invoiced on behalf of trading service, proceeds not yet paid over. • Other as appropriate (See Guidance Note 4). All this information must be consistent with the Muncipal Budget and Reporting Regulatios (MBRR) and the *m*SCOA Regulations.

Lastly the municipality must ensure that it has put in place the necessary capacity to manage the required organisational changes ((i) **change management capacity**) and the (ii) **management capability and capacity** to effectively manage the service and deliver effectively an increased capital budget with the associated operating and management arrangements (**management capacity**).

Municipalities must establish capacity and capability to manage the service effectively in terms of the newly agreed organisational structure (M3).

M8: **Change and Delivery Management Capacity**	Capacity to support the process of managing organisational change. Capacity to manage the increased TS capex envisaged, including engineering project and contract management capacity (See Guidance Note 4).

3. Other Definitions:

Shareholder compact *(Note: applies only to municipal entities)*	A shareholder compact is the key governance instrument that regulates the relationship between the municipality as the Shareholder of the Company and the Board of Directors of the municipal entity (set up as a company). It is specifically designed to establish clear expectations and accountability mechanisms between these two parties. Where the **service provider** is a **municipal entity**, the **service compact** referred to in this document can either be incorporated as part of the shareholder compact or set out in a separate document that *complements* the shareholder compact. There is no need for duplication between these documents.
Company	A company established in terms of the Companies Act, 2008 (Act No. 71 or 2008).
Service level agreement	An agreement between the Service Authority and Service Provider defining the level of service, financial terms and related matters, including consequences of non-performance, *where services are rendered by the Service Authority on behalf of the Service Provider, or vice versa*. These are commonly referred to as 'shared services'. This is not the same as the Service Compact which defines the relationship between the Service Authority (and shareholder) and the Service Provider (executing agency). The scope, term and conditions of service level agreements are addressed in the **Service Compact Guideline (Annexure A)**.

4. Reference documents:

These documents offer important context and define requirements. They are referenced in this document and should be referenced in the Service Compact and/or Shareholder Compact:

Guidance Note 3: Institutional Arrangements for Reforming Metro Trading Services.

Guidance Note 4: Metro preparations for the introduction of trading services reforms and Key Indicator Definitions.

Guidance Note 5: Implementation of Minimum Commitments;

Annexure A: M1 Service Compact guideline;

Annexure B: M5 Business and Investment Plan: Minimum Content Template;

Annexure C: M5 Business and Investment Plan: Best Practice Guideline.

5. Conclusions: Next Steps:

5.1 Additional Guidance notes will be issued as and when required; and

5.2 Metros requiring further information or support in relation to the contents of this Guidance Note 5 should direct their enquiries to:

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