NATIONAL TREASURY

Metro preparations for the introduction of trading services reforms

Guidance Note 4

Municipal Finance Management Act No. 56 of 2003

Addendum to Guidance Note 4: Formalisation of metro commitments in Annexure 3: Performance Improvement Action Plan (A3: PIAP) of Metro Trading Services Reform Strategies

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TITLE:	**Addendum to Guidance Note 4: Formalisation of metro commitments in Annexure 3: Performance Improvement Action Plan (A3: PIAP) of Metro Trading Services Reform Strategies.**
Purpose	To provide additional guidance to metropolitan municipalities regarding the completion of Annexure 3: Performance Improvement Action Plan (A3: PIAP) of Metro Trading Services Reform Strategies.
Scope	The scope of the reform covers the water & sanitation, electricity & energy, and solid waste management services of metropolitan municipalities.
Phasing	The preliminary focus is on Water & Sanitation and Electricity & Energy, with participating metros expected to approve these A3: PIAP annexures for the 2025/26 budget & MTREF. Solid Waste is to approve such annexures for the 2026/27 budget & MTREF.
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	1 **Division of Revenue Act, 2024:** o Explanatory Memorandum, Annexure W1, p108 (Urban Settlements Development Grant), p121 (improving efficiency of urban utility services); o USDG framework, p231 (infrastructure financing reforms); and o Schedule 4, Part B, p44 (USDG allocations). 2 **Guidance Note 1**: Metro preparations for the introduction of trading services infrastructure financing reforms (issued 01 April 2024): o *Resource document A: Developing and implementing municipal water business turnaround strategies (issued 01 April 2024); and* o *Resource document B: Developing and implementing municipal electricity & energy reform strategies (issued 23 September 2024).* 3 **Updated *m*SCOA Specimen** for parent, consolidated and Water & Sanitation AFS (issued 05 July 2024). 4 **Guidance Note 2**: Process, Assessment Criteria and Timeframes (issued 07 August 2024). 5 **Guidance Note 3**: Institutional arrangements for Reforming Metro Trading Services (issued 09 September 2024). 6 **Guidance Note 4**: Formalisation of metro commitments in Annexure 3: Performance Improvement Action Plan (A3: PIAP) of Metro Trading Services Reform Strategies (issued 30 November 2024). 7 **MFMA Circular 88 Addendum 6**: Section 2.3 Metro Trading Services implications (issued 30 December 2024).

All of the above are available at https://mfma.treasury.gov.za/Guidelines/Documents/Trading%20Services

1. Background and purpose of this addendum:

1.1 Participating metros have been working to develop draft versions of Annexure A3: PIAPs for their trading services based on Guidance Note 4. These drafts are to be submitted to engagement at the metro's 2024/25 Mid-year Budget and Performance Review engagement. Concurrently the grant design team has been working to rationalise the list of indicators, and to clarify and improve indicator description and definitions.

1.2 Interactions with metros (at the City Budget Forum, at dedicated metro workshops, and at sessions requested by individual metros) have been productive and have assisted to improve the indicator set.

1.3 **The purpose of this addendum is therefore to issue a revised set of indicators for the A3: PIAP, to replace those issued in Guidance Note 4**. While the structure of the A3: PIAP is built around the same three results areas (accountability, financial and operational performance per trading service), **the number of indicators has been reduced and restructured to improve clarity and precision of the reform and to strengthen the foundations for success at a metro level**.

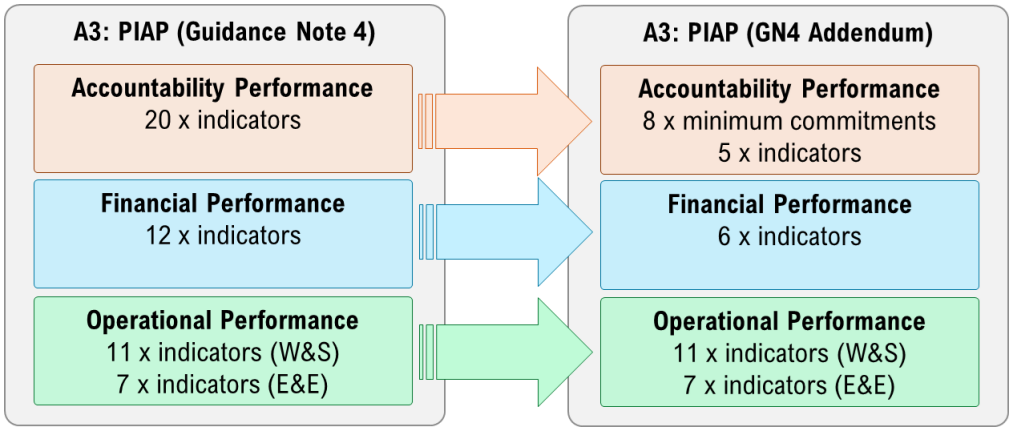
1.4 **No submissions should be made according to the original indicators and formats issued with Guidance Note 4, as these are supplanted in their entirety by the indicators and formats specified here**. All draft A3: PIAPs prepared using the template released with Guidance Note 4 in December 2024 must be converted to the template released with this Addendum.

1.5 **This Addendum is accompanied by an annexure with Technical Indicator Descriptions and definitions for the revised indicators and minimum commitments; and an updated A3-PIAP v1 excel template**. Metros should use only this template to prepare their A3: PIAP v1s for submission.

2. Consolidation and restructuring of indicators:

2.1 The consolidation and restructuring of the A3: PIAP indicators have the following features:

- **Accountability Performance:** the original set of 20 indicators (divided into single point of management accountability, financial transparency, and management and change capacity) has been consolidated into thirteen indicators, structured as eight minimum commitments and five performance indicators;
- **Financial performance:** the number of indicators has been reduced from 12 to six performance indicators; and
- **Operational performance:** unchanged.



2.2 The unique numbering scheme has been reset:

- **Accountability Performance:** the minimum commitments are now labelled M1 to M8, accountability performance indicators A1 to A5;
- **Financial performance:** indicators numbered F1 to F6; and
- **Operational performance:** water and sanitation operational performance indicators W1 to W11; and electricity and energy operational performance indicators E1 to E7. Solid Waste Management indicators will be added in due course.

2.3 The consolidation of accountability and financial performance indicators means that each individual A3: PIAP will now feature a maximum of 30 items.

2.4 The consolidation has also resulted in more precise formulations of performance areas, indicators, targets, and methods of scoring, which are now specified for each minimum commitment and performance indicator in the technical indicator descriptions in the Annexure. Summary tables are provided in Section 5 below.

3. Preparing and planning for programme implementation:

3.1 Importantly, the restructuring now puts much greater emphasis on ensuring that the foundations for trading services reform are in place before major funding is allocated.

3.2 The foundations of trading services reform are:

a) **Institutional and accountability arrangements**. This means that delegations (M4); organisational structure (M3); trading services leadership (M2); service compact (M1); and financial transparency (M7), should all be in place as defined;

b) **Business and investment planning** based on appropriate financial models, to ensure an optimal prioritised capital and operational spending plan which will deliver the best reform results and impact (M5), which in general is lacking currently. Furthermore, the prioritised trading services business and investment plan should find expression in the metro budget (M6); and

c) **Management and change management capacity** (M8) is put in place, often a critical element given the institutional challenges to be managed and capital spending to be increased.

3.3 Eight key elements must therefore be in place before metros will be ready for programme implementation:

a) SPoMA Service Compact (M1);
b) SPoMA Appointment (M2);
c) SPoMA Organisational Structure (M3);

d) SPoMA Delegations (M4);
e) Financial Model and Business and Investment Plan (M5);
f) Budget Support of Business and Investment Plan (M6);
g) Financial Transparency – separate AFS (M7); and
h) Support for the Management of Organisational change (M8).

3.4 It is a programme objective that all such foundational elements should formally and practically be in place by the end of Year 1 (2025/6). With sound accountability arrangements, a reform-oriented business and spending plan, and change management support in place, the prospects for the subsequent five years of implementation Year 2 (2026/27) to Year 6 (2030/31) are greatly improved. Conversely, if achievement of these key aspects of the reform programme is partial, delayed, intermittent or patchy, the entire thrust of the reform programme is undermined.

3.5 Metros wishing to access the incentive programme should therefore commit in 2024/25 to achieving the eight minimum commitments in Year 1 (2025/6). They are necessary to achieve programme objectives and ensure that:

3.5.1 Incentive funds reliably promote trading services turnaround and reform, improve trading services operational performance, and increase trading services capital expenditure; and

3.5.2 Metro trading services performance targets are based on reliably measured data and set with care, so that Council can confidently commit to the performance targets (metro achievement of targets has consequences for future capital funding resources).

3.6 Metro Councils which fail by end June 2025 to pass the appropriate resolutions regarding the eight minimum commitments, or which fail to ensure that their commitments are achieved by end June 2026, will not have access to the incentive programme until the deficits are made good and the relevant access windows are opened again.

4. Overall weighting and scoring scheme:

4.1 The overall weighting scheme is as follows:

- The eight minimum commitments are not indicators, and do not earn points; and
- Indicators in the three results areas as weighted as follows: Accountability 10 per cent, Financial 30 per cent and Operational 60 per cent.

Accountability Performance	8 x minimum commitments	0
	5 x performance Indicators	10
Financial Performance	6 x performance Indicators	30
Operational Performance	11 x performance indicators (W&S) 7 x performance indicators (E&E)	60

4.2 There are two types of scoring: binary or scalable. **Binary scoring** applies when a discrete deliverable is due by a given date, usually a minimum commitment or a plan with targets:

- The score assigned will be either 100 per cent or 0 per cent, according to whether the deliverable was achieved as defined; and
- Applies to the minimum commitments throughout the programme, and to the Y1 plans and targets in respect of all indicators.

4.3 **Scalable scoring** applies when a numerical performance target was set for a particular year:

- the score assigned will vary according to performance achieved;
- applies to all performance indicators from Year 2 onwards; and

- The score for a given year is the actual improvement over the baseline used, compared to the planned improvement, by that year, recorded in the A3: PIAP v2.

5. Weighting and scoring by performance areas:

5.1 All A3: PIAPs will consist of five parts:

i. Accountability performance: minimum commitments (M1 – M8);
ii. Accountability performance: performance indicators (A1 – A5);
iii. Financial performance: performance indicators (F1 to F6);
iv. Operational performance: either W1 to W11 for water and sanitation or E1 to E7 for electricity and energy; and
v. Indicative programme costing and funding sheet.

5.2 Accountability Performance:

Performance areas	Ref	Minimum conditions / performance indicators	Method of measuring allocations for			Weights	
			YEAR-1	YEAR 2	YEARS 3-6		
Accountability Performance Minimum commitments	M1	SPoMA Service Compact	binary	binary	binary		
	M2	SPoMA Appointment	binary	binary	binary		
	M3	SPoMA Organisational structure	binary	binary	binary		
	M4	SPoMA Delegations	binary	binary	binary		
	M5	Financial Model and Business & Investment Plan	binary	binary	binary		
	M6	Budget Support of Business & Investment Plan	binary	binary	binary		
	M7	Financial Transparency – separate AFS	binary	binary	binary		
	M8	Support for management of organisational change	binary	binary	binary		
Accountability Performance Performance Indicators	A1	Customer surveys	n.a.	binary	scalable	2	10
	A2	Financial Accounting – mSCOA compliance	n.a.	binary	scalable	2	
	A3	Public Procurement Transparency	n.a.	binary	scalable	2	
	A4	Capital Budget Execution	n.a.	binary	scalable	2	
	A5	Core Technical & Management Capacity	n.a.	binary	scalable	2	

5.3 Financial Performance:

Performance areas	Ref	Minimum conditions / performance indicators	Method of measuring allocations for			Weights	
			YEAR-1	YEAR 2	YEARS 3-6		
Financial Performance Performance Indicators	F1	Financial Viability OCCR	n.a.	binary	scalable	5	30
	F2	Cash Collection rate	n.a.	binary	scalable	5	
	F3	Operational Cash Flow	n.a.	binary	scalable	5	
	F4	Customer Debt management – debtors days	n.a.	binary	scalable	5	
	F5	Infrastructure Capex	n.a.	binary	scalable	5	
	F6	Self-Financing ratio	n.a.	binary	scalable	5	

5.4 Operational Performance: Water and Sanitation:

Performance areas	Ref	Minimum conditions / performance indicators	Method of measuring allocations for			Weights	
			YEAR-1	YEAR 2	YEARS 3-6		
Operational Performance Performance Indicators Water & Sanitation	W1	Water Security–input volume % raw water allocation	n.a.	binary	scalable	5	60
	W2	Drinking Water Systems Blue Drop	n.a.	binary	scalable	5	
	W3	Waste Water Treatment Systems Green Drop	n.a.	binary	scalable	5	
	W4	Wastewater Final Effluent Quality	n.a.	binary	scalable	5	
	W5	Water Network performance –mains failures / 100 km	n.a.	binary	scalable	5	
	W6	Sewer Network performance – blockages / 100 km	n.a.	binary	scalable	5	
	W7	Physical Water Loss ILI	n.a.	binary	scalable	5	
	W8	Water Service Complaints Response % in 48 hours	n.a.	binary	scalable	5	
	W9	Sewer Service Complaints Response % in 48 hours	n.a.	binary	scalable	5	
	W10	Non-Revenue Water (NRW)	n.a.	binary	scalable	10	
	W11	Metering Performance	n.a.	binary	scalable	5	

5.5 Operational Performance: Electricity and Energy:

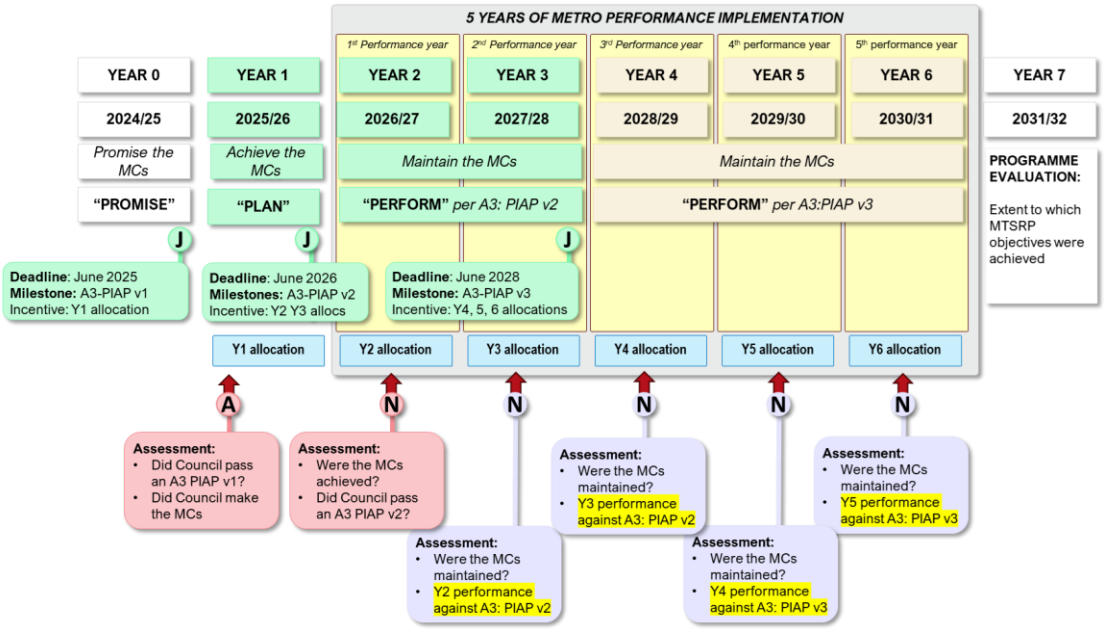
Performance areas	Ref	Minimum conditions / performance indicators	Method of measuring allocations for			Weights	
			YEAR-1	YEAR 2	YEARS 3-6		
Operational Performance	E1	Bulk Commercial Metering Performance	n.a.	binary	scalable	5	
Performance Indicators	E2	Vending Efficiency % of metering operational	n.a.	binary	scalable	5	
Electricity & Energy	E3	Automated Meter Reading Coverage	n.a.	binary	scalable	5	
	E4	Repairs Efficiency	n.a.	binary	scalable	5	60
	E5	Electricity losses as % of electricity purchased	n.a.	binary	scalable	30	
	E6	Network effectiveness ASIFI	n.a.	binary	scalable	5	
	E7	Network effectiveness ASIDI	n.a.	binary	scalable	5	

6. Overall programme timing: introduction of performance incentive funding:

6.1 The introduction of a year for preparation, planning and achievement of minimum commitments as outlined in Section 3 (see Section 3) means that there will effectively be five years during which metro performance can be measured against numerical targets. It is also advisable to allow one opportunity to reset the targets against which performance is being measured, to take account of early experience and iron out remaining challenges.

6.2 The following graphic illustrates the structure of the programme over the forthcoming six municipal financial years, shown between Year 0 (the current financial year 2024/25) and Year 7 (2031/32). The green represents MTREF years currently being planned for (Years 1 to 3); and the yellow shows the second half of the incentive programme, Years 4 to 6).

Timing of performance, recognition and reward



6.3 The programme has the following features:

- Three versions of the A1: PIAP:
  - version 1 (by end June 2025), indicative, accompanied by eight minimum commitments;
  - version 2 (by end June 2026), final, with targets for Y2, Y3, Y4, Y5, Y6; and
  - version 3 (by end June 2028), reset, with reset targets for Y4, Y5 and Y6.
- An indicative incentive allocation per trading service per metro per year, based on population and poverty indices.
- six independent assessments, each necessary for the transferring officer to release funds linked to the indicative allocation for the trading service for the year:
  - the first assessment is light touch, to confirm the commitments;

- the second assessment is to confirm commitments have been achieved, including full business planning and targets set; and
- the remaining four assessments are of performance against targets.

6.4 For metros, the programme has three phases:
- "PROMISE": Year 0 – submit the A3: PIAP v1, make minimum commitments;
- "PLAN": Year 1 – put minimum commitments in place, including the turnaround business plan; and
- "PERFORM": Years 2 to 6 – implement the business plan. Such performance will be measured against targets set in the A3-PIAP v2 and A3-PIAP v3 as indicated.

6.5 A3: PIAP v1: Targets set for achieving minimum commitments:
- Full revised A3: PIAP v1 template as specified;
- Tabled in Council in March and approved by June 2025;
- Council approval of report with resolutions committing to implementation by March 2026 of the Minimum Commitments as specified; and
- Council-approved A3: PIAP v1 to be submitted to the National Treasury with approved metro budget documents.

6.6 A3: PIAP v2: Retain minimum commitments, set targets for Y2, Y3, Y4, Y5 and Y6:
- Full A3: PIAP v2 template as specified (*NT approval will be required before submitting the A3-PIAP v2 to Council*);
- Tabled in Council with other budget documents in March and approved by June 2026;
- Council approval of report with resolutions committing to retention of Minimum Commitments and to achieving the performance indicators as specified, recognising the implications for future capital funding; and
- Council-approved A3: PIAP v2 to be submitted to the National Treasury with approved metro budget documents.

6.7 A3: PIAP v3: Retain minimum commitments, reset targets for Y4, Y5 and Y6:
- This is the single chance for metros to reset the targets against which performance will be measured. It follows assessment of Year 2 performance against targets set, which occurs during Year 3;
- Full A3: PIAP v3 template as specified (*NT approval will be required before submitting to Council);*
- Tabled in Council with other budget documents in March 2028;
- Report with Council resolutions committing Council to retention of Minimum Commitments and achievement of performance indicators as specified, and recognising the implications for future capital funding:
  - Council-approved by June 2028; and
  - Council-approved A3: PIAP v3 to be submitted to the National Treasury with approved metro budget documents.

7. Assessments:

7.1 Each of the following are treated as performance by the metro, which requires independent assessment since the release of incentive funds depends on assessed performance:

a) Council approval of a satisfactory A3-PIAP v1, including 8 minimum commitments, by June 2025;

b) Council achievement of 8 minimum commitments, and approval of a satisfactory A3: PIAP v2, by June 2026;

c) Performance against targets set for Year 2: 2026/27;
d) Performance against targets set for Year 3: 2027/28;
e) Performance against targets set for Year 4: 2028/29; and
f) Performance against targets set for Year 5: 2029/30.

7.2 Each assessment will:

a) confirm that the Minimum Commitments have been made, or achieved, or remain in place;
b) assess performance against the relevant performance indicators as approved by Council;
c) assign a score per scalable indicator as prescribed;
d) calculate a total assessed performance score for the A3: PIAP by weighting the scores as prescribed; and
e) The indicative incentive allocation per metro trading service per financial year per is set by poverty-weighted population. This data will be published in due course. Metro access to the indicative allocation per year depends upon performance in the previous financial year. The confirmation of that performance, after financial year-end by the independent assessor, will allow the transferring officer to release incentive funding for the year concerned, up to the limit indicated by the performance score for the prior year.

8. Completing the A3-PIAP v1 template:

8.1 The accompanying excel spreadsheet provides the target-setting template for an A3-PIAP v1 on one tab:

- **Columns C, D & E** provide the reference number, name and summary description of each indicator;
- **Column F** provides the performance framework for expected performance (metros must specify their own ambitions and targets) by the end of each year Y1 to Y6;
- **Column G** states the assessment method to be applied to each indicator, to assess performance in each programme year Y1 to Y6;
- **Column H** provides the weighting of each indicator;
- **Columns J, K & L** should be completed by each metro: starting point/ baseline, metro ambition and names of Reform Activity Packages to achieve specified targets; and
- **Columns M – R** allow metros to provide their targets for Years 1 to 6.

8.2 The A3: PIAP v1 template still requires the completion of funding and costing sheet, to provide an indication of the turnaround- and reform-oriented capital and operating expenditure envisaged:

- For A3: PIAP v1 this is regarded as necessary but indicative; and
- For A3: PIAP v2, such a template will need to be fully substantiated on the basis of strategic financial modelling and business planning, and also integrated into city budgeting.

8.2 Each completed tab should be accompanied by a brief narrative report whose purposes are:

- to link the names of the reform initiatives / reform activity packages / reform action plans mentioned in Column L, to the names appearing in the summary funding and costing profile (from A3-PIAP v2 onwards, these names should also be identifiable in the metro budget);
- if required, to explain any changes since Council approval of the Trading Services Reform Strategy documents (A, A1 and A2). The brief narrative report is not intended these; and
- if required, to provide more detail than is easily conveyed in a spreadsheet cell.

8.3 Metros may complete one tab for each Trading Services Reform Strategy whose A, A1 and A2 documentation has been accepted, understanding that each tab represents the 3rd Annexure of distinct Trading Services Reform Strategies (A, A1 and A2).

9. Conclusion: next steps:

9.1 Metros who have not yet joined the programme or not yet generated satisfactory Trading Services Reform Strategy documents (A-TSRS, A1-IRM, A2-B&IP, A3: PIAP v1) will have further opportunities to join the programme in future. Windows for these metros to join the programme will be announced by the National Treasury.

9.2 As this remains a rapidly developing programme, with stakeholder engagement continuing to yield positive results, National Treasury reserves the right within the framework presented here to continue to make changes to programme details to improve clarity and increase feasibility.

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

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28 February 2025