

Local Government Revenue Enhancement: A case study of Umsobomvu Local Municipality

By

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Declaration

By submitting this thesis electronically, I **Nkosinathi Paulus Jacobs** declare that the entirety of the work contained therein is my own, original work, that I am the sole author thereof (safe to the extent explicitly otherwise stated), that reproduction and publication thereof by Stellenbosch University will not infringe any third party rights and that I have not previously in its entirety or in part submitted it for obtaining any qualification.

Date: April 2019

Abstract

Own sources of revenue within the local government are the most critical means of promoting the fiscal autonomy. Therefore, debt collection, indigent management, credit control management, meter reading, billing accuracy, cash flow planning and tariff determination are crucial elements of revenue enhancement for financial sustainability. The socio-economic and fiscal context for local government, highlights wide variation in social and economic contexts that are key amongst the local South African government. Intergovernmental relations describe the key elements of the local government fiscal framework and how it relates to municipalities. The need to get the basics right in relation to revenue management and the collection of consumer debtors and under-pricing of services is of extreme importance.

The research question, therefore, is how South African municipalities can enhance revenue amidst the overwhelming socio-economic odds. The study explores the municipal revenue enhancement within South African local government and challenges faced by Umsobomvu Local Municipality in enhancing their own source of revenue. Furthermore, the study described the legal and regulatory context of South African municipalities, identified strategies to overcome the challenges of revenue enhancement and provided recommendations on how the local government can maximise their own sources of revenue.

The study was conducted by arranging semi-structured interviews by means of questionnaires with the target group. The purpose of the semi-structured interviews by means of questionnaires is to obtain primary data from the target group. The semi structured interview conducted by means of a survey questionnaire provides for detail instruction, with open and closed ended question.

The study explore challenges the collecting of outstanding debt from the municipal debtors that resulted in negative cash flow that created poor services delivery. Furthermore, national fiscal policy give municipalities the space to respond appropriately to these challenges and the ability of municipalities to rise to these

challenges will ultimately be determined by the quality of their governance and administrative practices.

The study recommends other sources of revenue that the South African local government can explore to maximise its own sources of revenue. Municipal Revenue Enhancement is on the integrity of the two components namely metered service delivery and billing. The local government sources of revenue and other revenue being internally and externally generated will be impacted by the sound or poor quality municipal billing system under any financial period.

Municipalities should ensure that adequate processes and procedures are in place to ensure that all services rendered (tariffs, rates and other) are correct and complete billed for and timeously recovered to allow to the smooth running and functioning.

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Abbreviations

AGSA	Audit General of South Africa
ANC	African National Congress
AO	Accounting Officer
AFS	Annual Financial Statement
BTO	Budget and Treasury office
CCO	Colesberg Civil Organisation
CFO	Chief Financial Officer
COGHSTA	Co-operative Government Human Settlement and Traditional Affairs
COGTA	Co-operative Government and Traditional Affairs
CRA	Colesberg Ratepayers Association
CRSA	Constitution of Republic of South Africa
DA	Democratic Alliance
DORA	Division of Revenue Act
DWAF	Department of Water Affairs
EFF	Economic Freedom Fighters
ELRA	Electricity Regulation Act
FMG	Financial Municipal Grant
GAMAP	General Acceptable Municipal Accounting Practice
GRAP	General Recognised Accounting Practice
IDP	Integrated Development Plan
IYM	In-Year Monitoring
KM	Kilometres
LED	Local Economic Development
MEC	Member of Executive Committee
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MPAC	Municipal Public Accounts Committee

MPRA	Municipal Property Rates Act
MSA	Municipal System Act
MSA	Municipal Structure Act
MSCOA	Municipal Standard Chart of Accounts
MTB	Medium-Term budget
NCPL	Northern Cape Provincial Legislature
NCPT	Northern Cape Provincial Treasury
NERSA	National Energy Regulator of South Africa
NT	National Treasury
PKSD	Pixley Ka Seme District Municipality
RSA	Republic of South Africa
RSAP	Republic of South Africa Parliament
SA GAAP	South African Generally Accepted Accounting Practice
SAICA	South African Institute of Certified Accountants
SALGA	South African Local Government Association
SDBIP	Service Delivery Budget Implementation Plan
STATSA	Statistics of South Africa
UMCC	Umsobomvu Municipality Council Chambers
WPLG	White Paper on Local Government
WSA	Water Service Act

Definition

Municipal Council: The municipal council are referred to in section 157 of the Constitution. Councillors make policy decisions in spending and managing the financing of the municipality.

Municipal Manager: The person defined as the accounting officer of a municipality in section 60 of Municipal Finance Management Act No. 56 of 2003 (MFMA). For more information on the accounting officer/municipal manager, refer to Chapter 8 of the MFMA.

Chief Financial Officer: The person defined as the chief financial officer of a municipality in section 81 of Municipal Finance Management Act No. 56 of 2003 (MFMA). For more information on the chief financial officer, refer to Chapter 9 of the MFMA.

Revenue: Is the gross inflow of economic benefits or service potential during the reporting period when inflows result in an increase in net assets, other than increase relating to contribution from owners. **Revenue from Exchange Transactions:** are revenue transactions where one entity receives assets or services, or has liabilities extinguished and directly gives approximately equal value (primarily in the form of cash, goods, services or use of assets) to another entity in exchange.

Revenue from Non-Exchange Transactions: are revenue transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

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CHAPTER 1: INTRODUCTION TO THE STUDY ON MUNICIPAL REVENUE ENHANCEMENT

1.1. BACKGROUND

The South African Constitution (RSA, 102:1996), which came into being in 1996, established a three sphere system of government namely national, provincial and local government. The multi-sphere system of government created by the constitutional framework provided that each sphere is distinct, with entrenched legislative and executive autonomy. These spheres are simultaneously interdependent and interrelated. The constitutional assignment of powers and functions to local government has a direct bearing on the local government fiscal framework.

South Africa is a developing country, faced with the huge challenge of high unemployment and high levels of poverty within communities. Given its constitutional mandate, local government represents the most important sphere of government, because it is the sphere closest to communities that must provide basic quality services, primary healthcare, safety, jobs and all other basic necessities. Fourie and Opperman (2011:2) states that, “as local government was established as a separate sphere with primary responsibilities for service delivery, the local government is required to raise its own revenue in order to fund its committed projects in enhancing service delivery within communities”.

Local government has come a long way since its establishment in 2000 and has moved from highly fragmented and racially based to being integrated, democratic and “wall to wall”, yielding space for democratic participation, consolidation of local authorities and establishment of democratic administration structures in areas with little or no previous local government.

In spite of these positive transformations, the overall current state of local government in South Africa is precarious and is characterised by negativities such as growing service delivery demands, including unaffordable unfunded mandates, as well as huge service delivery backlogs, poor operating systems, poor long term planning,

increasing debtors, financial statements not being timeously submitted to the Auditor-General, qualified audit reports, increasing salary bills, government debt, and generally serious concerns about sustainability.

Apart from lack of institutional capacity, one of the flaws resulting in the concerns about sustainability is that local government as a sphere of government is designed for a population who has proper employment, houses, all basic services and the ability to make monthly payments for rates and taxes in order for the municipality to be financially viable and sustainable. Local government is expected to be self-funding, raising much of its revenue from key sources such as property rates and service charges for electricity, water, refuse removal and sanitation. Therefore, revenue collected by municipalities must cover the cost of basic services and effective service delivery.

The reality, however, is that local government is generally faced with having to provide services to communities with high levels of unemployment and poverty, resulting in the majority of the municipality residence being unable to make payments. A large portion of municipal debtors are indigent and therefore local municipalities must provide free basic services to qualifying indigents within their jurisdiction. Given the pressure to provide services to many individuals and even entire communities that cannot afford to pay, and as municipal revenue is the lifeblood of municipalities due to the local government mandate, all systems and processes need to be in place to ensure that municipalities collect all revenue due to them in order to be financially viable and sustainable.

“Revenue is income earned by the municipality for services rendered namely rates, electricity, water, sanitation, refuse removal, building and land rentals and licence fees. Revenue from exchange transactions are transactions where the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange . Revenue from non-exchange transactions is any transaction other than an exchange transaction” (National Treasury: 2012).

In the interest of financial viability and sustainability, local municipalities are required not only to collect revenue due, but also to plan, develop and implement effective revenue enhancement strategies to maximise its revenue base. Revenue enhancement is a process focused on the holistic improvement of the municipal business model (National Treasury: 2012). It is crucial to identify all the critical elements that currently affect municipal revenue performance such as outdated debtors information, credit control and debt management policies and all other municipal revenue related policies.

“Revenue enhancement has as its object, optimal charges against a citizen’s person, property or activity. Furthermore it is typically obtained by increasing the amount of money that the internal municipal revenue unit is generating over a specific period and can also be regarded as a guiding strategy to maximise revenue or recover outstanding debts. Revenue enhancement on paper is an easy solution for the municipalities to adjust municipal revenue upwards, to adjust municipal expenditure downwards, or to do a combination of both” (USAID, 2005:78).

However, in reality revenue enhancement is a challenge to municipalities due to a culture of non-payment in previously disadvantaged communities, even where households can now afford to pay, as well as poor administrative systems, shortage of skills, high levels of historical debt, and other institutional, political and socio economic aspects. A premise for this research is therefore that effective implementation of a revenue enhancement strategy can only be attained by critically reviewing the current revenue management business models processes being applied within local municipalities and this must be done in a municipality-by-municipality basis.

This research therefore concentrates on Umsobomvu Local Municipality and entails a case study of local government revenue enhancement. Umsobomvu Local Municipality is the third largest local municipality after Emthanjeni and Siyancuma in the Northern Cape Province in terms of population size, representing about 15 percent of the total population of Pixley Ka Seme District Municipality.

The Municipality is facing considerable challenges that have serious implications on its revenue collection, as the total debtor's age analyses amounted to R110 908 million (organ of state R1 526, Commercial R4 151 million and Household R101 526 million) at the end of January 2017.

The increased debtor's outcomes mainly from the year on year increase in billings from increased tariffs at the start of the new financial year and a contributing factor is an increase in unemployment, resulting in more household applying for indigent support, as revealed by the annual review process. A low collection rate is due to non-payment, electricity and water loss in distribution mainly due to poor infrastructure, illegal water and electricity connections and tampering of meters, the South African courts are failing to handle a large number of debt collection cases, and outstanding accounts from other spheres of government.

This research is further based on the premise that Umsobomvu Local Municipality has a legal right and obligation to impose property taxes, fees and user chargers (electricity, water, sanitation and refuse removal) in accordance with its assigned fiscal power, and that it should recover adequate revenues to cover spending responsibilities. This requires municipal council leadership, municipal management accountability and municipal employee's skills to collect and recover outstanding revenue from the community that the municipality is serving.

1.2. PURPOSE OF THE STUDY

The purpose of the study is to explore challenges faced by Umsobomvu Local Municipality in enhancing its own sources of revenue and to identify ways to overcome these challenges.

Own sources of revenue within the local government is the most critical means of promoting the fiscal autonomy. Therefore, debt collection, indigent management, credit control management, meter reading, billing accuracy, cash flow planning and tariff determination are crucial elements of revenue enhancement for financial sustainability. The culture of non-payment by municipal debtors is putting the ability of the municipalities to meet their expenditure plans at risk.

The debtors' age analysis, which is a generally accepted early warning technique to indicate when collection levels and the time taken to collect are deteriorating, indicates high levels of non-payments and high levels of the absolute value of outstanding debts. This shows that there are problems with the municipalities' revenue collection systems.

1.3. RESEARCH PROBLEM AND OBJECTIVES

As stated earlier the South African local government is faced with a growing demand for an improved performance in service delivery and better infrastructure. However, enhancing their own revenue has become increasingly challenging for local governments. Many municipalities operate with tariffs well below cost-recovery levels and are therefore struggling financially, generally lacking the resources to improve performance and growth (Baietti & Raymond, 2005).

Local government consumer debt has a negative impact on service delivery and it cripples the cash position of local government and the ability of the local government to fulfil constitutionally mandated responsibilities. Local government consumer debt also reduces the finance available for the delivery of basic services, infrastructure, maintenance and upgrading. Outstanding payments also represent foregone resources that could be used to improve the living conditions of the poor. This is also part of the reality of Umsobomvu Local Municipality. Given this problem statement, the objectives of the study are the following:

- To explore what is meant by municipal revenue enhancement by means of a literature study;
- To describe the legal and regulatory context of South African municipalities;
- To explore the challenges faced by Umsobomvu Local Municipality in enhancing their own source of revenue;
- To identify strategies to overcome the challenges of revenue enhancement
- To provide recommendations how the local government can maximise their own sources of revenue.

1.4. RESEARCH QUESTION

The main research question to be answered is, “How can South African municipalities enhance revenue amidst the overwhelming socio-economic odds?”

1.5. RESEARCH DESIGN AND METHODOLOGY

Due to the nature of the research question and currently limited empirical evidence on Local Government Revenue Enhancement in South Africa and internationally, and given the impact of specifics of local context in revenue enhancement, a case study approach will be followed. The Pixley Ka Seme District within the Northern Cape Province comprises of eight local municipalities, which have a mandate to deliver basic services to the communities. Umsobomvu Local Municipality is used as the case study by the researcher.

Research will be conducted by arranging semi-structured interviews by means of questionnaires with the mayor, council, municipal manager, chief financial officer, budget and treasury officer (including all the personnel that have authority within the finance), credit controller officers, ratepayers association, civil organisations, members of the community (including church leaders, community leaders) and consultants. The purpose of the semi-structured interviews is to obtain primary data from the mentioned target group. The semi- structured interview provides for detail instruction, with open and closed ended questions.

The aim of the survey questionnaire is to assess the internal controls and strategies to enhance revenue that are in place. The researcher will utilise this method to collect data, control confidentiality, reduce errors in completing the survey questionnaire and accommodate personnel who are too busy to complete the survey questionnaire and eliminate use of other resources such as fax and telephone. More importantly, it also allows the researcher to ensure that survey questionnaires are completed during interviews. The study will also make use of documents and reports that are in the public domain, such as the following;

- South African local government audit outcomes from the Auditor General
- National, provincial and regional treasury, Departments of Co-operative Government, Human Settlement and Traditional Affairs, South African Local Government Association, tertiary institutions, private sector and consultant reports on the state of municipalities' revenue sources.
- Written literatures on enhancing municipal revenue in South African local government, and websites.

1.6. LIMITATION OF STUDY

The study is limited to the Pixley Ka Seme District, focusing on Umsobomvu Local Municipality (NC072). The challenges faced by Pixley Ka Seme local municipalities are related to those challenged by other local municipalities in other provinces of South Africa, although contexts differ from municipality to municipality.

1.7. LAYOUT OF THE STUDY

CHAPTER 2: LITERATURE STUDY ON MUNICIPAL REVENUE ENHANCEMENT

This chapter focuses on reviewing available literature on municipal revenue, both international and South African. It entails the theoretical content of the study in order to understand and determine the challenges that the local municipalities are faced with in collecting or raising their own sources of revenue.

CHAPTER 3: LEGAL AND REGULATORY CONTEXT OF SOUTH AFRICAN MUNICIPALITIES

This chapter focus on the legislation that governs local governments within South Africa.

CHAPTER 4: THE SOCIO-ECONOMIC CONTEXT OF UMSOBOMVU LOCAL MUNICIPALITY

The chapter provides the context of the case study regarding size and demographics as well as other conditions that may impact on the ability of the municipality to enhance revenue.

CHAPTER 5: DISCUSSION ON REVENUE ENHANCEMENT IN UMSOBOMVU LOCAL MUNICIPALITY

This chapter provides findings that the researcher has obtained through the research. It also provides critical analyses of findings, with reference to other relevant studies being conducted by other authors on the similar studies.

CHAPTER 6: RECOMMENDATIONS FOR REVENUE ENHANCEMENT

This chapter provides recommendations to address the findings outlined in previous chapters and also provides general conclusions on Local Government Revenue Enhancement.

1.8. SUMMARY AND DEDUCTIONS

Chapter 1 provided a layout of the study in terms of the background to poor performance of South African local governments in general and revenue enhancement in particular. Derived from this, the purpose of the study, research problem and objectives were identified and research design and methodology defined. A more detailed literature study on municipality revenue enhancement is done in Chapter 2.

CHAPTER 2: LITERATURE STUDY ON MUNICIPAL REVENUE ENHANCEMENT

2.1. INTRODUCTION

Municipal Revenue Enhancement is dependent on the integrity of the two components namely metered service delivery and billing. Derived from this, the municipal indigent register, credit and debt management, customer management and collection of revenue are all critical elements of municipal revenue enhancement.

The majority of local government customers are classified as indigents due to high level of unemployment and poverty within the municipalities' jurisdictions and therefore they are unable to pay for municipal rates and services. According to Venter and Van der Walddt, (2007:200) "legislative framework for revenue collection and allocation includes a large number of laws and public policies that have a direct bearing on who can collect revenue and how, where and when revenue can be collected and allocated to the different spheres and structures of government in order to deliver efficient and effective service".

This chapter covers definitions and concepts in the area of municipal revenue enhancement in local government in South Africa and internationally. It entails a theoretical study in order to understand and determine the challenges faced by South African local government in enhancing municipal revenue. The objective is to explore what is meant by municipal revenue enhancement by means of a literature study by focusing on the implications of local government as distinctive, interdependent and interrelated sphere of government, the potential sources of revenue of local government, revenue management and enhancement, strategies to enhance local government revenue and challenges in revenue enhancement by way of authoritative literature.

2.2. LOCAL GOVERNMENT AS DISTINCTIVE, INTERDEPENDENT AND INTERRELATED SPHERE OF GOVERNMENT

The South African constitutional framework created a multi-sphere system and each sphere is distinctive, with legislative and executive autonomy entrenched by the Constitution. Yet these spheres are interdependent and interrelated. The intergovernmental system is established on the principle of cooperation among the three spheres of government namely local, provincial and national government. While some responsibilities for certain functions are allocated to a specific sphere, many other functions are shared among the three spheres of government. According to Gildenhuys (1993:189) “the three spheres of government have different types of financial needs as a result of the functions performed or services delivered by each sphere”.

In this system of cooperative governance, the local sphere of government is therefore interdependent of the provincial and national spheres. National government, for example, is responsible for establishing a broad national framework for development, including policies and sectoral programmes (Van der Waldt 2015:20). Provincial government, in turn, facilitates, monitors and guides the implementation of sectoral programmes, such as water provision. Provincial government is also responsible for municipal oversight and support and may intervene in the affairs of a particular municipality if it cannot adhere to its constitutional mandate or cannot or does not fulfil an executive obligation in terms of legislation (Van der Waldt 2015:20). Local government operationalizes national and provincial initiatives in conjunction with various non-governmental agencies and the private sector.

“Since local government is the closest to the people and interacts on a daily basis with clients (community), specific emphasis is generally placed on its developmental service delivery role” (Van der Waldt 2015:20). The intergovernmental fiscal system is based on revenue-sharing.

The Constitution of the Republic of South Africa, Chapter 7 stipulates the status of municipalities, objectives of local government, developmental duties of municipalities, municipalities in co-operative government, establishment of

municipalities, power and functions of municipalities, composition and election of municipal councils, membership of municipal councils, terms of municipal councils, internal procedures, privilege, publication of municipal by laws, organised local government and other matters. However, the Constitution specifically envisages that as municipalities develop the necessary capacity, the administration of many functions that are currently the responsibility of national and provincial government will be assigned to municipalities.

National and provincial government's mandate is to provide support to the local government in strengthening financial management, in order for the municipalities to be economic and financial viable. The responsibility of local government is to generate its own source of revenue and to provide services to communities that are legal obligations imposed by the local government legal framework.

In the following subsections, intergovernmental relations and the role of local government, as well as the roles of different categories of municipalities are further explained.

2.2.1. Intergovernmental relations and the role of Local Government

Chapter 3 of the Constitution describes “the three spheres as being distinctive, interdependent and interrelated and enjoins them to cooperate with one another in mutual trust and good faith. An important element of this cooperative relationship is that there needs to be a clear understanding of each sphere of government or organ of state that does not encroach on the geographical, functional or institutional integrity of government in another sphere. In addition to the Constitution, various laws govern or organise the system of intergovernmental relations. Among other things, the legislation formalise the different sphere's roles and responsibilities with regard to various functions and provides for a range of consultative structure”.

The Constitution of the Republic of South Africa, 1996 is the supreme law of the Republic. Any law or conduct inconsistent with it is invalid and the obligations imposed by it must be fulfilled such as providing legal backing for municipalities to charge services and property taxes. Section 229 of the Constitution establishes the

fiscal powers and functions of municipalities. This legislation provides for, amongst others, for the municipality to impose property tax; and sharing of revenue where two municipalities may have the same fiscal power and functions in the same area. Legislature authority refers to the ability of a municipality to exercise powers and functions in accordance with national and provincial legislation and to make and administer by-laws for the effective administration of the matters which it has the right to administer (Constitution, 1996:106).

The Constitution of the Republic of South Africa, 1996 grants municipalities' considerable income generating powers but subjects these to national legislature and regulation. Municipal taxation powers are also limited in that they may not have unreasonable prejudice national economic policies and activities. The Constitution requires that municipalities are democratic and accountable and that they encourage community involvement in their actions.

South African municipalities are governed by legal prescripts and regulations that play an essential role to ensure enforcement and that taxpayers who owe municipalities are brought to book and the debt outstanding is recovered without delays. Local government legislation can have an impact on the planning and implementation of the municipal billing system and revenue collection municipalities. The application of legislation can have a positive impact on the municipal billing system and revenue collection if the pieces of legislation are planned and implemented effectively through proper enforcement of the legislation.

2.2.2. Roles of different categories of municipalities

The South African local government municipal financial management system is framed, supported and enabled by a variety of laws and regulations that municipalities must take into consideration in their daily activities. Local government has a legal right to impose property taxes, fees and user charges in accordance with its assigned fiscal power that should recover adequate revenues to cover spending responsibilities.

As has been stated before, national government assists and supports municipalities with compliance where appropriate, assists in building capacity by supporting financial or technical assistance, issues guides, manuals and regulations and provides three-year grant allocation details.

Provincial government plays a coordinating role in the rollout of the Municipal Financial Management Act (Act 56 of 2003), assist and supports municipalities where appropriate and intervenes when financial problems becomes evident in the municipalities. Local government provides the others spheres of government with appropriate financial and service delivery information, liaises with other municipalities and districts on strategic budgets issues and provide the provincial and national government with budgetary and financial information.

Municipalities are established in terms of the provisions of Section 155 of the Constitution where municipal categorisation is explained. Furthermore, Section 155 (3) provides for National legislation to be established within each of the municipal categories, namely, Category A, Category B and Category C. Metropolitan municipalities (Category A) exist in the seven biggest cities in South Africa. They have more than five hundred voters and the metropolitan municipality co-ordinates the delivery of services to the entire area.

The following are the metropolitan municipalities in South Africa; Buffalo City (East London), City of Johannesburg, City of Cape Town, City of eThekweni (Durban), City of Tshwane, Nelson Mandela Metropolitan (Port Elizabeth), Mangaung (Bloemfontein), Ekurhuleni Metropolitan (East Rand) and these municipalities are subdivided into wards. Half of the councillors are elected through a proportional representation ballot, where voters vote for a party. The other half are elected as ward councillors by the residents in each ward.

The provincial MEC for local government, after receiving advice from the Municipal Demarcation Board, decides which municipalities are authorised for which functions in a particular province". "The current division of responsibilities between district and local municipalities needs to be urgently reviewed because it is creating coordination

problems and undermining accountability for service delivery (Northern Cape Provincial Government, 2014:8).

Each district municipality includes several local municipalities, and the powers and functions assigned to local government in that area are shared between the category B and C municipalities. Metropolitan municipalities are responsible for all local services, development and delivery in the metropolitan area while local municipalities share that responsibility with district municipalities. This is especially the case in very rural areas, where district municipalities will have more responsibility for development and service delivery.

There are districts in which some local municipalities are authorised to perform a particular function such as provision of water. In others, the district municipality performs this function and local municipalities are not authorised for the function but provide the services to household. The metros are responsible for all the local government functions within their respective areas of jurisdiction.

Local municipalities (Category B), in areas that fall outside of the six metropolitan municipal areas are established within district municipalities (Category C). There are a total of two hundred and twenty six of these local municipalities and each municipality is subdivided into wards. The residents in each ward are represented by a ward councillor. Half of the councillors are elected through a proportional representation ballot, where voters vote for a party. The other half are elected as ward councillors by the residents in each ward. Essentially, therefore, the majority of people in South Africa are represented by ward councillors directly elected by the residents in a particular ward. Only people who live in low population areas, like game parks, do not fall under local municipalities. These areas are called District Management Areas and fall directly under the district municipality.

District municipalities (Category C) are made up of a number of local municipalities. There are usually between four to six local municipalities that come together in a district council. District Management Areas fall directly under the district council and have no local council. The district municipality has to co-ordinate development and delivery in the whole district. It has its own administration or staff.

The district council is made up of two types of councillors:

- Elected councillors - they are elected for the district council on a proportional representation ballot by all voters in the area (40 percent of the district councillors).
- Councillors who represent local municipalities in the area - they are local councillors sent by their council to represent it on the district council (60 percent of the district councillors).

2.3. SOURCES OF REVENUE OF SOUTH AFRICAN LOCAL GOVERNMENT

According to Schreiner and Hassan (2011:37) “municipalities obtain their finance from a wide variety of sources but the main categories consist of financial transfers from the central government and locally generated revenue, including debt finance. Central government transfers account for the bulk of local resources in most countries, particularly for capital investment, and are usually based on a redistribution of certain centrally collected revenues. These transfers bridge the gap between the revenue-raising capacity of municipalities and mandatory local expenditures. Section 96 of the Municipal System Act requires that municipalities collect all money that is due and payable”.

Intergovernmental fiscal relation in South Africa is characterised by a highly centralised revenue raising system, enabling the national government to raise as much as 90 percent of the revenue needed by the provincial and local government. The gap that exists between revenue locally raised and that which are required is made up by various transfers from the national government to provincial governments. Although other countries in the world have similar systems, the ratio of revenue collected by local government in South Africa is unprecedentedly low.

Transfers from the national government to provincial governments have therefore become a major source for financing the expenditure of local government (Hendriks, 2014: 1). The South African local government fiscal framework contains elements that

treat municipalities on a differentiated basis. There is a need to re-examine the different revenue streams available to municipalities and to ensure that the division of the local government equitable share and conditional grants targets the poorest municipalities. To move forward with a policy on a differentiated approach requires accurate information on municipalities (Hendriks, 2014:2.).

Local government financial viability should refer to the availability, sustainability of income sources and is impacted upon by the external domains or environment within which the municipality operates. Burchell and Listokin, (2012:154) also state that municipal revenue is categorised into two revenue sources. These are municipal own revenue which is raised by the locality itself that consist of taxes and charges and Intergovernmental transfers, contributed by both the state and federal governments. Mosha, (2010:5) states that municipal governments derive their revenue mostly from both internal and external sources. Some of the internal sources are land based in the form of property taxes and land fees and the others are non-land based, like taxes on households and license fees of all sorts, whereas external sources are mostly revenue from intergovernmental transfers, grants and money from borrowing.

According to Loots, (2004: 1) since 1998, a share of government revenue collected nationally is distributed equitably to all spheres of government from national, provincial to local government. Municipalities generate revenue from trading services and property rates levied. Municipalities must do more to exploit the potential of their own revenue sources; this means that every effort must be made to ensure that all properties are correctly charged for property rates and for all municipal services rendered to the property.

In the South African environment, local government sources of revenue and revenue streams are dictated to the municipality and determined by the functions allocated to the municipality by an Act of South African Parliament. According to the Municipal Property Rates Act, district municipality is not eligible to raise and charge property rates. Property rates are a preserve of metropolitan and local municipalities.

Municipal property rates or taxes are the most important and stable source of income. According to Bekink (2006:432), the reasons for giving preference to municipal property tax is that it produces predictable and stable income, it is fixed in the location and it is imposed to conceal the municipal operational cost (day to day running costs).

Revenue from services charges are the largest source of municipal revenue, however a very large percentage of this income simply flows through municipal coffers to Eskom or the water boards (depending on the municipality, between 65 and 85 percent of municipal electricity revenue goes to paying for bulk electricity from Eskom). Historically, many municipalities have been generating a surplus from their trading services (especially electricity) to cross-subsidies other services. However, the rapid increases in bulk tariffs have squeezed these surpluses.

Municipalities must strive to get the basics right, this means that municipalities must put the necessary processes in place to ensure integration of all municipal functions along the revenue value chain. Regular reconciliations must be undertaken to check if billing records are complete, that all properties are correctly billed for property rates and all trading services consumed.

According to Allan (1993:25) “the assessment and the billing of taxes and other revenue are the two most important tasks faced by local government in their daily operations. Collection of consumer charges is the lifeblood and determines the going-concern status of a municipality.

A healthy cash flow is crucial to ensure sustainable service delivery and infrastructure development and preservation. Similarly, some national and provincial departments also don’t have comprehensive databases of accounts which are their responsibility for payment and hence do not respond to municipalities who claim arrear debt for payment”.

South African Local Government Association (2013) suggested that “the following are fundamental to maximising the potential existing revenue sources:

- The billing system must correctly reflect all billing data and customer data that are required to issue an accurate invoice on time to the relevant customer. Billing records must be routinely reconciled to the source of the billing data and customer data. Billing queries must also be resolved within reasonable timeframes.
- All properties within the municipality’s area of jurisdiction must be correctly valued whether in the general valuation roll or supplementary valuation rolls; and the billing system must be updated with any change in property ownership. This is necessary to grow and protect the municipality’s property rates base. Correct categorisation of properties in terms of the municipal property rates policy, impacts usage and property rates tariffs applied to the properties. Property usage must be correctly recorded so that the relevant property rates tariff is applied to the property; changes to property usage must also be communicated to the revenue function so that the billing system is updated.
- Effective business processes are required to ensure that new property development and improvements to existing properties are valued and that billing records are updated accordingly. This requires good working relations between the municipality’s town planning, valuations and revenue management functions.
- Water and electricity meter numbers must be recorded correctly and linked to the corresponding property on the billing system. Water and electricity meters must be adequately maintained to minimise losses due to leakages or incorrectly measured consumption. Water and electricity meters must be read with regularity and accuracy so that the correct consumption information is recorded on the billing system; meter reading estimates must be minimised or

at least undertaken in accordance with the municipality's credit control policy prescriptions.

- Refuse and sanitation service charges must be included in the billing records; these services are often neglected as a source of revenue; in fact, some municipalities refuse removal services operate at a loss. Municipal functions must be adequately staffed with competently skilled individuals who understand the job requirements and how to deliver on it”.

2.4. REVENUE MANAGEMENT AND ENHANCEMENT

Revenue refers to the gross inflows of economic benefits, or the service potential received or receivable by the municipality, on its own account. Section 64 (1) and (2) of the Municipal Financial Management Act legally assigns the responsibility of revenue management to the accounting officer, although it is delegated to the CFO in practice. “Apart from revenue management being akin to expenditure management, it is also a fundamental and routine financial management function of the municipality's revenue-generating business that encompasses billing and collection activities in respect of trading services and property rates levied” (National Treasury, 2012:3).

According to Bahl and Smoke, (2003:173) “the South African Constitution of 1996 and subsequent legislation have given local governments the responsibility for the provision of a substantial number of services, some of which are their exclusive responsibility and others that are shared with other spheres of government. Local governments are mandated by the Constitution (section 153a) to give priority to fulfilling the basic needs of their communities”.

Obviously, it firstly starts with an appropriate system. According to Allan (1993: 5), the British Columbian systems provide some valuable approaches to revenue management and enhancement. Despite the increased diversification in municipal revenue, property tax remains the principal revenue source. Approximately 95 percent of all property taxes are levied in the form of a property value tax and this is a tax on the assessed value of a property.

“Property values are fundamental to informing the rate in the Rand for each category of property as defined in the Rates Policy. Other factors to take into account include the growth rate of property development, the CPIX and the total cost of the municipal account per household which has a bearing on the household’s ability to pay” (National Treasury, 2012:8).

Secondly, the main focus is revenue enhancement through customer data, knowing the customer or the organisation decreases the potential revenue loss. “Municipal revenue collection involves providing services to the customers as efficiently and effectively as possible. This means that a municipality must collect all money that is due and payable to it and by doing so, the municipality has adopt, maintain and implement a credit control and debt collection policy which is consistent with the rates and tariff policies of that particular municipality (Mazibuko, 2012:13).

Thirdly, USAID (2005:35) argues that “successful revenue collection is reliant on the integrity of two components, namely metered service delivery and billing. These critical components include processes for collection of revenue, customer management, debt and credit management as well as indigent registration and management. As a large portion of municipal customers are indigent and therefore cannot afford to pay for services, the cost of providing services to them has to be factored into financial planning and strategy development.

It is critical for the municipality to understand its customer profile and to differentiate between those customers who can pay and who can’t pay. It is based on this customer profile that one can start planning strategies for free basic services implementation, indigent subsidisation, local economic development, indigent management, service delivery and services rollout, billing and revenue collection strategies and debt collection. All these aspects will affect the municipal budget and the budgeting process”.

Fourthly, successful revenue collection relies on appropriate and efficient operations. Mazibuko (2012:13) states that “the ability of the municipality to maximise revenue and develop infrastructure is often adversely affected by issues such as inefficient day to day process, insufficient knowledge of the indigent realities, inadequate technology or systems, a lack of data integrity, unreliable and time consuming manual processes, inconsistent credit control measure, and a lack of capacity and skills”.

Fifthly, societal complexities must be properly dealt with. Historically, a culture of non-payment developed during the pre-democratic era. Even now some urban taxes are politically sensitive, thus affecting the willingness of municipalities to assess and collect such taxes effectively and to enforce sanction on defaulters.

According to Visser and Erasmus (2004:131), certain services or functions offered by municipalities are eligible to be offered at a fee or a service charge. Such services or functions that are classified as commercial and trading services include electricity, water, sewage, refuse, and library services, which are offered or sold to customers on a need- to- have basis. Where the service is offered on a need-to-have basis, the onus rests on the customer to ascertain the need and on that basis decide whether to acquire the service or not.

The complex socio-political setting confuses this simple reality, with unrealistic expectations for more free services. In addition, given current socio-economic realities, non-payment is also an indication that households have inadequate income at their disposal to service some of their accumulating debts.

Local governments are therefore finding it difficult to collect revenue due to households not being able to pay their debts or to implement debt collection and credit control policies. The non-payment of municipal services owed to municipalities amount to millions which poses serious threats to the financial viability and sustainability. The municipalities’ revenue raising abilities are affected, thus putting serious strains on their ability to deliver services to the communities.

Fourie & Opperman (2011:238) argue that debt collection and credit control are of the most critical strategic risks facing municipalities in South Africa and their ability to collect the revenue due to them for services rendered to the community. Furthermore, credit control was traditionally understood to be the much narrower function related to the collection of cash from ratepayers and consumers of municipal services, rather than a broad set of strategies aimed at maximising revenue collection.

According to Hughes (2005), the varying institutional capacity of municipalities to undertake assigned functions and powers from provinces and implement policy directions, indicates a stronger focus on symmetrical assignments of powers and functions, but depends on the assessment of capability of the municipality to render services to acceptable service standards". Derbyshire (2007) argues that "the root cause of several revenue management problems is the segregation in South Africa, namely the divide into race, class and geographic areas. Traditionally the white population has been more affluent economically.

Most of the economy's income accrued to them, as they were allowed the best employment opportunities and received support from the government. As a result they congregated in well-developed and serviced areas, maintained by their privileged revenue base. In contrast, blacks were discriminated against and were made subject to laws that preserved their subordinate living standards. Consequently, the areas in which they resided were generally underdeveloped.

With increased pressure from South African government, local citizens and industry, local municipalities has to provide efficient sustainable service delivery. Understanding and dealing with the above challenges can go a long way into yielding service delivery and local economic development. South African municipalities are therefore currently facing a growing demand for improved performance from efficient service delivery and better infrastructure, and to provide sustained support to the indigent even as maximising revenue to develop infrastructure has become increasingly challenging (Northern Cape Provincial Treasury, 2013:2).

To deal with the current revenue enhancement challenges, municipalities must plan and implement effective and integrated revenue enhancement strategies. Revenue enhancement is a process that focused on the holistic improvement of the municipal business model. To improve on the current municipality's revenue enhancement challenges, it is vital to identify all the critical elements that currently effect municipal revenue performance (USAID, 2005; 2).

The Municipal Demarcation Board (RSA, 2000) states that the viability, financial viability and financial management in local government are regularly applied synonymously resulting in support remedies that are ill targeted. A resilient and sustainable economic base is indeed sustained by reliable municipal services and the local environments created for prosperity. According to Mazibuko (2012:12-13) "revenue performance constitutes the ultimate goal of any tax administration. A sound local government revenue system is even more important to sound local government finance than a robust expenditure system".

2.5. STRATEGIES TO ENHANCE LOCAL GOVERNMENT REVENUE

There are two basic principles for assigning revenue to South African local government (White Paper on Local Government, 1998:113-116) namely:

- Own-source revenue: These should be sufficient to enable at least a better-off local government to finance the locally provided services primarily benefiting local residents; and
- Local government revenue: should be allocated only from local residents, businesses and service users".

Globally, it is realised that local government, as the sphere closest to the people, needs to transform itself by maximising its own sources of revenue. The collection of municipal services charged, and property rates remain the main pillar and determine the continuing unsustainable position of many municipalities. "Sustainable service delivery, infrastructure development and preservation rely on the municipality ensuring a healthy cash flow as prescribed in terms of section 64 of the Municipal Finance Management Act (Municipal Financial Management Act, 2003:60)".

Without payment for services, municipalities will not be able to deliver services and fulfil the socio-economic role that is expected from them in terms of law. The local government billing system is a critical instrument for success and that in turn relies on correct data, clean bills and positive revenue collection actions. The improvement of public confidence in the system of local government relies on this.

A credible, fair and transparent mechanism is necessary to increase or improve collection from debtors. Debt collection or recovery stands at the end of the revenue value chain and it is therefore important to start at the beginning. The South African Local Government Association (2011:22) argues that “a hundred percent debt collection rate is not possible, because services are also provided to the poor, but lack of data integrity and incorrect billing remains a problem in South African municipalities. South African Local Government Association (2011) also argues that interest on debt is growing and adding interest to irrecoverable balances merely increases the amount due to the municipality.

Local municipalities are consequently unsustainable due to low revenue collection rates and the constant increasing of outstanding debtors. In order for a municipality to collect all outstanding municipal debts and enhance or maximise their revenue, the municipality need to focus on the following strategies:

2.5.1. Indigent registration

The definition of indigent is that the household is not financially capable of paying for the delivery of basic services due to a number of factors (Umsobomvu Local Municipality indigent policy, 2013:4). It is fruitless and a waste of financial resources to attempt debt collection endeavour from indigents. As a priority, the indigent registration process must be re-opened with a clear framework and evaluation criteria to ensure that only qualifying debtors are subsidised. This process must be properly communicated and administratively the municipality must be able to handle and process the new applications effectively and efficiently.

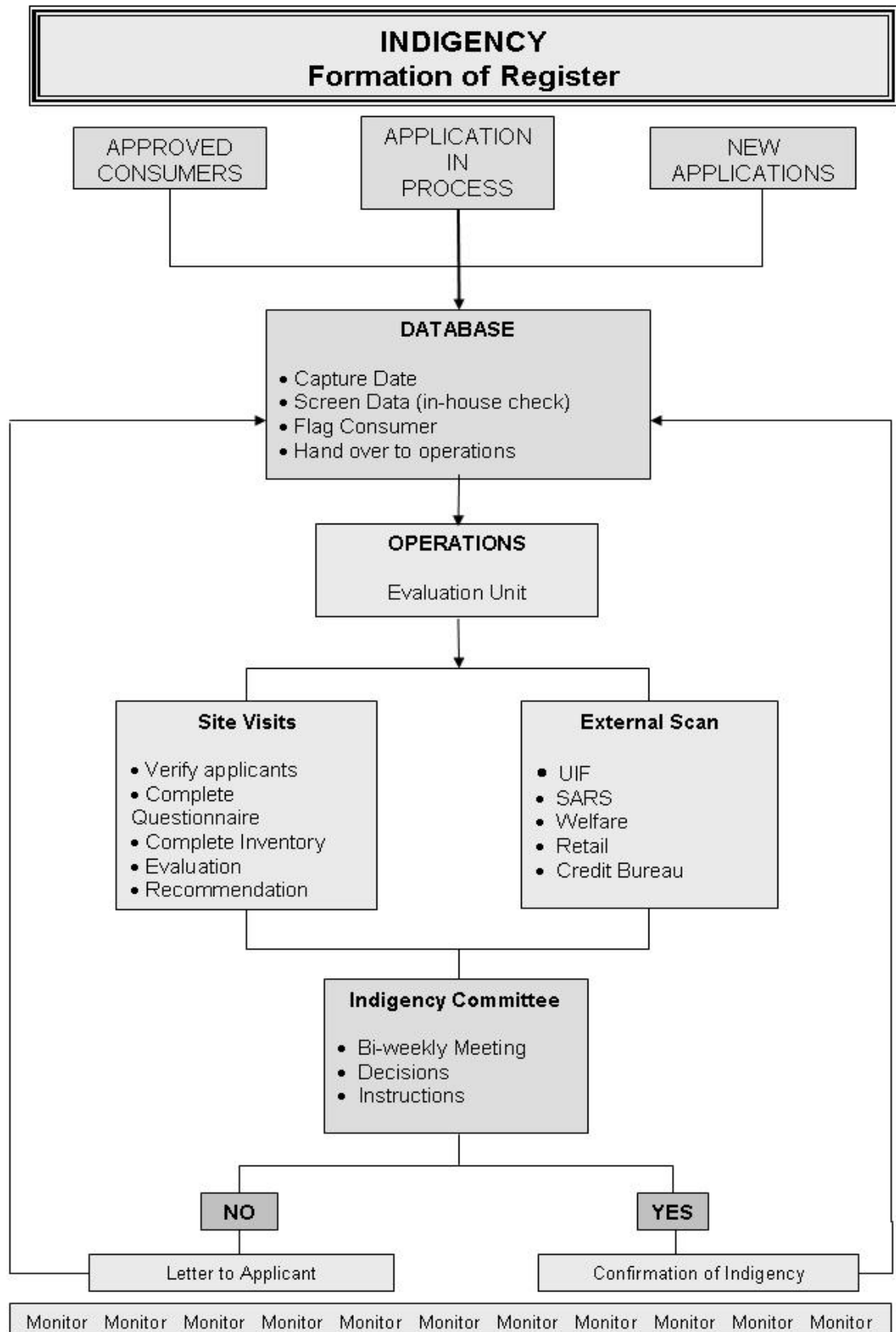
This is not a once-off process. It is imperative that all applications for indigent support will only be valid for the current financial year and such consumers must renew their registration on an annual basis. The indigent registration process and its verification must be championed by relevant municipal departments. All relevant stakeholders are expected to participate upon updating the indigent register, for example the portfolio head of the relevant department, ward councillors and the community at large.

It is therefore of critical importance to determine with greater accuracy and reliability who are classified as indigents (Umsobomvu Local Municipality, 2013:6). On-going writing off of indigent's debtors must be eliminated by installing dependable restriction valves that ensures that no more than the 6 kiloliter's (kl) water, 50 kilowatts (kWh) electricity, and basic refuse removal and sanitation are supplied per month. Ulundi local municipality indicates that those identified through the door- to-door verification process will be screened by the respective ward councillor, in consultation with his or her ward committee (Ulundi Local Municipality, 2006:18)

The register will thereafter be taken to council for adoption. It is also important to note that registration data that are collected should be comprehensive enough to provide, inter alia, for disqualifying or penalizing of the applicant in the event of misrepresentation. It should also provide, as prerequisite for indigent classification that the applicant should give permission for the installation of a reliable water restriction valve as another control measure.

Such control will ensure that monthly consumption does not exceed 6 kl of water or 50 kWh of electricity (conventional meters) but if a person is not indigent, he or she will certainly not agree to the restrictions. Such provisions will ensure that expenditure of bulk water and electricity will be minimised. This approach thus counters high consumption which cannot be paid for and the writing off of future high debt accounts. During this task the debtors economic or skills profiles should also be assessed. Figure 2.1 depicts the process specification for indigent grant management, as used by local government to assess indigent applications (USAID, 2005:118).

Figure 2: Indigent management system



2.5.2. Management, improvement of the accuracy and efficiency of meter reading and billing

According to Endumeni local municipality (2011:35) accurate billing for services is a critical element of the municipal revenue management business model and due to poor billing and revenue collection municipalities are becoming increasingly dependent on intergovernmental funding to balance their budget. Ulundi local municipality argues that this is an area where many complaints are registered daily and in several instances consumers, rightfully refuse to pay their accounts as a result of unreliable readings and charges. The rendering of credible and reliable accounts is to ensure a process is of principal importance.

This includes controls and procedures to be drafted and implemented, as well as identifying and follow-up replacement of defective meters. Captured meter readings, variance and exceptional reports must be verified before accounts are printed. Feasibility study for prepaid metering should be conducted to reduce the amount of money we finance consumers for water and electricity (Ulundi Local Municipality, 2006:26-31).

2.5.3. Support to the debt collection, credit control and customer care

Ulundi local municipality (2006:40) “argues that the appointment and training of municipality debt collection staff cannot be over emphasised. The legal process and requirement need to be focused on. Support through setting up a call centre for outbound communication (telephonic debt collection) and inbound communication where consumers can register their problems or complaints are indispensable.

A debtor’s call centre will ensure performance measurement and assist with a function for diarising the steps taken and to be taken. Telephonic contact with consumers in many instances proves to be fast and effective. Customer care in respect of application, termination of service and ensuring enquiries or queries is timeously dealt with, is also indispensable. In dealing with all queries, a systematic dispute or query handling system (as per the municipal credit control and debt management policy) must be introduced in ensuring that all queries are dealt with in a good and professional manner”.

2.5.4. Management of the consumer database

The Northern Cape Member of the Executive Committee (MEC) of Co-operative, Governance, Human Settlements and Traditional affairs Mr. Alvin Botes (DFA, 2013:2) argued on a media briefing that municipalities are facing a challenge of not making sure billing systems are accurate, bills are received on time and that consumer's data profile is updated and it's correct. Local municipalities continue to bill people that have relocated (left the town), have passed away as well as empty or demolished sites.

The local municipalities need to update municipal consumer's information such as residential address, employment status, i.e. profiling or grouping of debtors, and identify prescribed debts and irrecoverable debts for write off. Umsobomvu Local Municipality (2013:6) argues that "material debt should be identified for immediate collection, that consumer application forms should be revisited and that the municipality need to ensure that all tariffs and correct tariffs are charged. There are still debtors who are not being fully and, correctly charged and the council loses income which it cannot afford".

2.5.5. Identifying areas for improvement in revenue generation and collection processes

Eskom (2013:16) has identified an analysis of debtors days and ageing, customer segmentation based on customers type, payment arrangement and outsourcing of disconnections and reconnections as the areas to be improved for revenue generation and outstanding debt collection.

Eskom further argue that the municipality must reduce electricity theft and illegal connections. The billing cycle is the main contributor of revenue management and the municipality needs to review its billing cycle in order to enhance municipal incomes. The local municipalities also need to manage municipal accounts returned and undelivered due to several factors i.e. unknown address.

Alternative sources of revenue and public private partnership should be explored. Umsobomvu Local Municipality (2006:7) “indicated that grouping of untraceable debtors and applying a strategy of appointing a tracer on a no-trace-no-fee basis and placing of public notices for such debtors to come to council’s offices to arrange”. According to Ulundi Local Municipality “collection through attorneys and external debt collectors are ineffective.

Local municipalities are experiencing a challenge of external attorneys not being effective as the municipality outstanding debt collectors, and charging excessive levies which are collected from payments received from debtors. Therefore external attorneys as municipal debt collectors are maximizing their revenue instead of assisting the municipality to improve their incomes”. (Durchame Training Institute 2015:76).

2.5.6. Training and mentoring of staff

Umsobomvu Local Municipality (2013:7) indicated that the following steps are necessary such as setting up and training on systematic debt collection and credit control procedures, processes, legislation, customer care and guidelines in line with approved policies. Lacking of skills and training is a challenge in municipalities, and the area of training and capacity building is not prioritised by the municipality as it impacts negatively on service delivery. The constitution obliges national and provincial government to support and strengthen the capacity of municipalities to manage their own affairs, to exercise their powers and to perform their function (Republic of South Africa, 1996:104).

South African Local Government Association must continue to provide capacity building initiatives to both political and administrative leadership. Ulundi Local Municipality (2006:40) indicates that “it is better to build internal capacity and also rehabilitate delinquent debtors because if an amount is paid directly to the municipality today, the money is deposited into the municipality bank account and the consumer’s account is credited with the full amount thereby reducing the account.

Therefore only resisting consumers should be handed over or where the internal mechanisms make it impossible to collect revenue for example in the case where the municipal hall rental is not paid or service rendered. Financial resources must be sourced to obtain external support in order to implement the above strategy successfully”.

Such a rigorous process relates to the notion of revenue enhancement, which may be associated with increasing the value of revenue generated, either through national policy developments that give rise to additional sources of revenue for local government, or through the ability of the municipality to grow its own revenue base. The following aspects are, however, fundamental to maximising the potential of existing revenue sources (National Treasury, 2012:11-12):

- The billing system must correctly reflect all billing data and customer data that are required to issue an accurate invoice on-time to the relevant customer.
- The indigent register must be updated regularly.
- The billing cycle must be reduced by enforcing the policies relating to debtor management.
- All properties within the municipality’s area of jurisdiction must be correctly valued, whether in the General Valuation Roll or in Supplementary Valuation Rolls, and the billing system must be updated with any change in property ownership. This is necessary to grow and protect the municipality’s property rates base.
- Effective business processes should ensure that new property development and improvements to existing properties are valued as required, and that billing records are updated accordingly. Doing so requires good working relations between the municipality’s town planning, valuations, and revenue management functions.
- Correct categorisation of properties in terms of the municipal property rates policy which impacts the usage and property rates tariffs applied to the properties.
- Property usage must be correctly recorded, so that the relevant property rates tariff can be applied to the property. Changes to property usage must also be

communicated to the revenue function to allow for the updating of the billing system.

- Water and electricity meter numbers must be recorded correctly, and linked to the corresponding property on the billing system.
- Water and electricity meters must be adequately maintained to minimise losses due to leakages or incorrectly measured consumption.
- Water and electricity meters must be read with regularity and accuracy, so that the correct consumption information is recorded on the billing system. Meter reading estimates must be minimised, or, at least, undertaken in accordance with the municipality's credit control policy prescriptions.
- Refuse and sanitation service charges must be included in the billing records. Such services are often neglected as a source of revenue; in fact, some municipalities operate refuse removal services at a loss.
- Billing records must be routinely reconciled to the source of the billing data and customer data.
- Billing queries must be resolved within reasonable timeframes.
- Municipal functions must be adequately staffed with competently skilled individuals who understand the job requirements and how to deliver on the

2.6. CHALLENGES ON REVENUE ENHANCEMENT

From the discussion so far it is clear that debt collection and service delivery are the two greatest challenges facing local government in South Africa. "Consumers owe local government billions of rand and the figure keeps growing at an alarming rate. The fact that not only household consumers but also businesses and the government itself are in arrears demonstrates that debt collection practices are inadequate and that the factors that underlie the reasons for and consequences of non-payment are not fully understood and have not been sufficiently addressed in a disciplined manner" (USAID,2005:28).The then President of the Republic of South Africa, Thabo Mbeki on his 2004 state of the Nation Address explained that, "a society in which large sections depend on social welfare cannot sustain its development:

Our comprehensive programme to grow the economy, including the interventions in both the First and Second Economies, improving sustainable livelihoods and create work is meant precisely to ensure that, over time, a smaller proportion of society, in particular the most vulnerable, subsists solely on social grants.

According to the South African Local Government Association (2012: 6-8) municipalities face many administrative challenges regarding revenue and debtors management. Some challenges are the result of the on-going transformation of local government and the consolidation of municipal boundaries that has led to the amalgamation of various administrations into a single municipal administration. Another challenge relates to municipalities not having the necessary procedures in place to maintain the integrity of their customer information and they will soon face the effects of outdated, or even obsolete, information. Customer information audits are therefore necessary for at least two reasons.

The first reason is to ensure that a municipality keeps essential information on all customers in its area of jurisdiction and the second reason is to ensure that the municipality has the means to charge all its customers for the services it delivers and for which the municipality is entitled to receive payment. The fundamental challenge that the customer information audit needs to address is, therefore, the growing municipal services debt burden that is exacerbated by the gradual decline in the integrity of the customer data system underlying the billing process.

This in turn encourages payment avoidance and widespread service delivery dissatisfaction leading to the likelihood of collective resistance to payment for services and the development of a 'culture of non-payment', which is already prevalent in a number of communities in South Africa. Many municipalities have substantial debtor books in excess of 90 days. With the increasingly alarming situation that is developing, many municipalities have responded with a knee-jerk reaction, reasoning that a tough, blanket debt collection drive is the only way to collect the outstanding amounts.

Results in these instances have been largely disappointing, since municipalities failed to understand that in our highly complex society debt collection should be based on a multi-faceted strategy that commences with a review of customer information to ensure that the basis for billing is sound. Furthermore, it mentions that a substantial portion of any local municipality revenue is derived from the delivery of services. To facilitate this revenue generation, the municipality needs to bill its customers on a regular basis and ensure effective collection of amounts billed. It is thus imperative that the billing is done accurately and that any database used in the billing contains both accurate and complete information, as invoices that do not reflect the true nature and quantity of services delivered will probably result in non-payment.

The risk of customer information not being complete is that without complete information, the collection of revenue is directly affected. The billing function is the principal mechanism that drives all cash flow that is critically fundamental to the success of any municipality. If the consumer database, being the main source of customer information, is incomplete it would directly influence the cash flow and thus financial viability of a municipality.

Cooperative Governance Traditional Affairs (2017) stated that local government operates in a complex environment. More than R1-billion is spent on municipal support and capacity building every year. Yet municipal performance remains far from optimal. While the city municipalities in particular have made significant progress in service delivery, even these advances are obscured by overwhelming challenges related to the fast pace of urbanisation. Priority challenges include;

- Weak political leadership
- Technical skills gaps and lack of relevant competencies
- High staff turnover and vacancy levels
- Weak understanding of policies
- Political deployments not always competent appointments
- Lack of career progression
- Poor attitudes & values of staff
- Lack of professionalism & regulation thereof by professional bodies & government
- Corruption at all levels with no consequences

- Unclear administrative-political interface
- Weak strategy – focus on compliance
- Weak financial management and low budget spend
- Weak council decisions, often contrary to technical advice
- Organisational instability, including review of Section 57 contracts linked to political term of office
- Lack of oversight and accountability
- Lack of legal compliance or regulatory support
- Weak municipal systems”

The University of Stellenbosch and Durhame Consulting during the South African Local Government Association seminar on municipal revenue enhancement (2012) identified two main reasons that lead to consumers not making payments to their municipal accounts:

2.6.1. Administrative reasons

Incorrectly recorded revenue and non-payment by debtors can often be blamed on a number of issues related to internal administrative processes. The administrative reasons for non- payment by customers include the following: Incorrect billings due to poor data input or incorrect consumption readings, poor implementation of credit control measures, corrupt customer data, such as customer names and addresses, inadequate staff training and poor performance in key functions affecting revenue collection, general lack of the capacity to handle customer complaints, poor service delivery and growing debt of indigent consumers, related to poor credit control measures.

The first administrative reason listed above namely that incorrect (incomplete) billing occurs due to poor data input is exacerbated by the fact that customer information is dynamic. Changes to the data must be identified and captured in time in order to maintain the integrity of the billing system. Incorrect data results in undelivered municipal accounts or incorrectly addressed and, therefore, rejected municipal accounts. This results in unpaid accounts, triggered either by the consumer not receiving the account or the consumer becoming unwilling to pay due to incorrect information reflected on the account.

The fundamental challenge that the customer information audit needs to address is, therefore, the growing municipal services debt burden that is exacerbated by the gradual decline in the integrity of the customer data system underlying the billing process. This in turn encourages payment avoidance and widespread service delivery dissatisfaction leading to the likelihood of collective resistance to payment for services and the development of a ‘culture of non-payment’s which is already prevalent in a number of communities in South Africa.

2.6.2. Socio-economic reasons

Socio-economic reasons relate to the inability of consumers to pay for services due to endemic poverty. These reasons are partially addressed through the provision of indigent and other social grants. The problems of poverty are however far deeper than these grants alone can address. Although socio-economic reasons are normally outside the control of a municipality it can effectively be managed by the municipality, whilst still being financially viable and adhering to its constitutional mandate of providing services to all.

In terms of their developmental local governance responsibilities, municipalities must also implement socio-economic development programmes that will facilitate local economic development and thereby enhance consumers’ ability to pay for services and improve their quality of life. Municipalities face many administrative challenges regarding revenue and debtors management. Some challenges are the result of the on-going transformation of local government and the consolidation of municipal boundaries that has led to the amalgamation of various administrations into a single municipal administration.

Another challenge relates to municipalities not having the necessary procedures in place to maintain the integrity of the customer information and they soon face the effects of outdated, or even obsolete, information. Customer information audits are, therefore necessary for at least two reasons;

- To ensure that a municipality keeps essential information on all customers in its area of jurisdiction, and

- To ensure that the municipality has the means to charge all its customers for the services it delivers and for which the municipality is entitled to receive payment.

Edwards (2008; 65) states that many municipalities which are central to the implementation of government policies still do not have the necessary capacity, even where resources are available, to implement government programmes and ensure that there is a sustainable delivery of basic services.

In terms of Section 74 of the Municipal Systems Act, municipal councils are required to adopt and implement a tariff policy. In Sections 74(i) and 74(ii) c, each municipality is required to take the subsidisation of poor households into account. To do so, an indigent grant support policy must be put in place. In terms of the legal requirements referred to above, municipalities are obligated to implement strategies, policies, and procedures to give effect to the requirements of law. The main challenges to implementation include:

- budgetary constraints and capacity shortages;
- inconsistent application of evaluation criteria when evaluating applications;
- no verification of the correctness of information supplied;
- role confusion relating to the different aspects of the process, e.g., debates between Finance and Health Departments on the responsibility of handling certain portions of the process;
- large and growing number of backlogs of applications;
- high potential for fraud as no audit trail is in place to track applications, approvals, and payments;
- non-reusable format for information gathered from applications and on-site assessments; and
- poor utilisation of the information obtained for the formulation of local economic development initiatives and other strategies”

South African Local Government Association (2013) suggested that the legislative range governing revenue management are the Constitution of the Republic of South Africa, Municipal Finance Management Act, Municipal System Act, Municipal Property Rates act, Water Act and Electricity Act. However, there are challenges in general in the application of these legislative frameworks. These challenges are:

- Billing process: distribution of municipal account statement, credibility and accuracy of municipal account information and consolidation of billing information
- Town planning: certificates of occupation, coordination and communication of information – relevant to billing, proclamation of development – Deeds office
- Metered services: time frames for meter reading, exception reports and process for verification, service and maintenance on meters, meter consumption, information and data credibility and accuracy
- Property rates: accuracy and credibility of the property information, tariff setting and modelling and effectiveness of the property rates policy
- Property valuations: coordination and communication of information – relevant to billing, accuracy and credibility of property information and values - valuation roll, delays in resolving disputes and objections in property valuations – negative impact in the MTREF budget process, results and performance of the service provider – contracted by the municipality
- Refuse collection: uncertainty on number of properties that services is provided and billed,
- Municipal accounts: opening and closing municipal accounts, the process in obtaining municipal clearance, arrear municipal services debt, not paid in full settlement, clearance, protracted legal challenges.
- The process the municipality must follow to collect the money due to them includes the following but not limited to;
- Development of the debt collection policy and approved by the municipal council.

- Debtors accounts to be sent to the departments and other customers or debt on a monthly basis.
- Follow ups on non-payments by the departments and other customers or debts within seven days after payment due date.
- Cut off list for services are compiled and bank reconciliation needs to be performed on monthly basis.
- Implementation of credible credit control and debt collection policies to improve revenue collection and outstanding debt,

Implementing a revenue enhancement turnaround strategy can only be achieved by critically reviewing the current revenue management business models and processes being applied within the various municipalities. To effectively deal with the current challenges, municipalities must plan and implement effective and integrated revenue enhancement strategies. Revenue enhancement is a process focused on the holistic improvement of the municipal business model. To improve on the current business model it is important to identify all the critical elements that currently affect municipal revenue performance.

2.7. SUMMARY AND DEDUCTIONS

The objective of this chapter was to explore what is meant by municipal revenue enhancement by means of a literature study. In the first instance the South African constitutional framework created a multi-sphere system where each sphere is distinctive, with legislative and executive autonomy entrenched by the Constitution. These spheres are interdependent and interrelated. The Constitution of the Republic of South Africa, 1996 grants municipalities' considerable income generating powers but subjects these to national legislature and regulation.

In the second instance the , “National Development Plan is essential to improving local government performance, ensuring quality service delivery and ultimately putting the local government on a positive path to achieving the vision for 2030.

South African local government generate revenue from trading services (water, electricity, refuse removal and sewage) as well as the property rates levied. Furthermore, South Africa has a unique intergovernmental fiscal relations system, one

that are characterised by the fact that national government collects almost all 97 percent of the revenue needed by local government in the form of either unconditional or conditional grants” (SALGA, 2014; 3-7).

Much attention has been given to the need for municipalities to collect outstanding debts. This is important, but municipalities need to pay attention to all aspects of the revenue management value chain in order to ensure completeness of revenue. A municipality can send out as many bills as it likes, but unless these are being delivered to the correct address they mean nothing or very little unless it can enforce payment.

Revenue collection needs to be managed holistically and it must be everyone’s business within the municipality. It involves getting the basics right, failure to get basics right cannot be made up for by buying a new IT system or by appointing debt collectors. The municipality needs to have sound policies, practices and processes in place for managing revenue and none of these are enormously complicated.

South African municipalities are governed by legal prescripts and regulations that play an essential role to ensure enforcement and taxpayers who owe municipalities are brought to book and the debt outstanding is recovered without delays. Local government legislation can have an impact on the planning and implementation of the municipal billing system and revenue collection municipalities.

The intergovernmental system is continually evolving as contexts change, better approaches to cooperative governance emerge and ways of resolving particular problems are identified. Key areas that need to be addressed are the allocation of functions between district and local municipalities and the assignment of the housing and public transport functions to municipalities.

All municipalities need to pay precise attention to ways of improving revenue management. While the whole local government fiscal framework is designed to fund local government, the existence of national and provincial transfers does not absolve any municipality from showing the necessary fiscal effort and collecting their own revenues available to it.

The revenue-service link between municipalities and residents is fundamental in fostering greater accountability. This suggests that requiring more households to pay even very small amounts for services may deepen local democracy and municipal accountability.

The key lesson within revenue management is integration and taking revenue services as part of the bigger picture of service delivery which requires productivity, political will, efficiency and proper use of legislation. Clearly, in assessing the relationship between the service delivery responsibilities of municipalities and the local government fiscal framework, issues of good governance are exceptionally important. Mayors, councillors and municipal managers have fiduciary responsibilities to ensure that public funds are safeguarded and only used for the benefit of the community. The application of legislation is the main solution to all challenges faced by municipalities in enhancing their own source of revenue and collecting outstanding debts. Local government should set tariffs that ensure that the municipality recovers all costs associated with the operation, maintenance and replacement of costs involved in the provision of specific service.

CHAPTER 3: LEGAL AND REGULATORY CONTEXT OF SOUTH AFRICAN MUNICIPALITIES

3.1. INTRODUCTION

Chapter 2 indicated that there are indeed challenges faced by South African local government in enhancing municipal revenue. To properly understand the development and public service delivery taking place in municipalities, it is important to have an extensive understanding of the legislation that shapes the local government sphere. The objective with this chapter is to describe the legal and regulatory context of South African municipalities.

According to Madumo (2012:41) it is not only legislation that plays an important role towards ensuring effective municipalities, but the developmental policies that the government advocates also make a meaningful contribution. The Constitution of the Republic of South Africa, 1996, serves as a mechanism that is utilised to transform the South African society. In the first instance it states in its founding provisions that the Constitution is the supreme law of the Republic; law or conduct inconsistent with it is invalid, and obligations imposed by it must be fulfilled. This emphasises the significance and the supremacy of the Constitution, 1996, as it serves as a guideline that regulates the functions that institutional structures of the State perform. In the second instance, the Constitution, 1996, emphatically establishes local government as a separate and distinct sphere of government, mandated to deliver services through the support of the provincial and national spheres, as outlined in Section 40(1).

The emphasis on the structured support provided by the provincial government to municipalities in case of incapacity is promulgated by Section 139 of the Constitution of 1996. Lastly, in promoting democracy, Section 152, of the Constitution of 1996, addresses the objectives of local government addressed above, as a requirement for local development.

This chapter will describe the legal and regulatory context of South African municipalities. The reader will have a fair understanding of all the laws and regulation that govern South African local government around enhancing municipal revenue at the end of the chapter. In the following sections, local government as distinctive, interdependent, and interrelated spheres of government and sources of revenue in local government, as well as revenue management are explored by means of focusing on relevant legal and regulatory provisions.

3.2. LOCAL GOVERNMENT AS DISTINCTIVE, INTERDEPENDENT, AND INTERRELATED SPHERES OF GOVERNMENT

According to Section 40 of the Constitution of the Republic of South Africa, 1996, the three spheres of government exist distinctively, interdependently and they are interrelated. This means that all the spheres of government are encouraged to support one another and create an environment through which each sphere can individually regulate itself and exist within its own right (independently).

The Finance and Fiscal Commission is government's primary advisor with regard to intergovernmental fiscal relations. Its constitutional entrenchment and establishment in 1994 signalled that the post-apartheid government took the commonly held wisdom serious that national decisions on intergovernmental fiscal matters must be discussed between governments, that they must be evidence based and that intergovernmental fiscal relations must be reasonably predictable (Visser and Ayele, 2014:2).

The Intergovernmental Fiscal Relations Act (Act No. 97 of 1997) promotes cooperation between the national, provincial and local spheres of government on fiscal, budgetary and financial matters and prescribe a process for the determination of an equitable sharing and allocation of revenue that are raised nationally" (Republic of South Africa, 1997:3). The Intergovernmental Relations Framework Act No. 13 of (2005) provides "a framework for the establishment of intergovernmental forums and mechanisms to facilitate the settlement of intergovernmental disputes.

The Municipal Demarcation Act (Act No.27 of 1998) provides for criteria and procedures for the determination of municipal boundaries by an independent authority (Republic of South Africa, 1998:3). The Municipal Structures Act (Act No.117 of 1998) provides for the establishment of municipalities in accordance with the requirements relating to categories and the establishment of a category of the municipality in an area; to define the types of municipality that may be established within each category; to provide for an appropriate division of functions and powers between categories of the municipality; to regulate the internal systems, structures and office-bearers of municipalities and to provide for appropriate electoral systems and matters in connection therewith.

“This Act make provision for the appropriate division as well as devolution of power, as regulated by the functioning of the appropriate category of the municipality in ensuring a proper governing structure, which culminates in the election of municipal councils” (Republic of South Africa, 1998:4).

The Municipal Systems Act (Act No. 32 of 2000) provide for the establishment of municipalities, in accordance with the requirements relating to categories and types of municipality. Furthermore the Act established criteria for determining the category of municipality that should be established in a specific area and regulate the internal systems, structures and office-bearers of municipalities.

The Act also gives responsibilities and powers to district municipalities relating to water and electricity, while local municipalities are also given authority to manage such district functions. Many local authorities manage electricity, water and sanitation services and therefore retain some dominance in the management of overall services delivery.

The Act authorises the establishment of internal systems of municipalities, which serve as mechanisms to ensure appropriate municipal administration that guarantees efficiency and effectiveness in the delivery of services. Through the legislation it should be possible to ensure regulation in as far as the functioning of municipalities are concerned (Republic of South Africa, 2000:3-4).

3.3. SOURCES OF REVENUE OF SOUTH AFRICAN LOCAL GOVERNMENT

The imperative that municipalities collect all revenues due for the services it provides and to implement credit control measures that govern the process of collection are covered in several pieces of legislation. “The Municipal Property Rates Act (Act No 6 of 2004) regulates the power of a municipality to impose rates on property and make provision for municipalities to implement a transparent and fair system of exemptions, reductions and rebates through their rating policies”. (Republic of South Africa, 2004:3).

All properties, subject to subsection 7(2) of the Municipal Property Rates Act, should be included on the valuation roll for the purposes of levying rates. As property rates are due for a particular reporting period, the rates should (in theory) be recognised as revenue at the start of a financial year and collected in instalments agreed with the property owners.

According to National Treasury (2012:6) the Municipal Property Rates Act provides for municipalities to adopt a Rates Policy that is consistent with the provisions of the Act with regards to the levying of property tax on all rate able properties within its area of jurisdiction. Furthermore, municipalities must pass a by-law and publish it in the provincial gazette; this gives effect or legalises the levying of property rates by the municipality. In terms of Section 74 of the Municipal Systems Act, 2000, the council of a municipality must adopt and implement a tariff policy on the levying of fees for the services provided by the municipality itself or by way of service delivery agreements.

In addition, “Section 75 requires a municipal council to adopt by-laws to give effect to the implementation and enforcement of its tariff policy. Section 75 (a) allows municipalities to levy and recover charges or tariffs in respect of municipal service delivery functions and to recover collection charges and interest on outstanding amounts” (Republic of South Africa, 2004:3).

This reconciliation of billing information to other systems or functions within a municipality is essential to ensure that the municipality is able to maximise the billing, collection of property rates and service charges revenue. The frequency of such reconciliation will differ depending on the municipality's circumstances.

A municipality exercises its legislative or executive authority by imposing and recovering rates, taxes, levies, duties, services fees and surcharges on fees, including setting and implementation of tariffs, rates and tax and debt collection policies (Republic of South Africa, 2000: s11, ss3 (i)). In addition to the requirements of the Municipal Property Rates Act, municipalities manage their revenue within the following policies developed specifically to suit local circumstances:

- Municipal property rates policy
- Policy on tariffs, fees and charges for services provided
- Municipal Indigent support policy
- Municipal credit control and debt collection policy
- Municipal customer care policy
- Other relevant policies, such as development contribution policy

The Electricity Regulation Act (Act No 4 of 2006) guide the municipality on how to collect amounts outstanding in respect of electricity and even to take measures such as the discontinuing of a service in the event of persistent non-payment (Republic of South Africa, 2006:3).

The Water Service Act (Act No.108 of 1997) provides procedures to be followed for the limitation or discontinuation of water services, but merely provides that the services provider (agencies for example Rand Water, Sedibeng Water or municipalities) must put procedures in place which are fair and equitable and provide for reasonable notice of intention to limit or discontinue water services. Furthermore, the Act makes provision for the determination of tariffs for water services and specifies that consumers must pay reasonable charge for the water services (Republic of South Africa, 1997:s11, ss2 (d)).

The Division of Revenue Act (Act No. 5 of 2012) is an annual act published as part of the National Treasury's annual budget documents. Section 216 of the Constitution provides for national government to transfer municipalities in terms of the Act. The Act also provide for equitable division of revenue raised through taxes.

The act allows allocation for municipalities in the form of grants such as municipal infrastructure grants and provincial infrastructure grants to assist them in exercising their powers and performing their function. These allocations are announced annually in the national budget. Transfers to municipalities from national government are supplemented with transfers from provincial government. Transfers are also made between district municipalities and local municipalities. The Division of Revenue Act (Act No. 5 of 2012) provides that,

- In terms of section 15, that National Treasury is required to publish the allocations or indicative allocations for all national grants to municipalities in the Government Gazette;
- In terms of section 29, that each provincial treasury is required to publish the indicative allocation per municipality for every allocation to be made by the province to municipalities from the province's own funds in the Government Gazette; and
- In terms of section 28, that each category C municipality must indicate all allocations from its equitable share and conditional allocations to be transferred to each category B municipality within the category C municipality's area of jurisdiction (Republic of South Africa, 2012:3) in its budget.

Furthermore, the South African National Development Plan (NDP) and the Presidential Outcomes 9 and 12 are also geared to improve the state of local government financial management and service delivery objectives. The National Development Plan aims to eliminate poverty and reduce inequality by 2030. South Africa can realise these goals by drawing on the energies of its people growing an inclusive economy, building capabilities, enhancing the capacity of the state and promoting leadership and partnerships throughout society. The National Development

Plan offers a long-term perspective, destination and identifies the role different sectors of society need to play in reaching that goal. As a long-term strategic plan, it serves four broad objectives:

- Providing overarching goals for what we want to achieve by 2030.
- Building consensus on the key obstacles to us achieving these goals and what needs to be done to overcome those obstacles
- Providing a shared long-term strategic framework within which more detailed planning can take place in order to advance the long-term goals set out in the National Development Plan.
- Creating a basis for making choices about how best to use limited resources.

The plan aims to ensure that all South Africans attain a decent standard of living through the elimination of poverty and reduction of inequality. The core elements of a decent standard of living identified in the Plan are:

- Housing, water, electricity and sanitation
- Safe and reliable public transport
- Quality education and skills development
- Safety and security
- Quality health care
- Social protection
- Employment
- Recreation and leisure
- Clean environment
- Adequate nutrition

The plan highlights the need to strengthen the ability of local government to fulfil its developmental role. Municipal Integrated Development Plans (IDPs) need to be used more strategically to focus attention on critical priorities in the National Development Plan that relate to the mandate of local government such as spatial planning, infrastructure and basic services. Like provincial planning processes, Municipal Integrated Development Plans should be used to focus on aspects of the National Development Plan that fit within a Municipal Integrated Development Plan, and also to focus on aspects of the National Development Plan that fit within a municipality's core responsibilities.

This would allow the Integrated Development Plan process to become more manageable and the participation process more meaningful, thus helping to narrow the gap between aspirations contained in these documents and what can actually be achieved. To do this effectively, the Integrated Development Plan process needs to be led by municipal staff, not outsourced to consultants. As for provinces, there are also many areas where municipalities could start implementation immediately by engaging with aspects of the Plan that speaks to their core competencies and identifying how they can action proposal for improving implementation (Cooperative Governance Traditional Affairs, 2017).

3.4. REVENUE MANAGEMENT AND ENHANCEMENT

This Section continues the discussion of the similarly titled Section 2.4 of Chapter 2, but also revisits aspects relevant for revenue enhancement strategies and challenges as discussed in Sections 2.5 and 2.6 of Chapter 2. In this Section, the pieces of legislation that guide the usage of finances are highlighted.

The Municipal Finance Management Act (Act 56 of 2003) provides for a comprehensive legislative framework on all financial aspects. Its purpose is to regulate the financial affairs of municipalities, as well as to ensure uniformity in accordance with the treasury norms and standards (SALGA, 2006:5).

This Act aligns the municipal budget with the Integrated Development Plan (IDP) and subsequently the Service Delivery Budget and Implementation Plan (SDBIP) of a municipality. It was passed to strengthen and modernise municipal financial management and also, in conjunction with other acts discussed previously, to promote co-operation between the different spheres of government.

The Act is closely linked to the Municipal Systems Act, as both deal with integrated planning and budgeting processes as one process, credit control procedures, performance management systems, the procurement of goods and services as well as the annual service delivery and budget implementation plan with measurable performance objectives. The Act deals with the financial arrangements in a municipality and must be understood in the broader context of local government activities and service delivery generally.

The aim of the Municipal Finance Management Act is to secure sound and sustainable management of the fiscal and financial affairs of municipalities and municipal entities by establishing norms and standards and other requirements for all financial actions, transactions and other financial matters of municipalities and municipal entities, as well as national and provincial organs of state, to the extent of their financial dealings with municipalities. (Republic of South Africa, 2003:3)

Section 64 (1) of the Municipal Finance Management Act make the accounting officer or municipal manager legally responsible for the management of the municipality's revenue. In practice one would however expect the administrative responsibilities for this function to be delegated to the chief financial officer. The responsibilities of the accounting officer in this regard are contained in Section 64 (2), which requires the accounting officer to take all reasonable steps to ensure that the municipality has effective revenue collection systems that are consistent with Section 95 of the Municipal System Act and the municipality's credit control and debt collection policy; that revenue due to the municipality is calculated on a monthly basis; that accounts for municipal tax and charges for municipal services are prepared on a monthly basis or less often.

In the case where monthly accounts are uneconomical that all money received is promptly deposited in accordance with this Act into the municipality's primary and other bank accounts (Republic of South Africa, 2003:83-84).

The Municipal Finance Management Act also requires municipalities to establish and maintain a management, accounting and information system which recognises revenue when it is earned; accounts for debtors and accounts for receipts of revenue. It also provides that municipalities establish and maintain systems of internal control in respect of debtors and revenue, that the municipality charges interest on arrears, except where the council has granted exemptions in accordance with its budget-related policies and within a prescribed framework; and that all revenue received by the municipality, including revenue received by any collecting agent on its behalf, is reconciled at least on a weekly basis as stipulated by section 64 of the Municipal Finance Management Act. Municipalities have indicated that they are positive about the Municipal Finance Management Act, as it is seen as an important mechanism to help address financial issues in an integrated manner (Parliament Monitoring Group, 2004).

According to the National Treasury (2013: 30), "it is possible to modernise the systems of local government to perform better and to keep on improving on performance by means of the inculcation of a culture of continuous learning for improvement... but that, without improved usage, cannot attain the anticipated results. Each municipal official must make it their personal business to perform better than they did in the past, by coming to understand how to operate the modernised system, and by learning how to strive for continuous improvement through skills development".

National Treasury's Municipal (2013:13) states that "revenue generation is everyone's responsibility, not just that of the revenue management unit. Municipalities must effectively manage all functions that impact the protection and growing of their revenue base. Furthermore, the implementation of internal controls along the revenue value chain will aid effective data handovers; utilising system data validation mechanisms and ensuring that service level standards are fundamental to ensuring the integrity of billing data".

According to National Treasury (2013: 42) municipalities cannot become financially sustainable if they do not manage their revenue more rigorously. Own revenue sources, such as service charges and tariffs, goods sold, property taxes, including collection charges, and interest on payments that are in arrears as well as fines, levies, interests, royalties, and dividends, together with government and other grants, require active management within a framework of municipal policies, strategies, and the application of the best practices.

Municipalities must ensure compliance to the public participation process that is legally required in terms of Sections 22 and 23 of the Municipal Finance Management Act “(read with the relevant provisions of the Municipal Property Rates Act and the Municipal Systems Act). When a municipality undertakes community participation to invite comments in respect of proposed tariffs for the tabled budget and then materially changes this tariff at the time of the adopted budget, without further community participation, it may face a legal challenge for failing to comply with the legislated community participation provisions”.

The primary responsibility of a municipality is to deliver services. This is what the municipality’s “business” is about. Section 75(a) of the Municipal Systems Act allows “municipalities to levy and recover fees as well as charges or tariffs in respect of municipal service delivery functions and to recover collection charges and interest on outstanding amounts. Furthermore, Section 75 of the Act, makes it a necessity for municipalities to adopt by-laws to give effect to the implementation and enforcement of their tariff policies; in fact, all policies and supporting decisions taken by the municipal council must be supported by a by-law to make it legally enforceable. Failure to comply with the necessary by-law requirements may expose the municipality to litigation. Municipalities are expected to allocate a portion of their internally generated ‘own revenue’ towards their capital budget funding mix.

Another area of revenue generation are the town planning activities such as fees payable for obtaining planning documents and fees payable for activities in respect of submitting plans for construction and matters relating thereto. These charges are in accordance with the municipality's town planning schemes' land use management policies. The National Building Regulations and Building Standards Act, 1997 (Act No. 103 of 1997) and various municipal by-laws are among the pieces of legislations that regulate property development.

The opportunities for revenue generation will differ among municipalities and depend on the range of 'other services' provided. Municipalities are required to operate within the boundaries of their functional mandates as described in their municipal establishment notices (National Treasury, 2012: 11). Municipalities are reminded to utilise the clearance process to recover outstanding municipal debt as outlined in Section 118(1) of the Municipal Systems Act. South Africa local government, in particular, will be committed to working with citizens and communities to find sustainable ways to meet their social, economic and material needs, and improve the quality of their lives. It will be at the forefront of participatory democracy, involving citizens in meaningful discussions about government and development.

3.5. SUMMARY AND DEDUCTIONS

The objective of this chapter was to describe the legal and regulatory context of South African municipalities by means of discussing part of legislation that govern local government, firstly the Constitution of the Republic of South Africa, 1996, serves as a mechanism that is utilised to transform the South African society.

It states in its founding provisions that the Constitution is the supreme law of the Republic; law or conduct inconsistent with it is invalid, and obligations imposed by it must be fulfilled. A municipality exercises its legislative or executive authority by imposing and recovering rates, taxes, levies, duties, services fees and surcharges on fees, including setting and implementation tariff, rates and tax and debt collection policies.

The local government laws, regulation and policies must be implemented to promote good governance in order for the local government manages its resources (finance, building, equipment) well and carries out policies in a way that meets the needs of the community it serves and provides good value for money to its citizens.

The municipalities must ensure that there are municipal billing systems and revenue collection policies are in place and that the budget and treasury offices are organised in such a way that a budget and collection office environment is conducive to collecting revenue effectively. South Africa local government, in particular, must be committed to work with residents and communities to find sustainable ways to meet their social, economic and material needs, and improve the quality of their lives. It will be at the forefront of participatory democracy, involving residents in meaningful discussions about government and development.

CHAPTER 4: THE SOCIO-ECONOMIC CONTEXT OF UMSOBOMVU LOCAL MUNICIPALITY

4.1. INTRODUCTION

Chapter 3 described the legal and regulatory context of South African local government in enhancing municipal revenue. The objective of this chapter is to explore the challenges faced by Umsobomvu Local Municipality in enhancing their own source of revenue.

In Chapter 2 it was shown that South Africa's municipalities operate in a wide range of geographical, economic and social contexts. The challenge of financial sustenance is exacerbated by the situation where municipalities fail to institute proper mechanisms to ensure they not only collect their revenue accordingly, but also grapple with their revenue bases. The White Paper on Local Government of 1998 notes "the maximising of social development and economic growth as one of the characteristics of developing local government in South Africa". This chapter will discuss the socio-economic context of Umsobomvu Local Municipality.

4.2. GEOGRAPHICAL, HISTORICAL AND DEMOGRAPHIC SETTING

The Northern Cape is the province with the largest land area (372 889 square kilometres or 30.5 percent of the country) and the smallest population in South Africa (822 727 people in 2001) and the only province with a declining population growth. The Northern Cape has five district municipalities, 30 local municipalities and 215 communities.

Umsobomvu Local Municipality is situated within the Pixley Ka Seme District Municipality in the Northern Cape Province. Pixley Ka Seme is the biggest district municipality in the Northern Cape (Figure 4.1). It consists of nine municipalities including the district municipality. The study focuses on Umsobomvu Local Municipality that includes three towns namely Colesberg, Norvalspont and Noupoot. Umsobomvu local municipality consists of 5 wards: 3 of the wards fall within the

lowest quarter of deprivation index - below 25% and 2 of the wards fall within the top 25% of the deprivation index.

Figure 2: Map of Pixley Ka Seme District Municipality



The municipal area is 6 819 km² and the main economic sectors are agriculture, services industries, tourism and hospitality. Colesberg is a town located on the main road from Cape Town to Johannesburg. In a sheep-farming area spread over five hundred thousand hectares, greater Colesberg breeds many of the country's top merinos. It is also renowned for producing high-quality racehorses and many stud farms, including one owned by legendary golfer, Gary Player.

Towerberg or Coleskop is a prominent hill near the town and the landmark is easily seen from a distance by travellers. Colesberg saw a large number of battles and skirmishes during the second Anglo-Boer War and the Colesberg Garden of Remembrance is located just outside the town. The town boasts many buildings that were built in a blend of Cape Dutch and Georgian architecture, with ceilings of reed and yellowwood timbers, and others that display a range of designs reflecting the varieties of 19th century building. Originally, plots were pegged out and sold on the site of the town to fund the building of the Dutch Reformed Church.

Noupoort is a town in the eastern Karoo region that mainly revolve around the railways and is still used as attraction change-over facilities from diesel to electronic locomotives on the Noupoort-Bloemfontein line. It links up with the electric line to De Aar, part of the main artery for iron and manganese exports from the Northern Cape through Port Elizabeth Harbour on the South coast. In the following subsections, population profile, health of population, urbanisation, economic growth and sectors as well as demographics of Umsobomvu local municipality are further explained.

4.2.1. Population profile

Umsobomvu municipality is the third largest local municipality after Emthanjeni and Siyancuma in terms of population size, representing about 15 percent of the total population of Pixley Ka Seme. The population size of Umsobomvu municipality increased from 24 071 in 2003 to 28 510 in 2013, 1.71 percent year-on-year growth. Table.4.1. Shows the population profile of Umsobomvu Local Municipality for 2003 and 2013.

Table 4.8: Population profile for Umsobomvu Local Municipality 2003 & 2013

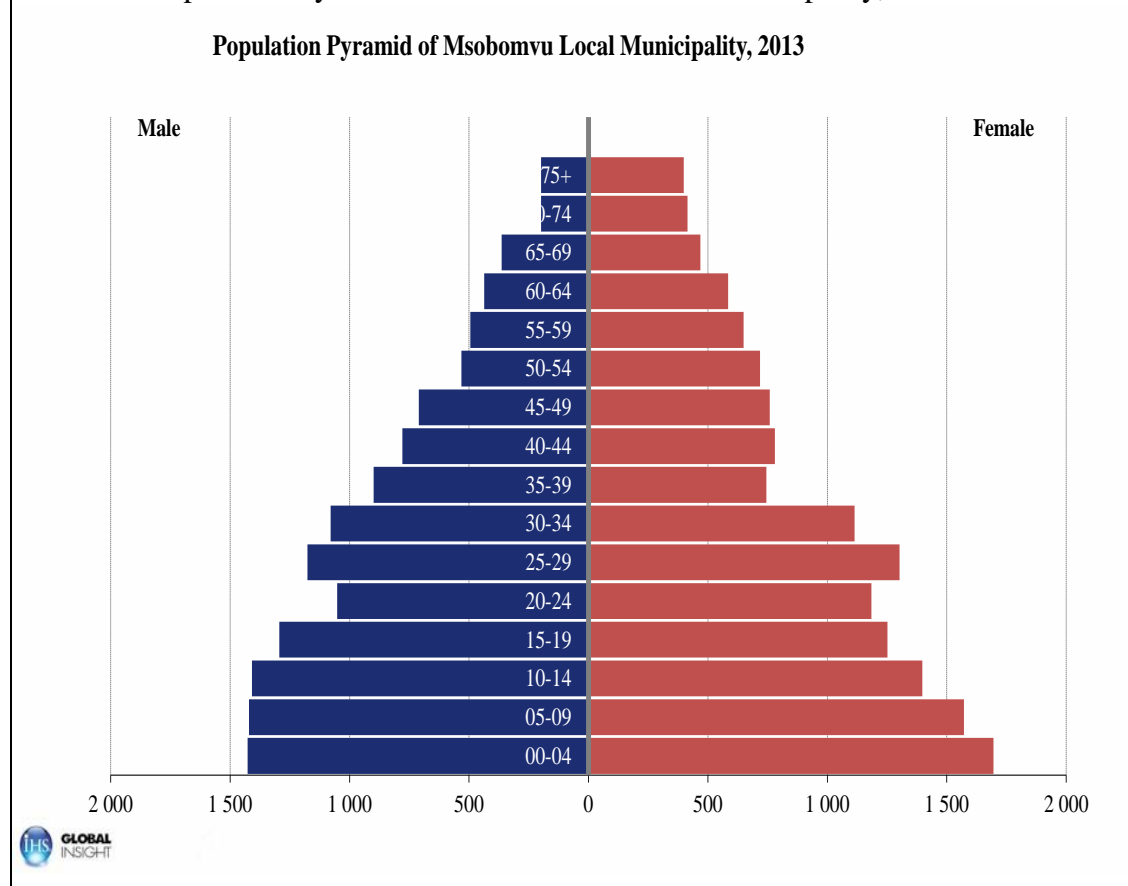
	TOTAL POPULATION		HOUSEHOLDS	
	Umsobomvu	Pixley ka Seme	Number of Households	Average number of people per Household
2003	24 071	172 493	6 378	3.77
2013	28 510	186 863	8 459	3.37
% Change	1.71	0.80		
TOTAL POPULATION BY RACE AND GENDER				
	Race	Male	Female	Total
2013	African	8 537	9 560	18 097
	White	789	831	1 620
	Coloured	4 064	4 583	8 647
	Asian	82	64	146
	Total	13 472	15 038	28 510

Source: Global Insight, 2014

The population of Umsobomvu is dominated by Africans followed by Coloureds, representing 63.47 percent and 30.33 percent of the total population respectively in 2013 while there were only 146 Asians living in the municipality. Females represented 52.75 percent of the total population.

Table 4.2. Show the population pyramid of Umsobomvu Local Municipality for 2013.

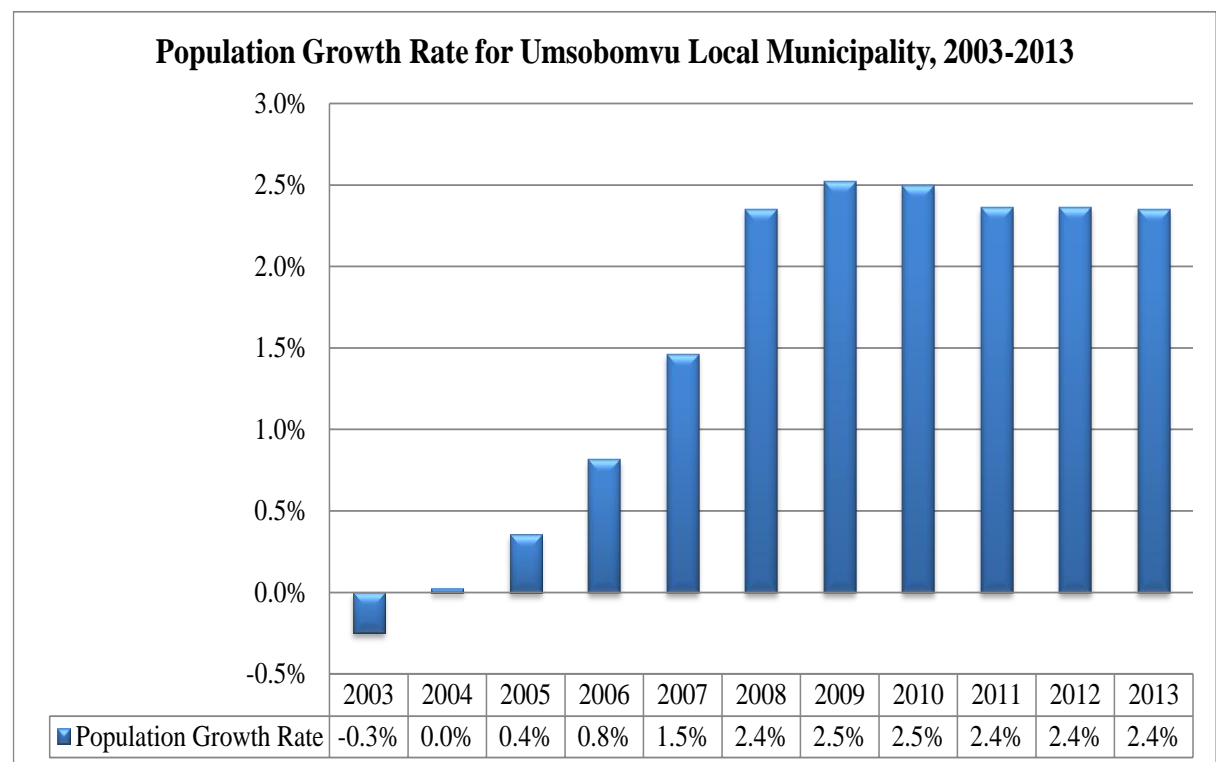
Table 4.9: Population Pyramid for Umsobomvu Local Municipality, 2013



Source: Global Insight, 2014

The figure shows characteristics of an expansive pyramid, reflecting the youthful population of Umsobomvu municipality. The age cohort with the largest population is 00-04 while the age cohort with the smallest population is 70-74. The pyramid is relatively skewed to the right, reflecting the larger number of females. Table 4.3 shows the population growth rate of Umsobomvu Local Municipality for the period 2003 to 2013.

Table 4.10: Population growth rate for Umsobomvu Local Municipality, 2003 – 2013



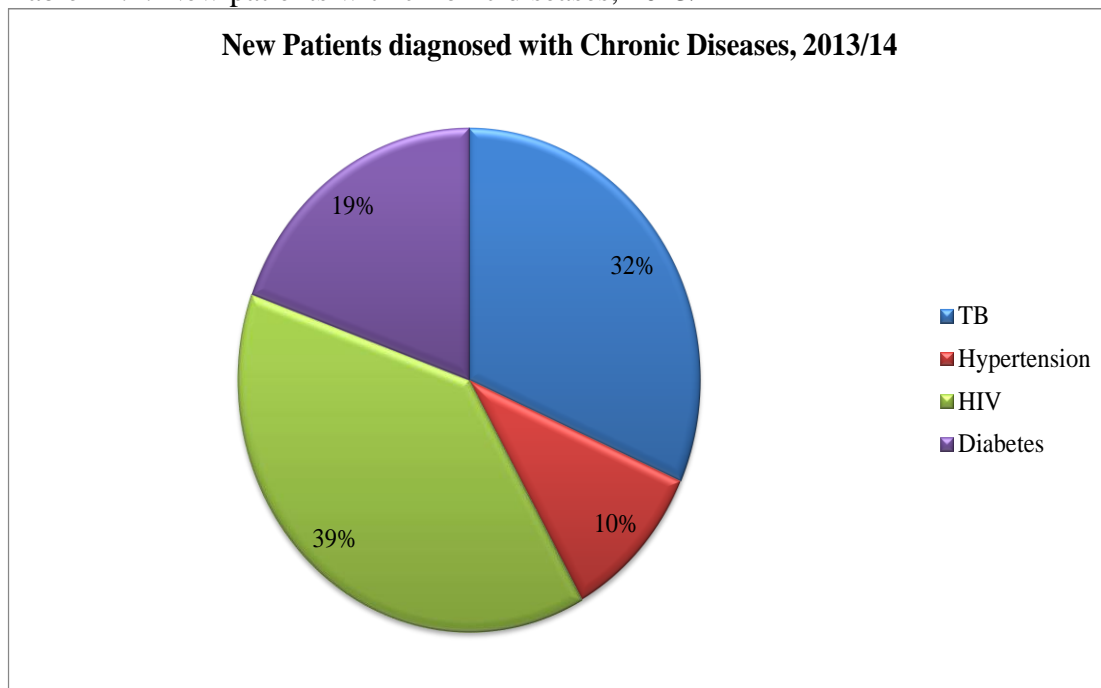
Source: Global Insight, 2014

The population growth rate increased from -0.3 percent in 2003 to a high of 2.5 percent in 2010 before decreasing to 2.4 percent in 2013. The average population growth rate was 1.71 percent for the period under review.

4.2.2. Health of population

Health issues contribute substantively to socio-economic challenges. Table 4.4. shows the percentage of persons with chronic diseases in Umsobomvu Local Municipality for the 2013/14 financial year.

Table 11.4: New patients with chronic diseases, 2013/14



Source: NC Department of Health

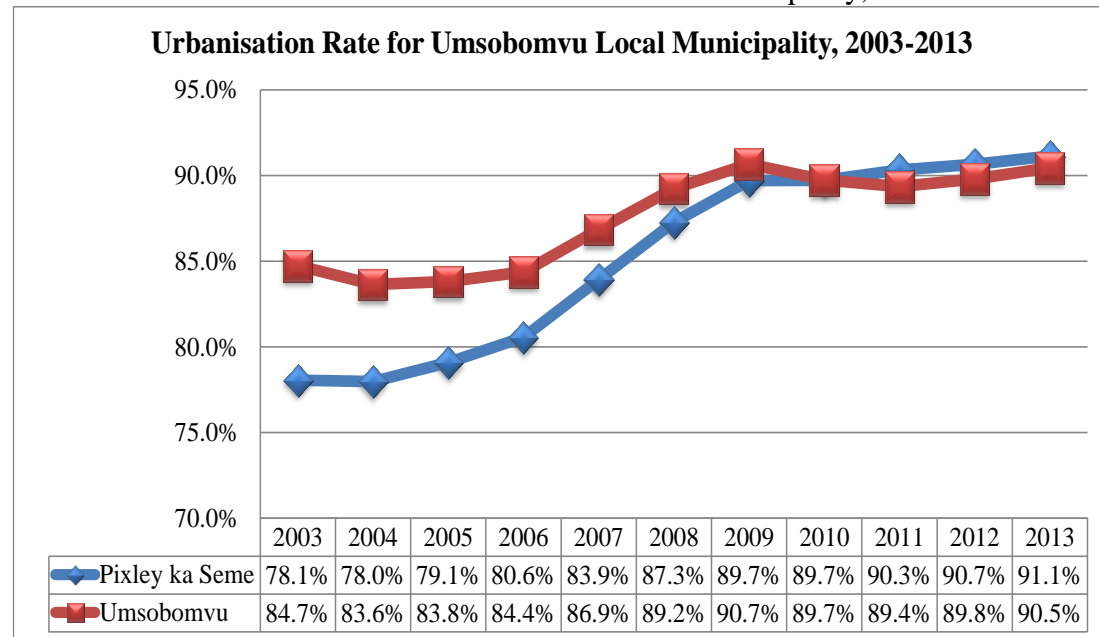
Overall, HIV/ AIDS is the biggest single cause of death in the Northern Cape. HIV/ AIDS (in 2000) constituted approximately 13.9 percent of all deaths in the Province – with women about 9 percent higher than men. There are 95 clinics in the Northern Cape and the services rendered at Northern Cape primary health care clinics do not compare well with the rest of SA. In contrast to that, the emergency services compared better. Northern Cape showed an improvement from 71 percent to 92 percent (compared to SA from 55 percent to 57 percent), with response times of less than an hour.

Even so, in some areas there is still a problem with waiting times of three hours. Emergency services that arrive at district clinics are usually referred to the nearest hospital. Kimberley, Upington, Springbok and Bloemfontein have referral hospitals which often are hundreds of kilometres away from clinics. In 2013/14, there were 652 people who tested positive for chronic diseases. About 39 percent of this number can be attributed to HIV while only 10 percent were new clients with Hypertension. TB and Diabetes accounted for 32 and 19 percent of this number respectively.

4.2.3. Urbanisation

Table 4.5 shows the urbanisation rate for Umsobomvu Local Municipality for the period 2003-2013.

Table 4.12: Urbanisation rate for Umsobomvu Local Municipality, 2003 - 2013



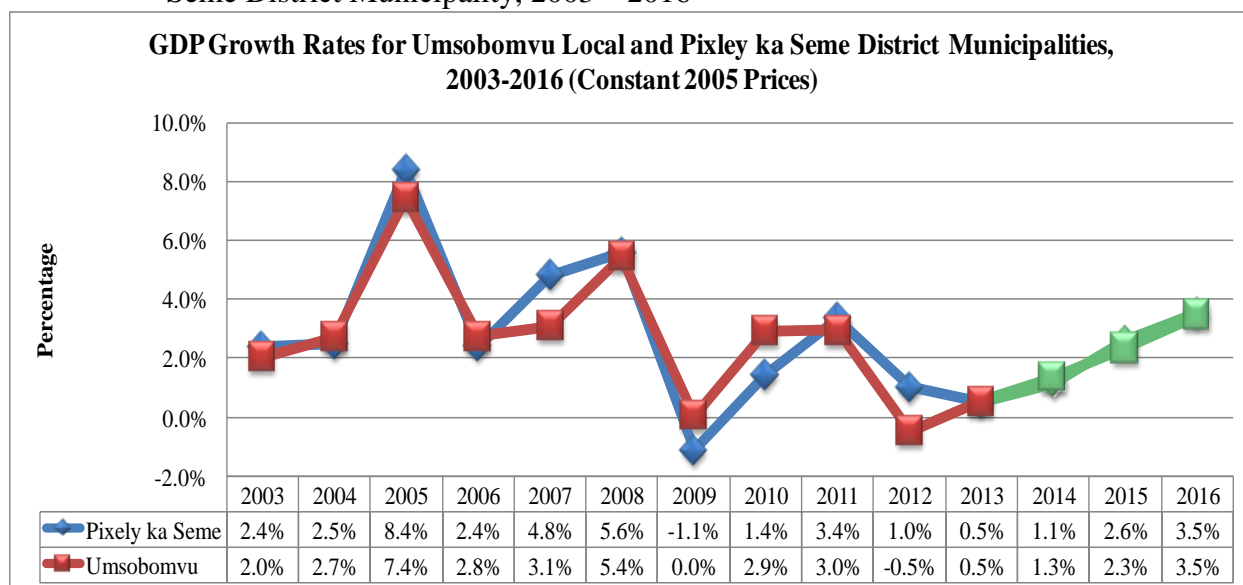
Source: Global Insight, 2014

The urbanisation rate of Umsobomvu Local Municipality and Pixley Ka Seme District both had an upward trend. Initially, the urbanisation rate of Umsobomvu Local Municipality was higher than that of Pixley Ka Seme, with 84.7 and 78.1 percent in 2003 respectively. However, Pixley Ka Seme caught up and surpassed Umsobomvu in 2011. The urbanisation rate of Umsobomvu Local Municipality increased from 84.7 percent in 2003 to 90.5 percent in 2013.

4.2.4. Economic growth and sectors

Table 4.6 shows the GDP growth rates for Umsobomvu Local Municipality and Pixley Ka Seme District Municipalities from 2003 to 2013 and predicted figures from 2014 to 2016.

Table 4.13: GDP growth rates for Umsobomvu Local Municipality and Pixley Ka Seme District Municipality, 2003 – 2016



Source: *Global Insight, 2014*

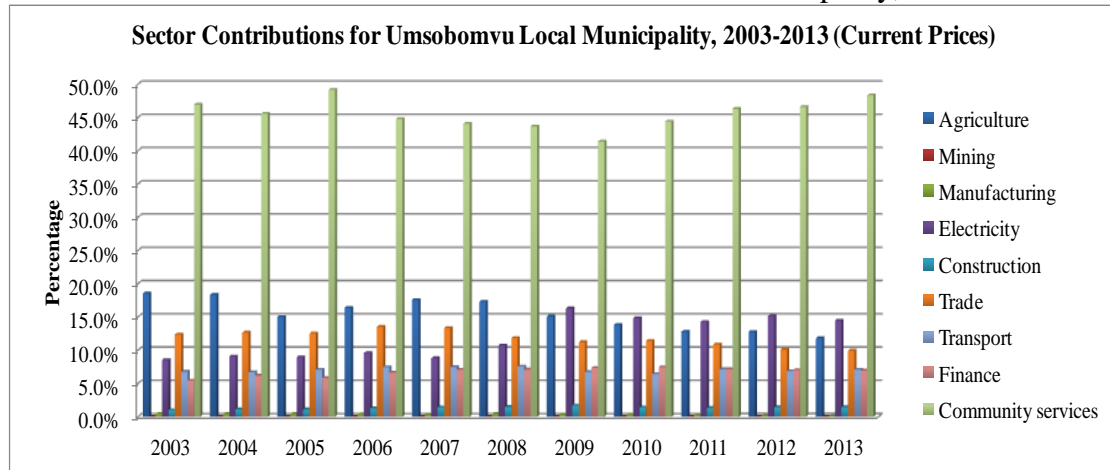
The economic growth for Umsobomvu Local Municipality and Pixley Ka Seme District Municipalities was between 8.4 and 1.1 per cent from 2003 to 2013. Both municipalities followed the same trend from 2003 to 2012 while the predicted figures show a positive trend from 2014 to 2016.

Umsobomvu Local Municipality has a declining economy that is largely based on sheep farming and the highest percentage of people is employed by the agricultural sector. The second highest employment is by community, social and personal services including government associations. In the past the economy was heavily dependent on Spoornet (Noupoort), and has since declined because of the withdrawal of Spoornet. Farming in the area is dedicated almost entirely to horses and merino sheep. Sheep-farming is spread over half-a-million hectares and the greater Colesberg breeds many of the country's top merinos.

The area is also renowned for producing high-quality racehorses and many stud farms, including one owned by legendary golfer, Gary Player, are nearby. The ostrich-feather boom of the early 1900s, which left many farmers rich, is forgotten. The Colesberg area shows promising growth in terms of tourism and the Municipality prides itself as a natural transportation route for people travelling to destinations such as Cape Town,

Port Elizabeth, Gauteng and Bloemfontein since two of the major national roads, namely N1 and N9 pass through the Municipality (Umsobomvu LM IDP). Table 4.7 shows the sector contributions for Umsobomvu Local Municipalities from 2003 to 2013.

Table 4.14: Sector contributions for Umsobomvu Local Municipality, 2003 - 2013



Source: *Global Insight, 2014*

“Mining and agriculture are the most important industries to the Northern Cape's economy. The trade sector as well as transport and finance industries also contribute to the provincial economy while the tourism, fishing and mari-culture (specialised branch of aquaculture involving the cultivation of marine organisms food and other products in the open ocean) seem to be promising future industries for the province. Mining has been a mainstream and export-oriented industry for a century. Many mining giants like De Beers, Anglo American, Samancor and Assmang operate in the Northern Cape. The wine industry is expanding fast and the province is now one of the key wine producing areas of South Africa. Other agricultural activities include sheep farming and fruit (Umsobomvu LM IDP)”.

According to the graph above, the community services industry was the largest contributor from 2003 to 2013. The tertiary sector had the largest annual average contribution at 17.8 per cent followed by primary sector at 7.7 percent between 2003 and 2013.

4.2.5. Demographics of Umsobomvu Local Municipality

Table 4.8 sets out the demographics of Pixley Ka Seme District Municipality. According to the Municipal Demarcation Board (2006) there are approximately 155 841 people living in the district. The largest municipality in Pixley Ka Seme District Municipality (in terms of population) is Emthanjeni with almost 40 000 households accommodating 22 percent of the population. The smallest municipality is Renosterberg, which only has 5 percent of the population and 2372 households. The farms accommodate approximately 18 percent of households or 22 percent of persons.

Table 4.15: Demographics of Pixley Ka Seme District Municipality

Population	28 376
Age Structure	
Population under 15	31.40%
Population 15 to 64	62.80%
Population over 65	5.80%
Dependency Ratio	
Per 100 (15-64)	59.30
Sex Ratio	
Males per 100 females	93.20
Population Growth	
Per annum	0.00%
Labour Market	
Unemployment rate (official)	33.00%
Youth unemployment rate (official) 15-34	40.40%
Education (aged 20 +)	
No schooling	16.30%
Higher education	6.30%
Grade 12	23.10%
Household Dynamics	
Households	7 841
Average household size	3.50
Female headed households	41.50%
Formal dwellings	88.20%
Housing owned	52.70%

Household Services	
Flush toilet connected to sewage	68.70%
Weekly refuse removal	76.30%
Piped water inside dwelling	45.10%
Electricity for lighting	86.70%
Population	30 883
Age Structure	
Population under 15	25.10%
Population 15 to 64	69.00%
Population over 65	5.90%
Dependency Ratio	
Per 100 (15-64)	44.90
Sex Ratio	
Males per 100 females	94.60
Population Growth	
Per annum	1.92%
Labour Market	
Unemployment rate (official)	0.00%
Youth unemployment rate (official) 15-34	0.00%
Education (aged 20 +)	
No schooling	9.90%
Higher education	5.50%
Grade 12	26.70%
Household Dynamics	
Households	9 575
Average household size	3.20
Female headed households	40.00%
Formal dwellings	89.20%
Housing owned	54.40%
Household Services	
Flush toilet connected to sewerage	72.60%
Weekly refuse removal	76.70%
Piped water inside dwelling	42.30%
Electricity for lighting	93.70%

Source: Census 2011 Municipal Fact Sheet, published by Statistics South Africa.

The unemployment rate has risen from 29 percent to 33 percent (2001) and 42, 8 percent of the people have an income below the poverty breadline of R800.

Umsobomvu Local Municipality has the highest rate of unemployment (31 percent compared to 21 percent for the district), which is attributed to the decline in the railway industry in the area. The Human Development Index (HDI) is 0.58, which is lower than the national HDI of 0.72. A higher percentage of people in the municipality have lower incomes than the district average (Umsobomvu LM IDP).

Gender distribution in the district correlates with that of the Northern Cape Province where female representation is slightly higher than male representation. 78% of the population speaks Afrikaans, which is consistent with the demographic information for the Northern Cape Province, 17% speaks isiXhosa, 2% Setswana, 1% English and 2% “Other” languages.

Pixley Ka Seme District Municipality consists of 38 755 households, with 51% headed by females. In towns, the poor usually live furthest from the centre of town, and the townships and town do not form a coherent whole. According to the table above, the municipality households increased from 7 841 to 9 575 thousand while the highest population contributor between the ages of 15-64 increased from 62.8 percent to 69.0 percent, the dependence ratio within the municipality decreased from 59.3 percent to 44.9 percent and all household services increased except piped water inside the dwellings which decreased from 45.1 percent to 42.3 percent between 2003 and 2013(Umsobomvu LM IDP).

4.3. Umsobomvu Local Municipality socio-economic challenges

The community of Umsobomvu Local Municipality, as part of the Northern Cape Community, suffers from various socio-economic problems: poverty, alcohol abuse and crime (violent crimes with high alcohol involvement).

Compared to other areas in the province, some social problems, like unemployment and poverty, are augmented in this area and not all communities receive basic services. Most people walk to their destinations, which is often of a social nature. Unlike the majority of the province, this community is mostly Xhosa speaking. There is iniquity as to deprivation in the area. Literacy levels are insufficient There is a large HIV AIDS problem.

The high unemployment rate and subsequent poverty have the effect that a large percentage of the community do not own cars and cannot afford to make use of public transport and therefore have to walk to wherever they have to go. The town layout, being divided by the N1, creates an unsafe environment for persons travelling from one area to another. As is customary with pedestrians in general, pedestrians in Colesberg also make use of the shortest route and therefore cross the N1 at unsafe places and do not make use of the underpasses. The access roads to Lowryville and Kuyasa are not surfaced and there is a lack of dedicated pedestrian walkways. Pedestrians either walk in the road in the townships or along informal pathways through the veldt.

There are insufficient facilities for persons making use of public transport along the main access routes and within the communities. The Hantam Community Education Trust is an education initiative in this district. Most young people cannot afford to go away to study, and there are no technical colleges or universities based in the Northern Cape. There are some initiatives around adult education and skills development training within the district. Even though the population of the Northern Cape is declining, towns in the district are experiencing growth as more and more rural households move to towns to access better facilities and services.

In the Colesberg Service Delivery Review it is stated that there are not sufficient schools to ensure a place for all children, there are an insufficient number of teachers, hostels are not available, school buildings are old, and there is no money for pre-primary schools. The library services in the area indicate that they are aiming to improve literacy levels. In Umsobomvu Local Municipality there were 2197 teachers and 6707 learners (2000).

An estimated number of 200 to 300 youth from Colesberg's Kuyasa Township are visiting the Love Life Youth Centre daily. This centre opened in 2002 to raise AIDS awareness and tackle crime and substance abuse. Truck drivers traveling on the N1 highway near Colesberg also said they were more informed due to a roadside AIDS awareness clinic.

In the Umsobomvu region the crime rate is low when compared to other areas in the country. Safety and security facilities are provided in the form of Police Stations throughout the municipality. South African Police Service main office is located in Colesberg while one satellite office is located in Kuyasa. Noupoot and Norvalspont also have police stations (Umsobomvu LM IDP).

4.4. SUMMARY AND DEDUCTION

The objective of this chapter was to highlight the diverse nature of municipalities, and the fact that they operate in a wide range of social and economic contexts by means of discussing South African local government. The White Paper on Local Government of 1998 notes the maximising of social development and economic growth as one of the characteristic of developing local government in South Africa. South Africa's municipalities operate in a wide range of geographical, economic and social contexts. The local government fiscal framework does contain elements that treat municipalities on a differentiated basis, there is a need to re-examine the different revenue streams available to municipalities and ensure that the division of the local government equitable share and conditional grants targets the poorest municipalities.

Umsobomvu Local Municipality has a declining economy that is largely based on sheep farming and the highest percentage of people is employed by the agricultural sector. The challenge of financial sustenance is exacerbated by the situation where municipalities fail to institute proper mechanisms to ensure they not only collect their revenue accordingly, but also grapple with their revenue bases (Umsobomvu Local Municipal Integrated Development Plan). Socio economics challenges should be addressed within the broader social context and partnerships should be formed with existing initiatives and national/provincial / local programmes (e.g. Literacy, HIV AIDS programmes).

CHAPTER 5: DISCUSSION ON REVENUE ENHANCEMENT IN UMSOBOMVU LOCAL MUNICIPALITY

5.1. INTRODUCTION

Chapter 1 presented a detailed discussion of the research methodology followed to establish the challenge that South African municipalities are facing in enhancing their own source of revenue.

This chapter presents the findings of the study which entails the responses from the different participants from Umsobomvu Local Municipality. The research method that were used were the literature study and qualitative research study through semi-structured interviews that were conducted by means of questionnaires with the finance (officials), ratepayers association, civil organisations, churches and individual members of the community (community leaders), political leaders and consultants.

The results of the literature study are explained in the first section and in the second section the findings of the interviews are presented and discussed. The responses are compiled into tabular formats and graphs and this is done in order to facilitate analysis and understanding of the attitudes and opinions of the different participants concerning their understanding of the revenue collection functions in the Umsobomvu Local Municipality.

5.2. LOCAL GOVERNMENT AS DISTINCTIVE, INTERDEPENDENT AND INTERRELATED SPHERE OF GOVERNMENT

It has emerged from Chapter 2 that local government as one of the three spheres of government is a distinctive, interdependent and interrelated sphere of government. It has also emerged from Chapter 3, Section 40 of the Constitution of the Republic of South Africa, 1996, that the “three spheres of government exist distinctively, interdependently and that they are interrelated”.

Furthermore, the national government, provincial government and local government promotes and facilitates intergovernmental relations, make provision for mechanisms and procedures to facilitate the settlement of intergovernmental disputes and provide for matters connected therewith (Republic of South African, 2005:11). Also it has emerged from Chapter 4 that, the White Paper on Local Government of 1998 notes the “maximising of social development and economic growth as one of the characteristics of developing local government in South Africa”.

Local government operationalizes national and provincial initiatives in conjunction with various non-governmental agencies and the private sector. Since local government is the closest to the people and interacts on a daily basis with clients (community), specific emphasis is generally placed on its developmental service delivery role (Van der Waldt 2015:20). The country’s tax collection targets have not been met and this means that the fiscus has fewer funds available to allocate across the various spheres of government and local government has forever receive the lowest allocation from national fiscus.

5.3. SOURCES OF REVENUE OF SOUTH AFRICAN LOCAL GOVERNMENT

The most important sources of income for any municipality in South Africa are revenue from households, businesses, and industries for rendering services as well as revenue from property rates or taxes. In the case of the rest of the government, municipalities face a difficult fiscal environment. Even as demand for services rises, weak economic growth has put stress on consumer’s ability to pay in the past. Some municipalities have managed these challenges well, but others have fallen into financial distress and face liquidity problems. These include municipalities that are unable to meet their payments obligations to Eskom, water boards and other creditors.

The increasing unemployment and growth in the number of persons per household means that the revenue foregone in respect of free basics will likely increase and it will become even more difficult to collect revenue. Municipalities own revenue sources are shrinking due to widespread drought and households opting for alternative

sources of energy. This means that more effort is required to maximise revenue derived from property.

The persistently high debtor levels indicate that most municipalities' efforts to collect billed revenues are deficient. In this regard, it should be noted that the growth in consumer debtors pre-dates the slowdown in the economy in 2009. Far more relevant explanations for the growth in debtors include:

- A failure on the part of mayors and municipal councils to provide political backing to revenue enhancement programmes
- A failure on the part of municipal managers to allocate sufficient staff/capacity to the revenue collection function
- Council unwillingness to sanction the use of electricity
- Service cut-offs as debt management tools (or Eskom not cooperating with municipalities to enable them to use electricity as a debt management tool in the areas it services)
- Poorly designed revenue management, indigent and credit control and customer care policies
- The affordability of municipal bills, especially to households where breadwinners lost their jobs in the recession
- Resistance among certain communities to paying for certain types of services (or to being billed in a particular way)
- Ratepayer boycotts, sparked by deteriorating service delivery, and perceptions that the municipality is unresponsive to community concerns.

The scope for improving own revenues by ensuring payment of current bills and collecting outstanding debtors is very large, given that the majority of municipalities have collection rates below 80 percent. Indeed, there are a number of municipalities that have demonstrated that collection rates can be massively improved by adopting relatively simple, back to basics type debt management processes.

5.4. REVENUE MANAGEMENT AND ENHANCEMENT

According to Ducharme (2016:15) the municipal credit control programmes must involve a number of actions, structured in such a way as to progressively convince or persuade the customer to pay for the services consumed. South African local government face a difficult fiscal environment while transfers from national government are growing more slowly than in the past. The national and provincial government together with households are the main debtors of the municipalities, and due to fiscal constraints they are unable to make prompt payments.

However, it has emerged from Chapter 2 that the accounting officer must inform the National Treasury immediately of any payments due by an organ of state to the municipality in respect of municipal tax or for municipal services, if such payments are regularly in arrears of more than 30 days. Furthermore, the accounting officer must take all reasonable steps to ensure that the municipality has effective revenue collection systems that are consistent with section 95 of the Municipal Systems Act and the municipality's credit control and debt collection policy. (Republic of South Africa, 2003:84-85).

Municipal consumer debt has a number of potential impacts and it can cripple the cash position of municipalities and, therefore, their ability to fulfil constitutionally mandated responsibilities. Municipal consumer debt can also reduce the finance available for the delivery of basic services, infrastructure, and maintenance and upgrading. The outstanding payments also represent foregone resources that could be used to improve the living conditions of the poor. The following Table 5.1 is the debt owed by organs of the state and households to local municipalities of the Northern Cape;

Table 5.1: Total outstanding government debts per sector department as at 30 June 2018

Municipalities	DBET OWED DEPARTMENTS					
	PROVINCIAL	NATIONAL	EDUCA	Health	Social	TOTAL
	PUBLIC WORKS R'000	PUBLIC WORKS R'000	TION R'000	R'000	Develop ment R'000	
ZF MGCAWU DISTRICT						
Kai! Garib	-	-	-	-	-	-
//Khara Hais	6 127	2 668	203	1 322	-	10 320
!Kheis	-	2 131	-	-	-	2 131
Tsantsabane	-	5 852	-	-	-	5 852
Kgatelopele	223	-	-	-	1 265	1 488
Meir	-	-	161	-	-	161
ZF Mgcawu District	-	-	-	-	-	-
SUB-TOTAL: ZF MGCAWU	6 350	10 651	364	1 322	1 265	19 952
NAMAKWA DISTRICT						
Richtersveld	-	1 201	-	-	-	1 201
Nama Khoi	-	5 203	-	-	-	5 203
Kamiesberg	-	-	-	-	-	-
Hantam	-	2 041	-	-	-	2 041
Karoo Hoogland	-	463	-	-	-	463
Khai-Ma	205	-	75	104	-	384
Namakwa District	-	-	-	183	-	183
SUB-TOTAL: NAMAKWA	205	8 908	75	287	-	9 475
JOHN TAOLE DISTRICT						
Joe Morolong	3 024	-	-	-	-	3 024
Ga-Segonyana	-	-	-	-	-	-
Gamagara	-	-	-	-	-	-
John Taole District	-	-	-	-	-	-
SUB-TOTAL: JOHN TAOLE	3 024	-	-	-	-	3 024
Francis Baard District						
Sol Plaatjie	-	-	-	-	-	-
Dikgatlong	-	-	-	-	-	-
Magareng	475	519	-	2 147	-	3 141
Phokwane	1 902	1 139	1 834	874	-	5 749
Frances Baard	143	-	-	-	-	143
SUB-TOTAL: FBD	2 520	1 658	1 834	3 021	-	9 033
PIXLEY KA SEME DISTRICT						
Ubuntu	-	-	-	-	-	-
Umsobomvu	25	3 355	-	-	-	3 380
Emthanjeni	2 448	-	3 525	-	-	5 973
Kareeberg	70	-	223	-	-	293
Renosterberg	-	3 601	-	-	-	3 601
Thembelihle	422	-	-	-	-	422
Siyathemba	-	-	-	-	-	-
Siyancuma	-	1 117	-	-	-	1 117
Pixley ka Seme District	-	-	-	-	-	-
SUB-TOTAL: PIXLEY KA SEME	2 965	8 073	3 748	-	-	14 786
TOTAL MUNICIPAL DEBTS	15 064	29 290	6 021	4 630	1 265	56 270

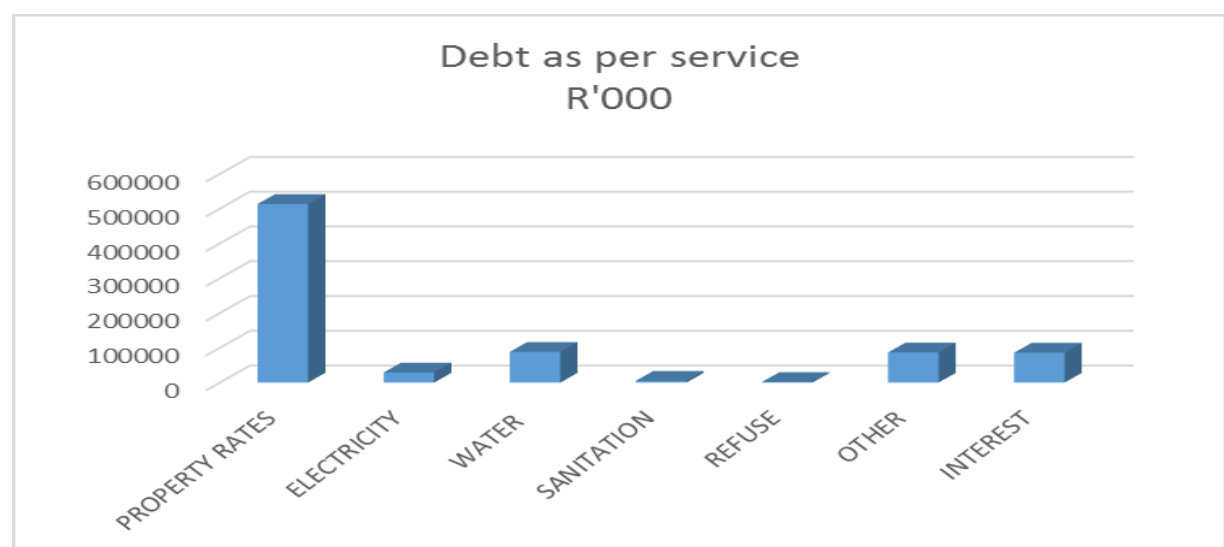
Source: NT LG Data Base

The total outstanding debt owed to municipalities by government departments amounts to R56 million as by 30 June 2018. Of the total R56 million outstanding debt the highest contributor is ZF Mgcawu district at R20 million or 35 percent of the total debt followed by Pixley Ka Seme district at R15 million or 26 percent and Namakwa district by R9.4 million or 17 percent, Frances Baard district at R9 million or 16 percent and John Taolo Gaetsewe district at R3 million or 5 percent respectively.

In the Frances Baard district the amount owed to Sol Plaatjie municipality alone is R639 million which mostly relates to the rates and taxes. The Provincial Treasury is engaging the municipality and the department of Roads and Public Works in the property rates debt as well other sector departments on the debt of service charges.

The progress is recorded as slow due to various reasons, the main one being the municipality's non submission of invoices to Treasury in order to facilitate the payments from provincial departments. The main challenge that is experienced in the whole issue of government debt is the way that municipalities report the debts in the section 71 reports. It should be noted that the report refers only to the municipalities that submitted the information to the Provincial Treasury.

Table 5:2: Below shows the total outstanding debts per sector department per revenue item for the period ending 30 June 2018.



Source: NT LG Data Base

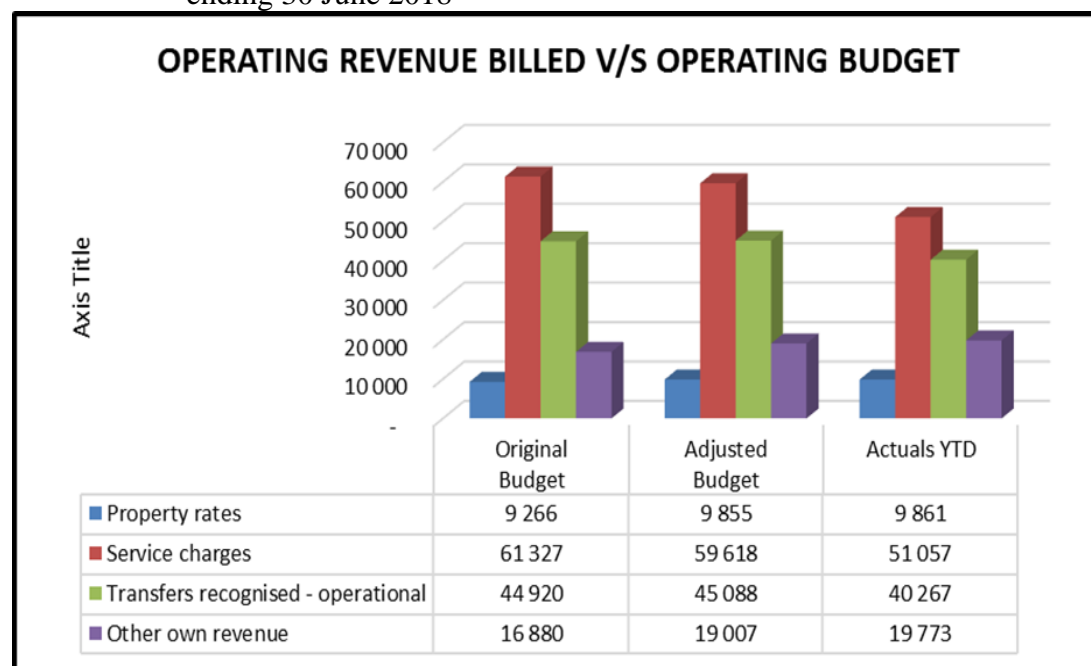
It should be noted that the above government debt relates to assessment rates, service charges for water, electricity and sewer only while the breakdown of services of Pixley Ka Seme per department are not added. From the table above it is clear that the debts of municipalities in government mostly relates to the property rates at a total of R468 million, followed by other at R49 million, electricity at R22 million, and water at R12 million. This trend can be as a result of municipalities being unable to exercise credit control when it comes to water as opposed to electricity where there are direct measures that could be implemented like cut-off. Also the inability of the municipality to quantify government debt stated as other on the municipal Section 71 report.

Total payments by departments amounts to R77 millions of which National and Provincial Public works paid R7 million and R52 million respectively. This is followed by the Department of Education with an amount of R18 million, Social development with an amount of R0.222 million and Department of Sport Art and Culture with an amount of R0.83 million.

Local government debt refers to the non-payment of property rates, and fees/charges for the services provided by municipalities (for example water, sanitation, electricity and refuse removal) and various other financial obligations to municipalities (which include for example, traffic fines and rental housing payments). Municipal consumer debt encompasses late payments for property rates, service and other municipal charges, as well as amounts that are deemed irrecoverable.

The issue of the debts owed to municipalities by residents, businesses and government is something that must be prioritised and lots of work has been done to assist municipalities to recoup money owed by departments of Northern Cape Provincial Treasury. The root causes that are associated with the entire debt from challenges of the system to cross boundary issues is resulting in the process being slow and further increases the rise in interest. Table 5:3 shows the total outstanding debt as per debtor's age analyses for Pixley Ka Same district for the period ending 30 June 2018.

Table 5:2.1: Below shows the Umsobomvu Local Municipality total operating revenue billed and operating budget per revenue item for the period ending 30 June 2018



Source: NT LG Data Base

The municipality reported inconsistent total revenue between the Monthly Budget Statement - Financial Performance (revenue and expenditure) for 30 June 2018 submitted to the database and the Provincial Treasury Regional Office because of the following revenue items; Property Rates, Service charges for Water, Other Services Charge, Other and Fines. Transfers that are recognized is adjusted upwards by R168 thousand; however the municipality is yet to submit proof of additional allocation.

In addition to the above, the municipality reported high billing under Sanitation Revenue 121.8 percent, Rental of Facilities and Equipment 154.9 percent, Fines 107.6 percent and Licenses and permits 116.2 percent even after passing the adjustment budget. The municipality did not adjust the following revenue line items downwards despite unsatisfactory billing; Service charges for Water 76.0 percent, Service charges for Refuse 46.7 percent and Interest Earned on External Investment 62.6 percent.

Revenue recovery consists of adequate billing processes, which ensure accuracy and completeness of the services provided as well as the payee. Adequate processes should also be in place to timeously collect the outstanding debt owed to the municipality, through means of an effective credit control program. Accurate billing for services is a critical element of the municipal revenue management business model. Due to poor billing and revenue collection municipalities are becoming increasingly depended on intergovernmental funding to balance their budget. To facilitate this revenue generation, the municipality needs to bill its customers on a regular basis.

Table 5.3: Below shows the Pixley Ka Seme Debtors Age Analysis per revenue item for the period ending 30 June 2018

Table 5.3.: Debtor Age Analysis

R thousands	0 - 30 Days		31 - 60 Days		61 - 90 Days		Over 90 Days		Total		Actual Bad Debts Written Off to Debtors		Impairment - Bad Debts to Council Policy	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Debtors Age Analysis By Income Source														
Trade and Other Receivables from Exchange Transactions - Water	6 036	3.3	20 949	11.4	6 141	3.3	150 365	81.9	183 490	36.8	-	-	32 577	17.8
Trade and Other Receivables from Exchange Transactions - Electricity	6 198	10.3	6 891	11.4	4 283	7.1	42 847	71.2	60 219	70.3	-	-	9 899	16.4
Receivables from Non-exchange Transactions - Property Rates	2 717	3.2	7 926	9.3	1 653	1.9	73 328	85.6	85 624	17.2	-	-	15 277	17.8
Receivables from Exchange Transactions - Waste Water Management	2 514	3.2	2 881	3.7	2 280	2.9	69 779	90.1	77 454	15.5	-	-	19 056	24.6
Receivables from Exchange Transactions - Waste Management	1 944	3.0	1 956	3.0	1 597	2.4	59 724	91.6	65 221	13.1	-	-	9 857	15.1
Receivables from Exchange Transactions - Property Rental Debtors	21	-	212	-	84	-	4 523	-	4 840	1.0	-	-	257	5.3
Interest on Arrear Debtor Accounts	38	-	61	-	49	-	9 542	-	9 690	1.9	-	-	4 612	47.6
Recoverable unauthorised, irregular or fruitless and wasteful Expenditure	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	336	2.8	340	2.8	669	5.4	10 771	89.0	12 106	2.4	-	-	3 408	28.2
Total By Income Source	19 804	4.0	41 215	8.3	16 746	3.4	420 879	84.4	498 644	100.0	-	-	94 943	19.0
Debtors Age Analysis By Customer Group														
Organs of State	1 478	-	2 238	-	1 732	-	16 056	-	21 504	4.3	-	-	1 044	4.9
Commercial	3 742	-	6 801	-	1 904	-	19 143	-	31 590	6.3	-	-	2 338	7.4
Households	13 995	3.2	32 992	7.6	12 666	2.9	373 144	86.2	432 787	86.8	-	-	83 231	19.2
Other	589	-	(806)	-	444	-	12 536	-	12 763	2.6	-	-	8 300	65.3
Total By Customer Group	19 804	4.0	41 215	8.3	16 746	3.4	420 879	84.4	498 644	100.0	-	-	94 943	19.0

Source: NT LG Data Base

The total outstanding debtors for the Pixley Ka Seme district at end of June 2018 amount to R498, 644 million and the highest emanates from Umsobomvu Local Municipality at R114, 318 million and is followed up by Emthanjeni Local Municipality at R77, 316 million. Bulk Water is the highest outstanding account at R183, 490 million of the total outstanding debt in the region and Umsobomvu Local Municipality contributed the highest in the region at R43, 127 million. Residential defaulters were the biggest culprits at end of October 2016, and they were responsible for R432, 787 million of total outstanding debtors of which R373, 144 million were outstanding for more than 91 days to a year.

Table 5.3: Below shows the Umsobomvu Local Municipality Debtors Age Analysis per revenue item for the period ending 30 June 2018

Debtors Age Analysis (F9)														
Detail	0 - 30 Days		31 - 60 Days		61 - 90 Days		Over 91 Days to 1 Year		Total		Impairment - Bad Debts i.t.o Council Policy		Total	
	R 0	%	R 0	%	R 0	%	R 0	%	R 0	%	R 0	%	R 0	% Change from May - June 2018
Location Level Selected: District Area(s): NC077														
Financial Year End : 2018														
Period : Month 12, June 2018														
Figures in R'000														
Debtors Age Analysis By Income Source														
Trade and Other Receivables from Exchange Transactions - Water	(679)	-1.2	1 495	2.7	1 397	2.5	52 738	96.0	54 951	36.7			50 276	9.3
Trade and Other Receivables from Exchange Transactions - Electricity	1 701	20.3	484	5.8	388	4.6	5 793	69.2	8 366	5.6			9 918	-14.8
Receivables from Non-exchange Transactions - Property Rates	111	0.9	348	2.7	330	2.6	12 129	93.9	12 918	8.6			12 686	1.8
Receivables from Exchange Transactions - Waste Water Management	733	2.6	592	2.1	551	2.0	25 906	93.2	27 782	18.6			27 489	1.1
Receivables from Exchange Transactions - Waste Management	337	1.1	464	1.5	440	1.4	29 407	96.0	30 648	20.5			30 266	1.3
Receivables from Exchange Transactions - Property Rental Debtors	(62)	-	34	0.9	34	0.9	3 962	99.8	3 969	2.7			3 952	0.4
Interest on Arrear Debtor Accounts	-	-	-	-	-	-	10 980	-	10 980	7.3			10 691	2.7
Recoverable unauthorised, irregular or fruitless and wasteful Expenditure	-	-	-	-	-	-	-	-	-	-			-	-
Other	(3)	-8.9	2	6.4	2	6.4	31	96.2	32	0.0			30	5.6
Total By Income Source	2 138	1.4	3 419	2.3	3 143	2.1	149 946	94.2	149 646	100.0			145 208	3.1
Debtors Age Analysis By Customer Group														
Organs of State	272	5.7	398	8.3	292	6.1	3 843	80.0	4 805	3.2			6 598	-27.2
Commercial	1 512	19.2	383	4.9	306	3.9	5 670	72.0	7 872	5.3			7 691	2.3
Households	355	0.3	2 638	1.9	2 945	1.9	131 433	96.0	136 969	91.5			130 918	4.6
Other	-	-	-	-	-	-	-	-	-	-			-	-
Total By Customer Group	2 138	1.4	3 419	2.3	3 143	2.1	149 946	94.2	149 646	100.0			145 208	3.1

Source: NT LG Data Base

Total outstanding debtors for Umsobomvu Local Municipality at end of June 2018 amount to R149 646 million, with an increase of 3.1 percent when compared to the previous month. The highest outstanding amount reported is Under Water at R54 951 million or 36.7 percent, followed by Waste Management at R30 648 million or 20.5 percent and Waste Water Management at R27 782 million or 18.6 percent.

As per customer group the highest outstanding amount reported is under household at R136 969 million or 91.5 percent which increased by R4 438 million when compared to the previous month. The lowest reported amount is Organs of state at R4 805 million or 3.2 percent.

The increasing and proportionally high level of consumer debt owed to Umsobomvu Local Municipality is a testimony to the existence of revenue collection and bad debt challenges. The Umsobomvu Local Municipality is suffering from the highest amount of bad debts in the year in question as indicated on the Debtors Age Analyses.

Table 5:4: Municipal councillor's debt as per the municipalities

Municipality	Amount R thousand	Notes to Annual Financial Statements
Ubuntu Local Municipality	23,092	48
Umsobomvu Local Municipality	2,041	41
Emthanjeni Local Municipality	30,310	53,6
Kareeberg Local Municipality	-	39,05
Renosterberg Local Municipality	AFS still to be submitted	
Thembelihle Local Municipality	217,848	62
SiyaThemba Local Municipality	-	49
Siyancuma Local Municipality	53,583	41,6
Total amount owed by municipal councillors for Municipal Services more than 90 days	326,874	

Source: NT LG Data Base

Table 5.4. Above is the summary of municipal councillors who owes municipal services for more than three months per municipality as per the draft 2015/16 Annual Financial Statements. Furthermore, it can be noted that Thembelihle Local Municipality owes the highest in the district. The total outstanding amount of debt which should be paid by organs of the state towards municipalities in the region amount to R21, 504 million or 4, 3 percent of the total outstanding debtors. Emthanjeni Local Municipality is owed the highest by organs of state at R6, 502 million and is followed by Umsobomvu Local Municipality at R3, 880 million.

Table 5.5. Below shows the Umsobomvu Local Municipality Creditors Age Analysis per revenue item for the period ending 30 June 2018

Creditor Age Analysis (in R'000) for Financial Year End 2017, Period Selected: Month 12, June 2018													
	0 - 30 Days		31 - 60 Days		61 - 90 Days		Over 90 Days		Total			Total	% Change from May - June 2018
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount		
SUMMARY: UMSOBOMVU													
Bulk Electricity	1 981	100.0	-	-	-	-	-	-	1 981	33.2	1 989	-0.4	
Bulk Water	-	-	-	-	-	-	-	-	-	-	-	-	
PAYE deductions	-	-	-	-	-	-	-	-	-	-	-	-	
VAT (output less input)	-	-	-	-	-	-	-	-	-	-	-	-	
Pensions / Retirement	-	-	-	-	-	-	-	-	-	-	-	-	
Loan repayments	-	-	-	-	-	-	-	-	-	-	-	-	
Trade Creditors	-	-	-	-	-	-	-	-	-	-	-	-	
Auditor General	-	-	-	-	-	-	-	-	-	-	-	-	
Other	3 981	100.0	-	-	-	-	-	-	3 981	66.8	718	454.4	
Total	5 962	100.0	-	-	-	-	-	-	5 962	100.0	2 707	120.3	

Source: NT LG Data Base

The municipality's total outstanding creditor's amount to R5 962 million, which is an increase of R3 255 million that is paid within 30 days. Other is the highest creditor of the municipality at R3 981 million or 66.8 percent of total outstanding creditors. The lowest reported is Bulk is electricity at R1 981 thousand or 33.2 percent.

Table 5.6: Below shows the Umsobomvu Local Municipality Cash flow statement per revenue item for the period ending 30 June 2018

Cash Flow Statement (in R'000) for Financial Year End 2018, Period Selected: M12								
Description	Database					Submitted to Regional Office		
	2018/06/30					2018/06/30		
R thousands	Original Budget	Adjusted Budget	YTD Actual	% YTD Date	% Actual Collection v/s Billing	YTD Actual	%	Difference between Database & Municipality
Cash Receipts by Source								
Property rates	9 266	8 870	6 443	72.6	65.3	6 443	72.6	-
Property rates - penalties & collection charges	-	-	-	-	-	-	-	-
Service charges - electricity revenue	27 558	20 667	25 003	121.0	89.4	25 003	121.0	-
Service charges - water revenue	9 635	9 090	5 832	64.2	59.1	5 832	64.2	-
Service charges - sanitation revenue	6 213	5 590	3 676	65.8	35.1	3 676	65.8	-
Service charges - refuse revenue	3 450	4 053	1 341	33.1	46.0	1 341	33.1	-0.0
Service charges - other	-	-	-	-	0	-	-	-
Rental of facilities and equipment	271	276	82	29.7	19.2	82	29.7	-
Interest earned - external investments	560	532	333	62.6	100.0	333	62.6	-
Interest earned - outstanding debtors	1 556	1 902	3 097	162.8	101.1	3 097	162.8	-
Dividends received	-	-	-	-	0	-	-	-
Fines	6 093	6 963	7 468	107.3	99.7	7 468	107.3	-
Licences and permits	2 285	2 396	2 772	115.7	99.6	2 772	115.7	-
Agency services	218	326	347	106.6	0	347	106.6	-
Transfer receipts - operational	44 920	45 088	29 364	65.1	72.9	29 364	65.1	-
Other revenue	5 256	5 588	53 651	960.0	1 003.2	53 651	960.0	-
Cash Receipts by Source	117 281	111 341	139 409	125.2		139 409	125.2	-0.0
Other Cash Flows/Receipts by Source								
Transfer receipts - capital	17 031	-	22 681	-	93.72	22 681	133.2	-
Contributions recognised - capital & Contributed assets	-	-	-	-	-	-	-	-
Proceeds on disposal of PPE	-	-	-	-	0	-	-	-
Short term loans	-	-	-	-	-	-	-	-
Borrowing long term/refinancing	-	-	-	-	-	-	-	-
Increase (decrease) in consumer deposits	170	170	63	37.3	-	64	37.4	-
Decrease (Increase) in non-current debtors	-	-	-	-	-	-	-	-
Decrease (increase) other non-current receivables	-	-	-	-	-	-	-	-
Decrease (increase) in non-current investments	-	-	-	-	-	-	-	-
Total Cash Receipts by Source	134 483	111 511	162 154	120.6		162 154	145.4	-0.0
Cash Payments by Type								
Employee related costs	49 356	38 705	42 223	109.1	96.1	42 223	109.1	-
Remuneration of councillors	3 717	3 859	3 845	99.6	101.7	3 845	99.6	-
Collection costs	-	-	-	-	-	-	-	-
Interest paid	260	119	62	51.8	104.0	62	51.8	-
Bulk Purchases	23 388	22 234	18 200	81.9	-	18 200	81.9	-
Electricity	23 078	21 484	17 392	81.0	100.0	17 392	81.0	-0.0
Water & Sewer	310	750	808	107.7	99.4	808	107.7	-
Other materials	-	-	-	-	-	-	-	-
Contracted services	-	1 124	450	40.1	8.5	450	40.1	-
Grants and subsidies paid - other municipalities	-	-	-	-	-	-	-	-
Grants and subsidies paid - other	-	-	6 723	-	-	6 723	-	-
General expenses	34 212	38 749	46 353	119.6	154.2	46 353	119.6	-
Cash Payments by Type	110 933	104 790	117 856	106.2		117 856	112.5	-0.0
Other Cash Flows/Payments by Type								
Capital assets	20 781	34 622	24 174	116.3	99.9	24 174	69.8	-
Repayment of borrowing	979	979	1 026	104.8	-	1 026	-	-
Other Cash Flows/Payments	-	-	31 096	-	-	31 096	-	-
Total Cash Payments by Type	132 694	140 391	174 152	131.2		174 152	124.0	-0.0
Net Increase/(Decrease) in Cash Held	1 789	(28 880)	(11 998)	-670.6	-	(11 998)	41.5	0.0
Cash/cash equivalents at the month/year begin:	17 114	17 114	17 114	-	-	17 114	-	-
Cash/cash equivalents at the month/year end:	18 903	(11 766)	5 116	27.1		5 116	-43.5	-0.0

Source: NT LG Data Base

The Umsobomvu Local Municipality cash and cash equivalent at end of the month amount to a positive balance R5 116 million. An extract of the trial balance from the general ledger, Bank reconciliation for the reporting period in the primary bank account and copies of the actual monthly bank statements (reflecting the opening and closing bank balances) for the primary bank account is directed by the MFMA 67. The Monthly Cash Flow Statement of the municipality reported collecting more than what was billed under Other Revenue and high other expenditure.

Furthermore to the above, Monthly Cash Flow Statement reported expenditure under Other Cash Flows/Payments despite not budget for the line item. Lastly the municipality reported Actual capital expenditure slightly different to what is reported in the Monthly Budget Statement - Capital Expenditure by Standard Classification and Funding for 30 June 2018.

The municipality's collection rate against billed revenue is unsatisfactory under Property Rates 65, 3 percent, service charges for water 59, 1 percent, service charges for Sanitation 35.1 percent, service charges for Refuse 46 percent, and Rental of Facilities and Equipment 19, 2 percent. Low expenditure as per Monthly Cash Flow Statement is reported under Interest paid at 51.8 percent, Bulk purchases for electricity is 81.0 percent and contracted services 40.1 percent.

Total conditional grants allocated to Umsobomvu local municipality from National Government excluding Equitable Share amounts to R20 556 million as per Division of Revenue Act for 2017/18 financial year.

5.5. CHALLENGES ON REVENUE MANAGEMENT AND ENHANCEMENT

According to Dirie, (2005) local government in less developed countries like South Africa faces a greater challenge when it comes to raising revenue because the municipal revenue base is often weak, especially when compared to the revenue base of the central government”. Bird and Slack, (2004) further said that “municipalities have few own-source revenues, lack of incentives to generate their own revenues, and do not use the existing revenue potential from these sources. For example, property taxes are difficult to administer and to collect.

Slack, (2009:13) state that municipalities have little or no control over the tax rates they can levy and there is lack of trust between municipalities and the central government. Furthermore, in many developing countries, including South Africa, the capacity of local government to give effect to its fiscal power is a serious limitation. In South Africa this problem is compounded by the integration of previously disadvantaged communities into municipal boundaries, a culture of non-payment, and poor administrative systems.

As the fiscal crisis continues to impact local government, challenges for local government that are directly and indirectly linked to the fiscal crisis can be identified. Two direct challenges include the difficulty of balancing local budget realities with decreased revenues, increased service demands, the costs of unfunded state and federal mandates and the dramatic cost of infrastructure and associated costs. In addition to these direct issues, three additional challenges exist for local municipalities that are indirectly related to fiscal conditions, barriers to creating voluntary governmental mergers and shared service agreements, as well as on-going structural fiscal policy.

South African municipalities face a growing demand for better performance from efficient service delivery and better infrastructure to providing sustained support to the indigent and even maximizing income to develop infrastructure has become increasingly challenging. The collection of consumer charges is the lifeblood and determines the going-concern status of a municipality. A healthy cash flow is crucial

to ensure sustainable service delivery and infrastructure development and preservation. Similarly, some departments also don't have a comprehensive database of accounts which is their responsibility for payment and hence do not respond to municipalities who claim arrear debt for payment.

However local municipalities face severe budget constraints as a result of increased expenditure and costs on the one hand and decreasing levels of payment for services provided on the other. The debt burden is threatening the very existence of most local municipalities in South Africa. This makes effective revenue and credit control imperative. The revenue collection in municipalities is driven by the legal framework that includes the Constitution, Municipal Systems Act, Municipal Finance Management Act, Local Government Property Rates Act, Municipal policies and By-laws – tariffs, credit control and debt collection.

5.5.1 The analyses and interpretation of the qualitative research findings

As indicated in Chapter 1, interviews were held by means of questionnaires with the following people including the municipal mayor, municipal manager, chief financial officer, budget and treasury officers (including all the personnel that have authority within finance), ratepayers association, civil organisations, churches and individual members of the community (community leaders), political leaders and consultants. The questionnaires questions were designed as open ended questions and to obtain information regarding municipal revenue enhancement.

Due to the fact that the conducting of interviews by means of questionnaire and limitation of resources, interviews were only held in the Northern Cape's, Pixley Ka Seme District within Umsobomvu Local Municipality jurisdiction. The interviews were completed by 4 political leaders, 14 officials, 6 community leaders and 2 consultants.

5.5.1.1. Local government as Distinctive, Interdependent and Interrelated sphere of government

The officials indicated that the local government as a distinctive, interdependent and interrelated sphere of government face a challenge of raising its own sources of revenue to survive, let alone to be financial viable. Furthermore, it has been argued that national and provincial spheres of government receive huge allocation of grants as per the Division of Revenue Act.

The political leaders indicated that as local government is close to the people its faces major challenges in terms of implementing policies that will enhance revenue due to social challenges which faces their communities. While the economic recession in 2009 has affected all municipalities, some have been more affected than others due to the particular characteristics of their local economies (Northern Cape Provincial Government, 2014:21).

5.5.1.2. Sources of revenue of South African local government

The officials indicated that the major source of revenue that the municipality rely on is property rates, service charges and traffic fines. For the past years the collection rate has been declining due to non-payment by the debtors. However, according Ducharme (2015:14) rates are indirect charges to support other services rendered by a municipality within its boundaries (such as infrastructure: roads, storm water, community assets) which will benefit the public, and which cannot be determined on actual individual usage as in the case of tariffs.

The political leader illustrated that the municipality is embarking in the process of discovering different sources of revenue such as the rendering of billboards that commercial companies needs to advertised on. All those interviewed stated that municipalities face a huge challenge in discovering new sources of revenue due to the economic status of the country and high unemployment rate. The consultants argue that the municipality has the potential of exploring new sources of revenue as the municipality is situated in an economic developing area.

5.5.2. Revenue Management and Enhancement

The officials and political leaders indicated that they have adopted a revenue management and enhancement strategy as a guide for the municipality to enhance their revenue collection rate. The officials raised concerns that meter readings that were submitted by meter readers are inaccurate, incomplete and unreliable. Therefore the billing is not correct and the debtors were not paying their accounts.

Furthermore, credit controller officers indicated that politicians communicate incorrect information to the community regarding service delivery, and hence this resulted in debtor's boycotting the payment of municipal accounts. The consultants argue that the municipality billings system is not reflecting all households that reside within the municipal jurisdiction and therefore the municipality is running at a loss. However, Durchame (2016:14) argues that the billing function is the principle mechanism that drives all cash flow, the main source of customer information and critically fundamental to the success of any municipality.

The key to successful billing relies on software being able to provide reliable and accurate information. The consultants stated that the municipal audit report indicated that almost 25 percent of the household's meters are unreadable or inaccessible, and as a result the municipality is experiencing non-payment or revenue foregone on those households. Furthermore, the audit report indicated that the municipal billing systems are incomplete.

5.5.3. Challenges on Umsobomvu Local Municipality Revenue Management and Enhancement

Kumar, (2013) summarizes some of the other challenges impacting on the ability of municipalities to improve revenue as non-payment by consumers due to unemployment, poverty, declining economic climate and rising electricity costs, little or no growth rate in tax or base rates, absence of credit control policies that are strictly applied and the inability of courts to handle the large number of debt collection cases. The factors explained by Kumar, are accompanied by an unacceptable amount of bad

debts, thus, a municipality will suffer from poor revenue being collected from citizens.

According to Slack, (2009:10) “the challenge of local government is to keep citizens economically viable by delivering high level of services and at the same time, keeping taxes sufficiently low so as not to discourage individuals and business from locating in their jurisdiction. Municipalities are not allowed to increase prices without the approval of the upper sphere; municipalities will suffer from poor revenue since they are collecting very low revenue from services they provide to the citizens”.

South African society is characterised by high levels of social and economic inequalities, especially between urban and rural areas and as such the collection of revenue in the rural areas remains a challenge while having high levels of poverty and unemployment and low levels of economic activity, which can affect the ability of municipalities to fulfil their service delivery mandates in contrast to their urban counterparts (Ramakhula, 2010:42 – 50; Financial and Fiscal Commission, 2011:42 – 43; SALGA, 2012:2-4; Manyaka, 2014:132-133).

Local government operates in an environment that is faced with huge challenges for its existence and being financial stable. Local government has a mandate to collect all the revenue that is due to them and deliver quality services to its communities. In local government one of the critical constraints to reduce government debt is the lack of provision of credible data by the local municipalities. Sector departments lack the understanding of municipal processes and non-delivery of accounts to the government departments (i.e. Department of Public works, Health and Education) in time by the municipality.

The municipalities are not billing the specific user departments for service charges but are billing the department of Roads and Public Works as the custodian of the property instead and this attracts interest and causes disputes. The municipal lack of customer care service results in inefficient dispute resolution on account discrepancies regarding property values and tariffs levied.

The municipality also lack poor credit control and debt collection policy enforcement towards government departments, businesses and households. The municipality billing system is not credible and ineffective due to an insufficient financial reporting system and non-monthly performance of bank reconciliations, resulting in poor revenue collection and management.

The flaws in the current budget comprises of the following: the budget is significantly under-funded and major amendments are required to ensure that the operating expenditure can be funded from operating revenue taking into account the long outstanding debtors and creditors, working capital and the need to re-in state Government Grants not used for their intended purpose. There is also a high portion of outstanding debtors relating to government and business accounts due to long outstanding disputes regarding property values and tariffs levied. Failure by the municipality to update the indigent register on a monthly basis results in challenges to cash flow management.

5.5.4 STRATEGIES TO ENHANCE LOCAL GOVERNMENT REVENUE

The local government funding debate has gained momentum and it remains a topical discussion issue. While there are views that local government may be “under- funded” the responsibility for raising revenue is enshrined in the Constitution and this cannot be ignored. It is widely known and accepted that local government do not fulfil the Constitutional mandate in this regard and growing non-payment of municipal creditors and failure to collect monies due are among the factors contributing to unfunded budgets and budget deficits. Programmes such as re-registration of indigent are vital in order to recover bad debt to those debtors that are no longer indigents due to change in their employment status.

In principle, municipalities that continue to spend more revenue than they are able to raise, will realise budget deficits regardless of whether they table funded budgets or surpluses. Sound financial management and fiscal discipline supported by National Treasury’s “game changers” are integral to achieving financial sustainability that is necessary to support local government service delivery.

Municipalities should ensure that adequate processes and procedures are in place to ensure that all services rendered (tariffs, rates and others) are correct and completely billed for and timeously recovered to allow for smooth running and functioning of the municipality. To increase or improve collections from debtors, it is illogical to commence with collections and demands.

A credible, fair and transparent mechanism is necessary and because debt collection stands at the end of the income value chain, it is important to start at the beginning. The major municipal services that reflect the major part of municipal revenue includes electricity, water, refuse, removal, sewage and rates that makes up the most stable and guaranteed municipal revenue. Municipalities also receive other revenue from other related services provided (community facility revenue) and to allow for effective control and management of other aspects such as library fines, parking fines, advertisement fee, permits and licenses.

5.5.4.1 Strategy One: Revise Tariff Policies and Tariff Increases

The tariff policies and the tariff increases proposed in the current budget and outer years must be reviewed for applicability. Some of the current tariff structures may not be adequate to address the financial challenges facing municipalities or be adequate to meet the expenditure requirements. In this regard, an increase in revenue is as critical as cost reduction to improve available cash for service delivery. Noting that there will be legal issues to overcome in the current year, the preparation for the revised tariffs must continue for it to be implemented during a financial year (Northern Cape Provincial Government, 2013:5).

The largest revenue sources are derived from water and electricity services. These tariffs must be urgently reviewed to reflect the cost of providing the service. Municipalities will also be required to undertake a tariff comparison/ benchmarking exercise with similar municipalities that are performing better in other provinces or within the province. With regards to electricity tariffs municipalities will be assisted with ground work to ensure that tariff applications to the National Energy Regulator South Africa are done timeously.

5.5.4.2 Strategy Two: Revenue Enhancement

Critical in the implementation of a financial recovery plan is the development of a robust Revenue Enhancement Strategy. The municipalities are being assisted to develop a Revenue Enhancement Strategy through a hands-on approach of the Northern Cape Provincial Treasury but this has not yet been implemented. This strategy must be reviewed for consistency with the Financial Recovery Plan in order to achieve the broader objective of the financial recovery. Furthermore, the revenue enhancement process needs to be divided into short, medium and long-term activities in order to achieve the desired intended objective of sustainable municipalities.

Short-Term activities (to be completed within three to six months) will include focusing on the recovery of outstanding debtors, improving billing processes, implementation of credit control and debt collection policy, reviewing of all service delivery agreements/contracts relating to agency services, reviewing services not rendered or partly rendered by the municipality exploring new/expanded revenue streams and finalising outstanding issues on the current valuation roll.

Medium to Long Term (to be completed within seven to twelve months) will focus on cost recovery from unmetered areas, communication with consumers and suppliers, debtor data cleansing, implementing basic service charges, and establishing internal controls and proper costing of services.

5.5.4.3 Strategy Three: Cash Management Strategy

A cash management strategy is required to ensure that cash-flow planning and investment decisions are undertaken and that unspent grant funds are properly safeguarded and utilised only for the intended purposes. It has been noted that the municipalities are operating on negative cash, according to the information obtained from the municipality reports.

The trend shows that this negative cash is increasing over the previous year. From a legislative point of view, the recurrent overdraft situation is not permitted. Associated with this strategy is a need to engage with the relevant financial institution and the municipal creditors to confirm the amounts owed and to make it valid over the years and make payment arrangements, where required. The outcome of these engagements will have a significant impact on the implementation of the cash management strategy. A measure of success will be achieving a positive cash coverage ratio and progress towards a ratio that is equal to or exceeds 3 months over the medium term.

The trend reflects that debt to revenue has increased from a funding perspective; this trend also offers an opportunity to leverage borrowing to support infrastructure development but the interpretation of this trend cannot be undertaken in isolation of the overall financial situation of municipalities. There is a risk of default if loans are applied to non-revenue generating projects as an increase in revenues will be needed to repay such loans. However when the under-provision for bad debt is taken into account the ratio declines significantly. This will show the real cash flow problem the municipalities in the province are faced with. The constant decline over the years confirms the negative and deteriorating financial position of municipalities. Further issues to be attended to in this strategy are:

5.5.5 Water Revenue

The water revenue budget is largely attributed to the increase in the number of new households to be billed and an increase in the water tariffs from bulk suppliers. The municipalities are required to plan and research the water tariff policy as the District Municipality has also charged different tariffs. There are water losses that municipalities are finding it difficult to account for, the province is largely rural, water scarce and the municipalities have a significant number of indigent households to service. This is evident from the increases in the water tariffs, which was marginal in other years and reduced in the next year. The policy together with the tariff must be reviewed to ensure sustainability.

5.5.6 Sanitation Revenue

This is in line with the tariff increase and demonstrates that there is no growth in the Municipality with the same number of households being billed.

5.5.7 Revenue from ‘Interest Earned - External Investments

The trend indicates that the revenue previously obtained from this source has diminished over the years. The steadily decreasing interest earned indicates that the Municipality’s investments have gradually been depleted.

5.5.8 Revenue From ‘Interest Earned - Outstanding Debtors

In most cases revenue from interest earned on outstanding debtors indicates increases suggesting that the Municipality anticipates more consumers will find it difficult to meet the demands of the approved tariff increases. Given the cooperation from municipalities and the rate at which they provide information it is however doubtful whether the municipalities will recover this money given the huge increases in outstanding debtors over the years. This can also be ascribed to the failure in implementing the credit control policies of the Municipality or a misalignment with the indigent policy. Northern Cape Provincial Treasury envisage doing more work with assisting the municipality with consumer profiling.

The significance of the role of the local government sphere in the three sphere system cannot be contested. With a great responsibility of ensuring the constant and regular delivery of services such as electricity, access to potable water, proper sanitation, and waste removal, municipalities become government agencies that interface daily with the people.

The research highlighted the importance of a well-functioning local government through utilising effective municipalities. Firstly the research focused on the background of the local government sphere in South Africa, clearly emphasising the importance of the existence of local government. Through this discussion, it emerged that local government in South Africa face challenges to enhance their revenue sources. The unique situation of South Africa was explained, where legislation creates some confusion in terms of the status of municipalities in the cooperative government system.

5.6 SUMMARY AND DEDUCTION

In the first part of this chapter the results of the literature review were discussed. The study revealed that revenue collection is a challenge for the South African local government and it is clear that Umsobomvu Local Municipality is experiencing challenges in improving revenue collection. Furthermore it is emerged that the local government faces a challenge towards the implementation of municipal revenue related laws and policies due to the social, political and economic environment. The literature study also revealed that local government is not financial viable and faces service delivery issues.

In the second part of this chapter the results of the qualitative research through the interviews were analysed and discussed. The finance (officials), ratepayers association, civil organisations, churches and individual members of the community (community leaders), political leaders and consultants were interviewed to get their views, opinions and perceptions regarding the revenue management and enhancement.

The study also indicated that there are challenges faced by the South Africa local government regarding revenue collection. Therefore, municipalities must adopt the municipal revenue management strategies, laws and policies raised during the research. Chapter 6 will focus on the recommendations to address the findings outlined in Chapter 2, Chapter 3 and analysed in Chapter 5 for the revenue management and enhancement of South African local government.

CHAPTER 6: RECOMMENDATIONS FOR REVENUE MANAGEMENT AND ENHANCEMENT

6.1 Introduction

This chapter presents the recommendations for revenue management and enhancement based on the research findings. The primary objectives of the study were:

- To explore what is meant by municipal revenue enhancement by means of a literature study;
- To describe the legal and regulatory context of South African municipalities;
- To explore the challenges faced by Umsobomvu Local Municipality in enhancing their own source of revenue;
- To identify strategies to overcome the challenges of revenue enhancement
- To provide recommendations how the local government can maximise their own sources of revenue.

6.2 . Summary

The local government sources of revenue and other revenue being internally and externally “generated will be impacted by the sound or poor quality municipal billing system under any financial period. The challenges to collect outstanding debt from the municipal debtors result into negative cash flow that creates poor service delivery.

Municipalities should ensure that adequate processes and procedures are in place to ensure that all services rendered (tariffs, rates, etc.) are correct and completely billed for and timeously recovered to allow for smooth running and functioning. As was considered in chapter 2, data cleansing must be performed as a matter of urgency while all customer accounts must be updated and have all the relevant information. Debt collection and credit control policy must be tighten and fully enforced as this will improve the collection rate and ultimately improve the financial situation.

In chapter 3 and 4, it was shown that the local government plays a pertinent developmental role in the national growth and development strategy that strives to eliminate poverty and reduce inequality. Municipalities have the responsibility to deliver services to the communities in a fast and efficient manner, and to deliver these services there is a need for financial resources and institutional capacity. The challenge that beset the municipalities is that they struggle to collect revenue.

There is a gap between available financial resources and what the municipal expenditure needs largely as a result of the revenue collection challenges facing the municipalities. The revenue collection challenge therefore, needs to be adequately addressed for the municipalities to be successful. Municipalities have the right to finance their affairs through charging fees for services; and imposing surcharges on fees, rates, levies and duties.

The municipal council have the responsibility to implement and adopt tariff policies. These tariff policies must espouse the principles that ensure the equitable treatment of municipal service users. Tariff policies must also ensure that the amount paid by individual users for services is proportionate to their usage. Municipalities should, in terms of law, differentiate between the different categories of ratepayers, users of services, debtors, taxes, services and service standard.

In order for the municipalities to fund the constitutionally mandated responsibilities they rely on two main sources of revenue namely own revenue and intergovernmental transfers. It is therefore important for the municipality to utilise the constitutionally accorded fiscal instruments to raise the financial resources required at the municipality. The revenue instrument that requires the municipality to collect include the property rate, user charges for the municipal services rendered as well as any other local taxes. It is therefore incumbent upon the municipality to ensure that this revenue is collected (Financial and Fiscal Commission, 2012/2013:42)".

6.3 . Recommendation for revenue management and enhancement

The last objective of this research is to come up with strategies and recommendations to overcome the challenges of revenue enhancement and how Umsobomvu Local Municipality can maximise its own sources of revenue. Based on the research findings, the Umsobomvu Local Municipality should implement the following strategies to improve revenue management and these strategies are applicable to all municipalities in the Republic of South Africa and other public orders.

- The municipality should legislate revenue collection through section 64 of the Local Government Municipal Finance Management Act 56 of 2003, which the municipality should endeavor to develop income generating initiatives through programmes that aim to expand the revenue base of the Umsobomvu Local Municipality.

Furthermore, the municipality must pass a by-law to publish it in the provincial gazette, which gives effect or legalises the levying of property rates by the municipality (Siddle, 2011:200).

- The municipality also needs to develop measures to convince residents to pay their taxes. Strong public awareness and proactive revenue collection departments would help in revenue collection. Furthermore, local government must ensure that all the trading services are provided at a surplus, the tariffs for trading services must be cost reflective and all costs associated with a service must be taken into account. In trying to accurately budget for these sources of revenue; past and current performance, (CPI) estimates, demographics, anticipated new developments and other factors must be considered. Where possible these services must be linked back to the valuation roll to check the completeness of revenue.
- The municipality should endeavour to develop income generating initiatives through introducing programmes that aim to expand the revenue base of the Umsobomvu Local Municipality through supporting revenue enhancement activities. This will ensure the transparent management of the revenue function

to ensure customer awareness and support that will further ensure that business and residential customers pay a fair share of the cost of municipal services taking reasonable account of ability to pay. This recommendation will expand the municipality's revenue base through eliminating weaknesses in the billing system and improving intergovernmental relationship management (Pieters, 2015:58).

- To improve revenue collection, the municipality must implement the established laws, regulations and procedures strictly, and ensure that the taxes and fees are being administered in a transparent, accountable and fair manner.
- Management and operational staff need to ensure that the property tax and business registers are complete and kept up to date, assessments are calculated properly, tax demand notices are distributed, taxpayers are made aware of their obligations and the payment procedures, and that taxes and fees are collected systematically and fairly from all rate payers and businesses (Pieters, 2015:58).
- The municipality should mobilise the community through enhanced participatory budgeting and civic participation because this will engage the citizens and also facilitate enhanced revenue collection. Taxpayers and business owners must be convinced to pay their tax obligations and this can be facilitated if they observe improved local services provision and perceive that the taxes and fees are being administered fairly and efficiently (Pieters, 2015:58).
- The unmetered services must be metered to decrease the electricity and water loss and improve revenue collection, and should also provide correct billing information with a breakdown of how the amounts due are calculated, on time to the departments to avoid unnecessary accounts inquiries and reluctance to make payments. Establish an effective query handling system that allows for timely response and redress in the case of inaccurate billing information and a monitoring system to track the efficiency with which queries are resolved;

- Local government property rates revenue is advised to ensure that all the properties are billed. In trying to do so, local government must ensure that the valuation roll is aligned to the financial system. Not only the inflation target must be considered, future developments and other factors must be also be taken into account when the budget estimates are calculated. Estimates for the MTREF must be informed by the latest valuation roll.

6.4 . Conclusion

This chapter has briefly outlined the conclusion of the research and the recommendations that the municipality should take in order to overcome revenue collection and revenue enhancement challenges. It is clearly explained that the municipality faces numerous challenges to collect revenue, explore different sources of revenue and forever unacceptable increasing bad debts. The municipality should follow the recommendations in order to improve revenue collection to become financial stable. The municipality should also implement the established laws, regulations and procedures strictly in order to reduce the amount of bad debts.

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Addendum

Table 1: Local Government Revenue Enhancement Questionnaire

1. BILLING

		Y/N	Interviewees Comments	Action Required
1.1	Has the municipality appointed meter readers to take Electricity and Water readings OR is the function outsourced?	Yes	The municipality has appointed meter readers.	Verification
1.2	Are the meter readings done on a monthly basis?	Yes	All meter books are captured before the 20th of every month	
1.3	On the Meter Book does the previous months' reading appear and a space for the new reading allocated?	Yes	The meter reader book does have previous months reading and the space for the new readings	
1.4	If a reading was not obtained does the municipality use an estimated reading?	Yes	Only if the meter is standing and could not be replace in time.	Check if its included on the policy
1.5	Are the consumers allowed to take their own readings and submit to the municipality?	Yes		Check if its included on the policy
1.6	If YES does the municipality enforce inspection by a municipal meter reader or official to ensure accuracy and reliability of the reading at least Bi-Annually?	Yes		
1.7	Are the meter readings captured by a different person other than meter readers? e.g. Debtors clerk	Yes	Readings are captured in meter books, and debtor's clerks capture readings on the financial system.	Inspect the meter book

1.8	After capturing the meter readings is a deviation report printed to check excessively High / Low consumptions? Are these exceptions corrected?	Yes		verification
1.9	After the corrections have been made from the first deviation report is a second deviation report printed and reviewed by a senior person in the Income section? e.g. Accountant Income	Yes		verification
1.10	After everything is certified to be correct is a FINAL deviation report printed, signed and filed for audit purposes?	Yes		
1.11	Is the monthly billing reviewed and authorised within the system?	Yes		
1.12	Are debtor statements printed from the system?	yes		
1.13	Are the debtor statements printed checked for completeness by comparing the total number of records printed to the system?	yes		
1.14	Are the statements then sent to Registry for mailing to clients	no	The income section is currently mailing the statements	

2. DEBTORS

		Y/N	Interviewees Comments	Action Required
2.1	Are all debtors raised, that are included in debtors balance supported by necessary documentation?	Yes		Verification
2.2	Does the municipality perform the monthly consumer debtors' reconciliation?	Yes		Check monthly debtor's reconciliation
2.3	Are monthly interests charged to debtors?	Yes		verification
2.4	Does the municipality apply any measures by taking actions against debtors exceeding 30, 60, 90,120 days?	Yes		Check the credit control and debt collection policy
2.5	Does the municipality have the basis for calculating provision for bad debts?	Yes		Varication
2.6	Does the municipality have the supporting documentation for all debts intended to be written off?	Yes		Inspect the completed files

3. REFUSE REMOVAL AND OTHER SERVICES (SANITATION)

		Y/N	Interviewees Comments	Action Required
3.1	Does the municipality have a by-law for tariffs charges and penalties for refuse removal and other services?	yes		Check the policy and by-law
3.2	Does the municipality maintain a refuse removal register?	no		Municipality must develop refuse removal register and schedule for collections
3.3	Does the municipality make follow-up on government departments with high outstanding refuse removal and other services amounts?	yes		Verify
3.4	Does the municipality make follow up on all staff and councillors with outstanding refuse removal and other services amounts of 3 months and longer?	yes		Verify
3.5	Does the municipality have Credit Control Policy in place?	yes		Request coy of the policy
3.6	Does the municipality implement the Credit Control Policy?	yes		Verify
3.7	Does the municipality reconcile the debtors' register for refuse removal and other services on a monthly basis with the refuse removal and other services control accounts?	Yes	Debtors reconciliation, refuse removal for residential and business being raised on debtors accounts.	Check the debtors reconciliations

4. NATIS MONEYS

		Y/N	Interviewees Comments	Action Required
4.1	Is a cashier appointed in writing to receive NATIS moneys?	yes		Verify appointment
4.2	Does the checking official balance up the NATIS moneys on a daily basis.	yes		Verify
4.3	Is the cash drawer of the NATIS cashier lockable?	Yes	It is lockable for Jan kempdorp's office, but not lockable for Hartswater office	Municipality must ensure that cash drawers are lockable
4.4	Is the duplicate key of the cash drawer kept in a safe place?	Yes		Check where the duplicate key is kept
4.5	Is handing over of the daily takings done and a copy of the handing over document kept for inspection?	Yes		Verify
4.6	Is the correct percentage agency fees recovered?	yes		Verify
4.7	Does a NATIS Cashier operate in safe and secured environment	Yes	The environment for Hartswater office is safe and secured, but not for Jan kempdorp's office	Verify, Municipality must ensure that cashiers operate in a safe and secure environment
4.8	Is the NATIS money collected and banked daily?	Yes		Verify
4.9	Is the procedure to transport the money to the bank in line with the general conditions of the insurance portfolio?	Yes		Verify

5. MAIL REGISTER

		Y/N	Interviewees Comments	Action Required
5.1	Are two officials (registry clerks) assigned to open the mail and were they appointed in writing?	Yes	The Admin & Registry Officer and Assistant Admin & Registry Officer received appointment letters to open the mail.	Verify
5.2	Do the two officials (registry clerks) open the mail in a safe environment?	Yes	Registry office was renovated recently to comply with archival requirements	Verify
5.3	Are all cheques, postal orders and cash entered into a mail register and both officials sign the mail register?	Yes	The Admin & Registry Officer and Assistant Admin & Registry Officer sign the register	Verify
5.4	Do registry clerks hand over all cheques, postal orders and cash to the cashier on a daily basis and does the cashier sign the mail register upon receipt?	Yes		Verify
5.5	Does the cashier promptly issue a receipt for each cheque, postal order and cash and append the receipt number in the remittance register?	Yes		Verify
5.6	Does the supervisor check that receipts are issued for each cheque, postal order or cash and is the mail register signed on the day of inspection?	No	Not from the Registry section, it is possible that this is checked from the Finance side	verify
5.7	Are any empty lines left in the mail register between entries?	No		verify
5.8	Is any mistake regarding the monetary value recorded in the mail register and initialled by both officials responsible for opening the mail?	No	Only the Admin & registry Officer make correction and sign	verify

5.9	Is the mail register pre-numbered?	No		The mail register must be pre-numbered
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6. CUSTOMER CARE

		Y/N	Interviewees Comments	Action Required
6.1	Does the municipality have a customer care unit OR employed personnel to administer all the enquiries of complainants visiting the municipal offices?	Yes		Verify
6.2	Does the enquiry personnel resolve/ try to resolve enquiries verbally?	Yes		
6.3	If the enquiry needs to be resolved otherwise due to further investigation does <ul style="list-style-type: none"> a. The enquiry personnel request the complainant to complete the applicable enquiry document in twofold 	No	We do not have an enquiry document, we use a monthly complaints register	Verify
	<ul style="list-style-type: none"> b. The original handed over to the complainant and the copy sent to the applicable department for investigation 	No		
	<ul style="list-style-type: none"> c. The enquiry recorded in the register. 	Yes		Verify
6.4	Are weekly follow-ups done to ensure that all outstanding enquiries are answered to the satisfaction of the complainant?	Yes		
6.5	Is a written answer on the enquiry written and sent by the enquiry personnel, to the complainant?	No	Feedback are one telephonically	

6.6	If the complainant insists on speaking to the relevant official, is that official contacted telephonically to ensure his / her availability.	Yes		
6.7	Is the complainant requested to wait at the counter/waiting area until the official is available to assist him / her?	No	The complainant is sent to the relevant official immediately	
6.8	What is the normal turnaround time in responding to a customer query		5 working days	

7. POLICIES

		Y/N	Interviewees Comments	Action Required
7.1	Does the municipality have a Credit Control Policy ?	Yes		Request copy of the policy
	If YES has the policy been approved by Municipal Council?	Yes		Verify
	Has the municipal council approved a By-Law enforcing the credit control policy?	Yes		Request copy of the By-Law
	Is the credit control policy implemented?	Yes		
7.2	Does the municipal have a Debt Management Policy ?	Yes		Request copy of the policy
	If YES has the policy been approved by Municipal Council?	Yes		Verify

	Has the Municipal Council approved a By-Law enforcing the Debt Management Policy?	Yes		Request copy of the By-Law
	Is the Debt Management Policy implemented?	Yes	Though Councilors are sometimes interfering.	
7.3	Does the municipality have a Bad Debt Write-Off Policy ?	Yes	Part Of the above policy	Request copy of the policy
	If YES has the policy been approved by Municipal Council?	Yes	See above	Verify
	Is the Bad Debt Write-off Policy implemented?	No	No write –offs since inception.	

8. INDIGENT SUPPORT

		Y/N	Interviewees Comments	Action Required
8.1	Is indigent support provided and how is it provided?	yes	By subsidizing the communities that qualify.	verify
8.2	How are indigent consumers identified?		Through communication with the community, and door to door communications.	
8.3	Does the municipality have an indigent support policy	yes		Request copy of the policy
8.4	If YES is it approved by council	yes		Verify
8.5	How is information on indigent consumers maintained and updated?		The indigent register is reviewed bi-annually, and re-registrations is done every two years.	
8.6	What services are rendered to those communities that reside in informal settlements and how are the costs of rendering these services recovered?		All services. Water, electricity, refuse sewerage. Cost are being subsidized or through the credit control policy.	

9. PRE-PAID METERS

		Y/N	Interviewees Comments	Action Required
9.1	Are pre-paid meters used in the municipal area	yes		
9.2	To what extent are prepaid meters used?		Most of the low income communities are using pre-paid meters.	
9.3	Which consumers have no option but to install prepaid meters?		Low income consumers.	

10. NEW CONNECTIONS

		Y/N	Interviewees Comments	Action Required
10.1	What is the average number of new connections every month?		10 including water and electricity	
10.2	What percentage of new connections each month relate to low cost housing developments?		3% out of 10new connections water and electricity	
10.3	Please could you provide a copy of the application form for new connections?	Yes		
10.4	What is Council's consumer deposit policy?		It is the actual cost to the municipality, plus 10% to the actual cost.	
10.5	What other safeguards (if any) are taken to reduce the risk of non-payment?		The meters are not being installed if the receipt is not being verified by the technical department.	

11. TARRIFING

		Y/N	Interviewees Comments	Action Required
11.1	Could you provide a copy of the tariffs in respect of property rates, electricity, water, sanitation and solid waste removal	Yes	Copy of tariffs attached	
11.2	How are tariffs calculated?		Taking into account current and historical cost and consumption over years and benchmarking against CPIX.	
11.3	What percentage of communities benefit from free basic services or what is the backlog in the provision of free basic services?		3%	
11.4	What are the free basic services provided?		electricity, water, sanitation and solid waste removal	
11.5	When was the latest valuation roll for the entire municipality prepared or when is it envisaged that a new valuation roll will be prepared?		During the 2012/13 FY. Effective 1st July 2013.	Verify, request latest valuation roll

12. DISTRIBUTION OF ACCOUNTS

		Y/N	Interviewees Comments	Action Required
12.1	How are municipal accounts distributed to consumers?		Post	
12.2	On average, how many accounts are returned unopened each month?		10	
12.3	How easy is it for a consumer to query their municipal account (access to municipal offices)?		Easy	