

**EVALUATION OF THE REVENUE DIVISION
AT
THE MSUNDUZI MUNICIPALITY**



Prepared for
University of Natal
Graduate School of Business
In partial fulfilment of the requirements for the degree of
Master of Business Administration

**Prepared by
Farhad Cassimjee
June 2003**

Supervisor
Professor Elza Thomson

This dissertation contains 134 pages

VISION

**Msunduzi (Pietermaritzburg), the
Dynamic, Attractive, Competitive,
Caring and Sustainable Metropolitan,
African Capital City –
Vibrant Heart and Nerve Centre
of Kwazulu - Natal**

DECLARATION

This thesis represents the original work of the author and has not been submitted to this or any other University. Where use was made of work of other, it has been duly acknowledged in the text.

This thesis is not to be published for a period of five years from the date below without the authors' prior written approval.

DATE: 01 June 2003 **F.CASSIMJEE:** _____

096451

ACKNOWLEDGEMENTS

To my wife whose constant support and motivation encouraged me to complete these studies. Without her understanding and commitment to my success this dissertation would not have been possible. To her I am forever indebted.

To my parents who made tremendous sacrifices to ensure that I succeed in life, thank you.

EXECUTIVE SUMMARY

The success of an organisation is inherent upon the ability to correctly identify the problems and to avoid being distracted by the symptoms. The pursuit of success demands the necessity of planning, which if only internal, is in itself insufficient. The organisation needs to adapt and pursue a dynamic strategic policy, taking into account the environment in which it operates.

Every organisation has a unique organisational culture. Each has its own business philosophy and principles. Its own ways of approaching problems and making decisions, its own embedded patterns of how to turn things around, its own folklore, its own taboos and political do's and don'ts - in other words, its own ingrained beliefs, behaviour and thought patterns, business practices, and personality.

This dissertation will entail an evaluation of the organisations revenue division and proposes recommendations for the future. The analysis commences with an evaluation of the current structure, systems and processes, which then sets the foreground for a sharply focused analysis of future strategy to improve revenue. The benefit of this approach is that available resources are matched to a strategy, whilst identifying future resources needed for transformation.

The analysis includes recommendations as to how The Msunduzi Municipality can continue to grow and maintain a sustainable competitive advantage through carefully crafted strategies that will lead it into a financial status of long-term sustainability.

Contents

Vision	1
Declaration	2
Acknowledgements	3
Executive Summary	4
Contents	5
List of Tables	9
List of Figures	10

Chapter 1

1.1	Background	12
1.2	Problem Statement	13
1.3	Objectives of Study	14
1.4	Scope of Study	14
1.5	Benefits of the Study	14
1.6	Research and Design Methodology	15
1.6.1	Primary Data Collection	16
1.6.2	Research Survey Instrument	16
1.6.3	Secondary Data Collection	17
1.6.4	Pilot Test	17
1.6.5	Sample and Sample Size	17
1.7	Data Analysis	18
1.7.1	Nature and Form of Results	18
1.8	Limitations of the Study	18
1.9	Facilities and Special Resources	18
1.10	Summary	18

Chapter 2

2.1	Introduction	19
2.2	External Factors	20
2.2.1	Driving Forces	20
2.2.2	Key Factors for Success	21
2.3	Internal Factors	21
2.3.1	Resources	21
2.3.2	Value Chain	24
2.4	Revenue Theories	28
2.5	Masakhane Campaign	40
2.6	The Rate Revenue Curve	42
2.7	Culture	43
2.8	The Revenue Model	45
2.9	Summary	46

Chapter 3

3.1	Introduction	47
3.2	Services	49
3.2.1	The Constitution of the Republic of South Africa (Act No. 108 of 1996)	49
3.2.2	The Municipal Structures Act, 1998 (Act No. 117 of 1998)	50
3.2.3	The Municipal Systems Act, 2000 (Act No. 32 of 2000)	50
3.2.4	Local Government Laws Amendment Act, 2002 (Act No. 51 of 2002)	51
3.2.5	Public Finance Management Act, 1999 (Act No. 1 of 1999)	52
3.2.6	Municipal Finance Management Bill, 2003	52
3.2.7	National Treasury Guidelines	53
3.2.8	Section 10G of the Local Government Transition Act, Second Amendment Act No. 97 of 1996 & its Attendant Regulations	53
3.2.9	Local Authorities Ordinance, No. 25 of 1974	54
3.2.10	The White Paper on Local Government	54
3.2.11	Local Government Property Rates Bill, 2002	55

3.2.12	Integrated Development Plan	55
3.2.13	Competency Based Performance Management	58
3.2.14	Batho Pele Principles	61
3.2.15	Specific And unique Characteristics of the Municipality	61
3.2.15.1	Credit Control Policy - The Msunduzi Municipality	61
3.2.15.2	Indigent Policy - The Msunduzi Municipality	71
3.3	Resources	75
3.3.1	Revenue Division Organogram	75
3.3.2	Culture	85
3.4	Key Factors for Success and Driving Forces	86
3.5	Finance: Revenue Enhancement	90
3.6	Summary	102

Chapter 4

4.1	Introduction	103
4.2	Suitability	103
4.3	Acceptability	104
4.4	Feasibility	104
4.5	Resources	105
4.6	Services	106
4.7	KSF & Driving Forces	107
4.8	Finance: Revenue Enhancement	108
4.8.1	Progress on Implementation to date	109
4.8.1.1	Audit of Meter	109
4.8.1.2	Ward Councillors and Committees	109
4.8.1.3	Appointment of Sub Contractors	110
4.8.2	Leak Management	111
4.8.3	ProMIS Income	111
4.9	Summary	112

Chapter 5

5.1	Introduction	113
5.2	Recommendations	114
5.3	Further Research	122
5.4	Conclusions	123
5.5	Glossary	124
5.6	Bibliography	127
5.7	Author	133

LIST OF TABLES

Chapter 2

2.1	Growth in Debt of Municipalities	33
2.2	Outstanding Debt to Local Municipalities	34
2.3	Meter Audit Statistics	39

Chapter 3

3.1	Issue: City Finance Debt Management	57
3.2	Revised Process Standards	60
3.3	Number of Employees in Revenue Division by Race	75
3.4	Msunduzi Municipality - Outstanding Debt - 28/02/3003	91
3.5	Increase in Total Debt	95
3.6	Outstanding Debt - October 2002 - by Section	96
3.7	Monthly Consolidated Debtors Billing Statistics	97
3.8	Comparison of Local Council	100

LIST OF FIGURES

Chapter 2

2.1	Balancing Model	23
2.2	Desirey Value Chain Management Model	25
2.3	Porters Value Chain	26
2.4	New Value Chain Model	27
2.5	Complaining Customers Switch or Stay	29
2.6	Four Acid Tests	30
2.7	Outstanding Amounts by Province	35
2.8	Payment at Leeudoringstad East	42
2.9	Laffer/Rate Revenue Curve	43
2.10	Organisational Alignment Model	44
2.11	Revenue Model	45

Chapter 3

3.1	Current Work Design	59
3.2	Proposed Work Design	59
3.3	Msunduzi Management Structure -Revenue	76
3.4	Revenue Division Structure	77
3.5	Rates (Annex 1)	78
3.6	Credit Control (Annex 2)	79
3.7	Services (Annex 3.1)	80

3.8	Services Branch Offices (Annex 3.2)	81
3.9	Accounting (Annex 4)	82
3.10	Cashiers (Annex 5)	83
3.11	Sundry Debtors (Annex 6)	84
3.12	Outstanding Debt - October 2002 - by Section	96
3.13	Graphical representation of areas showing increasing debt	99
3.14	Macro Framework	101

Chapter 1

1.1 Background

Since 1994, we have witnessed dramatic changes within local government. Emerging from a historically apartheid era, the organisation is evolving in response to the social and political mandates of national public policy. The Msunduzi Municipality is located along the N3 at the junction of an industrial corridor from Durban to Pietermaritzburg and an agro-industrial corridor stretching from Pietermaritzburg to Estcourt. It has the second largest urban center within the province of KwaZulu-Natal and the main economic hub within Umgungundlovu District Municipality. The Municipality administers an area of 649 km² and is home to more than 523 470 people. It has an annual capital and operating budget of approximately R 1 billion with a staff complement of 3334 employees (as at 03 May 2003).

The Msunduzi Municipality was established on the 05th December 2000, when the area of jurisdiction was increased to incorporate the old Pietermaritzburg City Council, the Edendale Valley, Ashburton, Lynnfield Park, Claridge and Vulindlela. Since 1994, the area of jurisdiction administered by the municipality has trebled in terms of the Demarcation Act of 2000. The demarcation process has resulted in the Municipality having to deal with the service backlogs in previously neglected areas with little additional income and resources, and staff that in many cases are ill-equipped for their delegated tasks.

The city's rate base of R 220 million has not grown in real terms. The delay in implementing the credit control and indigent policy has further resulted in an increase in the level of outstanding debt. As at February 2003, the outstanding debt owed to the Council was R 439 million. This continues to grow month on month with little intervention measures implemented. If the current level of non-payment is extrapolated, it is anticipated that the Municipality will be financially stifled within the year. The financial stress under which the Municipality is currently operating, as well as the effect that a lack of transformation will have on economic

development within the area are the driving forces for reengineering the revenue division.

The necessity of using internal capital funds as working capital and the need to use the interest generated on these funds to meet operating expenditure has resulted in a tendency to raise more external loans to meet capital expenditure, which has a negative impact on net cash flows. Furthermore, with the increase in borrowings the municipality is exposed to interest volatility. The Municipality needs to recover its outstanding debt in order to build up internal funds so that there is less reliance on external borrowings resulting in a reduction in debt servicing costs.

As part of National Treasuries Restructuring Program, Municipalities with an operating budget in excess of R 300 million per annum could apply for funding that could be used for transformation in order to improve financial sustainability. Underpinning the aforementioned is the strategic objective of improving revenue generation and collection. The role of the grant is to encourage and assist municipalities to restructure their organisations, functions and fiscal position to improve the equity and efficiency of service delivery through exploiting opportunities and/or mitigating weaknesses that have been identified in their medium to long term fiscal positions.

There is thus a need to co-ordinate the activities in the value chain in order to improve efficiency and effectiveness.

1.2 Problem Statement

The Msunduzi Municipality has found that over the past few years increased burdens have been placed on it in terms of new legislative requirements. As increasing demands have been placed on the Municipality, it has been necessary to seriously review its financial position. The management dilemma is that cash resources have been dwindling over the past few years and levels of funds are at a critical level. Coupled with the *reduction in real revenues*, the municipality has experienced a drain in its Human Resources within the finance department. It has

now become necessary to seriously re-engineer the revenue division and, to this end, a solution needs to be sought in order to transform the municipality into a strong and sustainable entity. **Problem Question:** Will Re-engineering the revenue division improve the City's finances?

1.3 Objectives of Study

The objectives of this dissertation are: -

1. To evaluate the effectiveness of the current billing system.
2. To evaluate the effectiveness of the Credit Control Policy.
3. To evaluate the effectiveness of the Indigent Policy.
4. To evaluate the structure and infrastructure of the revenue division.
5. To formulate a strategy framework for transformation. This will include recommendations to improve the structure, systems and policies.

1.4 Scope of Study

The study was limited to the Msunduzi Municipality Revenue Division. Where possible, comparisons with other municipalities were highlighted.

1.5 Benefits of Study

In light of the decline in the Equitable Share received from National Treasury over recent years, the Municipality has to become financially sustainable. Whilst the revenue base has remained constant the level of non-payment has increased. This study will provide a framework that will assist the Msunduzi Municipality to improve revenue collection. It will highlight areas of inefficiencies as well as suggest recommendations to improve the effectiveness of revenue collection.

Nationally, Councils are owed in excess of R 15.5 billion in outstanding debt (the Natal Witness, 02 February 2002). Due to the culture of non-payment as well as the lack of political will and strategy to recover overdue revenue, this research will be beneficial to all Municipalities.

The primary motivation for conducting the study is to develop a strategy that will improve the City's finances. The study will attempt to identify areas that require re-engineering which will lead to the Municipality becoming financially sustainable and improving service delivery.

1.6 Research and Design Methodology

Based on the researchers understanding of the problem, a cross sectional, exploratory, investigative, qualitative case study was undertaken in phases, with each phase resulting in clearly identified deliverables. There was no control group and all variables were measured at the same time. The research technique is essentially qualitative, but involves the collection of quantitative and qualitative field data through the use of interviews and questionnaires.

Phase 1: Data gathering, systems review and needs review

- ◆ Understanding the existing Organogram and staff establishment
- ◆ Identify key stakeholders and determine the needs for the proposed realignment
- ◆ Obtain electronic downloads of data and/or printed reports from current billing system
- ◆ Conduct a high level overview of operating systems over the following: -
 - ✦ Authorisation, recording and monitoring of credit control
 - ✦ Management and control of billing process
 - ✦ Receipting and allocation of funds

Phase 2: Analysis and assessment

- ◆ Identify the options available for fulfilling the needs of users
- ◆ Determine advantages, disadvantages, and implications of each option
 - ✦ Present the existing scenario, including: -
 - Time frame required for migrating to new financial solution
 - Human resource implication
 - Legal and/or regulatory issues

- Risk and change management
- ◆ Analyse options adopted by other Municipalities if available

Phase 3: Documenting and presenting recommendations and strategy

- ◆ Compile report
- ◆ Summarise key recommendations and proposed policy changes

1.6.1 Primary Data Collection

Primary data is data that is collected for a specific purpose. Primary data is more reliable, however it is costly and time consuming to obtain.

Independent Variable: Economic/social reasons for non-payment

Dependant Variable : Financial sustainability

Intervening Variable : Increase in customer service through technology mediated solution

1.6.2 Research Survey Instrument

A communication approach in the form of a questionnaire was identified as the primary data collection tool and this generated qualitative data. Additional information on debtor statistics was obtained electronically via downloads from the database and from printed copies. The questionnaire was a printed set of questions, beginning with simple dichotomous questions and progressing to open ended questions using the funnel approach. In addition to the questionnaire, which was administered by the researcher, interviews were conducted using a convenience sample to explore alternative thoughts.

The questionnaire consisted of three types of questions: -

1. Administrative questions
2. Classification questions
3. Target questions

1.6.3 Secondary Data Collection

Data collected for other purposes is known as secondary data. However, prior to such data being used as a source of information, it must be relevant, accurate and reliable. Sources of data included, but were not limited to: -

- ◆ Searching the World Wide Web for information
- ◆ Journals
- ◆ Literature
- ◆ Government Digests
- ◆ Internal procedures and policies, etc.

1.6.4 Pilot Test

The questionnaire was tested to ensure the questions are specific, concise and logical in order to avoid misunderstandings and progresses from a general to specific to complex issues. The content and wording was of proper scope and coverage without bias. This structure is to gain the confidence of the respondent and not to dissuade them at the outset. The benefit of this approach is that any major deficiencies in the questionnaire can be remedied.

1.6.5 Sample and Sample Size

Although the sampling frame is the current population of 137 employees working in the revenue division, the knowledge required in order to achieve the objectives of the dissertation is resident in the intellectual capital of a few key members of the team. Therefore, the sampling technique that is most appropriate is non-probability convenience sampling. A respondent (sample) was chosen on the basis of their level of responsibility and involvement in the revenue division. The names of employees and their job title were obtained directly from personnel records under the control of the pay office.

1.7 Data Analysis

1.7.1 Nature and Form of Results

The results will be in the form of qualitative conclusions, applied findings, strategic plans and recommendations.

1.8 Limitations of the Study

In light of the time and cost constraint, the study is confined to the Msunduzi Municipality. The sampling frame will consist only of employees working in the revenue division. No comparison will be undertaken with similar category municipalities to benchmark the revenue enhancement strategy. It is expected that some employees considered the reengineering of the revenue division to be a threat to their current “comfort” positions and could have provided misleading information.

1.9 Facilities and Special Resources

As the researcher is employed at the Msunduzi Municipality, the facilities of the organisation was utilised for the purposes of the research.

1.10 Summary

This dissertation is intended to provide an exploratory analysis of the Msunduzi Municipality with the view that limitations can be identified and mitigated whilst strengths can be enhanced to create a sustainable competitive advantage.

Chapter 2 - Theory

2.1 Introduction

A company's strategy is the game plan management is using to stake out a market position (Thompson and Strickland: 2001). Henry Mintzberg (1978) points out that not all intended strategies are realised, and not all realized strategies were intended.

Prahalad and Hamel (1990) paper on core competence views strategic thinking as the most powerful way to prevail in global competition and critical to understanding the changing basis for global leadership.

The factors that shape the choice of the organisations strategy can be classified into external and internal factors. External strategy shaping factors can be described as political, economic, societal, technological, regulatory, organisation's opportunities and threats, driving forces, key factors for success (KFS) and industry attractiveness. Internal strategy shaping factors can be described as the organisations resources, its strengths and weaknesses, its competitive competencies, culture and business philosophy.

Revenue generation is considered the lifeblood of an organisation. This metric is often used by analyst to ascertain the overall financial viability of a business. In attempting to improve revenue generation one has to consider the internal and external strategy shaping forces which are underpinned by the organisations aim/philosophy.

The function of municipalities is to provide goods and services to communities. As a result of legislation, municipalities act as agents for other spheres of government in a democratic South Africa. They are the link between the central government and the citizen.

2.2 External Factors

The relevant external factors are:-

2.2.1 Driving Forces

It is prudent to take cognisance of the driving factors that are causing change to the competitive structure of the business environment. As one moves towards a global economy, the use of the internet as a marketing medium is becoming more profound as organisations attempt to capture market share. In the age of ultra sophisticated technology and more specifically, the explosive growth of electronic communication, organisations desperately need to change their present marketing strategy and refocus on implementing effective communication tools such as the Internet. The creation of the “information superhighway” is revolutionising commerce and failure to adapt accordingly could result in market share being lost to competitors.

Some of the advantages that could result from the more efficient use of the Internet are as follows: -

- Costs are relatively low (inexpensive)
- There is no limit to advertising space that could be sold to local businesses, in contrast to print and broadcast media. Creative web pages with impressive visual and sound effects will attract more customers
- Information access and retrieval is fast. Customers can immediately see what is available from the Municipality as well as view the tariff structure and accounts that they are charged
- The site can be visited by anyone, anytime, anywhere in the world (24x7 availability), an excellent way to reach new customers as well as existing consumers that can and do have the ability to pay (ubiquitous)
- Payments can be done privately and in the comfort of one’s home or office. This would reduce the staffing required at cash points and free up resources that could be utilised elsewhere

As a result of the reform towards a market economy and being exposed to the effects of globalisation, public sector enterprises are becoming more privatised, opening the market to greater competition.

2.2.2 Key Factors for Success

These are the factors that most affect the industry member's ability to prosper in the marketplace/marketspace. They are the prerequisites for success. It is important to note that KSF change as the driving forces and competitive condition changes.

Thompson and Strickland (2001:107) describe KSF's as concerning the product attributes, competencies, competitive capabilities, and, market achievements with the greatest direct bearing on company profitability. They categorise KSF's into the following seven categories, viz:-

- Technology related KSF's - Example: Product innovation capability
- Manufacturing related KSF's - Example: High utilisation of fixed assets
- Distribution related KSF's - Example: Accurate filling of customer orders
- Marketing Related KSF's - Example: Courteous customer service
- Skills related KSF's - Example: Superior workforce talent
- Organisational capability - Example: Superior information systems
- Other types of KSF's - Example: Overall low cost

2.3 Internal Factors

The relevant internal factors are:-

2.3.1 Resources

It is vital to analyse the resources of an organisation in what is termed *The Resource Based View* of strategy development. The two reasons for this are, to identify the contribution of the individual resources to value added and to create sustainable competitive advantage. This view emphasises that the firm is a bundle of capabilities and competencies which when properly organised creates a competitive advantage.

The Resource Based View can be used as the starting point in the analysis of the strengths and weaknesses of the organisation. Using this approach, the Demand Side is treated as exogenous. Although it is important to take a market based view and understand the environment the organisation is operating in, a focus on the individual and available resources of the organisation is critical in establishing the organisation's particular strengths and weaknesses. It is vital to know the capabilities of each resource to determine the range of flexibility for that resource. Resources can be analysed in terms of human, financial, technological and operational resources.

Resources can add value early in the value chain i.e. upstream or later in the value chain i.e. downstream. It is important to identify and develop the key resources in order to obtain distinctiveness *vis-à-vis* other competitors. This involves the development of *core competencies*, which are defined as a group of skills and technologies that enable the organisation to provide a particular benefit to customers.

Lynch (2000) said that the resource analysis needs to proceed along two parallel and interconnected routes: value added and sustainable competitive advantage. The value added route explores how the organisation takes goods from its suppliers and turns them into finished goods and services that are then sold into the environment - how the organisation adds value to the inputs it receives from its suppliers. The competitive advantage route examines the special resources that enable the organisation to compete - how and why some resources deliver sustainable competitive advantage is crucial to strategy development.

The resource based approach to strategic management has four characteristics, viz:-

- The firm's objective is to achieve sustained, above normal returns

- A precondition for sustained returns is resources not equally available
- Competencies and capabilities lead to sustained returns
- Innovation can lead to superior returns (Internet 1)

For a particular resource to qualify as a basis for Sustainable Competitive Advantage (SCA), it must pass four tests of competitive value (Thompson and Strickland (2001:123-124), viz:-

- Is the resource hard to copy?
- How long does the resource last?
- Is the resource really competitively superior?
- Can the resource be trumped by the different resources/capabilities of rivals?

Whilst the Demarcation Act of 2000 has resulted in the number of municipalities being reduced from 843 to 284, municipalities are finding it increasingly difficult to balance the expectations of the previously underserved communities and the established communities with its limited resources.

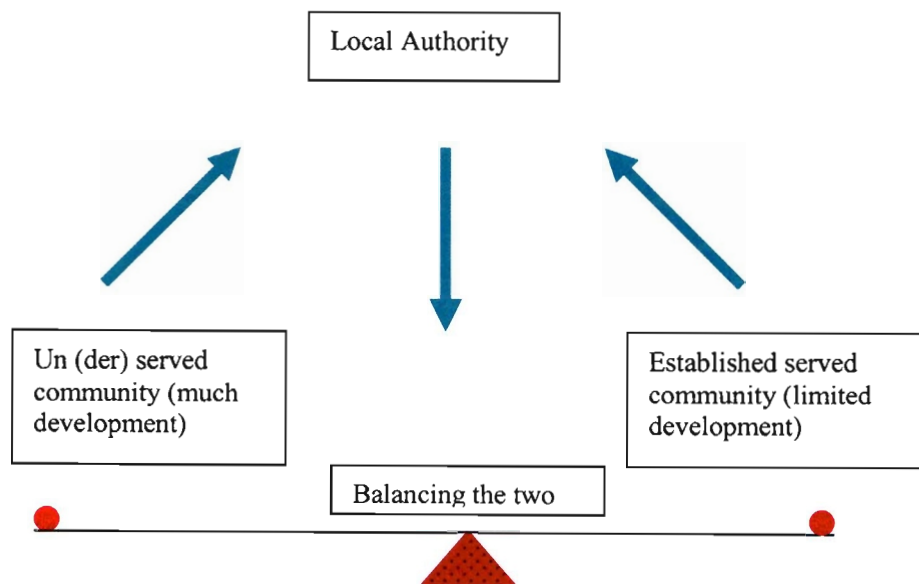


Figure 2.1: Balancing Model(Source: Masakhane Case Studies-Timm. J & Jadwat. O, Summer 1998, adapted)

2.3.2 Value Chain

Value Chain Management is the process of realigning an organisations resource in order to fulfil the customer expectations. In contrast to the resource based view, Desirey (1999) proposes a model that comprises a Business Strategy, a Demand chain and a Supply Chain. The Business Strategy by incorporate strategic and financial plans outlines the framework for the business plan with which the business must be run. The Demand Chain identifies the customers and compiles the quantity and the timing of the demand. The Supply Chain designs a process, which optimize the production and delivery of the products to the customer.

Using the model in figure 2.2, Desirey proposes that the Demand Chain should be the engine that will drive the Supply Chain. There is paradigm shift whereby in the past all efforts to improve revenue was considered paramount if not pivotal to the success of a business is now being viewed from the perspective of the customer who drives demand. Historically, managers considered supply to be infinite and based decisions on this assumption. With resources becoming an increasingly scarce commodity maximising its use can only be driven by the consumers needs.

In formulating a customer centric strategy that adds value to the organisation, as opposed to maximising revenue, one is guided by the vision of the organisation. Desirey proposes that organisations quantify the value of the demand and rank the customers according to the revenue generated from them. This model then would allow managers to align the business strategy in order to maximise revenue from those customers that contribute the most value.

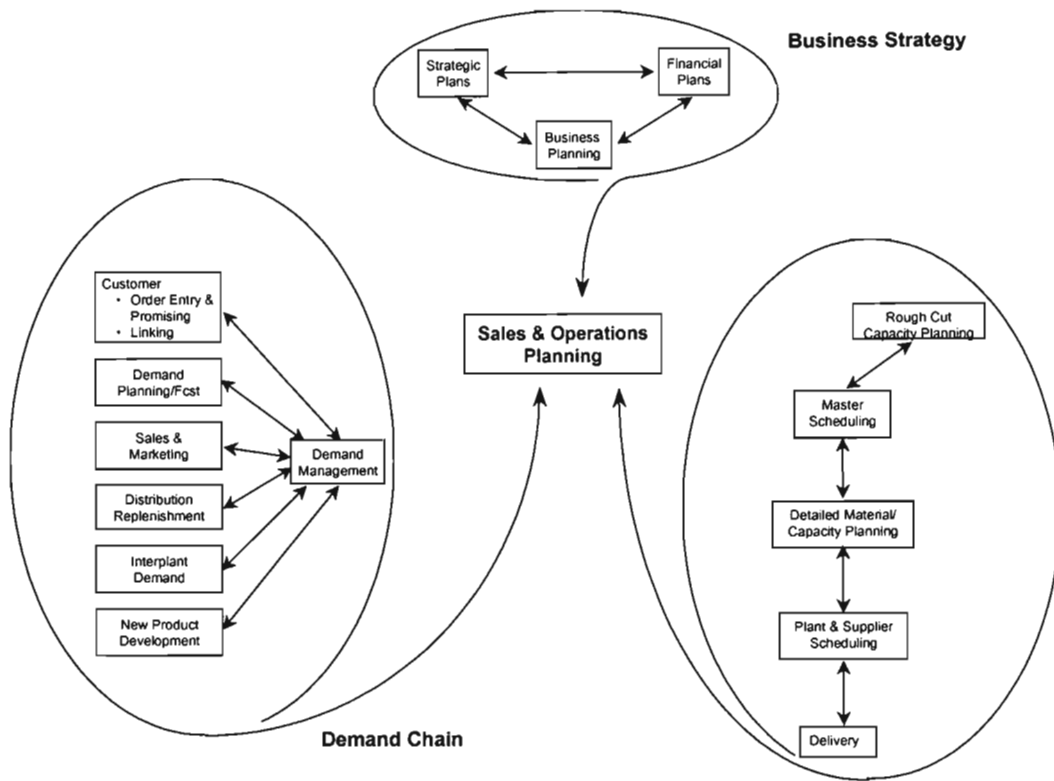


Figure 2.2: Desirey Value Chain Management Model (source: Desirey: 1999)

Using the Pareto Principle (80:20) (first stated by Vilfredo Pareto) the strategy would be to focus on the 20 % of customers that contribute 80 % towards the value and revenue income. Increasing the revenue base of these customers (top 20 %) would result in a financially sustainable organisation. Bird (1990) said: a small number of customers will be responsible for most of the debt problem.

A balance is required between the cost of capital for providing the service and the revenue income generated. In order to generate an economic profit, the cost of capital must be less than the revenue income. Given this, it is the prerogative of management to align the strategy in order to focus on value adding customers. Slywotzky and Morrison (1997:7) said: that the vigorous pursuit of market share and the rise in customer power have driven profit from many activities and products, and even from entire industries.

The Value Chain developed by Professor Michael Porter of the Harvard Business School is a popular tool used to analyse strengths and weaknesses of an organisation. It links the values of the activities of the organisation with its main functional parts. The Value Chain analysis divides the activities of the business into primary activities and support activities. The organisation *adds value by the quality of its primary activities* and uses its *support activities* to provide the infrastructure to add value to its primary activities.

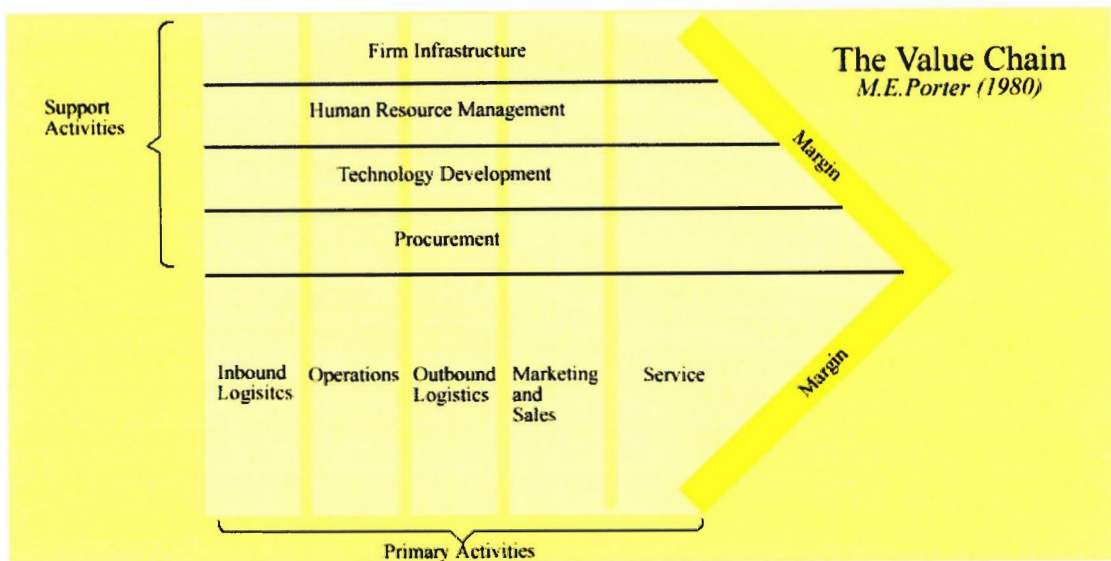


Figure 2.3: Porters Value Chain (source: Internet 1)

It is therefore necessary to analyse how the actions taken by managers can change the value of the firm. The value chain gives the organisation the opportunity of calculating customer retention.

In terms of local government, revenue enhancement is considered the support activity in the value chain. Porters' value chain model will therefore have to be modified. The new model proposed replaces the procurement function under the support activity with Finance: Revenue. The Revenue function provides the necessary support in order for the primary activities to be undertaken. The impetus

for stabilising local government finance stems from its pivotal role that it plays in service delivery, economic growth and decreasing unemployment.

New Value Chain Model

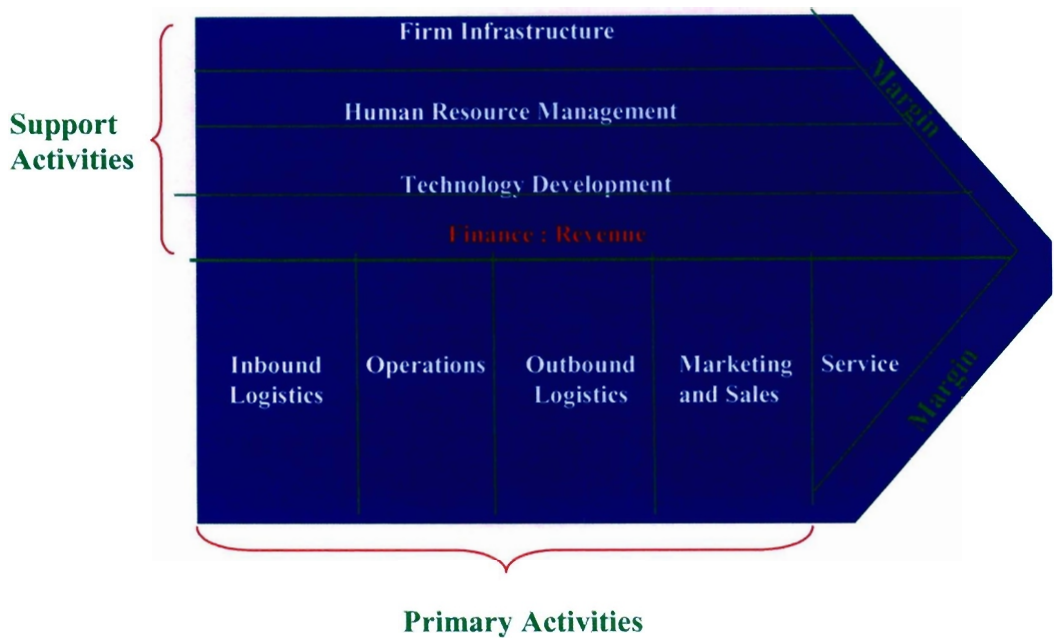


Figure 2.4 New Value Chain Model

Downs.L and Mui.C (Internet 2) propose that as a result of digitisation, globalisation and deregulation, organisations must pre-emptively destroy their value chains in order to survive. Long value chains are being taken apart and put back together after being reconfigured. This process allows trapped value to be released and also results in disintermediation.

Bruinette. H (Internet 3) indicates that since businesses compete in two worlds, two value chains need to be considered, viz. a physical value chain (PVC) and a virtual value chain (VVC). The PVC is composed of a linear sequence of activities with defined points of input and output. The VVC is non linear and incorporates information. It is proposed that the VVC could benefit the organisation by rebalancing supply and demand. Organisations must “sense and respond” to customers needs as opposed to simply making and selling products and services that it believes consumers desire.

2.4 Revenue Theories

The boycotting of rent and service charges was the strategy used in the struggle against apartheid. It was used to oppose the disparities that existed between white suburbs and black homelands. Following the first democratic elections, the then president Mr Mandela (1994) in a speech delivered to the National Summit for Local Government said, “This is why together with the campaign to democratise local government, and to improve the quality of services, we must today launch a campaign to end the rent and service charges boycott”.

According to Soots Naidoo, the CEO of The South African Local Government Association (SALGA) (Imiesa: 1999), SALGA has analysed the problem of financial problems in municipalities and have categorised the problems into three areas, viz:-

- Municipalities that suffer from structural problems
- Municipalities that suffer from capacity problems – insufficient capacity to manage the finances
- Municipalities that fail to correct poor management of finance

Underlying all three of the above is the general inability to collect revenue for services rendered as a result of one or more of the following problems, viz:-

- Billing where consumers are sent late or inaccurate accounts
- Credit Control policy not formulated or inefficient enforcement
- Lack of councillor commitment to actively pursue revenue collection
- Legitimate case of poverty where consumers cannot pay for services

Kroukamp and Meering (2000:20) also believe that the problems faced by municipalities can be closely linked to the following:-

- Inadequate and incorrect bookkeeping and auditing of financial statements;
- A culture of non-payment of accounts for services received by large numbers of the population; and
- An inability of large numbers of the population to pay due to unemployment

Kroukamp (1995:194) believes that the problem of non-payment should be analysed in conjunction with high levels of illiteracy, especially in former disadvantage communities. It is believed that the illiterate do not understand how local government functions. Compounding the problem is the fact that the unemployment rate in Pietermaritzburg of is 39 % (Interim Integrated Development Plan, District Council 22, Iyer Rothaug Collaborative & Urban Econ, 14 May 2001).

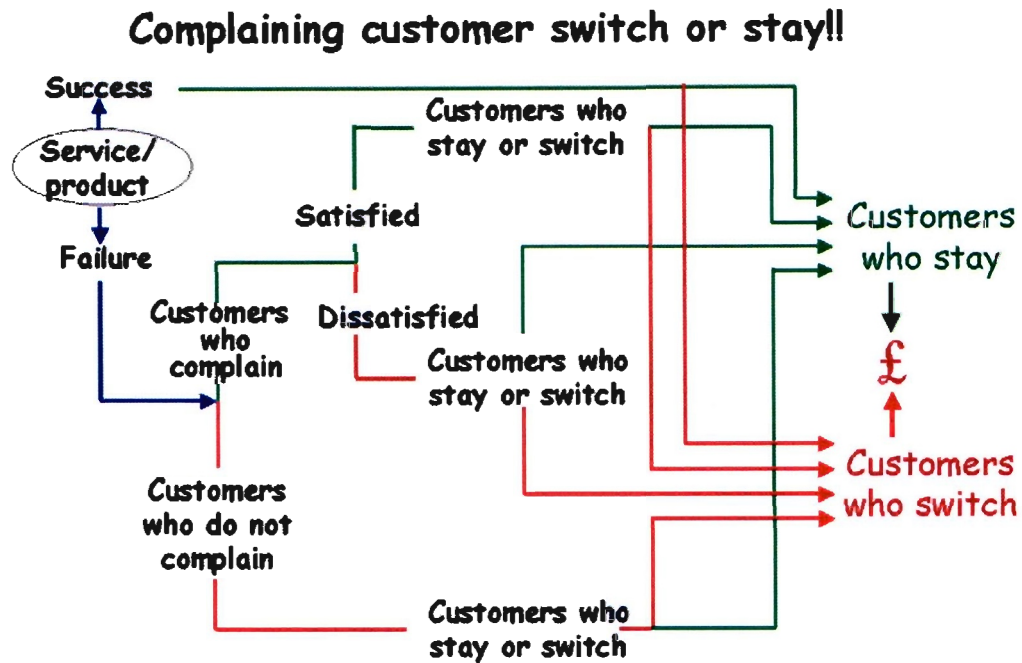


Figure 2.5: Complaining Customer Switch or Stay (Source: Internet 4)

Using the complaining customer switch or stay model, customers satisfied with the service will stay with the organisation. This would then translate into steady revenue streams. Against the backdrop of Mr Soots Naidoo’s comments, it is thus apparent that in order to improve revenue, municipalities must ensure that the necessary internal (back office) functions are performed accurately and transparently. Entrenched in local government philosophy is the practice of accountability to the citizens.

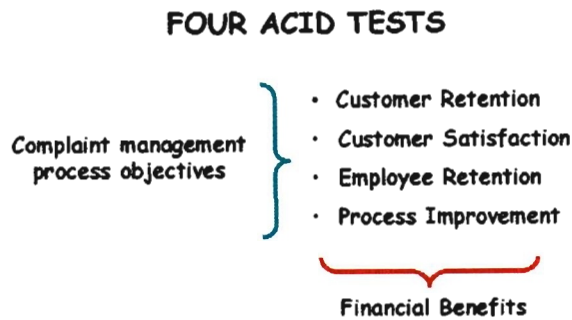


Figure 2.6: Four Acid Tests (Source: Internet 4)

In order to derive financial benefit, customer retention, customer satisfaction, employee retention and process improvement is thus pivotal. In achieving these objectives the organisation alignment must now focus on the needs of the customer. The traditionally approach of being supply driven would require reengineering in order to pass the four acid tests.

Bird (1990) summarises some of the reasons why bills are paid late-or not paid at all as follows:-

- The debtor is short of cash
- Your invoice contained an error, was sent to the wrong address or offered some other reason for the customer to delay payment
- The debtor has made a genuine mistake and forgotten to pay
- The debtor is deliberately delaying payment in order to obtain the benefit of “free financing”

The culture of non-payment can lead to the collapse of government. This is further exacerbated by the lack of political willingness to apply remedial measures. Resistance from traditional paying customers as witnessed in Sandton in 1996 where an action was brought in the Supreme Court to prevent the Pretoria City Council from differentiating rates charges along racial lines as it was considered unconstitutional. The decline in income from traditional paying customer’s places

further financial distress as Councils will have to fund increase working capital requirements by increasing property taxes and service charges. For urban governments, property taxation is the most important source of revenue from taxes on privately held wealth (Local Government Digest: February 1998: 7).

It is generally accepted that the sources of revenue available to municipalities is limited. Whilst the level of responsibility of municipalities has increased due to the increase in areas administered as a result of the Demarcation Act of 2000 as well as central governments delegation of more responsibility, there has been a steady decrease in the value of intergovernmental grants received. The constitution provides that national legislation must make provision for an appropriate division of functions and powers between municipalities, where an area has Category B and C municipalities. The Municipal Structures Act, 1998 (Act No. 117 of 1998) defines the powers and functions, however the reality is that revenue (levy income) collected from citizens trading in a Category B municipality by a Category C municipality is used on capital projects not in the Category B area of jurisdiction but in the Category C area of jurisdiction. This immense imbalance places further pressure on Category B municipalities finances.

Thus far, municipalities have managed to cope by spending their accumulated reserves; reducing expenditure on maintenance and capital projects; deferring payments to creditors; utilising bridging finance and extending long-term debt (Fourie:1998). Being at the forefront of government, municipalities are expected to manage their limited resources and ensure service delivery and the promotion of economic growth. Fourie also believes that the non payment for municipal services is politically motivated coupled with socio-economic factors, inadequate services, inability of municipalities to effectively meter and charge for services, capacity constraints to enforce credit control and debt collection. Fourie (1998) further advocates that although the current sources of revenue are stable, the actual amount collected from these sources is very unpredictable. This therefore affects the municipalities' ability to access finance in capital markets. If the municipality could rely on all debtors paying their accounts timeously, cash flow planning would be easier.

Local authorities are corporate bodies which are independent in their own right in the framework of the law and neither Parliament nor the provincial legislature will violate their status, purpose and character (Kroukamp: 1994:50). In light of this, local authorities can:-

- Compel inhabitants to pay taxes
- Accept and enforce legislation in the form of council decisions and regulations
- Make decisions affecting the rights of inhabitants
- Appoint personnel and confer specific duties upon them
- Determine priorities and assign resources to execute these priorities (Claythorne: 1993:10)

According to Kapp (1995:6), for every R 1 million lost as a result of non payment for services to a municipality, the capital budget decreases by approximately R 5 million because of the negative impact that lost revenue has on the ability to raise loans and to finance repayments. The impetus has therefore got to be on increasing the revenue collected from the current sources.

Swanevelder (2000) however indicates that affordability by the municipality and affordability by the community when rendering service must be considered in order to prepare a balanced budget. By implication it then means that if the level of tariffs for services is high in relation to affordability by the community, one would then expect non payment. Swanevelder (2000:8) indicates that Council's should set policies regarding:-

- The discontinuation of supply for overdue accounts
- The stage at which credit arrangements can be entered into
- Handover of arrear account to attorneys
- Sale of property of defaulting debtors

Dr Scott (2002) said: by their very nature, municipalities have closed financial systems. In order to balance their books, they must raise sufficient income to curb expenditure. The goods and services are provided on the principal of total cost recovery. Furthermore, legislation prohibits municipalities to budget for

accumulated deficits. An expenditure led budget is where municipalities first determine the expenditure that would be incurred to provide services and then determining what revenue would be required in order to balance the budget. The revenue required is then translated in service and tariff charges. Whilst it is relatively easy to estimate income when preparing a budget, it is more difficult to collect income that has been billed to consumers.

It is therefore imperative for municipalities to consider the ability of consumers to pay for services when preparing a budget as the actual income collected will be used to offset expenditure. The municipality will also have to have a strategy to deal with the difference between budgeted income and actual income collected. This difference translates into outstanding debtors. The lack of disconnection action on the part of municipalities has created the impression in the consumers mind that payment for rates and service is not a priority when they prepare their budget.

From 1989 to 1995, the total debt owed by municipalities increased from approximately R 12 billion to more than R 23 billion (table 2.1). As municipal debt increases, the amount of cash required to service the debt also increases.

Table 2.1 Growth in Debt(Source: S A Reserve Bank, various Quarterly Bulletins)

<i>GROWTH IN DEBT OF MUNICIPALITIES</i>			
	R. millions		
YEAR	Loans -- Stock	Other Loans	Total Debt
1989	4 904	7 109	12 013
1990	5 586	7 609	13 195
1991	5 970	8 296	14 266
1992	6 687	8 498	15 185
1993	7 751	11 051	18 802
1994	8 490	11 099	19 589
1995	8 468	14 751	23 219

Table 2.2 Outstanding Debt to Municipalities(Source: IMFO, March 2002)

<i>Outstanding Debt to Local Municipalities by Consumer Ratepayers (All Provinces in South Africa)</i>	
October 1996	R 6 262 016 293
December 1996	R 6 468 189 630
March 1997	R 7 022 926 233
June 1997	R 7 302 584 847
September 1997	R 8 490 584 743
December 1997	R 8 713 089 066
March 1998	R 8 889 312 263
June 1998	R 9 360 264 568
September 1999	R 7 355 155 277
December 1999	R 8 867 108 316
March 2000	R 7 416 721 389

Table 2.2 indicates that municipalities are experiencing increasing financial difficulty as a result of increasing debtors. Dr Scott (2002) said that the total outstanding debtors, which are an acceptable norm for the evaluation of operating efficiency, increased from R 6.2 billion in 1996 to R 9.3 billion in 1998. The actual level of debtors as a percentage of rates and services charges in all provinces in South Africa increased by approximately 1 % per month after 1996 and totalled 33 % in June 1998.

Statistics reveal by the DPLG indicate that the vast majority of citizens do not have income to pay for the services and this conclusion is arrived at by analysing the outstanding amounts due to municipalities.

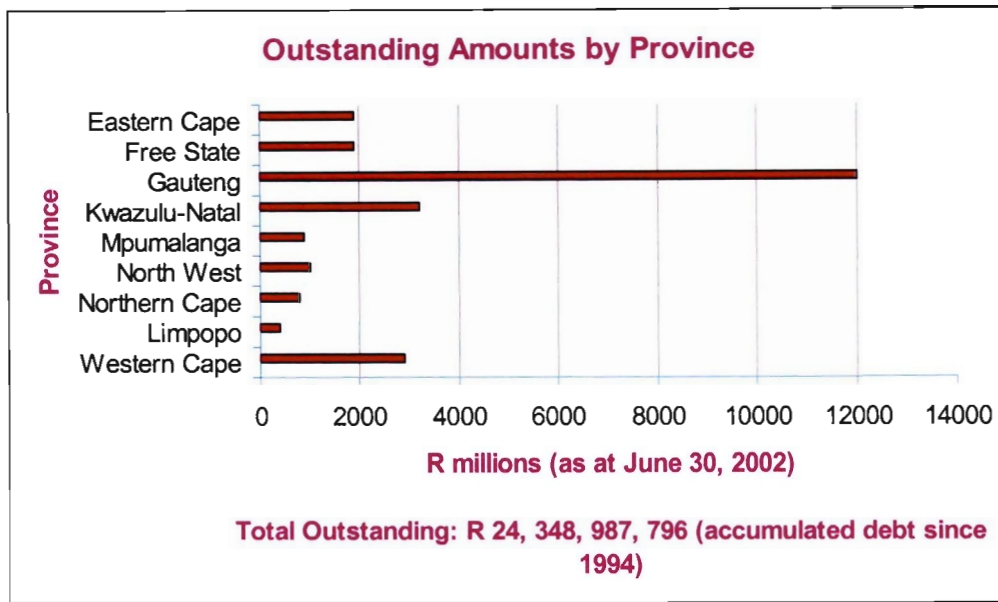


Figure 2.7: Outstanding Amounts by Province (Source: Municipal Viability Indaba, Department of Provincial and Local Government, 5-6 December 2002)

In 1995, the Department of Constitutional Development identified the following main reasons why municipalities were experiencing cash flow difficulties (Dr Scott: 6):

- Lack of proper credit control (outstanding debtors)
- Lack of proper management of short term assets and liabilities
- Lack of administrative and technical rationalisation in a sub regional context
- Insufficient right sizing of municipal services and expenditure savings
- Affordability and inter-governmental grants
- Hidden cost of integrating previously separated municipalities
- Lack of capacity at both political and administrative levels.

According to the South African Race Relations Survey 2001/2002 (55), the rising debt owed to municipalities is as a result of two thirds of consumers of services in low cost and informal housing who do not pay their rates and service accounts. It is not only the poor who do not pay their accounts, but a significant proportion of

consumers who have the means to pay but choose to hide behind the poverty of their neighbours. The survey indicates that 50 % of households in low cost or informal housing genuinely are too poor to pay. The non payers act as opportunist and tend to use more water than the very poor. They set new precedents whereby those who might consider paying feel that they would be naive to pay. This results in the culture of non payment being perpetuated.

Causes of the current debt situation experienced by municipalities can be categorised as follows (Municipal Debt: Some Perspectives, IMFO, Fall 2003, 8-11):-

- Affordability
- Refusing to pay
- Billing
- Survivor orientation
- Bailouts
- Budgeting
- Overspending
- Injudicious spending patterns
- Free basic services

According to the authors of the article (Municipal Debt: Some Perspectives, IMFO, Fall 2003, 8-11), municipalities' financial situation can only improve if they do one of three things, namely:-

- Increase revenue;
- Decrease expenditure; or
- Increase revenue and decrease expenditure

According to Schalkwyk.G.D van (IMFO, Fall 2003:12) Cape Town Municipality set up a Top 100 Team whose task was to collect the 100 highest valued accounts on a continuous basis as this comprised 5 % of the total debt owed to the City. The 12 month Moving Average Payment Ratio increased from 92.9 % for the period ending May 2001, to 99.8 % for the period ending July 2002.

Eicker.N (IMFO, Fall 2003:14) the Credit Controller for the City of Tshwane believes that of the options as listed below, decision makers should never place too much emphasis on any single option, namely:-

- Write-off bad debt
- Increase capacity in credit control
- Offer payment incentives e.g. 50 cents are written off the areas for every R1, 00 received on arrears, over and above the full payment of monthly current levies.

In an exclusive interview with Local Government Digest (1998:13) Minister of Constitutional Development and Provincial Affairs Valli Moosa, said, “The non payment culture is a problem but one must not entirely blame those who for one reason or another refuses to pay for their municipal services. Delivery is of the utmost importance, and visible infrastructure will enhance payments”.

In an interview with City Press, Trevor Manual said (Makunike.S & Mkhabela. M, Real empowerment is in Small Business, City Press, 13 April 2003) “What you find in the Intergovernmental Fiscal Review is that too many municipalities have not made a distinction between the indigent and the people who ought to pay. There are many people in townships who earn reasonable wages and ought to pay, but are not. There are even businesses who are paying – they are either not properly billed or the systems of local authorities are not adequate and they get away without paying. The result is that you get this huge deficit. The figure for consumer debt is almost R 24 billion. At least R 15 billion of that is owed to the six metropolitans”.

Ivory Park, a suburb of the Midrand Metropolitan Local Council (MLC) uses a model whereby incentives are offered as opposed to punitive action in order to increase payment levels. The model has proved successful as between the periods June 1996 to August 1997, payment for rent and services increased from 3 % to 80 % (Financial Mail: 1997:40). The model relies on financial incentives where residents have control over how their payments are spent. Coupled with this is

constant one-on-one communication between local government and residents. Practically the model was implemented as follows:-

- Each of the three wards in was divided into four zones
- Each zone has a zone leader responsible for delivering accounts
- Zone leaders collect accounts from Council offices
- They are paid per account delivered by hand to each household.
- Residents must sign the ledger to acknowledge receipt of the bill
- The amount paid to zone leaders is dependant on the percentage payment in their zone
- If the payment level is between 0 % and 15 %, they are paid 35 cents per account delivered
- If the payment level is 35 %, they are paid 55 cents per account delivered
- If the payment level is 90 %, they are paid 95 cents per account delivered
- Consistent payers are given further incentives such as trees to plant in their yards
- All rent payments collected are set aside to be spent on projects chosen by the people in Ivory Park

Timm. J and Jadwat.O (summer 1998) said, the system has several benefits, viz:-

- The council saves money because the system is cheaper and more efficient than posting accounts
- The zone leaders earn money
- Households are getting personal service, as they have to sign for the account and can raise any issues with the zone leader
- Some 85 % of residents are getting their accounts delivered

Johannes Mathekga (Financial Mail: 1997:40) a zone leader in Ivory Park said, “One of the reasons the people of Ivory Park pay their services is that they get no chance to say ‘I didn’t get my account’. To post the account is a dangerous thing”.

An in depth meter audit of approximately 180 Large Power Users (LPUs) in a medium sized coastal town conducted by Douglas. N came up with the following statistics, expressed as a percentage of failures:-

Table 2.3: Meter Audit Statistics

<i>Description</i>	<i>%</i>
Not on Treasury Database	18
Incorrect multiplication factors (on database or in the meter)	9
Suspected tampering	4
Wiring problems	18
Faulty meter	3
Inaccuracy for class	8
No load at time of testing	19
Protection over-rated or no protection	15
Other	6

Douglas. N concludes from his findings that the cost of the LPU audit inclusive of repairing installations and replacing meters as required was less than 10 % of the increased annual financial gains, which gave the supply authority a payback period of 45 days. This evidence suggests that municipalities would benefit financially from conducting meter audits.

Pillay.T.V (Chief Director of Inter-Governmental Relations at National Treasury) said (Local Govt goes from strength to strength to better life for all, City Press, 13 April 2003), “every small effort from the private sector adds to the overall macroeconomic growth required to create more and sustainable jobs and secure a steady income to alleviate poverty. This will in turn have a positive effect on sustainable local government operations and profitable local economy. In generating services, both public and private, and undertaking other business activities, all stakeholders have a role to play in paying attention to the macroeconomic objective of the country.

In an attempt to improve revenue collection, one needs to consider public private sector partnerships (PPP) in order to improve efficiency and mitigate the lack of resources within municipalities. The motivation for PPP's centers around releasing trapped value. The underlying thread being that private sector companies base their performance in relation to the market and are thus more competitive. PPP's allow the transfer of expertise and efficiencies as opposed to privatisation which is the total or partial alienation of assets from public sector to the private sector.

2.5 Masakhane Campaign

Masakhane literally translated means *let us build together*. The Masakhane Campaign launched in February 1995 is a national strategy designed to encourage an increase in responsibility and to encourage the payment of rates and services and to normalise local government structures. Timm. J and Jadwat.O (summer 1998) define Masakhane as the strategies employed to manage the transition from a situation of poor or non-existent local government to one in which the local authority and consumers cooperate to ensure that services are delivered and consumers are paying.

The aim of Masakhane is to (Masakhane: 1995: 4-5):-

- Accelerate the delivery of basic services and housing
- Stimulate economic development in both urban and rural areas
- Promote the resumption of rent, service charge and bond payments
- Create conditions for large-scale investments in housing and services infrastructure and local economic development
- Promote the creation of conditions conducive to effective and sustainable local governance

Timm, et al (autumn 1998) suggests the following steps using best practice when implementing a successful Masakhane campaign:-

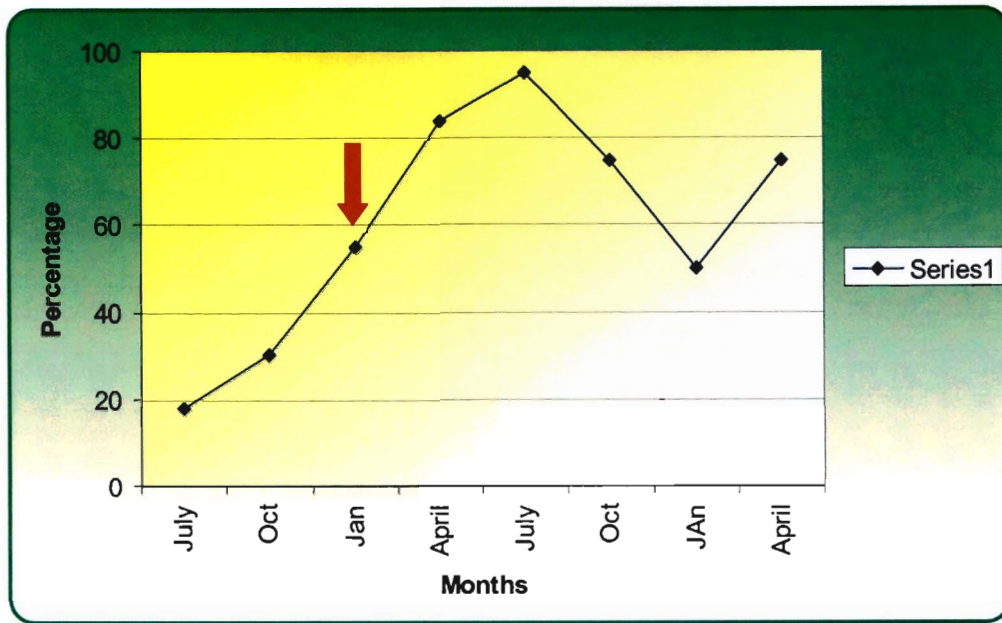
- Bringing stakeholders on board
- Provide all consumers with a metered service
- Those households that cannot afford to pay must be registered as indigents

- Disconnect services to defaulting consumers
- Start with small projects

In order to break the chicken and egg situation, and to facilitate payment levels, Tumelo Moloko (HAS-Nov/Dec 1996) encourages local authorities to do the following:-

- Enter into agreements with the community on the level and standard of servicing, as well as cost and payment for such service
- Create platforms for negotiation
- Relocate budgets within the framework of the RDP
- Conduct local awareness campaigns on the role, operations and financing of local authorities.

Timm. J and Jadwat.O (summer 1998) through their research conclude that punitive actions are effective when the citizen understands and supports such actions. They also caution municipalities about being to hasty in delivering services that are not sustainable in the long term. By implication it then means that the municipality has proved itself capable of delivering service, providing accurate accounts and accommodating indigents. In support of their analysis (graph 2.1), prior to the date on which punitive action was to be implemented (January 1996) at Leeudoringstad East, the Council widely publicised its intention and ensured indigents have been accommodated and all households have their own meters. As can be seen the effect was a dramatic increase in the payment level. The fall in payment level for January 1997 was as a result in the theft of computers which resulted in the pay point being closed for two weeks.



**Figure 2.8: Payment at Leeudoringstad East: Source Timm. J and Jadwat.O
(summer 1998)**

The low rate of payments from the former R293 townships (previously administered by the Ciskeian government and/or the separate black local authorities) has placed additional financial strain on municipalities. The R 293 townships generally comprise low income or unemployed people who cannot afford to pay for services. Thus, the typical “chicken and egg” situation exists: service delivery constrained by lack of payment (Timm, et al: autumn 1998).

2.6 The Rate Revenue Curve

The orthodox view of taxation is that it serves mainly to cover the costs of collective services (Gildenhuys: 1993:215). It is thus imperative to consider whether the tax charged on a specific tax base will generate adequate revenue. The Laffer or Rate Revenue Curve demonstrates that a given amount of revenue R2 can be collected at two rates, t-high and t-low. For each tax rate, there is maximum possible revenue that can be generated. Increasing the tax rate beyond a certain point will result in a decrease in revenue collected because of the backward

bending curve. This then becomes a matter of killing the goose that lays the golden egg (Gildenhuys: 1993:216).

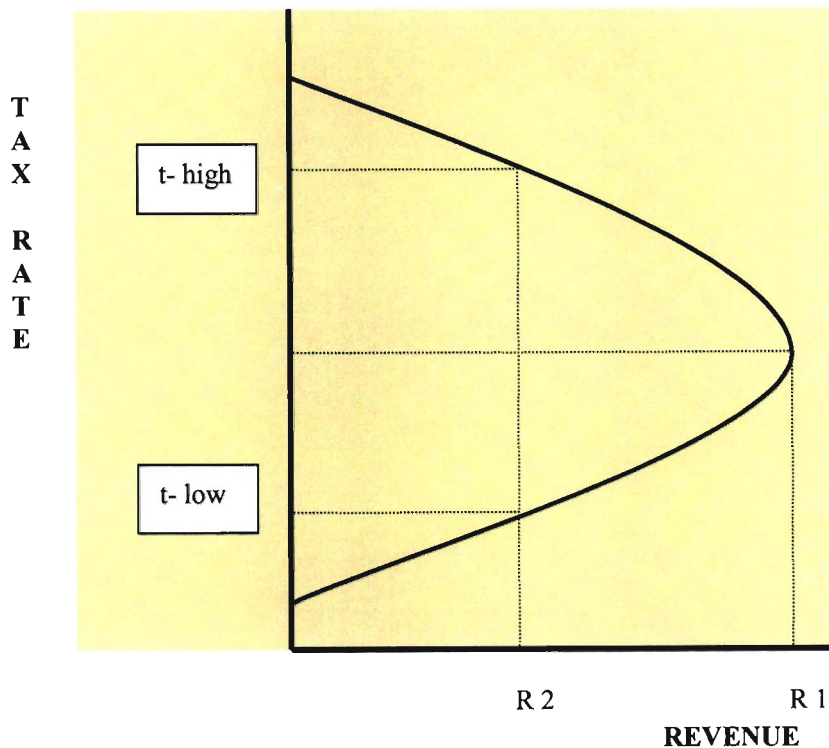


Figure: 2.9 Laffer /Rate Revenue Curve (source: Gildenhuys: 1993:217)

2.7 Culture

“*Ubuntu*” is the latest buzzword dreamt up by management theorist to describe what they say is a unique South African fashion of tribal tradition and modern management techniques. A literal translation from the Xhosa and Zulu is a little more enlightening: the word means humanity, or dignity. The term *ubuntu*, actually comes from the phrase “*Ubuntu ngumuntu ngabantu*”, which means “*a human is a human because of other people*”. In short, the word implies the startling observation that if you treat people well they will perform better (Tayeb 1998).

What management pays attention to and rewards is often the strongest indicator of the organisations culture. The culture must be consistent with the management

processes of *planning, organising, leading* and *controlling*. Management principles must advocate a participative, decentralised and to a certain degree, Management By Walk About (MBWA) approach.

Culture drives the organisation and its actions. It guides how employees think, act and feel. It is dynamic and fluid and never static. Focusing the culture towards the organisations strategy would free up trapped resources and result in higher productivity, leading to lower cost, and greater motivation. There are three fundamental manifestations of culture: -

- ◆ Observable artefacts - the physical layout, the dress code and the organisational structures
- ◆ Values - the ideologies
- ◆ Basic underlying assumptions - unconscious actions

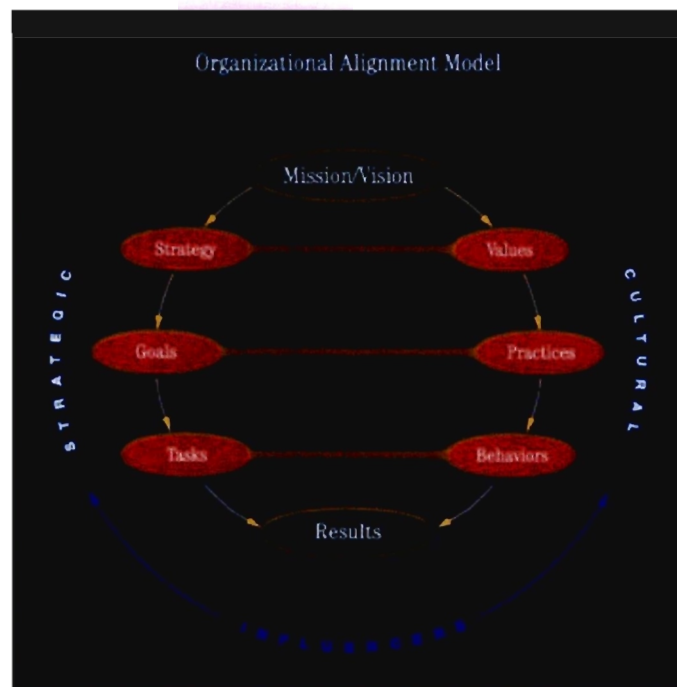


Figure 2.10: Organisational Alignment Model

Focusing on the strategic side of the model and *ignoring* the cultural influencers could result in undue stress during change management. The Organisational Alignment Model clearly suggests that paying attention to both the strategic (left side) and the cultural (right side) will determine the relative success of any organization.

Tayeb (1998:5) said “The most important of these resources is the firm’s workforce, which, because of its complicated nature and composition, poses the greatest challenge to managers”.

2.8 Revenue Model

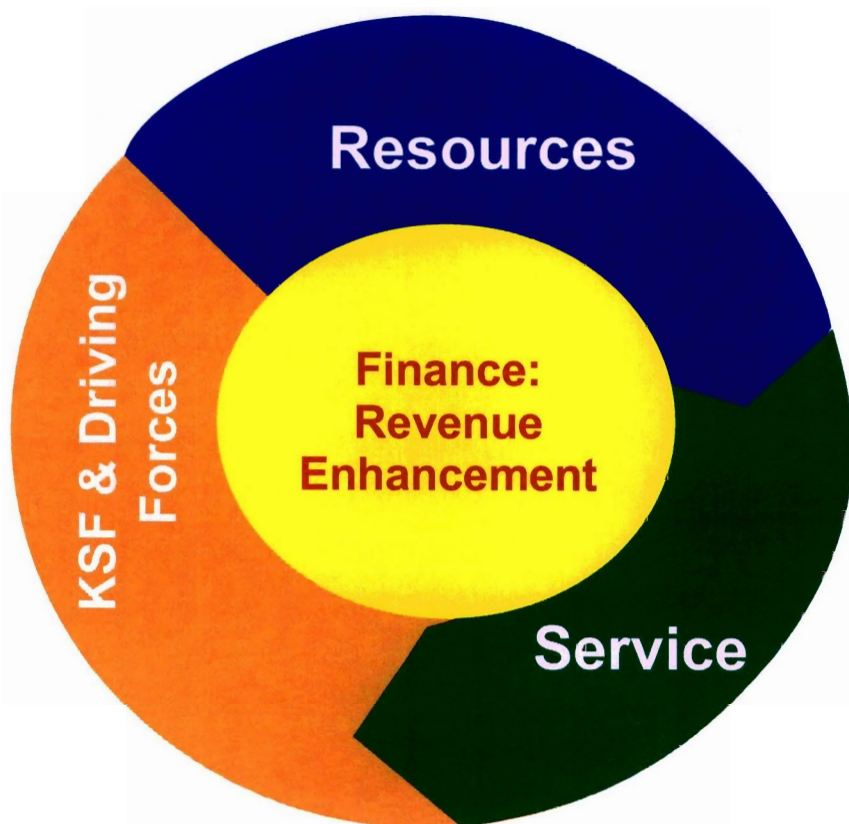


Figure 2.11: Revenue Model

The main sources of operating income for municipalities is derived from trading services such as water and electricity, property rates, fiscal transfers from other tiers of government, loans and capital raised in the capital market. The new dispensation has created numerous opportunities and threats for municipalities. In order to ensure financial sustainability, revenue income has to increase. The resources of municipalities, level of service and customer expectations have to be aligned. Once aligned, it would result in a sustainable competitive advantage. Visible improvements in service delivery, coupled with firm financial control will result in an increase in revenue collected.

2.9 Summary

Local authorities face threats from many fronts. The greatest challenge will be the enforcement of strict credit control measures, and focusing on the needs and wants of the consumer. Being complacent and taking consumer needs and environmental threats for granted is a luxury that municipalities dare not consider.

Municipalities must continue to strive for technological improvements and pursue innovative products that surpass every customer related needs. Finally different demographics, government regulations and environmental concerns are playing an important role in service delivery and thus affecting supply decisions. Therefore municipalities must develop policies around these issues and effectively communicate them to the public, especially their target groups as a means of customer service.

Successful businesses evolve over time. The evolution does not have to be drastic. Small changes can alter the benefits customers expect to enjoy. As municipalities expand, it is imperative to fine-tune its core business in order to stay on target, expand the market reach and remain financially sustainable.

Chapter 3 – Current Situation

3.1 Introduction

Access to basic services is a right enshrined in the constitution. Chapter 2 Section 27(1,2) states that “everyone has the right to have access to sufficient food and water” and “the state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of each of these rights”.

The Council has placed the City Finances first on its prioritised strategies in its IDP. This indicated its awareness of the need to retain its revenue base and to control expenditure. According to the Municipal Systems Act, 2000, Financial sustainability in relation to the provision of a municipal service, means the provision of a municipal service in a manner aimed at ensuring that the financing of that service from internal and external sources, including budgeted income, grants and subsidies for the service, is sufficient to cover the cost of-

- (a) the initial capital expenditure required for the service;
- (b) operating the service; and
- (c) maintaining, repairing and replacing the physical assets used in the provision of the service.

South Africa has been given a rare and historic opportunity to transform municipalities to meet the challenges and expectations of the citizens. According to the White Paper on Local Government, March 1998, in terms of the new constitution, local government is a sphere of government in its own right and no longer a function of national or provincial government. Local government has also been given a distinctive status and role in building democracy and promoting socio-economic development.

According to Mr Pravin Gordhan (SARS), the process for developing a new policy for local government was done against the backdrop of globalisation and the redefinition of the nation state as well a new emphasis on decentralisation.

Whilst the aggregate size of the municipal budget in South Africa is significant, totalling over R 48 bn in 1998, there are vast disparities between the revenue bases of different municipalities (The White Paper on Local Government, March 1998:19)

Historically, most local government revenue in urban South Africa was self-generating, mainly through property taxes and the delivery of services to residents and businesses. This particularly suited white municipalities which had small populations to serve and large concentrations of economic resources to tax. Financial shortfalls were built into local government for black areas. In rural areas, discrimination and segregation were equally stark. Water and electricity were supplied to white residents in rural areas at enormous cost, while scant regard was given to the needs of the rural majority (The White Paper on Local Government, March 1998:22). As the focus has now shifted to providing services to previously marginalised citizens, the effect has now been felt as the level of rising outstanding debt continues to increase month on month. This stems from the culture of non payment as well as insufficient household income to pay for these new services. The resultant effect is that the revenue division has to operate within the social constraints prevalent whilst at the same time focus on improving service delivery.

In light of the dynamics of the new environment as a result of changing legislation, an analysis of the municipalities revenue division must be undertaken within the context of the Revenue Model (figure 2.9) and analysed by: -

- 3.2 Services
- 3.3 Resources
- 3.3 KSF & Driving Forces
- 3.4 Finance: Revenue Enhancement

3.1 Services

Revenue collection and enhancement in Local Government is governed by the following legislation:-

- 3.2.1 The Constitution's of the Republic of South Africa, 1996 (Act No. 108 of 1996) and its objectives for local government
- 3.2.2 The Municipal Structures Act, 1998 (Act No. 117 of 1998)
- 3.2.3 The Municipal Systems Act, 2000 (Act No. 32 of 2000)
- 3.2.4 Local Government Laws Amendment Act, 2002 (No. 51 of 2002)
- 3.2.5 Public Finance Management Act, 1999 (Act No. 1 of 1999)
- 3.2.6 Municipal Finance Management Bill, 2003
- 3.2.7 National Treasury Guidelines
- 3.2.8 Section 10G of the Local Government Transition Act, Second Amendment, Act No.97 of 1996 and its Attendant Regulations
- 3.2.9 Local Authorities Ordinance, No. 25 of 1974
- 3.2.10 The White Paper on Local Government, March 1998
- 3.2.11 Local Government Property Rates Bill, 2002
- 3.2.12 Integrated Development Plan, 2002
- 3.2.13 Competency-Based Performance Management (CPM)
- 3.2.14 Batho Pele principles
- 3.2.15 Specific and unique characteristics of the Municipality

3.2.1 The Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996)

Chapter 7, Sec 152(1) outlines the objectives of Local government. In terms of the constitution, the objectives are: -

- (a) to provide democratic and accountable government for local communities;
- (b) to ensure the provision of services to communities in a sustainable manner;
- (c) to promote social and economic development;
- (d) to promote a safe and healthy environment; and
- (e) to encourage the involvement of communities and community organisations in the matters of local government.

In terms of Section 152 (2), A municipality must strive, within its financial and administrative capacity, to achieve the objects set out in subsection (1).

3.2.2 The Municipal Structures Act, 1998 (Act No. 117 of 1998)

Chapter 5, Sections 83, 84 and 85 addresses the powers and functions of municipalities. Of particular significance is the division of responsibility between the district municipality and the local municipality. Within the context of the Msunduzi municipality, the district municipality (Umgungundlovu District Municipality) is responsible for raising and collecting IRC levies. Whilst approximately 79 % (The Msunduzi Restructuring Grant Application, 2002:Local Economic Development Review:24) of the levy income received by the district is collected from the ratepayers of Msunduzi, only 23.68 % of the districts allocation is earmarked for redistributed towards service upliftment within the Msunduzi (Interim Integrated Development Plan, District Council 22).

3.2.3 The Municipal Systems Act, 2000 (Act No. 32 of 2000)

Chapter 9, Sections 95 to 104 contain the Credit Control and Debt Collection legislation. Of particular relevance to the case at hand are sections 95 and 96.

Section 95 covers the area of customer care and management. The legislation states, "In relation to the levying of rates and other taxes by a municipality and the charging of fees for municipal services, a municipality must, within its financial and administrative capacity-

- (a) establish a sound customer management system that aims to create a positive and reciprocal relationship between liable for these payments and the municipality, and where applicable, a service provider;
- (b) establish mechanisms for users of services and ratepayers to give feedback to the municipality or other service provider regarding the quality of the services and the performance of the service provider;
- (c) take reasonable steps to ensure that users of services are informed of the costs involved in service provision, the reasons for the payment of service fees, and the manner in which monies raised from the service are utilised;

- (d) where the consumption of the service has to be measured, take reasonable steps to ensure that the consumption by individual users of services is measured through accurate and verifiable metering systems;
- (e) ensure that persons liable for payments, receive regular and accurate accounts that indicate the basis for calculating the amounts due;
- (f) provide accessible mechanisms for those persons to query or verify accounts and metered consumption, and appeal procedures which allow such person to receive prompt redress for inaccurate accounts;
- (g) provide accessible mechanisms for dealing with complaints from such person, together with prompt replies and corrective action by the municipality;
- (h) provide mechanisms to monitor the response time and efficiency in complying with paragraph (g); and
- (i) provide accessible pay points and other mechanisms for settling accounts or for making pre-payments for services”.

Section 96 covers the area of debt collection responsibility of municipalities. The legislation states, “A municipality-

- (a) must collect all money that is due and payable to it, subject to this Act and any other applicable legislation; and
- (b) for this purpose, must adopt, maintain and implement a credit control and debt collection policy which is consistent with its rates and tariff policies and complies with the provisions of this Act”.

3.2.4 Local Government Laws Amendment Act, 2002 (No. 51 of 2002)

Section 75A confers general powers to levy and recover fees, charges and tariffs. In terms Section 75A, (1) A municipality may-

- (a) levy and recover fees, charges or tariffs in respect of any function or service of the municipality; and
- (b) recover collection charges and interest on any outstanding amount. For this purpose, must adopt, maintain and implement a credit control and debt

collection policy which is consistent with its rates and tariff policies and complies with the provisions of this Act”.

- (2) The fees, charges or tariffs referred to in subsection (1) are levied by a municipality by resolution passed by the municipal council with a supporting vote of a majority of its members.

3.2.5 Public Finance Management Act, 1999 (Act No. 1 of 1999)

The Public Finance Management Act gives effect to sections 213, 215, 216, 217, 218 and 219 of the Constitution of the Republic of South Africa (Act 108 of 1996). The Act adopts an approach to financial management which focuses on outputs and responsibilities, rather than the rule driven approach of the old Exchequer Acts. The Act is part of a broader strategy on improving financial management and accountability in the public sector.

Section 38(1) (c) (i) states that the accounting officer must take effective and appropriate steps to collect all money due to the department, trading entity or constitutional institution.

3.2.6 Municipal Finance Management Bill, 2003

Chapter 3, Part 2, Section 13 covers cash management and investments. In terms of Section 13:

- (1) The National Treasury may prescribe a framework within which municipalities-
 - (a) must conduct their cash management and investments; and
 - (b) must invest money not immediately required.
- (2) A municipality must establish an appropriate and effective cash management and investment policy in accordance with any framework that may be prescribed in terms of subsection (1)

This bill when enacted will regulate financial management in the local government by prescribing the duties of municipal officials with regard to financial management. It designates the municipal manager as the accounting officer with the specific responsibility of collecting all monies owed to the municipality.

3.2.7 National Treasury Guidelines

Part 4, Chapter 7 of the guidelines provides guidance on revenue management. In terms of section 7.2.1, “The accounting officer of an institution must manage revenue efficiently and effectively by developing and implementing appropriate processes that provide for the identification, collection, recording, reconciliation and safeguarding of information about revenue”.

In terms of section 11.2.1, The accounting officer of an institution must take effective and appropriate steps to timeously collect all money due to the institution including as necessary-

- (a) maintenance of proper accounts and records for all debtors, including amounts received in part payment; and
- (b) referral of a matter to the State Attorney, where economical, to consider a legal demand and possible legal proceedings in a court of law.

3.2.8 Section 10G of the Local Government Transition Act, Second Amendment Act No. 97 of 1996 and its Attendant Regulations

In terms of Section (c) (i) The powers and duties of the local government co-ordinating committee: Provided that the powers and duties of any local government co-ordinating committee shall be at least the following powers and duties: (cc) to investigate the rationalisation of the administration and personnel of the individual local government bodies in the area of the forum and, subject to applicable law, implement a program of rationalisation to be completed at the commencement of the interim phase.

3.2.9 Local Authorities Ordinance, No. 25 of 1974

In terms of section 113 of the Local Authorities Ordinance, The treasurer may, under authority of a resolution of the Council, but not otherwise, write-off any revenue which is irrecoverable or the recovery of which is considered not to be reasonably practicable.

3.2.10 The White Paper on Local Government, March 1998

The amalgamation of previously divided jurisdictions has massively increased the population which municipalities must serve, without a corresponding increase in the tax base. Combined with service backlogs, collapsed or deteriorating infrastructure, and deteriorating creditworthiness and borrowing capacity, municipalities are experiencing financial stress, and in some instances crisis. Although payment for services is improving, problems related to non payment for services remain. Extending effective property taxation to the former township areas has also proved difficult (The White Paper on Local Government, March 1998:28).

In terms of section G, 2.1.5, Credit Control, it is vital to the long terms financial viability of any municipality that it collects the revenues due to it for services rendered. This means that appropriate credit control mechanisms must be established.

As a first step, municipalities need to be able to measure the amount of services that households consume. This means that measuring of services such as water and electricity must take place efficiently.

Secondly, households need to receive regular and accurate bills for the services they use, in a format which is easy to understand. In some areas special arrangements may be required to ensure that households receive bills regularly.

Thirdly, credit control measures will only be successful if targeted relief is available for those households who cannot afford to pay for services. Municipalities must establish accessible mechanisms to enable poor households to apply for a rebate on service charges.

Fourthly, municipalities need to take strong measures to deal with those households who can afford to pay for services but are not doing so. This means that municipalities must keep a proper record of outstanding debtors, and must take action against them after a given notice period. Such action can include cutting off services or court action to recover debts. It is fundamentally important that local government is able to retain the power to cut off electricity to consumers as a credit control measure, and amendments to the Electricity Act will be promulgated in this regard.

3.2.11 Local Government Property Rates Bill, 2003

Municipalities derive their power to levy rates directly from the constitution. Property rates represent a major source of revenue income for local government. It is used to cross subsidise non trading activities. Chapter 3 regulates liability for property tax and states the general principle that the owner of a property must pay the rates on the property.

In terms of section 25 (1):-

If an amount of rates in respect of property is unpaid after the day determined in terms of section 23 (2), a municipality may recover the amount in whole or in part from a tenant or occupier of the property.

In order to stabilise the finances, broadening the tax base will increase revenue. In terms of the bill, property taxes can be collected by sale of the property if there is non payment by the owner. This represents a leveraging tool as the municipality can through proper credit control ensure that almost all rates raised can be collected.

3.2.12 Integrated Development Plan, 2002

The integrated development plan (IDP) is a requirement of the Municipal Systems Act, 2000 (Act No. 32 of 2000). It is meant to assist municipalities to focus on real developmental priorities, thus curbing wasteful expenditure.

Section 26 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) addresses the core components of the integrated development plan.

In terms of the Msunduzi's IDP, one of the programs/projects that has been identified is debt management. Page 186 of the IDP outlines the framework.

**Table 3.1: ISSUE: CITY FINANCES
DEBT MANAGEMENT (Source: IDP:186)**

ISSUE STATEMENT:		RESOURCES:	
<ul style="list-style-type: none"> - With the increase in amounts owed to Council and low growth in income, Council has almost reached the maximum borrowing capacity with unlikely further funding from Commercial Institutions - Runaway and escalating debt - Rates and service payment levels dropping - Depletion of internal capital - Increasing external loans - Ignorance of financial consequences in the municipality - Rates are only paid annually 		FINANCIAL	HUMAN / INSTITUTION
		Municipality	Municipal Staff
		National Treasury	Councillors
		Ratepayers and Consumers	Ward Committees
OVERVIEW:		DBSA	NGO's
Note a new section is to be developed dealing with "REVENUE GROWTH AND OVERALL FINANCIAL STRATEGY"		Commercial Banks	External Contractors
DESIRED OUTCOME:	5-YEAR OBJECTIVE(S):	STRATEGIES:	
<ul style="list-style-type: none"> - Halt and reduce outstanding debt - Increase payment levels - Reduce reliance on ext loans - Manage indigent policy 	<ul style="list-style-type: none"> - Increase level of payment to 97% p.a - Reduce <u>recoverable arrears</u> by 10% p.a. - Effective indigent policy - Comprehensive credit control policy - Improve credit rating to access external funding 	<ul style="list-style-type: none"> - Finalise credit control policy, audit meter readings, deal with theft and bypassing of meters - Allocate resources for implementation - Councillors to spearhead campaign for increased payments - Introduce monthly rating - Set external loan limits - Secure restructuring grant funding to create capacity in operating expenditures - Reinstate internal capital funding capacity - Consider incentives to reduce debt owed to Council and to encourage timeous payment 	

3.2.13 Competency-Based Performance Management (CPM)

A competency can be defined as those demonstrated behaviours that constitute effectiveness for a given task or performance area. To qualify as a competence three criteria apply. The behaviour must be: (1) Observable, (2) Measurable, (3) Acquired (learnt) behaviour, and (4) a precondition for effectiveness (Brand.C: 1998). The revenue division has been identified as the pilot site for the implementation of CPM. CPM is a management tool that is used to eliminate those activities that do not add value. It focuses on the customer and uses the principal of business process re-engineering to drive transformation and improve efficiency. The measured outputs are:-

- Accurate and concise bill's
- Bills delivered timeously
- Reduced queries
- Reducing averaging of accounts
- Revenue enhancement
- Improved communication

The municipality currently bills approximately 80 000 consumers each month. Approximately 30 000 accounts are in arrears and total some R 145 million. Due to limited number of meter readers, 20 000 accounts are averaged each month. This is unacceptable as 20 % of queries raised by consumers relates to averaging.

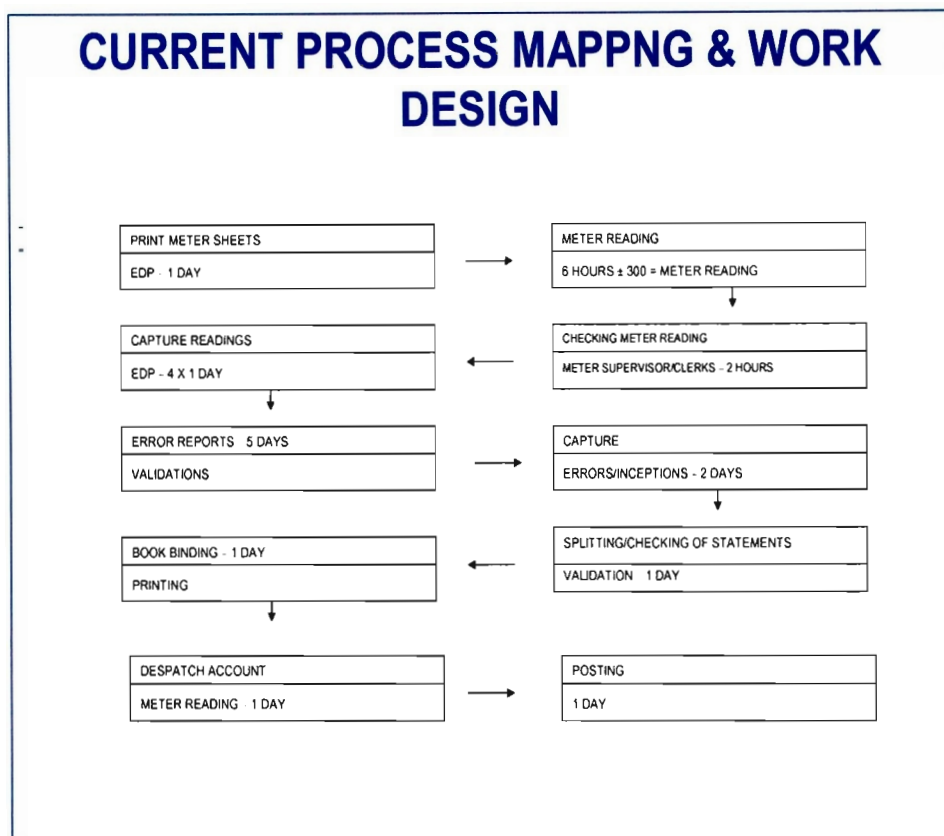


Figure 3.1: Current work design (Source CPM)

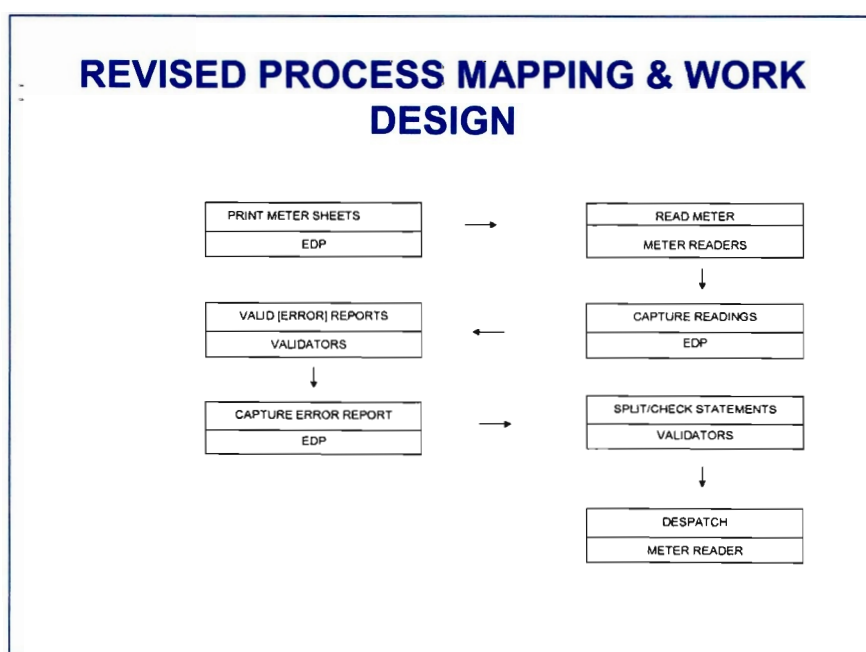


Figure 3.2: Proposed work design (Source CPM)

Re-engineering the process of generating a bill can be benchmarked against the following standards:-

Table 3.2: Revised Process standards

Core Work Processes	Process Standards
Meter Reading	Volume: +/- 300 per meter reader Quality : < 20 % error rate Speed : +/- 6 hours
EDP	Volume: +/- 8000 Quality : < 2 % error rate Speed : 1 day
Validations	Volume: +/- 1400 accounts Quality : < 5 % error rate Speed : 5 days
Despatch	Volume: +/- 6000 statements Quality : 0 % error rate Speed : 1 day

3.2.14 Batho Pele Principles

The Batho Pele Principles embrace the following areas:-

- Consultation – You can tell us what you want from us
- Service Standards – Insist that our promises are kept
- Access – One and all should get their fair share
- Courtesy – Don't expect insensitive treatment
- Information – You're entitled to full particulars
- Openness and transparency – Administration must be an open book
- Redress – Your complaints must spark positive action
- Value for money – Your money should be employed wisely

These principles are intended to improve service delivery by increasing transparency and accountability.

3.2.15 Specific and unique characteristics of the Municipality

3.2.15.1 CREDIT CONTROL POLICY – THE MSUNDUZI MUNICIPALITY

1. Definition

In these bylaws, unless the context otherwise indicates -

“bank guarantee” means an unconditional undertaking by a financial institution whereby it guarantees a specified maximum amount to be paid if the principal debtor (“the consumer”) fails to pay;

“calculated amounts” means the amounts calculated by the City Treasurer to be due to the Council by a consumer in respect of the supply of the applicable municipal

services for any period during which the exact quantity of the supply cannot be determined accurately for reasons beyond the control of the City Treasurer, and shall be based on the average consumption figures, if available , for the service rendered to the customer over the three months immediately prior to any such period commencing or, failing the availability of such data, on the average consumption figures applicable to one or more properties of similar size and nature in the area in which the customer resides or carries on business;

“City Treasurer” means the head of department responsible for Council’s financial affairs or any person duly authorised by the Council to act on behalf of such person;

“consolidated account” means one combined account for all municipal services and basic charges payable, and “consolidated bill” has a corresponding meaning;

“consumer” means a customer;

“conventional electricity and water meters” means electricity and/or water meters, as the case may be, which are used to determine the supply of electricity and water and which are read on a monthly or other fixed interval basis;

“Council” means the Msunduzi Municipality and its successors in law and includes the Council of that municipality or its Executive Committee or any other body acting by virtue of any power delegated to it in terms of legislation, as well as any officer to whom the Executive Committee has delegated any powers and duties with regard to these bylaws;

“customer” means any person to whom a service is, or has been, rendered by the Council and includes an occupier;

“deposit” means a minimum sum of money specified by the City Treasurer and payable by the consumer to the Municipality prior to occupation of the property or prior to the date on which services to the property are required;

“due date” means, in the absence of any express agreement in relation thereto between the Council and the customer, the date stipulated on the account and determined from time to time as the last date on which the account can be paid;

“existing customers” means customers who have already entered into an agreement for the supply of municipal services;

“financial year” means 1 July in any year to 30 June the following year;

“meter audits” means an investigation to verify the correctness of the consumption and supply of electricity and water;

“normal office hours” means the hours when the City Treasurer’s offices are open to the public from Mondays to Fridays, excluding public holidays;

“service accounts” means accounts in respect of electricity and/or water consumption;

“service agreement” means an agreement for the consumption of electricity and/or water;

“terminated account” means the final account for services after the customer has left the premises, whether or not the customer has given notice to terminate the supply of service;

“variable flow-restricting device” means a device that is coupled to the water connection that allows the water supply to be restricted or closed;

“visitation fee” means the fee charged for disconnection/reconnection of an electricity/water supply when the supply has been disconnected due to non-payment, which fee shall be determined periodically by the Council and shall form part of the municipal tariff of charges;

“voluntary garnishee order/emoluments order” means a court order for the deduction of an amount of money from the salary or other income of a customer.

2. Service Agreements

1. Before being provided with electricity, water and/or other customer services, and prior to taking occupation of premises, every customer shall enter into a service agreement with the Council in which, inter alia, the customer agrees that the electricity and/or water payment system may be used for the collection of arrears in respect of all service charges.
2. Where a consumer has failed to enter into a service agreement with the Council, water and/or electricity shall be restricted or disconnected, as the circumstances may require, until such time as a service agreement has been entered into and the applicable deposits have been paid. Such consumer is liable for calculated amounts.
3. The service agreement shall indicate that transfer of the property may not be registered until the municipality issues a certificate which certifies that all amounts due in connection with that property for municipal service fees, property rates and other municipal taxes, levies and duties during the two years preceding the date of application for the certificate, have been fully paid.

3. Accounts

1. The Council shall bill the inhabitants of, and property owners and property occupiers within, its area, for municipal services supplied to them by the Council at regular intervals or as prescribed by law.

2. The customer shall be liable for, inter alia, refuse and sewage charges.
3. The Council shall post the consolidated account to the customer at the address notified and preferred by each customer, to reach the customer before the due date printed on the account. Any change of address becomes effective only when the notification of the change is received and acknowledged by the Council.
4. The consumer shall, in writing, notify the Council of any change of address, including an e-mail address, where possible. Notwithstanding the fact that a customer has not received an account as a result of his failing to notify the Council of his change of address, the customer is nevertheless liable for payment of such account.
5. The customer shall pay, in full, the account rendered, on or before the due date. Failure to comply with this section shall result in debt collection action being instituted against the customer, and interest at the rate determined from time to time by the Council or, in the absence of any determination, as prescribed by law, may be charged from the date upon which the amount of the account was due for payment.
6. All payments received by the City Treasurer shall be allocated to the services listed below in the sequence indicated:
 - Other (miscellaneous)
 - Refuse removal
 - Sewage
 - Water
 - Electricity
7. A customer shall not be entitled to allocate any payment he has made to any portion of the total debt due to the Council.

4. Deposits

1. Subject to subsections (4) and (5) hereof, the calculation for deposits shall be based on two months' consumption of metered services together with any charges for other municipal services, or a minimum amount specified by the City Treasurer.
2. In determining the deposit described in section 4(1), the City Treasurer may differentiate between areas to give cognisance to differences in service standards and usage.
3. The City Treasurer may re-assess customer deposits for new commercial and industrial customers three months after the initial deposit date and may, as a result of this reassessment, require an additional deposit from any such customer.
4. The City Treasurer may review deposits annually or when a customer's service is disconnected as a result of non-payment.
5. Should the customer's services be disconnected twice during any twelve month period due to non-payment, the customer's deposit shall be adjusted the following month to conform with section 4(4).
6. The outcome of this review shall be communicated to the customer in the event of any variation in the deposit arrangements being required. Should the deposit mentioned in section 4(2) or 4(3) be found to be inadequate, the customer may make arrangements with the City Treasurer for the payment of the additional amount within a period of three months.
7. All deposits shall be paid at least two days prior to occupation of the property or prior to the date on which the services are required, if not required on date of occupation. Failure to comply with this bylaw may result in a delay in the connection of services and the Council shall not be liable for any loss or prejudice suffered by a customer as a result thereof.

5. Disconnections

1. The Council shall not be obliged to issue any final request notices or other reminders to customers whose accounts are in arrears, prior to disconnection.
2. The consolidated account, if in arrears for 30 days or more, shall reflect a warning message which shall be deemed to be proper and sufficient notification to the customer that his services shall be disconnected or restricted unless payment is received on or before the due date.
3. In the event that full payment of the consolidated account, including any accumulated arrears, is not received on or before the due date, the electricity supply and thereafter the water supply shall be disconnected/restricted, unless a formal acknowledgment of debt has been signed by the customer and the necessary arrangement for an extension of payment has been approved by the City Treasurer.
4. Although a customer might have concluded satisfactory credit arrangements in terms of section 6, the Council is not obliged to effect a reconnection of services on the day that payment is received but shall do so as soon as possible after such arrangements have been approved by the City Treasurer.
5. Where a customer's services are disconnected, the customer shall be charged a visitation fee, as determined by the Council from time to time, which shall be paid prior to the services being reconnected.

6. Agreements and arrangements with customers in arrears

1. The City Treasurer is authorised to enter into agreements with customers in arrears with their accounts and to grant such persons extensions of time for payment.
2. Where a customer in arrears is a business concern, a minimum of 50% of the total overdue amount, as an initial payment, shall be paid, and the

balance of the account shall be paid in equal instalments over a maximum period of twelve months. Such an arrangement shall automatically include a condition that any future monthly current accounts shall be paid by their respective due dates.

3. In respect of domestic consumers, 10% of the total overdue balance or the current account, whichever is the greater, as an initial payment, shall be paid, and the balance of the account in equal instalments over a maximum period equal to the number of months that the outstanding amount has accumulated. Such an arrangement shall automatically include the condition that any future monthly accounts are paid by due date.
4. A customer who fails to comply with any credit arrangement shall not be permitted a further arrangement or extension of time for payment and shall have his services terminated, but a customer who brings his credit arrangement up to date by an immediate payment shall have his services reconnected.
5. Further, a customer who fails to comply with any credit arrangement shall have his service agreement terminated, services disconnected, and his deposit and interest on any outstanding amounts set off against any arrear debt. Any outstanding balance shall then be handed over for debt collection.
6. Only debtors with positive proof of identity or an authorised agent with a Power of Attorney shall be permitted to enter into an Acknowledgment of Debt agreement with the Council.
7. Where a debtor is a close corporation or a company, the person who signs an acknowledgment of debt on behalf of such close corporation or company, shall produce written proof that he is authorised to sign such acknowledgment on behalf of the close corporation or the company.

8. An Acknowledgment of Debt agreement shall contain all arrangements for paying off arrear accounts. One copy of the agreement shall be handed to the customer and another filed with the City Treasurer.
9. In instances where a customer is employed, the Council may obtain a voluntary garnishee order or emoluments attachment order.
10. Where any debt has arisen as a result of the Council having applied an incorrect charge, the consumer may arrange to pay the debt over a maximum period equivalent to the period over which the incorrect charge was applied.

7. Dishonoured cheques

1. The Council shall, at the earliest opportunity, be entitled to disconnect or restrict, as the case may be, the electricity and/or water supply of a customer who has offered a cheque as payment for municipal services if such cheque is for any reason returned or dishonoured by the financial institution on which it is drawn.
2. A customer who has offered three dishonoured cheques in any 12 month period shall not be allowed to make further payments by cheque for a period of at least one year, though a bank guaranteed cheque may be accepted by the City Treasurer.

8. Tampering and/or theft of services

1. In respect of electricity services, if tampering of any nature or theft of such services is identified, the electricity supply to the property shall be discontinued by the removal of the meter and the cable and the water supply shall be restricted.
2. If the restricted water supply is tampered with or any variable flow-restricting device is removed, the water supply shall be discontinued, the

service connection removed and the customer's services agreement with the Council shall be cancelled. The customer's deposit shall be set off against any amounts owing by him to the Council

3. All amounts owing by the customer shall be paid prior to any services being reconnected and a new services agreement being entered into together with the required deposit.

9. Municipal staff

A member of staff of the Council may not be in arrears with the Council for rates and service charges for a period longer than three months, and the Council may deduct any outstanding amounts from the salary of such member of staff after this period, in accordance with item 10 of Schedule 2 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000).

10. Enforcement of other legislation

In addition to the provisions of these bylaws, the Council may enforce any other rights or exercise any power conferred upon it by the Water Services Act, 1997 (Act No. 108 of 1997), Council's Water Supply Bylaws, the Electricity Act, 1987 (Act No. 41 of 1987) and Council's Electricity Supply Bylaws.

11. Inconsistencies between different by-laws

In the event of an inconsistency between the provisions of these and any other by-laws, the provisions of these by-laws shall prevail.

3.1.15.2 INDIGENT POLICY – THE MSUNDUZI MUNICIPALITY

TARIFF POLICY BYLAWS FOR INDIGENT PERSONS

1. Definitions

In these bylaws, unless the context indicates otherwise -

“Council” means the Msunduzi Municipality and its successors in law and includes the Council of that municipality or its Executive Committee or any other body acting by virtue of any power delegated to it in terms of legislation, as well as any officer to whom the Executive Committee has delegated any powers and duties with regard to these bylaws;

“consumption” means the ordinary use of municipal services, including water, sanitation, refuse removal, and electricity services for domestic or household purposes;

“due date” means, in the absence of any express agreement in relation thereto between the Council and the customer, the date stipulated on the account and determined from time to time as the last date on which the account shall be paid;

“free basic water” means the maximum amount, volume or consumption of water determined by resolution of the Council from time to time that will be provided free of charge as reflected in the Council’s Tariffs for Indigents;

“municipal value” means the total combined value of land and buildings on a property, as reflected in the municipal valuation roll;

“municipal services” means electricity, water, sanitation and refuse removal services provided by the municipality;

“refuse charge” means the monthly charge levied by the municipality for the removal of solid domestic waste;

“sewage charge” means the monthly charge levied by the municipality for the disposal of domestic sewage;

“income level” means the total, combined income, from any source whatsoever, of the owner and / or all occupiers of a property, as determined according to national policy and guidelines and reflected in the Council’s Tariffs for Indigents;

“occupier” includes any person in actual occupation of a property without regard to the title under which he occupies, if any;

“owner” means the person in whom from time to time is vested the legal title to the property.

2. Automatic qualification for concessions

1. Owners and/or occupiers of residential property where the combined municipal value of the land and buildings on such property is equal to, or less than, the value determined by resolution of the Council for the purposes of qualifying for free services, as reflected in the Council’s Tariffs for Indigents, shall automatically qualify for such free services, subject to the conditions set out hereunder.
2. Owners and/or occupiers of residential property shall receive free basic water, refuse removal and sewage disposal if the combined value of the land and buildings on the property meet the criteria referred to in (1) above, unless the consumption of water on the property exceeds the maximum volume determined by the Council from time to time as free basic water.

3. In the event that the consumption of water on a property that qualifies for the concessions referred to in (2) above, exceeds the maximum volume determined by the Council as free basic water for whatever reason, the owner or occupier shall be billed for the total consumption of water and services to the property.
4. In order to ensure that his consumption does not exceed the maximum volume determined by Council as free basic water, an owner or occupier of property may request the Council to install a variable flow-restricting device to his water supply.
5. Notwithstanding that an owner or occupier may qualify for free basic water, the Council may restrict the supply of water to the property of such owner or occupier if he fails to pay any account by due date.
6. In the event that an owner or occupier fails to pay any account by due date, the Council may, in terms of its Credit Control Bylaws, disconnect the electricity supply to the property occupied by such owner or occupier.
7. In the event that there is any evidence of tampering with, or theft of, Council's services, to a property, the Council may invoke the provisions of section 8 of its Credit Control Bylaws.

3. Application for special or life line tariffs

1. Owners and/or occupiers of residential property where the combined municipal value of the land and buildings on such property is greater than the value determined by the Council for the purposes of qualifying for free services, as reflected in the Council's Tariffs for Indigents, but whose level of income is less than the amount determined by Council as qualifying for special or life line tariffs, may apply in writing to the Council for such tariffs.

2. Owners or occupiers who apply for such special tariffs shall be required to apply annually, in writing, for such tariffs.
3. Where an owner or occupier of property qualifies for the payment of special or life line tariffs, such owner or occupier shall be liable for the payment of refuse removal and sewage disposal services to the property at the special or life line rates determined by resolution of the Council from time to time.
4. In the event that the consumption of water on a property that qualifies for the concessions referred to in (1) above, exceeds the maximum volume determined by the Council as free basic water, for whatever reason, the owner or occupier of the property shall be liable for payment of the total consumption of water and services to the property at the tariffs ordinarily applicable to residential properties within the municipality.
5. Where an owner or occupier of property qualifies for the concessions referred to in (1) above and such owner or occupier consumes electricity supplied by the Council, the miniature circuit breaker (MCB) on the property shall be reduced to a 15 ampere MCB.
6. In the event that there is any evidence of tampering with, or theft of, Council's services, to a property, the Council may invoke the provisions of section 8 of its Credit Control Bylaws.

3.3 Resources

The MIIU have recognised that many municipalities are struggling to provide well managed municipal services and could potentially benefit from a long term municipal reform program. The Msunduzi Municipality suffers from limited human capacity as well as an ageing and fragmented information technology system within the revenue division.

3.3.1 Revenue Division Organogram

The Revenue division consists of 140 full time employees of the total staff complement of 3334 employees. This is further analysed into the different units within the revenue division as follows:-

Table 3.3: Number of Employees in Revenue Division by Race

Division	White Male	White Female	Black Male	Black Female	Asian Male	Asian Female	Coloured Male	Coloured Female	Total
Consolidated									
Billing	7	2	52	29	23	5	0	1	119
Rates	0	1	1	0	2	2	0	0	6
Sundry									
Debtors	0	0	0	0	0	1	0	0	1
Cashiers	0	3	0	4	1	3	0	0	11
Total	7	6	53	33	26	11	0	1	137

The revenue division is organised around a hierarchical structure with little if any consideration given to function or output. There is insecurity by staff due to the transformation process. This impacts negatively on planning and service delivery as the staff are not committed. As a result there is no motivation on the part of officials to exert extra effort to ensure that the levels of outstanding debt are reduced.

The organisational structure / organogram's for the revenue division are as follows:-

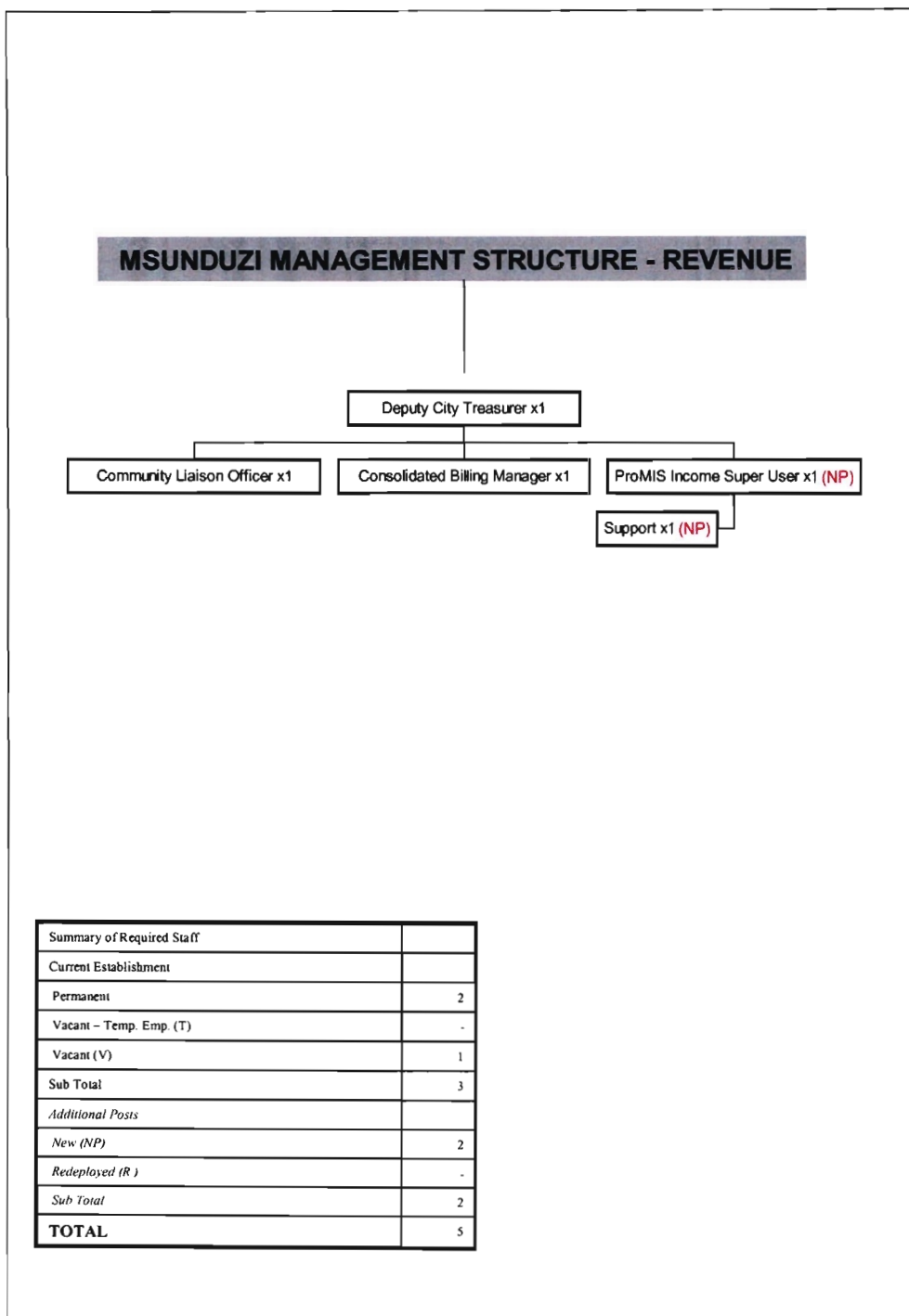


Figure 3.3: (Source: Pietermaritzburg Msunduzi TLC ProMIS Scoping Project)

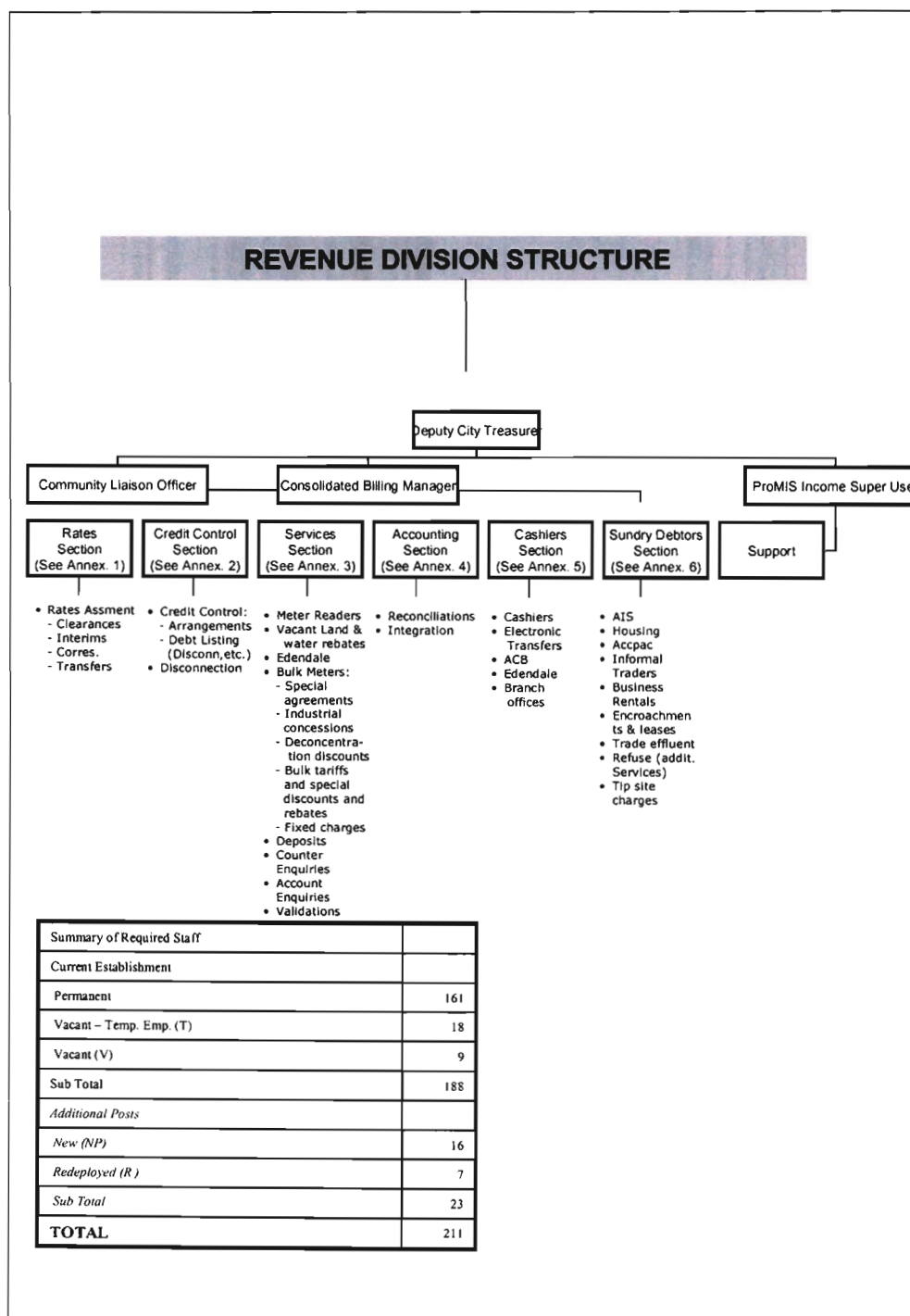


Figure 3.4: (Source: Pietermaritzburg Msunduzi TLC ProMIS Scoping Project)

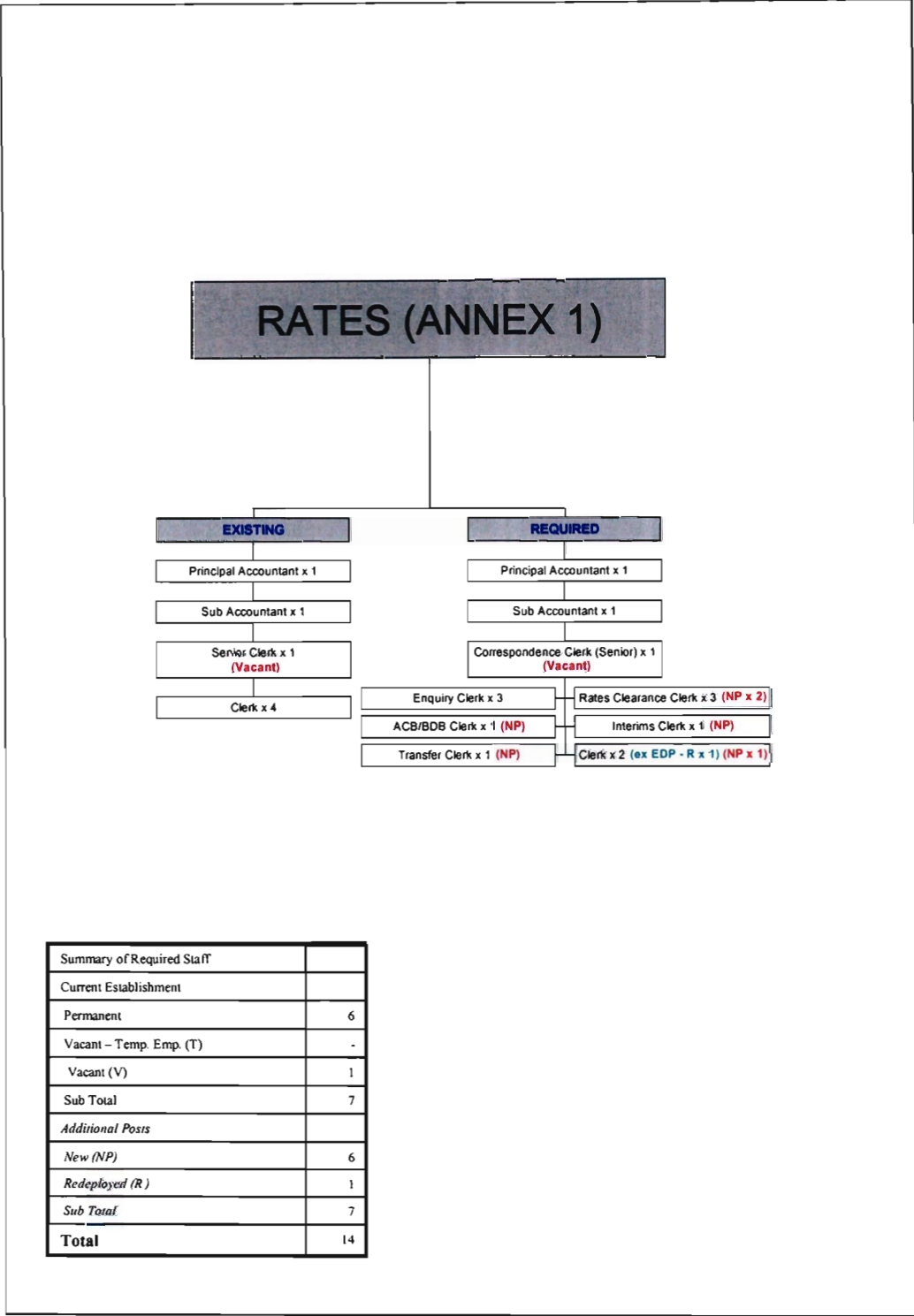


Figure 3.5: (Source: Pietermaritzburg Msunduzi TLC ProMIS Scoping Project)

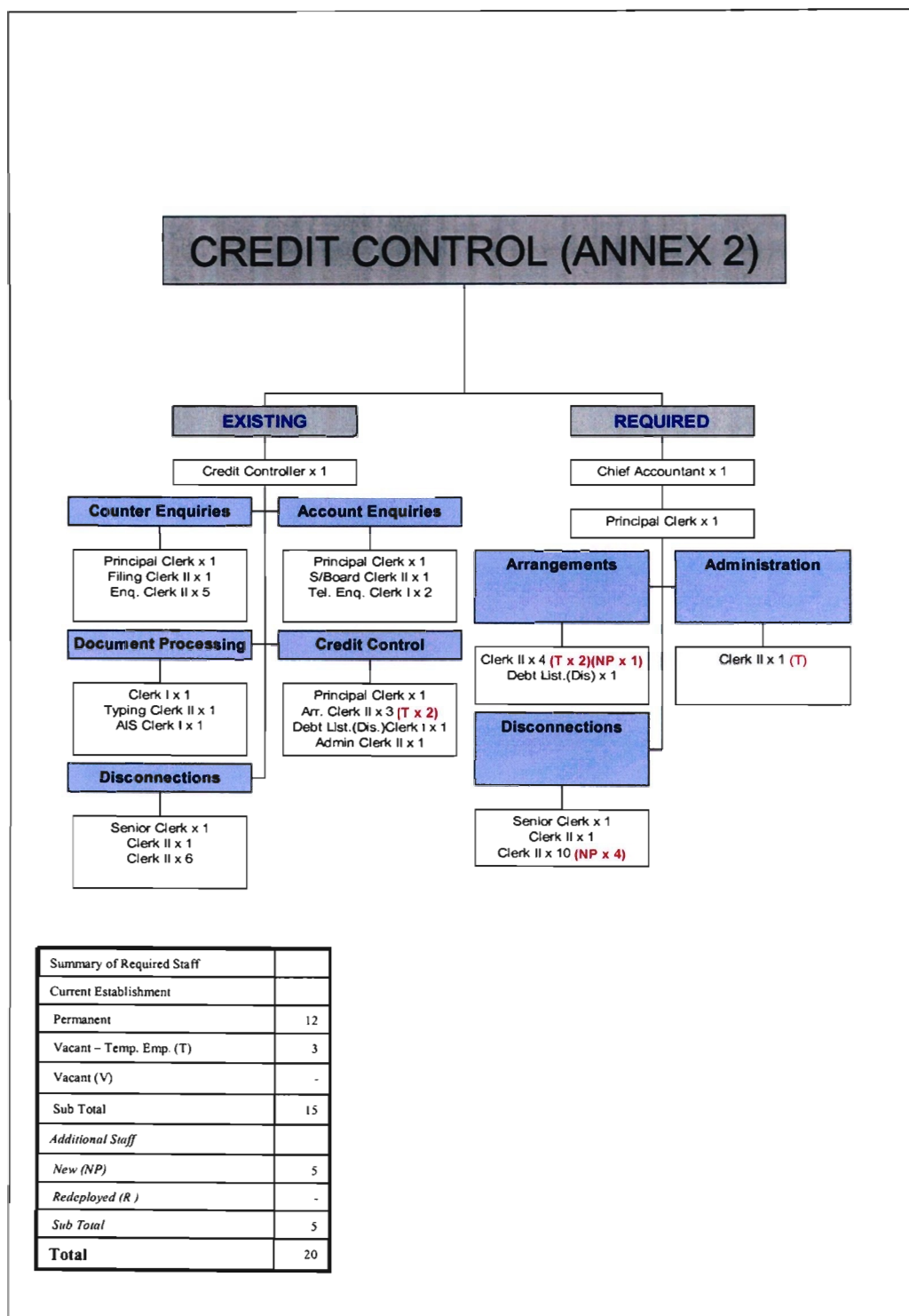


Figure 3.6: (Source: Pietermaritzburg Msunduzi TLC ProMIS Scoping Project)

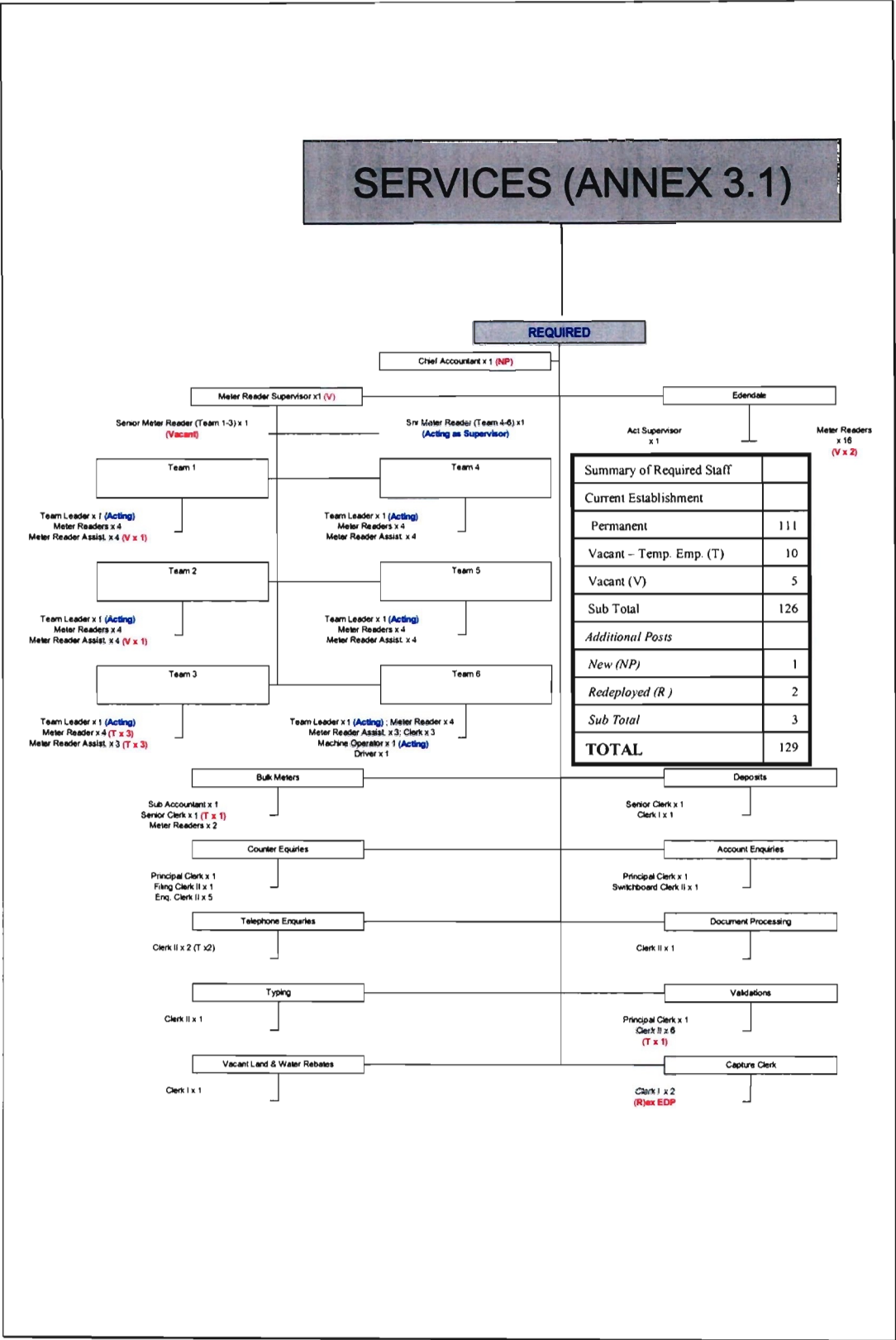


Figure 3.7: (Source: Pietermaritzburg Msunduzi TLC ProMIS Scoping Project)

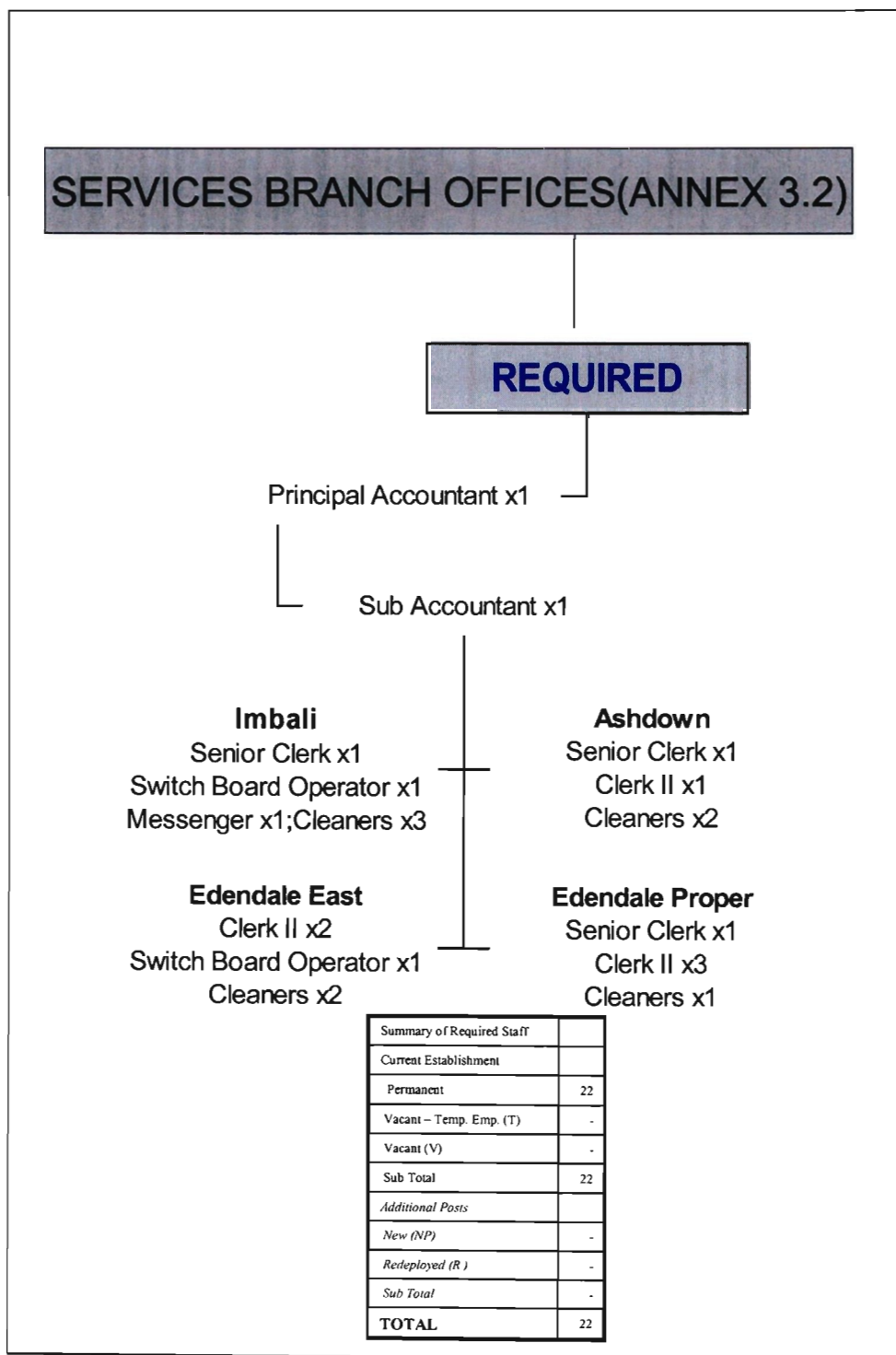


Figure 3.8: (Source: Pietermaritzburg Msunduzi TLC ProMIS Scoping Project)

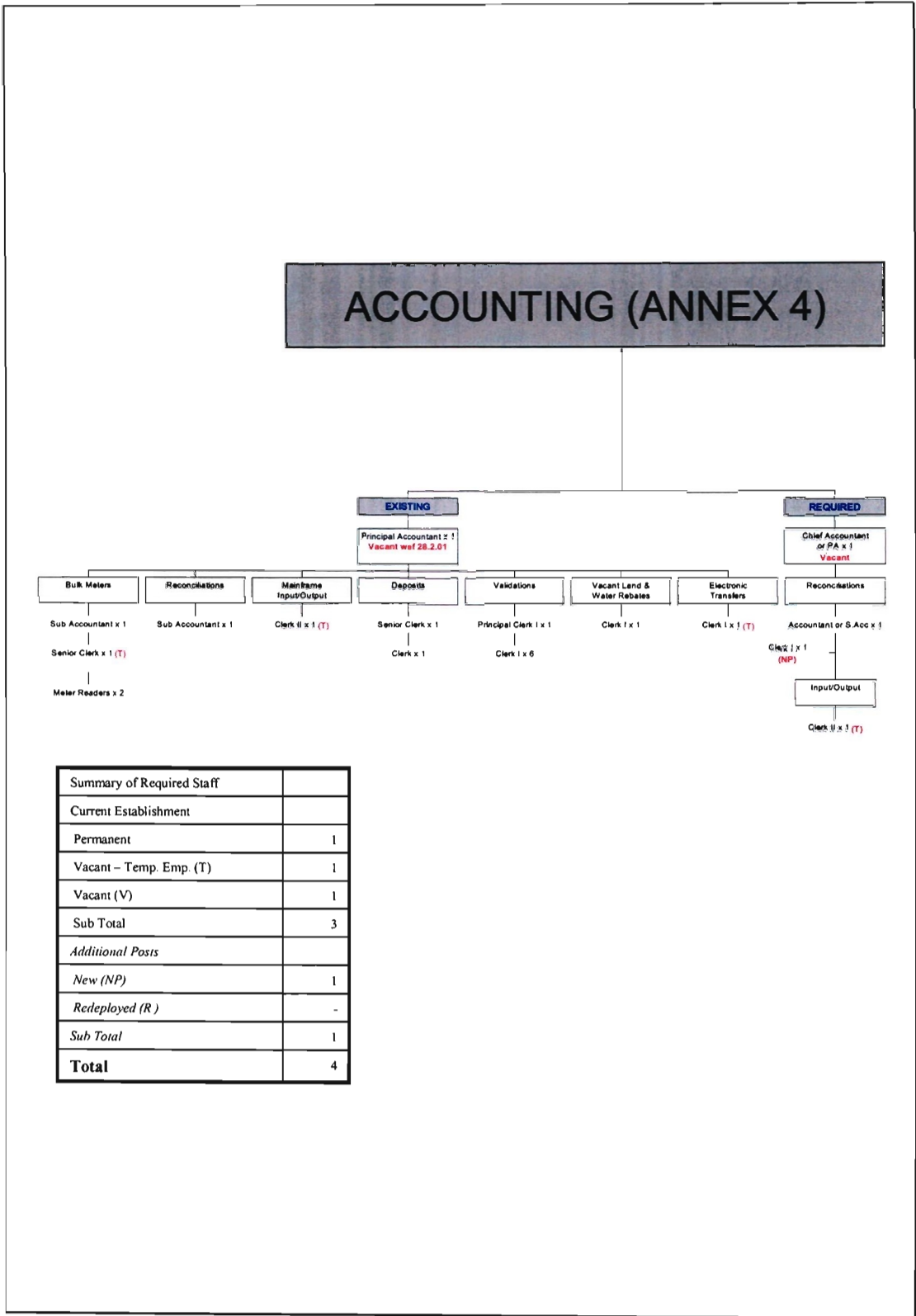


Figure 3.9: (Source: Pietermaritzburg Msunduzi TLC ProMIS Scoping Project)

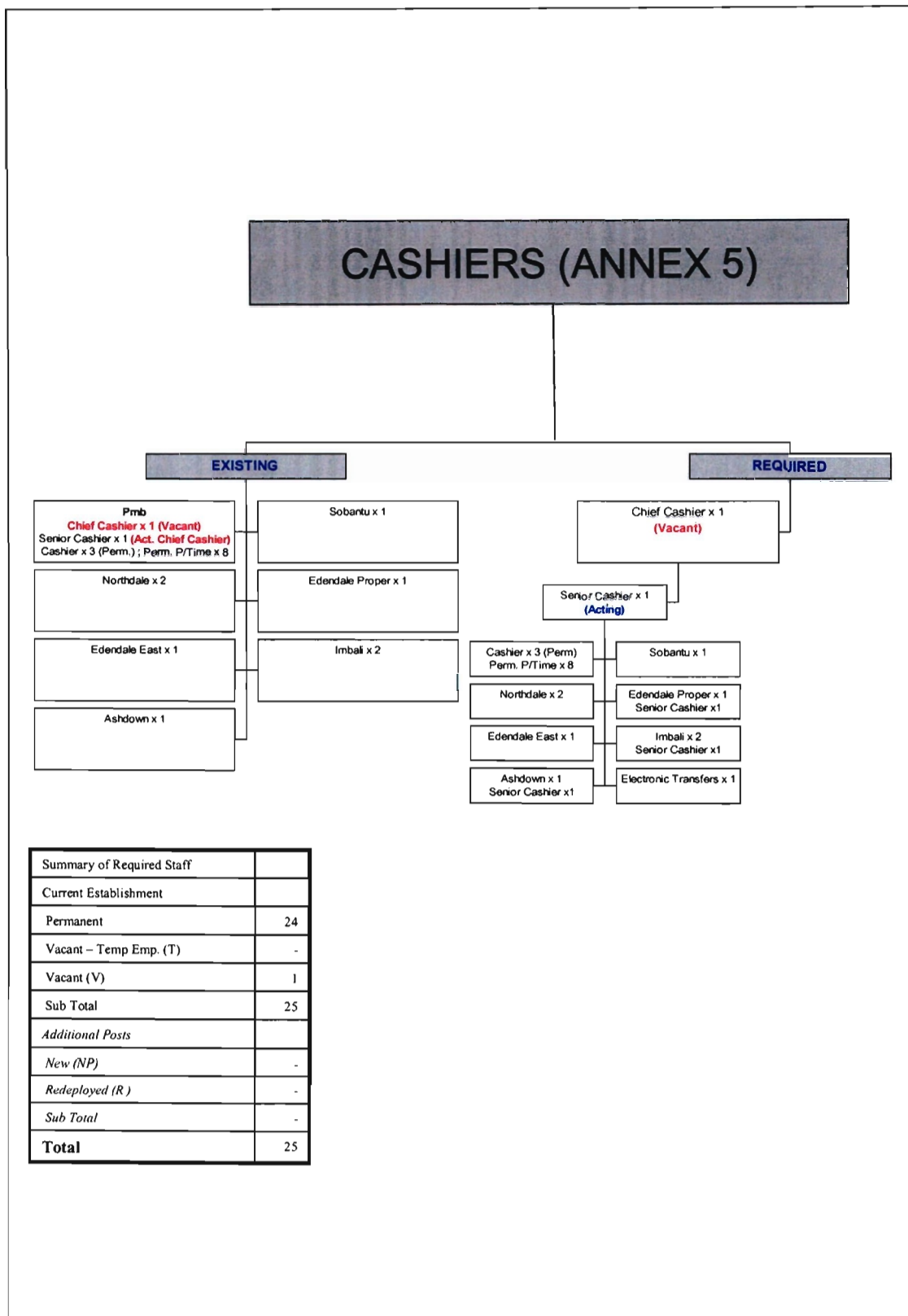
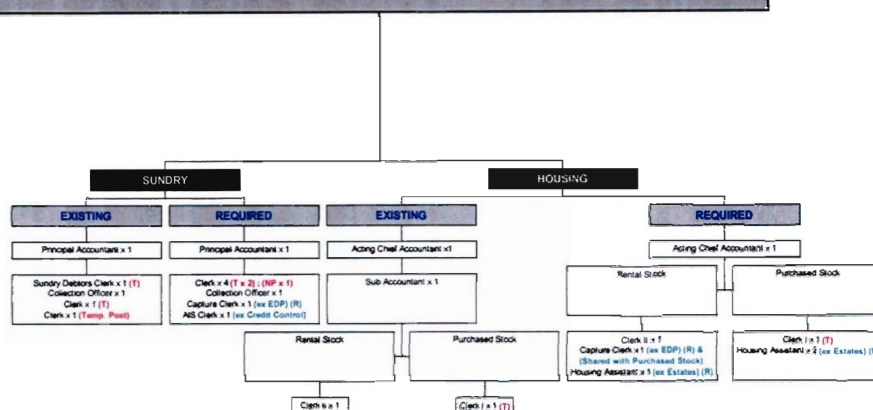


Figure 3.10: (Source: Pietermaritzburg Msunduzi TLC ProMIS Scoping Project)

SUNDRY DEBTORS (ANNEX 6)



Summary of Required Staff	Sundry	Housing	
Current Establishment			
Permanent	3	2	5
Vacant – Temp. Emp. (T)	3	1	4
Vacant (V)	-	-	-
Sub Total	6	3	9
Additional Posts			
New (NP)	1	-	1
Redeployed (R)	1	4	5
Sub Total	2	4	6
TOTAL	8	7	15
Acting		1	
Abolished		1	

Figure 3.11: (Source: Pietermaritzburg Msunduzi TLC ProMIS Scoping Project)

The increase in debtors threatens the future financial sustainability of the municipality and is unacceptable for the following reasons:-

- It diminishes the ability to spend on service delivery and to eradicate service backlogs in underdeveloped areas;
- It negatively affects the municipality's ability to raise loans on competitive terms;
- It makes budgeting for growth problematic;
- It affects tariffs negatively and requires higher than inflation increases. High tariffs result in the municipality losing its competitive advantage as an investment destination;
- It impacts on the strategic plan of Council and its ability to extend service delivery; and
- It leads to reduction in expenditure on much needed maintenance of assets (Report of the Diagnostic Study undertaken for the Msunduzi Local Council, MIIU, May 2002).

3.3.2 Culture

Corporate culture is shared meanings or common beliefs among an organization's members. Corporate culture can be defined as "the collective programming of the human mind which distinguishes one group of people from another" (Internet 5). Culture consists of five dimensions, namely: (1) Power Distance, (2) Individualism, (3) Masculinity – Femininity, (4) Uncertainty Avoidance, and (5) Long – Term Orientation.

It is something so powerful that the long-term success of an organisation can be based on it. Cultural clashes can cause strains. The human resources problems that have arisen at the Msunduzi are as a consequence of insufficient number of trained senior managers as well as a surplus of staff in junior positions. This situation has

arisen due to financial constraints faced by the municipality and has now created a power distance dimension of culture i.e. the emotional distance between the superior and the subordinate.

The culture emphasizes high power distance in which independent behaviour is not encouraged. There is a top-down management style and management often does not understand and accommodate the cultural diversities in the work environment. This is the contributing factor to the high stress level of managers as well as decreased employee morale due to fact that they have to accept increased work loads. The current organisation culture characteristic is one of:-

- Blame
- Sub culture clashes
- Inward – focused

As the organisation embarks on transformation, human resources have failed to understand that the process of managing change means dealing with people. It involves motivating, convincing, co-ordinating, problem solving and conflict handling. This will help to avoid unrealistic deadlines, expectations and other behaviour that will be unnecessarily demoralizing.

The organisation has neglected to focus training and work redesign which would result in an outward focus where the customer is “king”. There is no performance management system in place to monitor neither performance nor a personal development roadmap that will help employees to continually improve their knowledge, skills and abilities, to align their behaviour with the organisations goals and strategies.

3.4 Key Factors for Success and Driving Forces

Generally, Council’s thought South Africa find themselves in a precarious position with several factors contributing to its current financial position. The first task is to sift through the peripheral symptoms, thus, exposing the actual core issues. In so doing, municipalities can build and reflect on the key factors, which would contribute to their success, viz: -

- Reconstruct or reorganize the organisation because we are victims of our structure.
- Create a workplace environment that adheres to the Japanese ideology of work and moral ethics. This initiative can be achieved by encouraging a change in the perceptions of our staff, enhancement programs to build employee and employer confidence in their skills and highlight the role which these skills play in the overall service delivery and financial sustainability.
- Marketing Competencies need to be developed to change the negative perception which consumers have of Council's, as well as grow the overall local economy. Municipalities should consider a possible market repositioning and shift the emphasis from a poor quality service provider to one that treats the entire market as a homogenous unit. A paradigm shift towards quality, safety and responsible management practices will have greater credence.
- Being socially responsible by meeting societal expectations, exhibiting standard's of good community citizenship and abiding by sound ethics. At times it is not easy to balance societal and Council's ethics simultaneously, however, this needs to be addressed. Municipalities would need to formulate a code of ethics (Credo).
- The development of human capital is an important aspect to gain a strategic competitive advantage. Harnessing and developing the skills, which staff possesses are the only real core competencies, which will create a SCA and differentiate one municipality from another, as this facet is not easily replicated. Currently this important competency is marginalised and serious improvements in this regard must be addressed. Training workshops, on the job training, job rotation and job expansion all result in increased job satisfaction and productivity.
- An innovative strategy that stresses technological development is an important factor, especially with people becoming more computer literate.
- Strong Logistical Management - the ability to deliver the items required by the customer on time and correctly is very important.

The Key Success Factors (KSF) touched on above broadly outlines the requirements for financial and competitive success which are lacking at the Msunduzi Municipality. In developing these KSF, consideration must be given to the following factors: -

- Product/service attributes that are crucial
- Resources/capabilities required to compete successfully – a competent and dedicated workforce with skill and dexterity in service delivery
- Requirements for sustainable competitive advantages – strong adherence to societal demands, well developed organizational structures, and the all-important human capital

Based on the premise that “*strategy precedes structure*” (moot point) the focus in crafting a winning strategy in light of the prevailing circumstances would require radical change to the structure of the municipality.

This type of strategy requires a redirection of resources within the organisation in order to stabilise the financial condition. This can take the form of cost reduction and/or asset reduction. In most cases, cost reduction coupled with enhanced revenue collection is required. According to Provincial and Local Government Department adviser Daniel Manyindo, “in about one third of SA’s municipalities service debt is growing at a rate of greater than 20 % per year” (The Natal Witness, Echo, 06 March 2003)

Customer-centric strategy as compared to a product-centric strategy, (which pushes products to consumers), pulls information from consumers (demand driven) and results in improved service delivery and customise offerings. The municipality should formulate customer-centric strategies that respond to this new customer power.

According to Johnson.G & Scholls.K, in order to develop the financial capabilities to survive, strategies selected must be *suitable, acceptable and feasible*.

E-commerce is fundamentally changing the economy and the way business is conducted. E-commerce forces organisations to find new ways to expand the markets in which they compete, to attract and retain customers by tailoring products and services to their needs, and to restructure their business processes to deliver products and services more efficiently and effectively. E-businesses shift the focus towards building a customer base, increasing revenue growth and profitability.

To give further credence to the above, I see the role and responsibility of today's municipalities not merely as 'monitors' but also in a broader context as having the responsibility of providing/creating employment, nurturing and growing the environment(city) and as role players in driving the economy towards prosperity.

It should be noted that the municipality has limited financial resources available. In light of this constraint, there are three criteria that would need to be considered when allocating resources: -

1. The contribution of the proposed resources to achieving the organisation mission and objectives.
2. Their support of key strategies, viz,
 - Support of core competencies
 - Enhancement of the value chain
3. The level of risk associated with a specific allocation of resources.

There is an indication that there will be significant long-term demand, triggering growth for established companies and attracting newcomers who are in search of growth prospects. Lower labour costs, coupled with relatively attractive incentives offered by some local authorities reduce start-up costs and would enable the economy to expand.

Unfortunately, product/service innovation cannot be classified as a driving force as yet, since innovation has never reached beyond product/service variations. Over the years no breakthrough innovations in service delivery has been implemented. Product/service innovation is exactly what the municipality needs in order to enable it to strengthen its market position, safe guard its competitive advantage and rejuvenate the local industry growth. Problems like these require a revision or change in current strategy.

Unfortunately, The Msunduzi Municipality, like most Council's have a poor service delivery stigma attached to it, which always lingers at the back of the mind of all consumers and therefore, they should strive to overcome this stigma by implementing turnaround strategies that are visible to consumers. This can be achieved by: -

- Educating employees on the principles of CPM
- Educating customers by making them more aware on how it does business
- Educate consumers on what they should expect from this Council - Batho Pele

3.5 Finance: Revenue Enhancement

Achieving acceptable financial performance is important or else the organisation's financial status will harm the stakeholders (citizens on Pietermaritzburg). The financial resources of The Msunduzi Municipality are an area of great concern. The three main sources of finance for expansion and development are: -

- Capital raised through borrowings;
- Donor funding (e.g. Restructuring Grant, Equitable Share, etc.); and
- Revenue set aside from income.

The Council is also faced with diminishing cash reserves as a result of increasing outstanding debt. The outstanding debt as at August 2002 is **R 392 414 603.00**. As

at 28 February 2003, the outstanding debt rose to **R 439 631 483** and is further analysed as follows:-

Table 3.4: Msunduzi Municipality-Outstanding Debt as at 28 February 2003

<u>Category</u>	<u>Business</u> (R)	<u>Household</u> (R)	<u>Government</u> (R)	<u>Oth/(v/land)</u> (R)	<u>Total</u> (R)
<u>Consolidated Billing</u>					
Not Handed Over	68,112,667	156,556,524	5,417,304	0	230,086,495
Total	68,112,667	156,556,524	5,417,304	0	230,086,495
<u>Rates</u>					
Not Handed Over	26,835,761	36,175,968	16,944,020	4,020,269	83,976,018
Handed Over	22,089,592	33,793,004	18,340,233	8,915,601	83,138,430
Total	48,925,353	69,968,972	35,284,253	12,935,870	167,114,448
<u>Sundry Debtors</u>					
Not Handed Over	8,028,117	12,060,435	6,627,420	0	26,715,972
Handed Over	10,124,360	5,522,734	67,474	0	15,714,568
Total	18,152,477	17,583,169	6,694,894	0	42,430,540
Grand Total	135,190,497	244,108,665	47,396,451	12,935,870	439,631,483

Revenue Division comprises of the following sections: -

- Rates
- Consolidated billing
- Sundry Debtors
- Investments
- Loans and Mortgage Bonds
- Housing Rents
- Debt recoveries

The income system is supported on a Series 39 Mainframe computer. The software was written approximately 31 years ago and is inflexible in addressing changing environmental requirements, e.g. changes in legislation, raising of interest on overdue accounts.

The Council has now resolved to commission the implement the ICL ProMIS Income System because of the cost/benefit advantage as well as the integration into the

existing financial system. This approach will be a short-term approach (3-5 years) and would allow the Council to migrate onto a new operating platform. During this period they would be able to *address their operational and structural changes that would be required*. It will also allow them to be in a favourable position to migrate onto any new emerging solutions that would be in their best interest. In light of the approach adopted by other Municipalities, wherein they are maintaining an “open minded” framework and are not committing themselves to any one solution beyond 5 years, it is suggested that the Council should reassess its Financial and Management Information System position from year 3 onwards. In this way, they would avail themselves to the latest solutions available. A fully integrated financial system will cut across all sections of revenue as outlined above. This would result in the municipality moving down the experience curve and achieving economies of scale and scope. By using a shared service, they will be re-engineering the value chain and providing efficient service to the customer (both internal and external). Any increase in revenue provides the wherewithal to increase investments in assets that yield high income. The project milestones for the implementation of the new income system are as follows:-

PROJECT MILESTONES

- | | | |
|----|--|----------------|
| 1. | Council approve ProMIS Income | March 2003 |
| 2. | Council approve IT allocation of Restructuring Grant | March 2003 |
| 3. | Appoint City Treasurer’s staff (23 posts) | April 2003 |
| 4. | <u>Upgrade Corporate File Server</u> | July 2003 |
| | Prepare specification, tender documentation, advertise (4 weeks) | |
| | Adjudication, recommendation, Council approval (4 weeks) | |
| | Hardware order, delivery lead time, installation and testing (6 weeks) | |
| 5. | <u>Upgrade of WAN/LAN Network Infrastructure</u> | September 2003 |
| | Prepare specification, tender documentation, advertise (4 weeks) | |

Adjudication, recommendation, Council approval (4 weeks)
 Hardware order, delivery, installation and testing (6 weeks)
 Application, installation, testing of Telkom data lines (8 weeks)

6. ProMIS Income System Implementation

Phase1 - ProMIS Sundry Debtors

AccPac and VME debtors - Live	February 2003
Complete system documentation	April 2003
Training of new staff	May 2003

Phase 2 - Bulk Consumers/Annual Rates

Start implementation	April 2003
Complete implementation	September 2003

600 - 800 bulk consumers, total 2000 accounts
 60% of revenue, **annual rates**
 Specification of every business process/tariff
 Matching of Bulk Consolidated Billing and Rates debtor records

Phase 3 - Consumer Services/Annual Rates

Start implementation	October 2003
Complete implementation	June 2004

Phased implementation
 Continue daily processing of legacy systems
 85000 Consolidated Billing, 75000 Rates debtors
 Conversion, cleaning and collection of data (meter numbers -new city),
 matching of Consolidated Billing and Rates debtor records (220 days)
 Training staff (120 days)

Restructure office accommodation (one-stop shop)

Phase 4 - Monthly Rates

Complete implementation

July 2004

Monthly rates billed via consolidated statement

Accounts with payment arrangements as well as delays in processing disconnections and handovers to attorneys can only be improved through an integrated management information system. The current VME system does not provide seamless integration across all income sections, with the result that it is possible for a defaulting consumer to open a new account under a different name whilst simultaneously making arrangements to pay the old account or not paying the account at all. The new revenue system has the added feature of utilising the consumers identity number as a “key” and thus preventing the consumer from shirking his obligation to Council. Such features can only result in improved credit control.

In order to give effect to the above, decisions as to the future of temporary staff as well as new posts to support the proposed income structure will need to be ratified. Council’s recent decision to appoint three temporary staff to assist in processing interims will significantly reduce the backlog.

The application to the Minister to relax legislation that would allow the Council to bill rates monthly need to be pursued vigorously. Such a decision will aid its cash flow, as a constant revenue stream will be generated throughout the financial year. This will reduce the burden of having to canvas the market to raise short-term loans of approximately R 50 million around September. This short-term loan supports its operating budget till the end of February when the annualized rates are received. Umgeni has assisted in the past, but the dispute in tariffs and the unsettled account of some R17 million may preclude the Council from receiving this short-term loan this year.

The number of attorneys on the approved panel for handovers needs to be addressed

(currently 35 and increasing). In discussions with staff, the indication is that not all attorneys vigorously pursue defaulting consumers. This results in matters remaining outstanding for extended periods of time (Council is prejudiced through prescription) and further frustration for officials who have to administer the attorney's correspondence. It is therefore suggest that the number of attorneys for handovers be reduced to five. These attorneys should be selected based on prior performance. By way of an example, the Insurance section previously engaged a number of attorneys to recover money owed to Council. Whilst the attorney's cost is ultimately recovered from the defendant, Council pays the attorneys their cost, which is then added onto the defendants account. This practice results in firstly, Council being out of pocket for the initial claim and secondly, paying attorneys the collection charges, which are only recovered as and when the debtor pays his account. This negatively affects the municipalities' cash flow.

The outstanding debt (table 3.2) can be considered as a barometer of pressure on the city's finances. In other words, the outstanding debt will be an unbiased predictor of its future financial sustainability. It is thus axiomatic that immediate decisions are taken by the municipality to improve the revenue income and to mitigate the problems by recovering all overdue debt.

Table 3.5: Increase in total debt	
<i>Year</i>	<i>Total Debt (R millions)</i>
1996	136
1997	153
1998	160
1999	189
2000	243
2001	321
2002	410

Table 3.6: Outstanding Debt (October 2002) by Section

<i>Section</i>	<i>Total Outstanding (R)</i>
Consolidated Billing	212 789 863
Rates	123 796 211
Sundry Debtors	16 114 442
Collections	24 709 780
Housing	15 004 307
Total Outstanding	392 414 603

Analysis of Outstanding Debt by Section

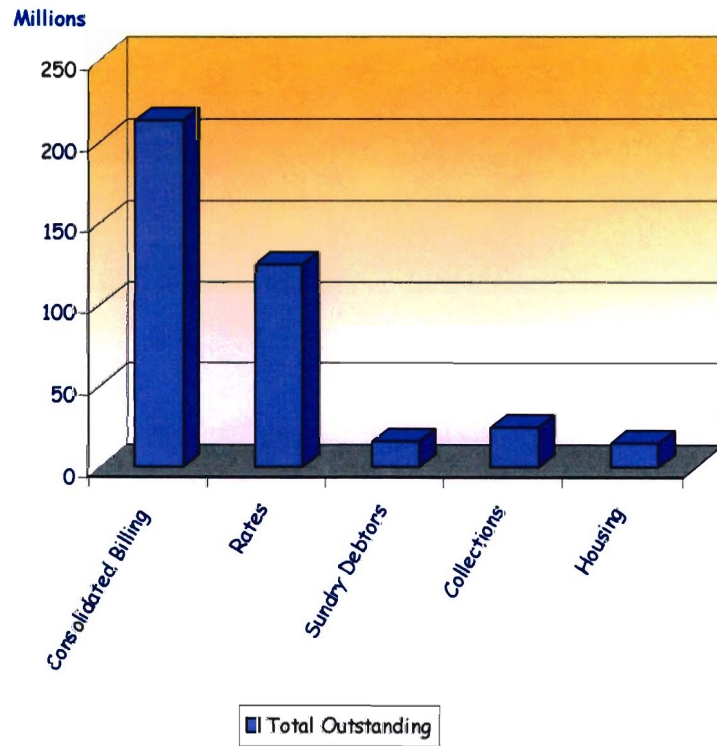


Figure 3.12: Outstanding Debt (October 2002) by Section

Table 3.7: Monthly Consolidated Billing Debtors Statistics Comparison 2002/2003 (Source: Msunduzi Credit Control)

AREA	July 2002	Aug 2002	Sept 2002	Oct 2002	Nov 2002	Dec-02	Jan-03	Feb-03	% +/- Jul - Aug	% +/- Jul - Sep	% +/- Jul - Oct	% +/- Jul - Nov	% +/- Jul - Dec	% +/- Jul - Jan	% +/- Jul - Feb
COPESVILLE	2,501,203	2,544,364	2,597,586	2,648,756	2,694,345	2,745,157	2,806,717	2,845,109	1.73%	3.85%	5.90%	7.72%	9.75%	12.21%	13.75%
HAPPY VALLEY	1,776,833	1,800,383	1,815,483	1,831,981	1,903,528	1,935,886	1,964,900	1,982,635	1.33%	2.18%	3.10%	7.13%	8.95%	10.58%	11.58%
SOBANTU	12,788,416	12,989,530	13,302,589	13,412,936	13,690,916	13,930,664	14,172,599	14,417,224	1.57%	4.02%	4.88%	7.06%	8.93%	10.82%	12.74%
RIDGE PARK	2,120,779	2,136,476	2,103,871	2,159,445	2,217,965	2,228,956	2,229,600	2,319,027	0.74%	0.80%	1.82%	4.58%	5.10%	5.13%	9.35%
GRANGE	2,178,986	2,231,153	2,230,710	2,313,606	2,386,257	2,387,216	2,434,045	2,472,569	2.39%	2.37%	6.18%	9.51%	9.56%	11.71%	13.47%
NORTHDALÉ	21,531,689	21,549,372	21,926,713	22,587,122	22,931,854	23,426,670	24,560,159	25,299,134	0.08%	1.83%	4.90%	6.50%	8.80%	14.07%	17.50%
WOODLANDS	1,767,877	1,777,231	1,811,850	1,864,420	1,855,676	1,911,986	2,024,982	2,050,611	0.53%	2.49%	5.46%	4.97%	8.15%	14.54%	15.99%
EASTWOOD	4,069,881	4,116,932	4,181,919	4,283,950	4,351,875	4,453,060	4,585,559	4,615,697	1.16%	2.75%	5.26%	6.93%	9.41%	12.67%	13.41%
WILLTON/BISPH	1,150,324	1,160,399	1,151,046	1,162,186	1,210,610	1,260,717	1,238,919	1,217,552	0.88%	0.06%	1.03%	5.24%	9.60%	7.70%	5.84%
HAYFIELDS/ SCOTTSVILLE	13,736,165	14,361,932	13,799,547	14,898,353	15,671,343	15,734,517	16,221,857	15,972,143	4.56%	0.46%	8.46%	14.09%	14.55%	18.10%	16.28%
ORIBI	937,233	922,351	935,605	974,492	1,056,599	1,135,845	1,223,559	1,295,985	1.59%	0.17%	3.98%	12.74%	21.19%	30.55%	38.28%
CHASE VALLEY/ WEMBLEY	2,856,554	2,755,750	2,757,587	2,805,218	3,380,362	3,453,697	3,569,380	3,521,513	3.53%	3.46%	-1.80%	18.34%	20.90%	24.95%	23.28%
NAPIERVILLE	716,901	729,580	730,270	731,713	779,566	792,774	834,625	812,443	1.77%	1.86%	2.07%	8.74%	10.58%	16.42%	13.33%
HILTON/ BLACKRIDGE	1,186,265	1,180,206	1,079,157	1,210,723	1,348,063	1,316,066	1,268,387	1,298,443	0.51%	9.03%	2.06%	13.64%	10.94%	6.92%	9.46%

TOWN	17,005,760	17,252,336	17,053,627	17,352,725	18,410,136	18,998,245	19,754,288	19,370,858	1.45%	0.28%	2.04%	8.26%	11.72%	16.16%	13.91%
EDENDALE RD	1,384,506	1,452,697	1,490,952	1,520,479	1,554,491	1,602,773	1,604,100	1,637,041	4.93%	7.69%	9.82%	12.28%	15.76%	15.86%	18.24%
EDENDALW BILL	53,063,665	54,714,175	56,559,222	58,447,079	60,530,912	62,680,342	65,017,861	67,250,149	3.11%	6.59%	10.15%	14.07%	18.12%	22.53%	26.73%
CLARENDON/ PRESTBURY	2,639,178	2,629,743	2,559,115	3,110,725	3,281,540	3,241,827	3,388,953	3,407,234	0.36%	3.03%	17.87%	24.34%	22.83%	28.41%	29.10%
WHISPERS	3,761,526	3,843,260	3,939,842	4,041,220	4,151,143	4,260,911	4,363,278	4,466,417	2.17%	4.74%	7.44%	10.36%	13.28%	16.00%	18.74%
SITE 11/ NTUHOKOVILLE	1,348,854	1,368,258	1,390,295	1,425,284	1,459,021	1,491,275	1,516,738	1,548,451	1.44%	3.07%	5.67%	8.17%	10.56%	12.45%	14.80%
CINDERILLA PARK	451,064	444,235	449,451	461,094	465,524	464,198	490,966	495,628	1.51%	0.36%	2.22%	3.21%	2.91%	8.85%	9.88%
Q' SECTION	2,338,847	2,406,029	2,472,188	2,528,669	2,596,673	2,661,710	2,733,945	2,800,048	2.87%	5.70%	8.12%	11.02%	13.80%	16.89%	19.72%
BULK	43,985,924	43,733,669	40,476,712	44,840,404	47,961,325	47,678,105	47,226,548	48,990,586	0.57%	7.98%	1.94%	9.04%	8.39%	7.37%	11.38%
Totals	195,298,430	198,100,061	196,815,337	206,612,580	215,889,724	219,792,597	225,231,965	230,086,497							

Overall Monthly

Percentage +/-

1.43% -0.65% 4.98% 4.49% 1.81% 2.47% 2.16%

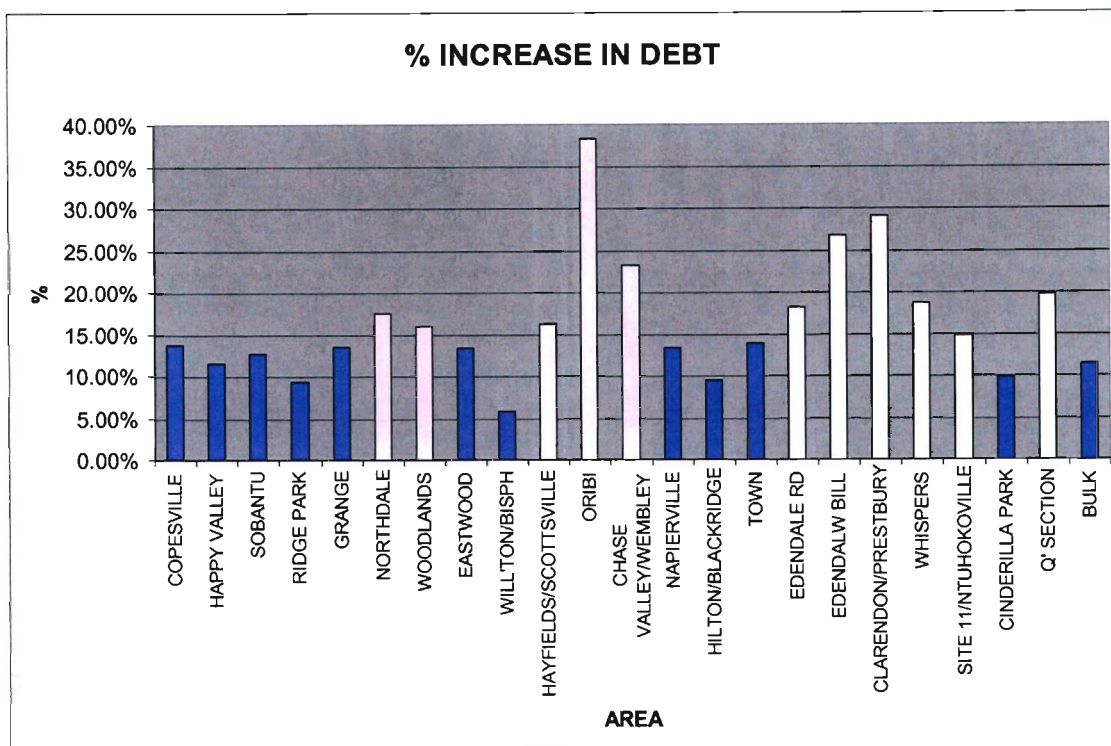


Figure 3.13: Graphical Representation of areas showing increasing debt

Currently, meter reading is carried out monthly using meter sheets. In order to improve efficiency and eliminate the time spent capturing meter readings by the data capture clerks, it is necessary to convert to electronic hand held meter reading devices that could electronically download the readings. For this to work without the necessity of raising journals, a fully integrated revenue system is required. An additional benefit is that data capture errors are eliminated. The possibility of outsourcing the meter readings needs to be investigated from a cost benefit perspective.

CA-Ratings conducted research by selecting a sample of municipalities and analysed their debtor's statistics. Claasen. L (Comparative Statistics on Large Municipalities, IMFO, Spring 2002) said: The collection of debtor's balances more than 60 days in arrears has become unlikely and costly. It is therefore estimated that the municipalities that have been sampled will not be able to collect outstanding debtors to the amount of R 1.1 billion, or 26 % of the income for 2001.

Table 3.8: Comparison of Local Councils (Source: Claassen.L, Comparative Statistics on Large Municipalities, IMFO, Spring 2002)

Local Council	Total Income	Operating Surplus	Interest-Bearing Debt	Cash from Operations	Debtors	Potential Write-off	2001	2002
	Rm	Rm	Rm	Rm	Rm	Rm	Days	Days
Pietermaritzburg	847,3	1,5	241,7	29,9	268,4	129,1	115	94
Bloemfontein	684,8	33,9	40,7	95,6	383,0	270,5	204	163
East London	666,6	12,3	411,7	-20,6	189,9	80,3	104	105
Vereeniging	518,8	70,2	147,4	20,3	404,8	319,5	284	236
Rustenburg	450,8	2,5	50,2	50,8	119,7	45,5	97	70
Pietersburg	338,9	8,4	99,7	82,3	63,8	8,1	69	59
Kimberly	307,2	-3,4	88,6	-15,5	196,8	146,3	233	220
Witbank	288,5	1,1	39,4	28,2	203,5	156,1	257	204
Stellenbosch	162,2	2,6	5,8	32,1	45,5	18,9	103	103
Nelspruit	181,8	0,2	60,6	44,2	29,0	-	58	65
Total	4446,9	129,3	1185,8	347,3	1904,4	1173,4	156	132

The Msunduzi Municipality have been successful in receiving R 130 million grant funding from National Treasury as part of initiative to ensure long-term financial sustainability of municipalities. The tranches would be received as follows:-

- R 40 million on signature date
- R 20 million in July 2003
- R 20 million in February 2004
- R 25 million in July 2004
- R 25 million in February 2005

The Restructuring Grant will have the following effect on the local economy, on the assumption that local businesses will be employed in any areas requiring transformation: -

- There will be an increase in the money supply
- This increases the disposable income of individuals/businesses
- As the income is re-circulated within the economy, it creates growth for new and existing businesses
- The end result is a decrease in unemployment

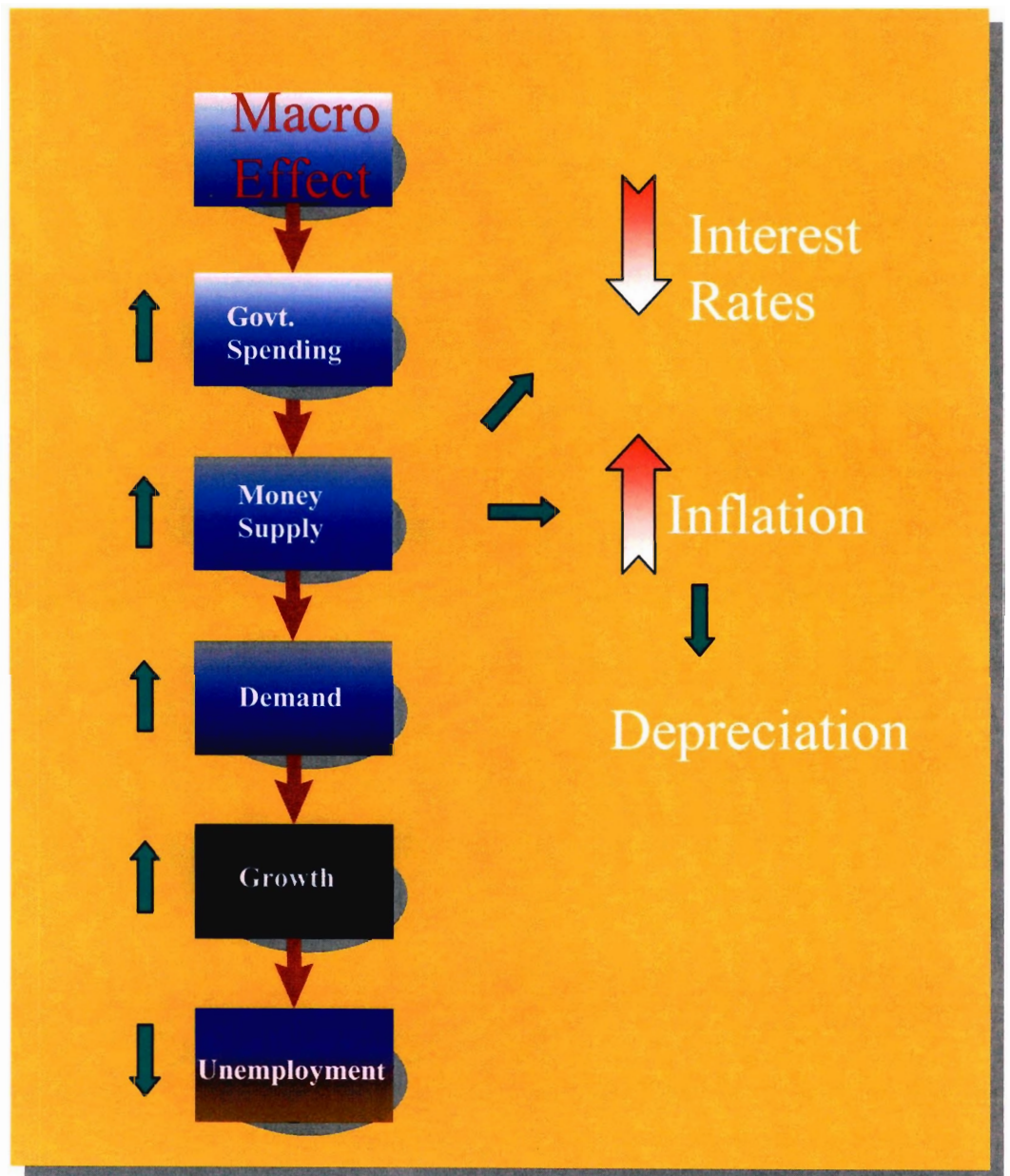


Figure 3.14: Macro Framework

096451

3.6 Summary

The Msunduzi Municipality is entering a new era of local government. Issues that were once peripheral to management or completely outside its scope have now taken center stage. The de-motivation of staff, lack of clear direction, strenuous work load and continuously decreasing resources tends to increase instability. Even with the best systems in the world, without the buy-in from staff, future sustainability would be compromised. In the absence of overt impediments, it will be possible to align the department towards a customer centric organisation.

The Msunduzi Municipality needs to organise its resources around the demand side (e.g. customers, markets, trends, and needs) rather than around the supply side, as they have done in the past. This does not mean that everything that they know about their business up to this point becomes irrelevant and obsolete, but it does mean that significant changes in its environment justify – indeed demand, radical new approaches to thinking about strategy and management.

Chapter 4 – Evaluation

4.1 Introduction

The high level evaluation of the Msunduzi Municipality revenue division was conducted using the three types of evaluation criteria, namely:-

- Suitability - broad assessment of strategic fit;
- Acceptability - expected outcomes if strategy were implemented ;
- Feasibility – can the strategy work (Johnson.G & Scholls.K, 1999)

This set the framework for a closer examination of specific areas within the revenue division to identify strengths and weaknesses. It is worth mentioning that currently the Msunduzi Municipality does not have any formal strategy for the revenue division. However, there are a number of unwritten de-segmented strategies being implemented by various managers. These strategies are not planned strategies but arose as a result of operational requirements. The net effect is a division without a clear understanding of its strategic role and responsibilities.

4.2 Suitability

Whilst there is no formal strategy document, recent strategies implemented by senior management to improve the revenue collected has resulted in significant improvement in the percentage of revenue collected in relation to the value billed. As the organisation is currently undergoing transformation, it is now a requirement for a formal strategy to be implemented that will lend itself into the Medium Term Expenditure Framework (MTEF). In light of the increasing demands being placed on the Municipality by National Treasury to improve the annual collection rate to 95 % within three years, every attempt has to be made to ensure that consumers pay for services received.

In light of the fact that circumstances have changed the focus of the municipality, the current unwritten strategy does not address the requirements needed in order to ensure financial sustainability.

To this end it can be reported that there is no suitable strategy for the revenue division.

4.3 Acceptability

The impetus for developing a strategy stems from the requirements of National Treasury as well as the limited working capital available to the municipality due to the increasing debtors balance month on month.

In reviewing the current decisions taken by senior management to reduce the debtors balance by publishing the list of all defaulting ratepayers in the local press as well as applying to the court to sell their property in terms of Section 172 (10) of the Local Authorities Ordinance, it is anticipated that at the risk of being criticised by the consumer for implementing severe credit control measures, the municipality will benefit substantially as the revenue streams would increase.

Such strategic decisions could be seen as acceptable as the risk is mitigated through process of forewarning consumers of the municipality's course of action.

4.4 Feasibility

The current in house resource limitations of the revenue division as well as the necessary competencies creates a diabolical dilemma of whether to continue with the unwritten strategy of revenue collection or to wait until a formal revenue strategy is adopted.

What is prevalent is that senior management have realised that there are system as well as human resource constraints. To this end they have outsourced some support functions such as employing consultants to undertake reconciliations, meeting with attorney to review debt collection statistics, disconnecting defaulting consumers, etc. This is an attempt to limit the deficiencies whilst still embedding the philosophy of strict credit control.

The constraints faced by the municipality indicate that without external assistance, no strategy would be feasible. It is thus the intention of senior management to build internal capacity during transformation.

Evaluating the revenue division using the Revenue Model (Figure 2.12) reveals that there are a number of positive contributors as well as negative constraints being faced.

4.5 Resources

Of critical importance is the lack of trained full time staff. There are a number of temporary staff in key areas performing functions that are critical to the operation of the division. Some of these temporary staff have been in the employment of Council for more than five years. Council would have to make a decision soon as to the future of these temporary staff as the risk of them finding alternative permanent employment would cripple the revenue division. Furthermore, the shortage of staff in certain areas such as credit control results in not much progress being made to recover the outstanding debt.

As a result of no proper training, majority of the staff have a basic understanding of municipal accounting and business procedures. This has created a backlog in reconciliation of accounts.

None of the business procedures have been documented. New incumbents are thus faced with the difficult task of learning through experience or alternatively being trained by a fellow employee without any procedure manual.

There are a number of assistant meter readers whose sole job is to open the manhole cover and clean the glass. It is then the responsibility of the meter reader to actually read the meter. This creates wastage of resources as assistant meter readers could be trained to read meters.

The current income system (IT) was developed in house and runs on an ICL VME mainframe system. This system has proven to be very cumbersome as well as

inflexible in producing timely information. As a result, requests from management for accurate income data takes approximately three to four weeks to be produced. The desktop personal computers have been upgraded. The new software available for improving communication as well as e-mail facilities cannot be loaded onto these computers as they cannot be upgraded.

The current income system is not integrated into the financial management system. Month end journals have to be manually prepared and forwarded to the finance division for data capture. This results in errors being generated and creates further delays in income statistics.

An additional limitation of the systems is that there is no provision for the calculation and raising of interest on outstanding debt. The effect of this is that the consumer uses the municipality as bankers by delaying payment as long as possible.

The current receipting system creates delays in the posting of receipts and the updating of reconciliations. It does not allow online real time receipting thus creating delays in producing accurate information. In certain cases it may take a few days before receipts are updated and available for enquiries.

In terms of the available resources, it would appear that the strongest resource is the commitment of staff to the organisation. With all the limitations prevalent, the staff regularly work overtime and beyond their job descriptions in order to ensure that the division operates at an acceptable level.

4.6 Services

The Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), ensures that local government's responsibility encompasses the provision of services to communities in a sustainable manner. The nature of complaints received from consumers as well as the frequency of complaints indicates that the staff are not adequately trained to address customer complaints and thus provide a sustainable service.

Furthermore, there is no customer relationship management policy which further impacts on the customer. Complaints received from consumers range from “staff are rude and uncooperative” to “bills being delivered late”. Of particular concern to the municipality is the increasing number of bills being received from the post office as undeliverable or addressee no longer at the stated address. This could be as a result of incorrect addresses provided by the customer or data capture errors or incorrect street signage. The municipality is attempting to address this situation with the post office through consultation as well as improving the street signage.

An additional limitation is the number of pay points accessible to the consumer. Currently the municipality has seven receipting points spread over an area covering 649 km² and servicing a population of 523 470 people. In addition contracts have been entered into with EasyPay and the Post Office. EasyPay allows consumers to pay for their services accounts at any Pick ‘n Pay supermarket. However, delays in processing receipts through EasyPay and the Post Office increase the customer’s frustration when they query their accounts.

4.7 KSF & Driving Forces

Organisational transformation coupled with improved customer education on the need to pay for services rendered has been identified as the KSF for improving the financial position of the municipality. The municipality is currently undertaking a workplace skills audit to identify incumbents with the necessary skills that could be redeployed within the municipality to divisions that are faced with critical staff shortages.

The fragmented VME Income System does not allow the rates division to cross check via an enquiry menu if a consumer owes the municipality money for services. As a result this creates delays in issuing rates clearance certificates. The need to have an integrated revenue system has been recognised as the principal driving force for driving transformation. The improvement in the quality of information would add value to the consumer as well as creating a sustainable competitive advantage for the municipality as it would be able to track defaulting

consumers for rates, services and sundry debtor's accounts. This would be possible by having a standardised account structure.

The remote sites such as Sobantu, Northdale (Bombay Road), Edendale Proper, Edendale East, Imbali and Ashdown will require access to the income system if they are to provide an efficient service. The municipality is currently investigating the implementation of Area Based Management (ABM) system for service delivery. Proposed sites include Taylors Halt and Edendale. These sites will have full receipting and enquiry facilities and will also serve as community centers.

A limitation identified by the information technology manager in servicing these remote sites is the poor telecommunication infrastructure. WAN connections at speeds of 9600 baud or diginet lines at 64 k are not economically feasible. The proposed method is via satellite links to these remote sites.

4.8 Finance: Revenue Enhancement

The municipality has commenced with a contract aimed at revenue enhancement by means of a complete meter audit and increased effectiveness of credit control through additional resources for disconnection/restriction.

The following service is covered by the Contract:

- Planning, organization and implementation of a programme to identify, disconnect and/or remove illegal and tampered electricity services, including liaison and interaction with the affected consumers.
- Appointment of contractors to undertake the programme of disconnection and reconnection of tampered electricity services.
- Supervision of contractors to disconnect illegal and tampered commercial, industrial and domestic (credit and pre-payment metered) electricity services.

- Supervision of contractors to reconnect duly authorised services.

- Planning, organisation, appointment of contractors and supervision and implementation of a programme, for the audit of Electricity and Water services, to include:
 - ◆ meter reading accuracy,
 - ◆ consumer and meter/s identification, with particular concern for multi-metered properties,
 - ◆ unmetered services,
 - ◆ buried/hidden meter locations,
 - ◆ illegal water service connections

- Planning, organisation, appointment of contractors and supervision and implementation of a programme, for the disconnection and reconnection of Electricity services, as scheduled by the Department of the City Treasurer.

- Planning, organisation, appointment of contractors and supervision and implementation of a programme, for the insertion and removal of restrictions for Water services, as scheduled by the Department of the City Treasurer and City Engineer.

4.8.1 Progress on Implementation to Date

4.8.1.1 Audit of Meters

30 teams of 2 Auditors each commenced work in the field on 6 December 2002.

4.8.1.2 Ward Councillors and Committees

The facilitation process with Ward Councillors and Committees is ongoing and includes Public meetings scheduled by the Project Manager and Iwze Consultants in consultation with the relevant Ward Councillors. This program will continue into the new financial year.

4.8.1.3 Appointment of Sub-Contractors

Stewart Scott's annual shutdown from 20 December 2002 to 6 January 2003 has meant that work by both the contractors and auditors has ceased until 13 January 2003.

The appointment of sub-contractors was approved by the Executive Committee and work in the field with regard to Credit Control Enhancement commenced on 12 December 2002 with SBS Electrical.

SBS Electrical, Elect Mech, Mandla's, Gambu Projects, Lungisa Electrical, Hi-Light Electrical and Sikhuphula Construction will commence work on the contract with effect from 13 January 2003.

Motor Scan commenced the meter audit for LV (low voltage) meters during December 2002.

Msunduzi Metering will commence the meter audit of HV (high voltage) meters in January 2003

As a result of the above action it is anticipated that over 2000 additional disconnections/restrictions will be effected during the six-month period to June 2003.

4.8.2 Leakage Management

In addition to the measures outlined above, Council has embarked on a water leakage management program utilising CMIP funding. This program incorporates the reduction of water losses by the effective management and monitoring of water pressure within the Council's reticulation network.

Based on the projected current demand, the anticipated saving as a result of pressure reduction is estimated to be R 4.8 million for the current financial year. Such drastic measures are being implemented to mitigate the 46% unaccounted for water (UAW) purchases.

Water supply to two-thirds of the Edendale "households" is unmetered and only approximately 19% is currently billed. The Edendale area utilises approximately 27% of the total current water usage and this accounts for approximately 81% of the UAW. The municipality is addressing this issue through a program aimed at eliminating these forms of supply and introducing fully metered services. Due to financial, resource and other constraints this program will require some years before being fully operational.

4.8.3 ProMIS Income

At the Executive Committee meeting of the 07 April 2003, committee resolved to implement the ProMIS Income module. The implementation will be a phased implementation starting with the bulk consumers which in terms of the project plan is expected to be completed by September 2003. The complete conversion from the VME system to the new income system will be completed by June 2004.

This implementation will provide once completed, an integrated financial system that would be able to produce reports in real time. As part of the implementation process, the reorganisation of the revenue division will have to be undertaken. This reorganisation will encompass staff being redeployed to areas where there is a need for additional capacity.

4.9 Summary

Whilst there appears to be severe resource constraints within the revenue division, the determination of the staff to succeed in the face of adversity has been the driving force in ensuring that the division continues to deliver an acceptable level of service.

However, as the number of customers continues to increase, the resource limitations will cause a collapse in the foreseeable future unless drastic and immediate corrective measures are either implemented or those that are currently being implemented are fast tracked.

Another concern that has emerged is the delay in generating a bill from the time that the meter is read to the time that the bill is posted. Such delays negatively affect the cash flow and results in bridging finance being utilised to smoothen out the revenue and expenditure streams.

Chapter 5 – Recommendation's & Conclusion

5.1 Introduction

The evaluation of The Msunduzi Municipality was undertaken by the author who is the Chief Financial Officer in order to identify areas that require improvement and to build on those areas where the organisation is excelling. The study was intended to provide a broad overview of the challenges facing the municipality in light of the increase in its area of jurisdiction as a result of the Demarcation Act of 2000.

The study was confined to the revenue division as this division administers the income that is necessary for the organisation to survive. The revenue division could be considered as the hub of the organisation where all services that are provided by the various departments are raised as fees, which when collected is used to provide the necessary funding for service delivery.

It must be borne in mind the local government is a service delivery instrument. The annual budgets are prepared taking into account the *anticipated* expenditure and income for the financial year in order to provide a level of service. It is therefore not the purpose of local government to generate a profit but to produce a balanced budget. This then ensures that tariffs and fees are set at an affordable rate taking into account the needs of the community.

The implication of producing a balanced budget is that if the revenue income is not collected, the Council will then be required to curtail expenditure as it is a controllable item. This would result in a drop in service delivery as the municipality by law is not entitled to produce a deficit budget. The critical importance of the functions performed by the revenue division is thus revealed.

5.2 Recommendation's

Arising out the evaluation of the revenue division, the author has identified a number of implementations measures that would require management's attention. Management should concentrate on the most important activities first as these activities will have the largest impact in improving the organisation.

The success of the revenue division is pivotal on a clearly defined strategy being formulated. The strategy should encompass but should not be limited to the following key areas:-

- Evaluating the accuracy and adequacy of the management information being generated;
- Identify KSF's and KPI's that will ensure that the revenue income can be sustained and implement a system of monitoring to ensure compliance with the strategic goals of the organisation;
- Education of customers as to the need to pay for services;
- Area Based Management including pay points
- Right sizing the staff complement;
- Reviewing the organisation structure;
- Changing the culture of the organisation through education;
- Improving communication both internally between divisions and externally with the customer and other stakeholders;
- Reviewing the By-Laws for debt collection and credit control, indigent policy, tariffs, accounting policies;
- Political and administrative support.

It will be recommended that as part of the process of transformation, the organisation head hunts to secure the services of competent leaders. The skills and

competencies that these incumbents should possess is the ability to think laterally, sound financial and analytical ability, results driven, good communicator and adaptive to change, have integrity and be able to deal with uncertainty and crisis situations.

Coupled with the above should be the introduction of a performance management system such as the Balanced Scorecard. Such a system will be able to track performance of each individual as well as the performance of the revenue division as a whole. It involves determining the extent to which objectives are being achieved through developing indicators and linking them to targets and related standards.

The position of the temporary staff performing critical functions will need to be resolved in the foreseeable future. It is recommended that in light of their long service with the Council as temporary staff, Council should use the Placement Policy and appoint these incumbents as permanent staff. This will create stability for the organisation as well as motivate the staff to excel in their performance.

The Workplace Skills Audit (WSA) that has commenced should begin with the revenue division. This will identify skills that are mismatched to the job description and would provide the opportunity for re-deployment and regarding of jobs. What is prevalent is the lack of accounting knowledge within the division. Due to apartheid, blacks were marginalised and were not sent on training courses or afforded staff bursaries to improve their skills. This has created a skills gap. It is therefore recommended that once the WSA is completed, staff be trained either in house or through formal institutions.

With the implementation of the ProMIS Income module, the organisational structure of the revenue division would require realignment. The current structure is a historic structure where each division operates in silos with no cross pollination of knowledge occurring. The divisions are not functionally structured with the result that the revenue division does not react swiftly to change nor does it result in a customer centric focus. The new proposed structure (figure 3.4 to 3.11) is functional structure that would add value to the organisation. However, it is

estimated that the revenue division will require 16 new positions to be filled to accommodate the new income module. The filling of these positions will require the current employment process to be abandoned and a fast track approach be adopted in order to ensure that the incumbents are employed by no later than June 2003.

As part of the implementation process, detailed business processes as well as procedure manuals must be developed. These documents must be audited for accuracy and updated whenever changes are made to the business process. The Superuser (system administrator) for the income system must take full responsibility for the maintenance of the documentation as well as ensure that on the job training is provided for all users of the income system.

Since the ICL VME mainframe computer was installed in 1973 as the platform on which the income system would run technology has produced new solutions that improve efficiency. The financial information strategy should be based on the replacement of all in house developed systems with third party software packages. The preferred choice is to select software packages that operate on open system platforms of UNIX and Progress database software. These relational databases have the added advantage of allowing for multiple accesses as the data is stored in tables.

As a result of budgetary constraints as well as the indication from the IT manager that he intends retiring at the end of December 2003, technical support functions (system and database administration, network and desk-top support) must be outsourced to professional service providers. This will allow the municipality to focus on its core business of service delivery whilst leaving the support function to professionals.

In May 2000, the Council approved an investigation to determine the system requirements and suitability of the ProMIS Income module. The ProMIS Income Scoping Project was completed in November 2000 and the conclusions were submitted to Council. However, delays in making a decision have severely affected the revenue division as staff continued to work with technology that was in

appropriate for the current environment. It is therefore recommended that in light of the approval now received from Council to implement the ProMIS Income module, any further administrative delays will require Council to intervene in order to fast track the implementation.

The data conversion from the VME system to the ProMIS system will require external audit verification to ensure that customer's accounts are accurately recorded. In addition the new income system must be designed to provide accurate, timeous and understandable bills. The coding structure must be flexible to allow for changing circumstances. It is proposed that in terms of the hierarchy of the coding structure, a single town is created (PMB) with townships/wards being linked to the town. This will facilitate reporting on payment levels per ward as well as facilitate the meter reading cycle. Each property/stand could then be coded and grouped per ward.

As part of the implementation process, cognisance must be given to Area Based Management (ABM). ABM results in improvement in service delivery by making facilities more accessible to the communities. These ABM facilities must cater for pay points, enquiries, etc. as well as the option of after hours receipting of payment through the installation of Kiosks. Furthermore, the revenue division must introduce e-commerce as part of its service offering. Allowing customers the opportunity to pay for services over the internet would result in an improvement in revenue income as these customers have the means to pay timeously.

In order to ensure that the revenue streams is matched with expenditure, the Council must apply to the minister for relaxation of the Ordinance in order to be able to raise rates monthly. This will result in a monthly income of approximately R 19 million from rates and would result in the municipality saving approximately R 1.5 million per month in interest expense. Furthermore, for the system to be effective all ratepayers must be compelled to pay rates monthly without the option of paying annually. The hidden benefit is fact that the Council would be able to raise interest on overdue accounts monthly.

In order to reduce the debtor's days from 116 to between 45 and 56 days, the current credit control measure will require further resources. The first step would entail evaluating what other municipalities are doing to reduce there outstanding debtors. Benchmarking these municipalities would provide a yardstick against which performance can be measured. The Credit Control and Indigent Policy will require amendments to cater for the raising of interest on overdue accounts. The suggested policy wording is as follows:-

Credit Control Bylaws

Include under section 6(3):

“ Notwithstanding the provisions of Section 3(5), domestic consumers who honour their agreements to pay, will not be charged interest from the date of the agreement, but should they default on their agreement payments for whatever reason, interest shall be raised from the date of default in terms of these bylaws and the agreement. In respect of businesses or commercial consumers who are in arrears, interest will be raised in terms of Section 3(5)”.

Tariff Policy Bylaws for Indigent Persons

Include under Section 2(8):

In the event that an account is rendered and is deemed not payable and the owner or occupier continues to qualify under the terms and conditions of the tariff policy for indigent concessions, no interest shall be raised on the account. However, should the owner or occupier fail to comply with the terms and conditions of the tariff policy and an account is rendered and deemed payable, interest shall be raised on the full outstanding overdue account”.

Include under Section 3(7):

“In the event that an account is rendered and is deemed payable and the owner or occupier continues to qualify under the terms and conditions of the tariff policy for indigent concessions, no interest shall be raised on the account. However should the owner or occupier fail to comply with the terms and conditions of the tariff

policy and an account is rendered and deemed payable, interest shall be raised on the full outstanding overdue account”.

In order to give effect to the changes in the policy document, the municipality must advertise these changes in the local press. The marketing of these changes if properly undertaken would send a clear message to the customer that the municipality is taking drastic measures to ensure that payment is received for services rendered.

As the level of outstanding debt continues to increase month on month, it is prevalent that current credit control measures to recover debt is proving ineffective. What is required is for the revenue division to enforce credit control measures until the debt is still outstanding for 90 days. During the period up to 90 days, every attempt must be made (e.g. terminating service) to recover the debt due. If however, after 90 days the revenue division is still unsuccessful in recovering the debt then the debt must be handed over to professional debt collecting agencies. Currently the municipality makes use of a panel of approximately 35 attorneys to collect debt. These attorneys have no urgency to recover the money as debt collection is a spin off of their core business. Furthermore, the consumer is further burdened with attorney costs which are recovered first before the municipality is paid.

These delays further exacerbate the problem of poor cash flow. It is therefore suggested that a proposal call be issued to request professional debt collecting agencies to propose methods of how they will collect the Councils outstanding debt. These agencies could be placed on a performance contract for one year with their remuneration being set on a sliding scale based on a percentage of the outstanding debt collected. These agencies will have to furnish guarantees as they will be collecting cash on behalf of the municipality or alternatively they must bank all cash collected into the municipality's bank account weekly. Preference should be given when evaluating the different proposals received to those agencies that are locally based and would employ local's from the community as debt collecting agents. This approach is similar to the Stokvel system that relies on peer pressure from the community.

Once the debt collecting agencies have exhausted all possible methods of recovering the debt only then must the files be handed to attorneys for collection. At the same time the revenue division must rationalise the number of attorney on its panel from 35 to 6. The bases of rationalisation must be based on past performance in collecting debt. The attorneys must be placed on an annual performance contract with the proviso that the two worst performing firms of attorneys will be replaced with two new firms of attorneys annually. This rotation will ensure that the municipality receives the level of service and attention that it deserves.

The meter audit and water leak management projects must be reviewed monthly in order to evaluate their effect on credit control and loss of income. It is recommended that these projects continue for a further six months with additional contractors being employed to increase the number of disconnections being effected. This additional capacity will hopefully reduce the backlog in disconnections and would then allow the revenue division to be able to manage disconnections daily. Pressure reduction through the water leak management project must be more aggressive particularly in the Old City and Edendale. This would result in the bulk purchases from Umgeni being reduced and would transcend into saving for the Council as the UAW would be reduced.

Customer Relationship Management (CRM) works on the principal that not all customers are equal and therefore should be treated differently. The staff in the revenue division would need to undergo training in order to differentiate between levels of service that should be provided to different customers. Profiling customers would allow the municipality to customise its offering to the customer based on their needs. This is a value enhancing strategy. In the case of the Msunduzi Municipality and using the Pareto Principal where 80 % of the revenue income is collected from 20 % of the customer base, the emphasis would therefore have to shift to the Bulk consumers who are the high demand users. Providing a consistent service across all delivery channels will encourage bulk customers to increase their demand as the standard would be set. This would result in an increase

in profit for the organisation and through the effects of the experience curve result in a reduction of cost over time.

It would be advantageous if The Msunduzi Municipality established a revenue income team comprising five individuals whose sole task is to tackle fundamental issues relating to revenue collection and improvement. This team's mandate should include:-

- Developing alternatives to individualised income assessments for indigents;
- Developing rewards and incentives to encourage payment;
- Developing a policy to handle outstanding debt and write-offs; and
- Providing a personalised support service to the bulk consumers.

As the revenue division changes its focus in line with the municipality's vision statement, consideration should be given to Public Private Partnerships (PPP). The revenue division should focus on its core business and engage private partners to provide non-core functions. A case in point is the reading of electricity and water meters. This function can be outsourced to companies that would provide a more efficient service at a fraction of the cost.

Alternatively, the municipality must explore the new technological solutions available whereby electricity and water meters are read remotely without any human intervention. This technology will require an initial investment for the infrastructure but the capital cost will be recouped by accurate and real time monitoring of consumer accounts. Any tampering of meters will be identified immediately and appropriate action could be taken. Losses experienced through theft would be minimised and the number of manual data capture entries would be reduced.

Consumers should be encouraged to make use of the Pre-Payment metering system as an alternative to receiving monthly bills. This improves the revenue income as the money is collected prior to consumption. In addition, the additional workload of reading meters, capturing readings, processing bills and postage is eliminated.

5.3 Further Research

In light of the research being confined to The Msunduzi Municipality Revenue Division, future research should include other Category B municipalities and possibly Category A municipalities. This would provide a benchmark against which The Msunduzi Municipality could be measured.

Being one of the pilot municipalities identified by National Treasury for Budget Reform, future studies could include other pilot municipalities that are on the program. At the time of conducting this case study, 28 municipalities nationally were on this program.

The research should include alternative sources of revenue income and should be extended to include the Valuations Department that is responsible for valuing property.

As the CPM process has just begun and the benefits of this process have not yet materialised, it would be a worthwhile exercise to conduct a similar study after a year to assess whether the shortcomings have been addressed and the strengths amplified to gain a sustainable competitive advantage.

5.4 Conclusion's

The Msunduzi Municipality is striving to survive in this rapidly changing environment. It is only the most innovative and flexible municipalities stand a chance of survival due to the escalating debt. Thus, The Msunduzi Municipality can be likened to the ancient Roman gladiators, battling against the odds for survival.

Successful businesses evolve over time. The evolution does not have to be drastic. Small changes can alter the benefits customers expect to enjoy. As the business expands, it is imperative to fine-tune its core message in order to stay on target.

The key to providing value to customers is to adopt a dynamic approach and develop a contingency road map to use as a tool in order to deal with diversified customers, spiralling debt and the environment.

One of the critical factors in understanding a corporate culture is the degree to which it is leader-centric, that is, the culture of the organisation reflects the personality of the leader. To give further credence to this, the role and responsibility of the organisations leaders should not merely be 'monitors' and 'number crunches' but should encompass the responsibility of converting the strategic vision and mission into specific outputs.

The Msunduzi Municipality has a promising future ahead. Sound financial decisions coupled with organisational transformation would result in a viable Local Authority that has the potential of being classified as a Metro before the next general elections.

5.5 Glossary of Terms

<i>Accounting Officer</i>	The Municipal Manager appointed in terms of section 82 (1) (a) or (b) of the Municipal Structures Act;
<i>Billing</i>	Process of preparing and generating a consolidated account to consumers for services received;
<i>Category A</i>	A municipality that has exclusive municipal executive and legislative authority in its area;
<i>Category B</i>	A municipality that shares municipal executive and legislative authority in its area with a Category C municipality within whose area it falls;
<i>Category C</i>	A municipality that has municipal executive and legislative authority in an area;
<i>Chief Financial Officer (CFO)</i>	Means a person designated in terms of section 75 (2) (a) of the Municipal Finance Management Bill;
<i>CMIP</i>	Consolidated Municipal Infrastructure Program;
<i>Council</i>	The political and official representation of The Msunduzi Municipality;
<i>Councillor</i>	Means a member of a municipal council;
<i>CPM</i>	Competency Based Performance Management;
<i>Credit Control Policy</i>	Regulation that governs the manner in which officials can collect debt from defaulting consumers;
<i>DPLG</i>	Department of Provincial and Local Government
<i>EDP</i>	Electronic Data Processing;

<i>Equitable Share</i>	Funding received from National Treasury to subsidise the Municipality in providing free basic services;
<i>ICL</i>	International Computers Limited;
<i>IMFO</i>	Institute of Municipal Financial Officers;
<i>Indigent Policy</i>	Regulation that governs the manner in which poorest consumers are to be accommodated in order to receive basic services;
<i>Integrated development Plan</i>	Means a plan aimed at the integrated development and management of a municipal area;
<i>IT</i>	Information Technology;
<i>KPI</i>	Key Performance Indicators;
<i>KSF</i>	Key Factors for Success;
<i>Local Council</i>	Means the municipal council of a local municipality;
<i>Metropolitan Council (Metro)</i>	Means a municipality that has exclusive executive and legislative authority in its area and which is described in section 155 (1) of the Constitution as a category A municipality;
<i>MIIU</i>	Municipal Infrastructure Investment Unit;
<i>Minister</i>	Means the national Minister responsible for local government;
<i>MTEF</i>	Medium Term Expenditure Framework – 3 to 5 year budget;
<i>Municipality</i>	When referred to as –

	(a) a corporate body, means a municipality as described in section 2 of the Municipal Systems Act; and
	(b) a geographic area, means a municipal area determined in terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998);
<i>National Treasury</i>	Means the National Treasury established by section 5 of the Public Finance Management Act;
<i>Official</i>	Employee of The Msunduzi Municipality;
<i>Revenue Instrument</i>	The means by which municipalities generate income through taxes and service charges;
<i>RDP</i>	Reconstruction and Development Plan;
<i>Services</i>	Includes rates, water, electricity, sewage and refuse;
<i>Tax Base</i>	The tax base is that part of the object of taxation on which the tax payable is calculated. The capital value or tax base of a property is determined by the valuation process;
<i>Tax Rate</i>	The tax rate is that percentage of the value of the tax base to be paid by the subject of taxation. In the case of property tax it usually refers to so many cents per R1 of the value of the tax base;
<i>The Msunduzi Municipality</i>	A category B local authority;
<i>UAW</i>	Un Accounted for Water;
<i>VME</i>	Virtual Machine Environment.

5.6 Bibliography

Ambrosini. V, (1999), Exploring Techniques of Analysis and Evaluation in Strategic Management, Prentice Hall

Bird. M, (1990), How to collect the money you are owed – Improve your cash flow and increase your profits, Judy Piatkus (Publishers) Ltd

Botes.P.S, Brynard.P.A, Fourie.D.J & Roux.N.L, 1992, Public Administration and Management, HAUM-Tertiary

Brand.C, (1998), Competency Based Performance Management – Managerial Workshop

Claythorne, D.L, 1993, Municipal Administration: A Handbook, 3rd edition, Cape Town, Juta and Co.

Desirey. S.T, (1999), Value Chain Integration, and when is more revenue not good news?, APICS International Conference, New Orleans, La

Gildenhuys. J.S.H, 1993, Public Financial Management, J.L.van Schaik (Pty) Ltd

Johnson.G & Scholls.K, Exploring Corporate Strategy, Financial Times, Prentice Hall, 1999

Kapp, C, (May 1995), Financing of Local Government, paper presented at a seminar on Local Government – University of Pretoria

Lynch.R, Corporate Strategy, Prentice Hall 2000, Second Edition

Mintzberg. H (1978), Patterns in strategy formation, Management Science, May

Porter. M (1980), Competitive Strategy, Free Press: New York

Prahalad, C.K. and Hamel, G. (1989), Strategic Intent, Harvard Business Review, May-June

Prahalad, C.K. and Hamel, G. (1990), The core competence of the corporation, Harvard Business Review, May-June

Stratford.L, Pietermaritzburg Msunduzi TLC ProMIS Scoping Project, November 2000

Strickland.A.J, Thompson.A.A, Jr and J.Gamble, Cases in Strategic Management, McGraw-Hill, 12 Edition, 2001

Slywotzky. A.J and Morrison. D.J (1997), The profit Zone: How Strategic Business Design will lead you to Tomorrow's Profits, Time Business/Random House, New York

Tayeb, M.H, May 1998, Management of a Multicultural Workforce, Johnson Wiley & Sons Ltd, England

Thurman.S, A Review of Rates, Service Charges and Connection fees across Metropolitan Cape Town, Development Action Group, February 1999

Wegner.T, (1993), Applied Business Statistics – Methods and Applications, Juta & Co.Ltd

Willemse.I, (1994), Statistical Methods & Financial Calculations, Juta & Co.Ltd, Second Edition

INTERNET

Internet 1: Edith Penrose's Contribution to the Resource-Based View of Strategic Management, available at: <http://www.interscience.wiley.com>

Internet 2: Destroy your Value Chain Before Someone Else Does, available at: http://www.cio.com/archive/enterprise/051598_killer_content.html

Internet 3: Exploiting the Virtual Value Chain, by Bruinette.H, available at: <http://www.accountancysa.org.za>

Internet 4: Profit from Complaints, available at: <http://www.learningfromeachother.org>

Internet 5: U.S/Japan HR Culture Clash, available at: <http://www.workforce.com>

JOURNALS, PERIODICALS GAZETTES AND MEDIA ARTICLES

Biewenga.J, Tzaneen Transformation, IMFO, Fall 2003, 18-20

Black & Veatch, January 1999. A new SA player looks at PPP, IMIESA, vol.24, no.1, 2-5

Claassen.L, Comparative Statistics on Large Municipalities, IMFO, Spring 2002

Douglass.N, 2003, Auditing Meters, ESI AFRICA ISSUE 1, 2003

Dr Scott. D, March 2002, The Importance of Credit Worthiness for Municipalities, IMFO, vol.2, no.3, 26-27

Dr Scott. D, 2002, The Importance of Credit Worthiness for Municipalities, IMFO, vol.2, no.4 (winter), 6-8

Eicker.N, Debt Management – The Tshwane Experience – An Incentive Driven Approach, IMFO, Fall 2003, 14

Fourie. D, June 1998. Assessment of the Financial Resources of Municipalities, South African Journal of Economic and Management Sciences, vol.1, no.2, 268-283

Fourie.M.L, Treasury Perspective on Revenue Protection, IMFO, Spring 2002

Jacqueline.L, 1999. Engineers must be more lateral, IMIESA, vol.24, no.9, 11-13

Johann Mettler, December 2001. Dividing Functions and Powers between District and Local Municipalities – Implications and Challenges, Government Digest, vol.21, no.5, 24-29

- Kapp.C.J, Credit Control & Debt Collection, IMFO, Spring 2002
- Klerk, C.D, Improve your Debtor Management, IMFO, Fall 2003, 24-25
- Kroukamp. H, December 1994, Challenges facing Restructuring of Local Government in a Changing South Africa, Administration Publica, vol.5, no.2, 46-59
- Kroukamp. H, 1995, The Culture of Non-Payment of Services as a constraint in Financial Policy Management for Local Authorities in South Africa, SAIPA, 30(3)
- Kroukamp. H & Meerinh. M.H, 2000. The Process of Transformation of Local Government with specific reference to Port Elizabeth, S.A Medical Research Council, Report 3, 20-21
- Kruger.N, Quo Vadis? Collection of outstanding monies owed by municipal debtors, IMFO, Fall 2003, 22-23
- Makunike.S & Mkhabela. M, Real empowerment is in Small Business, City Press, 13 April 2003
- Mandela. N.R, 20 January 1994, Speech delivered at the National Summit for Local Government at the World Trade Center, Kempton Park
- Pillay.T.V, Local Govt goes from strength to strength to better life for all, City Press, 13 April 2003
- Rapiti. L, 8 March 1995, Start Paying Rent, The Sowetan
- Republic of South Africa (2000), Local Government: Municipal Structures Act, 2000, South Africa
- Republic of South Africa (2000), Local Government: Municipal Systems Act, 2000, South Africa

Republic of South Africa (2001), Municipal Management Finance Bill, 2001,
Government Gazette, August 2001

Republic of South Africa (1996), Constitution

Schalkwyk.G.D van, Debt Management – The Cape Town Experience, A Policy
driven approach, IMFO, Fall 2003, 12

Smit. C, Marais. G.H and Partners Inc., Repositioning Municipal Services in line
with the RDP and Masakhane, IMIESA, February 1996, 21-23

Swanevelder. J.J, September 2000, Municipal Councillors – Expectations in respect
of Finance and Accounting, IMFO, vol.1, no.1, 6-7

Timm. J & Jadwat., Summer 1998, Masakhane Case studies, Development
Southern Africa, vol.15, no.4

Timm. J, Jadwat. O & Sippel. G, Autumn 1998, The Masakhane Campaign: Alice
and King William's Town Case Studies, Development Southern Africa,
vol.15, no.1

Customer Management... a necessary complement to the Masakhane Campaign,
Water Sewage and Effluent, 4 December 1995, vol.15, no.4, 8-11

Financial Management for Local Authorities, Local Government Digest, vol.17,
no.13, August 1998, 18-20, 22-23

Interim Integrated Development Plan, District Council 22, Iyer Rothaug
Collaborative & Urban Econ, 14 May 2001

Lets Build Each Other, 1995 base document, Masakhane-building together now,
Pretoria

Masakhane must become a new culture, a new consciousness...., HSA, Nov/Dec
1995, 24-25

Masakhane Magic, DRUM, 4 September 1997, 16-17

Masakhane – its happening!, NEXUS, September 1997, 23

Municipal Debt: Some Perspectives, IMFO, Fall 2003, 8-11

Municipal Viability Indaba, Department of Provincial and Local Government, 5-6
December 2002

Municipal Viability Indaba, IMFO, Fall 2003, 4-5

Municipalities are delivering, so why the doom and gloom?, Local Government
Digest, February 1998, vol.17, no.7, 12-13

Report of the Diagnostic Study undertaken for the Msunduzi Local Council, MIIU,
May 2002

Sources of Local Government Revenue, Local Government Digest, February 1998,
vol.17, no.7, 3, 7, 9-10

South African Survey 2001/2002, South African Institute of Race Relations,
2001/2002 survey

The Msunduzi Municipality Restructuring Grant Application, KPMG & CVMP
Ramathe, November 2002

The Natal Witness (2002), Councils owed R 15.5 billion in debt, The Natal
Witness, Pietermaritzburg, 02 February 2002, p 3

The Natal Witness (2003), The Natal Witness - Echo, Pietermaritzburg, 06 March
2003

Unlocking ERP's Inherent Value, Materials Handling Today, February 2001, 21-22

Using the Carrot, not the Stick, to beat Boycotters, Financial Mail, 19 September
1997, 40

What is Masakhane?, SALUT, December 1997, 48-49

5.7 Author

Farhad Cassimjee was educated in Pietermaritzburg and matriculated from Raisethorpe Secondary School. He obtained his Bachelor of Commerce Degree from the University of Natal Pietermaritzburg with Finance as his major. The Author completed his Post Graduate Diploma in Business Management at the University of Natal Durban – Graduate School of Business prior to completing his Masters in Business Administration through the Graduate School of Business.

As the Chief Financial Officer of The Msunduzi Municipality, he is head of the Finance Division and is responsible for the finances of the city with an annual budget in excess of R 1 billion. The author commenced employment with The Msunduzi Municipality as the Assistant City Treasurer in January 2000. In March 2002 he was appointed as the Acting Deputy City Treasurer and subsequently the Acting City Treasurer in September 2002. On the 01 March 2003 he was appointed as the Chief Financial Officer (Strategic Executive Manager – Finance).