



# REVENUE ENHANCEMENT STRATEGY

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## 1. Introduction

According to MFMA Circular No. 41, revenue enhancement consists of two components. The first being national policy developments that give rise to additional sources of revenue for local government while the second component encompasses the ability of the municipality to grow its own revenue base. The Mkhambathini Local Municipality's (KZN226) revenue enhancement strategy will focus in generating revenue and improving debt collection.

## 2. Background

Most of the population within the municipal area are indigent due to socio economic conditions. Mkhambathini Local Municipality has been diagnosed to have significant challenges in revenue collection and there are significant amounts of money owed to the municipality by its clients. The amount has accumulated over a period due to lack of effective controls in revenue collection.

The objective of this document is to address the financial and institutional challenges faced by the municipality. The document focuses in the formulation and implementation of strategies to improve financial management and controls within the municipality.

## 3. Purpose

The aim of the revenue enhancement strategy is:

- To increase debt collection on municipal property rates and other service charges
- To improve core revenue processes and identify additional revenue streams where possible and warranted, considering the applicable laws and regulations to minimise municipal grant dependency.

## 4. Location

Mkhambathini Local Municipality is located along the south-eastern boundary of the uMgungundlovu District Municipality. It is the second-smallest municipality as one of seven local authorities within the district and is situated within south-west KwaZulu-Natal. Mkhambathini Local Municipality consists of seven wards, with a large part of the municipality being rural in nature and underdeveloped.

Mkhambathini is an isiZulu word derived from eMkhambathini, which means ‘the place of acacia trees. Mkhambathini has several comparative advantages. It is well located in relation to Durban and Pietermaritzburg and adjoins Cato Ridge, a potential industrial node. The N3, which is identified in the Spatial Growth and Development Strategy as a Provincial Corridor, runs east-west through the central part of the municipal area. Significant portions of the municipality fall within the Valley of a Thousand Hills (with Table Mountain a major landmark), an area with high potential for ecotourism, and in the Midlands Mist Belt, which has a well-established agricultural economy.

## **5. Key Challenges around Revenue Management Function**

The municipality has identified challenges within its revenue value chain which could potentially be turned around to opportunities. The municipality is currently faced with an increasing arrear debt of approximately R 32 million (based on a debtor’s age analysis of 30 June 2022), with over R 29 million outstanding for a period of exceeding 120 days. This is considered very high, given the financial position / sustainability of the municipality.

The following are factors contributing to an increased debtor’s book balance and other challenges faced by the municipality:

- Lack of or outdated policies and procedure manuals
- Weak control environment
- Incomplete customer information in the customer data master-file

In line with best practices the framework for the revenue enhancement strategy, considering the unique requirements of Mkhambathini Municipality comprised a phased approach, with timeframe(s) for the implementation of the strategic interventions.

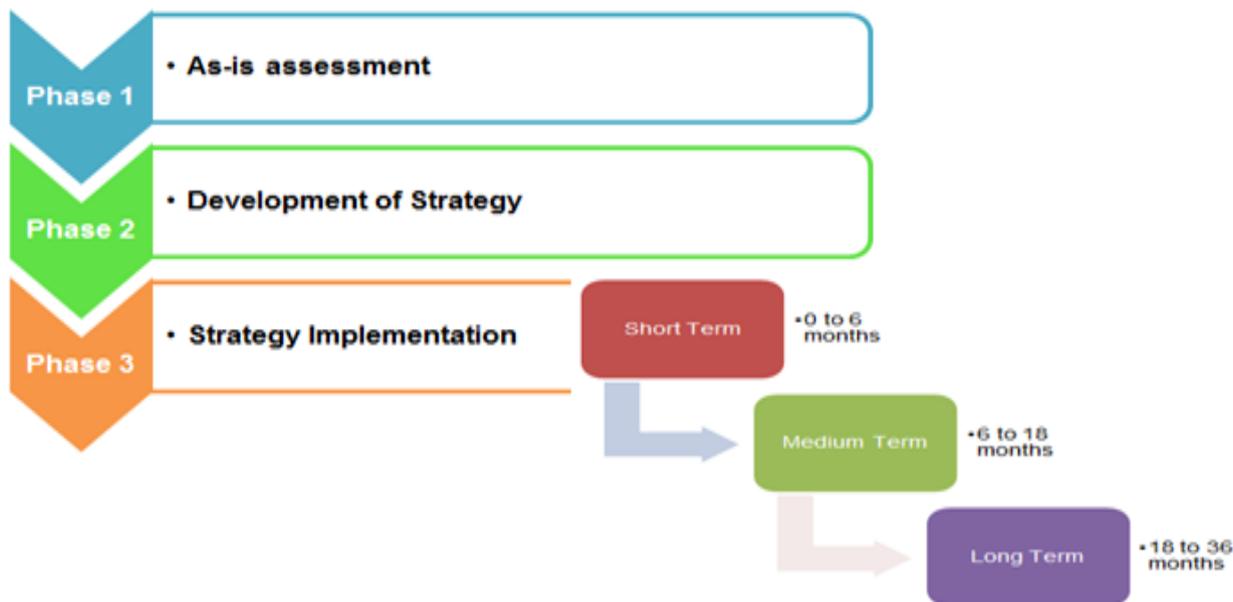
**Phase 1:** As-is assessment - A comprehensive as-is assessment of the revenue value chain focusing on revenue budgets and tariffs, current policies and procedures, meter reading and billing, revenue collection and debt management as well as loss management.

**Phase 2:** Development of Strategy – Development of the strategy taking account challenges faced by the municipality and the result / outcome of the as-is assessment.

**Phase 3:** Strategy Implementation - Implementation of the actionable items of the strategy considering the time period at which such strategic interventions need to be

carried out. The timeframe for the implementation of the strategic interventions have been divided into the following three categories:

**This can be illustrated with the following diagram:**



## 6. Revenue enhancement strategies

### 6.1. Proposed revenue enhancement projects

#### 6.1.1 Property development

The Municipality is currently negotiating with uMgungundlovu District Municipality, Transnet and SANRAL for the transfer of land to the Municipality which is earmarked for property development. The Municipality could potentially generate approximately R3 million per annum on rental income while attracting more investors for industrial park which will contribute to the property rates for the municipality.

#### 6.1.2 Traffic department

The Municipality has planned to establish the testing of vehicles section within the community services (licencing and permit unit) and the municipality will ensure that it meets the requirements of the Department of Transport to qualify as a traffic and learner licence station. The revenue for licencing and testing will be incorporated into the municipal revenue.

#### 6.1.3 Business licences

The business licences will be verified to ensure that all businesses are operating with

valid business licenses issued by relevant officials within the municipality. The Municipality will review and ensure implementation of a policy for licencing businesses.

#### **6.1.4 Commercial Advertising**

The Municipality will erect digital screen billboards after a thorough feasibility study to attract advertisers. These advertisements will improve tourism of the entire Mkhambathini and nearby areas. It is a revenue stream as Mkhambathini Municipality, we can sell advertising space to local businesses or tourism concerns.

#### **6.1.5 Private Partnership**

The Municipality may enter into a Public – Private Partnership agreement, but only if the Municipality can demonstrate that the agreement will provide value for money to the Municipality, be affordable for the Municipality and transfer appropriate technical, operational & financial risk to the private party. The Municipality should invite property developers and investors in the jurisdiction of Municipality to develop productive and economic projects in line with the corridor development.

#### **6.1.6 Data cleansing exercise**

For the Municipality to generate revenue and sustain its financial performance, it needs to bill its customers correctly and on a regular basis. It is imperative that the billing is done accurately. Section 96 of the Municipal Systems Act requires that municipalities collect all money that is due and payable and, for this purpose, must adopt and maintain a debt collection policy of which billing is an integral part.

The Municipality will conduct a data cleansing exercise whereby the following procedures will be conducted:

- The billing system must correctly reflect all billing data and customer data that is required for the issue of accurate invoices to the relevant customer timeously. Data collection exercises should be initiated to collect more customer data such as cell phone numbers, email addresses, spouse's information, to name a few.
- The services offered by the South African post office are very poor, with account delivery being made late most months. A new online bill view should

be investigated so that owners can view and/or download their own invoices and make payments timeously.

- All properties within the municipality's area of jurisdiction must be correctly valued whether in the General Valuation Roll or Supplementary Valuation Rolls; and the billing system must be updated with any change in property ownership. This is necessary to grow and protect the municipality's property rates base. As we are in the process of implementing the next phase of the General Valuation Roll, it is anticipated that all properties will be correctly valued and categorised and thus correctly billed.
- Effective business processes will be implemented to ensure that new property development and improvements to existing properties are valued as required and that billing records are updated accordingly. This requires good working relations between the municipality's town planning, building control, valuations and revenue management functions.
- Review that there is correct categorisation of properties in terms of the Municipal Property Rates Policy as this impacts usage and property rates tariffs applied to the properties. As we are in the process of implementing the next phase of the General Valuation Roll, it is anticipated that all properties will be correctly valued and categorised and thus correctly billed.
- Property usage must be correctly recorded so that the relevant property rates tariff is applied to the property; changes to property usage must also be communicated to the revenue function so that the billing system is updated. As we are in the process of implementing the next phase of the General Valuation Roll, it is anticipated that all properties will be correctly valued and categorised and thus correctly billed.
- All dormant or inactive accounts should be investigated and if there is residual debt, the credit control and debt collection policy need to be followed to recover the outstanding debt.
- Rates Clearance Certificate process should be well documented as this is a good opportunity to recover debt against an Erf and owner.
- Refuse and sanitation service charges must be included in the billing

records; these services are often neglected as a source of revenue; in fact, some municipalities operate refuse removal services at a loss. Recycling initiatives should be introduced as there is revenue to be attained from waste.

- Billing records must be routinely reconciled to the source of the billing data and customer data.
- All irrecoverable and bad debt should be investigated and analysed in terms of effort to recover instead of writing off the debt. The longer time period the debt exists, the more difficult it is to recover. The effort of recovery must be investigated and in cases where little to no hope of recovery exists, the debt should be recommended to Council for write-off.
- Billing queries must be resolved within reasonable timeframes. This assists with timeous payments as well as the general reputation of the Mkhambathini Municipality.
- Municipal functions must be adequately staffed with competently skilled individuals who understand the job requirements. Officials need to be trained on debt collection and credit control management to ensure that the best effort is made to recover outstanding debt.

#### **6.1.7 Development and maintenance the Indigent Register**

As a priority, the indigent registration process must be opened urgently with a clear framework and evaluation criteria to ensure that only qualifying debtors are subsidised. This process must be properly communicated and administratively the municipality must be able to handle and process the new applications effectively and efficiently. It is also imperative that all applications only be valid for the current financial year and renewals be done on an annual basis.

The indigent registration process and its verification will be championed by the relevant department, and in this regard the Community Services Department is the champion.

#### **6.1.8 IDENTIFICATION OF INACTIVE ACCOUNTS:**

The performance of reconciliation for the “inactive accounts” must be done. First identify all the accounts that are inactive. Where possible, the outstanding debtors should be investigated and collected in terms of the credit control and debt collection

policy.

### **6.1.9 MANAGEMENT OF CUSTOMER DATA BASE**

Updating consumer information like telephone numbers, ID numbers, etc. Profiling/ Classification of Debtors; Identifying prescribed debts and irrecoverable debts for write off. Identifying material debt for immediate collection; Revisit consumer application forms. We need to ensure that all tariffs and the correct tariffs are charged. There are several debtors who are not being charged/fully /correctly charged and council loses income, which it cannot afford.

### **6.1.10 TRAINING AND MENTORING OF STAFF**

Setting up and Training on Systematic Debt Collection and Credit Control Procedures, Processes, Legislation, Customer Care and Guidelines in line with approved policies. Training and capacity building are an area that has been neglected and has accounted for low morale.

### **6.1.11 OTHER INITIATIVES:**

1. Letters of appreciation for good payers and possible incentives.
2. Mayors' letter to consumers / rate payers informing them about Income and Expenditure of Municipalities and their responsibility to pay.
3. Motivating consumers to pay and thanking those who are paying promptly.
4. Newsletters will also be initiated to communicate with our clients and thereby improving the image of the municipality.
5. Projects and other achievements will also be communicated to the public.

### **6.1.12 COMMUNICATION STRATEGY**

The strategy must be incorporated into the municipalities existing communication programme with its stakeholders. This strategy does not replace the existing communication methods and practices, but rather complements it.

## **Key stakeholders and the ways of communication**

### **(a) Consumers**

- Information about the credit control, debt collection and indigent support programmes

- Information regarding the importance of paying services
- Information regarding actions to be instituted against non-payment and defaulting clients
- Information of consumer complaints and feedback from public on how to improve services and client relationships.

### **Communication Channels**

- Local media, where on a fortnightly basis an article is published in the local newspapers.
- Newsletters and flyers are circulated before collection drive start to encourage consumers to come in and make arrangements / pay their accounts.
- Monthly notice that can be printed on the municipal account with different messages and social media initiative (Facebook etc.).

### **b) GOVERNMENT**

- Informing on outstanding government debt.
- Information on disputes on ownership of land / buildings and amounts.
- Information on staff employed in departments.

### **Communication Channels**

- Meetings with responsible officials and management to develop open communication channels.
- Sending accurate accounts to the right department and responsible official for payment.
- Presenting information and accounts in the required formats.
- Sending confirmation of payments received, and correct allocation / receipting. (Unallocated deposits, incorrect receipts, etc.)
- Placing an article in the newspaper about how government debt was resolved, and the support received from the relevant department.

### **(e) BUSINESS**

- Meeting with Business fraternity to brief them and obtain buy in Newsletters, flyers, for possible advertisement
- Monthly accounts to be reviewed to make provision for adverts and marketing by local and national business.

- Attendance of monthly business chamber meetings.

### **6.1.13 Resources in debt Collection**

New and improved technology and streamlined processes needs to be introduced. Various software packages are available to make the management of debt more effective and cost efficient. Where no in house capacity exists and where it is more cost effective to outsource, such options should be considered.

### **5.1.14 Debt Collection Unit (DCU)**

- Staff members should be appointed to focus on business, residential and government debt.
- The staff members must dedicate their time and energy only on the allocated accounts, build the necessary relations with the respective debtors and ensure that the debts are recovered in the shortest possible time.
- Other staff members should be allocated a portfolio or group account.
- The DCU must perform debt collection tasks only and not be burdened with accounting and administrative tasks.
- Their focus from 8 am to 4 pm should be to contact the debtor, get him / her to arrange or to pay the outstanding account. They should not only use the traditional collection tools, but also employ methods such as phone, fax, e- mail, SMS, registered mail, notices, personal visits, newspaper articles to create awareness, notices at schools, churches, businesses, etc.
- The unit must manage arrangements and extensions, but no arrangements must be allowed on current accounts, which must be paid monthly.
- Prepare notices to debtors notifying them of intention to blacklist them with the credit bureaus. Prepare the summons and hand over the accounts to attorneys and debt collectors, where internal collection efforts have failed.
- The staff in the unit must be performance driven and clear collection targets must be set for each staff member. A project manager to be identified /appointed in the unit to drive the programme, prepare targets, produce management reports and liaises with other units and departments.

### **5.1.15 List of outstanding debt per ward to be provided to the Speaker**

This information will be disseminated to the Ward Councillors who will then hopefully convey this information to their respective constituents. This information must also be submitted to the Finance Committee Meeting in the hope of creating a little competition amongst the Councillors.

### **5.1.16 Physical field audit**

Field audit becomes necessary if desk research is not able to resolve irregular accounts. It must be carefully planned. The following must be included on the questionnaire.

- Customers correct name,
- postal address and physical address
- Correct erf number
- Classification of debtor
- Ward allocation
- Indigent status

### **5.1.17 Other mechanisms**

- Implementation of deductions from both officials and councillors who owe rates and services (Corporate services)
- Development of outdoor policy and attract investors for billboards and/or signage erections (Corporate Services)
- Appointment of a service provider to verify all data on our systems. (Finance)
- Regular handing over of debtors older than 90 days. (Finance)

## **7.Conclusion**

The revenue enhancement strategy will be revised annually and adopted by Council. The strategy will need to be facilitated to relevant municipal officials accordingly before implementation. Monthly progress report on the implementation will be sent to the Council committee and quarterly report to Council.