# BARRIERS TO REVENUE COLLECTION AFFECTING MUNICIPAL FINANCIAL VIABILITY: A CASE OF MARULENG LOCAL MUNICIPALITY

By

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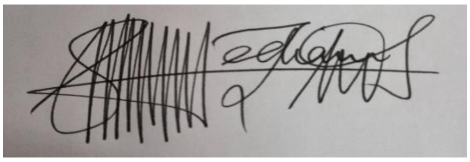
## Declaration

I, **Fediam Nkuna (4681-778-6)**, declare that **BARRIERS TO REVENUE COLLECTION AFFECTING MUNICIPAL FINANCIAL VIABILITY: A CASE OF MARULENG LOCAL MUNICIPALITY** is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

I further declare that I submitted the thesis/dissertation to originality checking software and that it falls within the accepted requirements for originality.

I further declare that I have not previously submitted this work, or part of it, for examination at Unisa for another qualification or at any other higher education institution.



23 November 2021

Signature Date

## Dedication

I dedicate this thesis to my late beloved mother, Mamayila Elisa Nkuna (31/08/1952 – 27/08/2021), who has been my pillar of strength. She taught me that education is the key to success and that I must always strive to erudition. Mom, this is for you. *“Moya wa n’wina a wu yi emahlweni wu wisa hi ku rhula”*.

I also dedicate this paper to my late sister, Tsakani Doris Nkuna (28/01/1973 – 20/04/2013). This is also for you, my Sister, and with this I am also saying: *“Moya wa n’wina a wu yi emahlweni wu wisa hi ku rhula”.*

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A special thankful recognition is presented to my uncle, Dr M.E. Nkuna, for your guidance and encouragement. You have certainly inspired me to work extremely hard and to always set the sky as the limit. Your contribution is treasured.

I extend my heartfelt appreciation to my entire family for your support during this scholarly voyage - you afforded me the required freedom and time, accompanied by your steadfast encouragement. I appreciate every single one of you.

I thank the Municipal Manager of Maruleng Local Municipality for allowing me access to the institution and its staff members for the purpose of this study. My warmest gratitude is presented to the municipal personnel, who became a second family: thank you for your willingness to furnish me with documents and attend the interviews, amid your hectic schedules.

Finally, I extend a special thanks to my diligent editor, Ms E. Bodenstein.

## Abstract

Local government, as the third sphere of South Africa's three-sphere system of governance, is tasked with the constitutional mandate to provide an array of services to its respective communities, via its municipalities. Towards execution of this mandate, the South African Constitution provides for an equitable share of the nationally collected government revenue to be distributed amongst the three spheres of government. In addition, conditional grants and subsidies are allocated to South African municipalities, to support the achievement of specific national and provincial objectives.

Further to the national revenue share and conditional grants, each municipality is afforded the authority to raise its own revenue via levies and taxes, to finance its service delivery and administration costs. Although such municipal revenue sources are legislated, most South African municipalities have been found wanting in the discharge of its constitutional mandate and a lack of financial resources has, inter alia, been cited as a primary cause of municipal failure.

The study aimed to investigate the obstacles contributing to the lack of municipal financial resources, with emphasis on inadequate revenue collection. The Maruleng Local Municipality, serving a portion of the Mopani district in the Limpopo province, is the case institution for the study.

Leaning on the theories of reasoned action (community perspective) and economic sustainability (municipal perspective), the study adopts a concurrent mixed methods research design. It includes an analysis of the municipality's financial records to determine the state of the municipality's financial affairs, followed by telephonic interviews with municipal officials (inductive analysis), and finally, a survey of ratepayers by means of questionnaires (factor analysis).

The study found the municipality to experience severe revenue collection challenges. The findings reveal poor service delivery, inadequate billing, metering challenges, lack of capacity, and poor implementation of policies, as factors contributing to inferior revenue collection and posing serious threats to a municipality's financial viability.

The study recommends that the municipality improve public participation to enhance service delivery and the billing of services. Additional recommendations include the

installation of smart water service meters, capacitation of the revenue management unit, and improvement of policy implementation such as the credit control policy.

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## Acronyms

| | |
|---|---|
| ASB | : Accounting Standards Board |
| CFO | : Chief Financial Officer |
| CLGF | : Commonwealth Local Government Forum |
| CPI | : Consumer Price Index |
| CSBAG | : Civil Society Budget Advocacy Group |
| DoRA | : Division of Revenue Act |
| DoT | : Department of Transport |
| EFT | : Electronic Funds Transfer |
| EPWP | : Expanded Public Works Programme |
| ES | : Equitable Shares |
| Eskom | : Electricity Supply Commission |
| FBS | : Free Basic Services |
| FMG | : Financial Management Grant |
| FRN | : Federal Republic of Nigeria |
| FFC | : Financial and Fiscal Commission |
| GDP | : Gross Domestic Products |
| GOZ | : Government of Zimbabwe |
| GRAP | : General Recognised Accounting Practice |
| IDP | : Integrated Development Plan |
| IEA | : Institute of Economic Affairs |
| ICTD | : International Centre for Tax and Development |
| IGC | : International Growth Centre |
| LPT | : Limpopo Provincial Treasury |
| MFMA | : Municipal Financial Management Act |
| MIG | : Municipal Infrastructure Grant |
| MLM | : Maruleng local municipality |
| MPRA | : Municipal Property Rates Act |
| MSA | : Municipal Systems Act |
| mSCOA | : Municipal Standard Charts of Accounts |
| OECD | : Organisation for Economic Co-operation and Development |

| | |
|---|---|
| PPE | : Property, Plant and Equipment |
| RES | : Revenue Enhancement Strategy |
| RK | : Republic of Kenya |
| RMU | : Revenue Management Unit |
| RSA | : Republic of South Africa |
| RU | : Republic of Uganda |
| SACC | : South African Chamber of Commerce |
| SADC | : Southern African Development Community |
| SALGA | : South African Local Government Association |
| SAPO | : South African Post Office |
| SEATINI | : Southern and Eastern Africa Trade Information and Negotiations Institute |
| SLA | : Service Level Agreement |
| Stats SA | : Statistics South Africa |
| USAID | : United States Agency for International Development |
| WB | : World Bank |

# Chapter 1: Introduction and background

## 1.1 Introduction

Local government is a key component of South Africa's three-sphere system of governance and is responsible for the delivery of basic services, including water, sanitation, electricity and refuse removal (Republic of South Africa (RSA) 2016c:12) via its executive institution, the municipality. Financial resources (national allocations, provincial allocations, and own-generated revenue) enable the local sphere of government to achieve its constitutional mandate (RSA 1996a). However, according to Pieters (2015:1), the concepts of municipal revenue collection and its budget allocation have globally attracted considerable attention in recent years, as many countries experience poor municipal service delivery owing to inadequate revenue to fund municipal budgets.

Despite the authority bestowed upon South African municipalities to collect and manage their own resources, most municipalities struggle to achieve their constitutionally obligated objectives (RSA 2011b; RSA 2016a:2). Struggling municipalities arouse the ire of communities that vent their frustrations through (often) violent service delivery protests (Municipal IQ 2018).

Figure 1.1 illustrates major annual service delivery protests (2004 – 30 June 2018) with evidence of its escalation. The figure indicates that by the end of June 2018, South Africa had already reached 83 per cent of the number of service delivery protests experienced during the entire previous year.

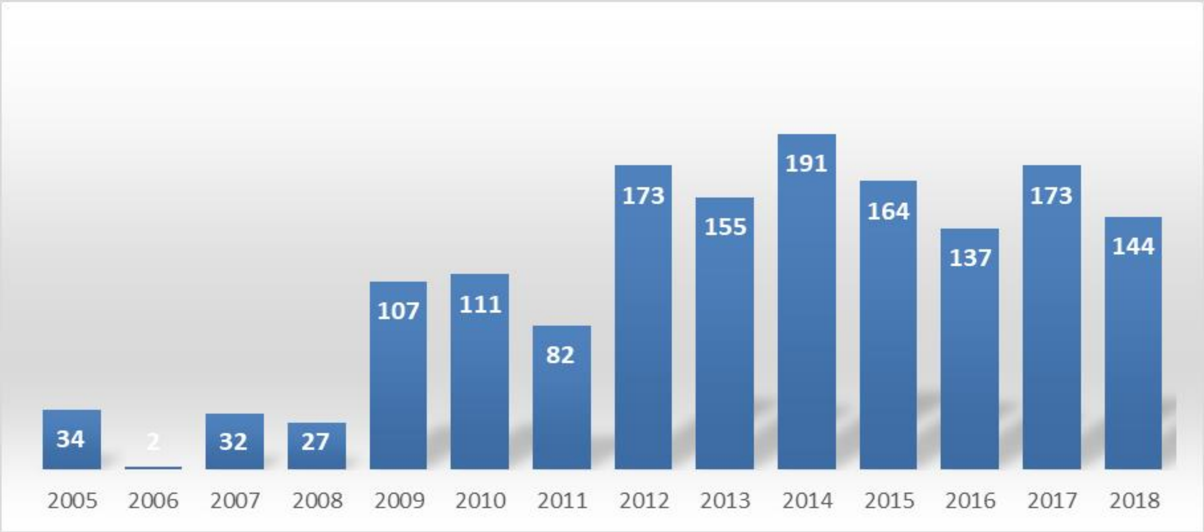


**Figure 1.1: Major Service Delivery Protests**

[*Source:* **Municipal IQ** 2018]

More than a decade ago, the Local Government Budget and Expenditure Review (RSA 2008:4) reported an increasing reliance by municipalities on monetary transfers from national government and given that local municipalities are limited in raising their own revenue, the rendering of effective service delivery is severely undermined. South African municipal woes frequently receive attention from researchers. In his study, Phatudi (2010:30) supported the 2008 Local Government Budget and Expenditure Review, reporting deficient billing and revenue collection as the cause of municipalities' increasing dependence on intergovernmental funding to balance their budgets. More recently, O'Neill (2016:9) and Tesselaar (2017:5) argued that failure by municipalities to collect outstanding revenue leads to insufficient funds to maintain existing infrastructure or to fund the capital cost of new infrastructure, resulting in poor service delivery.

As is the case with many other municipalities, Maruleng local municipality (MLM) faces revenue collection challenges. The municipality has seen its consumer debt growing by more than 142 per cent between the 2015/16 (MLM 2016) and 2017/18 (MLM 2018) financial years, with the debtors' book increasing from R32,5 million to R78,77 million. Revenue collection directly impacts any municipality's financial viability and its ability to provide sustainable services. De Lange (2017:20) noted that municipal debt has been increasing significantly every year, threatening the financial viability and sustainability of many municipalities, even though the Municipal Finance Management

Act's (MFMA) circular No. 89 (RSA 2017:7) requires municipalities to focus on collection of the revenue owed to it. Consequently, this study aims to add to the discourse on municipal resource deficiency by investigating factors adversely affecting revenue collection.

## 1.2 An Overview of Maruleng Local Municipality (MLM)

MLM is a category B municipality and one of five local municipalities seated in the Mopani District Municipality, Limpopo Province. Section 155(1)(b) of the Constitution (RSA 1996a) declares category B (local) municipalities as municipalities that share its executive and legislative authority with a category C (district) municipality, in this instance, the Mopani district municipality. MLM is demarcated into 14 wards and holds 28 ward councillors.

The town of Hoedspruit is considered the administrative and economic base of MLM. MLM is bordered by the Kruger National Park to the east, the Ba-Phalaborwa and greater Tzaneen municipalities to the north, the Lepelle-Nkumpi Municipality to the west, and the Tubatse and Bushbuckridge municipalities to the south. Figure 1.2 below shows the map of the Mopani district municipality and its five local municipalities.

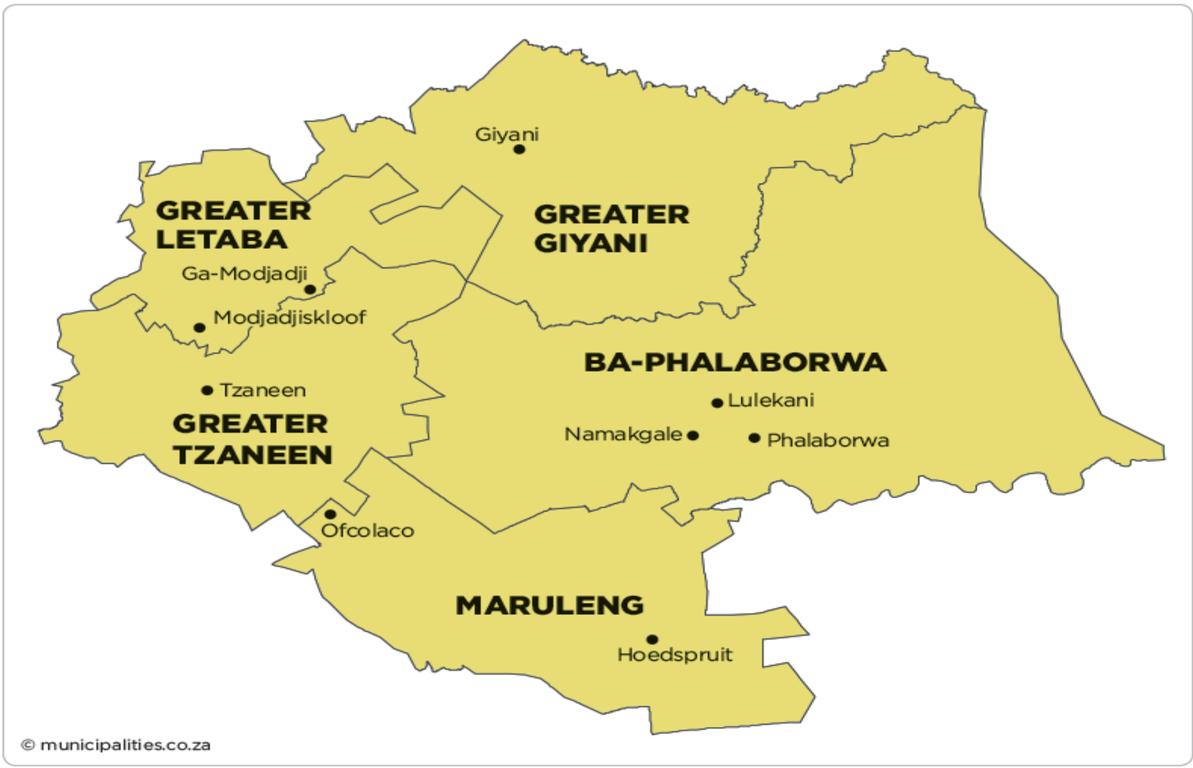


**Figure 1.2: Map of Mopani District Municipality**

[*Source:* **Municipalities of South Africa** 2019]

## 1.3 Preliminary Literature Review

Municipalities execute a crucial developmental function throughout the world, and a healthy local government financial status is vital to affect the improvement of community living standards (RSA 2016b:197). Phatudi (2010:11) pronounced that the deteriorating financial status of South African municipalities and continuous service delivery shortfalls have triggered the need for vigorous examination of local government finances and its financial management. Municipal issues must be resolved, as municipalities are at the heart of service delivery shortfalls and consequently bear the brunt of disgruntled communities' ire. Municipalities should be concerned, as the deplorable state of its financial affairs results in the inability to fund future development and manage operational costs.

Payment default by municipal consumers and ratepayers indicate that their financial obligation towards the municipality is not being honoured and, as such, it contributes to municipal failure in funding day-to-day operations (Tesselaar 2017:1). The dire situation is compounded by improper revenue collection mechanisms (Madumo 2015:163) and has been calamitous for some time, as rural municipalities have, for many years, been dependent on fund allocations from provincial and national governments to a point where, should the grants be withdrawn, most local municipalities would be rendered unsustainable (Kanyane 2011a:936).

While local government is expected to be largely self-sustainable (RSA 1998c), generating most of its income from own revenue collection, the ability to minimise consumer debt is critical (RSA 2015:86). Municipalities require a solid revenue base to be viable and sustain its ability to deliver services to individual households (Kanyane 2014:97).

To successfully collect revenue, municipalities need to ensure that its billing systems are accurate, that residents receive account statements, and that the collection of unpaid debts is executed correctly (RSA 2015). Mazibuko (2013) revealed government stakeholders' admission that inaccurate municipal statements of account are a reality. Flawed invoicing drains the purse of all municipalities, not only that of the smaller and less resourced municipalities (RSA 2011a:166). Ultimately, the billing function is the principal mechanism that drives all cash flow, and as the main source of ratepayers' information it is fundamental to the success of any municipality (Phatudi 2010:30).

Lubbe and Rossouw (2008) in their study on local authorities' debt, claimed that lack of political will presents another challenge to municipal revenue collection. They found that municipal councils approve revenue collection policies and then prevent management from implementing such policies against defaulters. The municipal council as the executive municipal authority (RSA 1998b) directly involved with the community, should be the vanguard concerning the implementation of debt collection policies and municipal by-laws. The council should also assist management with awareness campaigns, informing residents of their responsibility to pay for the municipal services rendered.

Apart from the municipal factors impacting municipal revenue collection, Kanyane (2014:97) noted residents' limited ability to pay for services as an impeding factor, affecting the nature and scope of municipal services delivered - not discounting the inherent culture of non-payment for services. Residents' inability or unwillingness to pay for services endangers most municipalities' ability to provide sustainable services, and ultimately their ability to remain operational for the foreseeable future. To exacerbate the situation, Khumalo and Ncube (2015:2) pointed out that South Africa is experiencing a triple challenge: poverty, inequality, and unemployment. The MFMA circular No. 89 (RSA 2017:7) confirms that the ability of municipal consumers to pay for services is declining - with simple foresight, it is thus expected that even less revenue may be collected by municipalities in the future.

The factors impeding optimum municipal revenue collection are inclined to be universal. In a study conducted by Mohamed (2017) in Somalia, Mogadishu local government wrestled with insufficient revenue owing to deficient methods of revenue collection and infringed sources of revenue. According to the research outcomes, lack of securities to collect revenue, lack of community awareness, and lack of taxable properties, were amongst the main revenue collection challenges faced by the local government studied. Thus, there are knowledge to be gained from international research on the matter (Section 2.4.2).

However, despite international and South African studies on municipal revenue collection challenges, not many concrete solutions to these challenges have been identified. Furthermore, legislation applicable to international settings may vary from South African municipal legislation and limit such studies' contribution to addressing South African challenges. Nevertheless, several solutions proposed by international researchers may be applicable and of value to this study.

Several studies have been conducted, *inter alia*, in respect of revenue collection, financial viability and revenue allocation, being challenges experienced by municipalities both locally and in the rest of Africa (Aliff 2014; Chauke 2016; Garaiza 2014; Kaongo 2015; Lubbe & Rossouw 2008; Mlangwa 2011; Musa & Ajibade 2016; Peyper 2016; Pieters 2015; Tesselaar 2017). Whereas few studies have dealt directly with revenue collection challenges (Garaiza 2014; Kanyane 2011b; Mavhungu 2011; Mlangwa 2011; Pieters 2015), even less have dealt with revenue collection challenges faced by rural municipalities similar to MLM (Kanyane 2011b; Mavhungu 2011; Pieters 2015). Most of the case studies conducted in South Africa focused on urban municipalities, whose challenges may be different to those of rural municipalities (Chauke 2016; Mazibuko 2013; O'Neill 2016). Hence, this study focused on revenue collection barriers in a rural municipality, to expand existing knowledge on the phenomenon. The theoretical framework of the study will be discussed next.

## 1.4 Theoretical Framework

Welman, Kruger and Mitchell (2005:12) define a theory as a group of logical, related statements that is presented as an explanation of a phenomenon. Theories assist us in organising our environment, in making sense of it, guiding us on how to behave in it and predicting what might happen next (Henning, Van Rensburg & Smit 2013:14).

From a municipal perspective, the study leaned on economic sustainability within the theory of sustainability. The “theory of sustainability” describes a form of economy and society that is lasting and can be inhabited on a global scale (Ekardt 2018). “Economic sustainability” is the ability to support a defined level of economic production indefinitely (Thwink n.d.). The study adopted the principles of financial viability and sustainability from this theoretical underpinning. Financial viability and sustainability are critical to the ongoing success of any organisation (Corporate Synergies Australia 2013). According to Walbrugh (2015:1) a viable municipality is one that holds a sound tax base, a viable economy, low dependence on grants and other transfers, and sound financial governance. Corporate Synergies Australia (2013:1) declared that viability is sustainable where continuity in planned, balanced inflows and outflows of funds, is reasonably achievable in the longer term (usually beyond five years) in changing conditions.

From the community’s perspective, this study will investigate the phenomenon of municipal revenue collection, leaning on the “theory of reasoned action” (TRA). This theory was formulated by Ajzen and Fishbein in 1980 and suggests that a person's behaviour is determined by their intention to perform the behaviour, and that this intention is, in turn, a function of their attitude toward the behaviour and their subjective norm (Trafimow 2009:501). Changing an attitude can thus change a behaviour.

Literature reveals that revenue collection challenges faced by South African municipalities may primarily result from ingrained behaviour by households (Mavhungu 2011). Households subscribing to a sense of entitlement regarding municipal services and a culture of non-payment, or residents who observe no punitive measures against defaulters, will fail, neglect or refuse to pay their municipal accounts. The opposite may be true if these behavioural patterns can be positively influenced, perhaps presenting a solution to rural municipalities' revenue collection woes - that may result in municipalities overcoming their sustainability concerns, enabling the rendering of quality municipal services in support of economic development.

## 1.5 Problem Statement

Municipalities are tasked to deliver services to communities in a fast and efficient manner, and to achieve this, financial resources are needed (Chauke 2016). There is a growing concern in respect of South African municipalities about poor revenue collection and lack of revenue generation (Peyper 2016). In addition, South Africa experiences violent municipal service delivery protests (Municipal IQ 2018), where residents are dissatisfied with poor or lack of service delivery from their municipalities or demand municipal services where new informal settlements have developed.

Based on the above, the research problem identified in this study relates to the barriers to revenue collection encountered by South African rural municipalities and its effect on financial viability, with specific reference to MLM. The problem statement is:

> *South African rural municipalities experience barriers to revenue collection owing to a variety of factors, compromising its financial viability and sustainability*.

## 1.6 Research Questions

The study's primary research question is formulated as follows:

- What are the barriers to revenue collection that affect the financial viability of MLM and how can it be resolved?

To address the primary research question, the following additional questions must be attended to:

- What is the role of municipal revenue with regard to the financial sustainability of MLM?
- What is the overall state of financial affairs of the MLM (financial viability)?
- How do the barriers to revenue collection impact the MLM's financial viability?
- What is the attitude of MLM residents towards paying for municipal services?

- What are the factors influencing the attitude of MLM residents towards paying for municipal services?

## 1.7 Objectives of the Study

The objective of the study is to investigate the barriers to revenue collection and its effect on the financial viability of MLM, and to propose potential solutions to resolve the barriers identified. These barriers were analysed, leaning on the theories of economic sustainability and reasoned action, respectively, to determine their effect in relation to municipal operations and service delivery activities. Based on the results of the study, possible strategies are suggested, which may offer much-needed solutions to revenue barriers faced by South African rural municipalities, where conditions are sufficiently similar.

The primary research objective is formulated as follows:

- To identify barriers to revenue collection and its effect on the financial viability of MLM, and to present possible solutions to remove such barriers.

The secondary research objectives are:

- To establish the role of municipal revenue with regard to MLM's sustainability;
- To establish the state of the debt owed to MLM by its residents;
- To determine MLM's state of financial affairs (financial viability);
- To determine the attitude of residents towards paying for municipal services;
- To investigate factors influencing the attitude of MLM residents towards paying for municipal services.

## 1.8 Thesis Statement

Municipalities may devise strategies to resolve its sustainability concerns by identifying and addressing factors resulting in the adverse behaviour by and attitude of residents towards paying for municipal services.

## 1.9 Delineation and Limitations

The primary limitation of the study is the focus on a single, rural, local municipality (MLM). Focusing on a selected geographical area could signify that the research results may not be representative of the rest of the country, however, the results may be transferable to a similar setting (Krueger 1998:69-70).

Another limitation was the use of convenience sampling to administer the questionnaire as data collection instrument. Whereas simple random sampling would have provided all ratepayers with an equal chance of selection, given the rural setting of the municipality, convenience sampling was considered the only viable option.

## 1.10 Definitions of Key Terms

**Basic municipal services**

Basic municipal services entail municipal services that is necessary to ensure an acceptable and reasonable quality of life and, if not provided, would endanger public health or safety or the environment (RSA 2000).

**Financial sustainability**

In relation to the provision of a municipal service, financial sustainability denotes 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 discharge the costs of the initial capital expenditure required for the service, operating the service, and maintaining, repairing and replacing the physical assets utilised in the provision of the service (RSA 2000).

**Financial viability**

Kanyane (2011a) defines financial viability as the availability and sustainability of revenue sources, that is underpinned by a three-pronged concept comprising availability, viability and revenue base.

**Local community or community**

In relation to a municipality, the local community or community signify that body of persons comprising the residents of the municipality, the ratepayers of the municipality, any civic organisation and non-governmental, private sector or labour organisations or bodies involved in local affairs within the municipal area, visitors, and other people residing outside the municipality who, owing to their presence in the municipal region, make use of services or facilities provided by the municipality, including the poor and other disadvantaged segments of such body of persons (RSA 2000).

**Municipal consumer debt**

Municipal consumer debt refers to the non-payment of property rates, fees/charges for services provided by the municipality (i.e., water, sanitation, electricity and refuse removal) and various other financial obligations to municipalities (i.e., traffic fines and rental accommodation payments) (RSA 2011a:155-169).

**Own revenue**

Own revenue may be described as a municipal revenue other than government grants and subsidies or donations, i.e., property rates, surcharges, and fees.

**Revenue**

Revenue is the gross inflow of economic benefits or service potential during the reporting period, when those inflows result in an increase in net assets - other than increases via contributions by owners (Accounting Standards Board 2010).

**Revenue management**

The MFMA circular 64 (RSA 2012:2) defines revenue management as an important and unchanging financial management function of the municipality's revenue generating business, that involves billing and collection activities in respect of services rendered and property rates levied.

**Sustainability**

Sustainability is the ability to meet service levels without compromising the ability to meet the same service levels in future or for the foreseeable future (World Commission on Environment and Development 1987).

## 1.11 Research Methodology

### 1.11.1 Introduction

A mixed methods approach was applied to address the research problem. Mixed method research is an approach to inquiry involving collecting both quantitative and qualitative data, integrating the two forms of data, and employing distinct designs that may entail different philosophical assumptions and theoretical frameworks (Creswell 2014; Dawadi, Shrestha & Giri 2021; Johnson & Christensen 2014; Pardede 2018; Piccioli 2019).

### 1.11.2 Research design

A research design is a plan according to which research participants are identified (subjects) and information is collected from the participants of a study (Kassu 2019; Welman *et al.* 2005:52). The researcher adopted a concurrent mixed method design to conduct the study, comprising the collection of qualitative and quantitative data, simultaneously or in a parallel manner, to provide a full analysis of the research problem (Bergman 2008; Creswell 2009, 2014; Dawadi *et al.* 2021:27; Neuman 2014).

### 1.11.3 Research instruments

A research instrument is anything that can be employed to collect data that is to be analysed (Editage 2020; Hofstee 2015:115). Document analysis (a qualitative data collection method), interviews (a qualitative data collection method) and questionnaires (a quantitative data collection method) were utilised as a means of gathering data. Participants to the research included municipal officials and residents of MLM.

### 1.11.4 Methodological considerations

#### *1.11.4.1 Interviews*

- *Credibility*

Credibility refers to the extent to which the data or the findings reflect the reality and lived experiences of the participants (Bertram & Christiansen 2014:202; Nassaji 2020:428). The researcher employed telephonic audio-recording when conducting interviews, to ensure that participant-responses were correctly captured.

- *Dependability*

Dependability is defined as the extent to which different researchers, not involved in the study, would make identical observations and arrive at the same conclusions concerning a phenomenon, when following the same research steps applied by the researcher (Bhattacherjee 2012:110; Mackey & Gass 2005:354; Nassaji 2020:428). Several scholars compare "dependability" in qualitative research to "reliability" in quantitative research as they both address issues of consistency in researchers' assessment of targeted variables (Kumar 2011; Lapan, Mackey & Gass 2005:354; Quartaroli & Riemer 2012:29). The results of this study were compared with the outcomes of similar previous studies and the researcher accounted for any apparent variations.

❖ *Conformability*

Conformability refers to the extent to which the researcher's analysis can be confirmed by someone else, either a different researcher or the reader (Bertram & Christiansen 2014:201; Hayashi, Abib & Hoppen 2019:98; Nassaji 2020:428). Billups (2014:4) emphasised the importance of conformability, in that it does not only generate confidence in the results but also in reflecting the truthfulness of the participant's perspective. The researcher strived for transparency when conducting the study and in structuring the interview questions.

❖ *Transferability*

This refers to the extent to which the outcomes of qualitative research can be generalised, should other samples be derived from the same population and the same study be conducted in respect of the new samples (Bertram & Christiansen 2014:209; Bhattacherjee 2012:111; Curry, Nembhard & Bradley 2009:1448; Kumar 2011; Lapan *et al.* 2012:29; Mackey & Gass 2005:368; Nassaji 2020:428). According to Bertram and Christiansen (2014), it is important that researchers are clear about the theoretical lens or perspective employed to interpret the data and that sufficient evidence exists to support such interpretation, with no unsubstantiated claims. Considering the aforementioned, this study's findings may be applicable to another setting with similar circumstances.

❖ *Authenticity*

Authenticity relates to the extent to which researchers exhibit a range of realities in a fair and faithful manner (Djurdja 2019:33; Lincoln & Guba 1985). It focuses on the contextual purpose of the research - identifying the intended value of the research

(Billups 2014:4). Authenticity was ensured by structuring interview questions to derive pertinent information that warrants achievement of the research objectives.

#### *1.11.4.2 Questionnaire*

- *Reliability*

Reliability denotes the extent to which the measurement process is free from errors and it specifically addresses the accuracy and consistency of the results (Bertram & Christiansen 2014:207; Lovely Professional University 2012:97; Nassaji 2020:428). McMillan and Schumacher (2010) asserted that to be considered "reliable", a measuring instrument should yield a certain result when the entity being measured has not changed. Reliability of this research was ensured by conducting a pilot run of the questionnaires prior to rolling out the questionnaires to the sampled respondents.

- *Validity*

This is the extent to which a research instrument measures what it is intended to measure (Kothari 2004:73; Leedy & Ormrod 2010:28; Nassaji 2020:428; Welman *et al.* 2005:142). In this study, validity was ensured by selecting relevant homeowners from the residents of MLM, to obtain their perceptions on issues pertaining to the phenomenon under investigation.

### 1.11.5 Data required

#### *1.11.5.1 Data for literature review*

With regard to the literature review, the researcher read and analysed data in the form of MFMA circulars, legislation, research articles, academic theses and dissertations, and published research reports.

#### *1.11.5.2 Qualitative data*

To achieve the research objective, secondary data was collected from the municipality. A document analysis was performed on the annual financial statements and the annual- and adjustment budgets of MLM. The document analysis informed the interview questions that formed the second phase of the qualitative research.

#### *1.11.5.3 Quantitative data*

The findings of the literature review and document analysis only partially informed the development of a quantitative questionnaire administered to MLM ratepayers, that focused more on their attitude towards paying for services - hence the concurrent mixed methods design.

### 1.11.6 Targeted population

A population is the study-object and consists of individuals, groups, organisations, human products and events, and the conditions to which they are exposed (Majid 2018:3; Shukla 2020; Welman *et al.* 2005:52). The participants to the interviews were purposively selected from a population of municipal employees, based on their position and experience related to the phenomenon under investigation. The targeted population for the questionnaire were 3172 ratepayers, comprising residents' households and businesses, based on MLM's detailed billing report (MLM 2020).

### 1.11.7 Data sampling

Convenience sampling was applied in the collection of data from heads of households and businesses residing and operating in MLM. In convenience sampling, a researcher selects respondents who are easy to find or readily available (Bergman 2008; Creswell 2009, 2014; Johnson, Adkins & Chauvin 2020:141; Neuman 2014). This researcher allotted a time period of two months to data collection and data was collected both during the day and in the evening, ensuring a fair representation of businesses that operate during the day, unemployed ratepayers, and employed ratepayers that arrive home in the evening. Fieldwork continued until a large enough number of participants was obtained to support inferential statistical analysis.

### 1.11.8 Data analysis

#### *1.11.8.1 Analysis of qualitative data*

Document analysis was applied to analyse data collected in the form of documents, including the municipality's annual financial statements and annual- and adjustment budgets, to determine different trends and the state of its financial affairs. The researcher employed ratios and pie-charts to present and interpret the data. The data from interviews was analysed via inductive analysis (Bonner, Tuckerman, Kaufman, Costa, Durrheim, Trevena, Thomas & Danchin 2021; Merriam 2009), in order to allow findings to emerge from the themes, as suggested by Maree (2013) and Xu and Zammit (2020).

#### *1.11.8.2 Analysis of quantitative data*

Questionnaire data was analysed statistically, applying factor analysis. This is one of the most popular techniques for quantitative data analysis and seeks to reduce a large set of measured variables to moderately limited sets, known as factors (Kothari 2004:321-322).

## 1.12 Ethical Considerations

- **Documents**

The researcher obtained approval from the municipality to undertake the research, as sensitive documents had to be obtained and analysed. The municipality was assured that the information would be utilised solely for the purpose of this study and handled with the utmost discretion.

- **Human participants**

The participants of this study were protected from any form of harm that may be caused by their participation in the study. The nature and objectives of the study were explained, they were informed that their participation in the study was voluntary and that they may withdraw from participation whenever they wished to do so. The researcher also assured the participants that their privacy will not be invaded in any way during the course of the study. Assurance was also provided regarding their personal information being handled with utmost confidentiality and anonymity. To ensure anonymity, the participants' identifying personal details were not requested in the questionnaires and interview documents.

- **Other information**

All literature sources are properly acknowledged and paraphrased to avoid plagiarism, supported by a complete list of references following the conclusion of this report.

- **Ethics clearance by UNISA**

The researcher applied for research ethics clearance from UNISA and approval was granted to conduct the study (refer to annexure 2).

## 1.13 Significance of the Study

The study may assist MLM and other rural municipalities in South Africa by offering possible solutions to their revenue collection challenges. This topic is also relevant, considering the number of South African municipalities besieged by the ever-growing service demands from its communities.

## 1.14 Chapter Review

**Chapter 1: Introduction and background**

This chapter provides the background to the study and contextualises the case institution. It presents the study's theoretical lens, problem statement, research objectives and data collection methods.

**Chapter 2: Literature review - International perspective on municipal financial sustainability**

This chapter reflects on the factors affecting revenue collection in municipalities on the African continent. The extent to which such factors affect municipal financial viability and sustainability are considered with regard to its educational value to the South African context.

**Chapter 3: Literature review - South African perspective on municipal financial sustainability**

This chapter reflects on the legislative framework governing South African municipalities in relation to their operations and revenue management. A review of factors affecting revenue collection is conducted, together with the effect of these factors on the financial viability and sustainability of South African municipalities. A comparison of the factors affecting African municipalities discussed in chapter 2 and those discussed in chapter 3 is executed to determine common factors affecting municipal revenue collection within the entire African continent. Erudition from the African literature review is incorporated in the study via recommendations.

**Chapter 4: Research design and methodology**

This chapter explains the research design and methodology followed to achieve the research objectives. The research methods and data collection methods applied in this study are discussed in more detail.

**Chapter 5: State of financial affairs of the municipality**

This chapter discusses the state of the municipality's financial affairs, with regard to debt collection and other financial matters. Financial ratios and pie charts are employed to present the municipal state of financial affairs and to determine its financial viability. The document analysis presents phase one of the study and the results were utilised to inform phase two of the study (interviews).

**Chapter 6: Presentation, analysis and interpretation of interview findings and questionnaire results**

Data collected via interviews and questionnaires is presented, analysed and interpreted in this chapter.

**Chapter 7: Recommendations and conclusion**

This chapter concludes the study in terms of contemplating its achievement of the research objectives. Recommendations, which may assist in addressing the outcomes of the study, are provided.

## 1.15 Chapter Summary

This chapter furnishes the overall background of the study, *inter alia* addressing the problem statement, aim of the study, research questions, ethical considerations, and the significance of the study. It includes the research methodology applied in the study. The next chapter focuses on the review of existing research outcomes in relation to this study's problem statement, with regard to municipalities in certain African countries. The reported factors affecting the financial viability and sustainability of these African municipalities are considered and lessons that may be learnt by South Africa, are derived from the analysis.

# Chapter 2: Literature Review – An African Perspective on Municipal Financial Sustainability

## 2.1 Introduction

Chapter 1 illuminated the background of the study, the problem statement and theoretical framework. It also reviewed the primary and secondary research objectives, ethical considerations, and the significance of the study. This chapter provides an international perspective on the municipal financial sustainability of selected African municipalities. The literature study focuses on research knowledge across the African continent, regarded as most relevant with regard to the setting in South Africa.

Scholarly study reports and research articles concerning various municipalities set in the Southern African Development Community (SADC) (namely Zimbabwe and Tanzania) and non-SADC countries (namely Ghana, Nigeria, Kenya, and Uganda) were perused, considered and analysed. The research findings from the different studies as well as the sustainability of these municipalities are compared and discussed in this chapter, to determine its educational value with regard to the South African environment.

## 2.2 Local Government in Africa (non-SADC Countries)

### 2.2.1 Local government in Ghana

#### *2.2.1.1 Background*

Ghana is a constitutional republic with two spheres of government: national and local. Local government is preserved by the Constitution (Republic of Ghana 1996) and the Local Government Act, Act 462 of 1993 (Republic of Ghana 1993) is the main statute regulating the local government sphere. Ghanaian municipalities are referred to as "assemblies", comprising six metropolitan-, 56 municipal- and 154 district assemblies.

#### *2.2.1.2 Sources of municipal revenue*

The local government is funded by locally generated revenues and grants by the central government.

❖ *Locally generated revenue*

Assemblies are authorised to raise internal revenue, in order to finance a number of the development activities within their assigned area. Such internal revenue include rates and fees; rents, fines and licences, investments and income from commercial activities; and loans.

❖ *Government grants and subsidies*

There are various funding support of local government by national government, i.e., grants-in-aid, specialised funding resources (e.g., timber royalties), funds furnished by development partners, and the District Assemblies' Common Fund.

#### *2.2.1.3 Challenges faced by municipalities in Ghana*

❖ *Poor service delivery*

Ratepayers are refusing the payment of municipal services, owing to poor service delivery (Aboagye 2014; Akorsu 2015; Asare 2015; Ayitey, Kuusaana & Kidido 2013; Boamah 2013; Kuusaana 2015; Kwarteng 2015; Opoku, Kyeremeh & Odoom 2014; Scott 2018). Yahaya (2015:1) asseverated that lack of financial resources was one of the major factors affecting municipal service provision in Ghana. Boamah (2013:87) argued that there is no justification for a municipality to demand payment of services while it renders deficient service. As a result, most Ghanaian residents believe that they need not pay municipal rates and taxes as they receive no facilitated benefits in return (Akorsu 2015; Kwarteng 2015).

Kuusaana (2015:204) supposed that population growth may be one of the factors exacerbating poor municipal service delivery in the country. According to him, the population growth in cities and towns have been overwhelming municipal capacities, that already experience budget constraints impeding the provision of quality services - hence the reported cases of poor service delivery. Consequently, it is held that urbanisation and population growth are additional factors contributing to inadequate municipal service delivery.

- *Property rates related challenges*

Property rates are considered a major source of income for local assemblies; however, its collection is said to be a major challenge for these municipalities (Abdulai, Tundyiridam & Alhassan 2016; Adu-Gyamfi 2014; Ankamah & Yao 2013; Ayamga, Perprem & Atampugre 2018; International Growth Centre [IGC] 2018; Kwarteng 2015; Petio 2013). Different studies discovered that inadequate property tax collection may be attributed to poor property tax administration – a process that is considered to be a challenge, not only in Ghana but throughout most developing countries (Abdulai *et al.* 2016; Biitir & Assiamah 2015; Boamah 2013; Kuusaana 2015; Scott 2018). Kuusaana (2015) and Tahiru, Agbesi and Osei-Owusu (2014) claimed that most municipalities in developing countries exhibited incomplete and inaccurate property tax registers. While this may be the case, Biitir and Assiamah (2015:226-229) also believe that the ability of municipalities to collect property taxes is highly depended on its capability to perform accurate valuation of properties and proper consumer classification.

Other studies associate defective property tax administration with the inaccurate valuation of properties, owing to a lack of training, an inadequate number of property valuers and flawed property valuation methodologies (IGC 2018; Kuusaana 2015;). Petio (2013:87) claimed that the quandary of the insufficient number of Ghanaian property valuers was compounded by the closure of the Valuation Training School in Accra. As a result, the International Growth Centre (IGC) (2018:13) asserted that the Land Commission's Land Valuation division was, at the time, the only institution in Ghana conducting property valuation for property taxation purposes and this created severe constraints to the property valuation and taxation process, in view of the great number of municipalities in the country. By law, the Land Valuation division performs the valuation of properties free of charge to municipalities and Petio (2013:84) held that it was experiencing financial challenges owing to a lack of funding by district assemblies and central government. Consequently, the Land Valuation division was failing to assist municipalities and several municipalities had, therefore, resorted to demanding payment of fixed property rates, resulting in ratepayers believing that they are being fleeced and refusing to pay property taxes (Biitir & Assiamah 2015:228). To address these challenges, a system transformation may be required.

Poor data management is another factor supposed to be affecting property tax collection in Ghana (Aboagye 2014; Ayitey *et al.* 2013; Kuusaana 2015; Tahiru *et al.* 2014; Yahaya 2015). These studies discovered inadequate property ownership details recorded by the Land Commission, resulting in complications when the correct properties have to be identified for municipal collection of property taxes. Exacerbating the situation, were the discovery of a number of unauthorised buildings, constructed outside the boundaries of land parcels or in areas not demarcated for business or residential purposes - the inability to classify these structures were depriving the municipalities not only of property taxes, but also of permit fees.

The aforementioned challenges pose a serious risk to the municipalities' economic sustainability, as property tax is one of the major sources of municipal own revenue. Ghanaian municipalities need to address these challenges, assisted by central government, to afford full advantage to the municipal collection of this source of revenue.

❖ *Revenue collection policy challenges*

Inadequate enforcement of revenue collection policies and by-laws is another factor deemed to be negatively affecting municipal revenue collection (Abdulai *et al.* 2016; Aboagye 2014; Adu-Gyamfi 2014; Akorsu 2015; Asare 2015; Kuusaana 2015; Kwarteng 2015; Petio 2013). According to Asare (2015), most municipalities fail to distribute invoice demand notices timeously - detrimentally affecting revenue collection. Kwarteng (2015) revealed the outdated revenue collection methods employed by the Suaman district assembly to be utterly ineffective.

❖ *Lack of proper technology*

The lack of automated systems to administer the revenue collection process is considered to have a negative effect on municipal revenue collection (Aboagye 2014; Asare 2015; IGC 2018; Tahiru *et al.* 2014). According to Aboagye (2014), Ghanaian revenue collection processes were profoundly dependent on manual procedures. Tahiru *et al.* (2014) asserted that manual revenue collection procedures lack controls that can detect instances of underpayments, payment failures and the incorrect billing of municipal services, resulting in a negative impact on revenue collection.

❖ *Staff shortage*

A shortage of revenue collection staff affects municipal revenue collection in Ghana (Abdulai *et al.* 2016; Akorsu 2015; Boamah 2013; Kuusaana 2015; Kwarteng 2015;

Petio 2013). Asare (2015) claimed that several Ghanaian municipalities possessed inadequate professional capacity and a number of its revenue collectors lacked knowledge of revenue collection techniques, and effective communication- and inter-personal skills, rendering revenue collection essentially impossible.

Kuusaana (2015:217) imparted that most of the revenue collectors of the Wa municipal assembly, comprising high school graduates or university students, were appointed on a temporary basis and supervised by a small number of permanent staff members. Nearly all of these temporary employees stood accused of issuing fake receipts and pocketing rates collections, while others were allegedly collecting bribes from residents. The situation might have been exacerbated by the low salaries and limited incentives earned by the majority of revenue collectors (; Asare 2015; Kuusaana 2015) resulting in a number of the staff resigning to pursue better paying positions elsewhere, thereby further incapacitating municipalities (Arthur 2016:461).

- *Lack of awareness by ratepayers*

Many studies contended that a lack of taxpayers' awareness affected revenue collection in Ghana (Aboagye 2014; Adu-Gyamfi 2014; Akorsu 2015; Arthur 2016; Asare 2015; Ayamga *et al.* 2018; Kuusaana 2015; Kwarteng 2015; Opoku *et al.* 2014; Petio 2013; Yahaya 2015). Arthur (2016) asserted that most Ghanaian communities were illiterate, hence their lack of awareness concerning the importance of paying for municipal services and their disinterest in attending municipal public participation activities.

Other studies showed that certain communities simply displayed a negative attitude towards paying for municipal services, as opposed to a lack of awareness (Ayamga *et al.* 2018; IGC 2018). Adu-Gyamfi (2014:117) asseverated revenue collectors' belief that tax education is vital to effective revenue collection, claiming that such education will motivate communities to pay for municipal services and that the public should also be educated on the general operations of municipalities. The IGC (2018:339) declared awareness campaigns an institutional responsibility and that each stakeholder should perform their own tasks.

- *Political interference*

Political interference negatively impacts municipal revenue collection in Ghana (Ayitey *et al.* 2013; IGC 2018; Kuusaana 2015; Kwarteng 2015; Opoku *et al.* 2014; Petio 2013; Yahaya 2015). Kuusaana (2015:219) claimed that property rates are politically sensitive as it concerns both voters and politicians. As such, any system of revenue collection and increment of municipal rates and taxes are shunned by politicians not wishing to impede their election or re-election to municipal councils, rendering the majority of politicians habitually reluctant to support any form of enforcement with regard to municipal revenue collection policies and by-laws.

To address the challenge of political influence, Kuusaana (2015) proclaimed that any form of revenue collection should be politically acceptable, as that was the only way that taxation may be sustainable in the long run. As a result, one may argue that endorsement of all methods of internal revenue collection must be obtained from political stakeholders, prior to its implementation.

#### *2.2.1.4 Financial viability of municipalities in Ghana*

The Constitution of Ghana establishes a system of local government and administration and decrees that each local government unit should possess a sound financial base with adequate and reliable sources of revenue to fund its operations (Republic of Ghana 1996). These operations comprise local governments' achievement of its mandates concerning the provision of basic education, public health care, environmental protection, and sanitation (Commonwealth Local Government Forum [CLGF] 2017). Consequently, municipalities need to maximise collection from all sources of revenue afforded by the Constitution, enabling municipal financial viability and sustainability, and sustained service delivery.

Awunyo-Vitor, Osae and Donani (2015:191) stated that the amount of grants receivable from the central government depends on the amount of revenue collected by municipalities, internally, via property rates, taxes and charges. This is said to be a mechanism to encourage municipalities to improve their collection of own revenue, however, in the circumstance of inferior municipal revenue collection this system is proving to cripple municipalities' financial viability. Furthermore, in view of this system, one would expect politicians to support municipal revenue collection in order to increase their municipalities' grants allocations, nevertheless, it is not the case.

### 2.2.2 Local government in Nigeria

#### *2.2.2.1 Background*

Nigeria is a federal country with a three-tier subnational government system that comprises 36 states, one federal capital territory and 774 local governments (Organisation for Economic Co-operation and Development [OECD] 2016).

#### *2.2.2.2 Sources of municipal revenue*

❖ *Locally generated revenue*

Federal and state governments are responsible for raising and collecting taxes. Local governments collect certain local taxes, such as those for haulage, hawking and markets, as well as motor vehicle- and commercial drivers' licensing levies.

❖ *Government grants and subsidies*

Section 162 of the Constitution provides for the funding of local councils by the Federation Account, managed by the State Joint Local Government Account (Federal Republic of Nigeria [FRN] 1999).

#### *2.2.2.3 Challenges faced by municipalities in Nigeria*

❖ *Poor service delivery*

Several studies revealed that poor service delivery encourages Nigerian communities' disinclination to pay for municipal services (Abdulhamid & Chima 2015; Adeyemi 2013; Adi, Magaji & Eche 2015; Amin, Ambali & Shittu 2018; Egberi & Madubueze 2014; Jooji 2018). Oriakhi (2013:52) argued that the provision of quality municipal services is negatively impacted by inadequate financial resources, as most municipalities are not financially sustainable. Accordingly, Amin *et al.* (2018:13) opined that poor service delivery will affect revenue collection, as the two are interrelated, and consequently, should communities not receive quality municipal services, the revenue collection rate will continue to plummet, as more communities become disinterested in observing payments. Owing to the lack of financial resources, Adeyemi (2013:86) claimed that the failure of municipalities to serve its communities has reached extreme levels in Nigeria, resulting in communities' distrust of their respective municipalities.

❖ *Poverty and unemployment*

A good number of the communities served by Nigerian municipalities are rural and subject to poverty and unemployment, rendering the residents incapable of paying for municipal services (Coker, Eteng, Agishi & Adie 2015:84). According to Usman (2014) most of such residents are poor and unemployed as they are seasonally employed farm workers. Jooji (2018) claimed that the failure to deliver quality municipal services was the reason these Nigerian communities are living in poverty, even now lacking basic necessities i.e., food, shelter, water and education. Poverty and poor municipal services are thus interrelated – the one drives the other and *vice versa*.

- *Lack of awareness by ratepayers*

Several studies disclosed that communities' lack of awareness and negative attitude towards paying municipal rates and taxes negatively impact municipal revenue collection (Amin *et al.* 2018; Muhammad & Ishiaku 2013; Murana 2015; Otu & Anam 2019; Usman 2014). Otu and Anam (2019) maintained that high levels of illiteracy was one of the factors affecting lack of awareness in municipalities, as most of the rural community members were not educated. They further declared that municipalities were not executing their role in educating communities concerning the importance of municipal revenue, hence communities were insensitive towards and ignorant regarding the payment of rates and taxes.

Muhammad and Ishiaku (2013:15287) opined that communities simply possess negative attitudes towards municipal rates and taxes, as they demand quality services on the one hand, while on the other refusing to pay for such services, claiming that they do not understand what the rates and taxes are used for. They proposed that municipalities practice transparency and accountability in respect of municipal revenue collection and expenditure, to address the challenges of negative attitude and ignorance.

To deal with the issues of ratepayers' lack of awareness and negative attitude, municipalities must educate ratepayers about its mandates and the funding of such mandates. Ratepayers must be compelled to understand their role in assisting municipalities to fulfil its mandate of service provision, by paying their municipal accounts in order to ensure the sustainability of the municipal service facility.

- *Staff shortage and lack of equipment*

Lack of human capital and equipment relating to revenue collection, aggravate inferior revenue collection by Nigerian municipalities (Abdulhamid & Chima 2015; Adi *et al.* 2015; Amin *et al.* 2018; Coker *et al.* 2015; Muhammad & Ishiaku 2013; Murana 2015; Otu & Anam 2019; Usman 2014). Amin *et al.* (2018) disclosed that municipality staff required vehicles to travel to remote revenue settings, and Usman (2014) revealed that a large number of revenue collectors were demotivated by low salaries and limited incentives, and as such, Adi *et al.* (2015:1) claimed that municipalities were experiencing challenges in retaining skilled personnel, as its employees are constantly seeking better remunerated employment.

❖ *Political interference*

Research has shown that political interference negatively impacts municipal revenue collection in Nigeria (Adi *et al.* 2015; Ibok 2014; Muhammad & Ishiaku 2013; Murana 2015; Musa & Ajibade 2016; Oriakhi 2013; Otu & Anam 2019; Uhunmwuangho & Aibieyi 2013). Muhammad and Ishiaku (2013) and Murana (2015) contended that the majority of municipalities possessed an adequate revenue base, however, lack of political will to enforce revenue collection mechanisms hindered the municipal collection of such revenue. Murana (2015:23) opined that politicians avoid encouraging the enforcement of revenue collection, as they do not want to be held accountable for the subsequent expenditure of rates and taxes so collected. Ibok (2014:540) claimed that most politicians politicised public policies to serve their own interest, hence policies were not adopted to deal with inferior municipal revenue collection. He declared that the election of politicians to municipal leadership, created an opportunity for incompetent individuals to be elected as leaders, with dire consequences to the sustainability of municipalities.

❖ *Corruption and embezzlement*

Corruption and embezzlement discourage communities from paying rates and taxes (Abdulhamid & Chima 2015; Amin *et al.* 2018; Coker *et al.* 2015; Egberi & Madubueze 2014; Ibok 2014; Jooji 2018; Murana 2015; Musa & Ajibade 2016; Oriakhi 2013; Otu & Anam 2019; Uhunmwuangho & Aibieyi 2013). Egberi and Madubueze (2014:99) claimed that corruption was accommodated, entertained, and celebrated within the Nigerian local government system, hence it had become an entrenched culture. Ibok (2014) supported this observation by Egberi and Madubueze. Ibok (2014:117) referred to corruption as a “multidimensional act” that featured predominantly in the mismanagement of funds in Nigeria. It was also found that a number of revenue collectors collected revenue and issued fake receipts, several did not issue receipts for funds collected, and others did not deposit funds collected to the municipal bank accounts, resulting in colossal revenue loss.

#### *2.2.2.4 Financial viability of municipalities in Nigeria*

The Fourth Schedule to the Constitution of Nigeria outlines the functions of municipalities, including, *inter alia*, the establishment and maintenance of cemeteries; the provision and maintenance of public conveniences, sewage and refuse disposal; the naming of roads and streets and the numbering of houses, and the construction and maintenance of roads, streets, streetlights, drains, other public highways, parks, gardens, open spaces or such public facilities (FRN 1999). These municipalities are required to be economically sustainable by holding adequate sources of revenue and by maximising the collection of such revenue, enabling it to execute its mandates.

In Nigeria, most resources are owned and managed by the federal government, and almost all states and local governments rely on allocations or shares from federal revenue (OECD 2016). This system appeared to be ineffective, as in several cases funds allocated to municipalities were paid belatedly or not at all, negatively impacting the viability of such municipalities. While this may be the case, Amin *et al.* (2018) in addition, asserted that allocation challenges negatively affected the municipalities, as the majority held limited revenue bases and were exclusively financially dependent on grants from the central government.

Based on the above discussion, it may be argued that Nigerian municipalities exhibit significant financial viability and sustainability concerns owing to limited revenue bases and revenue collection challenges. Should these challenges not be resolved without delay, Nigerian communities will perpetually be deprived of municipal services that form the foundation of their economic development.

### 2.2.3 Local government in Kenya

#### *2.2.3.1 Background*

Kenya is a democratic republic with two spheres of government i.e., national and county (municipalities). The Constitution of Kenya establishes 47 counties (OECD 2016).

#### *2.2.3.2 Sources of municipal revenue*

- *Locally generated revenue*

County governments are responsible for collecting taxes, user fees and charges. These include property and entertainment taxes, collected in collaboration with the Kenya Revenue Authority.

- *Government grants and subsidies*

Inter-government transfers include unconditional and conditional grants from the national government, the most important of these being the Local Authorities Transfer Fund and the Constituency Development Fund (OECD 2016). The Constitution provides that an equitable share of no less than 15 per cent of the nationally raised revenue should annually be transferred to the counties (Republic of Kenya [RK] 2010:122-123). This may signify that the remaining balance is to be funded by locally generated revenue.

#### *2.2.3.3 Challenges faced by municipalities in Kenya*

- *Poor service delivery*

Research showed that poor service delivery affected the willingness of ratepayers to pay for municipal services (Adenya & Muturi 2017; Institute of Economic Affairs [IEA] 2017; Maina 2013; Mwendwa 2013). The inability to deliver municipal services, it is argued, is exacerbated by a greater dependence on government transfers that are inadequate to cover service delivery needs (IEA 2017:7). Adenya and Muturi (2017) agreed that own-revenue collection assists municipalities in delivering quality services to its communities. According to Gituma (2017), it is within the capacity of municipalities to meet the service delivery needs of its communities, however, the only way to achieve this is to develop robust revenue collection mechanisms.

- *Qualified staff shortage*

Revenue collection staff are considered to play a key role in the revenue collection of municipalities (Peter, Ogada & Shibairo 2018) and municipalities should, furthermore, ensure implementation of effective internal control measures to prevent any leakage of collected revenue. Peter *et al.* (2018) asserted that revenue collection staff should be trained with regard to the different systems of revenue collection, revenue collection procedures and the fidelity of the systems, as it may benefit municipalities in the long run. They further expressed that municipalities should avoid a significant number of temporary or casual employees, as this practice could potentially compromise revenue collection procedures and systems.

In an Embu county study, Gituma (2017) learnt that the municipality's revenue collection staff possessed adequate basic education in order to effectively execute revenue collection activities. Apart from education, Gituma (2017:14) further claimed that the continuous development of revenue collection staff was crucial, potentially improving their individual-, team- and managerial performances.

- *Technology*

Technology is a vital factor in enhancing revenue collection by municipalities (Karimi, Maina & Kinyua 2017; Koskei, Cheruiyot & Naibei 2019; Madegwa, Makokha & Namusonge 2018; Otieno, Oginda, Obura, Aila, Ojera & Siringi 2013; Owino, Senaji & Ntara 2017; Peter *et al.* 2018). Koskei *et al.* (2019) declared that the adoption of technology is crucial for improving the efficiency and effectiveness of revenue mobilisation, as tax avoidance and evasions may be minimised, ensuring that municipalities meet their revenue targets.

In a study of Kisii municipality, Karori, Muturi and Abuga (2016) discovered that the use of a manual system contributed to the decline in revenue collection, as that system was prone to errors, resulting in billing disputes and creating opportunities for misappropriations of funds. Mwendwa (2013:55) affirmed that all revenue collection activities should be automated in a trusted system. Peter *et al.* (2018) concurred that municipalities should invest in information technology systems in order to eventually enhance their revenue collection, allowing for effective and operational internal control measures to ensure effective management of the revenue collected.

In the 2017-study of Kisii municipality by Karimi *et al.* (2017) and another conducted by Otieno *et al.* (2013) in Homa Bay municipality, it was found that the municipalities' revenue collection improved following the implementation of information technology systems, *inter alia* ensuring the timely collection of revenues, enhanced management integrity and improved records management.

- *Lack of awareness by ratepayers*

Kinoti and Kagiri (2016) asserted that public awareness plays a significant role in municipal revenue collection. Mwendwa (2013:54) held that most residents are not cognisant of the operations and administration of funds by municipalities, creating a distance between such municipalities and their communities. This appeared to be the case in Nairobi City county, where taxpayers' ignorance resulted in community members failing to pay for municipal services. Kinoti and Kagiri (2016:45) agreed that Nairobi City county residents were considered uninformed about the different taxes and administrative activities of the municipality. Furthermore, residents were not cognisant of payment procedures, scheduling and amounts payable, while they also failed to distinguish between local and national taxes.

Ngugi (2016:65) believed that public participation is a key element of any democratic government and could potentially improve revenue collection. He professed that public participation provided a platform for communities to be involved in the affairs of their municipalities and, if managed properly, could encourage voluntary tax compliance by such communities. Consequently, municipalities should strive to educate its ratepayers concerning the administrative operations of the municipality, in order to affect adjustment of their perceptions of municipal activities.

#### *2.2.3.4 Financial viability of municipalities in Kenya*

Several studies revealed that public revenue collection is integral to the sustainability of any government institution (Adenya & Muturi 2017; Henry 2018; Mathew 2014; Mugambi 2018; Ngotho & Kerongo 2014; Ngugi 2016; Owino *et al.* 2017). According to Karimi *et al.* (2017) and Madegwa *et al.* (2018), there was a need for Kenyan municipalities to collect more revenue to fund their increasing expenditures. Gituma (2017:xxi) emphasised the importance of revenue enhancement towards funding the needs of those communities considered to be exceeding the available financial resources.

Counties in Kenya held both exclusive and shared taxation (OECD 2016), authorised to locally raise and exclusively collect property- and entertainment taxes. However, taxation represents a limited resource for counties and the majority is centrally collected, denoting that county governments still rely heavily on intergovernmental transfers for funding. While this is the case, the minimum allocation of non-conditional grants of no less than 15 per cent of nationally raised revenue, as mentioned earlier, may be inadequate in rendering municipalities financially viable (Peter *et al.* 2018:3; RK 2010). In the worst case scenario - that is possible, taking into consideration Henry's (2018) position that revenue collection is not only a challenge at municipal level but also at national level - should municipalities only receive 15 per cent - and considering the different challenges encountered by these municipalities in collecting internally generated revenue - one may argue that the set minimum allocation of 15 per cent from central government may not be sufficient and will therefore contribute to the abysmal financial state of municipalities.

Kenyan municipalities do not hold adequate revenue bases to fund their expenditure demands (Gituma 2017). According to Henry (2018), a robust revenue base is crucial to the sustainability of decentralisation of government, as it ensures responsiveness to and prioritisation of community needs. Based on deficient revenue collection, limited allocations from central government and inadequate revenue bases, resulting in inferior service delivery, it may be argued that Kenyan municipalities experience difficulties to be financially viable and sustainable.

### 2.2.4 Local government in Uganda

#### *2.2.4.1 Background*

Uganda is a democratic republic with two spheres of government, i.e., national and local spheres (OECD 2016). The national government comprises 111 district councils and one city council, and the local sphere consist of 174 lower local government councils and 22 municipalities which are under the district and city council (OECD 2016). Urban settings comprise city, municipal, division/town, ward, and cell councils, while rural areas hold district councils, counties (which are administrative units without a council), sub-county councils, parish councils and village councils (CLGF 2017).

#### *2.2.4.2 Sources of municipal revenue*

❖ *Locally generated revenue*

Locally generated revenue includes property taxes, user charges and fees, parking fees, licenses and permits, fines, interest on investments, and rental of facilities. Locally raised revenue is, by law, shared between district councils (35%) and sub-county councils (65%). In the city and municipal councils, the divisions retain 50 per cent and remit the other 50 per cent to the higher local government.

❖ *Government grants and subsidies*

Grants and subsidies are of utmost importance to local government, as its main source of revenue (OECD 2016). These grants and subsidies primarily consist of locally raised revenue that is redistributed amongst all local government councils employing pre-set formulas, however, this system is said to be resulting in allocation challenges and possible political manipulation (OECD 2016).

#### *2.2.4.3 Challenges faced by municipalities in Uganda*

❖ *Poor service delivery*

Poor service delivery contributes to inferior revenue collection in Uganda (Civil Society Budget Advocacy Group [CSBAG] 2017; Kasendwa 2018; Mpaata, Lubogoyi & Okiria 2017; Southern and Eastern Africa Trade, Information and Negotiations Institute [SEATINI] 2014; Tagobya 2015). In a study conducted by the SEATINI (2014), it was found that the majority of residents were unwilling to pay for municipal services owing to appalling service delivery. Furthermore, the International Centre for Tax and Development [ICTD] (2019:3) declared it essential that municipalities link rates and taxes to its related services, in order to improve the inclination of communities to pay for services.

A 2017-study (SEATINI 2017) claimed that municipalities experiencing inadequate revenue collection would be unable to deliver quality services to its communities and this compromised the entire decentralisation of government process within countries. The improvement of revenue mobilisation is crucial to a functioning decentralisation process and will improve municipal service delivery accordingly.

❖ *Revenue collection practice challenges*

Deficient revenue collection mechanisms affect revenue collection in Uganda (CSBAG 2017; ICTD 2019; Mpaata *et al.* 2017; SEATINI 2014; SEATINI 2017). Owing to insufficient enforcement of revenue collection related policies, municipalities are said to be losing massive amounts of revenue (SEATINI 2017). The SEATINI (2017) discovered that activities such as revenue registers, assessments, issuing of invoices, and the actual collection of revenues were grossly mismanaged, compromising the entire municipal revenue collection process. Accordingly, the ICTD (2019:26) asserted that there was a need for municipalities to create specialised revenue collection units in order to maximise revenue collection.

The SEATINI (2014:25) claimed that the insufficient enforcement of revenue collection policies was due to the high cost associated with the collection of certain revenue types. They posited that every community held a high number of informal businesses and other exceedingly subsistence related activities, and the collection of revenue from these (often transient) businesses was proving to be incredibly costly - outweighing the amount of debt owed to such municipalities.

Municipalities are urged to tighten regulations on revenue collection to increase compliance by communities (Balunywa, Nangoli, Mugerwa, Teko & Mayoka 2014:35). Balunywa *et al.* (2014) contended that central government should ensure that local councils were empowered with sufficient and well-trained revenue collection- and enforcement officers to deal with community members who failed to honour their debts. They further asserted that the full enforcement of policies would compel communities to pay for their municipal services.

❖ *Qualified staff shortage*

Inadequate staffing is one of the factors obstructing local revenue collection by Ugandan municipalities (CSBAG 2017; SEATINI 2014; SEATINI 2017). According to the SEATINI (2014:25), inadequate staffing, comprising inadequately skilled staff, negative staff attitude and low staff morale, affected revenue collection activities by municipalities. The CSBAG (2017:19) asserted that an effective tax administration and adequate, skilled staffing, can potentially enable municipalities to enforce the law even in the presence of tax payment resistance.

❖ *Lack of awareness by ratepayers*

Research revealed that lack of awareness contributes to inadequate municipal revenue collection in Uganda (ICTD 2019; Kasendwa 2018; Mpaata *et al.* 2017; SEATINI 2014). The SEATINI (2014:24) claimed that some communities displayed a negative attitude towards paying for municipal services, resulting in a growing community resistance when it comes to payment of municipal accounts. According to the SEATINI (2014:36), community awareness in respect of municipal rates and taxes directly impacted the level of compliance with regard to its payment.

The CSBAG (2017) reported that several communities were cognisant of how municipalities operate and the importance of paying for its services, however, they were disgruntled, owing to insufficient municipal accountability regarding the expenditure of funds, and were thus evading payment - a situation that was exacerbated by the lack of municipal service delivery. The SEATINI (2017) concluded that municipalities should always strive to provide more information about the revenue collected and the expenditure thereof towards service provision. The SEATINI (2014) declared that communities who were informed in respect of revenue collection and how it was subsequently spent, would be in a better position to hold their municipalities accountable.

- *Political interference*

Political interference and lack of political will regarding the enforcement of revenue collection policies are negatively affecting municipal revenue collection (Kasendwa 2018; Mpaata *et al.* 2017; SEATINI 2014; SEATINI 2017). The SEATINI (2017) asserted that central government and several political leaders have expressed countless anti-municipal revenue collection views, undermining municipal efforts towards collecting revenue.

#### *2.2.4.4 Financial viability of municipalities in Uganda*

Section 191(1) of the Constitution of Uganda empowers municipalities to levy, charge, collect and appropriate fees and taxes in accordance with any law enacted by Parliament (Republic of Uganda [RU] 2006:148). While this is the case, Ugandan municipalities are reportedly facing financial challenges owing to the challenges discussed hereinabove. According to the SEATINI (2017), as much as 90 per cent of local municipalities' budgets were funded by central government grants, with approximately 10 per cent generated by own revenue. This is a sufficient reason to conclude that these municipalities are extremely dependent on grants and may as well "close shop" and abandon operations if central government was to cease the grant payments.

Even though these municipalities are so excessively reliant on the grants, not all municipalities even receive the scheduled grants from the central government (SEATINI 2014). Based on this, and the dismal state of municipal revenue collection reported by various studies, one may argue that Ugandan municipalities are not financially viable and sustainable, a situation that jeopardises the achievement of municipal mandates and its long-term survival.

## 2.3 Local Government in Africa (SADC Countries)

### 2.3.1 Local government in Zimbabwe

#### *2.3.1.1 Background*

Zimbabwe is a unitary country with two levels of sub-national governments comprising eight provinces, two metropolitan councils and 86 councils (OECD 2016). The Zimbabwean local government comprises 58 rural district councils, and 28 urban councils divided into six city councils, eight town councils, 10 municipal councils and four local boards (OECD 2016; Zhou & Chilunjika 2013:238). These municipalities are tasked with service delivery to local communities residing within their jurisdictional areas (Zhou & Chilunjika 2013:233).

#### *2.3.1.2 Sources of municipal revenue*

❖ *Locally generated revenue*

Charges, licenses and fees represent major sources of revenue for local authorities in Zimbabwe (OECD 2016). Zimbabwean municipalities are authorised to levy property rates on all properties within their jurisdiction, including land, residential and industrial constructions (Zhou & Chilunjika 2013:235).

❖ *Government grants and subsidies*

Municipalities also receive grants from the central government that are divided into unrestricted, block or general purposes, and categorised as tied- or specific grants (Zhou & Chilunjika 2013:237).

#### *2.3.1.3 Challenges faced by municipalities in Zimbabwe*

❖ *Poor service delivery*

Numerous studies found that communities are unwilling to pay for municipal services as they considered the services to be inadequate and inferior (Chanyau 2014; Dewa, Dziva & Mukwashi 2014; Garaiza 2014; ICTD 2018; Imedi 2016; Jonga 2014; Kucherera 2014; Mabika 2015; Moyo 2016; Mudyanadzo & Nzwatu 2018; Murimoga & Musingafi 2014; Onias, Manyani, Hove, Mabhungu, & Muza 2014; Tonhodzai, Nyikadzino & Nhema 2015; Wozhele 2017). Although communities are accusing municipalities of poor service delivery, municipalities are condemning the communities – citing the non-payment of services as the main reason for inadequate service provision (Government of Zimbabwe [GOZ] & World Bank [WB] 2017; Moyo 2016; Mabika 2015; Chanyau 2014). Tonhodzai *et al.* (2015:76) claimed that municipalities were failing to provide services owing to a lack of financial resources, with the major contributing factor being insufficient revenue collection. According to Wozhele (2017), there is a positive relationship between service delivery and the willingness of consumers to pay for municipal services – simply denoting that as service quality improves, so will the inclination of consumers to pay for services.

Moyo (2016:1) said that municipalities need a strong revenue base to effectively fund its mandate of service delivery. He further declared that, with the substandard rate of revenue collection, most municipalities will continue to experience difficulties with sustaining or improving the present level of service provision. Chigwata and de Visser (2018:5) agreed that successful municipal service delivery depended on the accessibility of adequate revenue that may be generated by the municipalities.

Though quality service delivery is important to public welfare, Imedi (2016:7) noted that it also created a conducive environment that attracted business opportunities, which will then create employment opportunities in the community. This demonstrates that service delivery is not only crucial to the communal quality of life but also to improvement of the entire country's economy.

- *Poverty and unemployment*

The elevated levels of poverty and unemployment in Zimbabwe affect the ability of ratepayers to pay for municipal services (Garaiza 2014; Kucherera 2014; Manyaka 2014; Moyo 2016; Mudyanadzo & Nzwatu 2018; Onias *et al.* 2014; Wozhele 2017). Accordingly, Onias *et al.* (2014:31) asserted that the level of income amongst taxpayers has a considerable impact on their ability to pay for municipal services.

Kucherera (2014:22) claimed that the ability of most municipalities to collect revenue is greatly affected by the indigence of the communities they serve. Furthermore, Moyo (2016:71) asserted that the Zimbabwean economy was not performing well, increasing the communities' inability to pay for municipal services as a great number of residents were unemployed owing to the shutdown of businesses.

- *Billing and invoicing challenges*

Incorrect billing, defective metering and belated invoicing are also considered to be affecting municipal revenue collection in Zimbabwe (Garaiza 2014; ICTD 2018; Moyo 2016; Mudyanadzo & Nzwatu 2018; Onias *et al.* 2014; Wozhele 2017). In a study conducted for the ICTD (2018), most of the revenue-related activities of Harare city council, such as water consumption reading and delivery of monthly invoices, were executed manually, causing incorrect and inaccurate billing and subsequently delaying revenue collection activities. Accordingly, monthly invoices by Harare city council were often delivered three months late or were delivered to incorrect addresses, owing to the substandard postal communication and failing infrastructure.

A similar study of Beitbridge town council (Wozhele 2017) showed that, apart from faulty billing and belated invoicing, nearly half of the water meters were defective and consumers were charged for an estimated water consumption. Several residents did not have access to water, however, they received account statements indicating active water consumption, igniting conflict between the municipality and the communities. Wozhele (2017:71) claimed that residents that were not receiving account statements were more likely to be complacent and not prioritise payments, as there was no constant reminder of amounts owing in the form of monthly statements.

Mudyanadzo and Nzwatu (2018:19) stated that the optimisation of invoicing was undermined by faulty billing, and in several instances certain residents were not invoiced, rendering those being invoiced reluctant to pay for the services. There were claims that, in several municipalities, residents and businesses occupying council-rented properties have not been charged since 2009 - the situation had also been reported on by the Auditor-General, however, the situation remained unchanged.

The ICTD (2018) maintained that accurate invoicing may encourage communities' willingness to pay for municipal services. With this said, municipalities are encouraged to strive towards accurate billing in order to alter the negative perception by ratepayers and increase such ratepayers' inclination to pay for services.

- *Property rates related challenges*

Although property taxation is considered to hold a solid potential for revenue mobilisation, nearly all Zimbabwean municipalities are experiencing challenges in collecting such taxes (ICTD 2018:6) including several exemptions and reliefs, valuation inconsistencies, the inability to update the valuation database, inaccurate land records and poor record keeping.

In relation to property rates, Zhou and Chilunjika (2013:233) asserted that a good number of municipalities were failing to tap its full advantages, owing to the absence of cadastre information, the lack of qualified property valuators, inaccurate valuations, and abysmal collection practices. Furthermore, the cost associated with the development of a proper valuation register is exorbitant and may be unaffordable for most municipalities.

❖ *Lack of equipment*

Lack of equipment relating to revenue collection has been cited by several studies as an impediment to revenue collection (Chanyau 2014; Kucherera 2014; Moyo 2016; Mudyanadzo & Nzwatu 2018; Onias *et al.* 2014; Wozhele 2017). The employees have also been demonstrated to lack motivation to collect revenue, owing to low salaries and insufficient incentives (Chanyau 2014; Garaiza 2014; Kucherera 2014; Moyo 2016; Mudyanadzo & Nzwatu 2018; Wozhele 2017). Garaiza (2014) found that lack of resources, such as transport to conduct revenue collection activities, also contributed to inadequate revenue collection by certain municipalities. Garaiza (2014:37) stated that the finance department of Bindura municipality did not have access to a motor vehicle to execute its functions - considering that a number of communities were located in remote areas, this complicated the municipality's efforts related to revenue collection. According to Kucherera (2014:24), other municipalities lacked offices that were adequately equipped with the necessary equipment, such as computers and cabinets for filing, to enhance proper revenue collection activities.

❖ *Poor revenue collection practices*

Deficient collection mechanisms contribute to the inadequate collection of revenue (Chanyau 2014; Garaiza 2014; ICTD 2018; Mudyanadzo & Nzwatu 2018; Onias *et al.* 2014; Wozhele 2017). Chiunye and Chikosha (2015:7) asserted that Bindura municipality did not possess sound debtors and creditors management policies and that was demonstrated to be a stumbling block, as numerous ratepayers were defaulting on payment of their municipal accounts with no consequences, since no policies and by-laws that govern non-payment of accounts had been implemented.

Kucherera (2014:22) contended that various municipalities boasted policies and by-laws to manage the non-payment of services, however, such policies were not strictly enforced owing to political interference perpetrated by municipal councillors.

The GOZ and WB (2017:1) report proclaimed that municipalities should develop proper policies, procedures and by-laws to address inadequate revenue collection - and ensure its proper implementation - to move towards more sustainable sources of revenue.

❖ *Corruption and embezzlement*

Studies have reported that corruption and embezzlement affect revenue collection by Zimbabwean municipalities (Dewa *et al.* 2014; Garaiza 2014; ICTD 2018; Imedi 2016; Kucherera 2014; Moyo 2016; Mudyanadzo & Nzwatu 2018; Murimoga & Musingafi 2014; Onias *et al.* 2014; Wozhele 2017). According to Garaiza (2014:45), the level of corruption and embezzlement of funds by council officials have damaged the image of municipalities in Zimbabwe and as a result, communities have lost trust in them.

Moyo (2016) claimed that the communities' perception of municipal corruption and embezzlement prompted the aversion to payment for services, as it was believed that the municipalities failed to account for revenue collected since the revenue was either purloined, or misappropriated. Mudyanadzo and Nzwatu (2018:10) declared that corruption in Zimbabwe had reached peak levels and was a major contributor, not only to inadequate revenue collection, but to inferior service delivery and community development.

❖ *Political interference*

Political interference impacts revenue management by municipalities (Chiunye & Chikosha 2015; Garaiza 2014; ICTD 2018; Imedi 2016; Kucherera 2014; Moyo 2016; Tonhodzai *et al.* 2014; Wozhele 2017). The ICTD (2018) asserted that politics play a massive role in enhancing effective revenue collection by municipalities, however, politicians constantly prevent municipal efforts to implement revenue collection activities. In a number of cases, councillors prevented the approval and subsequent implementation of policies and by-laws related to municipal revenue collection, as they were residents of the municipality and would likewise be bound by such policies, whilst they were allegedly not paying for the municipal services either (Wozhele 2017).

#### *2.3.1.4 Financial viability of municipalities in Zimbabwe*

Section 276(2)(b) of the amended Constitution of Zimbabwe authorises municipalities to levy rates and taxes, and they are expected to generate sufficient revenue to achieve their objectives and responsibilities (Zimbabwe 2013:117). Based on this legislated authorisation, it may be argued that Zimbabwean municipalities are expected to be self-financed.

Tonhodzai *et al.* (2015:76) observed that most Zimbabwean municipalities did not boast the necessary capacity to deliver services to their communities without assistance from the central government in the form of grants. Although municipalities were reliant on central government for funding, central government often did not possess the financial resources to fund the municipalities, exacerbating the municipalities' predicament.

Mudyanadzo and Nzwatu (2018:7) claimed that Zimbabwean municipalities were far from being financially viable, and from being efficient and effective councils that achieved its mandates regarding the provision of quality services at an affordable cost. The financial state of municipalities has been aggravated by inadequate revenue collection since non-payment of municipal services has been a common phenomenon across Zimbabwe.

Moyo (2016:71) declared that the floundering Zimbabwean economy affected communities' ability to pay their debts. Mudyanadzo and Nzwatu (2018:14) claimed that the central government of Zimbabwe also experienced budget constraints owing to the appalling economic conditions, hence it did not hold sufficient funds to support the municipalities, having had to suspend grants or select projects that may be funded by central- and local governments, respectively.

### 2.3.2 Local government in Tanzania

#### *2.3.2.1 Background*

The United Republic of Tanzania is a democratic unitary country with three spheres of government, i.e., central government, Zanzibar developed administration, and local government (OECD 2016). The local government of the country is enacted by the Constitution of the United Republic of Tanzania that decrees the establishment of local government throughout the country.

#### *2.3.2.2 Sources of municipal revenue*

- *Locally generated revenue*

Local authorities levy the taxes, fees and charges prescribed by the Local Government Finances Act. These include council property tax, tax on crop cession, tax on forest produce cession, guest house tax, and a service levy (OECD 2016). Other revenues for local authorities include fees for consumer services (parking, refuse collection, health facilities), administrative fees (market stalls, auctions, land surveys), license fees (business and professional licenses for commercial fishing, liquor), fines, permits (building permits), and property income.

❖ *Government grants and subsidies*

Central government transfers are the main source of revenue for local governments. Transfers to local authorities include those transfers assigned to the five national policy priority areas, i.e., education, healthcare, water, roads and agriculture, and public administration. These transfers fund recurrent expenditure, including salaries, and operating expenses - of which the costs are estimated via a formula.

#### *2.3.2.3 Challenges faced by municipalities Tanzania*

❖ *Poor service delivery*

Studies identified lack of or inferior quality services to be a major challenge affecting municipal revenue collection in Tanzania (Dedu 2015; Kaongo 2015; Kimario 2014; Latu 2014; Mbegu & Komba 2017; Mgema 2013; Mlangwa 2011; Mussa 2015; Muzanye 2013; Nkanyanga 2014; Raymond 2013; Rusigaliye 2015; Stephen 2014; Titus 2013). Rusigaliye (2015) asserted that revenue collection and service delivery were interrelated, suggesting that when service delivery is inadequate so will be the corresponding revenue collection - and the opposite is also true. Kimario (2014:20) concurred, advising municipalities to prioritise quality service delivery in order to motivate communities to pay rates and taxes.

According to Elibariki (2013:2), municipalities, battling to acquire adequate financial resources to fund its activities, are expected to keep abreast of the ever-increasing demand for quality services. Furthermore, the need for the development of most African cities is exacerbated by urbanisation, as nearly all inhabitants are relocating to bigger cities in search of greener pastures. Consequently, several urban municipalities charge rates that are considered not to be comparable to the services they render, since there are reported cases of defective drainage systems and deficient road facilities.

Kimario (2014:1,13) declared that the effectiveness of local government in providing quality services depended decidedly on the adequacy of own revenue collected by its municipalities. Accordingly, own revenue is not only crucial to the provision of quality services, but also to the overall operations of the municipalities and its ultimate viability and sustainability.

❖ *Property rates related challenges*

Despite its potential as one of the best municipal internal revenue sources, property taxation has been regarded as one of the most challenging to collect, across Tanzanian municipalities (Khalfan 2013:23). In his study, Khalfan (2013:23) reported the failure to separate between land and structure, the valuation of such properties, and the enforcement of such taxation, as among the major challenges faced by municipalities. Nuluva (2015) claimed that inadequate numbers of property valuers to prepare the valuation of properties posed a danger to the execution of property taxation. Furthermore, Dedu (2015:64) asserted that lack of funds to effect property valuation has also proved a challenge faced by municipalities in its quest to improve property valuation charting.

Nuluva (2015:22) asserted that Tanzanian property taxation was characterised by misclassification of properties, inappropriate tax assessment, and lack of accurate data relating to ownership of such properties. Furthermore, several municipalities employed different methods to determine the property tax base, and this proved problematic, as the methods appeared to be inconsistent owing to the lack of statutory rates for levying property taxation (Nuluva 2015:44).

❖ *Poor revenue collection practices*

Kimario (2014) and Nuluva (2015) suggested that the inability of municipalities to fully collect outstanding revenue may be owing to the lack of qualified personnel, resulting in deficient administration of municipal revenue collection-related activities. According to Nkanyanga (2014), nearly all of the rates charged by Tanzanian municipalities were extremely low and may be perceived to not be cost reflective.

Kimario (2014:57) also expressed that the formulation and implementation of revenue collection-related by-laws appeared to be another enormous challenge confronting Tanzanian municipalities. In most municipalities, revenue collection by-laws were either non-existent or outdated (Nuluva 2015:56). Where such by-laws existed, the municipalities failed to take legal action against defaulting citizens (Mgema 2013:65).

❖ *Lack of awareness by ratepayers*

Kimario (2014) and Nuluva (2015) reported that ratepayers' awareness was nearly non-existent – as evidenced by the communities' lack of knowledge concerning the importance of paying for municipal services. Nkanyanga (2014:26) furthermore asserted that although a few communities were informed about municipal rates and taxes, they perceived its payment to be unfair. Community awareness regarding revenue collection may potentially enhance revenue collection results, as communities would be mindful of the importance of paying for municipal services (Nkanyanga 2014:51). Apart from being cognisant of the importance of paying for municipal services, ratepayers should also be able to trust those charged with the responsibility of collecting such revenue, for example, municipal revenue collection staff or private revenue collectors - where such services are outsourced (Nkanyanga 2014:62).

In order to address this challenge, Mlangwa (2011:71) suggested that the Tanzanian Revenue Authority (TRA), together with the municipalities, should increase its efforts in creating educational awareness with the aim of promoting voluntary compliance and enhancing the communities' knowledge of taxation laws and procedures. When the communities are well-informed, their perception of municipalities will be positively impacted and they will be more inclined to pay for municipal services.

- *Political interference*

Different studies cite political interference as one of the major challenges confronting municipalities in relation to revenue collection (Kimario 2014; Nkanyanga 2014; Nsana 2015; Nuluva 2015). Nuluva (2015:57) declared that a number of politicians mislead citizens or discouraged them from complying with local rates- and tax payment demands, to gain political popularity. According to Nkanyanga (2014:26), most municipal administrators experienced pressure to relax revenue collection - exerted by politicians who wished to be re-elected to municipal councils. Another reason these politicians thwarted revenue collection was that they were landowners and businesspeople, wishing to minimise their own municipal services bills (Nkanyanga 2014:26).

- *Corruption and embezzlement*

Corruption and embezzlement have also been cited as factors affecting municipal revenue collection in Tanzania (Kimario 2014; Magoma 2014; Mbufu 2013; Meena 2013; Nkanyanga 2014; Nsana 2015; Raymond 2013; Rusigaliye 2015; Stephen 2014; Titus 2013). Corruption ignites trust issues between municipalities and communities, negatively impacting any municipal attempt to improve revenue collection (Raymond 2013:45). Stephen (2014:14) claimed that the elevated levels of corruption significantly influenced the willingness of consumers to pay for municipal services and often became the major contributing factor to tax evasion in Tanzania.

According to Kimario (2014:50), in a number of instances where revenue collection was outsourced, certain agents retained collected revenue or understated the amount collected, resulting in the overstatement of debtors' balances and subsequent disputes between the municipality and its consumers. However, other municipalities where revenue collection was outsourced reported an increase in revenue collections accompanied by predictable revenue flows. Based on this, Kimario (2014) held mixed opinions about the outsourcing of revenue collection, and one would suggest that - where it is practiced - such contracts should be properly managed.

#### *2.3.2.4 Financial viability of municipalities in Tanzania*

Mgema (2013:1) claimed that although municipalities are authorised to charge communities for services rendered, their performance in terms of revenue collection is exceedingly inadequate. As a result of inadequate revenue collection, most municipalities only generate sufficient funds to finance recurrent and minor developmental activities in its jurisdictions, whilst failing to provide social services such as water, sewerage and refuse removal to its communities.

Kimario (2014:1) asserted that adequate local revenue is critical in ensuring the viability and sustainability of municipalities as well as the provision of quality services to its communities. While this is true, the local authorities of the United Republic of Tanzania were generally considered to hold an insubstantial revenue base (OECD 2016). The situation was exacerbated by the assertion that the majority of the taxes that the local government was empowered to collect, proved extremely difficult to collect (OECD 2016).

## 2.4 Comparison of Challenges Faced by Municipalities in Africa and Lessons Learned for South Africa

### 2.4.1 Comparison of challenges faced by African municipalities

Based on the factors discovered by different studies in the six African countries discussed, it may be argued that most African municipalities are encountering difficulties related to the collection of internal or own revenue. In addition, a number of these countries are also reportedly experiencing challenges relating to the allocation of municipal grants by central government, rendering them financially unviable and service delivery not sustainable. Table 2.1 displays a summary of the factors affecting own-revenue collection by African municipalities.

**Table 2.1: Summary of factors affecting the collection of municipal own revenue in Sub-Saharan Africa**

| Factors affecting municipal revenue collection in Africa | Non-SADC Countries | | | | SADC Countries | |
|---|---|---|---|---|---|---|
| | Ghana | Nigeria | Kenya | Uganda | Zimbabwe | Tanzania |
| a. Poor service delivery | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| b. Lack of ratepayers' awareness | ✓ | ✓ | ✓ | ✓ | X | ✓ |
| c. Poor revenue collection practices | ✓ | X | X | ✓ | ✓ | ✓ |
| d. Political interference | ✓ | ✓ | X | ✓ | ✓ | ✓ |
| e. Lack of resources (personnel and equipment) | ✓ | X | ✓ | ✓ | ✓ | X |
| f. Property rates related challenges | ✓ | X | X | X | ✓ | ✓ |
| g. Technology | ✓ | X | ✓ | X | X | X |
| h. Poverty and unemployment | X | ✓ | X | X | ✓ | X |
| i. Corruption and embezzlement | X | ✓ | X | X | ✓ | ✓ |

(*Source: own compilation*)

#### *2.4.1.1 Poor service delivery*

Poor service delivery has been reported as a major factor affecting the willingness of communities to pay for municipal services in the six African countries reviewed (Table 2.1). Revenue collection and service delivery were discovered to be interrelated, as the one affects the other. As a result of this, municipalities and their communities are at loggerheads. On the one hand, municipalities claim that the availability and quality of services are dependent on the availability of financial resources, hence the need for the collection of own revenue. On the other hand, communities are refusing to pay the municipalities for services, claiming the services are either not available, or of very poor quality.

It is no surprise that this stalemate affects the economic sustainability of municipalities. Even so, it may be recommended that municipalities should take the initiative towards achieving their mandates by providing quality services to their communities from their existing limited financial resources by, for example, limiting the services to only essential facilities such as the provision of water and electricity, and execute these very well. When residents start paying only for these services that are performed splendidly, other services and their tariffs can be added. These suggestions alone may not solve revenue collection challenges, as service delivery is not the only challenge affecting revenue collection, however, it may in some way improve the situation.

#### *2.4.1.2 Lack of ratepayers' awareness*

Lack of ratepayers' awareness in relation to payment of municipal services, is another common challenge confronting African municipalities, reported by five of the six African municipalities studied (Table 2.1). Communities are claiming to be ignorant of their responsibility to pay for municipal services and research discovered a lack of awareness campaigns to educate communities about the importance of paying for services.

Consequently, municipalities would need to change the current lack of awareness if they are to improve revenue collection. One may then suggest that municipalities should invest in awareness or educational campaigns, aimed at improving the awareness levels of their communities regarding general municipal functionality and the importance of paying for municipal services. Municipalities should conduct assessments to determine which communities can afford to pay for services (even though they are defaulting) and which cannot afford to pay. This will assist municipalities to prioritise the launching of awareness campaigns in those communities able to pay for services, and to avoid investing the limited financial resources by campaigning in a community where there will be poor returns, irrespective of awareness.

#### *2.4.1.3 Poor revenue collection activities*

Poor revenue collection practices may also be asserted to be a common challenge to revenue collection, reported by four of the six countries studied (Table 2.1). Revenue collection related policies and by-laws are described to be lacking in most municipalities, hence the poor revenue collection rate. In those municipalities where policies have been adopted and by-laws have been decreed, it is said to be outdated or inadequately/not implemented.

Revenue related policies and by-laws may therefore be regarded as crucial to effective municipal revenue collection and the subsequent economic sustainability of municipalities. Municipalities should therefore not only ensure that these policies and by-laws are adopted and updated, but also that such measures against defaulters are enforced to its full extent.

#### *2.4.1.4 Political will or interference*

Five of the six African countries reviewed reported political interference as a factor affecting municipal internal revenue collection (Table 2.1) via the incompetency of municipal councils in handling revenue collection related policies as well as councillors who discourage the implementation of revenue collection policies and by-laws on defaulters, to promote their re-election to municipal councils.

Political interference in municipal processes should not be taken lightly, as it could potentially cripple municipalities' economic sustainability and has already created this outcome in several municipalities. Municipal related legislation should emphasise the importance of municipal councils in respect of revenue collection. The councillors share the closest communication with the communities and should be on the forefront of mobilising communities to pay for municipal services, rather than discouraging them. Above all, councillors must improve their willingness to enforce revenue collection policies and by-laws, as political will is essential to effective municipal revenue collection.

#### *2.4.1.5 Lack of resources (personnel and equipment)*

Lack of key resources, such as revenue collection personnel and equipment, have been reported as a factor affecting internal revenue collection by four countries (Table 2.1). Considering the importance of revenue to any municipality, one may suggest that the revenue collection department should be fully capacitated with regard to the number of staff members, their competency, and the availability of essential equipment such as vehicles, computerised billing systems and valuation rolls. Revenue collection staff should also be trained continuously about the billing of services and the subsequent collection in respect of such invoices, in order to render municipalities capable of meeting revenue targets and able to continue operations for the foreseeable future.

#### *2.4.1.6 Property rates related challenges*

Property rates, when fully utilised, is a major source of municipal revenue on the African continent, however, its billing and collection have proved to be challenging to countries such as Ghana, Zimbabwe, and Tanzania (Table 2.1). The administration of property rates is said to be negatively impacted, *inter alia*, by the limited number of property valuers, misclassification of properties, absence of property ownership information, and inappropriate valuation methods, and these factors are considered to have reduced the amount collected in respect of such revenue in the three aforementioned countries, to zero.

Considering that property rates are regarded as one of the major sources of municipal own revenue, one may suggest that central government should assist municipalities by investing in the administration of property rates, in order to optimise its collection. The availability of qualified property valuers may be a national challenge that requires central government's intervention, and should this challenge be addressed, the other challenges, i.e., misclassification of properties and inappropriate property valuation methods, may also be addressed by such competent property valuers.

#### *2.4.1.7 Technology*

The literature review of challenges affecting municipal internal revenue collection in Africa postulated that Ghana and Kenya are experiencing technology related challenges about the availability and utilisation of information technology (IT) systems in their revenue collection processes (Table 2.1.). These challenges are affecting municipal billing and the subsequent collection of revenues in these two countries, owing to billing errors and inaccuracies as well as the delayed distribution of account statements to municipal consumers. Municipalities in these countries have also been plagued by corruption and embezzlement owing to manual revenue collection – negatively affecting its economic sustainability.

Considering the importance of technology to revenue collection and the disadvantages of manual revenue collection, municipalities would need to invest in reliable electronic billing systems in order to enhance revenue collection. The implementation of IT systems would ensure that billing is accurate, improving the willingness of ratepayers to pay for municipal services. It would also eliminate the manual collection of revenue, thereby reducing the embezzlement of revenue by collectors.

#### *2.4.1.8 Poverty and unemployment*

Poverty and unemployment are said to be affecting municipal internal revenue collection in Nigeria and Zimbabwe. Reportedly, these countries hold elevated levels of poverty and unemployment, negatively impacting the ability of communities to pay for municipal services. It appears that poverty and unemployment are negatively affecting the economic sustainability of municipalities, as it renders most ratepayers unable to pay for the consumption of services. This also impacts the recoverability of revenue previously billed to these ratepayers, as they may be unable to pay historic debts owing to their socio-economic status.

#### *2.4.1.9 Corruption and embezzlement*

Corruption and embezzlement of municipal funds by revenue collectors, administrators and politicians have apparently been discouraging communities to pay for municipal services, in Nigeria, Zimbabwe, and Tanzania (Table 2.1). It is claimed that the extremely elevated levels of corruption and embezzlement of municipal funds are attributable to local government's accommodation thereof and this has resulted in communities losing trust in local government processes.

If municipalities are to address poor revenue collection, one may suggest that they first address the corruption and embezzlement of municipal funds by, for example, eliminating the manual collection of revenue that frequently results in the embezzlement of funds by the revenue collectors. Acting against such corruption and embezzlement may improve the trust level between municipalities and their communities and, in the long run, may inspire communities to pay their municipal accounts, knowing that the funds are safe and spent in order to sustain municipal service delivery.

### 2.4.2 Lessons learnt from African municipalities

#### *2.4.2.1 Tax education*

Studies in Ghana, Nigeria and Kenya discovered that tax education, considered to be an institutional activity, is key to municipal revenue collection. The studies indicated that ratepayers lack knowledge concerning the operations of municipalities. Educating them would change their negative perceptions and subsequently motivate them to pay their municipal accounts, as they would better understand the allocation and expenditure of such funds.

#### *2.4.2.2 Allocation of grants in accordance with own revenue collected*

Ghana's incentive system of allocating grants to municipalities in line with its own revenue collected, may be another lesson to be learned by South Africa. This system could encourage municipalities to improve the collection of own revenue in order to receive more substantial grant allocations from national government. This could also persuade those politicians who are reported to prevent enforcement of revenue collection policies, to support revenue collection mechanisms, as they could then explain to their voters that a higher degree of payment compliance will result in larger national grants to the municipality, and so enable the municipality to render enhanced and additional services.

#### *2.4.2.3 Interrelation between poverty and poor services*

Studies in Nigeria discovered that poverty and poor services are interrelated, in that they affect one another. Consequently, municipalities cannot simply continue to cite lack of funds as a reason for rendering deficient services to communities and communities may not continue to invoke poverty as a reason for their inability to pay for the services.

In the matter of category B municipalities in South Africa, that are typically situated in rural areas and dominated by elevated levels of poverty and unemployment, an entirely new system where these municipalities function differently and receive the majority or all of its funds from national government, may conceivably be successful, although consenting legislative amendments would be required. This would enable municipalities to provide quality and sustainable services to their communities without being hindered by a lack of funding, and this may improve ratepayers' willingness to pay for services should this system be gradually phased out at a later stage.

#### *2.4.2.4 Manual revenue collection or outsourcing revenue collection*

Studies in Ghana and Nigeria revealed that employment of multiple agents (outsourcing) to collect revenue and manual revenue collection, accommodate corruption. Where outsourcing or manual revenue collection are practised, municipalities should implement effective internal controls to ensure the protection of collected revenue.

Another lesson that may be learnt by South Africa, may be the adequacy of IT systems employed by municipalities regarding revenue collection. Municipalities need to ensure that municipal processes are computerised and that such systems are utilised effectively. At present, there are a small number of municipal financial systems that are Municipal Standard Charts of Accounts (mSCOA) compliant, which have been approved by National Treasury for South African municipalities. South African municipalities would therefore need to ensure its mSCOA compliance.

#### *2.4.2.5 Staff competency*

The importance of competency with reference to revenue collection officials is paramount. In Kenya, it was determined that, apart from appropriate qualifications, the continuous training of municipal officials is crucial, as this could potentially improve their performance. Accordingly, South African municipalities need to ensure that competent staff are appointed and that there is continuous development of such officials through the attendance of relevant training courses and workshops.

#### *2.4.2.6 Formalisation of businesses*

The negative impact by informal businesses or enterprises on municipal revenue collection has been cited. These businesses are benefiting from the consumption of municipal services and infrastructure, consequently, they should be invoiced for payment, by the relevant municipality - that is not currently the case. The national government would therefore be required to consider formalising all businesses, to enable municipalities to bill and collect revenue from them.

#### *2.4.2.7 Failure to take legal action against defaulters*

The detrimental effect on revenue collection of the failure by municipalities to take legal action against defaulters is noted. Municipalities would need to fully implement all its policies and by-laws, including legal action against defaulters, to ensure the optimal collection of municipal revenue. Municipal councils should improve its attitude and support enforcement of these policies, in contrast to the present situation where they are more likely to interfere with or discourage the enforcement of such policies.

## 2.5 Analysis of the Sustainability of African Municipalities

In terms of the economic sustainability theory, financial viability and sustainability are crucial to the success of any institution. Although municipalities on the African continent appear to have access to different sources of revenue, such as grants, rates, taxes, licences, and fees, the majority of these are not considered to be financially viable and sustainable, hence the municipal failure to achieve its legislative mandates, particularly that of service delivery (Table 2.1).

Research asserts that municipalities require adequate financial resources to enable the provision of quality sustainable services. Although municipalities are empowered by constitutions and relevant municipal legislation to receive allocations from central government and to generate own revenue from, *inter alia*, rates, taxes, levies and licences, a number of municipalities are facing challenges concerning the receipt of grants and all are facing challenges related to the collection of own revenue.

These challenges threaten the continued survival of municipalities on the African continent, rendering them not financially viable and sustainable. Central governments may be required to intervene, firstly to address the suitability of the intergovernmental fiscal framework, and secondly to assist municipalities in addressing the challenges they face concerning own revenue collection.

## 2.6 Chapter Summary

This chapter discusses the findings of research studies conducted in Ghana, Nigeria, Zimbabwe, Kenya, Uganda, and Tanzania. Factors such as poor service delivery, political interference, inadequate revenue collection activities, lack of resources, and corruption and embezzlement, have been revealed to be detrimentally affecting municipal own revenue collection and are common to these different African countries.

If not addressed, these factors that affect revenue collection by municipalities will impact the municipal financial sustainability and viability. The extent to which these factors affect own revenue collection by South African municipalities will be determined in the next chapter. Should these factors not be identified as relevant to South Africa at present, the possibility of it affecting municipal revenue collection in future will be determined by incorporating it into this study, via the interviews and questionnaires.

The chapter that follows discusses the legislative framework of revenue management, the history of municipal debts and the different factors affecting revenue collection by South African municipalities.

# Chapter 3: Literature Review - South African Perspective on Municipal Financial Sustainability

## 3.1 Introduction

Chapter 2 provided the review of literature from six African countries about own revenue collection. The different challenges affecting revenue collection and their effect on the financial viability and sustainability of municipalities in these countries, were discussed and compared, to identify common factors affecting revenue collection and the lessons that South Africa can learn.

This chapter outlines the different statutes applicable to South African municipalities, with specific emphasis on legislation and regulations managing the establishment of municipalities, municipal service delivery and municipal revenue management. From the Constitution of the Republic of South Africa (RSA 1996a) to those statutes relating specifically to municipalities, the local government setting is one of the most legislated environments. Legislation pertinent to this study include: the Municipal Structures Act (RSA 1998b), the Municipal Systems Act (RSA 2000), the MFMA (RSA 2003), the Municipal Property Rates Act [MPRA] (RSA 2004), The White Paper on Local Government (RSA 1998c), the Constitution of the Republic of South Africa (RSA 1996a), the Municipal Demarcation Act (RSA 1998a), the Intergovernmental Fiscal Relations Act (RSA 1997), the Municipal Fiscal Powers and Functions Act (RSA 2007), and the Division of Revenue Act [DoRA] (RSA 2020).

This chapter will also present the review of existing knowledge concerning the problem statement delineated in chapter 1. Different studies were conducted in South Africa to uncover and address challenges relating to revenue collection, as well as other challenges confronting local government. The researcher perused, considered and analysed various sources of information, such as books, journals and articles, in order to execute a review of this research. In this chapter, the challenges confronting the African countries will be compared to the challenges affecting municipal revenue collection in South Africa. Regarding uncommon challenges affecting other African countries, its effect, or the possibility of such affecting South African municipalities, will be determined by incorporating related questions in this study's data collection instruments.

## 3.2 Legislative Framework

### 3.2.1 Introduction

The South African local government is a highly legislated environment and municipalities must ensure compliance with such legislation. This section outlines the different statutes that apply to municipalities, with specific emphasis on legislation and regulations directly managing the establishment of municipalities, its service delivery and municipal revenue management.

### 3.2.2 The Constitution of the Republic of South Africa (Act 108 of 1996)

The Constitution of the Republic of South Africa (hereinafter “the Constitution”), as the supreme law of the land, gives effect to the establishment of the local government in South Africa. In relation to municipalities, the Constitution establishes, mandates and categorises South African municipalities (RSA 1996a). The Constitution, furthermore, empowers municipalities to levy taxes and surcharges - subject to provincial and national legislation provisions – within the framework of their own-revenue collection (RSA 1996a).
Section 152 (1) of the Constitution delineates the objectives of municipalities:

- The provision of democratic and accountable government for local communities;
- Ensuring the provision of services to communities in a sustainable manner;
- Promoting social and economic development;
- Promoting a safe and healthy environment; and
- Encouraging the involvement of communities and community organisations in the matters of municipalities.

Section 155 (1) of the Constitution compels the establishment of the following categories of municipalities:

- **Category A:** Municipalities in this category hold exclusive and legislative authority in the areas governed by it.
- **Category B:** Municipalities in this category share municipal executive and legislative authority of the areas assigned to it with the category C municipalities in whose area it is located.

- **Category C:** Municipalities in this category hold municipal executive and legislative authority in respect of areas that include more than one municipality.

### 3.2.3 The White Paper on Local Government (1998)

The White Paper on Local Government (hereinafter "the White Paper") (RSA 1998c) *inter alia* outlines the current state of local government, municipal finance, and the administrative, political, institutional, and developmental systems of local government. The White Paper shows that municipalities have access to adequate revenue that may finance nearly 90 per cent of their recurring expenditures, via the collection of property rates, and trading services such as water, sewerage, electricity, and refuse removal.

### 3.2.4 The Municipal Demarcation Act (Act 27 of 1998)

To fulfil the constitutional requirement to establish municipalities within the boundaries of the Republic, the Municipal Demarcation Act, Act 27 of 1998, was promulgated (RSA 1998a). The purpose of this Act is to provide the criteria and procedures for the determination of municipal boundaries by an independent authority, i.e., the Municipal Demarcation Board [MDB] (RSA 1998a). Section 24 of the Municipal Demarcation Act affirms that, in determining municipal boundaries, the Board's objective must be to establish an area that would enable the municipality of that area to fulfil its constitutional mandate, enable effective local governance, enable integrated development, and have access to a tax base as inclusive as possible of consumers of municipal services in the municipality (RSA 1998a).

### 3.2.5 Municipal Structures Act (Act 117 of 1998)

The purpose of this Act is, *inter alia*, to provide for the establishment of municipalities in accordance with the requirements relating to categories and types of municipalities; to establish criteria for determining the category of municipality to be founded in an area; to define the types of municipality that may be established within each category; to provide for an appropriate division of functions and powers amongst the categories of municipality; and to regulate the internal systems, structures and office-bearers of municipalities (RSA 1998b). In terms of section 8 of the Municipal Structures Act, the following are the types of municipalities within category A:

- A municipality with a collective executive system;

- A municipality with a collective executive system combined with a sub-council participatory system;
- A municipality with a collective executive system combined with a ward participatory system;
- A municipality with a collective executive system combined with both a sub-council and a ward participatory system;
- A municipality with a mayoral executive system;
- A municipality with a mayoral executive system combined with a sub-council participatory system;
- A municipality with a mayoral executive system combined with a ward participatory system; and
- A municipality with a mayoral executive system combined with both a sub-council and a ward participatory system.

In terms of section 9 of the Municipal Structures Act, category B holds the following types of municipalities:

- A municipality with a collective executive system;
- A municipality with a collective executive system combined with a ward participatory system;
- A municipality with a mayoral executive system;
- A municipality with a mayoral executive system combined with a ward participatory system;
- A municipality with a plenary executive system; and
- A municipality with a plenary executive system combined with a ward participatory system.

In terms of section 10 of the Municipal Structures Act, the following are the types of municipalities within category C:

- A municipality with a collective executive system;
- A municipality with a mayoral executive system; and
- A municipality with a plenary executive system.

### 3.2.6 The Intergovernmental Fiscal Relations Act (Act 97 of 1997)

This Act provides for co-operation between the national, provincial and local spheres of government, whilst also delineating the processes to be followed regarding the equitable sharing of national funds in accordance with section 214 of the Constitution (RSA 1997). These allocations play an important role in the sustainability of municipalities, as the majority are encountering challenges with the collection of own-revenue.

The Act provides for the establishment of a Local Government Budget Forum where the national, provincial and organised local government consult on:

- Any fiscal, budgetary or financial matter affecting the local sphere of government;
- Any proposed legislation or policy that holds a financial implication for local government;
- Any matter concerning the financial management, or the monitoring of the finances of local government; and/or
- Any other matter that the Minister has referred to the Forum.

### 3.2.7 The Municipal Fiscal Powers and Functions Act (Act 12 of 2007)

This Act prescribes how municipalities exercise their constitutional authorities of imposing municipal taxes and surcharges, by stipulating the processes that must be followed by municipalities (RSA 2007). The objectives of the Act are as follows:

- To promote predictability, certainty and transparency in respect of municipal fiscal powers and functions;
- To ensure that municipal fiscal powers and functions are exercised in a manner that will not materially and unreasonably prejudice national economic policies, economic activities across municipal boundaries, or national mobility of goods, services, capital or labour;
- To effectively oversee the exercise of municipal fiscal powers and functions; and
- To provide for an appropriate division of fiscal powers and functions, where two municipalities have the same fiscal powers and functions regarding the same area in accordance with section 229(3) of the Constitution, by
  - regulating the exercise by municipalities of their power to impose municipal surcharges on fees for services under section 229(1)(a) of the Constitution,
  - authorising the municipal taxes that municipalities may impose under section 229(1)(b) of the Constitution, and

- regulating the exercise by municipalities of their power to impose municipal taxes, if so authorised.

### 3.2.8 The Division of Revenue Act (DoRA)

This annual Act aims to provide for the equitable division of nationally raised revenue, among the national, provincial and local spheres of government for the particular financial year, the determination of each province's equitable share, allocations to provinces, local government and municipalities from national government's equitable share, the responsibilities of all three spheres pursuant to such division and allocations; and to provide for matters connected therewith (RSA 2020).

### 3.2.9 The Municipal Systems Act (Act 32 of 2000)

This Act intends to empower the poor and ensure that municipalities implement service tariffs and credit control policies that consider their needs, by providing a framework for the provision of services, service delivery agreements and municipal service districts; and credit control and debt collection (RSA 2000). This Act, furthermore, delineates important provisions that govern the revenue management of municipalities, including the tariffs and its by-laws, credit control and debt management and its by-laws, and customer care policies (RSA 2000). In addition, the Act outlines the rights and duties of the municipal council and local communities in relation to the municipality.

Section 73(1) of the Municipal Systems Act states that a municipality must give effect to the provisions of the Constitution and prioritise the basic needs of the local community, promote the development of the local community, and ensure that all members of the local community have access to at least the minimum level of basic municipal services. Section 73(2) further states that municipal services must be equitable and accessible; be provided in a manner that is conducive to the prudent, economic, efficient and effective use of available resources and the improvement of standards of quality over time; be financially sustainable; be environmentally sustainable; and be regularly reviewed with a view to upgrading, extension and improvement (RSA 2000).

### 3.2.10 Municipal Property Rates Act (Act 6 of 2004)

The purpose of this Act is to regulate the municipal levying of property rates to local communities. It outlines the requirements that must be met by municipalities for levying such property rates, including the rates policy, by-laws and valuation rolls (RSA 2004).

### 3.2.11 Municipal Finance Management Act (Act 56 of 2003)

The objective of this Act is to secure the sound and sustainable management of the financial affairs of municipalities and other institutions in the local sphere of government, and to establish treasury norms and standards for the local sphere of government (RSA 2003). This is a crucial legislation in relation to the overall financial management of municipalities. Regarding revenue management, it delineates the establishment of billing systems, the collection of money due, the charging of interest and the reconciliation of collected revenue (RSA 2003).

## 3.3 Municipal Revenue Management

### 3.3.1 Sources of municipal revenue

#### *3.3.1.1 Transfers and subsidies or grants*

Section 227 of the Constitution (RSA 1996a) entitles the local government to an equitable share of nationally raised revenue. Section 214 of the Constitution then prescribes that an Act of Parliament must provide for the equitable division of revenue raised nationally, amongst national, provincial and local spheres of government (RSA 1996a). The Intergovernmental Fiscal Relations Act prescribes the process that must be followed regarding the allocation of revenue amongst these three spheres of government (RSA 1997).

#### *3.3.1.2 Municipal taxes or property rates*

In terms of the Municipal Fiscal Powers and Functions Act (RSA 2007), a municipal tax is defined as a tax, levy or duty that a municipality may impose in terms of section 229(1)(b) of the Constitution. Section 229 of the Constitution (RSA 1996a) states that subject to certain exemptions, a municipality may impose rates on properties and surcharges on fees for services provided by or on behalf of the municipalities; and if authorised by national legislation, other taxes, levies and duties appropriate to local government or to the category of local government to which that municipality is assigned.

Municipal property rates are levied in accordance with the prescriptions of the MPRA (RSA 2004). Section 3 of the MPRA (RSA 2004) determines that the municipal council must adopt a policy consistent with the requirements of that Act on the levying of rates on rateable property in the municipality, and such policy must be reviewed annually, and necessary amendments rendered in terms of section 5 of the MPRA (RSA 2004).

To effect the implementation of the rates policy, section 6 of the MPRA (RSA 2004) establishes that a municipality must adopt by-laws in terms of sections 12 and 13 of the Municipal Systems Act (RSA 2000). Such by-laws may differentiate between different categories of properties and different categories of owners of properties, liable for the payment of rates.

#### *3.3.1.3 Municipal surcharges or service charges*

In terms of the Municipal Fiscal Powers and Functions Act (RSA 2007), a municipal surcharge is defined as a charge, in excess of the municipal base, that a municipality may impose on fees for a municipal service provided by or on behalf of a municipality in terms of section 229(1)(a) of the Constitution. Municipal surcharges, *inter alia,* include water, sewerage, electricity, and refuse removal.

### 3.3.2 Revenue management activities

Municipal revenue management is described as a process involving several key steps and failure to implement these steps compromises the entire revenue management process (RSA 2016c:3, 49). Based on this, one may argue that municipalities need proper revenue planning in order to effect billing and to collect revenue from its consumers. Molobela (2016:262) emphasises the importance of revenue planning, as it develops critical approaches that assist achievement of sustainable financial performance by municipalities, affording municipalities the ability to render services to its communities.

Figure 3.1 illustrates key municipal revenue management activities that must be executed by municipalities. These key revenue activities are then discussed in detail.

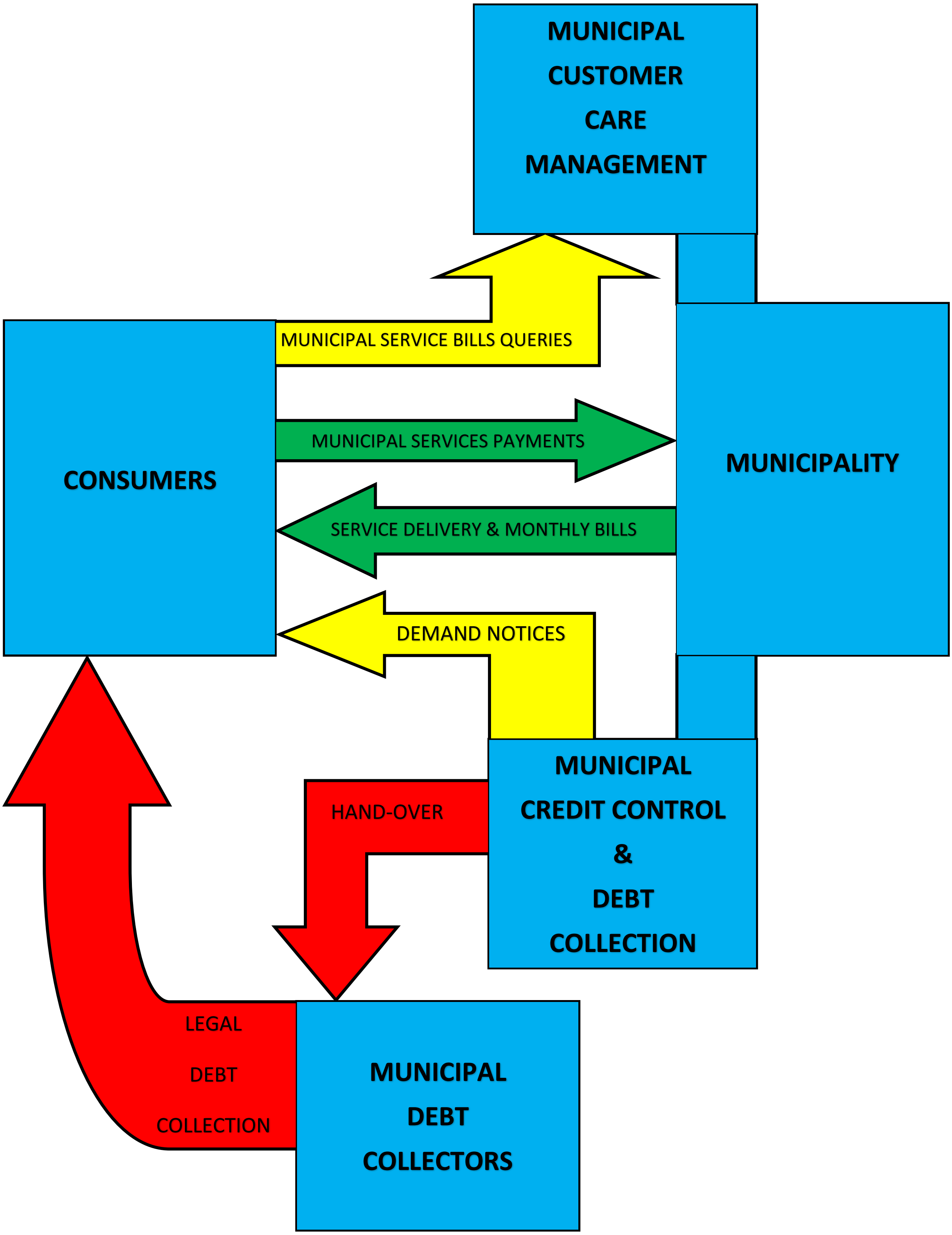


**Figure 3.1: Key municipal revenue management activities**

(*Source: own compilation*)

#### *3.3.2.1 Municipal service delivery*

According to the South African Local Government Association [SALGA] (RSA 2016c:12) the design of South Africa's local government financial system emphasises locally generated revenue to fund most municipalities' services delivery responsibilities. This renders municipalities the custodian of municipal funds, tasked with utilisation of the funds collected from the aforementioned revenue to sustain the provision of services as well as planning towards the spatial development of its localities (Govender & Reddy 2015:14).

About the provision of services, the White Paper (RSA 1998c:157) states that municipalities should, *inter alia*, adhere to the following principles of service delivery:

- Accessibility of services - municipalities must ensure that all citizens have access to at least a minimum level of services;
- Affordability of services - services must also be rendered affordable to consumers, as accessibility and affordability are intricately linked;
- Sustainability of services - services must be continuously provided to consumers;
- Accountability of services - municipal councils must remain accountable to ensure the provision of quality services that are affordable and accessible;
- Quality of products and services - this include attributes such as suitability for purpose, timeliness, convenience, safety, continuity and responsiveness to consumers; and
- Value-for-money - this requires the best possible utilisation of public resources, in order to ensure universal access to affordable and sustainable services.

#### *3.3.2.2 Municipal tariffs*

In terms of sections 74 and 75 of the Municipal Systems Act (RSA 2000), a municipal council must adopt and implement a tariff policy and by-laws regulating the levying of fees in respect of municipal services provided by the municipality itself or by way of service delivery agreements, and that comply with the provisions of that Act, the MFMA and any other applicable legislation. These sections further determine that the tariff policy and by-laws may differentiate between different categories of users, debtors, service providers, services, service standards, geographical areas and other matters, if such differentiation does not amount to unfair discrimination (RSA 2000).

According to section 74 of the Municipal Systems Act (RSA 2000), the tariff policy must reflect the following principles:

- Municipal service consumers should be treated equitably regarding the application of tariffs;
- The amount individual consumers pay for services should generally be in proportion to their utilisation of that service;
- Impoverished households must have access to, at least, basic services, via
  - tariffs that cover only operating and maintenance costs,
  - special tariffs or lifeline tariffs for low levels of use or consumption of services, or for basic levels of service, or
  - any other direct or indirect method of subsidisation of tariffs for impoverished households;
- Tariffs must reflect the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration and replacement costs, and interest charges;
- Tariffs must be set at levels that facilitate the financial sustainability of the service, considering subsidisation from sources other than the service concerned;
- Provision may be made, in appropriate circumstances, for a surcharge on the tariff for a service;
- Provision may be made for the promotion of local economic development via special tariffs for categories of commercial and industrial users;
- The economical, efficient and effective use of resources, the recycling of waste, and other appropriate environmental objectives, must be encouraged; and
- The extent of subsidisation of tariffs for impoverished households and other categories of users, should be fully disclosed.

From the tariff policy and by-laws, a municipality must then develop a tariff structure that will contain the rates that the municipality will charge for the different services. The tariff structure should be in line with the tariff policy, and MFMA guidelines that are published by National Treasury via its website.

Ntlhola (2016) conducted a study in respect of the challenges affecting cost reflective tariffs. According to her, a tariff is defined as a means of any charge or surcharge raised by a municipality. She further argued that a suitable tariff should have the following key features or adhere to these principles:

- Revenue sufficiency - tariffs must generate enough revenue to allow a service to be operated sustainably;
- Economic efficiency or cost reflectiveness - tariffs must be an accurate indicator of costs;
- Equity - people that are the same are treated the same in that manner;
- Fairness - mostly interpreted to mean that tariffs must be affordable;
- Access - tariffs must be set in such a manner that no one is denied access to - at least - a basic level of service;
- Simple and easy to understand - consumers must be able to easily calculate the size of the bill that they will receive;
- Proportionality - users should be charged in proportion to the extent of service consumption;
- Revenue stability - if use of service increases or decreases, revenue and expenditure must vary accordingly; and
- Easy implementation - should not require complex billing procedures or administration.

According to Ntlhola (2016), the implementation of a sound tariff structure will provide municipalities with decent financial strength that will assist municipalities to deliver proper services for the foreseeable future. She further urged municipalities to act via cost reflective tariffs to address weaknesses and strengthen financial health, as this will ensure adequate resources to fund the level and quality of services expected by communities.

#### *3.3.2.3 Municipal services billing*

Municipal billing systems include billing functions in respect of property rates, refuse removal and water and electricity consumption, all of which must interface and update directly into the integrated financial management system (Mazibuko 2013:94). Accordingly, these billing systems must be able to be converted to manage numerous billing frequencies and a series of customer categories and be sufficiently flexible to manage tariff structures for both fixed and consumption services (Mazibuko 2013:94).

Municipal billing and revenue management systems are essential aspects of any municipality’s system, as they govern the financial aspect of the municipality (Mazibuko 2013:126; RSA 2016c:27). According to SALGA (RSA 2016c:3) and MFMA circular 64 (RSA 2012:2), accurate billing processes are crucial to effective revenue improvement, and it is assumed that the municipality that manages effective and internal controls to ensure that every property owner is billed with regard to property rates and all services consumed at that site, is indeed maximising the revenue-generating potential of the existing revenue base. MFMA circular 64 (RSA 2012:2) further declares that revenue enhancement concerns improving by producing additional revenue - in the case of municipal revenue it may be linked to increasing the worth of revenue generated. Mazibuko (2013:164) asserted that the extent to which monthly bills are accurate will positively influence the customers’ willingness to pay, and this will reduce debt accumulation.

Figure 3.2 displays the elements of an effective municipal billing system and the flow of activities towards accurate billing.

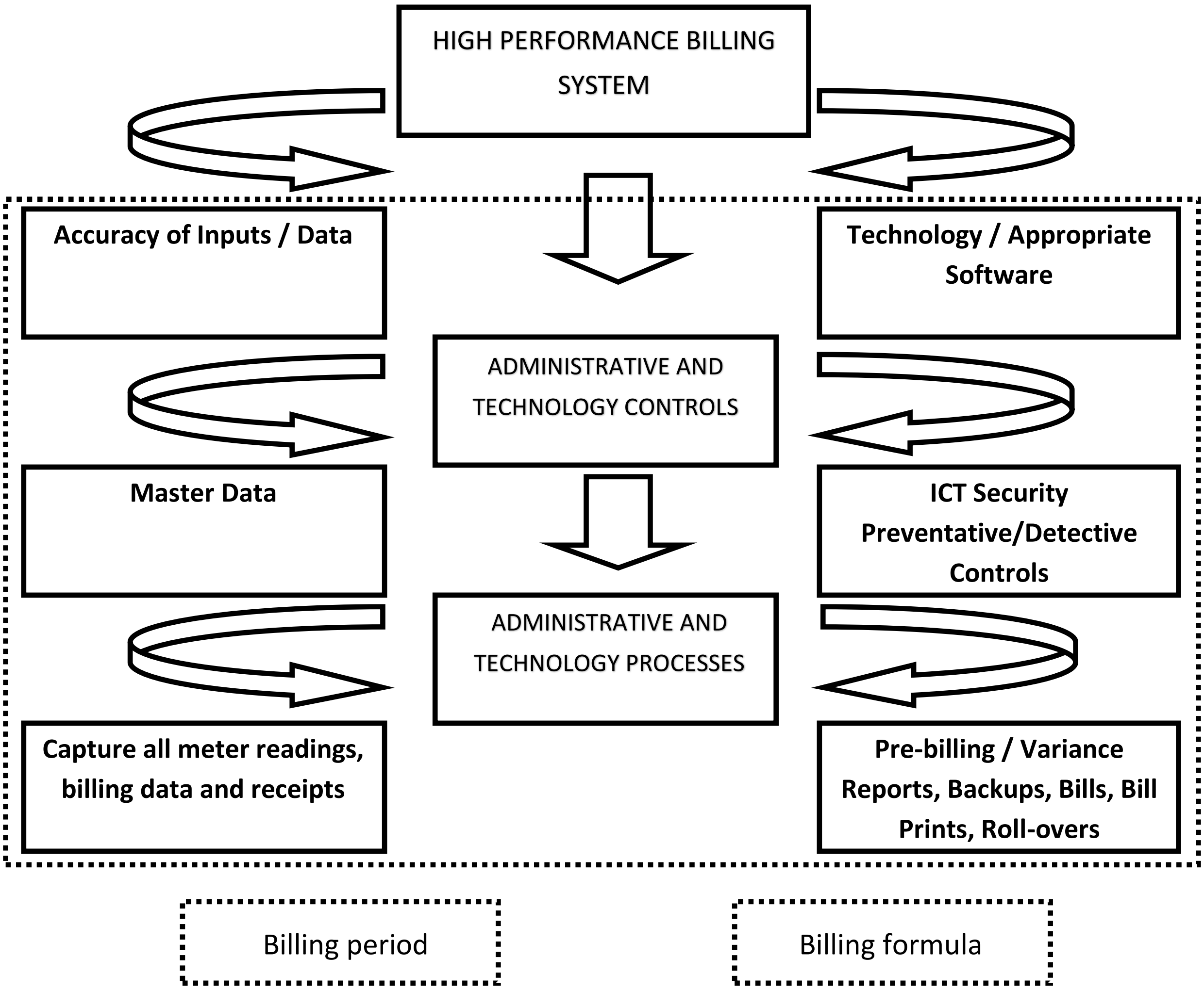


**Figure 3.2: Elements of an effective municipal billing system**

(Source: RSA 2016c)

#### *3.3.2.4 Indigent management*

The White Paper (RSA 1998c:191) proclaims that municipalities should develop a system of targeted subsidisations to ensure that those who are unable to afford the services or impoverished households, have access to - at least - the minimum level of basic services. In 2001, the South African government adopted a policy intended for the provision of Free Basic Services (FBS), such as water and electricity, to impoverished households (RSA 2016c). According to the South African FBS policy, the indigent is relieved from having to pay for basic services below a certain threshold (RSA 2011a:166). Municipalities are tasked with identification of these households who will receive basic services at no cost or at significantly reduced or subsidised amounts. Although municipalities are responsible for maintaining indigent registers and for providing services, it remains the households' responsibility to apply to its respective municipalities for indigent status (Mhemhe & Parry 2019:24). Municipalities would, however, need to conduct awareness campaigns to render households aware of the indigent programme (Mhemhe & Parry 2019).

#### *3.3.2.5 Customer care and management*

Section 95 of the Municipal Systems Act (RSA 2000) determines that, 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:

- ❖ Establish a sound customer management system that aims to create a positive and reciprocal relationship between persons liable for payments and the municipality - and where applicable, a service provider;
- ❖ Establish mechanisms for consumers and ratepayers to submit feedback to the municipality or other service provider regarding the quality of the services and the performance of the service provider;
- ❖ Take reasonable steps to ensure that consumers are informed of the costs involved in service provision, the reasons for the payment of service fees, and the way funds raised from the charges are utilised;
- ❖ Where the consumption of services must be measured, take reasonable steps to ensure that the consumption by individual users of services is measured through accurate and verifiable metering systems;
- ❖ Ensure that persons liable for payments, receive regular and accurate accounts that indicate the basis for calculating the amounts due;

- ❖ Provide accessible mechanisms for those persons to query or verify accounts and metered consumption, and appeal procedures that allow such persons to receive prompt redress in respect of inaccurate accounts;
- ❖ Provide accessible mechanisms for managing complaints by such persons, together with prompt replies and corrective action by the municipality;
- ❖ Provide mechanisms to monitor the response time and efficiency in complying with the aforementioned paragraph; and
- ❖ Provide accessible pay points and other mechanisms for settling accounts, or for pre-payment of services.

The White Paper (RSA 1998c:71) advocates that, for many local citizens, the main contact with local government is the utilisation of municipal services, and it is here that municipalities need to start creating relationships with consumers. Municipalities must be responsive to the needs of both citizens and business, as consumers of municipal services (RSA 1998c:71). Enhanced customer management and the provision of services are therefore imperative to the construction of an atmosphere that is favourable to economic and social development (RSA 1998c:71).

The following "Batho Pele" ("People First") principles provide a useful approach to creating a culture and practice of customer service (RSA 1998c:71-72):

- ❖ Consultation - citizens should be consulted about the level and quality of public service received, and where possible, should be allowed a choice concerning the services that are provided;
- ❖ Service standards - citizens should know what standard of service to expect;
- ❖ Access - all citizens should have equal access to the services that they are entitled to;
- ❖ Courtesy - citizens should be treated with courtesy and consideration;
- ❖ Information - citizens should be furnished with full and accurate information concerning the public services they are entitled to receive;
- ❖ Openness and transparency - citizens should know how departments are run, how resources are spent and who oversees services;
- ❖ Redress - if the promised standard of service is not delivered, citizens should be offered an apology, a full explanation and a speedy and effective remedy, and when complaints are made, citizens should receive a sympathetic, positive response;
- ❖ Value for money - public services should be provided economically and efficiently to afford citizens the best possible value-for-money.

#### *3.3.2.6 Credit control and debt collection activities*

In terms of section 64 of the MFMA (RSA 2003), the Accounting Officer of a municipality is the one accountable for the management of municipal revenue. This section stipulates that the Accounting Officer must take reasonable steps to ensure that:

- ❖ The municipality possesses an effective revenue collection system, consistent with the municipality's credit control and collection policy;
- ❖ Revenue owed to the municipality is calculated every month;
- ❖ Accounts for municipal tax and charges for municipal services are prepared every month, or less often, if monthly accounts are uneconomical;
- ❖ All money received is promptly deposited into the municipality's primary bank account;
- ❖ The municipality possesses and maintains a management-, accounting- and information system, that recognises revenue, accounts for debtors, and accounts for receipts of revenue;
- ❖ The municipality possesses and maintains a system of internal control of debtors and revenue;
- ❖ The municipality charges interest on arrears, except where the council has granted exemptions in accordance with its budget-related policies; and
- ❖ All revenue received by the municipality, including revenue received by any collection agents on its behalf, is reconciled at least every week.

Although section 64 of the MFMA (RSA 2003) places the responsibility of revenue collection on the accounting officer, MFMA circular 64 (RSA 2012:11) as well as Tesselaar (2017) state that revenue creation is everyone's responsibility, and not just that of the Revenue Management Unit. With this said, municipalities must effectively manage all functions that impact protecting and growing their revenue base. One may then argue that all departments of a municipality should ensure its contribution to maximising municipal revenue collection.

In terms of section 96 of the Municipal System Act (RSA 2000), a municipality must collect all money that is due and payable to it, subject to that Act and any other applicable legislation and, for this purpose, must adopt, maintain and implement a credit control and debt collection policy that is consistent with its rates- and tariff policies and complies with the provisions of that Act. Section 98 of the Municipal Systems Act (RSA 2000) then requires that a municipal council must adopt by-laws to give effect to the municipality's credit control and debt collection policy, its implementation and enforcement.

In terms of section 97 of the Municipal Systems Act (RSA 2000), a credit control and debt collection policy must provide for:

- Credit control procedures and mechanisms;
- Debt collection procedures and mechanisms;
- Provision for indigent debtors that is consistent with its rates- and tariff policies and any national policy concerning the indigent;
- Realistic targets consistent with
    - general recognised accounting practices and collection ratios, and
    - the estimates of income set in the budget minus an acceptable provision for bad debts;
- Interest on arrears payments, where appropriate;
- Extensions of time periods allowed for payment of accounts;
- Termination of services or the restriction of the provision of services when payments are in arrears; and
- Matters relating to unauthorised consumption of services, theft and damages.

To enable municipalities to maximise revenue collection, the White Paper (RSA 1998c:192) suggests the establishment of appropriate credit control mechanisms that must hold the following important features:

- Municipalities need to be able to measure the extent of the services that households consume via the metering of services such as water and electricity;
- Households need to receive regular and accurate statements of account for the services consumed and in a format that is easy to understand;
- Credit control measures will only be successful when targeted relief is available for those households who cannot afford to pay for the services, i.e., indigent management;
- Municipalities need to act swiftly and compellingly to manage those households who can afford to pay for services but are failing, neglecting or refusing to do so.

### 3.4 Factors affecting Revenue Collection in South Africa

The history and the continuous deteriorating state of municipal debt have propelled research in respect of the revenue collection challenges faced by South African municipalities and the impact that it has on sustainable service delivery. Several challenges to municipal revenue collection discovered by these studies, are discussed below.

### 3.4.1 Inability to pay

Many citizens are incapable of paying for municipal services, owing to socio-economic conditions (Ringane 2013:60). According to Manda (2013), consumers' inability to pay is one of the reasons municipalities are experiencing elevated debtor books, as most of the households billed for municipal services are incapable of payment. It may be said that consumers' inability to pay is beyond municipalities' control and it results in dire consequences for municipal economic sustainability. Poverty and unemployment, inadequate indigent management, the affordability of municipal services, and economic issues, were found to be factors affecting ratepayers' ability to pay, and are considered as follows:

#### *3.4.1.1 Poverty and unemployment*

As in Nigeria (section 2.2.2.3) and Zimbabwe (section 2.3.1.3), studies in South Africa discovered that poverty and unemployment – also considered to be a national challenge – contribute to poor revenue collection by South African municipalities (Chauke 2016; Chetty 2015; Chetty, van Niekerk & Olivier 2016; Chipu 2011; Jacobs 2019; Kanyane 2014; Kleynhans & Coetzee 2019; Majikijela 2007; Makale 2015; Manda 2013; Mavhungu 2011; Molobela 2016; Moloto & Lethoko 2018; Nkabane 2016; Ntiyiso Consulting 2017; Ringane 2013;RSA 2016b; RSA 2016c; RSA 2016d; RSA 2019; Tesselaar 2017). The issues of unemployment and poverty were also acknowledged as problematic by the different political parties that entered the South African 2019 National and Provincial elections (African National Congress (ANC), Democratic Alliance (DA), Economic Freedom Fighters (EFF), Freedom Front Plus (FFP), and the United Democratic Movement (UDM)). The manifestos of these parties emphasised that poverty and unemployment must be dealt with as a matter of urgency, in order for the South African government to move forward.

According to Statistics South Africa [Stats SA] (RSA 2016d:56), the absence of or insufficient employment opportunities is one of the top five leading challenges confronting municipalities, as perceived by households participating in the 2016-census. Stats SA (RSA 2016d) asserted that the democratic government had inherited these elevated levels of inequality and poverty from the Apartheid government, that left a large percentage of the population without access to basic services and resources. Chauke (2016) asserted that rural communities were the ones dominated by these high levels of poverty and unemployment. Accordingly, Kanyane (2011a:940) contended that it is difficult for municipalities to expect consumers to pay for municipal services while they are unemployed and do not possess any form of income.

Chipu (2011) agreed with the notion tabled by the White Paper (RSA 1998c:56), that local government can play a fundamental role in stimulating job creation and enhancing the local economy, that may assist in alleviating poverty and unemployment. Based on this municipal role, the South African government has undertaken different measures and is currently running programmes to address the issue of poverty and unemployment (Community Works Programme (CWP) and Expanded Public Works Programme (EPWP)). Although one may contend that these interventions might alleviate poverty, it does not, however, directly impact improved revenue collection, as most of the beneficiaries of these programmes are from rural areas and are exempted from such payment of charges for services (RSA 2004), and the average monthly stipend paid to these beneficiaries of R2 000, is below the accepted municipal indigent level of R2 300 income per month (RSA 2016c).

Based on the above discussion, it is evident that poverty and unemployment threaten the economic sustainability of South African municipalities. Whilst the consumers who are affected by poverty and unemployment are unable to pay for municipal services, municipalities are expected to provide basic services to these communities from their current limited financial resources. As a result, municipalities would need to ensure that they collect revenue from those consumers who can afford to pay for the use of municipal services.

#### *3.4.1.2 Inadequate indigent management*

Jacobs (2019) suggested that for municipalities to avoid artificially inflating the level of non-payment, they must develop strategies to account for indigent consumers who cannot afford to pay. According to the Limpopo Provincial Treasury [LPT] (RSA 2018a), inaccurate indigent registers is one of the challenges confronting municipalities in Limpopo. The Financial and Fiscal Commission [FFC] (RSA 2011a:166) asserts that inaccurate registers are owing to municipalities failing to update their indigent registers regularly. Inaccurate indigent registers may result in indigent consumers, classified as non-indigent being billed non-indigent tariffs, that may then unnecessarily increase the level of consumer debt (RSA 2011a:155-169).

The fiscal status of households may improve over time, therefore municipalities should ensure updated indigent registers and this can be achieved by requiring registered households to reapply for indigent status every year or second year (Mhemhe & Parry 2019:24). Tesselaar

(2017) suggested that municipalities should re-examine all approved indigent applications on a yearly basis. One may then suggest that, irrespective of the intervals between a household's reapplications for indigent status, municipalities should update its indigent register every time there is contact with their customers, in order to preserve a current indigent register.

Based on the available information discussed above, it appears that municipalities are not only facing the challenge of inadequate indigent management, but also the challenge of a large number of households categorised as indigent. This situation may pose a serious threat to the recoverability of municipal consumer debts and, subsequently, the economic sustainability of municipalities. Municipalities would need to update their indigent registers at least annually and following any communication with ratepayers. This would enable municipalities to provide FBS to those indigent consumers, to monitor their use of services and to ensure that services consumed in excess of the FBS are billed accordingly. Maintaining accurate indigent registers would also allow municipalities to focus their policy enforcement efforts on those consumers who are not indigent.

#### *3.4.1.3 Affordability of municipal services*

The affordability of municipal services has been cited by different studies as a contributing factor to the deficient revenue collection challenge confronting municipalities (RSA 2011a:155-169; RSA 2018a; RSA 2019). Jacobs (2019:4) asserted that the ever-increasing municipal consumer debt is the result of the annual increases of municipal tariffs coupled with the rise in the unemployment rate, hence many consumers determine municipal services to be unaffordable and therefore apply for indigent status. SALGA (RSA 2016c) declared that municipalities should consider the impact of increased tariffs on indigent consumers, especially during economic recessions. In support, Moloto and Lethoko (2018:750) claimed that affordable municipal rates may improve revenue collection and, thus, the financial viability of municipalities.

The MFMA circular 78 (RSA 2015:10) emphasised that municipalities should ensure that, at a minimum, its tariffs are adequate to defray the cost of bulk services. On the other hand, in respect of exchange services, municipalities are encouraged to consider the full cost of rendering such services when determining tariffs (Ntlhola 2016:24). Accordingly, Chetty *et al.* (2016) asserted that municipalities, in consultation with communities, should verify that its tariffs are realistic and should also be based on the demand for such services. They suggested that municipalities should then determine the total cost associated with the rendering of all the different services, and this should be used as a basis for setting tariffs. They further asserted that municipalities should consider the number of consumers served when determining the baseline for tariffs.

Chauke and Sebola (2016) claimed that municipal tariffs are not so extreme as to trigger complaints from communities regarding the affordability and thus resulting in inferior revenue collection. They averred that the depressed revenue collection rate is owing to the inadequate enforcement of credit control policies, rather than affordability of municipal services.

Based on the above discussion, one may argue that municipalities are often compelled to charge affordable tariffs instead of tariffs reflecting the actual cost of the services offered to communities. Most municipalities are therefore failing to recover the cost or to break-even with regard to services such as water and electricity (Ntlhola 2016:25) and one may argue that these municipalities have adopted the principle of affordable tariff-setting. On the other hand, elevated municipal tariffs may lead to affordability issues when consumers cannot afford to pay, which may result in deficient revenue collection (Ntlhola 2016:25), due to such municipalities having adopted the principle of cost-reflective tariff-setting.

In view of the level of poverty and unemployment in South Africa, especially in rural municipalities, one may argue that the principle of cost-reflective tariff-setting may remain a dream, never to be realised by South African municipalities. Higher tariffs also have the potential to hamper both emerging and existing businesses, which may again increase unemployment (Ntlhola 2016:25). Based on the aforementioned, it may be argued that municipalities should investigate using a dual system of cost-reflective and affordable tariff-setting, i.e., adopting the affordable tariff-setting principle in respect of basic services such as water, sanitation and electricity, rendering these services affordable irrespective of the consumer's socio-economic background, and adopting the cost-reflective tariff-setting principle in respect of other services such as billboard adverts and the use of municipal facilities such as halls and sport centres.

#### *3.4.1.4 Economic factors*

Ringane (2013:60) asserted that South African consumers' inability to pay for municipal services may be the result of the country's poor economic performance or disappointing economic growth, post-1994. The present South African economy is said to be characterised by low Gross Domestic Product (GDP), high unemployment, weakening currencies, falling consumer confidence, and high levels of consumer debt that can be considered to be a major threat to the financial sustainability and viability of public institutions (Mazibuko 2017). Accordingly, Mazibuko (2017) contended that the continued low GDP growth and high inflation rate could even compel national government to reduce the transfers to municipalities, and this would greatly affect smaller, local and district municipalities, as they are largely reliant on government transfers – more so than metropolises and larger municipalities that possess diversified economies.

Whereas the demand for municipal services is on the rise owing to the increase in the number of persons per household, the weak economic growth and resultant elevated unemployment levels are rendering many consumers incapable of paying for municipal services (Jacobs 2019:69). According to Marota (2017), the evolving economic distress is adding to the number of indigent consumers via job losses, and municipal finances are under pressure as municipal debtors' books increase in response. She further claimed that municipalities cannot manage challenges caused by economic distress as they may not be able to create employment opportunities for people having lost their jobs. The FFC (2016b:200) claimed that South Africa's rural economies are not sufficiently sustainable to be capable of providing the rural impoverished with meaningful opportunities to improve their earning abilities.

SALGA (RSA 2016c:48) asserted that municipal consumer debts are anti-cyclical and extremely sensitive to the local economic environment. According to Mbokodo (2016), the weakening economy results in municipalities facing even greater challenges in generating revenue as a number of businesses restructure or close down, resulting in job losses.

In order to address these challenges, Marota (2017:22) suggested that municipalities should, whilst determining service charges and rates that have to be subsidised via grants received from national government to benefit those consumers having become unemployed, at least create a favourable environment that will be appealing to investors. It may be argued that the suggestion by Marota may be more practical in a metropolis than a rural municipality, as rural municipal environments are characterised by elevated levels of poverty and unemployment and may therefore present less opportunities for potential investors.

It appears that economic factors do not only pose serious threats to the economic sustainability of municipalities, but to that of the entire country. The shutdown of businesses owing to economic instability may result in more people becoming unemployed and consequently less revenue might be collected – not only by municipalities, but also at national level with regard to taxes and this might result in lesser grants and subsidies to municipalities, resulting in municipalities failing to achieve their legislative mandates.

### 3.4.2 Unwillingness to pay

SALGA (RSA 2016c:25) declared that unwillingness to pay implies that a ratepayer can afford to pay for a municipal service but chooses not to do so. The FFC (RSA 2019) claimed that several ratepayers who can afford to pay for municipal services are simply not willing to pay. Unwillingness to pay for municipality services is deemed to be a complex issue that may be triggered by a variety of factors (RSA 2016c:2). As opposed to the inability to pay, unwillingness to pay may be within a municipality's control to contest, in that municipalities may implement measures to address such refusal to pay. Studies cite poor service delivery, deficient billing, and a culture of non-payment, as factors that may affect consumers' willingness to pay for municipal services. These factors are discussed below.

#### *3.4.2.1 Poor service delivery*

Studies found that lack of or poor service delivery affects municipal revenue collection (Beyers 2016; Chetty *et al.* 2016; Enwereji & Potgieter 2018; Jacobs 2019; Kanyane 2011b; Majikijela 2007; Mavhungu 2011; Mazibuko 2013; Moloto & Lethoko 2018; Pieters 2015; Ringane 2013; RSA 2019). Govender and Reddy (2015:17) asserted that poor service delivery, which they perceive to be a national challenge, has many rendered ratepayers increasingly dejected and/or aggravated, and this has led to service delivery protests.

According to Jacobs (2019), the past two decades have seen an increase in the demand for services by communities, owing to the growing population and urbanisation. Conversely, municipal revenue streams have been heading in the opposite direction, and it results in municipalities failing to fund expenditure demands by the community (RSA 2019:30). The continuously expanding gap between the revenue streams and community demands is the reason municipalities are facing service delivery protests and resistance to payment of services by communities (RSA 2019:30).

Stats SA (RSA 2016d:64) contended that consumers should have access to adequate, clean drinking water, as this is important for their health, welfare and safety. The quality and availability of water services are therefore considered to be vital to the quality of human lives and for improving their standard of living (RSA 2016d). However, absence of a safe and dependable water supply is considered the highest ranked challenge among the five leading challenges faced by residents in South Africa (RSA 2016d).

Stats SA (RSA 2016d) indicated that the objectives to reduce poverty and inequality will certainly not be achieved unless municipalities address the issue of service delivery to their communities, particularly sanitation services and the provision of electricity. Stats SA (RSA 2016d) considered basic sanitation and the provision of sustainable energy to be a human right – the provision of which is the responsibility of Government.

Makale (2015:1) claimed that even though municipalities are under pressure financially, they experience even more and tremendous pressure to provide for the basic needs of communities. Jacobs (2019:24) contended that failing to collect payment for services rendered will render municipalities incapable of fulfilling its constitutional mandate of service provision. Stats SA (RSA 2016d) declared that, irrespective of poor financial resources, the government is still required to fulfil its legislative mandate of service provision with limited financial resources. With this said, one may argue that municipalities apparently have no choice but to deliver services irrespective of the state of its finances.

Ringane (2013) claimed that debt collection is directly linked to service delivery. Municipal failure to collect revenue compromises the delivery of quality and sustainable services to communities, as revenue is a crucial driver of service delivery (Nkabane 2016). According to Kanyane (2014:103), revenue collection must be proportionate to services provided, in order to motivate a consumer culture of payment and avoid municipal debt accumulation. Jacobs (2019) asserted that the quality and sustainability of municipal service are linked to a solid revenue base, and if the two cannot be linked, it would be a recipe for failure. In simple terms, one may say that municipalities require financial resources to provide quality and sustainable services that may then result in enhanced revenue collection.

The need to improve municipal performance is supported by South Africa's acceptance of the challenge that access to quality services is no longer a privilege, but a right (Kanyane 2014:91). Makale (2015:28) declared that while South African municipal service standards remain below the country's targeted standards, there is an improvement of service provision in rural areas since the advent of democracy, however, this becomes irrelevant in this study as municipalities do not levy rural communities for the services rendered and thus does not have any effect in encouraging ratepayers to pay for municipal services.

It is clear from research in Nigeria and Tanzania that service delivery and revenue collection are interrelated, and that where there is a lack of services or poor service delivery, it is accompanied by poor municipal revenue collection. As gleaned from African literature, South African municipalities may also need to educate ratepayers concerning the importance of paying for municipal services and its significance in relation to the provision of quality and sustainable services.

#### *3.4.2.2 Deficient billing*

Similar to Zimbabwe, studies in South Africa found that deficient billing affects municipal revenue collection (Jacobs 2019; Mazibuko 2013; Nkabane 2016; RSA 2011a:155-169; RSA 2016b; RSA 2016c; RSA 2018a; RSA 2019). Jacobs (2019:9) affirmed that municipal revenue enhancement is contingent on the reliability of its metering services and the subsequent accurate billing of such services. He further posited that the municipal billing system is a critical instrument in the success of municipalities and such billing systems will also require accurate data to produce exact billing in order to improve revenue collection.

To improve ratepayers' confidence and enhance revenue collection, municipalities need to ensure accurate metering and billing (Chetty *et al.* 2016:84). To achieve this, municipalities must ensure the accuracy of customers' details and that precise meter readings are correctly captured in the billing system to produce accurate bills. In addition, municipalities must ascertain that the correct tariffs for municipal services are captured in the billing system in relation to customer categories.

With the billing challenges experienced by the City of Johannesburg, the FFC (RSA 2011a:166) asserted that deficient billing is not only a challenge confronting rural or smaller municipalities. If metropolises have such challenges, one may argue that rural or smaller municipalities' billing challenges may be worse, considering their smaller revenue bases and lack of financial resources to procure solid billing systems. On that note, Mazibuko (2013:164) contended that municipal billing system challenges are triggered by several factors including erroneous monthly bills that cause consumers' unwillingness to pay for service consumption. These billing related challenges may then be categorised as follows:

- *Incorrect or inaccurate meter readings*

Manda (2013) posited that the majority of challenges faced by municipalities with regard to billing arise from incorrect or inaccurate meter readings that affect the reliability of municipal billing data. Incorrect meter readings are said to result from, *inter alia*, insufficiently trained meter readers, inadequate controls in respect of ensuring accurate meter readings, faulty or broken meters, and insufficient access to household meters by meter readers.

Pombo-van Zyl (2017) conducted a study on smart metering, a metering system that can address most billing challenges faced by South African municipalities. She defines smart meters as electronic measurement devices employed by utilities to communicate information to bill customers and to facilitate overall management of their networks. She asserted that the features associated with smart metering can benefit both municipalities and its ratepayers. Several of the benefits of smart metering, according to Pombo-van Zyl's (2017) study, are:

- Elimination of estimated billing;
- Enhancement of meter reading accuracy;
- Reduction of physical meter reading costs (labour and transport costs);
- Easy detection of fraud and leakages;
- Provision of a new communication channel between municipalities and customers; and
- Protecting revenue by means of remote disconnection for non-payments.

Ngcobo and Crous (2018) conducted a study on the smart metering system referred to as "prepaid metering" and discovered that the system may assist in addressing billing and revenue collection challenges faced by South African municipalities. According to them, the design philosophy of prepaid metering requires the customer to pay upfront for service (electricity or water) consumption based on approved municipal service tariffs. Prepaid meters are said to have features that can address most metering challenges confronting municipalities, such as meter tampering and leakages (Ngcobo & Crous 2018).

Pombo-van Zyl (2017) cautioned that although smart meters could be beneficial, there are concerns associated with smart metering that municipalities should consider prior to its implementation. These challenges include, *inter alia*, the cost to consumers, possible insignificant cost savings, and increasing unemployment resulting from the layoffs of meter readers. Considering both these benefits and concerns, one may argue that smart metering may present the much-needed solution to billing challenges confronting municipalities, however, each municipality may need to conduct an in-depth cost-benefit analysis to determine if smart metering is the appropriate solution.

❖ *Incorrect or inaccurate valuation rolls*

Property data is crucial to municipalities' ability to raise charges, as revenue collection is directly linked to properties (Du Plessis 2016). According to Du Plessis (2016), municipalities should ensure that all properties located in their authority-area are listed on their valuation rolls, and the key is the purpose of the property, as that determines the tariff that should be charged in respect of such a property. He also encouraged municipalities to conduct regular inspections of these properties, to record any change of activities or any possible development that may require supplementary valuation.

In terms of section 32 of the MPRA (RSA 2004), a general valuation roll remains valid for the financial year it was prepared for, or for one or more subsequent financial years, as the municipality may decide, but not for more than four financial years in total. Section 77 of the MPRA (RSA 2004) states that a municipality must regularly, but at least once a year, update its valuation roll by initiating the preparation of a supplementary valuation roll. In terms of section 78 of the MPRA (RSA 2004), a municipality must, where necessary, cause a supplementary valuation to be made in respect of any rateable property:

- Incorrectly omitted from the valuation roll;
- Included in the valuation roll following the last general valuation;
- Subdivided or consolidated following the last general valuation;
- Of which the market value has substantially increased or decreased for any reason, following the last general valuation;
- Substantially incorrectly valued during the last general valuation;
- That must be valued for any other exceptional reason; or
- in respect of which the category has changed.

According to the FFC (RSA 2016b:203), some municipalities' property registers and valuation rolls are outdated or not in place, creating difficulties in respect of the property tax administration process that may then render the billing of property rates incorrect or inaccurate. To address this challenge, the FFC (RSA 2016b:204) recommended that assistance should be provided to rural municipalities by the national and provincial departments of Cooperative Governance and Traditional Affairs (CoGTA). Rural municipalities should then ensure that their property registers and valuation rolls are in place and updated accordingly, and that it is adequately capacitated to collect and administer property rates (RSA 2016b:204).

- *Incorrect or incomplete data*

SALGA (RSA 2016c:3) contended that the sound operation and integrity of municipal billing systems are largely dependent on the quality and accuracy of the data that informs such systems. SALGA (RSA 2016c:3) further stated that inaccurate data may, therefore, potentially compromise the entire billing and revenue collection process. With this said, one may argue that municipalities should invest in data management systems to improve their billing and revenue collection abilities.

SALGA (RSA 2016c:5) declared that precise data is an important component and determines the integrity of the entire revenue management chain. According to Du Plessis (2016:24), the implementation of programmes to constantly update fundamental municipal customer data, is crucial. According to SALGA (RSA 2016c:3), fundamental customer data, used in revenue planning and billing, is a key determinant of the success of municipal revenue management and the billing process. On that note, Du Plessis (2016) identified the most pertinent customer data to be that of the customer's identity number, residential address, postal address, cell phone number, e-mail address and employment status.

- *Unreliable billing systems*

Billing systems must reflect key information such as billing data and customer data, to ensure that statements of account are sent timeously to the relevant customers (RSA 2012:15). To be considered reliable, a municipal billing system should possess preventative and detective competencies, able to compile and display exception reports, accounts that are in arrears and disconnection reports (RSA 2016c:5). If these exceptions are addressed by the municipalities in good time, non-payments by consumers may potentially be minimised.

Mazibuko (2013:iv) asserted that incorrect and inaccurate municipal billing systems may potentially cripple the South African local government system. However, in a study conducted by SALGA (RSA 2016c), it was found that most municipal billing systems are able to support comprehensive revenue management. The one concern noted by SALGA (RSA 2016c) was that proper performance of billing systems is dependent more so on municipal administrative capacity than technical capacity, as it was discovered that in several municipalities the billing systems were not programmed to process basic requirements, such as exception reports. According to Coetzee (2015:13) it is important to reiterate that the fundamental factor impacting improved municipal revenue management is contained within the municipality acting to improve internal capacity and systems.

Based on the above review, if deficient billing results in underbilling, it may affect the economic sustainability of municipalities, as less revenue will be collected, whereas overbilling may affect the willingness of ratepayers towards paying for municipal services. Municipalities may need to improve the reliability of their billing, in order to regain the trust of ratepayers, improving their willingness towards paying their municipal accounts. This may be achieved via determining cost-reflective yet affordable tariffs, ensuring that valuation rolls are frequently updated and utility meters are accurately read every month, correctly categorising ratepayers' property types to determine the appropriate tariff-scale, and the employment of reliable billing systems. In addition, municipalities should also ensure that the majority of billing related activities are automated, in order to reduce the effect of human error – one of these automated systems that may be considered is "smart metering", as suggested by Pombo-van Zyl (2017).

#### *3.4.2.3 Culture of non-payment*

The culture of non-payment of municipal services has been cited by different studies as one of the major contributing factors to revenue collection challenges faced by municipalities in South Africa (Chauke & Sebola 2016; Chetty 2015; Chetty *et al.* 2016; Fjeldstad 2004; Jacobs 2019; Lubbe & Rossouw 2008; Mavhungu 2011; Nkabane 2016; Ringane 2013; RSA 2011a). According to Lubbe and Rossouw (2008:21) the culture of non-payment for municipal services originates in South Africa's Apartheid administration. Fjeldstad (2004:540) claimed that consumers used to boycott the payment of municipal services in the fight against what was considered an illegitimate administration. During that time, the culture of non-payment was justifiable and presumed by the former administration, however, it was never expected to continue under the new administration (Mavhungu 2011:24).

It is now twenty-seven years (in 2021) into democracy and the culture of non-payment still poses a serious threat to the sustainability of most South African municipalities. It is evident that the chief weapon of boycotting the payment for municipal services has overlapped into the post-Apartheid era.

Based on the above discussion, it appears that municipalities need to implement stringent measures to eliminate the culture of non-payment in order to prevent its effect on municipal revenue collection. Having access to adequate revenue bases is meaningless, should municipalities fail to collect the revenue due to, *inter alia*, the culture of non-payment. The culture may be due to a lack of awareness and, as a result, South African municipalities may need to educate ratepayers concerning the mandates of municipalities and the funding of such mandates, as suggested by studies in Ghana, Nigeria and Kenya.

### 3.4.3 Other factors

#### *3.4.3.1 Exemption of traditional land*

According to the FFC (RSA 2019), one of the critical factors that negatively affects revenue generation and collection by rural municipalities, is the fact that traditional land in South Africa is currently exempted from municipal property rates and service charges, and such land do not house impoverished households only, but also affluent households and businesses. These affluent households and businesses are, thus, not contributing to the funding of municipal operations (Infrastructure Dialogues 2015:6). The FFC (2016b:197) asserted that the tax base of rural municipalities is exceedingly constrained, resulting in reduced collection of revenue when the results are compared to those of urban municipalities.

It appears that the exemption of traditional land from municipal service charges and taxes is limiting the current weak revenue bases of municipalities. The effect of this exemption is mostly experienced by rural municipalities that serve rural traditional land and it affects the economic sustainability of these municipalities. In most cases, rural municipalities are limited with regard to the areas from which they derive revenue, owing to the rural nature of the municipal zone. Whereas traditional land is exempted from paying for municipal services, municipalities are still expected to provide services to these areas, despite limited financial resources. Legislation amendments may be needed, in order to extend the billing of services to traditional land areas where residents or businesses can afford to do so.

#### *3.4.3.2 Political interference.*

As discovered in other African countries, revenue collection in South African municipalities were also found to be negatively impacted by political interference (Bogopa 2013; Chetty 2015; Kanyane 2014; Paradza, Mokwena & Richards 2010). Chetty (2015:102) discovered that municipalities have approved debtors' policies, however, there was lack of support from politicians on the enforcement of these policies and that many politicians' municipal accounts were also in arrears.

The incentive system regarding the allocation of grants and subsidies, employed by Ghana, may be beneficial to South African municipalities. Should grants and subsidies be allocated based on own revenue collected, then municipal councils would have no choice but to cease interference with the enforcement of revenue collection policies and by-laws concerning defaulters. It may also encourage politicians to direct tax education in order to educate ratepayers concerning the importance of paying for municipal services and the consequences of non-payment as it relates to service delivery.

#### *3.4.3.3 Deficient revenue collection practices*

As with other African countries, South African studies discovered that deficient revenue collection practices contribute to inadequate revenue collection by South African municipalities (Aboojee 2017; De Lange 2017; Kanyane 2011b; RSA 2016c; RSA 2018a; RSA 2019). In a study conducted by the LPT (RSA 2018a) ineffective revenue and debt management forums, sub-standard coordination of revenue and debt management, and lack of proper municipal structures supporting revenue management, were some of the weaknesses considered to be affecting revenue management by municipalities.

According to the FFC (RSA 2019), the enforcement of revenue collection policies is further hindered by unavailability of property ownership information owing to delays by the deeds office. Furthermore, they asserted that a great number of municipalities are failing to enforce revenue collection policies due to the lack of access to enforcement instruments, e.g., to facilitate withholding electricity supply should the municipality be the supplier – as the South African Electricity Supply Commission (Eskom) is supplying electricity directly to some municipal communities. The FFC (RSA 2019) contended that a municipality may boast the best credit control policy, however, if there is no revenue collection enforcement instrument then the policy is not viable.

According to Kanyane (2011a:944), municipalities must ensure that all consumers are billed for municipal services consumed and that all monies owed for these services are collected. Chetty (2015) asserted that effective credit control is crucial to service delivery, as service delivery is dependent on the effective implementation of credit control policies concerning the collection of own revenue. To manage the non-payment of municipal services, a municipality must develop a process to effectively deal with defaulters (RSA 2016c:31).

In the case of rural municipalities, the cost of debt collection and the implementation of credit control policies are said to outweigh the actual benefits of such revenue collection (RSA 2016c:4). This may, therefore, cause these municipalities to decide to invest the modest available funds in service delivery, rather than in costly revenue collection activities that will result in even less significant amounts of revenue collected.

Aboojee (2017) argued that the collection of overdue debt, revenue management, meter reading, and the management, cleaning up and verification of customer data, are non-core tasks and municipalities should consider outsourcing these functions as it may assist municipalities in delivering services at a lower cost and employees may focus only on administrative- and services delivery activities. According to him, several municipalities have benefited from outsourcing revenue collection activities to external service providers.

Based on the above discussion, it appears that deficient revenue collection practices are financially crippling municipalities. De Lange (2017:20) suggested that municipalities develop ground-breaking debt collection and revenue enhancement strategies to address the existing and new challenges concerning deficient revenue collection confronting them. He further accentuated the importance of recruiting and training dedicated officials in the revenue management divisions, who will specialise in the different revenue related activities, i.e., managing litigation or soft collections. One of the lessons learned from the African literature review is the dire consequences of failure to take legal action against defaulters. To address this challenge, municipalities may need to ensure that policies and by-laws are in place, as required by the legislation. Thereafter, municipalities should capacitate themselves to fully enforce the policies concerning defaulters or consider outsourcing these functions, as suggested by Aboojee (2017).

#### *3.4.3.4 Lack of capacity*

Lack of capacity is another factor found to be negatively affecting revenue collection by municipalities (Chetty *et al.* 2016; Jacobs 2019; RSA 2019). Moloto and Lethoko (2018:749) asserted that the level of capacity and expertise of personnel managing municipal revenue, directly impact the development of revenue collection strategies and the effectiveness of revenue collection by municipalities. According to Chetty *et al.* (2016), municipal functions must be sufficiently capacitated with reference to competent personnel able to satisfactorily manage the responsibilities of such municipal functions.

In a survey conducted by the FFC (RSA 2019), participants indicated that the lack of administrative capacity to perform activities such as the preparation of proper and reliable valuation rolls and the enforcement of collection policies, is affecting revenue collection. Chetty *et al.* (2016:82) claimed that municipal managers are failing municipalities' revenue collection processes by failing to assign sufficient staff to the revenue collection division, and this compromises the implementation of revenue collection policies.

Lack of municipal capacity to perform revenue collection activities may potentially negatively affect the economic sustainability of municipalities. This lack of capacity may be one of the factors contributing to, *inter alia*, deficient revenue collection practices, inaccurate billing and inadequate service delivery. The FFC (2016b:204) recommended that rural municipalities be sufficiently capacitated to allow proper administering of revenue management activities. This may require interventions from provincial and national government, as the majority of rural municipalities are exceedingly dependent on grants and may not possess the financial resources to capacitate themselves in order to collect revenue efficiently and effectively.

## 3.5 Comparison of South Africa's municipal challenges to those faced by municipalities in Africa

It appears that South African municipalities are experiencing similar challenges to those of municipalities around the African continent. These challenges affect municipal financial viability and sustainability. Table 3.1 below indicates the municipal challenges experienced by South African municipalities, in comparison to other municipalities in Africa.

**Table 3.1: Comparison of South African and African municipalities' challenges**

| Factors affecting revenue collection | South African Municipalities | Other African Municipalities |
|---|---|---|
| a. Poverty and unemployment | ✓ | ✓ |
| b. Poor indigent management | ✓ | X |
| c. Affordability of municipal services | ✓ | X |
| d. Economic factors | ✓ | X |
| e. Poor service delivery | ✓ | ✓ |
| f. Poor billing | ✓ | X |
| g. Culture of non-payment | ✓ | X |
| h. Exemption of traditional land | ✓ | X |
| i. Political interference | Partial | ✓ |
| j. Poor revenue collection practices | ✓ | ✓ |
| k. Lack of capacity or resources | ✓ | ✓ |
| l. Property rates related challenges | Partial | ✓ |
| m. Technology | Partial | ✓ |
| n. 14. Lack of awareness | X | ✓ |
| o. 15. Corruption and embezzlement | Partial | ✓ |

Based on table 3.1, poverty and unemployment, poor service delivery, poor revenue collection practices, and lack of capacity or resources, appear to be common factors affecting revenue collection by African municipalities. Political interference, property rates related challenges, technology, and corruption and embezzlement, are other challenges appearing to be communal – however, only reported to be moderately affecting municipal revenue collection in South Africa in comparison to other African municipalities.

Although economic factors and affordability of services have not been reported in the other African countries, it may be argued that these are relevant as well, as poverty and unemployment rates are reportedly elevated in those countries. A weak economy may give rise to poverty and unemployment owing to the closure of businesses, which may result in lack of affordability regarding municipal services by the impoverished and unemployed.

In South Africa, billing challenges are reported to be affecting revenue collection, whereas in other African countries, lack of technology is reported to be affecting revenue collection. It may then be argued that the two challenges are interrelated as, in Africa, most municipalities are still manually invoicing metered services, whilst in South Africa electronic billing systems are available, however, its application to billing and metering services appears to be challenging and result in inaccurate billing.

From the literature reviewed, poor indigent management, a culture of non-payment, and the exemption of traditional land from payment for property rates and municipal services, are factors that have only been reported in relation to South African municipalities. On the other hand, the literature reviewed does not reveal the lack of awareness to be affecting revenue collection in South African municipalities, whereas it is affecting other municipalities in Africa. Those factors affecting revenue collection in South Africa and in other African countries will be incorporated into the data collection of this study, to determine its effect.

## 3.6 Financial viability of South African municipalities

### 3.6.1 Effect of poor revenue collection on financial viability

Non-payment for municipal services, also known as municipal consumer debt, presents a dismal challenge that affects the financial viability of most South African municipalities (Coetzee 2015:13; Jacobs 2019:21; RSA 2011a:155; RSA 2016c:12; RSA 2019:30). Municipal consumer debt can undermine the cash position of municipalities, thereby limiting its capacity to fulfil its constitutional responsibilities, reduce finance available for the delivery of basic services, infrastructure maintenance and upgrading, and overburden the existing tax base by increasing the need for subsidisation by wealthy taxpayers ( Peyper 2016).

According to the LPT (RSA 2018a), municipalities in Limpopo province are not financially viable, typically owing to a weak revenue base and deficient revenue- and debt collection that negatively impact its capability to deliver or sustain services to communities. Jacobs (2019) believed that financial viability and service delivery are directly linked and this may signify that failure to collect municipal revenue will result in the accumulation of municipal debt, limiting municipal financial resources and, consequently, its ability to provide sustainable services.

In a study conducted by Molobela (2016:266) of Polokwane Municipality, municipal officials argued that without revenue no services can be sustained by municipalities. Molobela (2016:265) asserted that the functionality of municipalities depended on effective revenue and debt collection practices to enable continued service delivery.

The inability to collect debt and account for revenue, and deteriorating financial resources, were some of the main reasons for municipalities' poor financial performance in the 2014/15 financial year (Peyper 2016). According to Kanyane (2011b), the majority of municipalities are only able to collect a slight portion of its revenue and then only following extended delays, resulting in cash flow issues, the inability to timeously pay its creditors, a lack of funds to maintain and expand infrastructure, and above all, poor service delivery.

Beyers (2016:168) claimed that nearly all rural municipalities were economically inactive and financial unviable – attributed to the limited ability to generate sufficient revenue. Dzengwa (2007:272) asserted that municipalities that are neither financially viable nor economically active will find it difficult to provide services as well as sustaining their revenue generation powers, and this hold dire consequences, as such municipalities may be stripped of their legislative powers in accordance with section 139 of the MFMA (Kanyane 2011a).

A study by Jacobs (2019) found that own revenue collection is crucial to improving the financial independence of municipalities. According to him, municipalities that intend to improve their financial viability and sustainability need to improve activities such as credit- and debt collection, indigent management, credit control management, tariff setting, metering services to ensure accuracy of billing, and cash flow management.

Improvement of financial viability and sustainability do not end with the collection of the revenue owed to municipalities, but include planning, developing and implementing effective revenue enhancement strategies with the aim of maximising municipal revenue bases (Jacobs 2019:3). Although he acknowledged the challenges faced by municipalities in relation to revenue collection, he believed that municipalities should strive to maximise revenue collection if it intends to improve its financial viability and sustainability.

Based on the above analysis, it may be argued that South African municipalities urgently need to develop and implement revenue collection processes to address poor financial capacity. Addressing this issue would render the municipality financially viable and able to sustain the provision of services to communities.

### 3.6.2 General financial viability

Various researchers asserted that most South African municipalities were not financially viable and sustainable, owing to poor revenue collection (Jacobs 2019; Kleynhans & Coetzee 2019; Moloto & Lethoko 2018). Kanyane (2011a) stated that public finance is the dominant factor determining local government viability and, without sound financial management systems, its continued operation may be affected. Moloto and Lethoko (2018) believed that financial viability was a key factor in ensuring the sustainability of service delivery and this should be achieved by financing such services via own-revenue. The FFC (RSA 2011a:156) asserted that financial viability is an important component of the legislated roles and responsibilities of all three spheres of government, aimed at ensuring a viable and sustainable local government sphere. Concerning long-term financial viability, the White Paper (RSA 1998c:192) stipulates that municipalities should ensure that revenue owed to them is collected. Walbrugh (2015:2) asserted that financial viability required a sufficient supply of money to keep the service delivery machine going, although obtaining this money is a constant challenge.

Gwele (2015:10) declared that, since the introduction of local government in 2000, municipal financial sustainability has been a challenge. According to Lorgat (2015:9), the deteriorating financial status of a number of municipalities is evident of poor financial management and institutional incapacity. Kanyane (2011a) asserted that the bulk of municipalities are surviving owing to grants and subsidies by national government, and if such grants were terminated these municipalities would not survive, financially.

## 3.7 Chapter Summary

This chapter considered the legislative framework of municipalities and the different findings from various studies conducted in South Africa. Most importantly, it provided the history of non-payment of municipal services as well as the current state of municipal debt and its effect on the financial viability and sustainability of municipalities in South Africa.

A comparison of the factors affecting revenue collection in South Africa and in other African countries was conducted, to determine common factors that are affecting revenue collection on the African continent. These results were compared to the findings of this study.

The next chapter will address the research methodology followed in conducting this study. It will also include discussions of the research instruments employed and the data analysis.

# Chapter 4: Research Design and Methodology

## 4.1 Introduction

Chapter 3 provided an overview of the South African legislative framework in respect of municipal revenue management. It also provided a review of research studies concerning municipal revenue management and the financial viability of South African municipalities. Moreover, it also examined the sources of South Africa's municipal revenue and factors affecting municipal revenue collection, followed by a comparison of these factors to those affecting municipalities in other African countries.

This Chapter outlines the research design and methods of this study. It also delineates the instruments employed regarding data collection and data analysis, as well as the sampling methods. Ethical considerations observed and executed by the researcher in this study, are also presented.

## 4.2 Research Paradigm

Johnson and Christensen (2014) and Kamal (2019:1389) relate the concept of the "research paradigm" to an approach of thinking about research and doing the research. Dawadi *et al.* (2021:25) and Johnson and Christensen (2014) argue that a paradigm is a philosophical stance that informs the methodology and guides the process of research. Accordingly, Kamal (2019:1389) believes that a researchers' actions are guided by their thoughts and beliefs.

### 4.2.1 Major paradigms

#### *4.2.1.1 Constructivism paradigm*

Social constructivism, also referred to as interpretivism (Fetters, Curry & Creswell 2013) is described as a worldview that supports natural methods (Cohen, Manion & Morrison 2007:21; Dawadi *et al.* 2021:26; Rehman & Alharthi 2016:55). Fetters *et al.* (2013) and Cohen *et al.* (2007:21) asserted that social constructivists believe that the social world can only be understood via the opinions and clarifications of the people being examined, and this is associated with qualitative research approaches (Kaushik & Walsh 2019:2).

#### *4.2.1.2 Positivism paradigm*

Positivists are of the opinion that human nature is common and it is not dependent on one's ethnicity, beliefs and historical backgrounds (Babbie & Mouton 2008:23). As a result, positivism assumes that reality exists separately of individuals and is not mediated by individuals' minds but ruled by unchallengeable rules, and this is associated with quantitative research approaches (Dawadi *et al.* 2021:33; Kamal 2019:1390; Rehman & Alharthi 2016:53).

### 4.2.2 Research approach

As mentioned in section 1.11.1, a mixed methods approach was employed for this study. The mixed methods research approach is defined as a process of research that combines the mixing of qualitative and quantitative research approaches and techniques in a single study (Creswell 2014, 2015; Dawadi *et al.* 2021:27; Johnson & Christensen 2014; Pardede 2018; Piccioli 2019). The mixed methods research approach holds both advantages and disadvantages.

According to Dawadi *et al.* (2021), Onwuegbuzie, Slate, Leech and Collins (2007), Pardede (2018), and Sarantakos (2013), the advantages of mixed methods research are:

- It provides researchers with ways of improving the capacity of their methods and to enrich the quality of their findings, and its validity, credibility, reliability, usability, generalisability and popularity.
- Increased comprehensiveness of findings, deeper insightful understanding, and greater consciousness and diversity (Dawadi *et al.* 2021:27; Pardede 2018:233).
- Clough and Nutbown (2002) and Pardede (2018:233) asserted that mixed methods research assists in enhancing higher levels of academic and scientific standards.
- Onwuegbuzie *et al.* (2007) confirmed the superiority of mixed methods research when managing two different types of data concurrently – that is not possible with the other traditional research approaches. They insisted that this ability to apply two types of data to a single study furthermore provides the advantage of complementarity, where the limitations of one method are reduced by the other method (Pardede 2018:233).
- Creswell and Plano Clark (2011) and Pardede (2018:233) indicated that a mixed methods approach to research provides the opportunity to achieve a better understanding of the

phenomenon studied, since combining qualitative and quantitative data provide a collective strength.

On the other hand; Clough and Nutbown (2002), Dawadi *et al.* (2021) and Sarantakos (2013) argued that mixed methods research may be challenging, especially to beginner-researchers. Authors that doubt the benefits of mixed methods research cite the following drawbacks:

- ❖ Dawadi *et al.* (2021:33) and Onwuegbuzie (2012) debated that one of the pitfalls of mixed method research is the existence of incompatibilities of the ontology, epistemology, methodology, paradigm, research design and ideology of quantitative and qualitative research. Historically, qualitative and quantitative research methods have always been deemed separate and impossible to combine in a study.
- ❖ Pardede (2018:233) and Sarantakos (2013) claim that since quantitative and qualitative research are incompatible, employing both approaches in a single study might not result in valid and acceptable outcomes.
- ❖ Clough and Nutbown (2002) and Dawadi *et al.* (2021:33) observed that qualitative and quantitative research do not examine the same kind of phenomenon and therefore cannot be combined for cross-validation or triangulation purposes, however, it may rather be combined for complementary purposes.

The qualitative part of this research was conducted in two phases. The first phase comprised document analysis of the municipality's financial records and other revenue-related information, in order to determine the financial position of the municipality via the principles of economic sustainability (financial viability and sustainability). The second phase entailed interviews with municipal officials, focusing on the research problem (the municipal perspective). The quantitative part of the research involved the administering of questionnaires in order to gather data from the MLM's community members (the community perspective).

## 4.3 Research Design

A research design is a strategy or plan for a study that is used as a guide in collecting and analysing the data, in a quest to respond to research questions (Johnson & Christensen 2014; Leech, Dellinger, Brannagan & Tanaka 2009; Leedy & Ormrod 2010; Kassu 2019; Pandey &

Pandey 2015). Pandey and Pandey (2015) indicated that, on a general level, a solid research design minimises bias and maximises the reliability of the data collected and analysed. They indicated that a good research design should possess characteristics such as objectivity, reliability, validity, generalisability, and the ability to provide adequate information concerning the research problem.

As mentioned in section 1.11.2, the researcher adopted a concurrent mixed methods design. Concurrent approaches are said to consume less time, as both qualitative and quantitative data are collected simultaneously in the field (Creswell 2014; Dawadi *et al.* 2021; Johnson & Christensen 2014; Pardede 2018). In this study, the researcher conducted the analysis of the municipality's financial affairs first (chapter 5), followed by interviews of municipal officials and questionnaires administered to ratepayers.

## 4.4 Research Methodology

Research methodology is described as the general approach selected by the researcher in executing a research project that dictates the tools the researcher selects to conduct the research (Igwenagu 2016:5; Kassu 2019:1; Leedy & Ormrod 2010:12). Methodology is understood to provide a path via which the research process flows and is directed by credible strategies developed over time by previous researchers.

### 4.4.1 Qualitative method: phase one

#### *4.4.1.1 Research instrument: document analysis*

Document analysis was performed during phase one of the qualitative data collection. Document analysis is defined as a form of qualitative research in which documents, both printed and electronic material, are interpreted by the researcher, to afford it a voice and meaning, during assessment of a topic or research problem (Bowen 2009:27; Dalglish, Khalid & McMahon 2020:1424; Ward & Wach 2015:5). According to Bowen (2009:27), document analysis involves browsing, reading and analysis of documents in their different forms.
According to Creswell (2014:190), qualitative documents comprise public documents (e.g., newspapers and minutes of meetings) or private documents (e.g., letters, e-mails and internal reports). Bowen (2009:29-30) identified five specific functions of documentary material:

- Documents can provide data in respect of the context within which research participants operate;
- Information contained in documents can suggest some questions that need to be asked and situations that need to be observed, as part of the research;
- Documents provide supplementary research data;
- Documents provide a means of tracking change and development;
- Documents can be analysed to verify findings or corroborate evidence from other sources.

*Advantages of documents analysis*

(Bowen 2009:31)

- Documents allows the researcher access to the language and words of participants;
- Documents can be accessed at a time convenient to the researcher – it is an unobtrusive source of information;
- Documents represent data to which participants have given attention (applied their minds);
- As written evidence, documents save the researcher the time and expense of transcribing.

*Disadvantages of documents analysis*

(Bowen 2009:31-32)

- Not all documented information is equally articulate and perceptive;
- Documents may contain protected information unavailable to the public or private access;
- It may require the researcher to search out the information in hard-to-find places;
- Documents typically require transcription or optically scanning to enable computer entry;
- Materials may be incomplete;
- The documents may not be authentic or accurate.

To limit the effect of the disadvantages ascribed to document analysis, the researcher applied the following measures:

- Approval to conduct the research was obtained from the municipality selected for purposes of the study (annexure 1);
- Most of the information analysed was in electronic format and soft copies (mostly system generated);
- The documents analysed in the study were approved by the municipal council and were audited by the Auditor-General of South Africa.

#### *4.4.1.2 Data collection*

The following information was requested from the municipality to enable analysis of the municipality's state of financial affairs:

<u>Finance-related reports:</u>

- ❖ Audited Annual Financial Statements (2016/17, 2017/18 and 2018/19 financial years);
- ❖ Annual and Adjusted Budgets (2016/17, 2017/18 and 2018/19 financial years);
- ❖ Integrated Development Plans (2016/17, 2017/18 and 2018/19 financial years);
- ❖ Budget and Treasury Office Organisational Structures (2019/20 financial year).

#### *4.4.1.3 Data analysis*

Municipal financial records such as budgets and annual financial statements were analysed utilising ratios and pie charts analysis. The analysis was conducted to determine the financial viability and sustainability of the municipality relative to the principles of the theory of economic sustainability. The analysis of this information is presented in chapter 5 – regarding the analysis of the municipal financial affairs. The results of the analysis of the municipal financial affairs informed the interviews conducted in the second qualitative phase.

### 4.4.2 Qualitative method: phase two

#### *4.4.2.1 Research instrument: interviews*

The results of the document analysis and findings from other studies (literature review), underpinned by the economic sustainability theory, were employed to determine the interview questions. An interview is a data-collection instrument, involving a face-to-face conversation between a researcher and a participant that includes the transfer of information from the participant to the interviewer (Creswell 2012:382; de Trigueros 2017:2; Johnson & Christensen 2014). Interviews are primarily a qualitative research method and occur when researchers present one or more participants with general, open-ended questions, and record their answers (de Trigueros 2017:2; Johnson *et al.* 2020:141; Quad 2016). Interviews are proclaimed to be useful to uncovering the story behind a participant's experiences and for pursuing in-depth knowledge concerning a topic (Johnson *et al.* 2020:141; Quad 2016).

*Advantages of interviews*

(Quad 2016)

- Interviews are useful when participants cannot be directly observed;
- Interviews enable participants to provide historical information;
- Interviews allow the researcher control over the line of questioning.

*Disadvantages of interviews*

(Quad 2016)

- Interviews provide indirect information filtered through the views of interviewees;
- Interviews provide information in a designated place, rather than the natural field setting;
- The researcher's presence may influence bias of responses;
- Not all people are equally articulate and perceptive.

#### *4.4.2.2 Data collection*

- *Interview structures*

The researcher conducted recorded telephonic interviews to gather additional qualitative data (annexure 3). This was done to observe COVID-19 lockdown regulations that prohibited physical contact between individuals during the lockdown period. The researcher posed both open-ended and close-ended questions during the interviews. According to de Trigueros (2017:11) and Welman *et al.* (2005:174), open-ended questions are those questions posed with no prompting regarding the range of answers expected, whereas closed-ended questions offer the respondent a range of answers to choose from, either verbally or from a show card. The researcher employed mostly open-ended questions to allow respondents to express their opinions and to share their experiences of municipal revenue management, whereas closed-ended questions were posed in respect of certain aspects where the researcher required direct answers.

The interviews were semi-structured and the researcher drafted a list of themes and questions to be discussed. With regard to the semi-structured interviews, instead of using an interview schedule, the researcher employed an interview guide involving a list of topics related to the given theme, to be raised during the course of each interview (de Trigueros 2017:3; Donalek 2005:124; Quad 2016; Welman *et al.* 2005:166).

- *Interview pilot test*

DeJonckheere and Vaughn (2019:5) and Leedy and Ormrod (2010:192) asserted that researchers may save time in the long run should a pilot test of the questions be conducted prior to the commencement of actual data collection. Considering this, the researcher conducted a pilot interview to test the clarity of questions.

- *Interview schedule*

The researcher developed a proposed interview schedule that was submitted to the municipality for contributions and confirmation of the availability of municipal officials for interviews. The interview questions (annexure 3) were attached to the proposed interview schedule for distribution to the selected participants, to enable their familiarisation with the expectations of the interviews.

Twelve participants, all municipal officials involved in the administration of the municipality, were selected for the interviews. According to Guest, Bunce and Johnson (2006:59), data saturation can occur within the first twelve interviews and subsequent interviews are likely not to reveal new phenomena. The selection of municipal officials only, was suggested by the municipality, owing to the technicality of the interview questions. Table 4.1 below presents the final interview schedule employed to conduct the interviews with municipal councillors and officials.

**Table 4.1: Municipal Officials' Interview Schedule**

| Interviewees | Date | Time |
|---|---|---|
| Official: Budget & Treasury Office | 16/08/2020 | 10h00-10h40 |
| Official: Corporate Services | 01/09/2020 | 14h10-14h40 |
| Official: Revenue Management | 20/08/2020 | 09h00-10h00 |
| Official: Municipal Manager's Office | 02/09/2020 | 11h00-11h30 |
| Official: Municipal Manager's Office | 25/08/2020 | 17h00-17h35 |
| Official: Corporate Services | 19/08/2020 | 11h00-11h50 |
| Official: Budget & Reporting | 25/08/2020 | 13h20-13h55 |
| Official: Revenue Management | 26/08/2020 | 15h15-15h50 |
| Official: Revenue Management | 02/09/2020 | 12h55-13h10 |
| Official: Revenue Management | 20/08/2020 | 13h00-13h40 |
| Official: Revenue Management | 01/09/2020 | 10h00-10h40 |
| Official: Revenue Management | 31/08/2020 | 12h00-12h35 |

- *Preparing for the interview*

In preparation for the interviews, interview schedules and the participant information sheet (regarding informed consent) were distributed to the selected participants five days prior to the interview date, to ensure familiarisation with the interview questions. The distribution of the interview schedules and participant information sheets also served as a first reminder (of the interviews) to the interviewees. The participants were each reminded telephonically, a day prior to their scheduled interviews, to ensure availability.

- *Interview procedure*

At the scheduled time of each interview, the interviewer contacted the participant telephonically, to start with the interview. Prior to the start of each interview, the participant was informed that the conversation would be electronically recorded, as the interviews were to be conducted telephonically and to ensure that dialogue is captured accurately. They were also requested to complete the (previously provided) participant information sheet, assenting their voluntary participation in the interviews. Moreover, they were informed that participation in the study was voluntary and anonymous, and that they would be assigned participation codes e.g., Participant 1 and Participant 2, to ensure anonymity. The allocated participant numbers are not linked to the list in Table 4.1 above or to the sequence of interviews, thus maintaining the participants' anonymity.

Following the aforementioned process, the interviews commenced. The interviewer read the question and then allowed the interviewee to respond to the question or seek clarity, if necessary, before responding to the question. The questions followed each other as per the planned interview schedule and where clarity or more information was needed, it was provided.

Upon conclusion of the interview, the interviewer conveyed their appreciation to the participant for their participation in the study and participants could ask any clarity seeking questions concerning the entire interview process or the overall study in general. Participants were informed that they could contact the interviewer or their supervisor should additional clarity-seeking questions manifest, following the interview.

#### *4.4.2.3 Data analysis*

Interview data were qualitatively analysed (Ezzy 2002:61; Xu & Zammit 2020). According to Ezzy (2002) and Johnson *et al.* (2020:143), qualitative analysis is an analysis of data that is presented in textual, verbal or multi-focus format. Sarantakos (2007a, 2007b) and Xu and Zammit (2020:5) indicated that the aim of qualitative analysis is to transform and interpret qualitative data in a rigorous and scholarly manner as, in qualitative analysis, data is seen as representations of human activities and verbal utterances. In this phase of the study, interviews were conducted employing a voice recorder, and the main analysis was conducted following data collection when the researcher listened to the voice recordings.

Bertram and Christiansen (2014) concluded that data analysis in qualitative studies involves the processes of data reduction, data display and drawing conclusions. According to them, data reduction involves activities that are aimed at selecting, simplifying, and transforming transcripts of data obtained during data collection into manageable data – achieved via the coding of data in order to identify patterns. In addition, Rule and John (2011) suggested that following data reduction, the researcher should display the data in a manner that would allow readers to visually move through the work with ease. According to them, data is displayed via written reporting that include the insertion of verbatim quotes from interviews and other qualitatively collected data. Finally, the researcher should derive conclusions concerning the findings of the analysed data. According to Cohen, Manion and Morrison (2000), deriving conclusions in qualitative studies is a process that starts at the data collection stage and proceeds throughout the entire study. They indicated that, throughout the course of the study, the researcher should continually note patterns and possible explanations of participant-inputs, however, the final conclusions regarding the collected data should be executed at the conclusion of the entire analysis process.

The researcher adopted an inductive approach in respect of the analysis of the interview data. According to Ezzy (2002:61) and Xu and Zammit (2020), data analysis in qualitative studies relies on the emergence of themes from the data, without pre-construction. In analysing the data, the researcher followed the guidelines suggested by Creswell (2015): identify statements that relate to the topic, break the relevant information into groups, group statements into meaningful units, seek divergent perspectives, and construct a composite.

#### *4.4.2.4 Quality measures*

- *Credibility*

Leedy and Ormrod (2010) asserted that ensuring credibility and trustworthiness is a trademark of qualitative studies. In this study, the researcher ensured that the study is credible and trustworthy via follow-up interviews (Turk 2009), member-checking (Baxter & Jack 2008; Johnson *et al.* 2020:142) and use of a voice recorder during interviews (Zarniawska 2004).

Firstly, the researcher employed a telephonic voice recorder to record participant responses precisely (Zarniawska 2004) and ensured that the researcher did not disregard any information that could be crucial to the study. Secondly, the researcher executed telephonic follow-up interviews (Turk 2009). These telephonic follow-up interviews were conducted with several of the participants whose responses were not clear or where additional clarity was required following consideration of the interview transcripts. Thirdly, the researcher conducted member-checking with the participants, as recommended by Baxter and Jack (2008:555) and Johnson *et al.* (2020:142). Johnson *et al.* (2020:142) and Onwuegbuzie and Leech (2006) reiterated that member-checking involves the provision of informal feedback to participants. According to Onwuegbuzie and Leech (2006), it is a process that involves systematically obtaining feedback about one's data, analytic categories, interpretations and conclusions, from the study group. In this study, member-checking was performed by providing the participants with interview transcripts, enabling their verification of the accuracy of their responses prior to finalising the analysis of the interview data.

- *Dependability*

To ensure dependability, the researcher selected as participants those municipal officials who possess the relevant knowledge concerning municipal revenue management. Most of the questions posed were open-ended as advised by Johnson *et al.* (2020:142), thus ensuring that participant-responses were not limited to the perceptions of the researcher only and that participant-experiences related to the subject matter were comprehensively captured.

The researcher also compared the results of this study to the results of other studies in similar environments employing similar methods, presented in the literature review chapters. The variations between the findings of previous studies and this study were addressed by the researcher prior to the final presentation of the results of this study.

- *Conformability*

Conformability refers to the extent to which the outcomes reported by the researcher can be confirmed by other independent researchers when interpreting the same data (Bhattacherjee 2012:110; Hayashi *et al.* 2019:98). To ensure conformability of the outcomes of the study, the recorded interview data was presented to the study supervisor for interpretation and analysis, prior to the presentation of the results of the analysis in this study. The results of the supervisor's interpretation and analysis were compared to those of the researcher, and variations were accounted for by repeating the interpretation and analysis.

- *Transferability*

Curry *et al.* (2009:1448) and Hayashi *et al.* (2019:102) asserted that the researcher should provide adequate information when presenting the results of the analysis, to ensure that readers would be able to independently determine whether the findings would be applicable to another setting. To ensure transferability of the outcomes of this study, the researcher clearly identified “financial viability” and “sustainability” from a municipality’s perspective. These are principles of the theory of economic sustainability, that is one the theoretical perspectives of this study. Nearly all of the questions posed by the researcher were to obtain information (data) that would allow the researcher to determine the effects of poor revenue collection on the economic sustainability of the municipality.

❖ *Authenticity*

To ensure authenticity of data collected which is one of the key factors of trust according to Djurdja (2019:33), the interview questions were structured to derive relevant information in relation to municipal revenue management by the MLM. The researcher observed the principles of authenticity, i.e., fairness, and ontological-, educative-, catalytic-, and tactical authenticity, as posited by Lincoln and Guba (1989).

### 4.4.3 Quantitative method: phase three

#### 4.4.3.1 *Research instrument: questionnaires*

The researcher adopted a cross-sectional survey research design to conduct the quantitative phase of the study. A cross-sectional survey is defined as a survey that is administered at just one point in time, from a sample selected from a population (Kesmodel 2018:388; Mathers, Fox & Hunn 2007:6; Wang & Cheng 2020:65). According to Creswell (2014), survey research provides a plan for the quantitative or numeric description of trends, attitudes, or opinions of a population, by studying a sample of the population. Igwenagu (2016:42) and Leedy and Ormrod (2010:187) asserted that survey research involves acquiring information about one or two groups of people by asking these people questions and by tabulating their answers in the form of questionnaires. A questionnaire is defined as a data-collection instrument for collecting primary data, by having each sampled research participant fill out a self-report (Igwenagu 2016:43; Singh 2006:191).

Nardi (2018:22) asserted that a questionnaire is a common form of a quantitative method and is best suited for respondents who can read, in order to measure people’s attitudes, perceptions, thoughts, behavioural intentions and opinions, and for acquiring large numbers of participants that may be too challenging and time consuming to observe via qualitative methods. Hofstee (2015:132) and Igwenagu (2016:43) opined that questionnaires are a form of structured interviewing, where all participants are asked the same questions and are offered the same options in respect of answering such questions.

*Advantages of questionnaires:*

(O'Leary 2004:154)

- ❖ It can offer respondents confidentiality;
- ❖ It also allows coverage of a wide geographic area;
- ❖ It gives respondents the opportunity to complete the questionnaires in their own time.

*Disadvantages of questionnaires:*

(Hofstee 2015:133)

- ❖ Questionnaires do not allow the researcher to interact with or to observe the respondents;
- ❖ It is limited as to the depth to which the researcher can probe a respondent's reply;
- ❖ Questionnaires do not allow for digression from its set format.

#### *4.4.3.2 Data collection*

❖ *Development of questionnaires*

The questionnaire was developed by the researcher in alignment with the research aims, the purpose of the study and the findings of the literature review, underpinned by the TRA, and, most importantly, the results of the municipal document analysis. (annexure 4).

❖ *Design of the questionnaires*

▪ PART A: GENERAL INFORMATION

Part A of the questionnaire required information concerning the area where the participant resided or where their business operated, the ownership of the property, the employment status of the participant, the type of municipal customer, the average monthly income of the household, and the number of people residing in one residence.

▪ PART B: SERVICE DELIVERY

Part B of the questionnaire required information relating to the service delivery activities of the municipality. Participants were required to provide information indicating whether they received municipal services and their level of satisfaction in relation to such municipal services, if they receive such services.

▪ PART C: BILLING, ISSUING AND PAYMENT OF MUNICIPAL ACCOUNTS

Part C of the questionnaire required information relating to the billing, issuing and payment of municipal services. Participants were required to provide information concerning meter readings by the municipality, the timeous receipts of monthly bills, their level of satisfaction in relation to the monthly bills, the average monthly bill per customer category, the payment of municipal services by the participants, and their opinion on the affordability of such monthly bills.

- PART D: INDIGENT MANAGEMENT AND AWARENESS CAMPAIGNS

Part D of the questionnaire required information relating to the municipality's awareness campaigns regarding the importance of paying for municipal services and information concerning registration as indigent by customers fulfilling the criteria.

- PART E: CUSTOMER CARE MANAGEMENT

Part E of the questionnaire required information relating to the existence of a customer care unit in the municipality, to address customer queries and customer satisfaction in relation to the services provided by the unit, should such a unit exist.

- *Rating scale of the questionnaires*

A Likert scale – a rating scale technique – was adopted by the researcher to record participant responses to the questionnaires. According to Leedy and Ormrod (2010:189), a rating scale, such as the scale developed by Rensis Likert in the 1930s, is more useful when a behaviour, attitude, or other phenomenon of interest, needs to be evaluated. The rating scale employed is depicted by table 4.2 below.

**Table 4.2: Scale of Response for the Questionnaire**

| Strongly Agree | Agree | Sometimes | Disagree | Strongly Disagree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

- *Distribution of the questionnaires*

The municipality staff was requested to distribute questionnaires to customers attending at the municipal offices for account queries and other municipality related issues. Other questionnaires were distributed after office hours and during weekends to different households, to also accommodate those residents who are not in-residence during office hours and weekdays. In the case of businesses and other institutions operating during office hours and weekdays, the questionnaires were distributed during official working hours. A period of two months was allocated to administer (distribute and collect) the questionnaires.

❖ *Collection of the questionnaires*

During the distribution of questionnaires, arrangements were also made with participants on the manner of returning the questionnaires to the researcher. It was arranged that those participants who received questionnaires at the municipal offices, were to return it to the municipal revenue office managing customer queries. The questionnaires distributed after hours and during weekends were collected from the participants at an agreed-upon date and time. In the case of businesses and other institutions, the questionnaires were collected at their offices during office hours, per arrangement.

#### *4.4.3.3 Data sampling*

The municipality holds a population of 3787 (billed households and businesses), that amount to 7470 total accountholders in the billing system (MLM 2020). Regarding the questionnaires, a sample of 145 participants was selected from the 3787-total population (Survey Monkey 2020). The following variables were applied to calculate the sample online, for survey purposes:

a. Population size = 3787, this is the total number of people in the group targeted;
b. Confidence level = 95 per cent, this is a percentage that quantifies to which extent the survey results can be expected to reflect the views of the overall population – the smaller the margin of error, the closer the researcher is to having the exact answer at a given confidence level;
c. Marginal error percentage = eight per cent, this is the percentage that reveals the level of confidence that the population would select an answer within a certain range.

The calculated sample for questionnaires was stratified employing the different study areas within the targeted population, to ensure that each area of the population is adequately represented. The breakdown is depicted by table 4.3 below.

**Table 4.3: Breakdown of the Sampled Questionnaire Participants**

| No. | Study Area | Category | Study Population | Sample |
|---|---|---|---|---|
| 1 | Hoedspruit - Town | Residential | 290 | 11 |
| | Hoedspruit - Town | Business | 297 | 11 |
| 2 | Kampersrus | Residential | 486 | 19 |
| | Kampersrus | Business | 14 | 1 |
| 3 | Farms | Business | 115 | 4 |
| 4 | White Fig | Residential (Sectional Titles) | 94 | 4 |
| 5 | Khayagelo | Residential (Sectional Titles) | 37 | 1 |
| 6 | Tamboti | Residential (Sectional Titles) | 37 | 1 |
| 7 | Springbok | Residential (Sectional Titles) | 7 | 0 |
| 8 | Antelope | Residential (Sectional Titles) | 5 | 0 |
| 9 | Raptors | Residential (Sectional Titles) | 21 | 1 |
| 10 | Zandspruit | Residential (Sectional Titles) | 18 | 1 |
| 11 | Drakensberg Park | Residential (Sectional Titles) | 36 | 1 |
| 12 | Hoedspruit - Ext 3 | Residential (Sectional Titles) | 21 | 1 |
| 13 | Hoedspruit - Ext 4 | Residential (Sectional Titles) | 10 | 0 |
| 14 | Hoedspruit - Ext 5 | Residential (Sectional Titles) | 8 | 0 |
| 15 | Wildlife Estate | Residential (Sectional Titles) | 404 | 15 |
| | Wildlife Estate | Business (Sectional Titles) | 113 | 4 |
| 16 | The Village Estate | Residential (Sectional Titles) | 67 | 3 |
| 17 | Lifestyle Village | Residential (Sectional Titles) | 63 | 2 |
| 18 | Zandspruit Bush & Aero Estate - Ext 12 | Residential (Sectional Titles) | 205 | 8 |
| | Zandspruit Bush & Aero Estate - Ext 12 | Business (Sectional Titles) | 13 | 0 |
| 19 | Zandspruit Bush & Aero Estate - Ext 13 | Residential (Sectional Titles) | 26 | 1 |
| 20 | Leopard Rock Estate | Residential (Sectional Titles) | 48 | 2 |
| 21 | Leadwood Wildlife Estate | Residential (Sectional Titles) | 94 | 4 |
| 22 | Mount Blyde | Residential (Sectional Titles) | 84 | 3 |
| 23 | Moditlo Wildlife Estate | Residential (Sectional Titles) | 501 | 19 |
| 24 | Raptors View Estate | Residential (Sectional Titles) | 333 | 13 |
| 25 | Blyde Wildlife Estate | Residential (Sectional Titles) | 155 | 6 |
| | Blyde Wildlife Estate | Business (Sectional Titles) | 2 | 0 |
| 26 | Wild Rivers Estate | Residential (Sectional Titles) | 32 | 1 |
| | Wild Rivers Estate | Business (Sectional Titles) | 2 | 0 |
| 27 | Kingfisher Gold Estate | Residential (Sectional Titles) | 148 | 6 |
| | Kingfisher Gold Estate | Business (Sectional Titles) | 1 | 0 |
| | **Total** | | **3787** | **145** |

Table 4.3 above shows a breakdown of the different areas within the municipality (areas billed for services), the categories of the ratepayers, the number of ratepayers (residentially and businesses) in the areas, and the calculated sample per area (MLM 2020). It illustrates that the municipality holds a total of 24 areas (consisting of residences, businesses and farms), 3787 households and a calculated theoretical sample of 145 ratepayers.

#### *4.4.3.4 Data analysis*

Questionnaire data was analysed utilising the International Business Machines' (IBM) Statistical Package for the Social Services (SPSS). The analysis of the interview data are presented in chapter 6 – the analysis and interpretation of interview findings and questionnaire results.

The researcher applied the guidelines in respect of collected data as advised by Degu and Yigzaw (2006) and Sarantakos (2007a, 2007b): data preparation involving data coding, and cleaning the data by ensuring that all the data is correct and there are no missing values, by defining variables and entering the data. The process of defining variables involved the procedure of labelling and preparing variables to accommodate data. This was achieved by verifying that data transcriptions were error-free, gaining knowledge concerning the data by compiling lists of data, and manually entering the data to allocated variables in the variable box (Johnson *et al.* 2020:143; Sarantakos 2013). This process is referred to as data editing and coding, by Kothari (2004:18).

#### ***4.4.3.5*** *Quality measures of questionnaires*

Validity and reliability are key quality measures in a quantitative study, resulting in a meaningful interpretation of data by the researcher (Creswell 2009; Hayashi *et al.* 2019:102).

❖ *Reliability*

Reliability evaluates the stability of outcomes over time (Hayashi *et al.* 2019:99). To ensure that the questionnaire possess reliability, the researcher ensured that the questionnaire was standardised and that it was administered consistently to all the sampled participants (De Vos 2002:307). Cronbach's Alpha for testing internal consistency was 0.841.

❖ *Validity*

To ensure the questionnaire's validity, the researcher initially provided a table of specification that included all the constructs the questionnaire aimed to measure. Secondly, as proposed by Leedy and Ormrod (2010), following the design of the questionnaire, the researcher submitted the questionnaire to the study supervisor for comments concerning the design and the content of the questionnaire. Subsequently, the questionnaire was submitted to the UNISA College of Accounting Sciences' Ethics Review Committee for approval, prior to distribution thereof to the participants.

## 4.5 Ethical Considerations

Johnson *et al.* (2020:139) and Welman *et al.* (2005:201) asserted that four ethical factors should be considered when conducting research, and these were accordingly considered by this study:

- Informed consent;
- Right to privacy;
- Protection from harm;
- Involvement of the researcher.

The ethical aspects were adhered to as follows by the researcher during this study:

- A detailed UNISA-prescribed application was submitted to the College of Accounting Sciences (CAS) Research Ethics Review Committee, requesting approval to conduct the study. Approval was granted to the researcher to conduct the study (annexure 2);
- Permission was obtained from the MLM to study the municipality in conducting this research (annexure 1);
- Informed consent was obtained from all respondents and participants; and
- The researcher ensured that all participants' and respondents' responses could not be traced to an individual person.

## 4.6 Chapter Summary

This chapter identified the research designs and methods selected regarding this study. It detailed the instruments employed for data collection and data analysis, and the sampling methods utilised in the study. It also outlined the ethical considerations complied with by the researcher when conducting the study.

The following chapter will illuminate the analysis of the municipality's financial affairs in order to determine its financial sustainability. The municipality's capacity to manage revenue management activities is analysed, followed by an analysis of the municipality's compliance with the relevant legislation relating to revenue-related policies and its implementation, the analysis of key municipal revenue management activities, and a ratio and charts analysis to determine the financial position of the municipality.

# Chapter 5: The Municipality's State of Financial Affairs

## 5.1 Introduction

The previous chapter outlined the research methodology followed regarding this study. That chapter delineated the research design, research instruments, data collection, data sampling, and data analysis methods employed. The ethical considerations adhered to in conducting the study were also discussed.

This chapter will analyse the municipality's state of financial affairs. It will be achieved by applying different financial ratios prescribed by National Treasury and via the employment of pie charts. The impact of the financial ratios on the municipality's financial viability will be assessed, in the quest to determine the overall economic sustainability of the municipality.

## 5.2 The Revenue Management Unit

The municipality boasts an established Revenue Management Unit (RMU) comprising 14 officials (nine filled posts and six vacant posts) with the purpose of managing all municipal revenue services (MLM 2020). The unit is allocated to the Budget and Treasury Department that is headed by a Chief Financial Officer (MLM 2020).

In terms of the municipality's organisational structure, the following functions are assigned to the unit:

- ❖ Providing billing and cash management;
- ❖ Preparing bank reconciliation statements;
- ❖ Managing transversal services;
- ❖ Managing indigent support services; and
- ❖ Managing debt collection and credit control activities.

## 5.3 Sources of Revenue in Maruleng Local Municipality

### 5.3.1 Revenue from exchange transactions

#### *5.3.1.1 Refuse removal*

The municipality charges consumers residing within its urban areas for the removal of refuse from business- and residential areas (MLM 2018). The charges are in relation to the provisions of section 229 of the Constitution, discussed in section 3.2.2. The removal of refuse is executed on a weekly basis and the service is outsourced to an external service provider (MLM 2018).

#### *5.3.1.2 Licensing and permits*

The municipality charges communities' fees for learner drivers' and drivers' licenses, in terms of section 13 of the National Road Traffic Act, No. 93 of 1996 (RSA 1996b).

#### *5.3.1.3 Agency income*

The municipality receives agency income from the Mopani district municipality and the Department of Transport (DoT) for services rendered on behalf of these institutions. The agency income is received based on Service Level Agreements (SLAs) with these institutions.

❖ *Mopani district municipality*

The municipality bills and collects water and sanitation charges on behalf of the district municipality, as a water services provider. As a result, agency income is received by the municipality in respect of the administration of these services.

❖ *Department of Transport*

The municipality collects fees or charges for motor vehicle licensing and testing in terms of the National Road Traffic Act (RSA 1996b), on behalf of the Department of Transport (DoT). The fees or charges are then shared in the ratio of 20 per cent (MLM) and 80 per cent (DoT) as stipulated by the SLA.

#### *5.3.1.4 Rental of facilities*

The municipality charges residents for the use of some of its community facilities, such as community halls, sports- and recreational facilities, market stalls, and other community facilities, at set rates per the municipality's tariff structure.

#### *5.3.1.5 Interest on overdue accounts*

The municipality charges interest on overdue accounts in respect of all accounts that are in arrears at the end of the month following the month of the bill. The charging of these interests is automated in the billing system that charges the interest based on a programmed rate for each customer category, as stipulated by the municipality's tariff structure for that particular financial year.

#### *5.3.1.6 Interest on investments*

The municipality invests surplus funds with different financial institutions in line with its Banking and Investment Policy that was developed in terms of section 13 of the MFMA, in order to earn interest on funds that are not immediately required for use, or surplus funds. These investments are typically short-term, with terms ranging between three and six months, and are effected at those banking institutions registered in accordance with the prescriptions of the Banks Act (RSA 1990).

#### *5.3.1.7 Other revenue from exchange transactions*

Other revenue from exchange transactions is derived from a combination of other municipality related activities that consumers are charged for, by the municipalities. This contribution to the overall municipal revenue is minor, as they are grouped together for disclosure purposes. Such revenue include town planning fees, outdoor advertising, building inspection fees, clearance certificates, building plan fees and trading licence fees.

### 5.3.2 Revenue from non-exchange transactions

#### *5.3.2.1 Government grants and subsidies*

Government grants and subsidies are one of the major sources of the municipality's revenue, accounting for more than 50 per cent of the municipality's revenue in the three financial years reviewed. These government grants and subsidies are a combination of conditional and non-conditional grants. The following are government grants and subsidies received from National Treasury, during the financial years reviewed:

- Equitable Shares (ES);
- Financial Management Grant (FMG);
- Municipal Infrastructure Grant (MIG); and
- Extended Public Works Programme (EPWP);

#### *5.3.2.2 Property rates*

The municipality levies property rates in respect of all properties in its proclaimed urban and farm areas of authority, and this is one of the municipality's major internally generated revenue. This is executed in line with the provisions of the Constitution and in accordance with the MPRA, as discussed in sections 3.2.2 and 3.2.10.

#### *5.3.2.3 Traffic fines*

The municipality charges those drivers who fail to obey road traffic signs and with regard to other road-related offences, as stipulated by the National Road Traffic Act (RSA 1996b). The municipality employs traffic officers who function together with law enforcement and charges offenders for violating the law.

## 5.4 Analysis of Key Financial Ratios

MFMA circular No. 71 was applied as the main guideline in conducting the ratio analysis (RSA 2014). The purpose of this circular was to provide a set of uniform key financial ratios and norms, applicable to all South African municipalities and municipal entities, to ensure the sound and sustainable management of the fiscal and financial affairs of such municipalities and municipal entities (RSA 2014:1). Ratios calculated and presented in this section are those related to service delivery and revenue management, as the two are considered inter-related in terms of several of the literature review findings presented in sections 2.2.1.3, 2.2.2.3, 2.2.3.3, 2.2.4.3, 2.3.1.3, 2.3.2.3 and 3.4.2.1.

### 5.4.1 Financial position

#### *5.4.1.1* ***Asset management***

❖ *Capital expenditure to total expenditure*

The ratio assesses the level of a municipality's capital expenditure compared to its total expenditure, and it indicates the municipality's prioritisation of expenditure towards current operations as opposed to the future capacity, in relation to municipal services (RSA 2014:2). The norm for this ratio ranges between 10 per cent and 20 per cent: MFMA circular No.71 (RSA 2014:3) states that a ratio below 10 per cent reflects inadequate municipal spending on infrastructure, that poses risks to service delivery, whereas a ratio above 20 per cent reflects elevated spending on infrastructure, that would result in an acceleration of the municipality's service delivery activities. Table 5.1 below shows the calculation of the municipality's capital expenditure-to-total expenditure, during the three financial years under review.

**Table 5.1: Capital Expenditure as a Percentage of Total Expenditure**

| Formula | | | |
|---|---|---|---|
| Total Capital Expenditure / Total Expenditure (Total Operating Expenditure + Capital Expenditure) x 100 | | | |
| **Norm: Between 10% and 20%** | | | |
| | | | |
| **Ratio** | | | |
| **Description** | **2018/19 FY** | **2017/18 FY** | **2016/17 FY** |
| Total Capital Expenditure | 102,750,000 | 99,533,000 | 87,283,000 |
| Total Expenditure | 327,162,000 | 304,642,000 | 265,663,000 |
| **Capital Expenditure as % of Total Expenditure** | **31%** | **33%** | **33%** |

(*Source: own compilation*)

Based on the calculation in table 5.1 above, the municipality's capital expenditure-to-total expenditure ratio was 31 per cent, 33 per cent and 33 per cent in the 2018/19, 2017/18 and 2016/17 financial years, respectively, and this is above the norm of 10 per cent to 20 per cent. The ratio remained constant at 33 per cent between the 2016/17 and 2017/18 financial years, whereas it declined by two per cent (to 31%) in the 2018/19 financial year.
Figure 5.1 below portrays a graphical demonstration of the municipality's capital expenditure-to-total expenditure during the three financial years reviewed. The graph shows that the municipality's total expenditure has increased from R265 million in the 2016/17 financial year to R327 million in the 2018/19 financial year. This rise represents an increase of R39 million in the 2017/18 financial year and R25,5 million in the 2018/19 financial year. The municipality's capital expenditure has grown from R87 million in the 2016/17 financial year to R102 million in the 2018/19 financial year. The rise represents an increase of R12 million in the 2017/18 financial year and R3 million in the 2018/19 financial year.

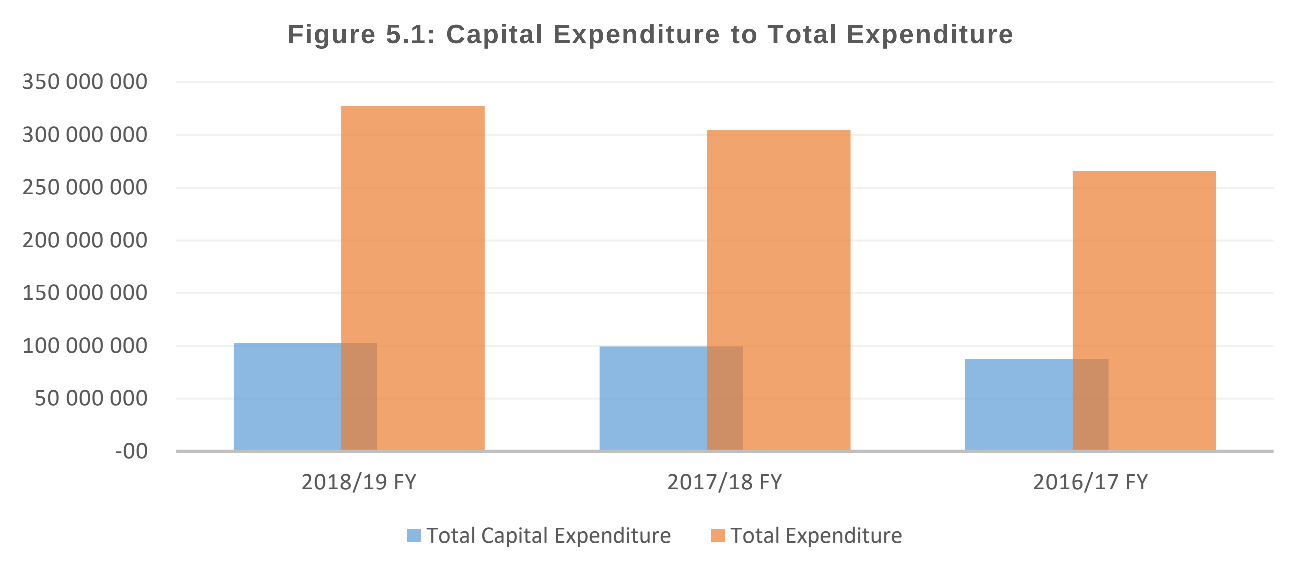


**Figure 5.1: Capital Expenditure to Total Expenditure**

(*Source: own compilation*)

Based on the calculations and analysis above, it is deduced that an acceleration in service delivery was possible for the years analysed due to the municipality's spending on capital projects It further indicates that the municipality is investing in the long-term sustainability of its service delivery activities, as capital projects create enduring benefits.

❖ *Impairment of property, plant and equipment, investment property, and intangible assets (carrying value)*

Impairment of assets implies that the operation of assets did not deliver the rate or service levels predicted when approval was originally obtained for procuring such assets, by the municipality or municipal entity (RSA 2014:3). As a result, this ratio assesses the impairment of the municipality's assets that may have adversely impacted the planned service delivery levels of the municipality and the norm for this ratio is zero per cent (RSA 2014:4). Table 5.2 below shows the calculation of the municipality's "Impairment of Property, Plant and Equipment, Investment Property and Intangible Assets (Carrying Value)" during the three financial years under review.

**Table 5.2: Impairment of Property, Plant and Equipment (PPE), Investment Property and Intangible Assets (Carrying Value)**

| **Formula** | | | |
|---|---|---|---|
| Impairment of Property, Plant & Equipment + Investment Property + Intangible Assets / (Total Property, Plant & Equipment + Investment Property + Intangible Assets) x 100 | | | |
| **Norm: 0%** | | | |
| | | | |
| **Ratio** | | | |
| **Description** | **2018/19 FY** | **2017/18 FY** | **2016/17 FY** |
| Impairment of Assets | 1,757,000 | 4,459,000 | 304,000 |
| **Total Impairment** | **1,757,000** | **4,459,000** | **304,000** |
| Property, Plant & Equipment at Carrying Value | 464,174,000 | 392,607,000 | 330,759,000 |
| Investment Property at Carrying Value | 8,750,000 | 6,797,000 | 6,797,000 |
| Intangible Assets at Carrying Value | 298,000 | 447,000 | 617,000 |
| **Total Carrying Value** | **473,222,000** | **399,851,000** | **338,173,000** |
| **Impairment of PPE, Investment Property & Intangible Assets** | **0%** | **1%** | **0%** |

(*Source: own compilation*)

Based on the result of the calculations in table 5.2 above, the municipality's impairment-of-assets-ratio was zero per cent, one per cent and zero per cent in the 2018/19, 2017/18 and 2016/17 financial years, respectively. Whereas impairment of assets was noted in the 2018/19 and 2016/17 financial years, the value of the impairment was so minimal that the ratio remained at zero per cent - within the norm for this ratio. In the 2017/18 financial year, the municipality's assets were impaired to the value of R4,5 million and this accounted for one per cent of the value of the municipality's total assets. Despite impairment that was above the norm in the 2017/18 financial year, it appears to have been immaterial, as there were no or little disruption to the municipality's planned service delivery activities. The municipality may, however, need to plan the maintenance of its service delivery equipment, going forward, to minimise unnecessary breakdowns that may negatively affect its planned service delivery activities. The repairs-and-maintenance-ratio will be dealt with in the following section.

- *Repairs and maintenance as a percentage of property, plant and equipment and investment property (carrying value)*

This ratio measures the level of repairs and maintenance to ensure adequate maintenance of municipal assets and to prevent breakdowns and interruptions to municipal service delivery. Repairs and maintenance are said to be a critical activity in ensuring continued service provision and the norm for this ratio is eight per cent (RSA 2014:4). A ratio below the norm of eight per cent may be an indication that insufficient funds are being allocated to or spent on repairs and maintenance, and this could result in service interruptions or breakdowns owing to the impairment of municipal assets (RSA 2014:4). Table 5.3 below demonstrates the calculation of the municipality's repairs and maintenance as a percentage of property, plant and equipment and investment property (carrying value), during the three financial years under review.

**Table 5.3: Repairs and Maintenance as a Percentage of Property, Plant and Equipment (PPE) and Investment Property (Carrying Value)**

| | | | |
|---|---|---|---|
| **Formula** | | | |
| Impairment of Property, Plant & Equipment + Investment Property + Intangible Assets / (Total Property, Plant & Equipment + Investment Property + Intangible Assets) x 100 | | | |
| **Norm: 8%** | | | |
| | | | |
| **Ratio** | | | |
| **Description** | **2018/19 FY** | **2017/18 FY** | **2016/17 FY** |
| Repairs and Maintenance of Assets | 2,172,000 | 1,026,000 | 1,442,000 |
| **Total Repairs and Maintenance** | **2,172,000** | **1,026,000** | **1,442,000** |
| Property, Plant & Equipment at Carrying Value | 464,174,000 | 392,607,000 | 330,759,000 |
| Investment Property at Carrying Value | 8,750,000 | 6,797,000 | 6,797,000 |
| **Total Carrying Value** | **472,924,000** | **399,404,000** | **337,556,000** |
| **Repairs and Maintenance as a % of PPE and Investment Property** | **0%** | **0%** | **0%** |

(*Source: own compilation*)

Based on the above calculations, the municipality's spending in relation to repairs and maintenance of municipal assets, was minimal during the financial years under review, as the effect of the spending was zero per cent in all the financial years reviewed. This spending is below the norm of eight per cent that indicates the municipality does not allocate adequate funds to repairs and maintenance, which may result in the impairment of assets as a result of poor maintenance.

The above the norm investment in capital projects by MLM (Table 5.1) may explain the low asset impairment on new assets and infrastructure, and also subsequent little need for repairs and maintenance. However, a continued trend of low spending on repairs and maintenance is not advisable to ensure sustainable quality service delivery. The spending signifies that the municipality is allocating or spending little on maintaining its service delivery equipment. As a result, this may lead to breakdowns and interruptions to municipal service delivery, should the matter not be addressed by the municipality. This may also affect the economic sustainability of the municipality, as breakdowns and interruptions may lead to failure by the municipality to deliver services to its communities.

Therefore, the municipality needs to develop a plan for the maintenance of its service delivery assets. The municipality would also need to allocate adequate funds, as per the developed plan, in respect of the maintenance of its service delivery assets. The relevant directorate must ensure that the planned maintenance schedule is adhered to, during the financial year.

#### *5.4.1.2 Debtor management*

❖ *Debtor collection rate*

The ratio aims to calculate the municipality's collection rate the fees for its services that are billed monthly, whilst also measuring the increase or decrease of debtors relative to the annual billed revenue (RSA 2014:5). A norm of 95 per cent is proposed for this ratio, however, municipalities with outstanding debtor books are advised to strive for a collection rate of 100 per cent (RSA 2014:5). Table 5.4 below shows the calculation of the municipality's debtor collection rate during the three financial years reviewed.

**Table 5.4: Debtor Collection Rate**

| **Formula** | | | |
|---|---|---|---|
| (Gross Debtors Opening Balance + Billed Revenue – Gross Debtors Closing Balance + Bad Debts Written-off) / Billed Revenue x 100 | | | |
| **Norm: 95%** | | | |
| | | | |
| **Ratio** | | | |
| **Description** | **2018/19 FY** | **2017/18 FY** | **2016/17 FY** |
| Gross Debtors Opening Balance | 78,772,000 | 60,238,000 | 38,253,000 |
| Add: Billed Revenue | 88,744,000 | 76,957,000 | 64,628,000 |
| Less: Gross Debtors Closing Balance | -108,628,000 | -78,772,000 | -60,238,000 |
| Add: Bad Debts Written-off | - | - | - |
| | 58,888,000 | 58,423,000 | 42,643,000 |
| Billed Revenue | 88,744,000 | 76,957,000 | 64,628,000 |
| **Debtors Collection Rate** | **66%** | **76%** | **66%** |

(*Source: own compilation*)

Based on the calculations above, the municipality's debtor collection rate was 66 per cent, 76 per cent and 66 per cent for the 2018/19, 2017/18 and 2016/17 financial years, respectively, and below the norm of 95 per cent. Although the debtor collection rate of 76 per cent in the 2017/18 financial year was an improvement from the 66 per cent in the 2016/17 financial year, the ratio declined to 66 per cent in the 2018/19 financial year. National Treasury (2014:5) asserted that a municipality's debtor collection rate that is below the norm may be an indication of a poor-quality municipal credit control function, failure to ensure that revenue billed is collected and the poor quality of the municipality’s revenue management, including the municipality’s ability to set affordable tariffs and its accuracy of billing. This below-the-norm collection ratio may negatively affect the economic sustainability of the municipality in the long run, as the municipality may become financially unviable.

❖ *Collection of billed revenue (%)*

This ratio was calculated to determine the rate at which the municipality collects revenue from property rates and refuse removal. The ratio was executed to determine the cash that the municipality collects from its billed services on an annual basis, to fund its budget. The collection rates were calculated separately in respect of the two revenue streams, for the three financial years under review.

Table 5.5 below illustrates the results of the calculation of the collection rates in respect of the two billed revenue streams.

**Table 5.5: Collection of the two billed revenue streams**

| | Property Rates | | | Refuse Removal | | |
|---|---|---|---|---|---|---|
| | **2018/19** | **2017/18** | **2016/17** | **2018/19** | **2017/18** | **2016/17** |
| Opening Balance | 68,892,544 | 52,972,574 | 31,487,313 | 1,868,275 | 2,862,916 | 1,868,909 |
| Billing for the year | 79,057,866 | 70,269,431 | 61,588,254 | 3,497,886 | 3,150,246 | 3,039,615 |
| **Sub-Total** | **147,950,410** | **123,242,005** | **93,075,567** | **5,366,161** | **6,013,162** | **4,908,524** |
| Less: Closing Balance | -90,752,271 | -68,892,544 | -52,972,574 | -1,854,313 | -1,868,275 | -2,862,916 |
| **Cash Collected** | **57,198,139** | **54,349,461** | **40,102,993** | **3,511,848** | **4,144,887** | **2,045,608** |
| **Collection Rate** | **39%** | **44%** | **43%** | **65%** | **69%** | **42%** |

(*Source: own compilation*)

In relations to property rates, the collection rates following the opening balance of the services and the year billed, were 39 per cent, 44 per cent and 43 per cent for the 2018/19, 2017/18 and 2016/17 financial years, respectively. The collection rates were below the 95 per cent norm, set by National Treasury. Whereas the results show an improvement from 43 per cent (2016/17) to 44 per cent (2017/18), the collection rate decreased to 39 per cent in the 2018/19 financial year.

In relation to refuse removal; the collection rates in respect of the opening balance of the services and the year billed were 65 per cent, 69 per cent and 42 per cent for the 2018/19, 2017/18 and 2016/17 financial years, respectively. The collection rates were below the norm of 95 per cent set by National Treasury. Whilst there was an improvement in the collection rate from the 2016/17 financial year (42%) to the 2017/18 financial year (69%), the collection rate dropped to 65 per cent in the 2018/19 financial year.

Low collection rates negatively impact the municipality's economic sustainability, as the municipality may become more reliant on government grants and subsidies for its operation and service delivery activities. Whereas government grants and subsidies are considered certain, they are often conditional and limited, and may not fund all the municipality's activities without being complemented by municipal own-revenue.

- *Year-on-year growth in debtors (%)*

The ratio aims to determine the rate at which the municipality's debtors are increasing, on an annual basis. The ratio is also aimed at determining the recoverability of the municipality's debt, based on the debtor collection rate calculated above. Table 5.6 below shows the calculation of the year-on-year growth of the municipality's debtors.

**Table 5.6: Year-on-Year Growth of Debtors**

| **Formula** | | | | |
|---|---|---|---|---|
| (Period under review's Gross Debtors – previous period's Gross Debtors) / previous period's Gross Debtors) x 100 | | | | |
| **Norm: None** | | | | |
| | | | | |
| **Ratio** | | | | |
| **Description** | **2018/19 FY** | **2017/18 FY** | **2016/17 FY** | **2015/16 FY** |
| Year-on-Year Growth of Debtors | 108,628,000 | 78,772,000 | 60,238,000 | 38,253,000 |
| **Growth per year %** | **38%** | **31%** | **57%** | **-** |
| **Overall Growth over the period %** | **80%** | | | |

(*Source: own compilation*)

Based on the above calculations, the municipality's debtors have grown by an overall 80 per cent over the three financial years reviewed. The percentage of the increase comprised 38 per cent, 31 per cent and 57 per cent increases in the 2018/19, 2017/18 and 2016/17 financial years, respectively. Although there is no set norm for this ratio, the municipality's debtor accounts are growing at an alarming rate, perhaps owing to the poor revenue collection rate calculated above.

Figure 5.2 below depicts a graphical demonstration of the growth of the municipality's debtors during the three financial years under review. The graph shows that the municipality's debtors were just above R60 million at the end of the 2016/17 financial year, increased towards the R80 million mark at the end of the 2017/18 financial year, and increased above R105 million by the end of the 2018/19 financial year.

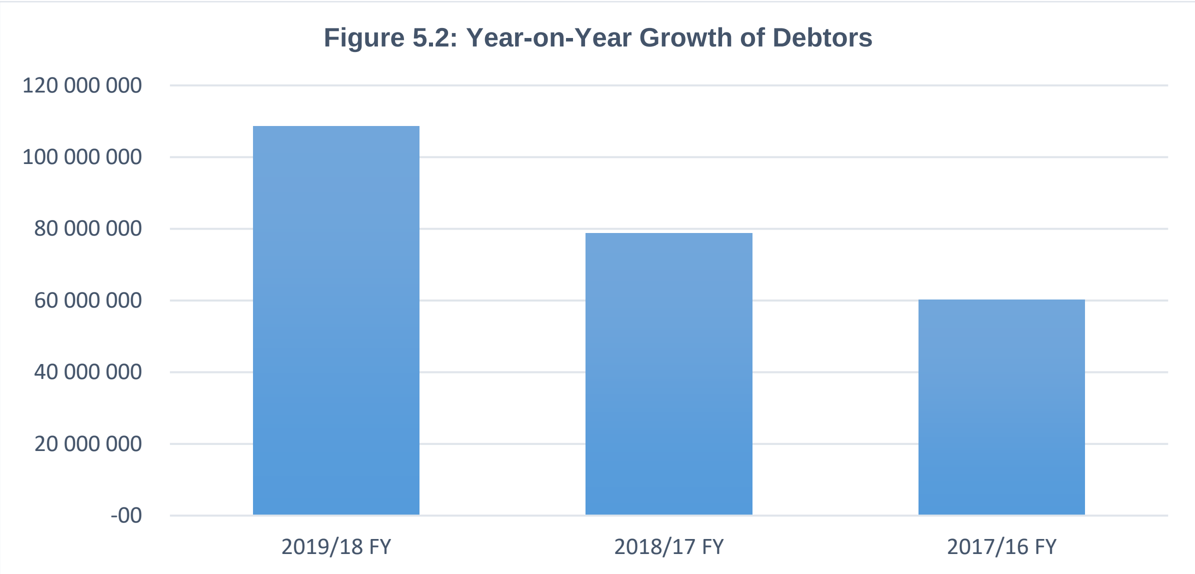


**Figure 5.2: Year-on-Year Growth of Debtors**

(*Source: own compilation*)

Based on the above analysis, it appears that the effect of the below-the-norm collection rate is a massive increase of the municipality's debtors. This growth may negatively affect the financial viability of the municipality and subsequently its service delivery activities, as suppliers need to be paid within 30 days from the receipt of invoices and the municipality may not possess the cash to pay.

- ❖ *Net debtor days*

The ratio reflects the average period for a municipality or municipal entity to collect revenue billed or invoiced, from the day the account is issued to the day payment is received (RSA 2014:6). The calculation of the ratio excludes the amount municipally designated as irrecoverable for that specific financial year, based on the provision made by the municipality. Table 5.7 below demonstrates the municipality's net-debtor-days calculation in respect of the three financial years reviewed.

**Table 5.7: Net Debtor Days**

| | | | |
|---|---|---|---|
| **Formula** | | | |
| (Gross Debtors – Bad Debts Provison) / Billed Revenue x 365 Days | | | |
| **Norm: 30 Days** | | | |
| | | | |
| **Ratio** | | | |
| **Description** | **2018/19 FY** | **2017/18 FY** | **2016/17 FY** |
| Gross Debtors | 108,628,000 | 78,772,000 | 60,238,000 |
| Less: Bad Debts Provision | -26,140,000 | -8,774,000 | -20,827,000 |
| | 82,488,000 | 69,998,000 | 39,411,000 |
| Billed Revenue | 88,744,000 | 76,957,000 | 64,628,000 |
| **Net Debtors Days** | **339 Days** | **332 Days** | **223 Days** |

(*Source: own compilation*)

Based on the results of the calculation, the municipality's net debtor days have exceeded the norm of 30 days. The results show that the municipality's net debtor days were 223 days at the end of the 2016/17 financial year, increased to 332 days at the end of the 2017/18 financial year, and further increased to 339 days at the end of the 2018/19 financial year. As the net debtor days are way above the norm, National Treasury (RSA 2014:6) asserted that this may be an indication of poor-quality credit control management, or weak effectiveness of the implementation of the credit control policy, or poor revenue management. It also illustrates that the municipality is experiencing challenges with regard to the collection of outstanding amounts owed to it, which may result in an inadequate cash flow, as a significant amount will become captive to consumer debtors (RSA 2014:6&7).

While municipal budgets are expected to be cash funded, it appears that the MLM takes in excess of 11 months to collect revenue billed in respect of its services. It implies that the greater portion of the municipality's billed revenue will only be collected in the financial year following the financial year that it was billed. This implication is supported by the more than 80 per cent increase in the municipality's debtors, calculated above. This above-the-norm net debtor days may negatively impact the municipality's economic sustainability, should it not be addressed as a matter of urgency.

The municipality may need to ensure that the following measures implemented in order to address the deficient revenue collection and fast-growing municipal debt:

- The revenue management unit is adequately capacitated;
- Credit control and the debt collection policy and by-laws are in place and is fully implemented; and
- Billing is accurate and ratepayers' queries are dealt with, as a matter of urgency.

❖ *Bad debts written-off as a percentage of provision for bad debts.*

The ratio compares the value of bad-debt-written-off-in-respect-of-consumer-debtors to bad-debt-provision-for-consumer-debtors, in order to determine if the municipal provision for bad debt at the end of each financial year is sufficient (Treasury 2014:5). National Treasury (RSA 2014:5) suggested a norm of 100 per cent for this ratio and asserted that any results below 100 per cent may be owing to the recoverability of the debt. Table 5.8 below shows the municipal bad debt written-off as a percentage of the provision for bad debt, in respect of the three financial years reviewed.

**Table 5.8: Bad Debt written-off as a Percentage of Provision for Bad Debt**

| **Formula** | | | |
|---|---|---|---|
| Bad Debts Written-off (Period under review) / Provision for Bad Debts (Period under review) x 100 | | | |
| **Norm: 100%** | | | |
| | | | |
| **Ratio** | | | |
| **Description** | **2018/19 FY** | **2017/18 FY** | **2016/17 FY** |
| Bad Debts Written-Off | - | - | - |
| Bad Debts Provision | 26,140,000 | 8,774,000 | 20,827,000 |
| **Bad Debts Written-Off as % of Provision for Bad Debts** | **0%** | **0%** | **0%** |

(*Source: own compilation*)

Based on the results of the calculation, the ratio is zero per cent with regard to the financial years under review. This is because the municipality did not write-off any debt in the three financial years reviewed, although it has been providing for bad debt in these financial years. The provision for bad debt by the municipality over the three financial years is an indication that the municipality deems some of its consumer debt to be irrecoverable. The below-the-norm collection rate and the 80 per cent increase in debtors are further indications that a portion of the municipal consumer debt must be irrecoverable.

Due to the deficient debt collection and the subsequent growth of municipal debtors over the three financial years reviewed, the municipality may need to consider writing-off debt within the level provided for, as it provides for such a write-off, every financial year. It would enable the municipality to focus on the collection of debt that is considered recoverable, as opposed to focussing on the entire amount of debt owed.

#### *5.4.1.3 Liquidity management*

- *Current ratio*

The current ratio is applied to measure an organisation's ability to meet its short-term obligations with its short-term assets (SA 2014). A higher ratio suggests that the municipality or municipal entity can meet its short-term obligations, while a ratio below one suggests that the municipality or municipal entity may fail to meet its short-term obligations (RSA 2014). Table 5.9 below indicates the calculation of the municipality's current ratio in number-of-times it can meet its short-term obligations, in respect of the three financial years under review.

**Table 5.9: Current Ratio**

| **Formula** | | | |
|---|---|---|---|
| Current Assets / Current Liabilities | | | |
| **Norm: Between 1.5 to 2:1** | | | |
| | | | |
| **Ratio** | | | |
| **Description** | **2018/19 FY** | **2017/18 FY** | **2016/17 FY** |
| Current Assets | 173,969,000 | 166,257,000 | 146,968,000 |
| Current Liabilities | 43,820,000 | 35,181,000 | 26,686,000 |
| **Current Ratio** | **4** | **4.7** | **5.5** |

(*Source: own compilation*)

Based on the results of the calculation above, the municipality's current ratio has been four and above during the three financial years reviewed. These calculated ratios are above the norm in comparison to the set ratio of 2.1.

It is worth noting that the municipality's current ratio has been declining from the 5.5 in the 2016/17 financial year, to 4.7 in the 2017/18 financial year, and down to 4 in the 2018/19 financial year. The reason for this is that the municipality's assets increased by 18 per cent (R147 million to R174 million) over the three financial years, whereas its liabilities grew by 64 per cent (R27 million to R44 million). The slow pace of the growth of the municipality's current assets and the fast-paced growth of the municipality's current liabilities should be a cause for concern, regarding the municipality's future ability to meet its short-term obligations.

Figure 5.3 below is a graphical demonstration of the current ratio of the municipality in Rand value, during the three financial years under review. The graph demonstrates that the current assets were R147 million at the end of the 2016/17 financial year, increased to R166 million at the end of the 2017/18 financial year and further increased to R174 million, at the end of the 2018/19 financial year. On the other hand, the graph illustrates that current liabilities were R27 million at the end of the 2016/17 financial year, increased to R35 million at the end of the 2017/18 financial year, and further increased to R44 million, at the end of the 2018/19 financial year.

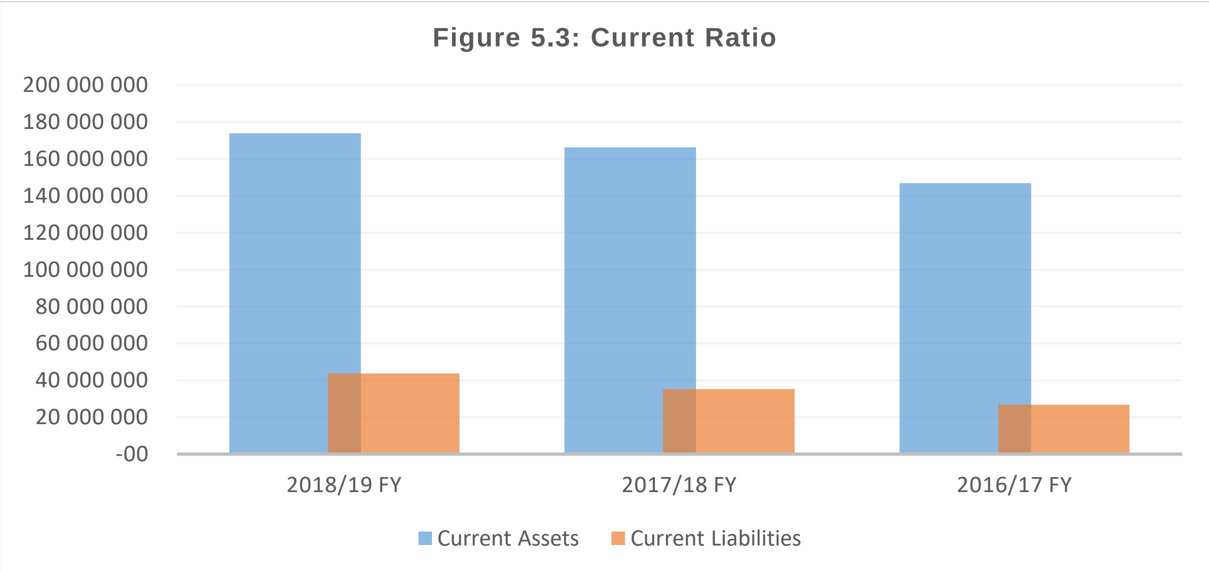


**Figure 5.3: Current Ratio**

(*Source: own compilation*)

Based on the above analysis, it appears that the municipality is performing well, considering its current ratio. However, it is worth noting that the greater portion of the municipality's current assets is its account receivables (debtors) - that the municipality is struggling to collect. The 64 per cent increase in the municipality's current liabilities compared to the 18 per cent increase in its current assets, should be a perturbing aspect to the municipality. If this tendency continues, the municipality may end up struggling to pay its current liabilities that are payable within 30 days after the receipt of invoice, considering the municipality expends in excess of 330 days to collect its revenue.

#### *5.4.1.4 Liability management*

❖ *Capital cost as a percentage of total operating expenditure*

The ratio indicates the cost required to service municipal loans and it assesses the loan or payment obligation expressed as a percentage of the municipality's total operating expenditure in a given financial year (RSA 2014:8). The norm for this ratio is between six and eight per cent. National Treasury (RSA 2014:8) asserted that a performance below the norm may indicate either that the municipality has the capacity to source additional funding from loans to invest in its infrastructure projects, or the municipality has cash flow problems that results in the municipality's failure to obtain external funding. National Treasury (RSA 2014:8) further asserted that operating above the norm could pose risks to the municipality, should changes or fluctuations in interest rates arise, that may lead to failure in servicing municipal loans. Table 5.10 below demonstrates the calculation of the municipality's capital cost as a percentage of total operating expenditure, in respect of the three financial years reviewed.

**Table 5.10: Capital Cost (Interest Paid and Redemption) as a Percentage of Total Operating Expenditure**

| **Formula** | | | |
|---|---|---|---|
| Capital Cost (Interest Cost and Redemption) / Total Expenditure x 100 | | | |
| **Norm: Between 6% and 8%** | | | |
| | | | |
| **Ratio** | | | |
| **Description** | **2018/19 FY** | **2017/18 FY** | **2016/17 FY** |
| Capital Cost (Interest Paid and Redemption) | 1,019,000 | 25,000 | 26,000 |
| Total Expenditure | 205,147,000 | 186,341,000 | 169,125,000 |
| **Capital Cost as a % of Total Operating Expenditure** | **0.5%** | **0%** | **0%** |

(*Source: own compilation*)

Based on the results of the calculation, the municipality's capital cost was zero per cent over the course of the three financial years under review. Finance costs ranged around R25 000 during the 2016/17 and 2017/18 financial years, increasing to more than R1 million in the 2018/19 financial year. As the ratios are well below the norm, it shows that the municipality does not rely on loans to finance its service delivery activities and this provides an opportunity for the municipality to source external funding in order to accelerate service delivery, should the need arise.

The utilisation of little external funding by the municipality may be an indication that the municipality is currently financially viable and do not need external funding for its operations and service delivery activities. This positively impacts the municipality's economic sustainability, as the municipality would possess less obligations or the commitments that accompany external funding.

❖ *Debt (total loans)/total operating revenue*

The ratio indicates the extent of the municipality's total loans in relation to its total operating revenue, and it shows the short-and long-term debt financing in relation to the operating revenue of the municipality (RSA 2014:9). The purpose of this ratio is to provide assurance that the municipality would generate enough revenue to discharge its liability-commitment during a given financial year (RSA 2014:9). Table 5.11 below illustrates the calculation of the municipality's debt-to-total-operating-revenue percentage in respect of the three financial years reviewed.

**Table 5.11: Debt (total loans) as a Percentage of Total Operating Expenditure**

| **Formula** | | | |
|---|---|---|---|
| Debt (Total Borrowings) / Total Operating Revenue x 100 | | | |
| **Norm: 45%** | | | |
| | | | |
| **Ratio** | | | |
| **Description** | **2018/19 FY** | **2017/18 FY** | **2016/17 FY** |
| Debt (Total Borrowings) | 34,995,000 | 28,145,000 | 22,321,000 |
| Total Operating Revenue | 183,314,000 | 138,022,000 | 173,688,000 |
| **Debt as a % of Total Operating Expenditure** | **19%** | **20%** | **13%** |

(*Source: own compilation*)

Based on the results of the calculation, the municipality's debt-as-a-percentage-of-total-operating-revenue ratio has been fluctuating from one financial year to the next, as it indicates 19 per cent, 20 per cent and 13 per cent in the 2018/19, 2017/18 and 2016/17 financial years, respectively. The ratio for the three financial years under review are below the norm of 45 per cent, and this is evidence that the municipality generates sufficient revenue to finance its service delivery activities and meet its obligations.

Figure 5.4 below represents the graphical demonstration of the municipality's borrowings (loans) compared to its total operating revenue, in respect of the three financial years under review. The graph shows that the municipality's debt (borrowings/loans) were R22 million at the end of the 2016/17 financial year, increased to R28 million at the end of the 2017/18 financial year, and further increased to R35 million, at the end of the 2018/19 financial year. Furthermore, the graph indicates that the total operating revenue was R174 million in the 2016/17 financial year, decreased to R138 million in the 2017/18 financial year, and increased to R183 million, in the 2018/19 financial year.

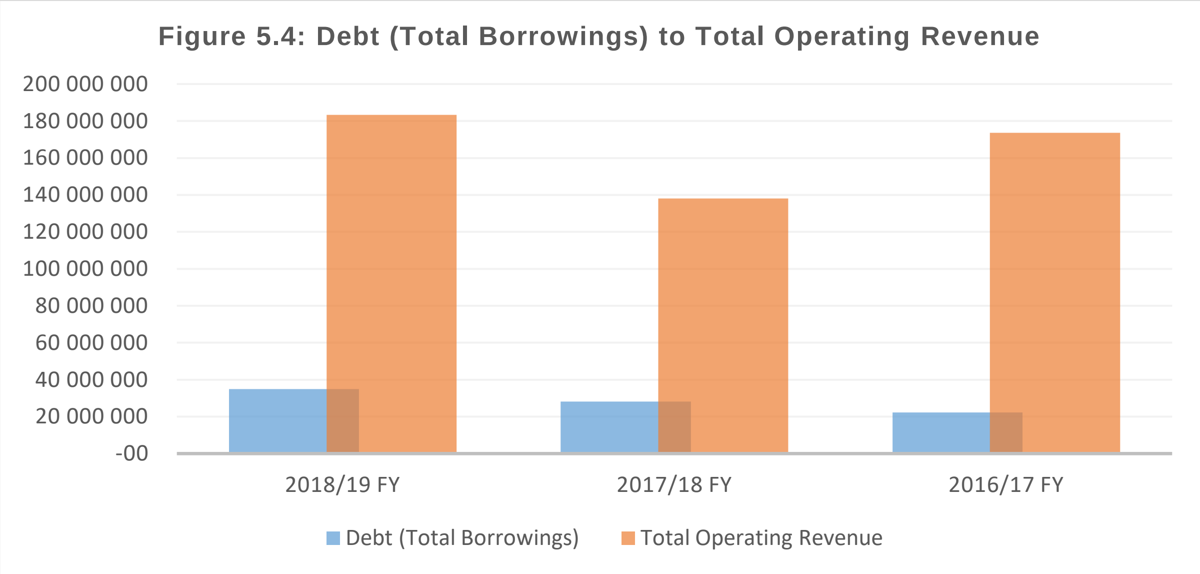


**Figure 5.4: Debt (Total Borrowings) - Total Operating Expenditure Ratio**

(*Source: own compilation*)

Based on the above analysis, it appears that the municipality is employing below-the-norm borrowings to finance its operations and service delivery activities, and this is positive for its economic sustainability as the municipality has less future financial commitments. This observation is further supported by the cost-of-capital to total-operating-expenditure ratio calculated above and was at zero per cent over the duration of the three financial years reviewed.

### 5.4.2 Financial performance

#### *5.4.2.1 Revenue management*

❖ *Revenue growth (%)*

The ratio measures the municipality's overall revenue growth, whilst also assisting with determining if any increase in the municipality's expenditure will be funded by an increase in the municipality's revenue base, if not by other means (RSA 2014:15). National Treasury (RSA 2014:15) suggested that the norm for this ratio is the Consumer Price Index (CPI) that is currently at 4.5 per cent. Table 5.12 below shows the calculation of the municipality's revenue growth during the three financial years under review.

**Table 5.12: Total Revenue Annual Growth Percentage**

| **Formula** | | | | |
|---|---|---|---|---|
| (Period under review's Total Revenue – previous period's Total Revenue) / previous period's Total Revenue) x 100 | | | | |
| **Norm: CPI (4.5%)** | | | | |
| | | | | |
| **Ratio** | | | | |
| **Description** | **2018/19 FY** | **2017/18 FY** | **2016/17 FY** | **2015/16 FY** |
| Total Revenue | 257,556,000 | 220,920,000 | 222,991,000 | 176,560,000 |
| **Total Revenue Annual Growth (%)** | **17%** | **-1%** | **26%** | **-** |

(*Source: own compilation*)

Based on the calculation above, the municipality's revenue has grown over the course of the three financial years reviewed (from R223 million in the 2016/17 financial year, to R257 million in the 2018/19 financial year), although there was a decline by one per cent between the 2016/17 and the 2017/18 financial years. Revenue increased by 26 per cent between the 2015/16 and 2016/17 financial years, declined by one per cent in the 2017/18 financial year, and increased by 17 per cent in the 2018/19 financial year. The growth of the 2018/19 and 2016/17 financial years was above the norm of 4.5 per cent, and this is a positive tendency with regard to the municipality's generating of financial resources to accelerate its service delivery commitments.

National Treasury (RSA 2014:15) suggested that the assessment of the municipality's revenue growth should be performed in conjunction with the increase in revenue base and the number of consumer accounts. Nevertheless, the municipality's revenue base has remained unchanged over the course of the three financial years under review (MLM 2017, 2018, 2019).

Figure 5.5 is a graphical demonstration of the municipality's total annual revenue growth during the three financial years reviewed. The graph shows that the municipality's total revenue was R222 million in the 2016/17 financial year, decreased to R221 million in the 2017/18 financial year, and increased to R258 million, in the 2018/19 financial year.

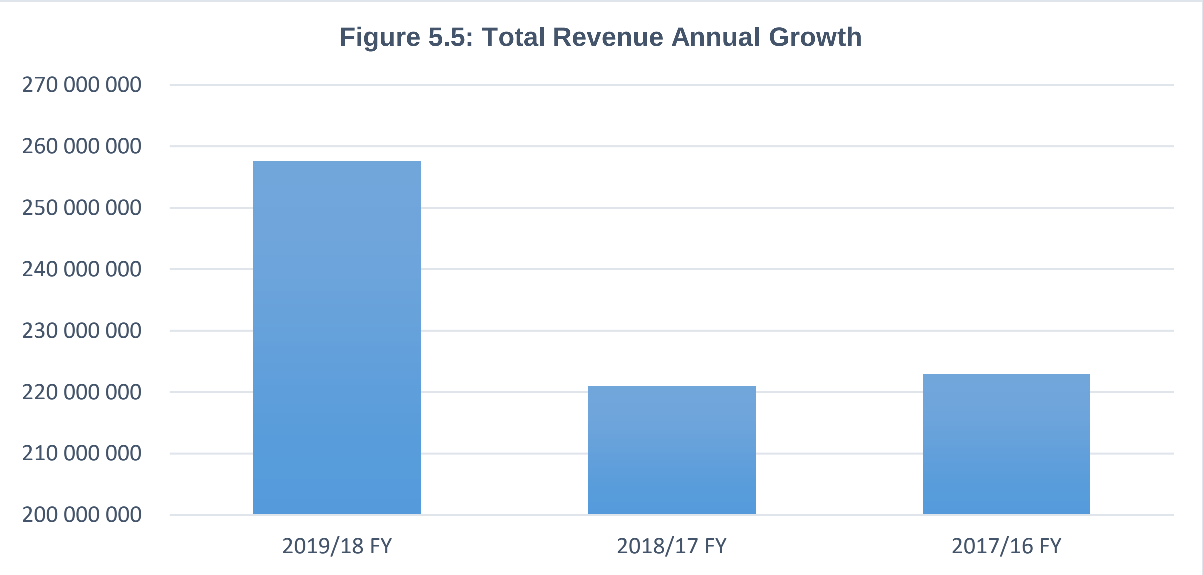


**Figure 5.5: Total Revenue Annual Growth**

(*Source: own compilation*)

Whereas the municipality's revenue base has remained the same over the course of the three financial years under review, it may appear that the municipality's revenue has grown well above the norm of 4.5 per cent set by National Treasury, even though there was a one per cent decline in-between the 2016/17 and 2017/18 financial years. This is a positive contribution towards the municipality's economic sustainability, as the municipality would be able to maintain service delivery commitments.

The municipality may need to address the issue of revenue collection, as this revenue increase may not be significant with no collection from the ratepayers. The municipality may also need to expand its revenue base by identifying other revenue streams, as its revenue base has remained unchanged over the course of the three financial years reviewed. This would endow the municipality with financial resources in addition to the general increases of tariffs.

❖ *Revenue growth (%) (excluding capital grants)*

The ratio measures the overall revenue growth (excluding all capital grants) and assists with determining if any increase in the municipality's expenditure will be funded by an increase in the municipality's revenue base, if not by other means (RSA 2014:15). National Treasury (2014:15) again suggested that the norm for this ratio is the CPI - currently 4.5 per cent. Table 5.13 below illustrates the calculation of the municipality's revenue growth (excluding capital grants) during the three financial years under review.

**Table 5.13: Revenue Growth Percentage (Excluding Capital Grants)**

| **Formula** | | | | |
|---|---|---|---|---|
| ((Period under review's Total Revenue excluding Capital Grants – previous period's Total Revenue excluding Capital Grants) / previous period's Total Revenue excluding Capital Grants) x 100 | | | | |
| **Norm: CPI (4.5%)** | | | | |
| | | | | |
| | **Ratio** | | | |
| **Description** | **2018/19 FY** | **2017/18 FY** | **2016/17 FY** | **2015/16 FY** |
| Internally-Generated Revenue | 216,224,000 | 193,697,000 | 173,331,000 | 126,803,000 |
| **Internally-Generated Revenue Annual Growth (%)** | **12%** | **12%** | **37%** | **-** |

(*Source: own compilation*)

Based on the results of the calculation, the municipality's revenue (excluding capital grants) increased by 12 per cent, 12 per cent and 37 per cent in the 2018/19, 2017/18 and 2016/17 financial years, respectively. The increase over these financial years were above the norm of 4.5 per cent. Whereas there has been slight changes to the municipality's revenue base, property rates and operational grants are amongst the major contributors to the increase in the municipality's revenue growth (MLM 2017, 2018, 2019).

Figure 5.6 below presents a graphical demonstration of the municipality's revenue growth (excluding capital grants) in the three financial years under review. The graph shows that the revenue (excluding capital grants) was R173 million in the 2016/17 financial year, increased to R194 million in the 2017/18 financial year, and further increased to R216 million, in the 2018/19 financial year.

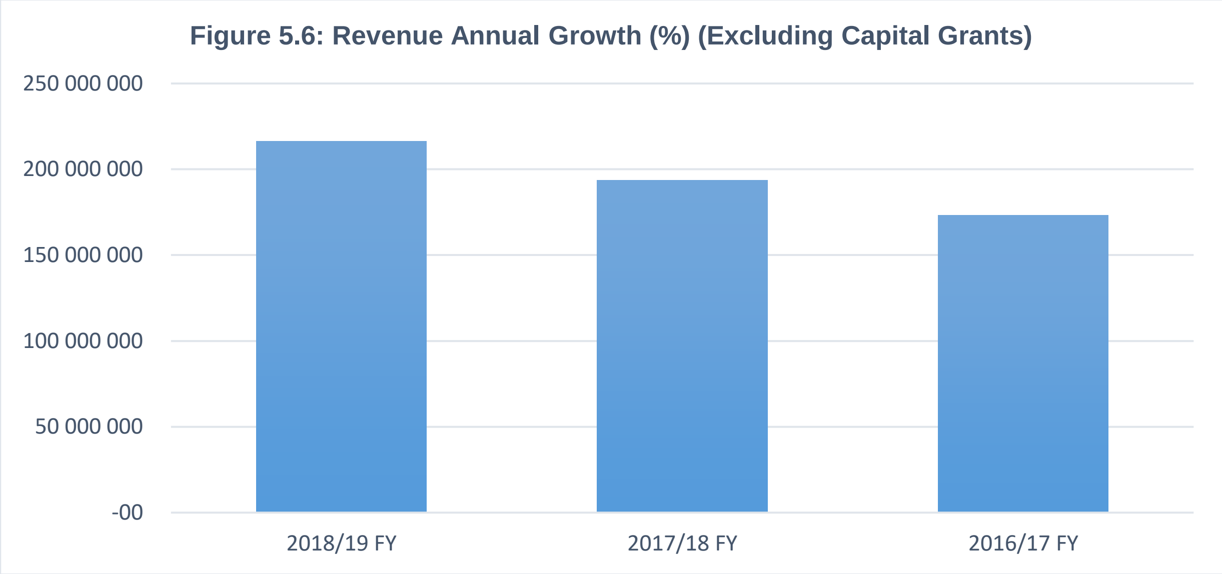


**Figure 5.6: Revenue Growth Percentage (Excluding Capital Grants)**

(*Source: own compilation*)

It appears that the municipality is performing above the norm in revenue growth, which should enable the municipality to meet its service delivery commitments and other operational commitments, by availing financial resources.

#### *5.4.2.2 Expenditure management*

❖ *Remuneration as a percentage of total operating expenditure*

The ratio measures the municipality's total remuneration costs compared to its total operating expenditure, and norm for this ratio ranges between 25 per cent and 40 per cent (RSA 2014). According to National Treasury (RSA 2014:17), a ratio that exceeds the norm could indicate inefficiencies, overstaffing or incorrect focus due to misdirected expenditure on non-essential items or non-service delivery related expenditure. Table 5.14 shows the calculation of remuneration as a percentage of total operating expenditure, over the course of the three financial years under review.

**Table 5.14: Remuneration (Employee-related Costs and Councillors' Remuneration) as a Percentage of Total Operating Expenditure**

| Formula | | | |
|---|---|---|---|
| Remuneration (Employee-Related Costs & Councillors' Remuneration) / Total Operating Expenditure x 100 | | | |
| **Norm: Between 25% and 40%** | | | |
| | | | |
| **Ratio** | | | |
| **Description** | **2018/19 FY** | **2017/18 FY** | **2016/17 FY** |
| Total Remuneration (Employees & Councillors) | 74,465,000 | 67,241,000 | 59,950,000 |
| Total Operating Expenditure | 189,047,000 | 149,201,000 | 137,801,000 |
| **Remuneration as a % of Total Operating Expenditure** | **39%** | **45%** | **44%** |

(*Source: own compilation*)

Based on the results of the above calculation, the municipality's remuneration as a percentage of the total operating expenditure was 39 per cent, 45 per cent and 44 per cent in the 2018/19, 2017/18 and 2016/17 financial years, respectively. In the 2016/17 and 2017/18 financial years, the ratio was above the norm of 25 per cent to 40 per cent, whereas in the 2018/19 financial year the ratio was within the norm. One may argue that this ratio must likewise be analysed considering the vacancy rate of the municipality, as municipal plans to appoint additional employees may cause the ratio to rise above the norm, again.

Figure 5.7 below is a graphical demonstration of the municipality's remuneration-to-total-operating-expenditure ratio. The graph shows that the total remuneration was R60 million in the 2016/17 financial year, increased to R67 million in the 2017/18 financial year, and further increased to R74 million, in the 2018/19 financial year. The graph also illustrates that the total operating expenditure was R139 million in respect of the 2016/17 financial year, increased to R149 million in the 2017/18 financial year, and further increased to R189 million, in the 2018/19 financial year.

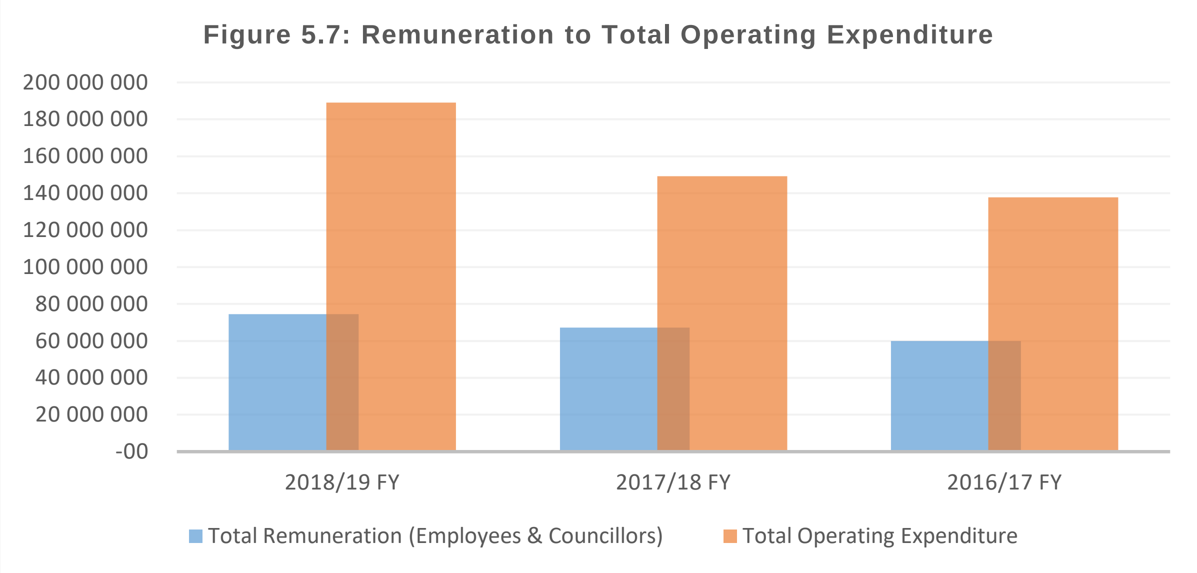


**Figure 5.7: Remuneration-to-Total-Operating-Expenditure Ratio**

(*Source: own compilation*)

It appears that in the 2016/17 and 2017/18 financial years, the municipality was either overstaffed or that funds were directed to non-essential municipal activities. The above-the-norm spending on remuneration would have negatively impacted service delivery, as more funds were spent to compensate employees than to fund service delivery. Nevertheless, the 2018/19 ratio improved to below the norm of 40 per cent, which may be a sign that the municipality is no longer over-staffed and that funds are being directed towards essential municipal activities.

The municipality may need to implement measures to ensure that the expenditure in respect of remuneration is within the required norm of 25 to 40 per cent. The municipality may have cause to review its organisational structure and ascertain that non-essential vacancies are removed from the structure, to preserve a remuneration expenditure ratio within the required norm. Staff members occupying non-essential positions may also be transferred to essential positions, followed by the removal of their erstwhile positions from the organisational structure, in order to reduce the vacancy rate and to prevent future appointments to those non-essential positions.

❖ *Remuneration as a percentage of equitable shares*

The ratio was calculated to determine the extent to which equitable shares are used to pay remuneration, as opposed to financing service delivery. The calculation was performed via dividing total remuneration by the equitable shares received by the municipality, in respect of a given financial year. Table 5.15 shows the calculation of remuneration as a percentage of equitable shares, in respect of the three financial years reviewed.

### Table 5.15: Remuneration as a Percentage of Equitable Shares

| Formula | | | |
|---|---|---|---|
| (Total Remuneration (Employees & Councillors) / Equitable Shares) x 100 | | | |
| **Norm: None** | | | |
| | | | |
| **Ratio** | | | |
| **Description** | **2018/19 FY** | **2017/18 FY** | **2016/17 FY** |
| Total Remuneration (Employees & Councillors) | 74,465,000 | 67,241,000 | 59,950,000 |
| Equitable Shares | 109,416,192 | 99,298,000 | 91,329,003 |
| **Remuneration as a % of Total Operating Expenditure** | **68%** | **68%** | **66%** |

(*Source: own compilation*)

Based on the calculation above, the municipality's total-remuneration-to-equitable-shares ratio was 68 per cent, 68 per cent and 66 per cent for the 2018/19, 2017/18 and 2016/17 financial years, respectively. These results show that the municipality expends most of its equitable shares to compensate employees, rather than towards the provision of services.

Figure 5.8 below is a graphical demonstration of the municipality's remuneration-to-equitable-shares ratio. The graph demonstrates that the total remuneration was at R60 million in respect of the 2016/17 financial year, increased to R67 million with regard to the 2017/18 financial year, and further increased to R74 million, in the 2018/19 financial year. The graph also shows that the total operating expenditure was R91 million in the 2016/17 financial year, increased to R99 million in the 2017/18 financial year, and further increased to R109 million, in the 2018/19 financial year.

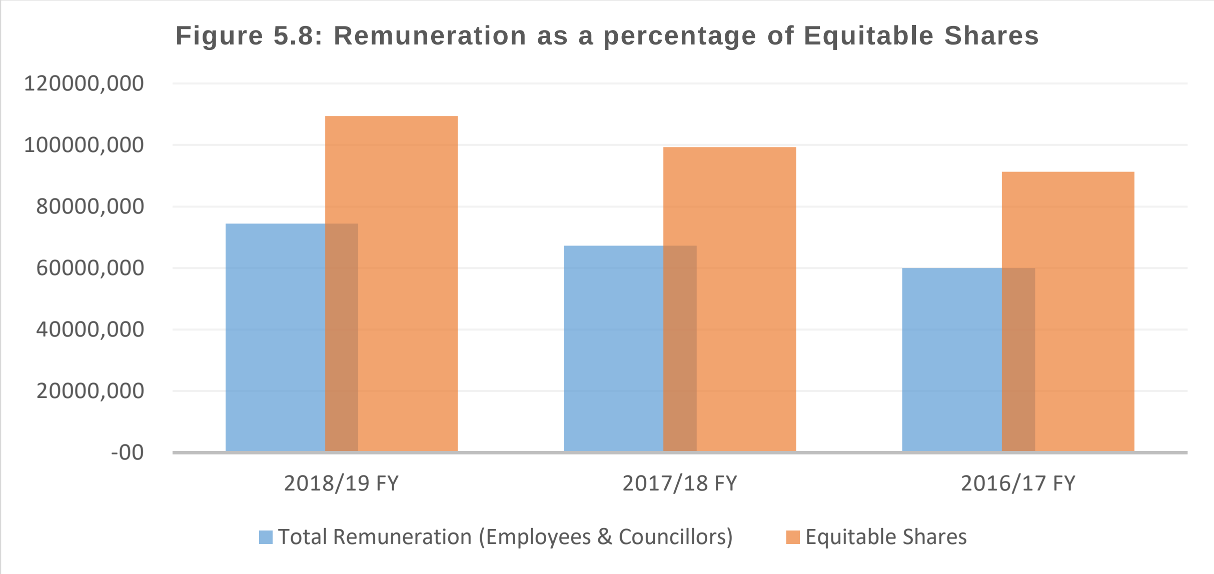


**Figure 5.8: Remuneration as a Percentage of Equitable Shares**

(*Source: own compilation*)

Based on the above analysis, it appears that the municipality applies in excess of 65 per cent of its equitable shares to compensating employees, consigning a small percentage of the equitable shares to be channelled towards service delivery. Whether it is owing to overstaffing or elevated salaries, it negatively impacts the municipality's economic sustainability, as funds intended for service delivery are being spent on staff compensation.

❖ *Contracted services as a percentage of total operating expenditure*

The ratio measures the extent of the municipalities' resources committed towards contracted services to perform municipal functions, and the norm for this ratio ranges between two per cent and five per cent of the municipality's total operating expenditure for the financial year (RSA 2014:17). A ratio above the norm could indicate that the municipality has outsourced most of its functions to external service providers or may signify poor municipal management of contracted services (RSA 2014:17). Table 5.16 illustrates the calculation of contracted services as a percentage of total operating expenditure, over the course of the three financial years under review.

**Table 5.16: Contracted Services as a Percentage of Total Operating Expenditure**

| Formula | | | |
|---|---|---|---|
| Contracted Services / Total Operating Expenditure x 100 | | | |
| **Norm: Between 2% and 5%** | | | |
| | | | |
| **Ratio** | | | |
| **Description** | **2018/19 FY** | **2017/18 FY** | **2016/17 FY** |
| Contracted Services | 13,535,000 | 9,599,000 | 6,769,000 |
| Total Operating Expenditure | 189,047,000 | 149,201,000 | 137,801,000 |
| **Contracted Services as a % of Total Operating Expenditure** | **7%** | **6%** | **5%** |

(*Source: own compilation*)

Based on the results of the calculation above, contracted services presented as seven per cent, six per cent and five per cent of the municipality's total operating expenditure in the 2018/19, 2017/18 and 2016/17 financial years, respectively. In the 2016/17 financial year, the municipality's contracted services were within the norm of two to five per cent. From the 2017/18 financial year, contracted services increased above the norm with one per cent, to six per cent, and also increased with another one per cent, to seven per cent in the 2018/19 financial year. These results confirm that the municipality has either outsourced more services, or contracted services were badly managed by the municipality, during the 2017/18 financial year.

Figure 5.9 below portrays a graphical demonstration of the municipality's contracted services-to-total-operating-expenditure ratio. It demonstrates that contracted services represent a small portion of the municipality's total operating expenditure, but has been increasing, with the total operating expenditure rising from R6,7 million in the 2016/17 financial year to R13,5 million in the 2018/19 financial year.

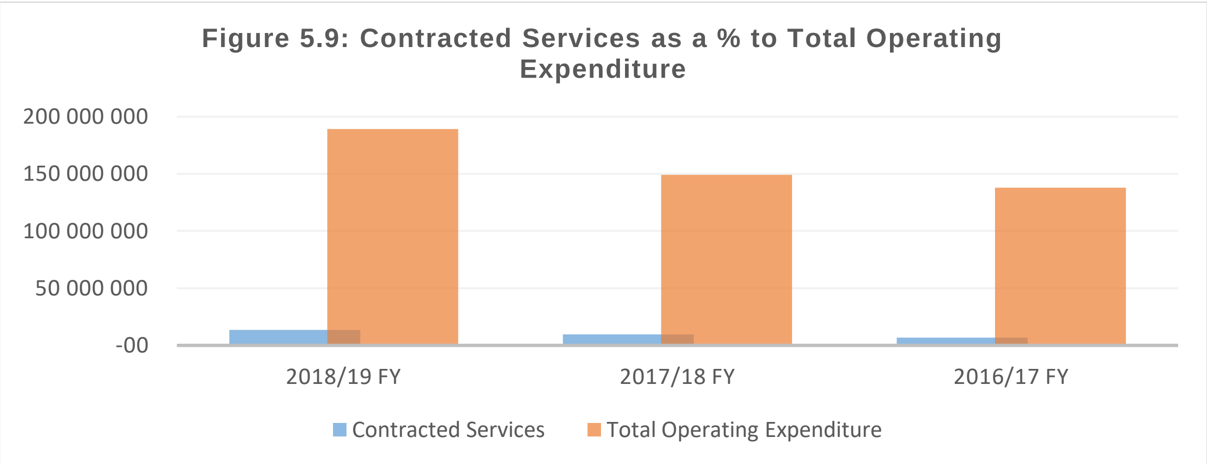


**Figure 5.9: Contracted Services as a Percentage of Total Operating Expenditure**

(*Source: own compilation*)

Considering the trend, it appears that the municipality is continuously outsourcing some of its functions to external service providers, or it may be a case of poor management of the external service providers. The results of this ratio together with the remuneration ratio, demonstrate challenges confronting the municipality, as the remuneration is elevated whereas several of the functions have been outsourced. Reliance on external service providers also negatively impacts the municipality's economic sustainability, especially when the SLAs do not accommodate skills transfer or when those SLAs are poorly managed.

The municipality may need to find a balance between the employment of external service providers and internal staff, considering the elevated calculated ratios. The municipality may need to consider outsourcing only those functions that it does not hold the internal capacity to provide and consider appointing municipal staff with (currently lacking) expertise, in order to reduce the outsourcing of municipal functions.

#### *5.4.2.3 Grant dependency*

- *Own-funded capital expenditure to total capital expenditure ratio*

The ratio aims to measure the extent to which the municipality's total capital expenditure is funded by internally generated funds and borrowings/loans (RSA 2014:18). National Treasury (2014:18) did not suggest any norm for this formula but suggested authoritatively that the municipality's capital funding mix must be undertaken in an affordable manner whilst also striving to improve the capacity of internally generated funding. Table 5.17 below displays the calculation of the percentage of capital expenditure that is funded by the municipality's internally generated revenue, during the three financial years under review.

**Table 5.17: Own-funded Capital Expenditure as a Percentage of Total Capital Expenditure**

| **Formula** | | | |
|---|---|---|---|
| Own-Funded Capital Expenditure (Internally generated funds) / Total Capital Expenditure x 100 | | | |
| **Norm: None** | | | |
| | | | |
| **Ratio** | | | |
| **Description** | **2018/19 FY** | **2017/18 FY** | **2016/17 FY** |
| Own-Funded Capital Expenditure | 23,127,000 | 55,675,000 | 12,613,000 |
| Total Capital Expenditure | 74,242,000 | 82,898,000 | 49,303,000 |
| **Own-Funded Capital Expenditure as a % of Total Capital Expenditure** | **31%** | **67%** | **26%** |

(*Source: own compilation*)

Based on the above calculation, the 2017/18 financial year is the only financial year among the three financial years reviewed, when the municipality's internally generated revenue and borrowings funded the majority of the municipality's capital projects (67%). During the other financial years (2018/19: 31%; 2016/17: 26%), most of the municipality's capital projects were funded by government grants and subsidies. These results suggest that the municipality is more reliant on government grants and subsidies to accelerate service delivery.

Figure 5.10 below is a graphical demonstration of the municipality's own-funded-capital-expenditure (including borrowings)-to-total-capital-expenditure in respect of the three financial years under review. The graph illustrates that the municipality's own-funded capital expenditure was R13 million in the 2016/17 financial year, increasing significantly to R56 million in the 2017/18 financial year, and significantly decreasing to R23 million, in the 2018/19 financial year. The graph shows that the municipality's total capital expenditure was R49 million in the 2016/17 financial year, increasing to R83 million in the 2017/18 financial year and decreasing to R74 million in the 2018/19 financial year.

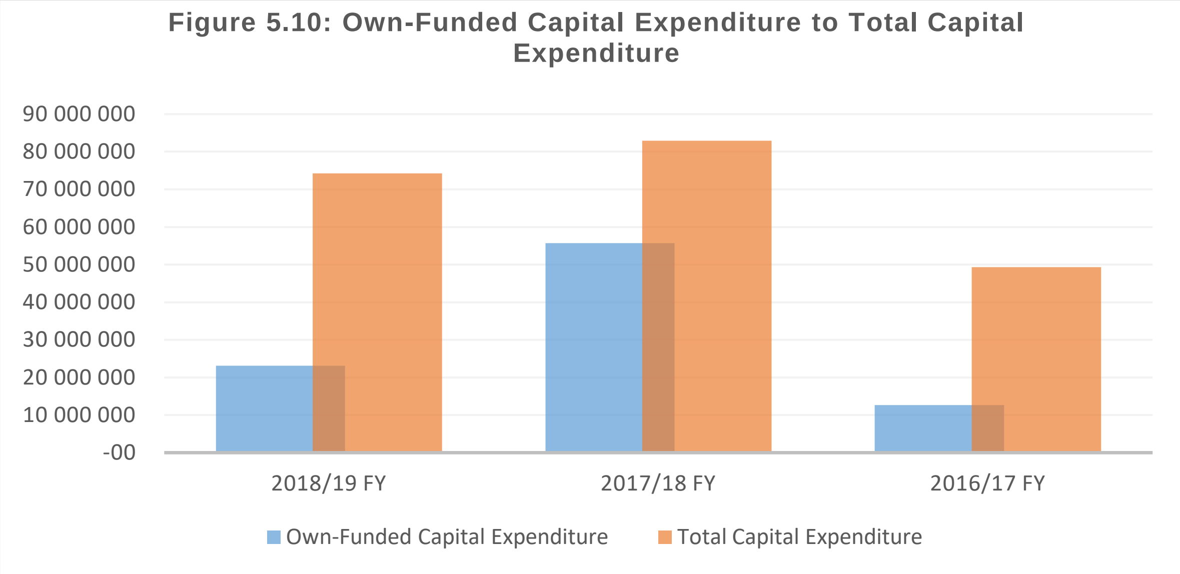


**Figure 5.10: Own-funded Capital Expenditure to Total Capital Expenditure Ratio**

(Source: own compilation)

It may appear that the municipality was only less reliant on external capital funding in the 2017/18 financial year, whereas in the 2016/17 and 2018/19 financial years it was highly reliant on external capital funding. The over-reliance on external funding may negatively affect the municipality's service delivery activities, should such funding be reduced or withdrawn by National Treasury.

Whilst the municipality is struggling with revenue collection and holds a weak revenue base, the municipality may need to devise measures to improve revenue collection and to expand its revenue base. This would enable the municipality to have access to adequate financial resources in order to accelerate service delivery above the current levels. Additionally, the municipality would be less reliant on external funding of service delivery activities, as it would be able to generate additional own revenue.

❖ *Own-source revenue as a percentage of total operating revenue (including agency income)*

The ratio aims to assess the extent of own-source revenue (including agency income) with reference to the total operating revenue, to measure the municipality's independence from national government (RSA 2014:18). While National Treasury did not propose a norm for the ratio, it suggested that the municipality should strive to increase its own-revenue over time, in order to reduce the level of dependence on external funding (RSA 2014:19). Table 5.18 below shows the calculation of the municipality's own-source revenue as a percentage of the total operating revenue, during the three financial years reviewed.

**Table 5.18: Own-source Revenue as a Percentage of Total Operating Revenue**

| Formula | | | |
|---|---|---|---|
| Own-Source Revenue (Total Revenue – Government grants and subsidies – Public Contributions and Donations) / Total Operating Revenue (including agency services) x 100 | | | |
| **Norm: None** | | | |
| | | | |
| **Ratio** | | | |
| **Description** | **2018/19 FY** | **2017/18 FY** | **2016/17 FY** |
| Own Source Revenue | 104,028,000 | 91,375,000 | 79,171,000 |
| Total Operating Revenue | 183,314,000 | 138,022,000 | 173,688,000 |
| **Own-Source Revenue as % of Total Operating Revenue** | **57%** | **66%** | **46%** |

(*Source: own compilation*)

The above results show that the municipality's percentage ratio of own-source-revenue to total-operating-revenue has been unstable, during the three financial years under review. As calculated above, the own-source revenue is 57 per cent, 66 per cent and 46 per cent in respect of the 2018/19, 2017/18 and 2016/17 financial years, respectively. Although there is no norm for the ratio, the last two financial years (2018/19 and 2017/18) show the municipality's own-source revenue represented in excess of 50 per cent of the municipality's total operating revenue, even though the 2018/19 financial year's ratio (57%) was nine per cent below the 2017/18 financial year's ratio of 66 per cent. In the 2016/17 financial year, the municipality was just four per cent off the 50 per cent mark, as its own-source revenue only accounted for 46 per cent of the total operating revenue.

Figure 5.11 below depicts a graph, demonstrating the municipality's own-source revenue in comparison to the total operating revenue. The graph shows that the municipality's own-source revenue was R79 million in the 2016/17 financial year, increased to R91 million in the 2017/18 financial year, and further increased to R104 million, in the 2018/19 financial year. The total operating revenue was R174 million in the 2016/17 financial year, decreased to R138 million in the 2017/18 financial year, and increased to R183 million, in the 2018/19 financial year.

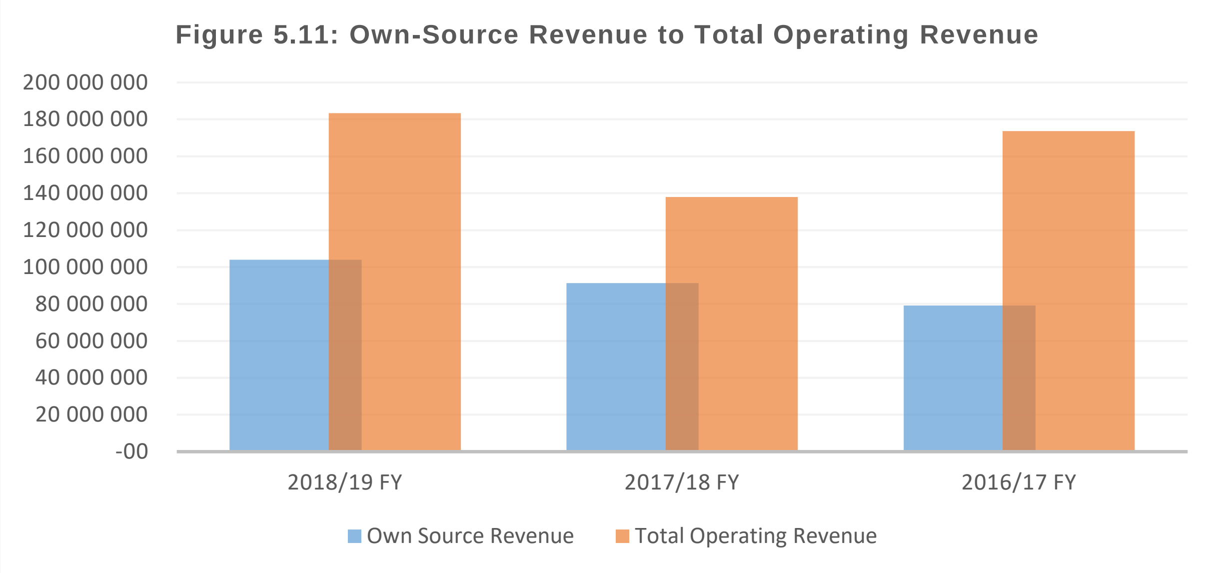


**Figure 5.11: Own-source-Revenue to Total-Operating-Revenue Ratio**

(Source: own compilation)

It appears that the municipality's total operating revenue was funded by own revenue in the 2018/19 (57%) and 2017/18 (66%) financial years, whereas, in the 2016/17 financial year, it only funded 46 per cent thereof. While own revenue increased every financial year from the 2016/17, the 66 per cent funding in 2017/18 may be attributed to the decrease in total operating revenue in that financial year and this was followed by an increase in the 2018/19 financial year (Table 5.18 above).

Nevertheless, the municipality's deficient revenue collection and weak revenue base pose massive challenges to its own revenue. The municipality's budget could balance when accounting for revenue that the municipality anticipate collecting, however, failure to collect such revenue would pose a threat to the implementation of the budget and consequently, service delivery.

❖ *Government grants and subsidies as a percentage of total revenue*

The purpose of this ratio is to determine the percentage of the municipality's revenue consisting of government grants, to determine the level of the municipality's dependence on government funding (RSA 2005:17). No norm has been prescribed for this ratio. Table 5.19 below presents the calculation of government grants and subsidies as a percentage of the municipality's total revenue, in respect of each financial year under review.

**Table 5.19: Government Grants and Subsidies as a Percentage of Total Revenue**

| Formula | | | |
|---|---|---|---|
| (Period under review's grants received / period under review's Total Revenue) x 100 | | | |
| **Norm: None** | | | |
| | | | |
| **Ratio** | | | |
| **Description** | **2018/19 FY** | **2017/18 FY** | **2016/17 FY** |
| Government Grants & Subsidies | 153,527,000 | 129,545,000 | 143,814,000 |
| Total Revenue | 257,556,000 | 220,920,000 | 222,991,000 |
| **Government Grants & Subsidies as a % to Total Revenue** | **60%** | **59%** | **64%** |

(*Source: own compilation*)

The calculation above shows that government grants and subsidies accounted for a larger portion of the municipality's total revenue in the three financial years reviewed. Although there is no set norm for this ratio, the results show that the municipality was dependent on government grants and subsidies by 60 per cent in the 2018/19 financial year, 59 per cent in the 2017/18 financial year and 64 per cent in the 2016/17 financial year.

Figure 5.12 below is a graphical demonstration of the municipality's government-grants-and-subsidies to total-revenue ratio, during the three financial years under review. The graph indicates that government grants and subsidies amounted to R143 million in the 2016/17 financial year, decreased to R130 million in the 2017/18 financial year, and increased to R154 million, in the 2018/19 financial year.

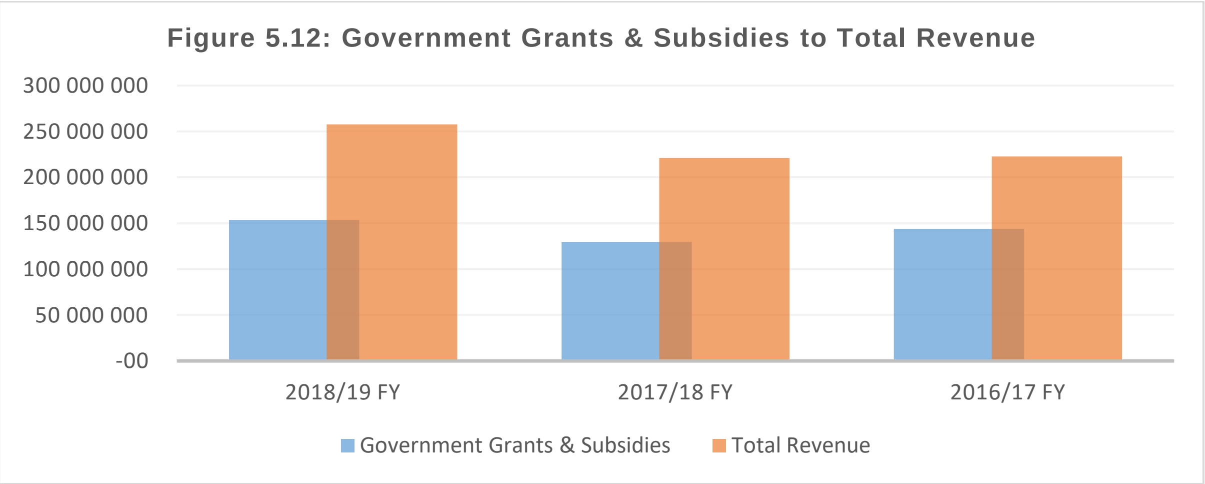


**Figure 5.12: Government-Grants-and-Subsidies to Total-Revenue Ratio**

(*Source: own compilation*)

Based on the above figure, it appears that the municipality is more reliant on government grants and subsidies to fund both its administrative- and service delivery activities. The over-reliance on government grants and subsidies may negatively impact the municipality's economic sustainability as the municipality's continuous operation could be highly dependent upon such funding.

The over-reliance may be attributed to the municipality's weak revenue base and deficient revenue collection – two areas that require improvement. Improving the revenue collection rate and expanding the revenue base should be prioritised by the municipality, in order to reduce the reliance on government grants and subsidies.

### 5.4.3 Budget implementation

#### *5.4.3.1 Capital expenditure budget implementation indicator*

This ratio measures the extent to which budgeted capital expenditure has actually been expended, during the financial year (RSA 2014:19). This ratio also measures the municipality's ability to implement its capital budget – in accordance with the approved budget - by implementing the necessary controls. The norm for the ratio ranges from 95 to 100 per cent of the budgeted capital figures (RSA 2014:19). Table 5.20 displays the calculation of the municipality's capital expenditure budget implementation indicator, in respect of the three financial years under review.

**Table 5.20: Capital Expenditure Budget Implementation Indicator Percentage**

| **Formula** | | | |
|---|---|---|---|
| (Actual Capital Expenditure / Budgeted Capital Expenditure) x 100 | | | |
| **Norm: 95% - 100%** | | | |
| | | | |
| **Ratio** | | | |
| **Description** | **2018/19 FY** | **2017/18 FY** | **2016/17 FY** |
| Actual Capital Expenditure | 97,499,000 | 82,997,000 | 51,689,000 |
| Budgeted Capital Expenditure | 102,750,000 | 99,533,000 | 83,129,000 |
| **Capital Expenditure Budget Implementation Indicator (%)** | **95%** | **83%** | **62%** |

(*Source: own compilation*)

Based on the results of the above calculation, the ratio was 95 per cent, 83 per cent and 62 per cent for the 2018/19, 2017/18 and 2016/17 financial years, respectively. The ratios for the 2017/18 and 2016/17 financial years were below the norm of 95 to 100 per cent and may be an indication of inadequate capacity to undertake service delivery activities or deficient budgeting by the municipality. Notwithstanding this, there was an improvement in capital spending of 62 per cent in the 2016/17 financial year to 83 per cent in the 2017/18 financial year. This improvement carried forward to the 2018/19 financial year, where the expenditure reached 95 per cent - which is within the norm for this ratio.

It appears that the municipality can expend its budgeted expenditure, although it struggled to attain the required level of expenditure during the 2017/18 and 2016/17 financial years. This is a positive sign of the acceleration of municipal service delivery, as it demonstrates that the municipality has undertaken more projects in the 2018/19 financial year, than in the preceding financial years. Going forward, the municipality may need to employ the measures that were implemented in the 2018/19 financial year, to ensure its continued performance within the norm set by National Treasury.

#### *5.4.3.2 Operating expenditure budget implementation indicator*

The ratio measures the extent to which the budgeted operating expenditure has been expended during the financial year, by assessing whether the municipality holds effective controls to ensure that its operating expenditure is incurred in accordance with its approved budget (RSA 2014:20). The norm for this ratio ranges between 95 and 100 per cent and National Treasury (RSA 2014:20) suggested that any expenditure above 100 per cent is an indication of challenges relating to inadequate financial controls or deficient municipal budgeting, whereas underspending may indicate challenges related to cash flow difficulties, an inadequate capacity to undertake the planned service delivery activities or deficient budgeting. Table 5.21 presents the calculation of the municipality's operational expenditure budget implementation indicator, in respect of the three financial years reviewed.

**Table 5.21: Operating Expenditure Budget Implementation Indicator Percentage**

| **Formula** | | | |
|---|---|---|---|
| (Actual Operating Expenditure / Budgeted Operating Expenditure) x 100 | | | |
| **Norm: 95% - 100%** | | | |
| | | | |
| **Ratio** | | | |
| **Description** | **2018/19 FY** | **2017/18 FY** | **2016/17 FY** |
| Actual Operating Expenditure | 189,047,000 | 149,201,000 | 137,801,000 |
| Budgeted Operating Expenditure | 205,147,000 | 186,341,000 | 169,125,000 |
| **Operating Expenditure Budget Implementation Indicator (%)** | **92%** | **80%** | **82%** |

(*Source: own compilation*)

Based on the results of the calculation above, the ratio was 92 per cent, 80 per cent and 82 per cent, for the 2018/19, 2017/18 and 2016/17 financial years, respectively. These ratios are below the norm of 95 to 100 per cent. Nevertheless, it is worth noting that the 2018/19 ratio was close to the norm, whilst the ratios for the 2017/18 and 2016/17 financial years were 15 per cent and 13 per cent below the norm suggested by National Treasury for this ratio.

Although the expenditure was 80 per cent and above over the course of the three financial years under review, it appears that the municipality is facing challenges in expending the funds allocated to its operation, as the expenditure was below the norm set by National Treasury. This may be an indication of inadequate capacity to undertake service delivery activities or deficient municipal budgeting, as indicated by National Treasury. This may have negatively impacted the planned service delivery activities that were funded by the budgets but were not fully implemented.

The municipality may need to devise measures to ensure that realistic budgets are prepared and that such budgets are fully implemented during its respective financial years. In addition, the municipality may need to capacitate itself to completely implement the set budgets, in order to avoid underspending going forward.

#### *5.4.3.3 Operating revenue budget implementation indicator*

The ratio measures the extent of actual operating revenue received in relation to budgeted operating revenue, during the financial year under review (RSA 2014:20). National Treasury proposed a norm of 95 per cent to 100 per cent and suggested that a ratio below this norm indicated a challenge to implement budgets, ineffective billing and credit control, deficient compilation of budgets, or issues of financial controls and municipal management (RSA 2014:21). Table 5.22 below shows the calculation of the municipality's operating revenue budget implementation indicator, in respect of the three financial years reviewed.

**Table 5.22: Operating Revenue Budget Implementation Indicator Percentage**

| Formula | | | |
|---|---|---|---|
| (Actual Operating Revenue / Budgeted Operating Revenue) x 100 | | | |
| **Norm: 95% - 100%** | | | |
| | | | |
| **Ratio** | | | |
| **Description** | **2018/19 FY** | **2017/18 FY** | **2016/17 FY** |
| Actual Operating Revenue | 184,257,000 | 138,022,000 | 173,688,000 |
| Budgeted Operating Revenue | 191,529,000 | 135,832,000 | 171,147,000 |
| **Operating Revenue Budget Implementation Indicator (%)** | **96%** | **102%** | **101%** |

(*Source: own compilation*)

The results of the calculation above show that the municipality's actual operating revenue was 96 per cent, 102 per cent and 101 per cent in the 2018/19, 2017/18 and 2016/17 financial years, respectively. Based on the norm of the ratio, which is between 95 and 100 per cent, the municipality's performance was within the norm in the 2018/19 financial year, and above the norm in the 2017/18 and 2016/17 financial years, with performances above 100 per cent.

It appears that the municipality performed well in relation to the operating revenue budget implementation indicator, over the course of the three financial years reviewed. The over-collection in two financial years (2017/18 and 2016/17) may suggest issues of deficient budgeting, as in all cases the municipality adjusted the budgets but still under-budgeted.

Even so, it must be considered that the municipality faces a challenge in respect of inadequate revenue collection, as discovered via the debtor management ratios calculated above. Thus, although the operating revenue budget implementation indicator ratios are well within the norm, it should be taken into consideration that not all the revenue billed to ratepayers was collected, as the collection-rate of the municipality is below the norm.

#### *5.4.3.4 Service charges and property rates revenue budget implementation indicator*

The ratio measures the extent of actual service charges- and property rates revenue received, in relation to budgeted service charges- and property rates revenue during a specific period (RSA 2014:21). The circular proposes a norm of between 95 per cent and 100 per cent and suggested that a ratio below this norm indicated either a challenge to implement budgets, ineffective billing and credit control, deficient compilation of budgets or issues of financial controls and municipal management (RSA 2014:21). Table 5.23 below shows the calculation of the municipality's service charges- and property rates revenue budget implementation indicator, in respect of the three financial years under review.

**Table 5.23: Service Charges and Property Rates Revenue Budget Implementation Indicator Percentage**

| Formula | | | |
|---|---|---|---|
| (Actual Service Charges and Property Rates Revenue / Budgeted Service Charges and Property Rates Revenue) x 100 | | | |
| **Norm: 95% - 100%** | | | |
| | | | |
| **Ratio** | | | |
| **Description** | **2018/19 FY** | **2017/18 FY** | **2016/17 FY** |
| Actual Service Charges and Property Rates Revenue | 82,566,000 | 73,420,000 | 64,628,000 |
| Budgeted Service Charges and Property Rates Revenue | 80,932,000 | 68,031,000 | 61,342,000 |
| **Service Charges and Property Rates Revenue Budget Implementation Indicator (%)** | **102%** | **108%** | **105%** |

(*Source: own compilation*)

The results of the calculation of the ratio show that the municipality performed above its budgeted figures in relation to service charges- and property rates revenue, over the course of the three financial years under review, by achieving 102 per cent in the 2018/19 financial year, 108 per cent in the 2017/18 financial year and 105 per cent in the 2016/17 financial year. These ratios are well above the norm, evincing that the municipality over-performed in relation to actual service charges- and property rates revenue.

Even though the municipality's performance is above the norm, this may be an indication of flawed municipal budgeting, as the municipality under-budgeted in every financial year reviewed, despite having adjusted its budgets. The municipality may need to improve its budgeting skills in order to eliminate under-budgeting in future.

As with the operating revenue budget implementation indicator, the municipality may have over-performed in terms of billing the service charges and property rates, however the collection of such billed revenue was well below the norm, and in terms of the net debtor days ratio calculated above, the municipality exhausts in excess of 330 days to collect the revenue billed.

The municipality may need to improve its debtor management ratios to ensure that the actual billed revenue are subsequently collected by the municipality, within the time limits set by National Treasury. The municipality may need to ascertain that its credit control, debt collection policy and by-laws are fully implemented, in order to improve revenue collection.

## 5.5 Summary of Findings in relation to Financial Viability

### 5.5.1 Financial position

#### *5.5.1.1 Asset management*

In terms of the three assets management ratios assessed, the municipality was found to be operating within the norm in two of the ratios, whilst operating outside the norm with regard to one of the ratios. The municipality is accelerating service delivery by investing in service delivery related projects and, during the financial years under review, its assets were not heavily subjected to impairment. Notwithstanding this, the municipality was found to be inadequately providing for the repair and maintenance of its capital assets, and this may create challenges over time. This may also negatively affect the municipality’s service delivery levels and, as discovered by other researchers, lack of or poor service delivery negatively impact municipal revenue collection and consequently, the financial viability of the municipality.

#### *5.5.1.2 Debtor management*

In terms of the debtor management ratios analysed, the municipality was found to be operating outside the norms suggested by National Treasury in respect of all four ratios analysed. The debtor collection rate is below the norm, the net-debtor-days are well above the norm, the year-on-year growth of debtors was above 30 per cent during the three financial years reviewed, and - although the municipality is providing for irrecoverable debt - it failed to write-off any debt during the financial years under review.

The ratios evince that most of the municipality’s billed revenue is not collected during the same financial year. This may negatively affect the municipality’s financial viability, as the budget is supposed to be cash funded. Municipal failure to collect revenue is a sign of factors affecting effective revenue collection.

#### ***5.5.1.3 Liquidity management***

In terms of liquidity management, the municipality is performing within the norm, as the current ratio was four times more and above expectation in the financial years under review. This bodes well for the municipality's financial viability, as the municipality can discharge its short-term obligations without any shortfalls.

#### ***5.5.1.4 Liability management***

In terms of liability management ratios, the municipality performed within National Treasury norms in respect of the two ratios analysed. The results showed that the municipality borrowed less to finance its operations, and this may allow the municipality opportunities in the future, if the need to utilise loans arises. Owing to less loans, the municipality's finance costs were low, implying that the municipality is not facing the risk of fluctuating interest rates.

### **5.5.2 Financial performance**

#### ***5.5.2.1 Revenue management***

Although the municipality's revenue base has remained unchanged during the three financial years reviewed, on average, the municipality's revenue has grown above the norm. Considering the need to expand service delivery and the rate at which the municipality's expenditure is growing, there is a corresponding need for the municipality to improve its revenue collection, to accelerate service delivery and to improve the municipality's financial viability.

#### ***5.5.2.2 Expenditure management***

In terms of the expenditure management ratios, the municipality's remuneration cost and contracted services represented an average of 42 per cent and six per cent (respectively) of the municipality's total operating expenditure, and these are above the proposed norms. This signifies that an average of 48 per cent (excluding other administrative costs) of the municipality's total operating expenditure is expended on service provision, rendering a comparatively small amount of funds available to the actual service delivery. Should this trend continue, it may negatively impact the municipality's service delivery in the long run.

#### *5.5.2.3 Grant dependency*

In terms of the grant dependency ratios, the municipality is reliant on government grants and subsidies, as more than 50 per cent of its total revenue is supplied by National Treasury. Based on this, one may argue that the municipality's continuous operation is mostly dependent on government grants and subsidies. Should government grants and subsidies be reduced or terminated, the municipality's financial viability and, subsequently, its going concern, may be negatively affected.

### 5.5.3 Budget implementation

The municipality's budget implementation of expenditure-related activities was below the norm, and this may negatively impact the municipality's provision of services. Conversely, the budget implementation of revenue-related activities was above the norm, which may bode well for the municipality's financial viability whilst raising concerns regarding the municipality's budgeting techniques.

### 5.5.4 Effect of above-norm ratios on the municipality's overall financial viability

Based on the above analysis, the municipality is currently financially viable. However, the above 60 per cent reliance on grants and subsidies and the below-the-norm collection of internally generated revenue may negatively affect the municipality's financial viability and its service delivery provisions, if not adequately addressed by the municipality.

## 5.6 Chapter Summary

This chapter dealt with the analysis of the municipality's financial affairs in order to determine its financial sustainability. This was achieved by analysing the revenue management unit, to determine the capacity of the municipality to manage revenue management activities, followed by the analysis of the sources of municipal revenue in order to determine the municipality's revenue base. The municipality's state of financial affairs was then analysed, employing ratios and pie-charts to examine three ratio categories: financial position, financial performance and budget implementation.

The analysis of the capacity of the RMU revealed a vacancy rate of 36 per cent, which may be a challenge - considering the activities assigned to this unit. The analysis of the sources of the municipality's revenue showed that the revenue base has remained unchanged over the course of the three financial years under review. This could have negative implications in respect of the municipality's economic sustainability.

Through the ratio analysis, the municipality's overall state of financial affairs were determined - one of the objectives of this study. The analysis denoted that the municipality faces revenue collection challenges, as all debtor management ratios were below the norm set by National Treasury. This confirms the problem statement and research question indicated in chapter 1, regarding revenue collection challenges confronting South African municipalities. As a result of the limited revenue base and the deficient revenue collection, the grant dependency ratio analysis evinced that the municipality is, on average, 60 per cent dependent on government grants and subsidies – this signifies high-level dependency. If not addressed urgently, the poor revenue collection which result in the high-level dependence on government grants and subsidies by the municipality pose a serious threat to the municipality's economic sustainability. Nevertheless, the overall ratio analysis shows that, despite the above challenges, the municipality is still financially viable.

The following Chapter will discuss the presentation, analysis and interpretation of interview- and questionnaire results, emanating from the study interviews and questionnaires.

# Chapter 6: Presentation, Analysis and Interpretation of Interview and Questionnaire Results

## 6.1 Introduction

The previous chapter considered the analysis of the municipality's financial affairs in order to determine its financial viability and sustainability. At the start, the municipality's capacity to manage revenue activities was examined, followed by an analysis of the municipality's compliance with the relevant statutes in relation to revenue-related policies and its implementation. In addition, the key municipal revenue management activities were scrutinised and ratio analysis and charts were employed to determine the financial viability and sustainability of the municipality.

This chapter will present the analysis of interview responses that is the second stage of the qualitative phase of this study. Interview responses are presented, analysed and interpreted from a municipal and an economic sustainability theory point of view. The data include descriptive information on the participants, the analysis of the findings based on identified themes and sub-themes, such as: revenue management activities, the impact of own revenue on the municipality's financial sustainability, customer care management, awareness campaigns, and the attitude of the ratepayers towards paying municipal services - from the perspective of the municipal employees.

This chapter will also present the analysis of questionnaire results - the only quantitative phase of the study. Questionnaire results from the community are presented, analysed and interpreted from the TRA perspective. The data include the statistical characteristics of the questionnaire respondents, the reliability test of the questionnaires and the factor analysis of the questionnaire results.

## 6.2 Presentation, Analysis and Interpretation of Interview Data

### 6.2.1 Descriptive information on interview participants.

The data collected with reference to revenue management by the MLM included personal information concerning the gender, experience and organisational position of the municipal officials participating in the interviews. The information was collected to establish the background of the participants and their understanding of the study focus area. Furthermore, the information related to the gender of the participants was collected to ensure a balanced representation of both male and female participants, the information regarding the experience of the participants was collected to ensure an elevated average level of experience in order to improve the credibility of responses, and finally, the information referring to participants' position in the organisational hierarchy was collected to ensure that employees from all post levels in the municipality participated in this study. Table 6.1 contains the descriptive information in respect of all the participants.

**Table 6.1: Descriptive Information in respect of Participants**

| | Gender | | Average years of Experience | Post Level | | |
|---|---|---|---|---|---|---|
| | Male | Female | | 01 - 04 | 05 - 10 | 10 and Above |
| Totals | 5 | 7 | 7.75 | 5 | 4 | 3 |

(*Source: own compilation*)

As shown by table 6.1, the interview participants comprised five males and seven females - considered a decent gender balance and expected to generate balanced views by the participants. With reference to the participants' occupational experience, the experience of the officials ranged from two to 15 years in service of the municipality. The experience mean for the group is 7.75 years and was deemed adequate for the purpose of credible responses.

The organisational position of the participants ranged between level one and 15. Five participants held positions ranked from level 01 – 04, four participants' posts were designated as level 05 – 10, and the remaining three participants held posts that ranked from level 11 – 15. This was deemed a well-balanced representation of service position levels, in order to support the collection of data from all the municipality's employment levels.

### 6.2.2 Interview questions, themes and sub-themes.

The following table and forthcoming paragraphs present the interview questions and the themes emerging from the analysis of the interview responses.

**Table 6.2: Interview Themes and Sub-themes in respect of Municipal Revenue Collection**

| Interview Question | Themes and Sub-themes |
|---|---|
| 1. What are the revenue management activities of the municipality? | **1. Revenue management**<br>1.1. Meter reading activities:<br>❖ frequency of meter readings,<br>❖ method of meter reading,<br>❖ officials responsible for meter readings,<br>❖ effectiveness of the officials and method of meter reading, and<br>❖ challenges encountered when reading meters.<br>1.2. Billing activities:<br>❖ municipal billing system,<br>❖ municipal billing system challenges,<br>❖ distribution of monthly statements or bills, and<br>❖ methods of payment of municipal accounts.<br>1.3. Revenue-related policies:<br>❖ credit control and debt collection policy and by-laws:<br>✓ adoption of the policy and by-laws by the municipality,<br>✓ effectiveness of the implementation of the policy and by-laws, and |

| | |
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| | ✓ challenges affecting the implementation of the policy and by-laws;<br>❖ tariff policy and by-laws:<br>✓ Adoption of the policy and by-laws by the municipality,<br>✓ effectiveness of the implementation of the policy and by-laws, and<br>✓ challenges affecting the implementation of the policy and by-laws.<br>1.4. Capacity of the Revenue Management Unit:<br>❖ number of officials in the Revenue Management Unit,<br>❖ qualifications and skills level of Revenue Management Unit officials,<br>❖ adequacy of the appointed revenue officials to execute revenue management activities,<br>❖ challenges in the Revenue Management Unit in relation to the adequacy of appointed officials, and<br>❖ other revenue-related challenges in the municipality.<br>1.5. Municipal revenue collection activities.<br>1.6. Municipal revenue base:<br>❖ revenue enhancement strategy.<br>1.7. Indigent management:<br>❖ adoption of policy by the municipality, and<br>❖ effectiveness of the implementation of the policy by the municipality. |
| 2. What is the role of municipal own revenue | **2. Impact of own revenue on municipal financial sustainability** |

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| on the sustainability of the municipality? | 2.1. The role of own revenue in the municipality,<br>2.2. The financial sustainability of the municipality. |
| 3. What is the municipality's customer care management activities? | **3. Municipality's customer care management**<br>3.1. Adoption of Customer Care Management Policy by the municipality,<br>3.2. Effectiveness of the implementation of the policy by the municipality,<br>3.3. Existence of a customer care unit or an official dealing with customer care within the municipality,<br>3.4. Types of customer queries by ratepayers. |
| 4. Does the municipality conduct awareness campaigns to educate ratepayers about the importance of paying municipal services? | **4. Awareness campaigns to educate ratepayers**<br>4.1. Conduct of awareness campaigns to educate ratepayers regarding the importance of paying municipal services,<br>4.2. Ratepayers' attendance levels of municipal awareness campaigns,<br>4.3. Other platforms employed by the municipality to educate ratepayers concerning the importance of paying for municipal services. |
| 5. What is the ratepayers' attitude towards paying for municipal services? | **5. Attitude of ratepayers towards paying for municipal services**<br>5.1. Perceived ratepayer-attitude towards paying for municipal services,<br>5.2. Factors contributing to the ratepayers' attitude towards municipal services. |

(*Source: own compilation*)

### 6.2.3 Discussion of interview responses according to themes

The forthcoming paragraphs will discuss the interview responses regarding the emergent themes and sub-themes with reference to the barriers to revenue collection within the MLM.

#### 6.2.3.1 Theme 1: Revenue management

The responses by interview participants regarding revenue management revealed that municipalities conduct revenue management via meter reading, customer billing, and revenue-related policies, and the capacity to manage revenue management processes, municipal revenue collection activities, the municipal revenue base and indigent customers.

- *Meter reading*

According to participant-responses, the municipality's meter readings were interpreted based on the frequency of meter readings, the officials responsible for meter readings, the effectiveness of the officials and methods of meter reading, and the challenges faced by the officials when reading meters. The interpretations of the participant-responses follow below.

- *Frequency of reading meters*

The participants revealed that water meter readings are recorded by a municipal employee, known as a Meter Reader. The participants stated that water meter readings are recorded once a month and are then captured manually to the financial system for billing purposes. One participant emphasised that the municipality collected meter readings two weeks prior to the month-end. The participant reasoned that the municipal area is small and holds only two zones that are billed for water consumption, hence the collection period assigned to meter readings. Participant 2 commented: "It is on a monthly basis, one week is allocated every month for reading meters", whereas Participant 4 elaborated that: "Readings are taken two weeks before month-end every month, because our municipality is too small, and it is only two areas that are billed for water consumption".

Based on analysis of the participant-responses, the frequency of recording or collecting meter readings does not appear to be a challenge to the municipality. Nevertheless, the size of the municipal area and the limited revenue base owing to the prevalence of rural expanses, pose a threat to the municipality's economic sustainability. One may argue that municipalities require solid revenue bases to recover the cost of service provision and so sustain the provision of the services. The MLM holds two billable areas out of 24 wards – these do not represent adequate revenue bases in support of cost recovery and this may negatively affect both the economic sustainability of the municipality and subsequently, the sustainability of its service provision capacity. With regard to water and sewerage services, the municipality's agency fees from Mopani District Municipality decreased from R197,514 (2017/18) to R163,137 in the 2018/19 financial year, that may be the result of inadequate areas subjected to water and sewerage billing (MLM 2019:70). The municipality may need to consider ways to expand its billed service-areas, in a quest to improve its economic sustainability.

- *Methods of reading meters*

Regarding meter reading-methods, the participants revealed that the municipality employs manual water meter reading and does not possess a system to electronically read and collect the water meter measurements for billing purposes. The Meter Reader manually records the readings on a meter reading sheet, subsequently submitting the reading sheets to the office to enable manual capturing to the IT system. As participant 8 stated:

> "The Meter Reader goes to the sites and records the meter readings manually in a book and then brings the readings to the office for them to be captured [in the billing system]."

Participant 11 confirmed: "It's a manual method, we currently do not have any computerised system to take the readings". The lack of an automated system to record meter readings and the lack of controls to confirm the accuracy of meter readings, as revealed by the participants, may result in inaccurate bills. Inaccurate billing was discovered to be one of the factors affecting revenue collection, as discussed in section 3.4.2.2. Inaccurate billing may negatively affect the economic sustainability of municipalities, as it may result in non-payment owing to its negative affect on the attitude of ratepayers towards paying for municipal services. Non-payment of municipal services is one of the major causes of poor financial viability in South African municipalities. As a result, the MLM may need to improve the accuracy of their invoices by exploring the adoption of a digitized system where accurate billing may positively change the attitude of ratepayers leading to a behavioural change towards paying for municipal services.

The municipality may consider smart metering (described in section 3.4.2.2), proposed by Pombo-van Zyl (2017), as it holds important benefits to a municipality's entire metering process. The benefits outlined by Pombo-van Zyl (2017) include the elimination of estimated billing, enhancing the accuracy of meter readings, the reduction of meter reading costs, easy detection of fraud and leakages, and the provision of a new communication channel between the municipality and its ratepayers.

- *Officials responsible for reading meters*

The participants revealed that the municipality employs one Meter Reader who is responsible for the recording of water meter readings. Participant 1 declared that "we have a person and a position of Meter Reader and he is basically responsible for taking water meter readings because the municipality does not render electricity services", thus confirming the employment of a single Meter Reader as water services is the only metered service that the municipality renders to its consumers. Participant 5 affirmed: "We have got one dealing with meter reading because we only have two areas and the person is called a Meter Reader".

As discussed in section 5.3, the municipality's revenue base has remained unchanged during the 2016/17, 2017/18 and 2018/19 financial years, and not holding the license to provide electricity services – that are currently provided directly by Eskom - may be contributing to the municipality's current limited revenue base. The municipality may need to consider acquiring an electricity licence in order to expand its current revenue base. In addition, placing the responsibility of the entire meter reading process on one official, may raise challenges for the municipality - if it has not, already. The accurate recording of water meter readings is one of the key activities in the billing of the service and plays an important role in ensuring the economic sustainability of municipalities. As a result, the municipality may need to consider assigning more personnel to the activity, in a quest to verify the accuracy of the meter readings. The municipality should devise additional controls to ensure that meter readings read by Meter Readers are accurate.

- *Effectiveness of one meter reader and the manual method of reading water meters*

Regarding the effectiveness of employing a single Meter Reader and the exclusive manual method of reading water meters, the participants revealed that they consider the system to be effective and that they are satisfied with the current methods employed by the municipality, as asserted by participant 3: "they are very effective", and participant 10: "I would say they are effective because on a monthly basis we are able to gather the readings needed for billing of accounts".

Although nearly all participants agreed that the employment of one Meter Reader and the manual system of water meter reading are effective, two participants were not supportive of the system. Participant 2 voiced concern regarding the manual meter reading system resulting in consumer complaints, possibly indicating the lack of necessary controls:

> "I can say it is 90 per cent effective, I am saying this because there are people who come and query the water consumption bills and this may mean that there are some gaps on [sic] the system."

Participant 4 argued that issues might arise regarding the availability of the single Meter Reader:

> "The metering reading is effective, but the use of one personnel is the one that I think is a challenge. To me I can say that the challenge is related to person as we have [only] one Meter Reader, so if the person can have commitments during the meter reading period then meter readings will be a challenge for that month."

One may support the participant's argument, as one Meter Reader do not add continuity to the municipality's meter reading activities. This is owing to the Meter Reader being the only person who has knowledge of the location of meters on the relevant premises and in their absence no other person may be able to locate the meters and record the meter readings.

- *Challenges encountered by the Meter Reader when reading meters*

The participants revealed that faulty meters, lack of access to premises, and illegal connections, are challenges encountered by the Meter Reader during the monthly meter reading expeditions. These challenges are discussed below:

✓ Malfunctioning or faulty meters

The participants disclosed that faulty meters are one of the challenges encountered by the Meter Reader. According to the participants, a number of meters are no longer functional, whereas the dials of others are no longer sufficiently visible to allow for reading, as confirmed by participant 8: "Sometimes the Meter Reader finds that the meter readings on the meter are no longer visible enough". One participant complained that although an average water consumption is estimated when meters are faulty, the repair of faulty or damaged meters is delayed as the municipality has to await receipt of the funds for repairs from the district municipality:

> "We have situations where meters are not functional, but we impose averaging for three months and it takes long for the district municipality to give us money to repair the meters" (Participant 1).

The issue of faulty and malfunctioning water meters could certainly be the cause of any inaccurate or incorrect billing experienced by MLM. The municipality would also be forgoing revenue, owing to the faulty meters, even if the municipality employs an estimating strategy – thus, the municipality may fail to recover service expenditure and this may negatively affect the municipality's economic sustainability. The municipality may need to determine the life spans of meters and replace old meters before they become defective, in order to minimise the challenge of faulty meters – low levels of repairs and maintenance spending calculated in table 5.3 indicated that the municipality's service sustainability awareness may be lacking. In addition, smart metering, as discussed above, may also assist the municipality in detecting faulty meters as the smart meters are able to self-detect defects.

- ✓ Lack of access to premises

Lack of access to premises was identified as another challenge encountered by the Meter Reader. According to the participants, several residents lock their gates when they are not home. Participant 2 lamented:

> "When he [Meter Reader] goes to other houses, you find that there are dogs there and he cannot be able to gain access and take the readings as some meters are inside people's yards."

As did participant 3:

> "Some of our consumers are difficult to deal with, some have dogs in their yards and that makes our meter reader not to gain access into the yards and read the meters."

Another participant complained that "some of the property owners in Hoedspruit live abroad, so it is a challenge to gain access to their homes to read the meters" (Participant 9). It appears that access to premises may pose a threat to the municipality's financial sustainability, even if the municipality should apply average readings where no access could be achieved. In such cases, the municipality may need to relocate the meter to a site just outside the locked or fenced parameter of the relevant property, in order to assure access to the meters by the Meter Reader. The municipality may, therefore, consider a project to relocate all meters at once, or relocating meters in phases, starting with defective meters – to accommodate limited financial resources.

✓ Illegal connections

Illegal connections were divulged as another challenge faced by the municipality in relation to water services. Participant 5 stated: "there are also ratepayers who have illegally connected water services". It is assumed that this might be one of the reasons for water shortages and the municipality's lack of accountability regarding its water services. This may also lead to lack of financial sustainability owing to deficient municipal revenue collection. The municipality may need to employ the measures delineated by the municipality's Credit Control- and Debt Collection Policy, in order to address illegal connections, as such illicit and unpaid water consumption may result in billed revenue reduction. Moreover, smart metering may provide a solution to the challenge of illegal connections, as the smart meters are able to self-detect tampering and leakages.

❖ *Billing activities*

Emanating from the interview responses, it appeared that the municipality's billing activities were interpreted based on the billing system employed, municipal billing system challenges, the distribution of monthly bills or statements, and payment methods available to ratepayers, discussed below.

- *Municipal billing system*

The participants agreed that the municipality possesses a reliable financial billing system to charge monthly accounts for services and produce credible monthly account statements. Participant 3 proclaimed: "It [the municipality's billing system] is very effective because it is able to assist us with record keeping, billing and issuing of monthly statements”, and participant 10 stated:

> “I will say it is very effective in the sense that, so far, we do not have much queries, which one may say they are directly related to the billing system, queries that we normally have are not in any way related to the system.”

Notwithstanding this, a number of participants raised concerns regarding the manual capturing of water meter readings to the billing system, i.e., “the system is accurate, however, because meter readings are captured manually, there can always be oversight [mistake]” (Participant 2).

Based on analysis of the participant-responses, it appears that the municipality holds a reliable billing system, able to produce credible monthly bills. With reference to the manual capturing of meter readings, it may be fair to state that the reliability of the system may be dependent on the accurate entering of the meter data to the system. The municipality’s manual capturing of the information may be affected by the element of human error, and this may result in billing disputes. Any factor that poses a threat to the reliability of the municipal billing system may compromise the accuracy of the monthly bills and this may subsequently affect the payment of such bills by ratepayers. Consequently, the financial viability of the municipality would be negatively impacted - a principle of the economic sustainability theory. To avoid this, the municipality may need to consider implementing a computerised system to capture readings in order to mitigate human errors, i.e., by implementing computerised scanners to record water meter readings that would be electronically imported to the billing system via the scanners’ computerised access.

- *Municipal billing system challenges*

The participants confirmed that the municipality typically does not encounter system-related challenges when running the monthly bills: “So far, we've never experienced any system challenge [when running monthly billings]” (Participant 2); “There are no challenges encountered when billing accounts” (Participant 3).

- *Distribution of monthly statements or bills*

The participants disclosed that the municipality employs external service providers to distribute the monthly bills or account statements. According to participant 2:

> "We have got a service provider who deals with the distribution of monthly bills to the ratepayers. Those who have got e-mails receive their statements via e-mail and those who do not have e-mails receive their statements via post."

Participant 5 added: "We distribute through e-mails, post and over the counter". Based on this, it appears that the municipality manages an effective system of distributing monthly statements to its ratepayers. Nevertheless, the effects of the South African Post Office's (SAPO) industrial strike actions in recent years should not be overlooked, as it negatively impacts the distribution of municipal account statements. Furthermore, the utilisation of e-mails may only be reliable in the presence of internet connectivity.

Thus, to ensure the reliable distribution of monthly account statements, the municipality may need to implement measures to address the effect of industrial action by SAPO and possible cyberspace connectivity challenges. The municipality may need to apply e-mail functions such as the *'Request a Read receipt or Request a Delivery Receipt'*-option in respect of account statements sent via e-mail, in order to confirm the receipt of such statements at the designated e-mail address. The municipality may also consider distributing its accounts via two methods to each consumer, in order to increase the likelihood of confirmed delivery, i.e., via e-mail and via standard mail.

In addition, the municipality may also need to consider hand delivery of monthly bills to certain ratepayers, such as business owners and those ratepayers with properties located nearby the municipal offices. The municipality would then require a register (preferably a handheld computerised system) to record these ratepayers' signatures of receipt.

- *Municipal account payment methods*

The participants indicated that various payment options are available to municipal customers. These options include Electronic Funds Transfer (EFT), direct bank account deposits and direct payment at the municipal offices. Participant 2 elaborated as follows about this aspect:

> "They can pay by using EFT [fund transfer via electronic banking] in the comfort of their homes. On their monthly statements they are provided with the banking details of the municipality and a reference number (customer municipal account number) that must be used when making a payment, others can pay at the bank

and they can also pay at the cashiers. Now, due to COVID-19, we encourage them to pay at the bank or [to] use EFT."

It therefore appears that ratepayers have access to sufficient and different options to pay their municipal accounts. Even so, the municipality may need to devise measures to ensure that these options are utilised effectively, by ensuring that all payments are correctly allocated to the appropriate or respective account numbers or customer profiles. In addition, the municipality may need to highlight text descriptions of the payment method options on its monthly account statements, with emphasis on the payment reference number to be quoted in respect of remote payments, in order to ensure that all payments are allocated accurately.

❖ *Revenue-related policies*

The municipality boasts various policies related to the management of municipal revenue, including the Credit Control- and Debt Collection policy, a Tariff policy, and the relevant by-laws.

- *Credit Control- and Debt Collection policy and by-laws*

✓ Adoption of the policy and by-laws by the municipality

The Credit Control- and Debt Collection policy and by-laws were confirmed as the relevant revenue-related policy and regulations employed by the municipality in order to manage its revenue. This policy and its by-laws are in line with the provisions of chapter 9 of the Municipal Systems Act (RSA 2000). The municipality reviews the policy on an annual basis to ensure continuous compliance with new legislative provisions, as affirmed by participant 2: "Yes, we do have the policy and by-laws and we review them on an annual basis".

✓ Effectiveness of the implementation of the policy and by-laws

In relation to the effectiveness of the implementation of the Credit Control- and Debt Collection policy and by-laws, three participants indicated that the implementation of the policy is effective, one participant indicated that they are uncertain with regard to the effectiveness of the implementation of the policy and eight participants indicated that the implementation of the policy is not effective, i.e., participant 4 stated that "the implementation is effective because officials abide by it when collecting revenue", whereas participant 8 averred: "I am not so sure about that [the effectiveness of the implementation of the policy]'" and participant 10 argued:

> "It is not as effective as it was supposed to be. Although there is a policy in place, the municipality still experience poor revenue collection which is due to the poor implementation of the policy."

Based on the opinion of most of the participants (eight), it appears that municipal implementation of the Credit Control- and Debt Collection policy and its relevant by-laws, is a challenge. This challenge is evidenced by the 80 per cent increase in the municipality's debtors and the below par collection rate of 66 per cent, reported in chapter 5 of this study. Inadequate implementation of the policy may negatively impact the municipality's economic sustainability, as deficient revenue collection may affect the municipality's financial viability. The Credit Control- and Debt Management policy plays a key role in a municipality's economic sustainability, as its implementation ensures the recovery of municipal expenditure. Considering the importance of this policy and the growing municipal debt discussed in section 3.3.2.6 and table 5.6, the municipality might have to employ measures to ensure that the policy is fully implemented.

✓ Challenges affecting the implementation of the policy and by-laws

The participants revealed the following challenges that negatively affect the proper implementation of the policy and its by-laws:

- Lack of control over areas charged for services

The participants indicated that the municipal area mostly comprises private estates and farms, not directly controlled by the municipality. Whereas the municipality only provides services to the residents of the estates via its body corporates, it does not provide any direct services to the farms – signifying that the municipality only has direct relationships with the body corporates and not with the ratepayers. Participant 1 expounded:

> "The challenges… we are sitting in a town wherein we do not have control in a lot of areas, meaning that we do not provide a service called water. In many places around us is agriculture, and [in] agriculture, the municipality is not providing any services and it becomes difficult to collect only on property rate and moreover on a vacant land."

Based on this, it may be said that the prevalence of private estates within the municipal boundary affects the implementation of the Credit Control- and Debt Collection policy and its by-laws. The situation has created a barrier between the municipality and the ratepayers residing in the estates, possibly impeding the enforcement of municipal policies. This may be the reason for the growth in the municipal debt by more than 80 per cent in the previous three financial years, as calculated in table 5.6. The municipality may need to conduct awareness campaigns via the body corporates of these private estates in order to educate residents concerning the difference between estate levies and municipal rates and taxes, and the importance of paying for municipal services. This would increase estate-dwelling ratepayers' awareness that municipal accounts are to be paid, monthly.

- Lack of capacity

Lack of capacity to fully implement the policy was identified as another factor negatively affecting the implementation of the Credit Control- and Debt Collection policy. The participants revealed that the municipality employed only one internal official responsible for debt collection and no other debt collectors, as the contract of those that were appointed has since expired: "The municipality do not have debt collectors and as a result, the municipality does not take legal actions against those that have overdue accounts" (Participant 9). One participant indicated that owing to limited capacity to collect revenue, the municipality's consumer debt is growing with each financial year – as calculated in table 5.6 following analysis of the municipality's financial affairs: "Municipal ratepayers are not paying, and the municipal debt is growing every year. There is also only one person dealing with debt collection in the municipality" (Participant 12).

It therefore appears that the municipality's inadequate capacity to enforce policies is impacting revenue collection by the MLM. The municipality manages more than 3500 ratepayer-accounts and employs a single debt collection official, resulting in the 80 per cent increase of the municipality's debtors over the course of the three financial years as calculated in table 5.6. This deficient debt collection negatively impacts the municipality's economic sustainability, as most of its revenue is not collected in the year it is billed.

Lack of capacity was also discovered to be affecting municipal revenue collection in Ghana (section 2.2.1.3), Kenya (section 2.2.3.3), Uganda (section 2.2.4.3), and Zimbabwe (section 2.3.1.3). Municipalities in these countries were found to be lacking both adequate personnel and equipment to effectively execute revenue management activities. South African municipalities are not excluded from this challenge -revealed to be one of the factors affecting revenue collection, in section 3.4.3.4. It was determined that municipalities do not possess adequate capacity to perform key revenue management activities, such as the preparation of valuation rolls and the enforcement of policies. The MLM may need to consider capacitating the revenue division with personnel who will be responsible for credit control and debt collection. The municipality may also consider hiring debt collectors to assist the municipality with revenue collection, should the appointment of additional internal staff not be not feasible.

- Billing disputes

Billing disputes were indicated as another factor negatively affecting the implementation of the Credit Control- and Debt Collection policy and participant 8 expounded that:

> “Some ratepayers are not paying because they are disputing their values and they want the Valuation Officer to come does inspections and to re-evaluate their properties and if they are satisfied is then that they can pay.”

Whereas the participants agreed that the municipality’s billing system is reliable, it appears that the municipality’s valuation roll is negatively affecting the municipality’s monthly billing. Municipal property rates related challenges were also found to be affecting revenue collection in Ghana (section 2.2.1.3), Zimbabwe (section 2.3.1.3) and Tanzania (2.3.2.3), like South African municipalities that experience property rates challenges owing to incomplete and inaccurate valuation rolls. Considering that the property rates levy is one of the municipality’s major own revenue sources, these unresolved disputes that result in non-payment may affect the financial viability of the municipality. The municipality may need to implement measures in order to ensure that billing disputes are managed timeously, in a quest to minimise its effect on revenue collection. In this regard, the municipality may need to assign officials to the management of billing disputes, registering each dispute and recording the resolution progress in order to improve accountability.

- Inaccessibility of ratepayers

The participants said that the majority of the billed property owners in MLM are permanently residing abroad, as confirmed by participant 6: “Most of the property owners are not residing within the area but [reside] abroad which makes it difficult to fully enforce the policy”. Participant 1 lamented:

> “The second problem is that a lot of people who own properties in Hoedspruit comes from abroad and they normally come once a year so in terms of being in contact with them is very difficult.”

It appears that the inaccessibility of ratepayers negatively impacts revenue collection in the MLM. If the ratepayers are not to be reached locally, one wonders if there are any arrangements concerning the payment of their accounts in their absence, and whether they even receive and take note of municipal accounts. Through their respective body corporates, the municipality may need to establish the number of ratepayers who are residing abroad, and communication channels would need to be created with them. This would also include arrangements on how these ratepayers would receive their municipal accounts and how they would pay these accounts.

- *Tariff policy and by-laws*

✓ Adoption of the policy and by-laws by the municipality

The participants disclosed that a Tariff policy (including its by-laws) is another revenue-related policy employed by the municipality in relation to the municipality’s revenue management activities. This policy and its by-laws are in line with the provisions of chapter 8 of the Municipal Systems Act (RSA 2000). One of the participants indicated that the municipality reviews the policy on an annual basis to ensure that it is aligned with the municipality’s tariff structure, that is required to be revised annually: “Yes, we do have, and we review them on an annual basis because as and when the tariffs changes, the policy must also be amended” (Participant 2).

✓ Challenges affecting the implementation of the policy and by-laws

The participants confirmed that the implementation of the Tariff policy is effective and reported no challenges related to the implementation of the policy:

> “It is effective because it is gazetted and when we advertise it, we do not have any queries out of it, so it is effective. We also do not have any challenges in relations to its implementation” (Participant 1).

❖ *Capacity of the Revenue Management Unit*

The capacity of the municipality was examined in terms of the number of officials employed in the Revenue Management Unit (RMU), the qualifications and skill levels of the revenue officials, the adequacy of the number of appointed officials to execute revenue management activities, the challenges posed by the inadequate number of appointed officials, and other challenges faced by the RMU.

- *Number of officials employed in the RMU*

Participants divulged that the municipality employed a total of nine revenue officials out of the 14 available positions as per the municipality's 2019/2020 financial year Organisational Structure (MLM 2019), resulting in the vacancy rate of the division being calculated at 36 per cent.

Although there is no set standard regarding the RMU's vacancy rate, it may be deemed elevated, considering the total number of available positions (14), the importance of the RMU and the role of revenue in the municipality's economic sustainability. In addition, the lack of balance between the sub-divisions may be a cause for concern, as the credit control section employs only one official (discussed above). The vacancy rate and imbalance in the revenue division may be factors affecting municipal revenue collection.

The municipality may need to fully capacitate the RMU by filling all the positions availed per the Organisational Structure in order to ensure that revenue management activities are not compromised in any way. Furthermore, the municipality would need to create a balance in the revenue division by ensuring that all units are proportionally staffed.

- *Qualifications and skill levels of RMU officials*

The participants agreed that appointed revenue officials meet the minimum requirements as set out by National Treasury and their competencies are sufficiently suitable: "The officials have relevant qualifications and skills for their respective positions, we do not hire people who are not qualified for positions" (Participant 3), and:

> "In terms of skills, we do have skilled employees and all of them have went through the programme that National Treasury has said that everyone working in Finance [Department] should have, [so] all [of them are] qualified and [they are] all skilled so we do not have a problem in terms of that one" (Participant 1).

As the qualifications and skills of revenue management officials are concerned, the municipality appears to be on the right track, as all officials hold the necessary qualifications and skills. The municipality must continue appointing officials possessing the necessary skill sets and qualifications, going forward.

- *Adequacy of the number of revenue officials appointed to execute revenue management activities*

Regarding whether the number of RMU officials was sufficient or adequate in terms of the ability to properly execute all the required revenue management activities, the participants were divided. Six participants argued that the number of appointed RMU staff is adequate to enable execution of all municipal revenue management related activities, considering the size and the revenue base of the municipality, i.e., participant 5 stated that “the officials are currently coping with the amount of work within the division” and participant 3 confirmed that “looking at the basket from which we are collecting revenue as well as the size of the municipality, the number is adequate”. On the other hand, six other participants contended that the number of appointed officials is not adequate to effectively execute all the relevant municipal revenue management activities, maintaining that the RMU’s work load required the full complement of officials availed per the municipality’s Organisational Structure: “There are many activities within the revenue department, which need full staff complement and the number appointed cannot be able to cover all these activities” (Participant 2).

It appears that both groups made valid points concerning the adequacy of the appointed officials. Considering that the revenue base of the municipality has remained unchanged during the three financial years reviewed, one may support the notion of those participants who believe the number of officials appointed to be adequate, albeit with the suggested provision of addressing the inter-unit imbalance with regard to the number of officials per unit, as mentioned earlier. On the other hand, considering the municipality’s deficient revenue collection, the excessive increase in consumer debt (identified in section 5.4.1.2), the one Meter Reader and single Credit Control officer, one may agree with the group of participants contending that the number of officials appointed is insufficient to enable effective execution of the activities of the RMU.

Based on the above arguments, the municipality may need to consider two options. The first option would be to consider fully capacitating the RMU and specifically the Meter Reading sub-unit and the Credit Control sub-unit, that are currently holding one staff member each. This option may only be viable should the funds be available to finance these employee-related costs whilst allowing the municipality to remain within the required norm of 40 per cent total remuneration, as a percentage of the total operating expenditure (currently measuring 39%). The second option would be for the municipality to redistribute the RMU staff members' responsibilities evenly amongst the sub-units, ensuring that all responsibilities are executed whilst the number of staff members per sub-unit are proportionally balanced.

- *Challenges faced by the RMU owing to the inadequate number of revenue officials*

The participants disclosed that the following challenges are experienced by the municipality owing to the insufficient number of officials staffing the RMU:

✓ Deficient revenue collection

The participants indicated that the municipality's subpar level of revenue collection is owing to the insufficient number of RMU staff members. The lack of capacity in terms of staff was also mentioned as one of the challenges affecting the implementation of the Credit Control- and Debt Collection policy, hereinabove. In order for a municipality to be considered financially viable, the municipality must maximise revenue collection by collecting the revenue owed by its ratepayers within the shortest possible period, to discharge its own expenditure due for payment within 30 days of receiving an invoice - according to the MFMA (RSA 2003). To achieve this, the municipality would need to be capacitated by employment of an adequate number of officials who are competent in their ability to execute all revenue related activities. In this regard, participants 12 and 8 reiterated, respectively:

> "The municipality is struggling with debt collection because there is only one person dealing with debt collection in the whole municipality, hence I am saying the number of officials appointed are not adequate."

> "You find that one person is doing a lot of work alone, for example, debt collection is supposed to be a unit on its own, but you find that we've got one person and that is the reason we are not collecting enough and we end up being forced to hire debt collectors, so we are short-staffed."

The existence of municipal revenue collection challenges may be evidenced by the 80 per cent increase in municipal debt, as calculated in table 5.6. These challenges are also the main motivation for this study. Inadequate revenue collection negatively impacts a municipality's economic sustainability, as it could potentially render a municipality financially non-viable.

As proposed above, the municipality may need to capacitate the RMU to address this challenge and should strive to maximise collection from its current revenue streams by ensuring that all the revenue units hold an adequate number of officials.

✓ Defective property rates administration

The participants contended that property rates administration is another area that is affected by an inadequate number of staff, employing only one official: "We have a big challenge on property rates and our Senior Accountant has a lot of work to do and then other work will not be done properly" (Participant 2). This may be a reason for property rate billing disputes, reported as one of the challenges affecting the implementation of the Credit Control- and Debt Collection policy.

Based on the analysis performed in chapter 5, property rates are the major internal revenue contributor to the municipality's budgets. The deficient administration of this revenue stream may create revenue collection challenges for the municipality resulting from non-payment, and this may cause budget deficits. Thus, considering that property rates is the major contributor to municipal own revenue, its defective administration may affect the municipality's financial sustainability and may result in lack of or poor service delivery, owing to inadequate funding. Consequently, the municipality may need to consider fully capacitating the unit managing property rates administration.

✓ General administrative challenges

Owing to the inadequate number of officials, the participants indicated that the municipality is also experiencing general administrative challenges in the revenue division: "There are gaps in administrative activities like filing which may lead to the loss of important information" (Participant 7).

Proper filing and record management may be considered crucial to effective municipal revenue collection, as every customer statement of account must be supported by the relevant information. The loss or misplacement of information may result in non-payment, should monthly bills be disputed and the evidence to support the bill is unavailable.

- *Other revenue-related challenges confronting the municipality*

The participants noted that low revenue base, lack of customer care skills, unallocated or unknown deposits, and information technology, were other challenges faced by the RMU. These challenges are discussed below:

✓ Weak revenue base

The participants related that the municipal area is rural, and as a result, holds a weak revenue base, *inter alia* experiencing difficulties in collecting revenue from farm ratepayers who consider themselves independent of the municipality:

> "The other challenge is that our municipality is too rural. It has 24 wards, but we are only getting revenue from two wards, meaning other wards are 100 per cent indigents, even though that it is not everyone living there who is indigents. So, in terms of revenue base, it is very low, because we have got limited places wherein we can get revenue" (Participant 1).
>
> "The challenge is that Hoedspruit is a very small town, even if you can count the villages, the municipality do not bill the villages. The municipality only collects in town and there are also farms, the municipality is not collecting in the farms. The municipality has a very small revenue base" (Participant 9).

Municipalities are authorised by the Constitution (RSA 1996a) to levy property rates and surcharges and municipalities would, therefore, need access to adequate revenue bases in order to maximise the collection of such revenue. The MLM does not hold an adequate revenue base and this may negatively affect its financial sustainability. As discovered in chapter 5, the municipality's revenue base has remained unchanged during the three financial years reviewed for the purposes of this study. A municipality may need to hold an adequate revenue base in order to be economically sustainable. The exemption of traditional land from the levying of property rates and other surcharges, discussed in section 3.4.3.1, may be another reason for the MLM's weak revenue base. As revealed by participants above, the municipality is only billing for services in two from its 24 wards, as the other areas and wards are considered indigent, exempted or independent. This may be a contributing factor impacting the municipality's low revenue base.

The municipality may need to expand its revenue base by identifying new revenue streams in order to supplement the current ones. The municipality may also need to ensure it maximises collection from available revenue streams, in order to be financially viable.

✓ Lack of customer care skills

The participants maintained that there is lack of customer care skills by the RMU and the municipality in general. In this regard, participant 11 revealed:

> "There is lack of customer care skills, as a result, customer queries are not addressed timeously, and this may lead to delayed payments while ratepayers are waiting for their queries to be resolved."

In terms of section 95 of the MSA (RSA 2000), discussed in section 3.3.2.5, customer care is one of the key activities of any municipality. It appears that the delays in addressing customer queries may negatively affect revenue collection, as ratepayers with pending queries may choose not to pay their accounts while awaiting resolution of enquiries or declared disputes, thus negatively impacting the municipality's economic sustainability.

The municipality may need to ensure that staff members managing customer enquiries are sufficiently skilled regarding customer care management. In addition, the turnaround time for addressing ratepayers' account queries should be maintained at the lowest possible minimum period, to encourage ratepayers to visit municipal offices whenever account queries arise, and to improve the payment of such accounts by the ratepayers - as discrepancies would be clarified as rapidly as possible.

- ✓ Unallocated or unknown deposits

The participants commented that several the ratepayers who pay their municipal accounts via EFT's or direct deposits, indicate no or incorrect references in respect of these payments, rendering it challenging for the municipality to allocate the money to the appropriate ratepayers' accounts:

> "When coming to capturing of the receipts, you find that the ratepayers write their names as reference or, if the person is paying for water, the person just write 'water' and we end up not knowing where to allocate that money. This money is just allocated to the Unknown Deposit votes until such customer can come and complain, and that is when we can allocate the money, so referencing of payments is a challenge" (Participant 11).

Although activity in the Unknown Deposits account is minimal from one financial year to another, the municipality may need to devise controls to address the matter. One of the issues that may result from unknown deposits, may be the situation where those who have affected an unknown deposit are being charged interest on overdue accounts, and this may result in the overstatement of the municipality's consumer debt. The money allocated to the Unknown Deposits account should also have been deducted from the total consumer debt, implying that the consumer debt may currently be overstated.

The municipality may need to issue communiques educating ratepayers regarding the correct referencing of payments in respect of municipal accounts. In addition, a notation reminding the consumer of the correct payment reference may need to be a standardised feature of the monthly statements.

✓ IT-related challenges

Participant 5 verbalised the challenges relating to Information Technology experienced by the municipal revenue division:

> "Sometimes the municipality has IT-related challenges, where you find that ratepayers have sent queries via e-mail, but you find that we are unable to access our e-mails and we end up delaying responding to the ratepayers. Sometimes you find that a customer has called to request their monthly statement to be sent to them via e-mail, but due to the challenge we end up failing to send the statement."

IT plays an important role in modern business operations and challenges relating to IT may negatively affect the flow of the municipality's revenue collection activities. Earlier on, the participants stated that the municipality distributed monthly statements to ratepayers via e-mail and that the municipality boasts an effective billing system, however, these IT-related challenges may negatively impact the effectiveness of these activities. Should the municipal staff fail to access e-mails owing to IT-related challenges, the staff may be unable to address e-mailed customer enquiries, and monthly statements intended for e-mail distribution may also not be sent. Such developments may all result in non-payment of municipal accounts and subsequently negatively impact the municipality's economic sustainability.

Technology-related challenges were also reported concerning municipalities in Ghana (section 2.2.1.3) and Kenya (section 2.2.3.3). In these countries, municipalities are said to be highly reliant on manual processes owing to the lack of automated systems. Municipalities were reportedly struggling to maximise the collection of revenue and as a result, the majority are not financially viable.

The MLM may need to develop a Business Continuity Plan (BCP) that should provide for alternative measures in the case of IT-related challenges and any other challenge that may affect the operations of the municipality. This would enable the municipality's operations to continue, even when IT-related challenges are experienced.

❖ *Municipal revenue collection activities*

In section 5.4.1.2, the analysis of the municipality's financial affairs revealed that the municipality's revenue collection rate has been below the norm for the three financial years reviewed. According to the participants, the municipal management is aware of its deficient revenue collection and is currently devising measures to address the challenge: "The municipality has been making follow-ups with the ratepayers to get them to come and pay their overdue accounts" (Participant 7);

> "We have started with those that are selling properties, so if a person is selling a property we also check if the person is also owning other properties and check if those accounts are up to date. If they are not up to date, the clearance figure for the property that he or she is selling will include the moneys owed in the other properties. In this case, the property being sold will only be cleared after all the properties have been paid for. The last time I checked, the municipality was also planning to create a separate unit to deal with debt collection to improve the current collection rate" (Participant 8);

and "We are in a process of appointing debt collectors to assist with the acceleration of revenue collection. The municipality is looking at this option as the best for now" (Participant 4). Another participant added that, over and above the appointment of debt collectors, the municipality is planning an in-house debt collection call centre.

Based on the above analysis, it appears that revenue collection is a challenge confronting the municipality, as is also evidenced by the excessive 80 per cent increase of the municipality's consumer debt, calculated in table 5.6. Even though the participants claimed that the municipality executing every possible measure to collect revenue owed, it appears these actions are not yielding the desired results, as the financial situation continues to worsen.

The impact of re-appointing debt collectors may be debatable. The municipality utilised the services of debt collectors until March 2020, however, the excessive rise of 80 per cent in the municipality's consumer debt over the course of the past three financial years, may support the argument that the appointment of debt collectors may not yield the anticipated results.

In any event, the planned re-appointment of debt collectors and implementation of an in-house call centre to manage debt collection have not been realised and are therefore irrelevant to this study. Presently, the municipality may need to manage the rise in consumer debt with the municipality's current resources.

❖ *Municipal revenue base*

The analysis of the state of the municipality's financial affairs (section 5.3 in chapter 5) found that the municipality's revenue base remained unchanged during the three financial years reviewed. The participants also confirmed that the municipal area is rural and as a result holds a low revenue base. The weakened or low revenue base was also indicated as one of the municipality's general revenue challenges.

- *Revenue Enhancement Strategy (RES)*

Municipalities are required to develop a Revenue Enhancement Strategy (RES), in order to improve its revenue bases and revenue collection. In terms of a RES, 10 participants concurred that the municipality possesses an approved RES, one participant indicated that the municipality only held a draft RES, and another participant averred that the municipality does not possess a RES, i.e., "The municipality have a Revenue Enhancement Strategy which is also reviewed annually" (Participant 2);

> "We have a draft, the Revenue Enhancement Strategy that we used to have was the one for 2018/19, for 2019/20 we did not have, but now we have got a draft because the one that [we] had Treasury told us [that it] does not meet the requirements of Revenue Enhancement Strategy but now [we] have a draft which we asked Treasury to assist. The Revenue Enhancement Strategy is still looking into increments within the two wards that we are currently billing, you know, as per Treasury there are certain quotas wherein we can increase up until and if you go beyond or above, you need to explain. The increase that we have as per the draft is still looking at the very same wards which we are currently billing" (Participant 1).

Based on the number of participants (10) who indicated that the municipality does possess a RES and the one participant who indicated that the strategy is at a draft level, it appears that the municipality does hold a RES. The strategy may not have been disclosed to all municipal officials, as several the municipal staff members were not aware of the existence of the strategy. The participants suggested the following actions that could assist the municipality in expanding its current revenue base:

✓ Township establishment

Several participants stated that the municipality has been planning the establishment of a new township, to expand the current revenue base. In this regard, participant 3 commented:

> "We are currently looking at acquiring a site which can be used for a township establishment and then we can be able to collect revenue for services that we are going to render in the new township."

Participant 6 added that "the municipality is planning to do a township establishment, so within the next two years the process will kickstart".

✓ Expanding the levying of services to rural areas

Two participants argued that the municipality should consider expanding its levying to the rural areas in order to increase the revenue base: "The municipality will need to expand the levying of services to the rural areas which are currently using the services for free" (Participant 11); and

> "It [the municipality] has got 24 wards but we are only getting revenue from two wards, meaning other wards are 100% indigents even though that it is not everyone living there who is indigents" (Participant 1).

✓ Full implementation of the RES

A number of participants declared that full implementation of the approved RES will assist the municipality in expanding its revenue base, with participant 12 asserting that "the municipality needs to fully implement the approved Revenue Enhancement Strategy".

The above analysis shows that the municipality holds a low revenue base. As confirmed by the participants, the municipality is only billing two areas or wards whilst providing services to 14 wards. Whereas the municipality plans to expand the revenue base via the approved RES, the low revenue base is currently a factor negatively affecting municipal revenue collection and the proposed measures are, therefore, irrelevant at this stage.

❖ *Indigent management*

The participants opined that indigent management is another key activity relating to municipal revenue management. The analysis of the municipality's indigent management was performed by enquiries regarding an indigent management policy and assessing the effectiveness of the implementation of such policy.

- *Adoption of the policy by the municipality*

The majority of the participants (10) indicated that the municipality holds an Indigent Management policy, as per the requirements of the White Paper (RSA 1998c) discussed in section 3.3.2.4, with participant 2 declaring "yes, we do, and we review it on an annual basis", whereas the other two participants averred that the policy does not exist. Inadequate indigent management was discovered by previous studies to be negatively affecting municipal revenue management (section 3.4.1.2).

Based on the responses by most of the participants (10), it appears that a municipal Indigent Management policy does exist. As in the case of the RES, the policy may not have been disclosed to all municipal staff, hence several staff members are not aware that of its existence.

- *Effectiveness of the implementation of the policy by the municipality*

The 10 participants who indicated that the policy exists, maintained that the Indigent Management policy is being effectively implemented. Participant 4 proclaimed that "the implementation of the policy is effective. There is a specific person dealing with the management of the Indigent Register and he is doing a good job with it", and participant 2 added:

> "That one is effective, mostly our indigents are related to free basic services and we do not have any on water. We are having one on electricity and refuse removal at the moment, however, the one for electricity is not that effective as most people have connected electricity illegally, so they are not coming to the municipality to register because they are afraid it will be discovered."

Based on the above analysis, it appears that the Indigent Management policy is being implemented effectively, from the municipality's perspective. Whereas several participants claim that there are actually more indigent residents than the ones currently registered as such with the municipality, its potential impact on the municipality's revenue collection may be negligible or non-existent, as the municipality's indigent residents are not residing in the areas that are being billed for municipal services.

#### *6.2.3.2 Theme 2: The role of own-revenue in municipal sustainability*

❖ *The role of own-revenue in the municipality*

The participants conveyed that municipal own revenue plays an important role in the municipality's financial sustainability and in accelerating service delivery. Participant 9 relayed that own-revenue "…assists the municipality to undertake service delivery activities in their own way, as grants are both limited and conditional and may not be utilised as you wish", and another participant enumerated: "Own revenue does play an important role because there are certain areas not covered by grants and own revenue can be used to cover such gaps" (Participant 8).

It appears that the municipal staff members recognise the importance of own revenue to the municipality's financial sustainability and the acceleration of service delivery, although the municipality may need to improve the collection of such revenue, as the municipality may be facing dire financial straits.

❖ *The financial sustainability of the municipality*

Whereas analysis of the municipality's financial affairs (section 5.5.4) indicated that the municipality is currently financially viable, participants raised concerns regarding the municipality's over-reliance on grants and subsidies, owing to the deficient collection of own-revenue. This over-reliance on grants and subsidies was also revealed in section 5.4.2.3, upon analysis of the financial affairs of the municipality. Participant 2 stated:

> "The municipality cannot be sustainable without grants, if you can check our budget and Annual Financial Statements, you can see that the municipality is highly dependent on grants and with the current budget we are on 60 per cent grant dependent."

Participant 1 reiterated:

> "As I said, as revenue, we are having a low revenue base and we are also having a problem in terms of increasing that, so as a municipality we are reliant only on grants."

One may, therefore, argue that the municipality may be financially viable only owing to the grants and subsidies received from National Treasury, and this should be a cause for concern for the municipality as it supports the notion that the current deficient own revenue collection could potentially negatively affect the financial viability of the municipality, should the collection rate not improve.

#### *6.2.3.3 Theme 3: Customer care management*

Customer care management was indicated as important to the municipality's revenue management function (section 3.3.2.5). In this study, customer care management was examined via the presence of a Customer Care Management policy, the effectiveness of the implementation of such policy, the reality of a Customer Care Unit or Customer Care official present in the municipality, and the types of customer enquiries received from the municipality's ratepayers.

❖ *Adoption of Customer Care Management policy by the municipality*

The majority of the participants (nine) claimed that the municipality has not adopted a Customer Care Management policy, whereas two participants averred that such a policy has been adopted, and the remaining one participant relayed that they were uncertain regarding the adoption of the policy by the municipality.

Based on the contention of most of the participants (nine), it appears that the municipality does not possess a Customer Care Management policy. Should the policy exist, the municipality may be facing additional organisational challenges, as nearly all of the participant-employees who are supposed to implement such policy are not aware of the existence of the policy. This may also be evidenced by the challenge regarding the lack of customer care skills, mentioned by a participant with reference to the challenges confronting the RMU.

The absence of a Customer Care Management policy contravenes the provisions of section 95 of the MSA [RSA 2000] as discussed in section 3.3.2.5, and may negatively affect municipal revenue collection - should a platform to receive and address ratepayers' enquiries not exist. Although the current delay in responding to customer queries may be owing to IT-related challenges, it may likewise be a sign of inadequate customer care skills, as noted by one of the participants.

❖ *Effectiveness of the implementation of the policy by the municipality*

Whilst the evidence, on a balance of probabilities, support the absence of the policy, those participants who averred that the Customer Care Management policy does exist were requested to determine the effectiveness of the implementation of the policy. As such, one participant indicated that the policy is currently being effectively implemented by the municipality while the other participant stated: “I would not say it is effective or not effective, but the implementation of the policy has its own shortfalls which from year to year we are improving” (Participant 9).

❖ *Existence of a Customer Care unit in the municipality*

Nearly all the participants (11) reported the lack of a unit or a person managing customer care, and the remaining participant averred that such a unit does exist in the municipal organisational structure. Participant 3 enumerated:

> “We are moving towards ensuring that each and every municipal official has a customer care management skill, but at the moment, the process of customer care management is led by the communication office”;

whereas participant 1 pontificated that

> “we don’t have a unit *per se*, but we have we've got a separate e-mail address where we request all queries to be e-mailed to that, and there is a person responsible to open the e-mails and distribute to the relevant officials, depending on the type of enquiry, and the person will go and make follow-ups to see if the queries are addressed”; and

another participant added that “we do not have a person or a section dealing with customer queries, but those within the revenue division attend to the queries relating to their departments” (Participant 3).

Based on the opinions voiced by the majority of the participants (11), it appears that a Customer Care unit or a designated official dedicated to managing customer care does not exist in the municipal organisational structure, in contravention of the provisions of section 95 of the Municipal Systems Act (RSA 2000), discussed in section 3.3.25. Notwithstanding the delayed response to customer queries owing to IT-related challenges and the opinion of one participant that municipal staff lack customer care skills, it does appear that customer care does not present a significant challenge, as the municipality has devised other measures to direct customer enquiries. These measures, although not centralised, may be considered effective in addressing customer queries.

❖ *Types of customer queries by municipal ratepayers*

The participants reported the different types of customer enquiries received by the RMU daily, as follows:

- *Property rates queries*

The participants indicated that most of the customer enquiries related to property rates billing. Participant 2 confided that “mostly it is property rates queries, wherein a person queries the value that was used for their property” and participant 1 expounded on the topic:

> “On a daily basis we are dealing on queries relating to property rates, because as a municipality our own-revenue is only property rates and refuse. It is basically on property rates, because we implement the schedules of supplementary valuation roll on a month-to-month basis*.”*

It appears that the municipality experiences property rate administration challenges that was also discussed hereinabove. The challenges related to customer enquiries appear to be a combination of property valuation and the implementation of monthly, supplementary, valuation roll schedules. Should this challenge not be addressed, it may negatively affect the economic sustainability of the municipality, as property rate revenue is the biggest contributor to the municipality’s own-revenue.

In addition, the municipality must comply with the provisions of chapter 6 of the MPRA (RSA 2004), that prescribes the publication of valuation rolls - allowing ratepayers to inspect and object to the valuation rolls, and for the municipality to process any objections. Such compliance will enable the municipality to reduce enquiries in respect of monthly bills, as discrepancies would have been addressed prior to the implementation of the (publicised) valuation rolls.

- *Water consumption queries*

The participants relayed that several ratepayers query their monthly water consumption bills, as indicated by participant 8: “Ratepayers querying high water consumption charges when they were not home for many days during a particular month”.

This reverts to the concern raised by several the participants in relation to meter readings, where the participants narrated that the employment of manual meter reading methods result in water consumption queries. The manual capturing of water meter readings to the billing system may be another reason the municipality experiences water-billing challenges, as the participants previously indicated that the method lacks controls. Thus, the employment of a single meter reader, the manual reading of meters, and the manual capturing of meter readings, require urgent attention from the municipality. The municipality may consider appointing another meter reader, utilising conversional meters, and employing electronic devices, such as scanners, to read the meters, in order to limit the impact of human error in respect of water consumption bills.

- *Unallocated deposits*

Participants disclosed that nearly all ratepayers paying their accounts via EFT or direct deposit would complain that their payments are not reflected on their monthly statements. Participant 4 stated that:

> "they normally come for unallocated deposits, where a person comes and say he made a payment through the bank or EFT and such payment is not reflected on their monthly statements";

and another participant elaborated that "ratepayers querying payments not reflecting on ratepayers' statements and you find that it was due to the incorrect referencing" (Participant 8).

Faulty or absent referencing of payments by the consumers result in unallocated deposits that may, in turn, result in the overstatement of municipal debt as a consequence of interest charges on accounts 'in arrears' owing to unallocated payments, and non-payment by consumers whose payments could not be allocated, who have become discouraged by the increasing account balances despite their payments and thus cease further payment.

- *Ratepayers not receiving statements*

The participants claimed that ratepayers occasionally complain that they have not received monthly account statements from the municipality, i.e., "some query that they are not receiving their statements and want to check the addresses that the municipality is having in their system' (Participant 2) and "ratepayers who did not receive their statements will call or come and enquire the reason they were not sent the statements" (Participant 9).

Considering the previously discussed SAPO industrial actions and the reported municipal IT-related challenges, along with these claims that ratepayers are having to request their monthly bills, one may argue that the methods employed by the municipality to distribute the monthly account statements may not be effective as the municipality may deem. This may be another factor potentially affecting the municipality's economic sustainability, as most ratepayers perceive the receipt of monthly account statements as a reminder to pay their municipal accounts.

#### *6.2.3.4 Theme 4: Awareness campaigns*

The study examined the municipality's awareness campaigns via analysis of the municipal administration of awareness campaigns to educate ratepayers with regard to the importance of paying for municipal services, the attendance of such awareness campaigns by ratepayers, and other platforms employed by the municipality to educate ratepayers.

❖ *The running of awareness campaigns by the municipality*

Six participants confirmed that the municipality conduct direct campaigns to educate ratepayers concerning the importance of paying for municipal services and, *inter alia*, may rely on the assistance of the South African Chamber of Commerce (SACC) when running such campaigns: "Yes, we conduct awareness campaigns once every year" (Participant 1); "Yes, we do conduct awareness campaigns and we also have the assistance of the South African Chamber of Commerce when conducting them" (Participant 2).

Four participants averred that the municipality does not conduct specific awareness campaigns to educate ratepayers regarding the importance of paying for municipal services, but that the municipality raises such awareness via other municipal processes, for example, the Integrated Development Plan (IDP) process, the budget consultative process and other municipally related processes where communities are engaged by the municipality:

> "Sometimes it only happens during the IDP processes and the ratepayers come, so we see that an opportunity to come and educate them about the importance of paying for municipal services" (Participant 5);

"There are no specific campaigns, however, residents are informed about the importance of paying municipal services through budget consultations" (Participant 11).

The remaining two participants declared that the municipality does not conduct any awareness campaigns to educate ratepayers concerning the importance of paying for municipal services: “No, not currently and not recently” (Participant 10).

Based on the claims by most of the participants, it appears that the MLM conducts awareness campaigns to educate ratepayers with regard to the importance of paying for municipal services. It further appears that the campaigns are both direct and indirect in nature, as several participants described direct campaigns whereas others explained that the campaigns are conducted via other municipal processes.

The running of awareness campaigns is one of the key factors towards ensuring municipal economic sustainability, as it educates ratepayers concerning the importance of paying for municipal services and potentially encourages such payments.

❖ *Ratepayers’ attendance level of the municipality’s awareness campaigns*

The participants revealed that the attendance level of the municipality’s awareness campaigns and other consultative processes are normally moderate or poor. Five of the participants who indicated that the municipality conducts awareness campaigns, stated that the attendance level of municipal awareness campaigns and other consultative forums is moderate, whilst five other participants described the attendance level as poor. In this regard, participant 1 recounted that the attendance level was “very poor, they prefer to be on social-media platform that coming to a meeting”, participant 4 reported that “the attendance level is moderate, with room for improvement” and participant 3 declared:

> “It is currently poor. In our area most of the property owners are from abroad and these people make up 80 per cent of the properties, so they always not available to attend our meetings.”

Even though the municipality conducts awareness campaigns, it may apparently be ineffective and do not serve the intended purpose, should attendance of such campaigns be low. The claim that most of the ratepayers reside abroad, may be a contributing factor to poor campaign attendance and this may pose a threat to the municipality’s economic sustainability. The municipality may need to adopt measures in order to improve ratepayers’ attendance of these campaigns, in a quest to educate ratepayers regarding the importance of paying for municipal services.

❖ *Other platforms employed by the municipality to educate ratepayers*

Participants conveyed that the municipality employs other platforms to raise awareness concerning the importance of paying for municipal services:

> "Because we have access to their e-mails, if there is any other message that the municipality will want to dispatch, we always make a notice and send it via e-mails even before people can get their statement" (Participant 1);

"We use councillors to speak to the ratepayers" (Participant 2); "We use our website, newsletter and social media when there is important information to communicate with the ratepayers" (Participant 6).

Although the municipality employs other platforms to educate ratepayers, it appears that the effectiveness of most of these platforms may not be easily measurable and it may only be considered effective should it be received by the intendent recipients. In addition, the majority of these platforms may not be accessible to all ratepayers, for example, e-mails may only be sent to those customers utilising e-mail addresses to receive their monthly statements, newsletters may only reach those consumers that come across them when they are published and the website may only be accessible to those customers who have the means to access it.

#### *6.2.3.5 Theme 5: Ratepayer-attitudes towards paying for municipal services*

❖ *Perceived ratepayer-attitudes towards paying for municipal services*

Several participants imparted that there is resistance or negative attitudes by ratepayers regarding paying for the use of municipal services, and as a result, they fail to pay. The situation was summarised by participant 10, who stated: "To be honest, I would say that generally ratepayers have a very bad attitude towards paying municipal services".

❖ *Factors affecting ratepayer-attitudes towards paying for municipal services.*

The participants communicated that there are different factors negatively affecting the ratepayers' behaviour concerning the importance of paying for municipal services. These factors are discussed below:

- *Lack of awareness*

The participants conveyed that lack of awareness is a major contributor to the negative behaviour by ratepayers regarding paying for municipal services, resulting in payment default. According to one participant, most ratepayers do not understand the reason they should be paying for the use of municipal services and as a result, they are not paying their accounts: “Our ratepayers lack understanding as to the reason they should pay for municipal services and as a result they do not pay” (Participant 8); “There is lack of knowledge about the importance of paying for municipal services, because you still find people asking why they are being charged for services” (Participant 12).

Lack of ratepayers’ awareness was reported to be affecting municipal revenue collection in African countries such as Ghana (section 2.2.1.3), Nigeria (section 2.2.2.3), Kenya (section 2.2.3.3), Uganda (section 2.2.4.3), and Tanzania (section 2.3.2.3). Municipal ratepayers in these countries are said to unaware that they are liable to pay for municipal services and as a result, the municipalities are struggling to collect revenue.

Lack of awareness about the importance of paying municipal services may negatively impact the municipality’s economic sustainability owing to non-payment of municipal services adversely affecting the financial viability of the municipality.

Therefore, although participants confirmed that the municipality conducted awareness campaigns, the municipality may need to devise measures to ensure that the campaigns are attended by as many ratepayers as possible. In this regard, appropriate timing may also be key, as it may allow more ratepayers to attend the campaigns.

- *Unwillingness to pay*

Some participants claimed that the non-payment of municipal services by ratepayers is owing to unwillingness to pay:

> “It is also unwillingness to pay for the services, the only time wherein one can see that ‘I was supposed to pay’ is where one need to sell a property, so it is then that a person can say it is bad that I was not paying. So, they only know the importance of paying at this time” (Participant 1);

> “Those who are receiving services have mixed feelings - some are willing to pay while some are not willing to pay, citing corruption or poor service delivery as the reason for not paying” (Participant 8).

As with the incidences of resistance to or bad attitudes towards paying for municipal services, it appears that corruption and/ or poor service delivery may be the reason for ratepayers' unwillingness to pay for municipal services. This is also affecting revenue collection by other South African municipalities, as discussed in sections 3.4.2.1 and 3.4.3.2. Ratepayers were said to be citing poor service delivery and deficient billing as the reasons for not paying for municipal services. In this study, citing poor service delivery, deficient billing and other reasons for payment defaulting are acts of reasoned action, as there are ways these challenges may be addressed other than resorting to non-payment.

The MLM may need to devise measures to address the issue of unwillingness to pay for municipal services. This issue may need to be addressed during awareness campaigns, being major gatherings where ratepayers are present. In addition, the municipality may also need to conduct a comprehensive community survey regarding the payment of municipal services. This would enable ratepayers to raise concerns and provide plausible reasons for any unwillingness to pay for municipal services.

- *Lack of consequence management in respect of defaulting debtors*

Some participants recounted that ratepayers are reluctant to pay for municipal services as no actions are taken by the municipality against those in default of payment. participant 6 argued:

> "Considering (that) our recovery and the implementation of our debt policy, I can say that the ratepayers are reluctant to pay their accounts. I can say that this may be due to unwillingness to pay and lack of consequence management, as services are not terminated when a person is not paying their accounts."

Lack of consequence management of defaulting debtors may negatively impact the municipality's economic sustainability, as many paying ratepayers may become disinterested in paying for services because no steps are taken against those in payment default. It further appears that the lack of capacity and municipal debt collectors to enforce the Credit Control- and Debt Collection policy may be one of the reasons the municipality is not acting against defaulting debtors.

To address this issue, the municipality may need to capacitate the Debt Collection unit to ensure the full implementation of the Credit Control- and Debt Collection Policy and the relevant by-laws. This would result in the management of payment defaulters in accordance with the provisions of the policy and other relevant legislation.

- *Lack of direct services*

The participants imparted that there is lack of direct municipal services to ratepayers and as a result, there is no or a limited direct relationship between the municipality and its ratepayers. Participant 1 enumerated as follows:

> "Maruleng in itself has got a lot of estates, and in all those estates, the municipality is only having control up to the entrance, because we provide them with a bulk meter to the homeowners association and the homeowners association distribute water to the households within the estate, so the people in the estate would not have any problem with the municipality because they are not getting any services from the municipality. The only service they get is water, but through the body corporate. It becomes very difficult (to collect) property rate(s) from a person who is in the estate and who is getting water from the body corporate, but must still pay property rates to the municipality. And the body corporates also do not make people aware that when you buy a property in this estate, you are going to pay the levies of the estate and you must also pay the municipality for property rates. Residents think that when they pay the levies …it is inclusive of the municipality fees and only to find that they still have to pay the municipality."

Participant 6 added that "the farms do not take the municipality serious because there is no direct service that we provide to them".

It appears that the lack of a direct relationship between the municipality and ratepayers in private estates negatively affects the payment of municipal services by such ratepayers. This may negatively impact the municipality's financial sustainability, as property rates is the major contributor of municipal own-revenue.

The municipality provides services to the ratepayers via residential body corporates resulting in the municipality's invisibility to ratepayers, as municipal services may appear to be rendered by the body corporates. This may result in the municipality encountering challenges when collecting property rates directly from such ratepayers, as property rates is a non-exchange transaction with no reciprocal service. The same applies to farmers who may not be receiving direct services from the municipality and may not regard payment of property tax to an 'invisible' municipality, as important.

The municipality may need to establish a relationship with its ratepayers, irrespective of residential- or operational business area, in order to enforce the payment of municipal accounts by these ratepayers. In addition, the municipality may need to collect property rates via the residential body corporates, similar to how payment for water services to estate residents is being billed and collected. This would entail entering into SLA's with the residential body corporates, in order for it to add municipal property rates to charges on invoices billed to estate residents, and transfer those payments collected to the municipality's bank account.

- *Poor service delivery*

Participants conveyed that municipal customers held mixed opinions concerning the quality of services provided by the municipality:

> "There are mixed responses in relations to the quality of municipal services. Other ratepayers are happy with the services that we are offering, and they even complement the municipality, while others are always complain about our services saying that they are very poor" (Participant 11);

"Some ratepayers are happy while others are not happy about the services. I can allocate 70 per cent satisfaction level" (Participant 9);

> "I would say that the ratepayers have a bad perception of the municipal services, in fact service delivery is always being used by the ratepayers for not being involved in municipal activities, including paying for municipal services" (Participant 10);
>
> "I can say that some ratepayers are happy with the services that we are offering, and others are not happy, they complain that their roads are poor and other things. According to me, most of them are just finding excuses not to pay" (Participant 12).

It, therefore, appears that service delivery is direct related to the payment of municipal services. The lack of or inadequate services may cause ratepayers' failure to pay municipal accounts. Even though the participants indicated that the ratepayers' level of satisfaction with municipal services is above average, it appears that the ratepayers are not satisfied with the municipal services – hence, they are failing or unwilling to pay for such services.

## 6.3 Presentation, Analysis and Interpretation of Questionnaire Data

### 6.3.1 Administration of the Questionnaire

The questionnaires (annexure 4) were administered over a period of two months. A total of 145 questionnaires, as per the calculated sample, were distributed during the first two weeks of the two-month period. A total of 105 questionnaires were returned by the respondents, accounting for a 72.41 per cent response rate. From these questionnaires, only 93 were fully completed by respondents and could be included in the statistical analysis.

### 6.3.2 Statistical Characteristics of Questionnaire Respondents

The statistical characteristics of the questionnaire respondents were determined by employing cross tabulations with chi-square tests. Garson (2012:3) defines cross tabulation as an analysis of data using tables, and it may also be referred to as a contingency table analysis. Ugoni and Walker (1995:61) defines a chi-square test as a statistical test that measures the association amongst two categorical variables. The cross tabulations were performed to establish associations between the following variables: employment status and type of ratepayer, employment status and family size, type of ratepayer and family size, and type of ratepayer and average family income.

#### *6.3.2.1 Cross tabulations of employment status and type of ratepayer*

A cross tabulation of the employment status and the types of ratepayer was executed, as presented in table 4.3, and the results are displayed by table 6.3 below.

**Table 6.3: Cross tabulation of Employment Status and Type of Ratepayer**

| | | | Q4 | | Total |
|---|---|---|---|---|---|
| | | | 1 | 2 | |
| Q3 | 1 | Count | 46 | 1 | 47 |
| | | % within Q4 | 50.5% | 50.5% | 50.5% |
| | | % of Total | 49.5% | 1.1% | 50.5% |
| | 2 | Count | 36 | 1 | 37 |
| | | % within Q4 | 39.6% | 50.0% | 39.8% |
| | | % of Total | 38.7% | 1.1% | 39.8% |
| | 3 | Count | 6 | 0 | 6 |
| | | % within Q4 | 6.6% | .0% | 6.5% |
| | | % of Total | 6.5% | .0% | 6.5% |
| | 4 | Count | 3 | 0 | 3 |
| | | % within Q4 | 3.3% | .0% | 3.2% |
| | | % of Total | 3.2% | .0% | 3.2% |
| Total | | Count | 91 | 2 | 93 |
| | | % within Q4 | 100.0% | 100.0% | 100.0% |
| | | % of Total | 97.8% | 2.2% | 100.0% |

(*Source: own compilation*)

Table 6.3 above indicates the cross tabulation of the employment status and the type of ratepayers who participated in the survey. It shows that a total of 91 respondents indicated that they are residential property ratepayers, and two respondents indicated that they are business property ratepayers. From those that indicated that they are residential property ratepayers, 49.5 per cent indicated that they are employed, 38.7 per cent indicated they are self-employed, 6.5 per cent indicated that they are pensioners, and the remaining 3.2 per cent indicated that they are unemployed. The results of the analysis yielded a chi-square presented in table 6.4 below.

**Table 6.4: Chi-Square Tests – Employment Status and Type of Ratepayer**

| | Value | df | Asymp. Sig. (2-sided) |
|---|---|---|---|
| Pearson Chi-Square | .252[a] | 3 | .969 |
| Likelihood Ratio | .441 | 3 | .932 |
| Linear-by-Linear Association | .055 | 1 | .814 |
| N of Valid Cases | 93 | | |

a. 5 cells (62.5%) have expected count less than 5. The minimum expected count is 0.06.

(*Source: own compilation*)

Based on a chi-square statistic of 0.252 and p-value of 0.969 presented in table 6.4 above, there is statistical evidence indicating that there is no association between employment status and the type of ratepayer, at a 10 per cent significance level.

#### *6.3.2.2 Cross tabulation of ratepayer's employment status and family size*

A cross tabulation of the ratepayer's employment status and the ratepayer's family size was performed. The results are displayed by table 6.5 below.

**Table 6.5: Cross Tabulation of Employment Status and Family Size**

| | | | Q6 | | |
|---|---|---|---|---|---|
| | | | 1 | 2 | Total |
| Q3 | 1 | Count | 45 | 2 | 47 |
| | | % within Q6 | 50.6% | 50.0% | 50.5% |
| | | % of Total | 48.4% | 2.2% | 50.5% |
| | 2 | Count | 35 | 2 | 37 |
| | | % within Q6 | 39.3% | 50.0% | 39.8% |
| | | % of Total | 37.6% | 2.2% | 39.8% |
| | 3 | Count | 6 | 0 | 6 |
| | | % within Q6 | 6.7% | .0% | 6.5% |
| | | % of Total | 6.5% | .0% | 6.5% |
| | 4 | Count | 3 | 0 | 3 |
| | | % within Q6 | 3.4% | .0% | 3.2% |
| | | % of Total | 3.2% | .0% | 3.2% |
| Total | | Count | 89 | 4 | 93 |
| | | % within Q6 | 100.0% | 100.0% | 100.0% |
| | | % of Total | 95.7% | 4.3% | 100.0% |

(*Source: own compilation*)

Table 6.5 above indicates the cross tabulation of the employment status and family size of the ratepayer. It shows that the family size of ratepayers who indicated that they are employed (48.4%), self-employed (37.6%), pensioners (6.5%), and unemployed (3.2%), comprises between one and five household members. It further shows that 4.4 per cent of households who indicated that they are employed, consisted of more than five household members. The results of the analysis yielded a chi-square that are displayed by table 6.6 below.

**Table 6.6: Chi-Square Tests – Employment Status and Family size**

| | Value | Df | Asymp. Sig. (2-sided) |
|---|---|---|---|
| Pearson Chi-Square | .514[a] | 3 | .916 |
| Likelihood Ratio | .893 | 3 | .827 |
| Linear-by-Linear Association | .113 | 1 | .736 |
| N of Valid Cases | 93 | | |

a. 5 cells (62,5%) have expected count less than 5. The minimum expected count is 0.13.

(*Source: own compilation*)

Based on the chi-square statistic of 0.514 and p-value of 0.916 presented in table 6.5 above, statistical evidence indicates that there is no association between employment status and family size, at a 10 per cent significance level.

#### *6.3.2.3 Cross tabulation of the type of ratepayer and family size*

A cross tabulation of the type of ratepayer and the family size was performed, and the results are displayed by table 6.7 below.

**Table 6.7: Cross Tabulation of Type of Ratepayer and Family Size**

| | | | Q6 | | |
|---|---|---|---|---|---|
| | | | 1 | 2 | Total |
| Q4 | 1 | Count | 87 | 4 | 91 |
| | | % within Q6 | 96.7% | 100.0% | 96.8% |
| | | % of Total | 92.6% | 4.3% | 96.8% |
| | 2 | Count | 3 | 0 | 3 |
| | | % within Q6 | 3.3% | .0% | 3.2% |
| | | % of Total | 3.2% | .0% | 3.2% |
| Total | | Count | 90 | 4 | 94 |
| | | % within Q6 | 100.0% | 100.0% | 100.0% |
| | | % of Total | 95.7% | 4.3% | 100.0% |

(*Source: own compilation*)

Table 6.7 above indicates the cross tabulation of the type of ratepayer and their family size. It shows that 92.6 per cent of residential households comprise family sizes ranging between one and five household members, and 4.3 per cent consist of more than five household members. The results of the analysis yielded a chi-square that is presented in table 6.8 below.

**Table 6.8: Chi-Square Tests – Type of Ratepayer and Family Size**

| | Value | df | Asymp. Sig. (2-sided) | Exact Sig. (2-sided) | Exact Sig. (1-sided) |
|---|---|---|---|---|---|
| Pearson Chi-Square | .138[a] | 1 | .711 | | |
| Continuity Correction[b] | .000 | 1 | 1.000 | | |
| Likelihood Ratio | .265 | 1 | .607 | | |
| Fisher's Exact Test | | | | 1.000 | .876 |
| Linear-by-Linear Association | .136 | 1 | .712 | | |
| N of Valid Cases[b] | 94 | | | | |

a. 3 cells (75,0%) have expected count less than 5. The minimum expected count is 0.13.

b. Computed only for a 2x2 table

(*Source: own compilation*)

Based on the chi-square statistic of 0.138 and p-value of 0.711 presented in table 6.7 above, there is no statistical evidence indicating an association between the type of ratepayer and their family size, at a 10 per cent significance level.

#### *6.3.2.4 Relationship between of type of ratepayer and average family income*

A cross tabulation of the type of ratepayer and their average family income was executed, and the results are displayed by table 6.9.

**Table 6.9: Cross Tabulation of Type of Ratepayer and Average Family Income**

| | | | Q5 | | | | Total |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Q4 | 1 | Count | 4 | 10 | 39 | 38 | 91 |
| | | % within Q5 | 100.0% | 90.9% | 100.0% | 97.4% | 97.8% |
| | | % of Total | 4.3% | 10.8% | 41.9% | 40.9% | 97.8% |
| | 2 | Count | 0 | 1 | 0 | 1 | 2 |
| | | % within Q5 | .0% | 9.1% | .0% | 2.6% | 2.2% |
| | | % of Total | .0% | 1.1% | .0% | 1.1% | 2.2% |
| Total | | Count | 4 | 11 | 39 | 39 | 93 |
| | | % within Q5 | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| | | % of Total | 4.3% | 11.8% | 41.9% | 41.9% | 100.0% |

(*Source: own compilation*)

Table 6.9 above indicates the cross tabulation of the type of ratepayers and their average family income. It shows that 4.3 per cent of the ratepayers indicated a family income below R5,000; 10.8 per cent indicated an average family income of between R5,000 and R10,000; 41.9 per cent indicated an average family income of between R10,000 and R20,000; and the remaining 40.9 per cent indicated an average family income above R20,000. The results of the analysis yielded a chi-square presented in table 6.10 below.

**Table 6.10: Chi-Square Tests – Type of Ratepayer and Family Average Income**

| | Value | df | Asymp. Sig. (2-sided) |
|---|---|---|---|
| Pearson Chi-Square | 3.495[a] | 3 | .321 |
| Likelihood Ratio | 3.311 | 3 | .346 |
| Linear-by-Linear Association | .141 | 1 | .707 |
| N of Valid Cases | 93 | | |

a. 5 cells (62,5%) have expected count less than 5. The minimum expected count is 0.09.

(*Source: own compilation*)

Based on the chi-square statistic of 3.495 and p-value of 0.321 presented in table 6.10, statistical evidence indicates no association between type of ratepayer and their average family income, at a 10 per cent significance level.

### 6.3.3 Reliability test.

The purpose of this section is to assess the internal consistency of the questionnaire, applying Cronbach's Alpha. Bonett and Wright (2014) define Cronbach Alpha as a measure of internal consistency that is one of the most popular measures of reliability in the social and organisational sciences.
Tables 6.11 shows the overall reliability of the employment of questionnaires by this study.

**Table 6.11: Overall Reliability Test**

| Cronbach's Alpha | N of Items |
|---|---|
| 0.841 | 26 |

(*Source: own compilation*)

Based on the results above, the Cronbach's Alpha is 0.841, thus, greater than 0.7 (Bonett & Wright 2014), concluding that the construct in the questionnaire is testing what it is supposed to test.

### 6.3.4 Factor analysis.

The researcher employed factor analysis to analyse the questionnaires completed by ratepayer-respondents. The Kaiser Meyer-Olkin Measure (KMO) and Bartlett's Test were applied to the respondents' questionnaire-responses in order to calculate the sampling adequacy, and Principal Component Analysis was employed to determine the factors affecting revenue collection.

#### *6.3.4.1 Kaiser Meyer-Olkin Measure and Bartlett's Test.*

Kaiser (1974) asserted that a sample is adequate when the value of KMO is greater than 0.5. Bartlett's Test of Sphericity examines the hypothesis that the correlation matrix is an identity matrix that would indicate that the variables are unrelated.

**Table 6.12: KMO and Bartlett's Test**

| | | |
|---|---|---|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | .697 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 866.136 |
| | Df | 210 |
| | Sig. | .000 |

(*Source: own compilation*)

The Kaiser Meyer-Olkin Measure of Sampling Adequacy statistic of 0.697 is greater than 0.50, as suggested by Kaiser (1974). It can then be statistically concluded that the sample size is adequate. In this case Bartlett's Test of Sphericity proves significant at a one per cent significance level, therefore factor analysis is useful and the researcher can proceed to perform factor analysis.

#### *6.3.4.2 Communalities*

**Table 6.13: Communalities**

| | Initial | Extraction |
|---|---|---|
| Q7 | 1.000 | .691 |
| Q8 | 1.000 | .850 |
| Q9 | 1.000 | .643 |
| Q10 | 1.000 | .589 |
| Q11 | 1.000 | .809 |
| Q12 | 1.000 | .702 |
| Q14 | 1.000 | .609 |
| Q16 | 1.000 | .793 |
| Q17 | 1.000 | .835 |
| Q18 | 1.000 | .727 |
| Q19 | 1.000 | .760 |
| Q21 | 1.000 | .861 |
| Q22 | 1.000 | .611 |
| Q24 | 1.000 | .754 |
| Q25 | 1.000 | .776 |
| Q26 | 1.000 | .786 |
| Q28 | 1.000 | .698 |
| Q30 | 1.000 | .622 |
| Q32 | 1.000 | .843 |
| Q33 | 1.000 | .702 |
| Q34 | 1.000 | .833 |

Extraction Method: Principal Component Analysis.

(*Source: own compilation*)

Communalities represent the proportion of each variable's variance that can be explained by the factors. Based on table 6.14 above, there is statistical evidence that the variables' variance can be explained by the factors.

**Table 6.14: Total Variance Explained**

| Component | Initial Eigenvalues | | | Extraction Sums of Squared Loadings | | | Rotation Sums of Squared Loadings | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 6.712 | 31.963 | 31.963 | 6.712 | 31.963 | 31.963 | 3.506 | 16.695 | 16.695 |
| 2 | 2.191 | 10.433 | 42.395 | 2.191 | 10.433 | 42.395 | 2.560 | 12.189 | 28.884 |
| 3 | 1.527 | 7.274 | 49.669 | 1.527 | 7.274 | 49.669 | 2.532 | 12.057 | 40.941 |
| 4 | 1.447 | 6.893 | 56.562 | 1.447 | 6.893 | 56.562 | 1.847 | 8.796 | 49.737 |
| 5 | 1.395 | 6.641 | 63.203 | 1.395 | 6.641 | 63.203 | 1.829 | 8.709 | 58.446 |
| 6 | 1.159 | 5.520 | 68.723 | 1.159 | 5.520 | 68.723 | 1.828 | 8.704 | 67.150 |
| 7 | 1.061 | 5.052 | 73.775 | 1.061 | 5.052 | 73.775 | 1.391 | 6.625 | 73.775 |
| 8 | .916 | 4.362 | 78.137 | | | | | | |
| 9 | .798 | 3.800 | 81.937 | | | | | | |
| 10 | .576 | 2.745 | 84.682 | | | | | | |
| 11 | .556 | 2.646 | 87.327 | | | | | | |
| 12 | .489 | 2.330 | 89.657 | | | | | | |
| 13 | .450 | 2.142 | 91.799 | | | | | | |
| 14 | .376 | 1.789 | 93.588 | | | | | | |
| 15 | .328 | 1.561 | 95.149 | | | | | | |
| 16 | .284 | 1.351 | 96.500 | | | | | | |
| 17 | .234 | 1.116 | 97.616 | | | | | | |
| 18 | .165 | .785 | 98.401 | | | | | | |
| 19 | .136 | .646 | 99.046 | | | | | | |
| 20 | .113 | .539 | 99.585 | | | | | | |
| 21 | .087 | .415 | 100.000 | | | | | | |

Extraction Method: Principal Component Analysis

(*Source: own compilation*)

The Total column presents the eigenvalue, or amount of variance in the original variables accounted for by each component. The Percentage of Variance column presents the ratio, expressed as a percentage of the variance accounted for by each component, to the total variance in all the variables. The Cumulative Percentage column presents the percentage of variance accounted for by the first n components. The extracted top seven components explain 73.8 per cent of the variability in the original twenty-one variables, thus the researcher can considerably reduce the complexity of the data set by using the top seven components, with only a 26.2 per cent loss of information.

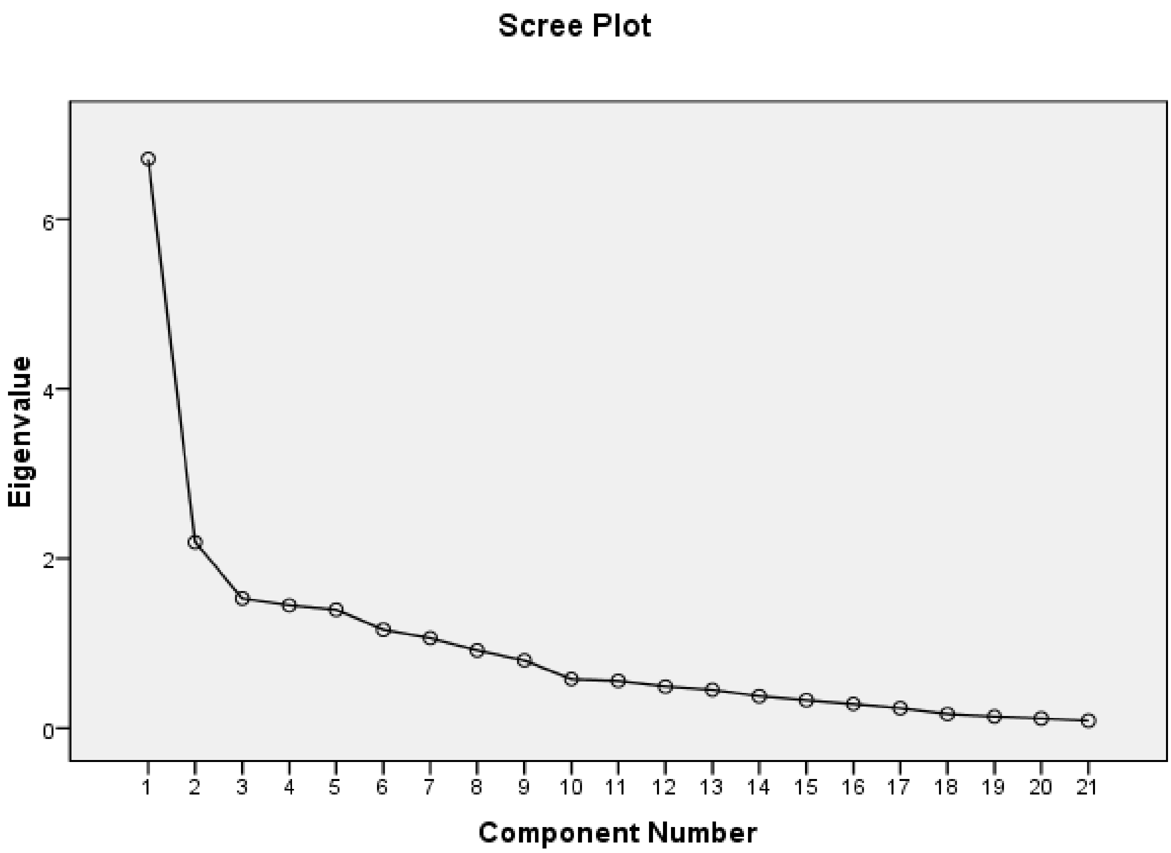


**Figure 6.1: Scree Plot**

(*Source: own compilation*)

The scree plot assists in determining the optimal number of components. The eigenvalue of each component in the initial solution is plotted and the researcher extracted the components on the steep slope. Based on figure 6.1, the number of components selected is seven, and components on the shallow slope contribute little to the solution.

**Table 6.15: Rotated Component Matrix**

| | Component | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Q7 | | | .796 | | | | |
| Q8 | | | .889 | | | | |
| Q9 | .423 | | .452 | | .436 | | |
| Q10 | | | | | | | .546 |
| Q11 | | | | | | | -.882 |
| Q12 | | | .549 | | | | |
| Q14 | .576 | | | | | | |
| Q16 | | | | -.865 | | | |
| Q17 | | | | | | .796 | |
| Q18 | | .435 | | | | .495 | |
| Q19 | | | | | .815 | | |
| Q21 | .431 | | | | .557 | | |
| Q22 | .480 | | | | | | .439 |
| Q24 | | .612 | | | | | |
| Q25 | | .810 | | | | | |
| Q26 | | .846 | | | | | |
| Q28 | .800 | | | | | | |
| Q30 | | | | .553 | | | |
| Q32 | .880 | | | | | | |
| Q33 | .716 | | | | | | |
| Q34 | | | | | | .790 | |

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 11 iterations.

(*Source: own compilation*)

The Rotated Component Matrix aids determination of the components'/factors' representation. The first factor is most highly correlated with customer billing concerns (Q14, Q22, Q28, Q32 and Q33). In other words, Factor 1 implies that the 32 per cent variation in the non-payment of bills is associated with billing concerns. The second factor is most highly correlated with campaign awareness (Q24, Q25 and Q26) and implies that the 10.4 per cent variation in non-payment can be associated with campaign awareness issues. The third factor is most highly correlated with service delivery issues (Q7, Q8, Q9 and Q12) and this implies that the 7.3 per cent variation in non-payment can be explained by factor 3. The fourth factor is most highly correlated with payment method (Q16 and Q30) and this implies that the 6.9 per cent variation in non-payment can be explained by factor 4. The fifth factor is most highly correlated with customer affordability (Q19 and Q21) and this implies that the 6.6 per cent variation in non-payment can be explained by factor 5. The sixth factor is most highly correlated with payment related accessibility (Q17, Q18 and Q34) and this implies that the 5.5 per cent variation in non-payment can be explained by Factor 6. Finally, the seventh factor is most highly correlated with payment statement distribution (Q10 and Q11) and this implies that the 5.1 per cent variation in non-payment can be explained by factor 7. This suggests that the researcher can focus on customer billing concerns, campaign awareness, service delivery and billing issues, in further analyses.

#### *6.3.4.3 Discussion of the identified factors*

The factors that were identified via the factor analysis above, are discussed in detail below.

❖ *Factor 1: Billing concerns*

Billing concerns were revealed to contribute towards poor revenue collection by the MLM. Billing issues have also been reported by other studies conducted in respect of South African municipalities (section 3.4.2.2), and by studies in Zimbabwe (section 2.3.1.3). This factor was discovered to not only be affecting smaller municipalities like the MLM, but also large municipalities, such as the City of Johannesburg Metropolitan Municipality (RSA 2011a:166) – that has experienced its share of billing challenges.

With reference to the MLM, the factor analysis found that respondents indicated that they are not paying their municipal accounts monthly. This is evident, considering the 80 per cent increase in the municipality's consumer debt, discovered and discussed in section 5.4.1.2. These respondents indicated that inadequate services, lack of services (factor 3), excessive bills, and the absence of monthly statements, are the main reasons they are not paying for municipal services. On the one hand, the claims of excessive bills are partly supported by the interview participants' indications that a number of the daily customer queries received relate to water consumption billing and property rates bills. On the other hand, the claim may be owing to the unaffordability of municipal services - one of the factors identified in chapter 3 (section 3.4.1.3) that negatively impacts revenue collection by South African municipalities.

Respondents also claimed that the municipality failed to read their water meters for water billing. On the one hand, this may be explained by the challenge concerning the Meter Reader's lack of access to ratepayers' premises, discovered during participant interviews, whereas, on the other hand, it may be owing to the ineffectiveness of the municipality's manual meter reading process. As a result of this, most respondents divulged that they are not satisfied with their monthly bills. Should this challenge not be addressed, it may negatively affect the willingness of ratepayers to pay for municipal services and subsequently the economic sustainability of the municipality, as the affected ratepayers may cease payments of municipal services. The municipality may need to consider replacing the current meters with smart meters, as suggested earlier. This would not only improve the accuracy of the municipal bills but would also improve the willingness of ratepayers to pay their accounts, knowing that the municipality employs a reliable system.

Other respondents indicated that they do not receive their monthly statements. This may be caused by the challenges related to the unreliability of the South African Post Office and the IT issues encountered by the municipality, discovered via the interviews. Monthly statements do not only inform ratepayers as to the amount billed in respect of a particular month, but also serve as a reminder to the ratepayers of their obligation to pay their municipal account. Whilst the Post Office challenges are beyond the municipality's control, the municipality may need to address the IT-related challenges and find other ways of distributing monthly bills, to ensure timeous distribution of monthly account statements.

Whereas the interview-participants indicated that the municipality provided a platform to manage ratepayers' enquiries, questionnaire-respondents indicated that they are unable to attend at the municipal offices when they experience billing queries. Several respondents noted that time issues relating to unwillingness or personal commitments prevented them from visiting the municipal offices, whilst other respondents indicated that they used to attend at the municipal offices with enquiries, however, they ceased these attendances as the suitable staff members to assist with the queries are never available. This may be an indication that the platform managing customer enquiries and complaints, described by the interview participants, may not be as effective as the participants claimed.

Furthermore, the few respondents who indicated that they were able to raise their billing concerns with the municipality, claimed that they were not satisfied with the municipality's response. The attendance at the municipal offices by ratepayers with queries, may be an indication of their willingness to pay, however, the municipality's failure to address these queries may cause unwillingness to pay. To address this, the municipality should capacitate the staff members managing customer enquiries, or establish a dedicated section, as there is no section designated to manage customer queries, at present. This would assist the adequate and timeous resolution of customer queries, improving the consumers' willingness to pay.

Based on the above discussion, it appears that the MLM's billing concerns are triggered by the failure to read meters, the failure to issue monthly statements, the unavailability of officials to deal with ratepayers' queries, and the municipality's failure to adequately address ratepayers' queries. As billed revenue contribute significantly to the municipality's own-revenue, the municipality may need to address these challenges, in order to improve the collection of billed revenue. Addressing these challenges would also improve the confidence of ratepayers in municipal bills and this may reduce the negative attitudes by these ratepayers by changing their behaviour towards paying their municipal accounts, akin to the TRA.

❖ *Factor 2: Lack of ratepayers' awareness*

Lack of ratepayers' awareness was another factor revealed by the factor analysis to be contributing towards deficient revenue collection by the municipality. This factor was also discovered to be affecting municipal revenue collection in other African countries such as Ghana (section 2.2.1.3), Nigeria (section 2.2.2.3), Kenya (section 2.2.3.3), Uganda (section 2.2.4.3), and Tanzania (section 2.3.2.3).

Although interview-participants indicated that the municipality conducts awareness campaigns to educate ratepayers regarding the importance of paying for municipal services, most questionnaire-respondents averred that the municipality does not conduct awareness campaigns. Several of these respondents indicated that they had never heard of and/or been invited to awareness campaigns by the municipality. The small number of respondents who recounted that the municipality does conduct campaigns, disclosed that they do not attend such awareness campaigns, and this may be owing to their unwillingness to attend, although several indicated that personal commitments and/or availability issues prevented them from attending the awareness campaigns.

The discrepancy between the interview findings (that the municipality does conduct awareness campaigns) and the questionnaire findings (that the municipality does not conduct awareness campaigns) may signify the presence of different issues. Should the municipality's notion considered to be true, then two aspects may be at play. On the one hand, it may imply that the campaign information does not reach all its ratepayers, hence several are not aware of it - this is a distinct possibility, considering that the municipality is also experiencing challenges in distributing its monthly account statements. On the other hand, it may signify that ratepayers are not interested in attending these campaigns, as several of them have already confirmed their absenteeism owing to personal commitments or lack of time.

The lessons learnt from African countries in respect of tax education, may come in handy when addressing the challenge related to ratepayers' lack of awareness. Educating the ratepayers would improve their understanding of the municipality's processes and operations and may subsequently improve their willingness to pay for municipal services. The municipality may need to replace the current system of conducting awareness campaigns, as appears to be ineffective. Considering that the municipal area is dominated by private estates with populations of less than 200 households each (table 4.3), the municipality may need to relocate the awareness campaigns to the ratepayers' residential areas, by conducting these awareness campaigns in each estate separately - as opposed to conducting it per ward zone or in a central community area - this may be achieved via the cooperation of the respective residential body corporates. It may also improve the current low attendance levels indicated by interview-participants, as ratepayers would not need to travel from their areas. All of which may change the attitude of ratepayers towards paying for municipal services as per the TRA.

❖ *Factor 3: Service delivery issues*

Inadequate service delivery was the other factor revealed by the factor analysis to be negatively affecting revenue collection by the MLM. Most of the questionnaire-respondents conveyed inadequate and/or lack of municipal services by the municipality. As with the MLM, the challenge of poor municipal service delivery was discovered to be universal in the African context as it was reported in Ghana (section 2.2.1.3), Nigeria (section 2.2.2.3), Kenya (section 2.2.3.3), Uganda (section 2.2.4.3), Zimbabwe (section 2.3.1.3), Tanzania (section 2.3.2.3), and South Africa (section 3.4.2.1).

Nearly all MLM questionnaire-respondents relayed that they do not receive services from the municipality. The small number of respondents who indicated that they do receive municipal services, claimed that they are dissatisfied with the quality of the services received from the municipality. This supports the indication by respondents in respect of factor 1, contending that one of the reasons they are not paying their municipal accounts is owing to inadequate service delivery. As such, it appears that poor service delivery affects the willingness of ratepayers towards paying for municipal services, like the situation in other municipalities across the African continent.

As suggested earlier, in support of the TRA, the municipality may need to involve its ratepayers in its operations via stakeholders' engagement activities such as public participations and IDP processes. This would enable the municipality to prioritise ratepayers' needs identified via these activities through its limited financial resources. Realising that their needs are a priority to the municipality and that the moneys they pay for services are used for their benefit, the current perception of the ratepayers of the municipality may change, and this may also improve their willingness to pay for the services.

## 6.4 Chapter Summary

In this chapter, the data collected via the interviews and questionnaires was presented, analysed and interpreted. The interviews with a sample of municipal officials were conducted telephonically, and were semi-structured, comprising both open-ended and closed-ended questions. The questionnaires were administered to a sample of ratepayers and consisted mainly of closed-ended questions.

Qualitative analysis of data was employed to analyse the interview responses, in line with the topic, research questions, problem statement, theoretical framework, and the research objectives of the study. The data analysis revealed themes, that showed the following challenges to be affecting revenue collection by the MLM:

- Metering and billing,
- Low revenue base,
- Poor implementation of policies,
- Lack of capacity, and
- Negative ratepayer attitudes towards paying municipal for services.

Factor analysis was applied to analyse the questionnaire data, in line with the topic, research questions, problem statement, theoretical framework and the research objectives of the study. The data analysis revealed the following challenges to be affecting revenue collection by the MLM:

- Billing concerns,
- Lack of awareness and
- Service delivery.

The findings from the interview- and questionnaire analysis, summarised above, fulfilled the remaining research objectives of the study, by determining the attitude of ratepayers towards paying for municipal services, the ratepayers' perception of municipal services and the perception of the municipality towards the non-payment of consumer accounts. The next chapter will provide the conclusion and recommendations of the study. It will also determine whether all the objectives of the study have been achieved and present the chapters overview, the limitations and delimitations of the study, and the future research emanating from this study.

# Chapter 7: Recommendations and Conclusion

## 7.1 Introduction

In the previous chapter, the data collected via interviews and questionnaires was presented, analysed and interpreted. The analysis and interpretation of both sets of data revealed aspects considered to be affecting revenue collection by the MLM. The results of the analysis were utilised to draw conclusions in respect of these aspects, that may be affecting municipal revenue collection.

This chapter will present the recommendations and conclusions of the study. This will be executed via determining the achievement of research objectives, review of all chapters, summary of findings, presentation of possible recommendations to address the findings, discussing the delimitations and limitations of the study, and finally, concluding the study.

## 7.2 Research Objectives

It is of utmost importance to determine whether the study was able to achieve the research objectives as set out in chapter 1. The primary objective of the study was to identify barriers to municipal revenue collection and its effect on the financial viability of municipalities, and to present possible solutions to address such barriers. In order to achieve this, the MLM in the Mopani District of the Limpopo Province was studied, in order to investigate these barriers and to develop possible solutions to address it. This was achieved via addressing the following secondary objectives:

- ❖ To establish the role of municipal revenue in the municipality's sustainability;
- ❖ To establish the state of the debt owed to the MLM by its ratepayers;
- ❖ To determine the state of financial affairs of the MLM (financial viability);
- ❖ To determine the attitudes of ratepayers towards paying for municipal services;
- ❖ To investigate factors influencing the negative attitude of ratepayers towards paying municipal accounts.

### 7.2.1 Objective 1: To establish the role of municipal revenue in the financial sustainability of the municipality

In chapter 6 (section 6.2.3.2), this research revealed that municipal own revenue plays an important role in the municipality's financial sustainability and in accelerating service delivery. The study further found that generating adequate own revenue would render a municipality less dependent on government grants and subsidies. Regarding its utilisation, municipal own revenue is flexible, as the municipality can apply the funds as they deem fit, as opposed to government grants and subsidies that are largely limited and conditional.

### 7.2.2 Objective 2: To establish the state of the debt owed to the MLM by ratepayers

In chapter 5, this study found that the municipal debt amounted to R38.2 million in 2015/16 financial year, R60.2 million in 2016/17, R78.8 million in 2017/18, and R108.6 million in the 2018/19 financial year (table 5.6). The growth of the debt was calculated to be 80 per cent over the course of the three financial years reviewed (table 5.6). Although the municipality was found to be financially viable, the negative impact of the fast-growing municipal debt could increase the dependence of the municipality on government grants and subsidies, negatively affecting the financial viability and the economic sustainability of the municipality.

### 7.2.3 Objective 3: To determine the state of financial affairs of the MLM (financial viability)

In chapter 5, the analysis of the financial affairs of the municipality revealed that the municipality is financially viable, even though the municipality is struggling with revenue collection. The total financial viability of the municipality was discussed in section 5.5.4, and the impact of poor revenue collection on the financial viability of the municipality was discussed in section 6.2.3.2.

### 7.2.4 Objective 4: To determine the attitudes of ratepayers towards paying for municipal services

In chapter 6 (section 6.2.3.5), the findings of this research indicated that ratepayers display a negative attitude towards paying for municipal services and this has resulted in unwillingness to pay for such services. The unwillingness to pay was also associated with the culture of non-payment that developed amongst black ratepayers during the Apartheid regime, when ratepayers boycotted the payment of municipal services as a way of political resistance against that regime. Municipalities may need to involve ratepayers in the processes and operations of municipalities whilst also educating them regarding the importance of paying for municipal services. In addition, municipalities would also need to improve and sustain service delivery, as this appears to be the main factor triggering the ratepayers' negative attitude and unwillingness to pay.

### 7.2.5 Objective 5: To investigate factors influencing the attitude of ratepayers towards paying municipal accounts

In chapter 6, the findings of this study discovered factors influencing the attitude of ratepayers towards paying municipal accounts:

- ***Lack of awareness***

Lack of awareness was found to be one of the factors affecting the attitude of ratepayers towards paying municipal accounts. According to the majority of interview-participants and a small number of questionnaire-respondents, the municipality conducts awareness campaigns to educate ratepayers regarding the importance of paying municipal accounts (sections 6.2.3.4 & 6.3.4.3), however, interview-participants conveyed that the attendance by the ratepayers can be regarded as average, whilst the handful of questionnaire-respondents who claimed that the municipality does conduct awareness campaigns, indicated that they do not attend such campaigns. This discrepancy in the data might be attributed to uncertainty amongst the participants regarding awareness campaigns conducted by the municipality. It could also be that a number of the respondents might be confusing several municipal activities with awareness campaigns, whereas the municipality has never conducted any awareness campaigns geared towards educating ratepayers.

- ***Lack of consequences for defaulting debtors***

The research findings showed that the lack of consequences to those in default of payment, is another factor influencing ratepayers' negative attitude towards paying their municipal accounts. The lack of consequences was discovered to be one of the activities triggered by the deficient implementation of the municipality's Credit Control- and Debt Collection policy and by-laws that is currently a challenge confronting the municipality.

- ***Lack of direct services***

The study discovered that the MLM's area of authority is dominated by private estates and, as a result, the municipality does not hold a direct relationship with the majority of its ratepayers. Research revealed that services such as water provision, and sewerage and refuse removal, are directed by the residential body corporates of the estates, who manages distribution of services to their residents. It was further discovered that nearly all of the municipality's ratepayers are only charged for property rates and, as this is a non-exchange transaction, there is resistance to pay by the ratepayers.

- ***Poor service delivery***

Lack of and/or poor service delivery is another factor negatively affecting the attitude of ratepayers towards paying for municipal services. From the interview-participants it was learned that there are mixed feelings regarding the quality of services provided by the municipality. Several of the participants relayed that the municipality is providing services to its communities, however, ratepayers just held dissenting attitudes towards municipal services, and they exploit that as an excuse for failing to pay their municipal accounts. The discrepancy of the responses by the respondents might signify that the municipality may be servicing certain areas in its jurisdiction, whilst neglecting other areas.

Dissatisfaction with monthly bills was another factor discovered to be influencing the negative attitude of ratepayers towards paying municipal accounts. The study revealed that the municipality does not read its water meters (section 6.2.3.1) and, as a result, a number of ratepayers indicated that they are not satisfied with their monthly bills (section 6.3.4.3).

## 7.3 Summary of Findings for Qualitative (Interviews) and Quantitative (Questionnaires) Research Methods

This study revealed the obstacles affecting revenue collection by the MLM. Below is a summary of the findings from the analysis of the data that was collected:

### 7.3.1 Poor metering management

The study revealed metering challenges in the MLM. These challenges were shown to be negatively affecting the municipality's billing, and subsequently the collection of revenue. The study disclosed that the municipality employs manual methods to read water meters, whereby the meter readings are read and recorded on a meter reading sheet. This process was found to be susceptible to human error that was affecting the credibility of the water consumption billings. The study further discovered that the lack of an automated meter reading system, faulty meters, lack of access to premises to enable meter readings, and illegal connections of services, are contributing factors to the metering challenges experienced by the municipality. These contributing factors are briefly discussed below:

#### *7.3.1.1 Lack of automated system to read meters*

The lack of an automated system to read meters and the lack of controls to confirm the accuracy of manually recorded meter readings were revealed to be affecting the accuracy of municipal bills.

#### *7.3.1.2 Malfunctioning or faulty meters*

Malfunctioning or faulty meters is another challenge revealed by the study to be affecting metering management by the municipality, and this has resulted in loss of revenue, even though the municipality applies estimation where meters were not read. It was discovered that this challenge was inflated by the delay of fund transfers in respect of the repair and replacement of the damaged meters, as the MLM is providing the service on behalf of the district municipality that must fund such maintenance expenditure.

#### *7.3.1.3 Lack of access to premises*

The study revealed that the municipality does not have access to relevant ratepayers' premises for meter reading purposes. It was discovered that a number of premises are guarded by dogs and several ratepayers resides abroad, hence the meter reader fails to gain access to the premises to read the meter. Owing to this challenge, the municipality ends up estimating the readings and this negatively affects the credibility of water consumption billing, as ratepayers normally query the consumption billed.

#### *7.3.1.4 Illegal connections*

The study disclosed that several ratepayers consume illegally connected municipal services. Participants revealed that water services have been illegally connected by several ratepayers and, as a result, the municipality is suffering a loss in revenue, as these ratepayers are not being charged for the use of such services.

### 7.3.2 Low revenue base

The research showed that the municipality holds a low revenue base and as such, the generation of internal revenue is limited. The analysis of the municipality's financial affairs revealed that the municipality's revenue base has remained unchanged over the course of the three financial years reviewed. It was further discovered that the municipality only charges two areas for services, despite servicing 24 wards.

### 7.3.3 Lack of capacity

The study found that lack of capacity in the RMU is a factor affecting revenue collection by the MLM. It was revealed that, although a total number of 14 positions are available to be utilised by the RMU, the unit held a vacancy rate of 36 per cent. As a result of this vacancy rate, key subdivisions of the RMU only hold one official each, i.e., the Meter Readings, Credit Control, and Property Rates Administration subdivisions. The metering challenges, poor revenue collection, and the property rates administration challenges, are partly owing to the RMU's lack of capacity.

### 7.3.4 Lack of awareness

The study revealed that lack of awareness is a factor affecting the negative attitude of ratepayers towards paying for municipal services. The lack of awareness was found to be increased by the employment of standard post (snail mail) and e-mails to communicate information to ratepayers, and the two platforms were found to be facing challenges, such as the unreliability of the Post Office in recent years, and IT-related challenges encountered by the municipal staff, i.e., the inaccessibility of e-mails.

### 7.3.5 Poor implementation of policies

The research found that the municipality is struggling with the implementation of the Credit Control- and Debt Collection policy and by-laws, hence the growth of consumer debt by 80 per cent over the course of the three financial years reviewed. As previously discussed in respect of the lack of capacity, the study discovered that the municipality employs only one official responsible for credit control of more than 3500 ratepayers' accounts. Lack of control over areas charged for services and unavailability of ratepayers, were discovered to be contributing factors to the poor implementation of policies. These factors are briefly discussed below:

#### *7.3.5.1 Lack of control over areas charged for services*

The study discovered that the MLM's jurisdiction is dominated by private estates where the MLM is providing services via residential body corporates. As a result, the municipality is only levying property rates on all residents owning property in the private estates. This arrangement renders it challenging for the municipality to enforce the Credit Control policy against such residents, as the municipality does not hold a direct relationship with the residents.

#### *7.3.5.2 Unavailability of ratepayers*

The research found that the majority of the MLM's ratepayers reside abroad. Consequently, it is challenging to enforce municipal policy and by-laws in respect of these ratepayers when they default on payments, as they are usually unavailable.

### 7.3.6 Poor service delivery

Poor service delivery was revealed by the study to be one of the factors affecting revenue collection by the MLM and a factor influencing the negative attitudes by ratepayers towards paying for municipal services. The study discovered that there are mixed perceptions regarding the quality of services provided by the municipality, and several ratepayers indicated that they are not receiving any services or that the services provided are poor, hence, they are not paying their municipal accounts. A number of municipal officials claimed that ratepayers are just exploiting the excuse of poor services not to pay their municipal accounts.

### 7.3.7 Deficient billing

Deficient billing of municipal services was discovered to be another factor contributing to ratepayers' unwillingness to pay for municipal services. The study further found that property rates and water consumption are the two services mainly queried by ratepayers, contributing to the municipality's deficient billing challenge. Several ratepayers are said to be querying the values employed by the municipality to charge property rates, whereas others are querying the water consumption billing. The water consumption queries are a further indication of the metering challenges in the municipality that may also be associated with the manual capturing of readings. Challenges relating to non-receipt of monthly statements by ratepayers were discovered by the study to be owing to the unreliability of the post office and the employment of e-mails as the main distribution instruments of monthly account statements.

## 7.4 Recommendations

The findings of the study have prompted the following recommendations:

### 7.4.1 Recommendations in respect of inferior metering management

❖ The municipality may need to consider availing a budget to replace all the faulty or malfunctioning meters. These meters may be replaced by "smart meters" as the existing type are already creating challenges for the municipality. The smart meters would simplify the current manual method of reading meters, owing to technological advancements. Going forward, the municipality may need to consider the life spans of the meters installed in respect of households or businesses and plan accordingly regarding the maintenance and/or replacement of such meters. This would reduce the likelihood of the municipality experiencing a multitude of faulty or malfunctioning meters at one time, as it is currently experiencing.

- ❖ The municipality may need to consider relocating meters to an arear just outside the perimeters of ratepayers' premises, in order to ensure that the meters are accessible for meter reading purposes. The option of installing smart meters may also address this challenge, as they technologically enable the reading of meters from a distance.
- ❖ The municipality may need to enforce the provisions of its Credit Control- and Debt Collection policy and by-laws in respect of ratepayers who have been proven to consume illegally connected municipal services. The option of smart meters would also assist with the challenge of illegal connections, as smart meters are able to detect leakages and tampering or illegal connections.

### 7.4.2 Recommendations in respect of low revenue base

- ❖ The Constitution authorises municipalities to impose taxes and surcharges on ratepayers and, as such, the MLM might take advantage of this to maximise revenue collection. The municipality may strive to identify new revenue streams to increase their current revenue base.
- ❖ The municipality may need to fully implement the RES. The RES would also need to be reviewed annually in order to consider new revenue streams that may become available as time goes on.
- ❖ The municipality may need to acquire the electricity licence in order to expand its current limited revenue base.

### 7.4.3 Recommendations in respect of lack of capacity

- ❖ The municipality may need to capacitate the RMU by appointing staff to all the positions provided for by the municipality's organisational structure. The current expenditure in respect of remuneration, equal to 39 per cent of the total operating expenditure at the end of the 2018/19 financial year, should be considered when exercising this option.
- ❖ The municipality may act to ensure that every subdivision of the RMU is adequately capacitated e.g., Credit Control and Property Administration, that presently hold one official each. The expenditure in respect of contracted services

(6%) that was above the norm of five per cent of the total operating expenditure at the end of the 2018/19 financial year, should be considered when exercising this option.

- ❖ The municipality may also consider outsourcing certain functions of the RMU, should it not be able to appoint its own officials. The municipality may also consider the appointment of debt collectors, as they had done in previous financial years.

### 7.4.4 Recommendations in respect of lack of awareness

- ❖ The municipality may need to conduct tax education as recommended by studies in Ghana, Nigeria and Kenya. This tax education must be focused on educating ratepayers about the overall activity of the municipality, including the funding of municipal mandates via the collection of own revenue.

### 7.4.5 Recommendations in respect of poor implementation of policies

- ❖ The municipality may need to conduct awareness campaigns via residential body corporates concerning the payment of municipal accounts in the private estates, to educate the residents regarding the importance of paying municipal accounts. This may also inform the estate residents that they are liable to pay municipal property rates to the municipality, over and above their levies and other charges payable to the estate's body corporate.
- ❖ The municipality may consider establishing relationships with the ratepayers residing abroad, by creating a register of such ratepayers. This may enable the municipality to furnish such ratepayers with monthly account statements and other necessary notices.
- ❖ The municipality may also need to consider rendering all services directly to the residents of private estates. This would enable the municipality to bill all services to the resident, as opposed to only billing property rates - a non-exchange service that does not result in any service flowing to the resident.
- ❖ The municipality may need to establish a relationship with all ratepayers residing in private estates via their respective residential body corporates.

### 7.4.6 Recommendations in respect of deficient service delivery

- The municipality may need to improve the quality of the services provided to its communities.
- The municipality may need to ensure that its communities participate in key municipal processes, such the preparation of the IDP via public participation. This would allow communities to contribute to the municipal process and to own the process, whilst also being kept abreast of developments regarding municipal service delivery activities.

### 7.4.7 Recommendations in respect of deficient billing

- The municipality may capacitate the subdivision managing property rates administration, in order to minimise the queries relating to property rates.
- The municipality may need to establish a unit within the RMU, to specifically manage ratepayers' queries. This would encourage ratepayers to attend at the municipal offices, should billing queries arise.
- The municipality may need to improve the turnaround time of addressing its ratepayers' queries, to encourage ratepayers to lodge any enquiries that may arise and to encourage the payment of municipal services.
- The municipality may need to consider establishing a Customer Care Management office or a call centre to deal with customer queries. The officials staffing this section may also need to adequately trained to manage customer enquiries. Weekly or monthly reports of queries may need to be prepared, containing the type of enquiry and the status as at reporting date, to ensure accountability by the officials or call centre staff members managing and resolving disputes.
- With regard to property rate challenges, the municipality may need to apply the provisions of chapter 6 of the MPRA (RSA 2004), that requires the municipality to issue public notices on valuation rolls, to allow ratepayers who object to the value ascribed to their properties to lodge such objections. This would eliminate most of the property rates billing enquiries received by the municipality.
- The municipality may need to consider employing computerised scanners to read water meters, in order to minimise the effect of human error and to eliminate the

manual capturing of meter readings to the billing system, as the meter readings would then be imported from the computerised scanners.

- The municipality may need to consider adding the manual distribution of monthly account statements to the current system of standard post (snail mail) and e-mails, and to maintain a register with residents' signatures confirming the receipt of the account statements.

#### 7.4.8 Recommendations in respect of lack of consequences for defaulting

- The municipality may need to fully enforce revenue collection policies up to the final stage of handing over arrears accounts to legal firms for collection, as shown in figure 3.1 of chapter 3. When ratepayers observe legal action against payment defaulters, a strong message may be sent that the payment of municipal services needs to be regarded seriously.

## 7.5 Future Research

The study investigated challenges faced by municipalities in relation to revenue collection and these challenges' effect on the municipalities' financial viability. The study investigated the individual factors and its effects on the financial viability of the municipality.

Future research may need to be conducted to investigate the effect of each factor on revenue collection and municipal financial viability, individually, for example:

- The effect of service delivery challenges on municipal revenue collection and financial viability;
- The effect of billing issues on municipal revenue collection and financial viability;
- The effect of human resource capacity challenges on municipal revenue collection and financial viability.

## 7.6 Conclusion

The study revealed that local government is one of the most legislated spheres of South Africa's three sphere government. Legislatively, municipalities have been mandated to deliver services such as water, sewerage, roads and electricity, to its respective communities. To fulfil the mandate, the Constitution (RSA 1996a) provides for the equitable sharing of nationally collected funds with municipalities, however, it also authorises municipalities to levy rates and surcharges in addition to receiving a portion of the shared funds. Notwithstanding the comprehensive legislative and income-generating authority, South African municipalities are still reported to be failing to fulfil its legislative mandate. This failure has, *inter alia*, been associated with limited financial resources.

Most municipalities have been discovered to be encountering revenue collection challenges, hence, they hold limited financial resources and subsequently fail to provide quality and sustainable services to their communities. Deficient service delivery has been found to be a factor that negatively impacts ratepayers' willingness to pay for municipal services. Whereas this is the case, one participant claimed that, although there is room for the improvement of municipal services, communities simply exhibit a negative attitude towards municipal services: "To be honest, I would say that generally ratepayers have a very bad attitude towards paying municipal services" (Participant 10).

It appears that municipalities may need to address ratepayers' negative attitudes should it wish to maximise collection of own-revenue. In addition, municipalities may need to address ratepayers' lack of awareness in relation to the payment of municipal services. This may be achieved via compliance with the relevant legislation that provide for community municipal engagement, such as the Municipal Systems Act (RSA 2000). Municipalities may also need to conduct tax education to educate ratepayers concerning the importance of paying for municipal services. While tax education may improve the negative attitudes, lack of awareness, and the culture of non-payment, municipalities may need to find ways to improve and sustain its services delivery and billing. Furthermore, municipalities may need to adopt and abide by 'Batho Pele' principles, going forward. When ratepayers perceive that municipalities are prioritising them, they may be willing to prioritise payment of municipal services.

The importance of municipal own-revenue to municipalities' economic sustainability cannot be over-emphasised. Most municipalities, including the MLM, are extremely dependent on government grants and subsidies, and several are even said to be on the verge of bankruptcy. In order to be less reliant on government grants and subsidies and become financially viable, municipalities might strive to maximise collection of their current streams of own-revenue, whilst also identifying new revenue streams by developing RES. This may enable improved municipal economic sustainability and sustained service delivery, correspondingly improving the behaviour of ratepayers to pay for municipal services.

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m_source=adwords&utm_term=p52007818772&utm_kxconfid=s4bvpi0ju&gclid=Cj0KCQjwjoH0BRD6ARIsAEWO9Dv9ES-dWtL4X6gKDX3MfRiEHpPCgXh6-NnAWGhHZoJHNzfplo1Rk7oaAtT7EALw_wcB [Accessed 29 March 2020].

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## ANNEXURES

### <u>Annexure 1:</u> Letter of Approval by Maruleng Local Municipality

# MARULENG MUNICIPALITY

MARULENG MUNICIPALITY

P.O. BOX 627
HOEDSPRUIT
1380

TEL : (015) 793 2237
FAX : (015) 793 2341
ENQ : Mafologela S.J.

MOPANI DISTRICT
CORPORATE SERVICES

19 April 2020

Mr. Nkuna F
P.O. Box 2875
Giyani
0825

**SUBJECT: APPLICATION FOR RESEARCH CONDUCT [YOURSELF]**

1. We hereby acknowledge receipt of your letter as referenced above.
2. After careful consideration, we are delighted to inform you that your application has been approved subject to the following conditions:

   (i) That you will be required to furnish the municipality with a sworn affidavit stating your commitment to secrecy and that all information collected during your research will solely be used for purposes of your studies.

   (ii) That before any information can be exposed to third parties and public consumption, you will be expected to first obtain express consent from the Accounting Officer.

   (iii) That should any misuse of information for purposes other than your studies detected, the municipality will hold you legally liable and steps will be taken to remedy such conduct.

   (iv) Any communication and requests for information must be directed to the office of the Accounting Officer.

3. We would like to take this opportunity to wish you well in your research.

Regards

Magabane T.G
Municipal Manager

INTERNAL MEMO Page 1

## <u>Annexure 2:</u> Ethics Approval by UNISA

UNISA university of south africa

**UNISA COLLEGE OF ACCOUNTING SCIENCES ETHICS REVIEW COMMITTEE**

Date 2020-05-13

ERC reference :
2020_CAS_008_Amendment

Name: F Nkuna
Student/ Staff #: 46817786

Dear Mr F Nkuna,

**Decision: Ethics Approval from 2020-04-14 to 2023-04-13**

**Researchers:** Mr Fediam Nkuna
fediam@vodamail.co.za or nkunaf@greatergiyani.gov.za or 46817786@mylife.unisa.ac.za

Supervisor: Prof LJ Erasmus

**Working title of research:**

**BARRIERS TO REVENUE COLLECTION AFFECTING FINANCIAL VIABILITY: A CASE OF MARULENG MUNICIPALITY**

**Qualification:** MPhil

Thank you for the application for research ethics clearance by the Unisa College of Accounting Sciences Research Ethics Review Committee. Ethics approval is granted for the period indicated above for **interviews with municipal officials and questionnaires to rate-payers.**

*The application was reviewed by the College of Accounting Sciences Research Ethics Review Committee on **8 April 2020** in compliance with the Unisa Policy on Research Ethics and the Standard Operating Procedure on Research Ethics Risk Assessment, and approved. **An amendment to the title and targeted case institution was submitted on 12 May 2020 and approved***

The proposed research may now commence with the provisions that:

1. The researcher(s) will ensure that the research project adheres to the values and principles expressed in the UNISA Policy on Research Ethics.

University of South Africa
Preller Street, Muckleneuk Ridge, City of Tshwane
PO Box 392 UNISA 0003 South Africa
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## Annexure 3: Editorial Certificate

# Editorial Certificate

| AUTHOR | DOCUMENT TITLE | DATE ISSUED |
|---|---|---|
| | | |
| Nkuna, F | *Barriers to Revenue Collection Affecting Municipal Financial Viability: A Case of Maruleng Local Municipality* | 2021/05/10 |

**This document certifies that the above thesis was proofread and copy-edited by *e-BES* Editing Services.**

It is hereby certified that the above thesis was proofread and copy-edited by *e-BES* Editing Services. The paper was edited for proper English language in accordance with the relevant academic institution's submission requirements, grammar, punctuation, spelling, overall style and technical conformity of references, by Erika Bodenstein. The editor endeavoured to ensure that the author's intended meaning was not altered during the review. All amendments were tracked with the Microsoft Word "Track Changes" feature. Therefore, the author had the option to reject or accept each change individually.

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Erika Bodenstein (B.Proc SA)

**Annexure 4: Interview Questions**

**BARRIERS TO REVENUE COLLECTION AFFECTING FINANCIAL VIABILITY: A CASE OF MARULENG LOCAL MUNICIPALITY**

**INTERVIEW QUESTIONS**

**NAME OF INTERVIEWEE AND POSITION (OPTIONAL):**

______________________________________________________________

PART A: GENERAL INFORMATION

1. How long have you been working for the municipality?

PART B: REVENUE MANAGEMENT

2. How frequently do you take water meter readings?

3. What method do you use to obtain the meter readings?

4. If individuals are sent to read the meters: Who are they? How effective are they and what are the challenges they come across when reading meters?

5. What system do you use to bill?

6. How effective is the billing system?

7. What are the system challenges encountered when billing accounts?

8. How do you distribute your monthly bills to ratepayers?

9. What are the available means by which ratepayers can pay their account?

10. Does the municipality have a credit control and debt management policy and relevant by-laws?

    a) Yes
    b) No

11. If so, how effective is the implementation of the policy? If not effective, what are the challenges?

12. Does the municipality have a tariff policy?

    a) Yes
    b) No

13. How effective is the implementation of the policy? If not effective, what are the challenges?

14. How many employees are there in the revenue department? What is the vacancy rate of the section?

15. Is the number adequate to execute the responsibilities? If not adequate, what are the challenges?

16. What is the skills level of revenue department staff in relations to the execution of revenue management responsibilities?

17. What are the challenges within the revenue department?

18. What is the role of municipal internally generated (own) revenue on the municipal financial sustainability?

19. The municipality's revenue collection has been below the norm for the past three financial years, what is the municipality doing to improve the debtors' collection rate?

20. As the revenue collection is below the norm, what is the effect of this on the overall financial viability of the municipality?

21. The municipality's revenue base remains unchanged during the three financial years under review, what is the municipality doing to increase the revenue base? Does the municipality have an approved revenue enhancement strategy?

PART C: CUSTOMER CARE MANAGEMENT

22. Is there a person or section that deals with customer queries? How effective is that unit in handling customer complaints?

23. What type of customer queries does the municipality deal with on a daily basis?

24. How frequently are queries resolved?

25. Does the municipality have a customer care management policy?

    a) Yes
    b) No

26. How effective is the implementation of the customer care policy?

27. Does the municipality have an indigent management policy?

    a) Yes
    b) No

28. How effective is the implementation of the indigent management policy? How many households are registered in the Municipality's Indigent Registered?

PART D: AWARENESS CAMPAIGNS

29. Does the municipality conduct awareness campaigns to educate ratepayers about the importance of paying for municipal services?

    a) Yes
    b) No

30. If yes, what is the attendance level?

    a) High
    b) Moderate
    c) Fair
    d) Poor
    e) None

31. What other ways does your municipality use to educate ratepayers about the importance of paying for municipal services?

PART E: RATEPAYERS' ATTITUDES TOWARDS PAYING MUNICIPAL SERVICES

32. What is your perception of the ratepayer's attitude towards paying for municipal services?

33. What is your perception of the ratepayers' experience relating to municipal services?

**<u>Annexure 5:</u> Questionnaire**

**BARRIERS TO REVENUE COLLECTION AFFECTING FINANCIAL VIABILITY: A CASE OF MARULENG LOCAL MUNICIPALITY**

**QUESTIONNAIRE FOR COMMUNITY SURVEY**

**NAME OF INTERVIEWEE (OPTIONAL):**

______________________________________________

**RESIDENTIAL ADDRESS:**

______________________________________________

| | |
|---|---|
| ✓ | *Please read the questions carefully before selecting an answer.* |
| ✓ | *Select the best option by crossing **X** on the box next to the best option.* |
| ✓ | *Please use a ball point pen to select the correct answer.* |

**PART A: GENERAL INFORMATION**

1) Which area do you stay, or which area does your business operate?

______________________________________________

2) Are you the owner of the property or responsible for payment of services?

| | | |
|---|---|---|
| 1 | Yes | |
| 2 | No | |

3) What is your employment status?

| | | |
|---|---|---|
| 1 | Employed | |
| 2 | Self-employed | |
| 3 | Pensioner | |

| | | |
|---|---|---|
| 4 | Unemployed | |
| 5 | Other, specify | |

4) What type of ratepayer are you?

| | | |
|---|---|---|
| 1 | Residential | |
| 2 | Business | |
| 3 | Other, specify | |

5) What is the family's average monthly income?

| | | |
|---|---|---|
| 1 | Below R5,000 | |
| 2 | Between R5,000 and R10,000 | |
| 3 | Between R10,000 and R20,000 | |
| 4 | Above R20,000 | |

6) How many are you in the family who are dependent on the income above?

| | | |
|---|---|---|
| 1 | 1 – 5 People | |
| 2 | More than 5 | |

**PART B: SERVICE DELIVERY**

7) I receive municipal services

| Strongly Agree | Agree | Sometimes | Disagree | Strongly Disagree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

8) I am satisfied with the quality of municipal services.

| Strongly Agree | Agree | Sometimes | Disagree | Strongly Disagree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

**PART C: BILLING & PAYMENTS OF MUNICIPAL SERVICES & ISSUING OF STATEMENTS**

9) The municipality read my meter for water consumption.

| Strongly Agree | Agree | Sometimes | Disagree | Strongly Disagree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

10) I always get my monthly statement of account.

| Strongly Agree | Agree | Sometimes | Disagree | Strongly Disagree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

11) How do you receive your monthly statement?

| | | |
|---|---|---|
| 1 | Post | |
| 2 | E-mail | |
| 3 | Over the counter | |
| 4 | Other, specify | |

12) I am satisfied with my monthly bills of municipal services.

| Strongly Agree | Agree | Sometimes | Disagree | Strongly Disagree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

The following question must be responded to by respondents who answered 4 or 5 in question 12) above.

13) Why are you not satisfied with the bills?

Comment:

___

14) I always pay my municipal account.

| Strongly Agree | Agree | Sometimes | Disagree | Strongly Disagree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

The following question must be responded to by respondents who answered 4 or 5 in question 14.) above.

15) Why are you not paying for the services?

Comment:

___

16) How do you pay your municipal account?

| | | |
|---|---|---|
| 1 | At the municipal offices | |
| 2 | Electronic Funds Transfer (EFT) | |
| 3 | Direct deposit | |
| 4 | Other, specify | |

17) The above payment method is convenient for me.

| Strongly Agree | Agree | Sometimes | Disagree | Strongly Disagree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

18) The municipality contacts me when my account is in arrears.

| Strongly Agree | Agree | Sometimes | Disagree | Strongly Disagree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

19) For residential ratepayers, what is the monthly average bill?

| | | |
|---|---|---|
| 1 | Below R1000 | |
| 2 | Between R1,000 and R2,000 | |
| 3 | Above R2,000 | |

20) For all other ratepayers, what is the monthly average bill?

| | | |
|---|---|---|
| 1 | Below R5,000 | |
| 2 | Between R5,000 and R10,000 | |
| 3 | Above R10,000 | |

21) Municipal monthly bills are affordable.

| Strongly Agree | Agree | Sometimes | Disagree | Strongly Disagree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

**PART D: INDIGENT MANAGEMENT & AWARENESS CAMPAIGNS**

22) It is important to pay for municipal services.

| Strongly Agree | Agree | Sometimes | Disagree | Strongly Disagree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

23) If 4 or 5 in 22), who do you think must fund the services?

Comment:______________________________________________________

24) Do you have any knowledge about municipality Indigent Management Policy?

| | | |
|---|---|---|
| 1 | Yes | |
| 2 | No | |

25) The municipality conduct awareness campaigns to educate us about the importance of paying municipal services.

| Strongly Agree | Agree | Sometimes | Disagree | Strongly Disagree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

26) I attend awareness campaigns when the municipality has one.

| Strongly Agree | Agree | Sometimes | Disagree | Strongly Disagree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

27) If 4 or 5 in 26), why are you not attending the awareness campaigns?

Comment:

______________________________________________________________

**PART E: CUSTOMER CARE MANAGEMENT**

28) I visit the municipal offices when I am not happy with my monthly bills.

| Strongly Agree | Agree | Sometimes | Disagree | Strongly Disagree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

29) If 4 or 5, why have you not visited the offices?

Comment:_____________________________________________________

30) I am satisfied with the customer care management at the municipal offices.

| Strongly Agree | Agree | Sometimes | Disagree | Strongly Disagree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

31) If 4 or 5, what is the challenge?

Comment:

___

32) I am able to raise my concerns that I have with the municipality.

| Strongly Agree | Agree | Sometimes | Disagree | Strongly Disagree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

The following question should be answered by those who answered 1 or 2 in question 32) above.

33) I am always satisfied with the response from the municipality whenever I raise my concerns.

| Strongly Agree | Agree | Sometimes | Disagree | Strongly Disagree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

34) Municipal offices are accessible to me.

| Strongly Agree | Agree | Sometimes | Disagree | Strongly Disagree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

The following question must be responded to by respondents who answered 4 or 5 in question 34) above.

35) What makes the offices not accessible?

Comment:

______________________________________________________________

**THANK YOU FOR YOUR PARTICIPATION**