**Inkosi Langalibalele Municipality**



**REVENUE ENHANCEMENT STRATEGY OR FRAMEWORK FOR INKOSI LANGALIBELELE MUNICIPALITY**

**FUNCTIONALITY OF THE REVENUE MANAGEMENT FUNCTION**

**PURPOSE**

The purpose of the framework/strategy is to provide Insight, Knowledge, Clarity and an Understanding with regards, to Institutional, Management and Technical Role and Responsibility of both the effective and efficient functionality of the Revenue Management Function within the Municipality.

The aforementioned Revenue Management Function is mandated in terms of Section 64 of the Municipal Finance Management Act no.56 of 2003 that requires the Accounting Officer with the Institutional Support of the Mayor and the Municipal Council and Senior Management to plan, undertake and manage effective and prudent Institutional Measures to achieve high standards in revenue collection and management. This includes the implementation and management of effective revenue management policy, procedures and process imperatives to achieve the right outcomes.

**LEGISLATURE AND ADMINISTRATIVE RANGE**

The Institutional Mandate is issued to the Mayor in terms of Chapter 7 of the MFMA and to the Accounting Officer and Senior Management in terms of Section 64 of the Municipal Finance Management Act no. 56 of 2003.

There is a national focus on the increasing outstanding monies due to municipalities and while there are initiatives in progress to collect the amounts due, municipalities should focus on preventing outstanding debt from arising i.e. establish the *“root cause”* of the problem and address it. The key to eliminating the Root Causes that are created as a result of the weaknesses and deficiencies would be the following, namely

* Guiding the Political Sphere towards playing a pivotal role in monitoring the financial position of the municipality. In addition, they must hold the MM, CFO and Senior Management accountable in sustaining the agreed revenue collection rate and standard.
* Creating the understanding between the Political and Administrative spheres with regards to the negative consequences that will arise to the municipality when there is ineffective and or no compliance, no duty and accountability to section 64 of the MFMA.

**THE INSTITUTIONAL KEY COMPONENTS FOR THE REVENUE MANAGEMENT FUNCTION**

In our endeavor to achieve effective and credible coordination and communication on the Revenue Management it is imperative that the Mayor and the Municipal Council appropriate the required Human, Technical and other relevant Resources with the technical support of the Municipal Manager to the following Departments within the Municipality, namely

Departments that are directly linked to the Revenue Management Value Chain include

* Town Planning,
* Infrastructure – metered services for water and electricity
* GIS,
* Municipal Property Valuations,
* Housing
* The Division - Revenue Management
* Community Services Department

**THE REVENUE MANAGEMENT POLICY, PROCEDURES AND PROCESS IMPERATIVES**

1. Credit Control Policy;
2. Municipal Debt Management Policy;
3. Indigent Policy;
4. The process implemented for the selection and approval of Indigent applications, including the Indigent Registration form;
5. The 2017/18 Property Rates Policy;
6. The 2017/18 Municipal Taxes and Tariff Policy;
7. Organogram for the Budget & Treasury office, including that of the Revenue Management component/unit; and
8. Application form for the opening of the Municipal Account by all categories of

Consumers.

# **KEY FOCUS AREAS AND EXPECTED OUTCOMES**

The main focus is to develop a debt management model. A further attempt is to undertake an assessment on the implications of effective revenue and debt management for Institutional and Infrastructure Service Delivery. The outcomes from the Revenue Management Project are to achieve the following co-objectives:

To undertake an assessment through the extensive literature, legislative frameworks and policy guidelines, the requirements, and principles of municipal financial management, municipal revenue, debt management and the local and international municipal funding models

The following key focus areas will support the achievement of the following outcomes:

1. Revenue Value Chain;
2. Municipal Services Debt management;
3. Policy implementation, procedures and process
4. Customer relations management.
5. Establishment & Functionality of new facilities for Customers
6. The Institutional Capability – knowledge, conceptual understanding and technical

capability of the delegated staff to plan, undertake and manage the work output on the revenue management function.

1. Credibility and accuracy in monthly, quarterly and mid-year reporting on outcomes achieved against revenue collection.

### THE KEY OUTCOMES

The revenue management work stream’s high level outcomes are:

* To maximize revenue collection;
* To introduce effective debt management practices;
* To achieve alignment between revenue management policies and

 implementation.

* To sound the Early Warning Alert Signals against negative and positive trends on

 revenue collection when it occurs with remedial measures

* The performance on the revenue management function to play a pivotal role to support

 the next MTREF Budget process

# **DEBTORS MANAGEMENT CYCLE**

The Municipality’s Own Revenue comprises of the Primary Sources of Revenue (Revenue from Electricity, Refuse and Property rates) and the Secondary Sources of Revenue (Revenue from Traffic Fines, Interest on Investments, Rental of Equipment and Facilities etc.). The aforementioned represent the major portion of a municipality’s revenue that is received from the provision of goods and services. To generate revenue, the municipality must bill their customers on a monthly basis. In addition, must implement financial and management controls to ensure that all revenue is recorded and correctly accounted for on its Accounting Financial Management System. The Accounting Officer with the Institutional and Technical Support of the Chief Financial Officer must ensure systems are in place to ensure that billing is done correctly, to avoid non-payments. The billing function is the principal mechanism that drives all cash flow, the main source of customer information, and critically fundamental to the success of any municipality.

During the opening of accounts data integrity is critical to effective billing which is the first vital stage of revenue value chain. The ability to collect debt remains dependent on the accuracy of the debtor information. Inaccurate debt information results in poor debt collection. It is only once this information is correct will the municipality implement action to collect the debt and communicate with the debtor. It must be acknowledged that the Arrear Municipal Services Debt Collection exercise without accurate information may result in partial collections, if any, and a debtor that is not fully rehabilitated could continue to default. It is only once the debtor information has been cleaned and it is established that the customer does exist and can pay. The municipality can then effectively implement a credit control policy and debt collection process. The figure 1 below shows the municipal revenue value processes.

**REVENUE MANAGEMENT**

Town Planning

Valuations

Infrastructure /Metered Services

Housing

Geographic Information System

Cash collection

Customer Service

Debtor management

Opening & closing accounts

Billing & Distribution

**Surveyor General/deeds**

**CUSTOMER CARE**

Waste/ Refuse

**DATA INTEGRITY**

**DATA INTEGRITY**

**CUSTOMER CARE**

LEGAL FRAMEWORK

Municipal Debt Management focuses on:

* Effective monitoring the implementation and management of the credit control policy to establish whether implementation is in accordance with the stipulations of the policy (interest charges; disconnections and reconnection fees) and any related Council resolutions;
* Effective monitoring the implementation and management of the indigent policy to establish whether implementation is in accordance with the stipulations of the policy (registration, vetting and renewal processes; debt write-off; administration of the indigent benefits) and any related Municipal Council resolutions;
* Undertake a targeted approach whereby Arrear Municipal Services Debt collection activities are directed to specific groupings of debtors i.e. government debt; staff accounts; commercial customers; suppliers and developers amongst others; and
* Undertake appropriate Review and Analysis on the outcomes being achieved from Municipal Credit Control policy, the deposit policy and tariff policy to determine implications and *“loopholes”* relating to debt collection.
* Undertake frequent assessment and review of the Institutional, Management, Financial and Community Risks that are contributing to limitations, weaknesses and deficiencies that are affecting the effective revenue collection and management activities.

 **INSTITUTIONAL, MANAGEMENT, FINANCIAL AND COMMUNITY RISKS**

 The list below provides insight, knowledge and understanding with regards to some of the weaknesses and deficiencies that emerge to stifle the effective and efficient implementation and management of the Revenue Management Function with a Municipality

* Billing – consolidating billing information; distribution of statements; returned mail; data integrity;
* Planning – land development; certificates of occupation; communication and channelling information relevant to billing to the revenue unit;
* Metered Services – meter reading; exception reporting; maintenance of meters; data integrity;
* Metered services – parking bay meters implementation;
* Assessment rates – data integrity; Rates Policy; tariffs applied;
* Valuations – Valuation Roll; objections to property values; data integrity; tariffs;
* Refuse collection – number of properties that service is provided to and number of properties billed for refuse services; tariffs;
* Clearances; opening and closing accounts – process for obtaining clearances; fraud; collecting outstanding debt at the time of clearance; legal challenges;
* Customer Care – query resolution; response handling; communication;
* Revenue collection - cashiers; third party payments; prepaid services;
* Indigent Policy implementation – indigent register; application form; registration process; annual renewal; Indigent Policy;
* Credit control – debtors book; Credit Control Policy; debt collectors; processes and the impact; relationship between infrastructure /metered services for disconnection and/or reconnection or restriction of metered services; data integrity; legal challenges; and
* Other sources of revenue in addition to assessment rates and basic services provided.

# **Revenue Value Chain**

The revenue value chain includes all the activities that impact billing information used to generate the customers municipal account. The prescribed procedure and activities usually originate in the Town Planning department where townships are promulgated, building applications approved, land usage established and certificates of occupation issued prior to the property owner’s application for municipal services and municipal account activation.

The revenue value chain establishes who is accountable for the business processes, where the handover of information takes place, the effectiveness of all the related activities and how this information is captured on the billing system where the municipal account is created.

The Revenue Value Chain focuses on:

1. Determining inter-departmental dependencies and establishes accountability for transaction processing relating to revenue billing and collection;
2. An assessment of the flow of information along the revenue value chain and provides guidance on how to effectively organize the transaction processing environment in terms of turnaround times and streamlining activities;
3. Ensuring that information is correctly captured along the revenue value chain and validated by the billing system thereby improving the integrity of billing data; and
4. Assisting the municipality with designing a workable model for their specific environment and challenges.

# **IMPLEMENTATION OF THE MUNICIPAL PROPERTY RATES ACT AND THE RATES POLICY**

This focus area is designed to address the common audit qualification referred to as *“completeness of revenue”* which requires that property information on the billing system must match property information on the Valuation Roll, which in turn must match property ownership information at the Deeds Registry. This three-way matching exercise is designed to ensure that the municipality has a *“complete”* billing record for all registered property within their municipal boundaries.

The implementation of the MPRA and the Rates Policy focuses on:

1. Establishing contact between the Deeds Registry and the municipality to address issues such as inefficiencies in the property transfer process, timely flow of property ownership information between the Deeds registry and the municipality, access to the Deeds Registry’s database for municipal enquiries amongst others; and
2. Guiding municipalities to put the necessary processes in place to do the necessary reconciliation to achieve completeness of revenue audit requirements where this has proved a challenge.

# **CUSTOMER RELATIONS MANAGEMENT**

The end-to-end customer services functions are collectively referred to as customer relations management (CRM).

Inherent to customer service activities is that the onus is on the municipality to present the customer with an accurate municipal account in a timely manner, to acknowledge and efficiently resolve customer account queries and to facilitate account payments by ensuring sufficient payment facilities and methods of payment. The municipal account must be presented in a format that is understandable to the diverse customer base.

In addition, the municipality should communicate with customers thereby creating awareness of the municipal services delivered, payment facilities, query resolution processes and of the customers’ responsibility to pay for services consumed.

Effective communication straddles all municipal activities within the municipality and externally.

Customer relations management focuses on:

* Internal and external communication;
* Query logging, query resolution and feedback to the customer; and
* Marketing and municipal reputation management.
* The municipal revenue value chain reflects the inter-dependence of activities in the municipal revenue collection process.

**IMPLEMENTATION PLAN TO RE-ENGINEER THE REVENUE MANAGEMENT FUNCTION**

***Engagement One***

* It is noted that whilst the Revenue Management component/unit within the Municipality is functional towards achieving the outcomes, there is however the need to strengthen the present capability and to eliminate institutional and governance risks that may arise.
* The sequence of these engagements is designed to address the broader issues facing the Budget and Treasury Office, the issues that are relevant to Revenue Management within the BTO and to create the collective municipal responsibility for revenue management.
* It is imperative that the key objective of this meeting must relate to:
	+ 1. Enhance communication and coordination;
		2. Placing emphasis on working together as a Team;
		3. A collective and single understanding of the BTO’s objectives and the plans to achieve the outcomes;
		4. Accountability and transparency with regards to the problems; and
		5. Commitment to achieving and sustaining a ‘balanced’ workplace where all staff contributions towards the agreed standard in results and performance are given recognition and is of value to the municipality.
* It is essential that the report and outcomes of the Annual Benchmark engagement, for the 2017/18 MTREF Budget and the 2017/18 Mid-Year Performance Review, are shared with the management team; including the service delivery challenges.
* The purpose of the engagement is also twofold, namely:
1. To provide a conceptual understanding strategic objectives of the BTO with the

management team; and

1. To improve communication and coordination between the Divisions constitute the

BTO and thereby getting co-operation amongst all role players inside and outside the municipality.

* The Team must be informed of the different projects in progress and planned initiatives to improve the overall financial health and service delivery capability of the municipality.
* A meeting of the Managers and their Reports are required to provide a platform for staff in the Budget & Treasury Office to share information.
* It is essential that at this meeting each Divisional Manager should be given an opportunity to present Key Work Outputs that being undertaken and managed, including the relevance thereof to the core business of the BTO.

***Engagement Two***

* The purpose of this engagement is to allow the sub sections within the Division - Revenue Management to provide an understanding of their duties, responsibilities and work output on a day-to-day basis, including the challenges encountered, the opportunity to achieve improved results and performance. In addition, for the staff to also provide clarity on the weaknesses, dependencies and risks that may impede their ability to optimally perform their functions.
* This is a practical workshop where the Teams within the Division – Revenue Management will map their processes and procedures, analyse these processes, including Citizens Relations Management activities. In addition, their analysis would provide an indication as to whether they are dependent on other departments or units for information that is relevant to their functions.
* The key objective of this practical engagement would be to provide an opportunity for the Team to assess the content of their work output in terms of the Revenue Management mandate as prescribed by the legal framework (section 64 of the MFMA) and the relevant municipal policies.
* It is essential that there are procedures to lead and direct the implementation of municipal policies and that such procedures are documented; all staff should be informed.
* The practical implications of policy implementation will be examined and the team will have an opportunity to assess their day-to-day operations and distinguish between core business activities and other functions that occupy their time.
* The outcomes of this work session would translate into clearly defined procedures and business processes that the Team would document and utilise in the working environment.
* The Team to adopt and implement a Pre-Emptive Approach towards the work output on Revenue Management, including sounding the Early Warning Alert Signals against the negative and positive trends in revenue collection. This would including undertaking analytical reviews against revenue collection and debt management. In addition, the Division – Revenue Management would also be required to implement urgent remedial measures to re-align the municipality in its revenue collection and debt management activities.

***Engagement Three***

* The purpose of this engagement is to address the Revenue Management Value Chain, the collective activities and dependencies that are necessary to ensure that the property rates and municipal services data that are relevant to billing and revenue collection are correctly captured on the billing system.
* It is noted that different Departments that are directly linked to the Revenue Management Value Chain include Town Planning, GIS, Valuations, Housing and Revenue Management (depending on the municipality’s structure), including the external components to this Revenue Management Value Chain are the Deeds Registry and Surveyor General.
* The outcomes of the work session are to achieve consensus that revenue collection is not just the responsibility of the Revenue Management component/unit or the Budget & Treasury office to create awareness and to initiate discussions about service level standards, service level agreements, data integrity and the outsourcing of functions relevant to revenue billing and collection activities but rather a consultative and coalition approach, duty and responsibility by all of the abovementioned role players.

**PREPARATIONS FOR THE REVENUE MANAGEMENT WORK SESSIONS**

* 1. The Municipality is requested to provide the following Policy documentation for the Revenue Management Work Sessions with the Revenue Management Staff.
	2. The work session undertake a review that would assist the engagement, namely:
* Credit Control Policy;
* Municipal Debt Management Policy;
* Indigent Policy;
* The process implemented for the selection and approval of Indigent applications, including the Indigent Registration form;
* Municipal Rates Policy;
* The 2016/17 Municipal Rates and Tariff Policy;
* Organogram for the Budget & Treasury office, including that of the Revenue Management component/unit; and
* Application form for the opening of the Municipal Account by all categories of Consumers.

**CONCLUSION:**

The proposed engagement and approach is planned to achieve and sustain the envisaged outcomes indicated below:

1. The outcomes that is achieved to sustain a 90 to 95 per cent revenue collection rate and standard;
2. To review whether the Revenue Management component/unit/department is provided with effective human, technical and other resources to sustain the procedures, processes and work output on revenue collection. This would include the structure of the aforementioned component;
3. To engage with the Dept. Infrastructure/Technical Services with regards to outcomes achieved to limit water and electricity losses. This would include a collective and joint approach to implement new initiatives to monitor the losses;
4. To review whether the Credit Control, Indigent and Municipal Debt Management policies are conducive and they enable high standards in revenue collection;
5. To review the work output that has been implemented to prevent the rapid increase in the municipal services debt;
6. To evaluate the outcomes that has been achieved with regards to the initiatives that have been implemented to ensure that the 2017/18 MTREF Budget is “Funded and Sustainable” during the 2017/18 financial year;
7. To evaluate the joint initiative and management by the component – Revenue Management and the Dept. Infrastructure/Technical Services with regards to disconnection and reconnection of metered municipal services;
8. To test the knowledge and technical capability of the staff within the Revenue Management component to plan, undertake and manage the work output on revenue collection;
9. To review the role of the Mayor and Municipal Council and the Municipal Manager and Senior Management with regards to revenue collection and municipal debt management. The key would be to determine whether there is collective accountability and responsibility on the financial position of the municipality; and
10. To provide technical assistance and support to the MM, CFO and staff within the Revenue Management component with regards to the effective functionality of the Revenue Value Chain.

In addition, the engagement will place emphasis on the following, namely:

1. The approach advocated in this proposal attempts to address some of the obvious challenges relating to people management, business processes, accountability and shortcomings in the municipality’s functional structure; and
2. The engagements proposed and the draft programmes presented in the Annexures serve as guidance as to how the municipality can bring about the necessary changes to improve financial management processes particularly those that impact revenue management.