JOHN TAOLO GAETSEWE DISTRICT MUNICIPALITY –

DC45

REVENUE ENHANCEMENT STRATEGY

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Introduction

Section 64 of the Municipal Finance Management Act gives the responsibility of management of municipal revenue value chain to the accounting offer of the municipality (the Municipal Manager).

The creation and collection of revenue is of vital importance in determining the going concern status of the municipality. For the municipality to ensure sustainability of service delivery and infrastructure development, it needs healthy cash-flow.

It is key that the municipality must have a credible, fair and transparent mechanism in its endeavors to increase/improve revenue creation and collection from debtors.

Debt collection is at the end in the value chain. The debt collection programme must be focused on rehabilitating the debtor, not to punish them.

John Taolo Gaetsewe District Municipality has positive working capital. With a current asset of over R14 805 089 excluding cash and cash equivalents and current liabilities of R 3 300 000 which calculates to a positive working capital of R 11 475 089.With that been said, the municipality also has a debtor's balance of R5 736 000 on receivables from exchange transactions which, if well managed, could be converted to cash and will improve its cash position.
On the other hand, it takes the municipality more than a year to collect over 64% of its current debtors, with debtors of over R5 736 000 existing for over 12 months.

It is also paramount to know that the municipality continues to be grant dependent with more than 90% of its budget of R 120 000 000 being funded from grants, subsidies, the remainder revenue sources being expected from investments and rental incomes. This is an area of consent as the municipality is not self-fundable.

From the above-mentioned points the council have requested the preparation of a revenue enhancement plan. The plan will include amongst others the optimization of current revenue streams, the identification of new revenue streams and cost cutting measures.

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Background

John Taolo Gaetsewe District Municipality (JTGDM) is situated in the Northern Cape Province and is bordered by (1) The ZF Mgcawu and Frances Baard District Municipalities to the west and south; (2) The North West Province (Dr. Ruth Segomotsi Mompati District Municipality) to the east and northeast; and (3) Botswana to the northwest.

JTGDM is the second smallest district in the Northern Cape, occupying only 7% of the province (27 498.9 km^2) (StatsSA 2016). Administratively, the JTGDM comprises three Local Municipalities: (1) The Gamagara Local Municipality; (2) The Ga-Segonyana Local Municipality; and (3) The Joe Morolong Local Municipality, which encapsulates the geographical area covered by the former District Management Area and the former Moshaweng Local Municipality. The largest area within JT Gaetsewe is the former District Management Area (DMA) with over 10 000 km^2. Joe Morolong Local Municipality is the district's largest local municipality in terms of area size; covering an extent of 20 215 km^2, with Ga-Segonyana LM and Gamagara LM covering for 16% and 10% respectively. The JT Gaetsewe District comprises of 186 towns and settlements of which the majority (80%) are villages in the Joe Morolong Municipality.

Population

The population of John Taolo Gaetsewe District Municipality accounts for 20.3% of the total population in the Northern Cape Province. It is the third largest population size after the Frances Baard and ZF Mgcawu Districts. This position has been consistent throughout the period between 2011 and 2016.

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The JTGDM has had an increase of about 17 465; 224 799 in 2011 to 242 264 in 2016; indicating a growth rate of about 1.5%. The increase of the population in the district is evident in the local municipalities of Ga-Segonyana (11.49) and Gamagara (28.93).

There has been a major decline of about 25.11% in the population of Joe Morolong Local Municipality in the 10 year period between 1996 and 2016; this is mainly due to the out-migration from the municipality to the Ga-Segonyana and Gamagara Local Municipalities.

Motivation

The municipality needs to strengthen its policies related to debt collection in order to address or fully implement this strategy.

The challenge remains with government debt owed, the development and introduction of new revenue streams. The municipality needs to ensure that there is constant engagement with the parties involved. The anticipated revenue to be collected can make a difference in ensuring that the operation of the municipality is still underway.

The development of this revenue enhancement strategy is a response of the strategic risk identified of the municipality not been self-funded.

The risk assessment indicated that the low revenue base from exchange transactions of the municipality is a high risk threatening the survival of the Municipality.

The document is developed in house and may require annual adjustment based on changing in the socio-economic and political environment situation of the municipality.

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Objective

The objectives and scope of this revenue enhancement will be to analyze the current situation with a view to maximizing revenue and reducing the level of debtors and also to identify new revenue streams that will be introduced to the municipality.

This strategy will deal with methods of enhancing the revenue of the municipality in the short, medium and long term. The short-term strategy is to reduce the debtors' collection period and to settle creditors within thirty days as is required by legislation.

The medium term will be to identify new revenue sources, and the long-term strategy will be to implement the new revenue streams identified on the medium term and sustain revenue management, debt collection strategies implemented in level one and two above.

Legislative Frameworks

(a) The revenue enhancement strategy is based on the following current legislative framework that creates a conducive environment and uniform approach for the plan to be created.

(b) Section 64 of the MFMA states that the accounting officer must take all reasonable steps to ensure that the municipality has effective revenue collection systems consistent with section 95 of the Municipal Systems Act, the municipality's credit control, debt collection policy and that revenue due to the municipality is calculated on a monthly basis.

(c) Section 96 of the Municipal Systems Act requires all municipalities to collect all outstanding debts.

(d) Principles of the MFMA are incorporated into the strategy to ensure sound and sustainable revenue management.

(e) The following policies guides the revenue budget of the municipality:

- The tariff policy.
- The Credit Control and Debt Collection policy

Approach and Strategy

The approach to revenue enhancement is a three staged, one as captured below. The project deals with the current situation in the first stage. Stage two and three deals with drafting and implementation of the strategy for long term sustainable revenues for the municipality

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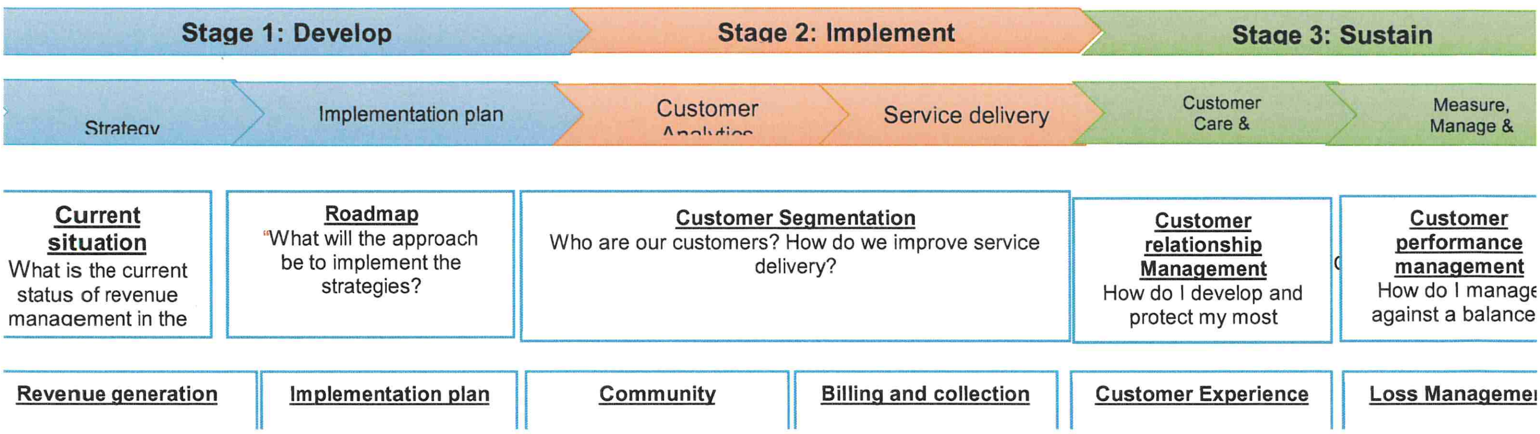

Stage 1 Development Status quo analysis

John Taolo District Municipality's current working capital revenue budgeted situation is as stipulated in the table below.

Description on the financial Year	Amount	Percentage
Working Capital	R13 912 000	100%
Receivables from exchange transitions	R 5 736 000	100%
Total Revenue Budgeted	R127 355 000	100%
Conditional Grants and subsidies Budgeted	R120 000 000	95%
Other Revenue	R 5 425 000	5%

From the table above we have identified 2 weakness that warrant the preparation of a revenue enhancement strategy, this include but limited to-

- The municipality's heavy reliance on conditional grants and subsidies and
- The fact that more than 62% of the debtors are older than 12 months.

Stage 2 and 3 Drafting and Implementation of the plan.

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The plan will focus on the following areas.

a) Strengthening of debt management processes and procedures
b) Strengthen client care and collaboration on the sale of good and services.
c) Identification and implementation of new revenue streams.

The plan will be implemented in three stages and is therefore divided into the following implementation timeframes:

a) **Short Term** (strategic interventions to be implemented within 6 months),
b) **Medium Term** (strategic interventions to be implemented between 6 and 12 months) and
c) **Long Term** (strategic interventions that will take longer than 12 months for implementation)

1) Short Term

The short-term strategy must be implementable within 6 months and provide for quick gains. This will include but not limited to-

a) Billing system management.
b) Air Quality Licensing

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Accurate billing, the municipality must issue monthly bills to all its clients 15 days before the end of the affected month. The municipality should perform the following controls on the billing system regularly:

- Billing records must monthly be reconciled to the source of the billing data and customer data.
- Perform reconciliations between investment property assets register and lease agreements register to identify if all properties that are in use have a valid lease agreement and address variances, if any.
- Billing queries must be resolved within reasonable timeframe of 24 hours.
- Municipal functions must be adequately staffed with competently skilled individuals who understand the job requirements and how to deliver on it.
- A Systematic Dispute/Query handling system (statutory requirement) to be introduced (or enhanced) to ensure that all queries are dealt with

on time within 24 hours.

Credit control and debt management

The municipality must review and strengthen its credit control and debt management policy to include the following but not limited to the following:

- Appointment of external attorneys and debt collectors
- Debtors with outstanding balance for more than 90 days must be transferred to external debt collectors of collection and their services will be reinstated after payment.

Data Cleansing

Accurate billing for services is a critical element of the municipal revenue management business model. Due to poor billing and revenue collection, municipalities are becoming increasingly dependent on intergovernmental funding to balance their budget.

If the customer information and billing information is incorrect the municipality has no basis to effectively collect revenue. One of the key billing programs is consumer data cleansing.

The ability to collect debt remains dependent on the accuracy of the debtor information. Inaccurate debt information results in poor debt collection.

The following information is critical to the collection process:

- Is the customer information correct?
- Is the account information correct?
- Have the correct tariffs been applied?
- Is the outstanding amount correct?
- Have all outstanding credits been passed?
- Does the customer still exist?
- Is the customer an indigent?

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A customer information cleansing process is therefore important to ensure that the municipality has the means to charge all its customers for the services provided by the municipality it delivers, as payment for services is a municipality's primary source of revenue.

b) Air Quality Licensing

The National Environmental Management: Air Quality Act 39 of 2004 requires District Municipalities to introduce Air Quality Management Plans, setting out what will be done to achieve the prescribed air quality standards. The Act introduced the shift in air quality management approach from source-based control to receptor-based control and as results makes provision for the setting and formulation of national ambient air quality standards, while it is generally accepted that more stringent standards can be established at the Provincial and Local levels. Emissions are controlled through the listing of activities that are sources of emission and the issuing of emission licenses for these listed activities. Atmospheric emission standards are established for each of these activities and an atmospheric license is required to operate. The issuing of emission licenses for Listed Activities is the responsibility of the Metropolitan and District Municipalities. Thus, John Taolo District Municipality is required to 'designate an air quality officer responsible for coordinating matters pertaining to air quality management in the Municipality. The appointed Air Quality Officer is responsible for the issuing of atmospheric emission licenses. The atmospheric emission license processing fees is regulated by the Minister of Environmental Affairs.

Establishment identified by the act that pollutes requires a quality license which includes but are not limited to-

- Power generation plants and stations
- Mining
- Industrial emission
- Agricultural activities
- Waste treatment and disposal

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The municipality must come up with a plan of action within the next 6 months on how to bill and collect revenue from the issuing of Air Quality Licenses to business establishments and its financial implications.

c) Certificate of Compliance.

There are two relevant certificates of compliance that the municipality is mandated by the national health act to administer.

1. Certificate of Acceptability for food premises and
2. Certificate of compliance for funeral undertakers and mortuaries

In accordance with the national Health act number 61 of 2003 the district municipality is the responsible authority to provide environmental health service to all its local municipalities. One of the authorities given to the district municipality is the inspection of all food businesses and issuing of Certificate of Acceptability for food premises to compliant businesses.

Secondly the act also gives the district municipality the responsibility to inspect funeral undertakers and mortuaries and provide them with a certificate of compliance if they comply.

In light to the above-mentioned the environmental health department of the municipality with the assistance of BTO must come up with a plan of action on how to bill and collect revenue from inspection of business, issuing and the renewal of Certificates of Compliance and Certificates of Acceptability will be implemented within the first quarter of 2025/26 financial year, and pilot implementation in the second quarter.

2) Medium Term

In our medium-term strategy, the municipality will identify new revenue creation stream to augment with the existing streams. From our engagement with the different department the following options are to be exploited:

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Bricks manufacturing plan

Background

John Taolo had a bricks manufacturing plant which have been in existence from 2006. The main objective for the plant was to manufacture over 10 million inter logging paving bricks per year, that will be used in the construction of local road in the district.

In 2014 the municipality was financing the manufacturing process with the Extended Public Works Program Grant (EPWP) and donated the bricks back to the department of Public Works for usage. The plant was closed at the end of 2014 due to the funding module from EPWP not been sustainable.

Proposed plan

In light with the above-mentioned background, we are proposing that the municipality should rejuvenate the bricks manufacturing plant but with a different funding module.

To finance its operations the municipality can utilise EPWP grant in financing the labour component of the production prosses, but materials and overheads be financed by additional revenue from the sales of the bricks.

Proposed timelines

We propose that the technical department headed by the manager technical services should come up with a revitalisation plan, machinery repairs and upgrade plan and perform all required revitalization, maintenance and upgrades by the end of September 2025. Finally, the manufacturing plant should be up and running by October 2025.

Sales of Game

The Municipality has a Game farm with the following animals:

Eland

Springbuck

Gemsbuck

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Blue wildebeest

Zebra

Ostrich

In the past JTGDM sold game for breeding. We are going to request a plan from LED

- How to increase the sales of breeding stock to locals.
- Plan to extent the sale of Game to tourist for hunting.

Advertising screen

The municipality has an advertising screen which is currently not functional. The technical department to assist with the repairs of the screen and the BTO and LED departments to work of the marketing plan for the products and the tariffs.

3) Long term strategy

In this phase the municipality will establish effective controls and management strategy to implement the identified new revenue streams identified in the medium term and to sustain the revenue creation and collections in the long run, this strategy will include but not limited to:

Energy Generation and Management

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Background

In the past 5 years electricity sustainability has been a challenge in the country. Eskom has been unable to generate sufficient energy to meet the needs of the population and business. For the past 2 years there have been days where areas in the country have been having more than 8 hours of loadshedding. For this reason, the Government have encouraged private and public electricity generators that can be sold to Eskom to help with the short fall of energy to sustain our population and businesses.

Secondly John Taolo Gaetsewe District Municipality (JTGDM) is situated in the Northern Cape Province and is bordered by (1) The ZF Mgcawu and Frances Baard District Municipalities to the West and South;(2) The North West Province (Dr. Ruth Segomotsi Mompati District Municipality) to the East and North-East; and (3) Botswana to the North-West. It is situated approximately about 200km from the Kalahari desert, which is one of the hottest areas in the country with a high percentage of sunshine through the year. This condition makes the area an ideal area for a solar panel electricity generating plant.

Last financial year the council approved the construction and management of a solar panel electricity generation plant to produce additional electricity that will be sold to Eskom and the local municipalities as an addition revenue enhancement strategy.
Secondly the municipality has appointed a panel of transactional advisers on risk bases to do scoping, feasibility, planning and sourcing of funding of the project.

Our proposed plan for the next 6 months

The municipalities technical and BTO units in collaboration with the appointed transactional advisers should:

- Come up with a solar plant construction proposal, with estimated generation capacity, potential land area for the plant to be built, potential resources required for the project and a financial budget for the project.
- Come up with an application for electricity generation license application plan to NERSA with reasonable timelines.
- Come up with a proposal of potential funding investors with reasonable, cost effective and profitable partnerships options, for example constructs manage and transfer.

It is parament to note that in order for the municipality to qualify for an electricity generation license it must comply with section 10 of ERA (electricity regulation act), which requires that the applicant must:

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1) Submit a technical proposal for the project which will include but is not limited to, the technology used feasibility studies in connection to the agreed arrangements.
2) Financial information includes the project financing module.
3) A signed power purchasing agreement (APP) showing the purchasing tariffs,
4) Economic information the applicant must state the economic benefit of the project to the local community and South Africa at large.
5) The municipality should have an Occupational Health and Safety unit (OHS) which will comprise a safety officer and an assistant. The safety officer must have the recommended safety qualification.
6) Evidence of compliance with the integrated resource plan (IRP) but if the proposed plan is not in line with IRP reasons for deviation can be submitted to NERSA for approval by the minister. Approved generation capacity is 1 to 10MW and a maximum of 500MW per year.

In conclusion if the above revenue enhancement strategy can be put into action it can be a game changer for the municipality not only to solve its revenue challenges but also to solve the energy crisis in the area.

Establishment and Responsibilities of a Back Office

For the effective management of debt, the municipality needs to train and motivate staff to ensure they are focused and dedicated. Debt collection staff should just focus on contacting the debtors, getting the debtor to make payment or an arrangement and promise to pay. Administrative processes must be streamlined and geared to support debt collectors. In this regard, it is proposed that a back office be established to support the debt collection unit.

The back office must deal with the following:

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- Accuracy of accounts.
- Solving of queries.
- Ensure implementation of corrections, journals, etc.

- Account delivery and debtor's details are updated.
- Providing account history, printouts and reconciliations.
- Identify debtor's accounts to be followed up.

The back office will ensure that queries and complaints are centralized, and corrective measures are implemented.

This office will also accelerate the collection processes, because debt collectors can now focus and manage on the collection processes only.

Training of Staff/ Knowledge Transfer

Training and capacity building is an area that has not reached its full potential. Under staff and lack of training are some of the key challenges that the revenue section is facing. Therefore, the benefits of the appointment and training of staff cannot be over-emphasised.

To effectively enhance revenue, all revenue staff is to be trained on the following:

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Relevant Legislation

Debt Collection and Credit Control Procedures. Processes of applications, terminations of service, enquiries/queries in line with approved policies of the municipality. Whenever a service provider is appointed to perform functions with regards to revenue management, the transfer of skill must be an integral part of the agreement.

Change Management

Change management is key if we are to reach our goal where the staff members and community share the vision and commitment of John Taolo District Municipality.

- **Internal**

Councillors: Councillors and political structures are utilized to educate the community members to be responsible citizens who are willing to pay for services as this ensures effective service delivery.

- **Staff**:

Staff will be trained so that they are able to handle queries by promoting the understanding of the municipal bill by consumers

- **External: Community**

There is a need to educate communities on the components of the municipal bill so that they know what they are being charged for.
This will be done through public participation processes including road shows and the use of media

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Profiling of Consumers

Profiling of consumers is important, because resources are wasted and revenue is lost since the municipality does not know their clients. Consumers, both commercial and residential can be categorised into various types of debtors:

Gold Stars – Regular Payers that pay their account every month, without excuses and delays

Silver Stars – Regular payers but late or with complaints /excuses. With them you need to ensure that the accurate account is delivered on time to prevent the "if not pay not" attitude.

Bronze Stars – Bad / slow payers, they need to be reminded, through notices, warnings, etc. They wait for the last day or a day thereafter before making payment. Makes direct payments on last day, pay with cheque, post cheques, "municipality to do its work" attitude.

Grey Stars – they are the consumers who don't want to pay, for various reasons, ranging from dissatisfaction with level of services, payment methods not convenient for them or believing the municipality won't do anything because of capacity problems.

Blue Stars – they are the consumers who can't pay even if they want to. They must be identified and managed, because they can play a vital role, for instance, in labour intensive projects, cleaning of streets and open spaces, etc.

Writing Off Bad Debt

Bad debt write offs must be considered in terms of cost benefit; when it becomes too costly to recover and the chances of collecting the debt are slim, a write off should be considered.

It is proposed that a committee be established comprising of management, ward and portfolio Councillors and the debt collection supervisor.

Time value of money is very important because the older (120 days plus) the debt becomes, the more difficult and costly it becomes to collect.

Irrecoverable debt must be well defined to ensure that recommendations for write off are consistent, accurate, properly motivated and authorised.

Action Plan to address challenges in revenue section			
ITEM	**ACTIVITY**	**SUB-ACTIVITY**	**OUTCOME**
(a)	Customer payment incentives	Offers incentives for payment arrangements i.e.,interests relief on settlement of outstanding debt and Freezing of interest charges in line with the signed Debt	Enhancement of debt collection

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		Acknowledgement form	
(b)	Review the credit control policy and by-laws.	The credit control and debt collection policy to be reviewed to have an effective debt collection procedure.	Enforcement of the Credit Control measures
(c)	Elimination of Revenue leakages	Monthly Reconciliation of all billable services against the general customer data and tariff structure.	Completeness of revenue
(d)	Frequency of data clean up	Customer information should be regularly updated at least once a year	Accurate Customer Information
(e)	Customer relationship management policy	Develop and implement the Customer relationship management policy	Positive experience with consumer and build long-term relationships
(f)	Speed at which customer queries are resolved	Customer queries to be resolved within period of a month or less	Consumer satisfaction and build long-term relationships
(g)	Communication platforms used	The municipality to use more than two (2) communication	Positive experience with consumer and build long-term relationships

Monitoring and evaluation

The monitoring of the successful implementation of this plan, as well as the evaluation of the impact brought about by various interventions will provide assurance that the identified interventions are being implemented, the milestones are being achieved and the objectives of the plan are being realized. The responsibility for monitoring and reporting on the implementation of this Revenue Management Strategic Plan lies largely with the Management.

To encourage ongoing support and to ensure that the strategy meets the expectations of the various stakeholders, there must be often reporting and communication.

Conclusion

The success of the revenue enhancement interventions is dependent on access to accurate information, good interpersonal relationships and sound planning technique.
The turnaround of the municipality is dependent on commitment to institutional alignment, political will and commitment to a sound planning process.

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