TITLE: DEVELOPMENT OF A DEBT MANAGEMENT MODEL FOR MUNICIPALITIES IN THE FREE-STATE PROVINCE

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Municipal Finance Management

CONTENTS

INTRODUCTION

❑ No clear consensus on the causes of the escalating municipal debt in South Africa.

❑ Researchers relate municipal debt to the current levels of unemployment, economy and a culture of non-payment and entitlement in certain sections of a community.

❑ After 22 years democracy, the culture of non-payment for municipal services pose a serious financial challenge to local governments.

❑ Certainty – Municipal debt owed by households, corporations, government departments and other statutory bodies continue to grow in alarming proportions.
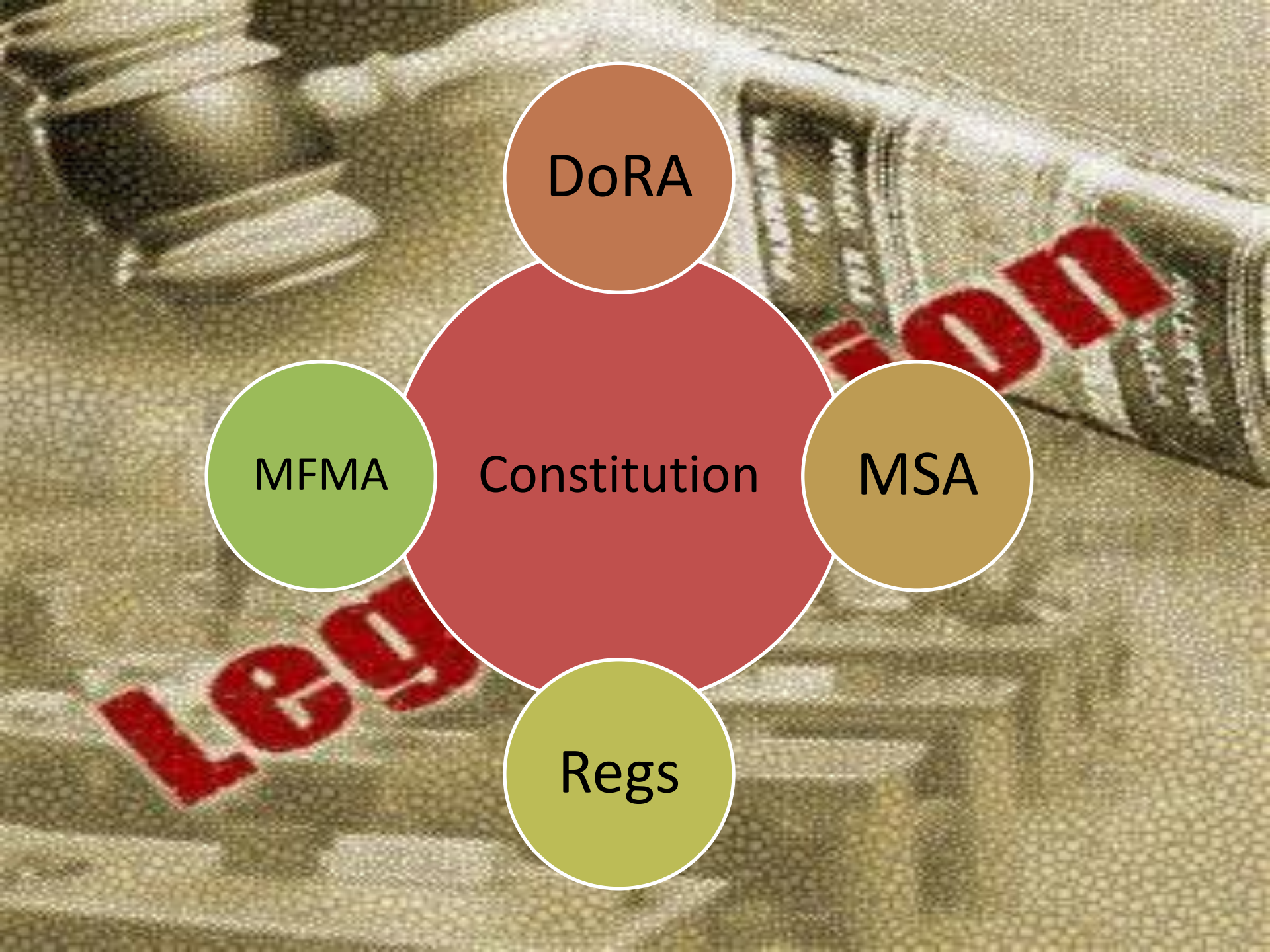
AIMS OF THE STUDY

❑ The aim of the study is to develop a debt management model for municipalities in the Free State Province to improve their debt management.

 ❑ To investigate, through an extensive literature study, the legislative frameworks and policy guidelines, requirements, and principles of municipal financial management, municipal revenue and debt management.

 ❑ To assesses the implications of non-payment of debt in relation to unemployment, poverty, the culture of non-payment, and the impact thereof on service delivery.

 ❑ Finally, a debt management model is provided to assist municipalities to improve their debt management.

RESEARCH DESIGN

Research Design	Research Strategy	Sampling	Research Instrument

• Blueprint for collecting, measuring and analyzing data
• Two-pronged approach:
  ➢ *Literature Study;*
  ➢ *Questionnaire used during structured interviews*
	• Plan adopted to produce systematic and orderly research.
	• Questions and objectives provide guidance when devising a research strategy.
	• Study involve qualitative and quantitative research.
		• Choose a small group of respondents from a larger defined target population.
		• Random sampling used:
		  ➢ *Mohokare,*
		  ➢ *Kopanong*
		  ➢ *Masilonyana*
		  ➢ *Tokologo*
		  ➢ *Dihlabeng*
		  ➢ *Letsemeng*
		  ➢ *Mantsopa*
		  ➢ *Ngwathe*
		  ➢ *Metsimaholo*
		  ➢ *Matjhabeng*
			• Two types of questionnaire administration:
			  ➢ *Self administered*
			  ➢ *Interviewer administered*
			• Structured questionnaire containing 6 categories was developed to elicit information during structured interviews with municipal managers and chief financial officers.

METHODOLOGY

❑ Conducted through a literature review and an empirical study.

The goal of descriptive methods is to explain phenomena such as human behavior in the business and administrative sciences by indicating how variables are related to one another and in what manner one variable affects another.

This is pertinent to this study, which is concerned with information that may resolve the challenges of debt management in municipalities in the Free State Province.

This method was chosen to describe the implications of non-payment of debt in relation to unemployment, poverty, culture of non-payment and their impact on service delivery.

Another qualitative method that was chosen for data collection is the interpretive paradigm to explain the subjective reasons and meanings that lay behind municipal managers and CFO's perceptions about debt management in the selected municipalities.

FINDINGS

❑ Literature Review

- o Both national and international sources

- o Primary sources such as government reports, legislative frameworks and government databases.

- o Secondary sources such as journal articles, books, conference papers, dissertations, theses, internet sources and data from the National Treasury Local Government Database.

- o Provide understanding of strengths and weaknesses of existing studies.

FINDINGS

❑ Empirical Research

o Self-administered questionnaire distributed via electronic mail to 10 Municipal Managers and Chief Financial Officers.

o Response rate was 100 per cent.

o Questionnaire comprised of 30 questions

o Responses used to calculate the Cronbach's alpha

o Alpha calculations were done in individual groups namely:

➢ Debt Management;

➢ Service Delivery;

➢ Municipal policies; and

➢ Financial Systems and Controls

FINDINGS

➤ Data Management

o 8 Questions

o Calculated reliability value was 0.86.

o 95% confidence intervals the 8 observations ranged from 0.69 to 1.00

o Anomaly – Question 3.8 (the municipality is utilizing conditional grants to fund the operational deficit), 11/20 disagreed and 9 agreed, was inconsistent with the pattern of responses received from the other 7 questions and impacted negatively on the Cronbach's alpha value.

FINDINGS

➢ Service Delivery

  o 8 Questions

  o Calculated reliability value was 0.92.

  o 95% confidence intervals the 8 observations ranged from 0.78 to 1.00

  o Anomaly was question 3.12 (community protests increased because of service delivery backlogs in your municipality), 5/20 agreed and 14 disagreed, was contradictory to the other 7 questions' responses pattern.

FINDINGS

➢ Financial Systems & Controls

o 6 Questions

o Calculated reliability value was 0.61.

o 95% confidence interval, highest reliability boundary was 0.95.

o Anomalies identified in 3 questions:

- Question 3.18 (the municipality changed its financial system within the last year), 16/20 disagreed.

- Questions 3.19 & 3.20, participants might not have been truthful in their responses and was better suited to 'Yes/No' answers which may have resulted in stronger reliability value for this section.

FINDINGS

➢ Municipal Policies

  ○ 8 Questions

  ○ Calculated reliability value was 0.77.

  ○ 95% confidence interval ranges between 0.54 to 1.00.

  ○ Anomalies identified in Questions 3.25 (the municipality has the capacity to implement credit and debt control policies effectively), 9/20 agreed and 11 disagreed, the response from the latter might not be truthful, given the status of the debtors book and influenced the reliability value.

RECOMMENDATIONS

Debt Management Model
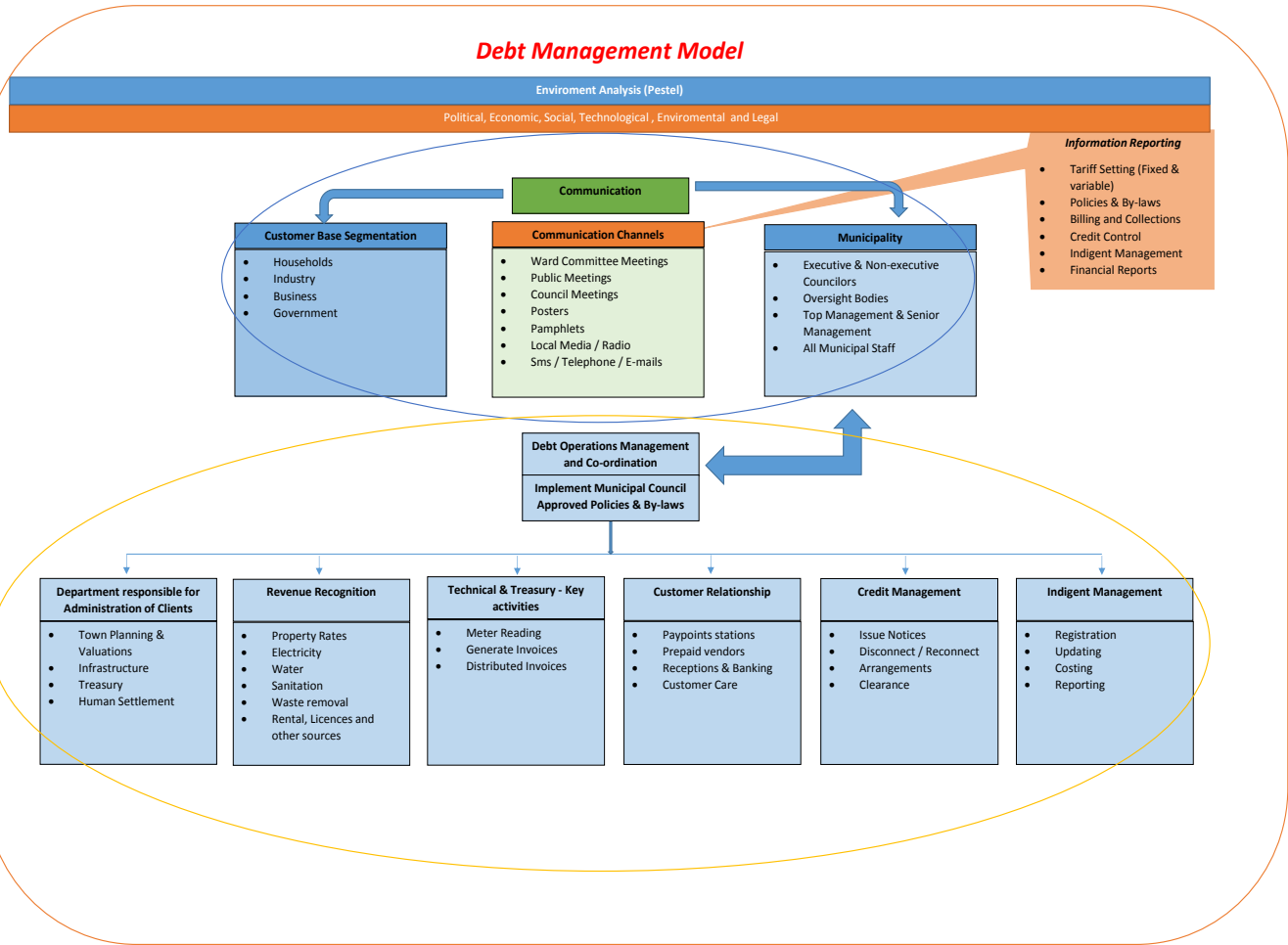
- Develop a debt management model for municipalities in the Free State Province that focus on maximizing revenue collection.

- Cognizance should be taken on the diverse political nature and social-economic status of municipal customer base.

Recommendations

❑ Communication

- o Comprehensive communication strategy is fundamental to build relationship between the municipality and the community.

- o Councilors, officials and communities should build and foster cordial relationship and are equally accountable and responsible for efficiency of services and collections of revenue.

- o Communication to facilitate alignment between municipal expansion targets and community expectations on service delivery.

- o Continuous communication can enhance service delivery, investment, employment opportunities and sustainability.

Recommendations

❑ Tariff Setting

- o Set realistic tariffs by:

    - Understanding the demand; and

    - Determine actual cost of delivering the service (including direct cost, capital financing, indirect cost, etc.).

- o Primary baseline tariff calculated as the total cost divided by number of baseline units.

- o Tariffs should be monitored and reviewed annually – should not only be inflation adjusted.

Recommendations

❑ Policies and By-laws

○ In terms of section 74, 96 and 98 of the MSA, 2000.

○ Municipalities must take all reasonable steps to ensure that the consumption by individual users of services is measured through accurate and verifiable metering systems and ensure persons liable for payments, receive regular and accurate accounts that indicate the basis for calculating the amounts due.

Recommendations

❑ Billing

o Accurate billing is critical and the following is needed for effective billing:

- Customer's property information must be accurate and the municipality must have signed an agreement with customers for services to be provided to their residence.

- Municipal tariffs must be reflective of their policies and bylaws must be also in place.

- Property tariffs must be cost reflective using variables such as land usage, debtor type, land zonage, etc. should link to customer base of municipality.

- Inclusion of accurate ward information per property.

- Adherence to municipality's steps in the process of opening and closing accounts.

- Good financial systems and controls

Recommendations

❑ Credit Control

o Credit control is a service delivery imperative as municipalities can only pay for bulk purchases, maintain infrastructure and fund new infrastructure if own revenue and credit control activities functions effectively.

o Process must be planned thoroughly, controlled well and followed diligently.

- Step 1: Details of consumers in arrears are extracted and imported into the credit management system.

- Step 2: All transactions on these accounts must be transferred to credit control system daily to ensure that arrangements can be monitored and paid-up accounts are removed.

Recommendations

❑ Credit Control

- Step 3: Update financial systems with information i.e arrangements, indigents, summonses, etc.

- Step 4: Take following actions (must be included in Council approved policies:

  ✓ Electricity cut;

  ✓ Prepaid meter block;

  ✓ Water restriction;

  ✓ Summons; and

  ✓ Judgment.

- Onsite inspections to be conducted to determine if services have been illegally reconnected. Illegal reconnections or tampering should lead to much stricter penalties.

Recommendations

❑ Indigent Management

o High level of unemployment and poverty, households are unable to pay for basic services, and referred to as indigents.

o Adopt an indigent policy, and use own discretion in compiling criteria to identify indigents:

  ✓ SA Citizenship;

  ✓ Applicant must reside in dwelling;

  ✓ Applicant to provide proof of income;

  ✓ Combined monthly household income of applicant should not be higher that amount specified in policy (i.e state pension x 2 or R1200 x 2 = R2400);

  ✓ Childheaded households; and

  ✓ Beneficiaries of state grants should be viewed as potential indigents but their eligibility must be tested or verified.

Recommendations

❑ Debt Operations Management and Co-ordination

- o Framework to guide key activities and actions.

- o Success depend on all role players taking responsibility for the model.

- o Technology continues to change and municipalities must use debt management systems to further enhance their billing, collections strategies and processes.

- o National & Provincial departments must support municipalities with innovative edge by investment in research and development.

THANK YOU