

The Need for Active Debt Management in Financially Challenged Municipalities in the Free State Province

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ABSTRACT

In terms of section 155(4) of the *Constitution of the Republic of South Africa*, 1996, all municipalities (metropolitan, district and local municipalities) are expected to raise their own revenues in addition to the transfers they receive from national government. This principle is an important feature of any democratic local government system, creating a revenue-service link between the municipality and its customers that empowers customers to hold the municipality directly accountable for the services it provides. However, municipalities' own revenue collection has been significantly declining as a result of greater reliance placed on intergovernmental transfers as a revenue source. It is of concern that in many cases, the funds dedicated to service delivery, development and growth are being mismanaged by municipal officials, and in many instances due to political interference. Therefore, the purpose of the study was to identify debt management, its consequences, and the development of an integrated debt management model for municipalities in the Free State Province.

This article provides a theoretical review of debt management, legislative frameworks for local government financial administration as well as the challenges facing municipalities in financial distress within the

Free State Province regarding debt management. The article concludes by discussing the integrated debt management model as a result of conclusions drawn from the theoretical and the empirical study. The article argues that the integrated debt management model as an intervention can be operationalised to assist financially challenged municipalities in the Free State Province with current debt management challenges.

INTRODUCTION

Since 1994 the transformation of local government has been associated with changes in creating developmental and cooperative local government, transforming political, institutional and administrative systems, and creating a new framework for municipal finances (Chetty 2015:2).

The services they have to provide, such as water, sanitation, refuse removal and electricity, are fundamental inputs to social well-being and the growth of the economy. The availability, price, sustainability and reliability of these services impact on local economic performance and can significantly affect the quality of life of the majority of households. In addition, demographic trends vary significantly between large urban municipalities and their smaller rural counterparts, with varying demands on municipal budgets. Effective actions, strategies and interventions are therefore needed to restore financial discipline, to address outstanding debts and to generate the necessary cash-flows to ensure the sustainability of municipalities.

BACKGROUND AND LITERATURE REVIEW

The Constitution, 1996 clearly provides for a municipality to charge for services rendered, and to collect monies due to it, and to provide democratic and accountable local government for its citizenry. The supportive legislation in terms of the *Local Government: Municipal Systems Act (MSA)*, (Act 32 of 2000) enables municipalities to charge for services and to collect revenue. Therefore, it is imperative that the municipalities have effective financial management practices in place to effect these obligations, and that the service charges are cost reflective.

In light of the above Fourie, Opperman, Scott and Kumar (2011:238) declare that municipalities are affected by their own inability to collect revenue due to them for services rendered. Section 96 and Section 97 of the MSA, 2000

provides for the debt collection responsibility of a municipality's ability to adopt, maintain and implement a credit control and debt collection policy. In terms of Section 96(a) of the MSA, 2000 a municipality must collect all revenue due to the municipality for services rendered. Section 96(b) of the MSA, 2000 states that a municipality must adopt, maintain and implement an effective credit control and debt collection policy that is consistent with the municipality's rates and tariff policies. Furthermore, since 2003 there was a significant growth pattern in the Division of Revenue Act (DoRA) that gives expression to the policy priorities of national government as well as through which national government transfers funds to local government.

The National Treasury (2011:62) indicated that the amount owed to municipalities on 31 December 2010 was R62.3 billion, representing an increase of 10.8% from the same month in 2009. In addition, the National Treasury (2015:3) states that aggregate municipal consumer debt amounted to R104.9 billion (compared to R96.6 billion reported in the second quarter) as at 31 March 2015. This imposes the challenge for implementing stringent credit control and debt collection policies and procedures to arrest the growing escalation of debt. If the problem of non-payment persists, the government's situation in which all major public utilities are likely to incur large and possibly unsustainable losses due to non-payment will increase even further.

In the Free State Province alone the total amount owing to municipalities at the end of June 2012 amounted to R6.5 billion. This debt is made up of R590

Table 1: Outstanding debt per province for the financial years 2009 to 2012

Province	2009	2010	2011	2012
Eastern Cape	3 236 384	4 060 883	44 487 091	5 405 536
Free State	3 242 821	4 842 233	4 658 412	6 433 484
Gauteng	22 597 251	23 405 466	29 357 606	35 433 516
KwaZulu-Natal	6 824 375	7 962 327	8 776 785	9 924 415
Limpopo	2 491 280	2 020 315	2 294 236	3 238 085
Mpumalanga	2 005 532	2 155 709	2 216 020	2 432 473
North West	3 579 486	4 074 889	4 440 716	5 339 773
Northern Cape	440 205	1 195 210	1 129 396	1 531 455
Western Cape	5 981 918	6 335 168	7 276 595	7 873 205
National Total	R50 399 252	R56 052 200	64 636 857	77 621 942

Source: (National Treasury Local Government Database in Chetty 2015:156)

million in the category 0–0 days, R268.8 million in the category 31– 60 days, R689.9 million in the category 61–90 days, and R4.9 billion in the category over 90 days. Debt outstanding for over 90 days constitutes 76% of the total debt. In addition the debt over 90 days regressed by 9.4% in the 2011/12 financial year. However, in the 2011/12 financial year, the debt over 90 days increased by 4% or R1.47 billion. Table 1 shows the total outstanding debt owed to municipalities in each of the nine provinces over the period 1 July 2009 to 30 June 2012.

The above Table shows that Gauteng Province has the highest debt owing to municipalities at R35 billion, followed by KwaZulu-Natal with R9.9 billion. The total amount owing to municipalities in the Free State Province grew from R3.2 billion in 2009 to R6.4 billion in 2012, representing an increase of 98.3% from 2009/2010 to 2011/2012, compared to a 54% increase in the national total over the same period. According to the National Treasury (2011:71) the persistently high debt levels are an indication that most municipalities' efforts to collect billed revenues are deficient.

According to Chetty (2015:63–64) municipal consumer debt has a number of potential effects, such as the crippling of a municipality's cash position and thus its ability to fulfill its constitutional mandated responsibilities. Municipal consumer debt can also reduce the funding available for the delivery of basic services, infrastructure, maintenance and upgrading. Outstanding payments also represent foregone resources that could be used to improve the living conditions of the poor. According to Fourie *et al.* (2011:241–242) and the Free State Provincial Treasury, (2014:6–20) there are various possible reasons why municipal consumer debt arises, such as the poor performance by municipalities in the form of inaccurate billing, weak credit control measures and lack of customer service mechanisms, thus reinforcing non-payment. In addition, consumers may be unable to pay as a result of unemployment and poverty. Fourie and Mazibuko (2013:141) and the National Treasury (2013:18) state that any one of the following events could also push the municipalities that already have a very low cash coverage into a negative cash position namely; a deterioration in revenue collections due to the impact of the economic recession; the rising rates and tariffs on the affordability of household budgets; non-payment to priority suppliers, especially contractors responsible for capital projects; increased cost of bulk electricity and water; and any major breakdown in service delivery resulting in non-supply (especially water and electricity).

Chetty (2015:102–103) further argues that the growth in the level of consumer debtors may also be attributed to the following:

- Failure on the part of mayors and municipal councils to provide political backing to revenue enhancement programmes (often councillors are in arrears with their own payments);

- Failure on the part of municipal managers to allocate sufficient staff/capacity to the revenue collection function, thus comprising implementation of policies to enhance revenue;
- Poorly designed revenue management, indigent and debtor policies;
- Resistance among certain communities to pay for certain types of services (or to be billed in a particular way); and
- Rate-payer boycotts, sparked by deteriorating service delivery, and perceptions that the municipality is unresponsive to community concerns.

According to the National Treasury (2011:12) and Fourie *et al.* (2011:241–242) there are several factors that could possibly be contributing to the escalating municipal debt, namely:

Resistance amongst certain communities to paying for certain types of services

According to Chetty (2015:42) the general media has attributed the under-collection of outstanding municipal revenue to the fact that certain customers withhold payment for services without any regard to the quality of such services.

Affordability

As the majority of the citizens derive their income from employment, it could also be argued that the problem could be the result of the prevailing high levels of poverty due to the high unemployment rate in the country. It is argued that the poverty of many households makes them unable rather than unwilling to pay, hence the need for free basic services to the poorer segments of the population and/or a lowering of the rates. This argument is supported by McDonald (2002), among others. It is assumed that an understanding of the relationship between payment for services and provision of services is a crucial factor for compliance; consequently, the prescription is the education and political mobilisation of ratepayers, combined with the restoration of law and order (National Treasury 2011:12–14; Fourie *et al.* 2011:242; Chetty 2015:42).

Culture of entitlement

The problem of non-payment also stems from a “culture of entitlement” and dependency. It is argued that many people believe that public services are a basic right and should not be paid for. In many cases, people are overly dependent on government, feeling entitled to receiving services free of charge (Fjeldstad 2004:8).

“Free-rider” problem

A survey conducted by Burger (2001:13) found that in many urban municipalities, households and individuals that can in fact afford to pay for services instead opt for a “free-ride” under the basic behavioural assumption that people in general are “free-riders”. The problem of non-payment stems from such “free-riding”; in other words, nobody would voluntarily contribute to government unless the threat of punishment renders this the most sensible option. The temptation to not comply, even where others are in fact complying, defines the problem of “free-riding”. In reality, there are some residents who opt not to pay for their services simply because they feel they can get away with it, and because they know of many other residents who are also not paying for services and have thus far not suffered any negative consequences as a result (Burger 2001:14). With the high levels of non-payment evident all around, it is not surprising that some residents take advantage of the situation. To improve service delivery it is of crucial importance to address the broader problem of “free-riding”. According to Burger (2001:14) many people are in a position to pay for services but opt not to do so.

Poor debt collection and the increase in outstanding debts year on year is testament to the fact that municipalities have a challenge in the collection of outstanding debts. The causes of non-payment in South African municipalities have been the focus of several studies, including those of Burger (2001:14) and Fjeldstad (2004:8). Most of these studies were carried out in the early to mid-2000s and changes in the local government sphere warrant a thorough and updated investigation of the factors driving this kind of debt. It is against this backdrop that municipalities need to closely examine their debt collection and socio-economic factors to be able to respond appropriately to these challenges.

Rosenberg (2008:1) advises that for any municipality, the first step in improving revenue is to develop a coherent revenue enhancement strategy supported by policies that encourage both revenue growth and diversity. Before implementing such a strategy, municipal councils would be wise to consult with their communities and all other relevant stakeholders in a bid to lure their ‘buy-in’ and its practical application.

In order to enhance and protect their revenue, municipalities should consider the following practical approaches:

Charging affordable tariffs

The National Treasury (2008:107) explains the charging system for municipalities as being complemented by nationally funded subsidies for infrastructure and

ongoing services to poor households. As such, tariff charges – particularly those applicable to the poor – must be affordable.

Pro-poor policies should be put in place to identify those ratepayers or customers considered indigent and unable to pay for services, as based on the prevailing income thresholds (Free State Provincial Treasury 2014:14).

Billboard advertisements

By establishing an adequate billboard infrastructure across its entire area of jurisdiction, a municipality has the opportunity to enter into fixed-term contracts (three to five years) with members of the business community, whereby the municipality charges such businesses a certain fee for the use of these facilities for advertising purposes (Free State Provincial Treasury 2014:6).

Such billboard fees would vary (eg. the cost of advertising on one side of a billboard being less than the cost of advertising on both sides), while the contract in this regard should include a clause allowing the municipality to raise the billboard fees annually before the start of every new municipal financial year. Some other revenue enhancement and protection strategies, as proposed by USAID (2010:11), are discussed below.

Provision of metered services

The use of metered services is said to be a crucial task, since it ensures that there is no wastage or pilfering of water and electricity meters. Municipalities must regularly service the water and electricity meters in order to guard against malfunctioning that may result in inaccurate billing, water or electricity leakages, or any other form of loss such as illegal connections (USAID 2010:12).

Accurate billing

Accurate metering and billing is important in terms of consumer confidence in the accuracy of service charges. As such, municipalities must have accurate details of their customers' particulars, including residential addresses and names, and must ensure that meter readings are accurately captured. Another important consideration for municipalities is the need to determine whether the tariffs being charged to particular customers are correct in terms of either business tariffs or household tariffs. In fact, there are currently several court cases pending in respect of the incorrect billing of townhouse complexes and retirement homes as businesses. Correct billing ensures satisfied customers (Free State Provincial Treasury 2014:6).

Revenue collection

It is important for municipalities to identify and differentiate between those customers who can afford to pay for services and those customers who are indigent (Free State Provincial Treasury 2014:14). Municipalities should therefore keep accurate registers of indigents who are unable to pay, with their situations being reviewed on an annual basis. At the same time, however, municipalities should work through the Expanded Public Works Programme to create labour-intensive projects within their areas as a means of creating jobs for such indigents and help them to become independent. The benefit of this for municipalities is that they would then be relieved of the burden of having to subsidise free services for the indigent population.

Arrears management

A suitable debt management process involves the issuing of letters of demand for the payment of accounts in arrears, with all subsequent legal procedures to follow, and the identification of defaulters in a segmented fashion to allow for the targeting of specific defaulters, thus optimising the recovery of funds (DBSA 2004:23).

Revenue generation is the responsibility of every municipal official, not just the revenue management unit. Municipalities must effectively manage all functions with a potential impact on the protection and growth of their revenue base. The implementation of internal controls along the revenue value chain will aid in effective data handovers, while system data validation mechanisms and service level standards are fundamental in ensuring the integrity of billing data. Municipalities tend to neglect these basics and instead opt for costly 'data cleansing' exercises; however, it is only by protecting data integrity at the source that the municipality will be able to ensure longer-term benefits such as improved debt collection. Municipal functions must be adequately staffed with competently skilled individuals who understand the job requirements and how best to deliver thereon.

Austerity measures

The introduction of strategic or austerity measures ensures that the operating expenses of the municipality are kept at a minimum. Fourie, Opperman and Scott (2007:104), however, maintain that the nature of a municipality's general expenses will depend on the range and nature of services provided by that municipality.

Strict adherence to municipal policies, such as subsistence and travel allowance policies among others, is crucial in curbing unnecessary costs.

RESEARCH METHODOLOGY

This article followed a two-pronged approach, namely a literature review and an empirical study. The literature study was based on a qualitative study, which includes literature, legislation, policy documents, journal articles, books, conference papers, internet and government reports on municipal financial management, credit control and debt management. Quantitative research was applied to evaluate data to analyse the causal relationships between variables (Welman, Kruger and Mitchell 2008:224).

A structured questionnaire containing six categories and a total of 30 items was developed to elicit information during structured interviews with the municipal managers and Chief Financial Officers (CFOs) of the selected municipalities. The questionnaire comprised of closed and open-ended questions. Closed questions were used to determine the respondent's debt position, cash flow challenges, and the impact of debt on service delivery, IT solutions, policies and internal controls. Open-ended questions were also directed at the debt and cash-flow challenges. It is thus to be inferred that the research is a fair reflection of the perceptions of the respondents.

Sampling

Two sampling techniques, namely the convenience sampling method and the simple random sampling method, were used. Welman, Kruger and Mitchell (2008:69–70) are of the opinion that in convenience sampling the respondents are selected due to their availability or accessibility. In addition, simple random sampling as a probability random sampling method was used to select municipal managers and CFOs from selected municipalities in the Free State Province. Brynard and Hanekom (1997:43) and Leedy (1985:154) state that randomisation means selecting a sample from the whole population in such a manner that the characteristics of each of the units of the sample represents the characteristics of the total population. Welman *et al.* (2008:59) further maintain that in the case of simple random sampling, each member of the population has the same chance of being included in the sample.

A total of 10 municipalities is a representative sample of 41.6% of the 24 municipalities in the Free State Province. The 10 municipalities provide a practical measure of the debt problem and implications for service delivery, given the commonality of the debt challenges across municipalities in the Free State Province. The following municipalities in the Free State Province were selected:

- Mohokare Municipality;
- Kopanong Municipality;

- Masilonyana Municipality;
- Tokologo Municipality;
- Dihlabeng Municipality;
- Letsemeng Municipality;
- Mantsopa Municipality;
- Ngwathe Municipality;
- Metsimaholo Municipality; and
- Matjhabeng Municipality.

DATA COLLECTION AND RESEARCH FINDINGS

According to Bless and Higson-Smith (1995:121) structured questionnaires indicate a range of possible answers or guidelines on the procedures to follow. A structured questionnaire containing six categories was developed to elicit information during the structured interviews with the municipal managers and CFOs of the relevant municipalities. The questionnaire comprised closed and open-ended questions. The structured questionnaire was distributed through electronic mail to the selected municipalities. Owing to time constraints, structured interviews were conducted telephonically with the municipal managers and CFOs.

The structured questionnaire comprised of 30 statements or questions, the responses were used to calculate Cronbach's alpha, using the software package R. The software package R is an open source programming language, with experts from all fields of study contributing to analysis packages, statistical analyses in this case, and it even provides 95% confidence intervals for this alpha. STATISTICA a comprehensive statistical package was used for descriptive and other statistical purposes. The standard Chi-squared as well as Yates tests for independence between debt management and the other variables were applied. Chetty (2015:187) explains that the Yates test is a more reliable test of independence as reflected in Table 3. The frequencies and percentages pertaining to the respondents' population are illustrated in Table 2.

Table 2: Frequencies and percentages of respondents' population group

Variable	Categories	N	N	%
Population group	African	20	17	85
	White	20	2	10
	Coloured	20	1	2

Source: (Chetty 2015:184)

Table 2 describes the sample of municipal managers and CFOs. These ratios are in line with the population of 2.7 million in the Free State Province with a division between the different races (Stats SA 2013:3). However, this should not be the only criterion to fast track the development needs of the province as a whole. Other indicators including qualification and skills, a balanced approach to set vision and strategy for municipalities should also be considered. For the purpose of this article Table 3 below provides a statistical summary of the response rate to investigate the perceptions of municipal managers and CFOs regarding three of the six categories used in the questionnaire namely; debt management, service delivery and financial systems and controls. Descriptive statistics, namely frequencies and percentages, were used to portray the data. The information was presented in tabular form; the numbers represent “strongly agree,” “agree,” “don’t know,” “disagree” and “strongly disagree” respectively. The frequencies are presented both numerically and as percentages.

In Table 3, 70% of the respondents strongly agree or agree in item 1 that their municipalities have experienced debt problems. This is affirmed by the increase in the debtor’s book of R1.6 million at Free State municipalities. In item 2 a total of 60% of the respondents strongly agree, while 25% of the respondents agree that the debt problem impacted on cash flow at their municipality. Chetty (2015:196) maintains that the objective of a cash flow statement is to provide information on the historical changes in cash and cash equivalent of a municipality, as well as details of the cash inflows and outflows of the entity during the period, from operating, investing and financing activities.

In item 4, whether the growing debt problem has impacted on the cash flow coverage ratio of 2.5 months; 15% of respondents agree, 70% strongly agree and 5% strongly disagree. The findings are supported by the fact that the economy is shrinking, thus fuelling unemployment and poverty rates. This places added pressure on municipalities to exercise fiscal discipline by judiciously spending their funds on budgeted programmes and projects (Chetty 2015:199). In item 5 the majority of the respondents strongly agree or agree that debt problems have impacted on the municipality. The purpose of this item was to determine whether the municipalities are forecasting positive cash positions for any of the years of the medium-term budget. In item 6 a total of 50% of the respondents strongly agree and a total of 40% agree that the growing debt problems pose challenges to their municipality. According to Chetty (2015:198) consumer debtors as a percentage of own revenue provides a useful, easily calculated indicator of the state of a municipality’s debtor management capacity. In terms of good practice, a municipality with debtors greater than the average 30% of own revenue is at serious financial risk, especially if there is an ongoing deteriorating trend. In item 7, 11 of the 20 respondents, disagreed and nine agreed. These responses were inconsistent with the responses received from the other items

Table 3: Frequencies and percentages of debt management, service delivery and financial systems and controls

Item Description about debt management, service delivery and financial systems and controls	Yates Chi-squared test: p value	Strongly Agree	%	Agree	%	Don't know	%	Disagree	%	Strongly disagree	%
The municipality experienced debt problems in the last three years.	0.0113	14	70	1	5	0	0	3	15	2	10
The debt problem impacted on cash flow at your municipality.	0.0113	12	60	5	25	0	0	1	5	2	10
The debt problem is eroding the cash back reserves at your municipality.	0.0528	11	55	5	25	0	0	1	5	3	15
At your municipality, the growing debt problem impacts on the cash coverage ratio of 2.5 months.	0.0113	14	70	3	15	0	0	2	10	1	5
The debt problems impacted on going concern issues at your municipality.	0.0441	9	45	3	15	2	10	5	25	1	5
Growing debt problems pose challenges to your municipality.	0.5805	10	50	8	40	1	5	0	0	1	5
The municipality is utilising conditional grants to fund the operational deficit.	0.4362	4	20	5	25	0	0	5	25	6	30
The municipality had difficulty in paying its creditors within the last three months.	0.2614	3	15	7	35	1	5	7	35	2	10
The debt problems impacted on service delivery at your municipality.	0.2780	5	25	12	60	0	0	3	15	0	0
The debt problem impacted on achieving service delivery in priority areas i.e. electricity and water.	0.0976	4	20	10	50	0	0	1	5	5	25
The debt problem is caused by a growing indigent base at your municipality.	0.2048	2	10	12	60	2	10	2	10	2	10
The municipality has an adequate software solution for its revenue and debt management controls.	0.2598	8	40	6	30	5	25	1	5	0	0
The municipality changed its financial system within the last year.	0.5536	0	0	1	5	3	15	0	0	16	80
The municipality has adequate capacity to manage its IT system.	1.0000	2	10	4	20	0	0	10	50	4	20
The municipality has effective indigent monitoring and control systems.	0.4362	2	10	9	45	0	0	9	45	0	0
The municipality is able to effectively profile the customers in order to differentiate between those that can pay and those that cannot pay for services.	0.6770	3	15	8	40	1	5	5	25	3	15
The municipality has an in-house internal audit unit.	0.5185	9	45	7	35	0	0	4	20	0	0

Source: (Chetty 2015:192–193; Chetty, Van Niekerk and Olivier 2015).

and impacted negatively on the Cronbach's alpha value. In item 9 pertaining to whether debt problems have impacted on service delivery, an overwhelming 60% of the 20 respondents agree and 25% strongly agree that this is indeed the position in their municipalities. This finding is supported by the added pressure on municipalities to exercise fiscal discipline by spending their funds on budgeted service delivery programmes. The majority of the respondents strongly agreed and agreed with item 10 that the debt problem impacted on achieving service delivery in priority areas i.e. electricity and water and item 11 that the debt problem is caused by a growing indigent base at their municipality.

From the findings in Table 3 about financial systems and controls the majority of the respondents strongly agreed and agreed with item 12 that the municipality has an adequate software solution for its revenue and debt management controls. A total of 70% of the respondents agree that the municipalities lack the capacity to manage their financial systems. This can be attributed to poor collections, poor management of indigents, and poor implementation of municipal policies on debt management.

PROPOSED INTEGRATED DEBT MANAGEMENT MODEL FOR FINANCIALLY CHALLENGED MUNICIPALITIES

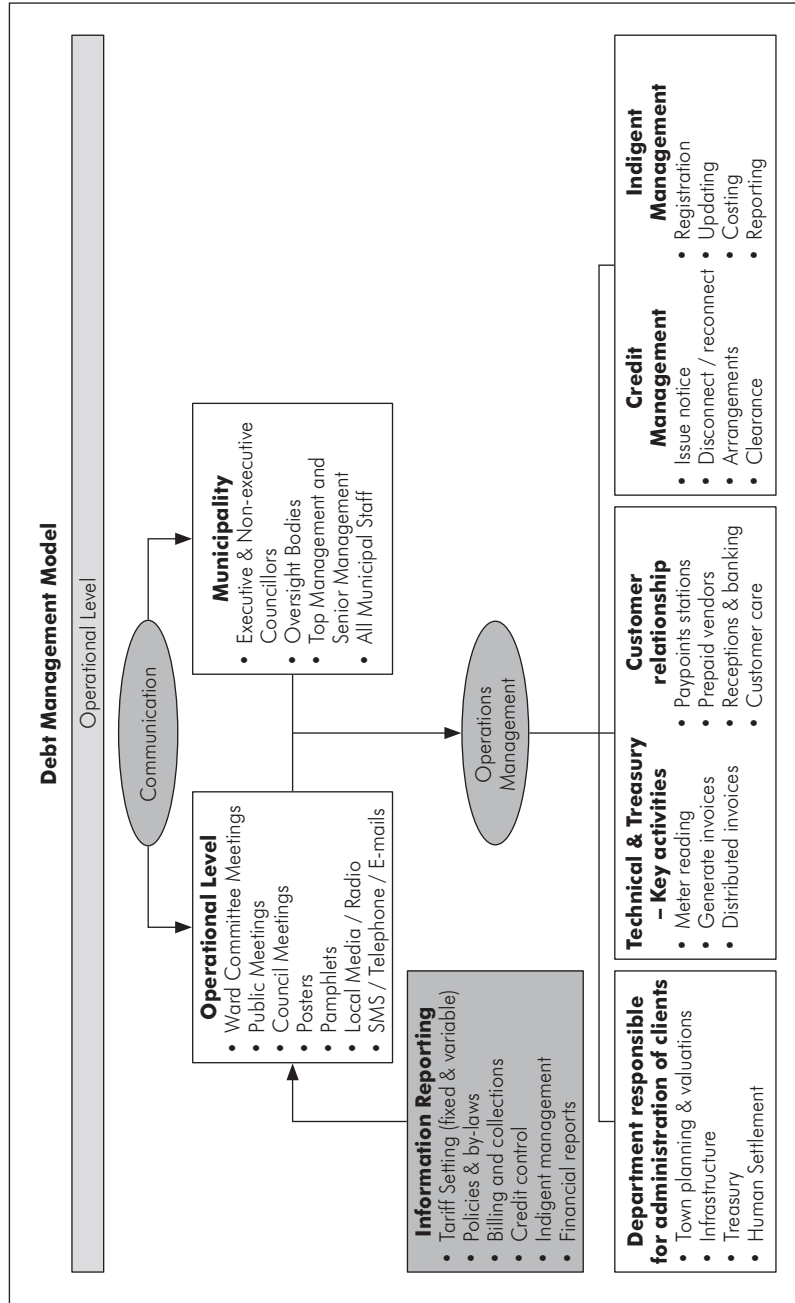
The article argues that the integrated debt management model as an intervention can be operationalised to assist financially challenged municipalities in the Free State Province with current debt management challenges. The integrated debt management model was developed based on the literature study and empirical findings. The model focuses on maximising revenue collection and a holistic approach for municipalities. The model may seem simple to implement, however, cognisance should be taken of the diverse political nature and socio-economic status of the municipal customer base. The integrated debt management model is presented in Figure 1 below.

The integrated debt management model as illustrated in Figure 1 provides a process-map that outlines the debt management components as discussed below.

Communication

The model emphasises that a clear communication strategy is essential to promote effective two-way communication between the municipality and its clients. Municipal office bearers, officials and communities should build and foster a cordial relationship and equally be accountable and responsible for efficiency of services and collections of revenue in the municipal jurisdiction as required by Chapter 7 of the Constitution, 1996. The communication

Figure 1: An Integrated Debt Management Model



Source: (Adopted from Chetty 2015: 228); Chetty, Van Niekerk and Olivier 2015:12)

process should facilitate alignment between municipal expansion targets and community expectations on service delivery (Chetty 2015:229).

Information reporting

The integrated debt management model as illustrated in Figure 1 emphasised the following aspects:

Tariffs setting

The municipality and consumers must set realistic tariffs by understanding the demand (number and type of consumers, levels of service to which they have access and the current levels of consumption of services). Municipalities have to determine what it really costs to provide a service including direct costs (employee related costs, bulk purchases, repairs and maintenance, contracted services, other costs, etc.) and indirect costs, such as overheads and capital financing costs. The primary baseline tariff is calculated as the total cost divided by the number of baseline units. Two types of baseline units for water and electricity are: the number of consumers served and the unit of consumption (kl of water or kWh of electricity). For water and electricity the baseline tariff has a fixed and variable component. The fixed component is the fixed costs divided by the number of consumers, and the variable component is the variable costs divided by the total consumption of services (including any consumption that is given away free of charge). This will result in a baseline tariff that is the same for all consumers and covers all costs. Tariffs should also be monitored and reviewed annually and should not only be inflation adjusted (Chetty 2015:229–230).

Policies and by-laws

In terms section 95(d) and (e) of the MSA, 2000 all municipalities must take reasonable steps to ensure that the consumption by individual users of services is measured through accurate and verifiable metering systems (RSA 2000). It is also required that persons liable for payments, receive regular and accurate accounts that indicate the basis for calculating the amounts due (Chetty 2015:230). Therefore, it is recommended that municipalities should document the procedures that it follows to give effect to the policies and by-laws that it has adopted.

Accurate billing

Another crucial element of the municipal debt model is the requirement of accurate billing. Chetty (2015:230–231) states that as a result of poor billing

and revenue collection systems municipalities are becoming increasingly dependent on intergovernmental funding to balance their budget. Therefore, the introduction of consolidated billing is recommended as it would facilitate the debt collection process. Chetty (2015:230–231) further recommends the following for effective billing of consumers:

- The property information of all clients must be accurate;
- The municipality must have a signed agreement with customers for services to be provided to their residence;
- The municipal bylaws must be in place and the tariffs must be reflective of the municipal policies;
- Property tariffs must be cost reflective and the municipality must make use of variables such as land usage, debtor type (business or resident etc.), land zones, and service type;
- The ward information must be accurate per property;
- Effective systems and controls need to be updated and must supplement the financial software to ensure that complete and accurate billing takes place.

Credit control

Effective credit control is a service delivery imperative as municipalities can only pay for bulk purchases, maintain infrastructure and fund new infrastructure if their own revenue and credit control activities function effectively (Chetty 2015:231–232). In terms of section 96(a) and (b) of the MSA, 2000 all municipalities must collect all outstanding debts and maintain and implement a credit control and debt collection policy. A crucial aspect of a credit control and debt collection process as indicated in the model is that credit control must be planned thoroughly, controlled well and it must be followed diligently. Chetty (2015:232) recommended the following aspects that are essential to promote an effective credit control system namely; to extract on a daily basis the details of consumers in arrears from the financial system and import them into the credit management system; transfer all transactions pertaining to these from the billing system to the credit control system to ensure that the arrangements can be monitored and that paid-up accounts are removed; regular updates of information concerning accounts handed over to attorneys; and to take the necessary actions in accordance with the municipal policies against consumers in arrears, such as electricity cuts; pre-paid meter blocks; water restrictions; summons; and judgements.

Chetty (2015:232–233) further suggested that municipalities have to ensure that on-site inspections are conducted to determine whether services have been illegally reconnected. If illegal reconnections or tampering are detected, the consumer must be subjected to a much stricter disconnection/restriction

process, which may involve either a by-law process or a specialised debt collection process (Chetty, Van Niekerk and Olivier 2015:14–15).

Indigent management

As a result of increasingly high levels of unemployment and poverty within municipal areas, there are households that are unable to pay for basic services, and are referred to as 'indigents'. Chetty (2015:233) argues that a municipality is required to adopt an indigent policy to ensure that indigents have access to services. A municipality can apply the following criteria as a boundary within which the municipality's own indigent definition can be developed:

- The applicant must be a South African citizen (applicants must have valid identity documents and if not a South African citizen, applicants should provide proof of their refugee status).
- The applicant must reside in a dwelling (services are provided to a household); applicants residing in informal settlements should be eligible to qualify.
- The applicants must provide proof that they cannot afford to pay for the services, by submitting a UIF card, bank statements, proof of income.
- The applicant should not have a combined monthly household income higher than the amount specified in the municipal indigent policy (Chetty, Van Niekerk and Olivier 2015:15).

According to item 10 of schedule 2, 10 of the MSA, 2000 a staff member of a municipality may not be in arrears with his or her rates and services charges due to the municipality for a period longer than three months. The municipality must uphold this code of conduct for officials and ensure stop orders are implemented. Section 102 of the MSA, 2000 further allows for the consolidation of separate accounts of persons liable for payments to the municipality and municipalities can therefore credit a payment by such a person against any account of that person and implement any of the debt collection and credit control measures provided for in relation to any arrears on any of the accounts of such a person (RSA 2000).

Operations management

The integrated debt management model provides a framework for its operation, management and coordination component, to guide key activities and actions. Its success will depend on all role players taking responsibility for the model.

In light of the above the integrated debt management model as illustrated in Figure 1 provides a coherent approach by emphasising the activities of

the key departments responsible for administration of clients and related activities within the municipality that will be responsible for debt management. Chetty (2015:234) argues that the operations management and coordination component as illustrated in Figure 1 provides a framework to guide key activities and actions. The demand for municipal commodities places added pressure on municipalities to improve debt management and collection to redress historical infrastructure weaknesses and urbanisation service demands. Municipalities must use their debt management systems effectively to enhance their billing, collection strategies and processes. It is also recommended that all departments within the municipality, as well as monitoring and oversight departments at the national and provincial sphere, should be equally responsible for debt management and revenue collection of a municipality (Chetty 2015:234–235). Therefore, it is imperative that the key municipal departmental heads and the executives have the necessary knowledge, experience; expertise; ethics and sense of professional common purpose and a commitment to operationalise the integrated debt management model to promote effective municipal debt management and revenue collections.

CONCLUSION

The purpose of this article was to report on findings obtained through a literature survey and an empirical study conducted among respondents within selected municipalities in the Free State Province, with the aim to determine the current status of debt collection and emerging challenges. The focus was the developing of an integrated debt management model for municipalities in financial distress as a synthesis comprising of the following aspects: communication, tariffs setting, policies and by-laws, accurate billing, credit control and operations management. The proposed integrated debt management model has application value for all municipalities experiencing financial distress and which are struggling to collect municipal debt.

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