

## **INCREASING THE REVENUE OF MUNICIPALITIES THROUGH THE IMPLEMENTATION OF A RISK APPROACH**

Public Services and Utilities International (PSU) has worked on a number of revenue management projects during the last two years and the results produced are evidence that established track record of PSU in the field of revenue management has shifted into higher gear.

By 2007 the analytical and data cleaning services of PSU were well established through 8 years of experience in the field of revenue management. The change in management during 2007 and the changing needs of municipalities by this time required a refinement of the PSU services. Municipalities required more than an analysis of revenue management issues – the formulation of a strategy and plan of implementation together with the provision of hands-on support produced practical solutions and tangible results. In other words municipalities that worked with PSU as a joint team were able to show a positive contribution to their bottom line financial performance in relation to debtor management. These successes were due to arrange of different interventions that were informed by the specific needs of the municipalities.

The project at **Dr. J.S. Moroka Local Municipality** completed in 2007 demonstrated that it was possible to move from flat-rate billing for water services to billing based on actual metered consumption, even within the context of low levels of affordability of consumers. A clean customer database was compiled by doing a house-to-house survey using local people (in excess of 25 local field workers were utilised in various functions) who were trained on how to conduct the survey. Two thousand (2,000) new customers were put onto the database and about 8,000 consumer records were checked and corrected on the billing system. Indigent registration was part of the process and about 20% of households were approved as indigent which resulted in the write-off of approximately R8million in the 2006/7 FY. Billing was increased from about

R500,000 in 2004 to close to R1-million per month at the end of 2006 and the percentage payment increased to a high of 54% compared to a 12% payment rate in 2004. An investment (project cost) of about R2,3 million over 3 years, effective strategic management by the municipality, the active involvement of ward councillors and sufficient time for planning and implementation were the key ingredients that made the recipe for success.

In 2007 a project of the **Department of Local Government of the Limpopo Provincial Government** was an example of how to use expertise from PSU to gain immediate financial results - the cost of the project was R2,1m and by the end of the project the municipalities had already collectively gained a total financial benefit of at least R11 m which was due to the level of commitment from the provincial and Municipal Managers in implementing particular actions recommended by PSU during the formulation of a revenue enhancement strategy.

The **Gauteng Revenue Enhancement & Protection Program** has shown an R2bn positive contribution to municipal financial performance (project cost was approximately R9m). While 50% of the total result of R2bn is attributed to an informed calculation of understated levels of indigent households in the province (substantiated by independent sources such as Municipal IQ and SAICA, and informed by STATSSA), the remaining R1bn success has been acknowledged and verified by each of the municipalities (except one metropolitan municipality) and is thus proof of tangible financial results. The specific focus on resolving government debt and water consumption and billing at schools, as well as subsequent projects at the Local Municipalities of Emfuleni and Nokeng Tsa Taemane indicate the variety of issues that require detailed attention to ensure sustainable success.

**Umkhanyakude DM** is situated in the Zululand/Maputaland region of Kwazulu Natal province with five local municipalities under its jurisdiction: Mtubatuba, Hlabisa, Big Five/False Bay, Jozini and Umhlabuyalingana.

The District Municipality is the water services authority (WSA) and provides all five local municipalities with water (albeit through a number of smaller schemes operated by water services agents). The billing function for the water services also rests with the DM. PSU has been appointed to conduct a field audit to determine the impact on loss of income related to metering services. The results shown were directly linked to the loss of income as multiple problems were detected with actual meters as well as current processes in respect of meter reading and capturing of such information.

Some of the problems identified during the field audit were as follows:

- Poor conditions of meters
- Manually numbered meters
- More than one meter per property
- Poor access to meters
- Meters without numbers

***Figure 1 shows the conditions of some of the meters in the area***

**Figure 1: Destroyed non-functional meters and leaking meters**





### **Billing Environment**

The water billing function is performed by the Finance department while the maintenance of infrastructure is the responsibility of the Technical division. Challenges identified in relation to lack of integration between functional departments within the municipality

- Multiple meters (seemingly all functional) on single service points is technically incorrect and causes havoc on the billing side;
- Poor maintenance and vandalised meters place the integrity of consumption data into doubt and does not boost consumer confidence in respect of water services billing;
- Undetected and unattended water leaks in the system constitute a cost to the municipality without the revenue to counter the expenditure.

A high-level trend analysis has revealed several critical issues which not only emanate from the infrastructure challenges, but also affects their ability to reliably enforce revenue collection. There is a general apathy towards paying for water services.

All of the successes mentioned above, while outstanding in their own right given that they were short-term limited interventions by PSU, has also confirmed that the challenge of capacity building and skills transfer to municipal officials to ensure sustainability of the results are yet to be resolved. This is not the only challenge, but it seems to be the challenge that most inhibits further progress - PSU is acutely aware of this, and has some proposal to make in this regard.

Another challenge is that while the outstanding results produced with the assistance of PSU are indeed significant, the results do not provide a complete and totally successful financial recovery or turnaround for the municipality. A limited intervention over a short space of time addressing some but not all of the challenges in a municipality cannot provide a total and lasting solution to the financial distress that is structural in nature and has accumulated over more than 20 years. Debt collection (including any variations such as the “restructuring” or selling of the debt owed to municipalities) will have limited success if the fundamentals of debtor management are not corrected and maintained. This challenge is one that PSU will not be able to resolve alone, but PSU firmly believes that it can provide a positive contribution as part of a multi-disciplinary team if given the opportunity.

PSU is now confident of the practical solutions and tangible results that can be produced – to demonstrate this confidence PSU is willing to be put to the test by working without a normal fee for services provided, and rather being rewarded with a small percentage of the positive financial results that will accrue to the municipality. The municipality or other relevant client will now have choice to pay PSU a normal fee for services provided or to appoint PSU to work at risk and be rewarded with a small percentage of the positive financial results that will accrue to the municipality, or a combination of the two depending on the scope of work.

A typical PSU Revenue Analysis analyses the gap between the current revenue for services in relation to the maximum revenue that a municipality should receive. This analysis focuses on revenue due to services provided by the municipality rather than on grants, transfers and/or loans, and is thus an analysis of the financial base of the municipality. In essence, it is a test of how well the municipality bills for all services on every property within its jurisdiction, and the rate of payment by its consumers for such services.

The Revenue Analysis entails the municipality providing PSU with specified billing and payment data directly from the municipal billing system (PSU has experience working with all systems currently in use). covering the following aspects:-

1. Analysis of accuracy of accounts and other debtor information;
2. Coverage of billing in relation to number of properties within the jurisdiction of the municipality;
3. Assessment of coverage of properties in relation to the provision of metered services;
4. Assessment of payments in relation to billings;
5. A Debt analysis by debtor type, services, ageing, etc.;
6. Consumption of services as it relates to billing and payments;
7. Assessment of accuracy of tariffs applied for billings.

On the basis of the above Analysis, PSU will identify opportunities for revenue enhancement, and where possible quantify the anticipated revenue to be able to demonstrate the financial benefit that the municipality may expect. It will also contain a costing for getting the proposed work done.

PSU will offer to turn the Analysis into a Revenue Enhancement Strategy and Implementation Plan to be implemented on a normal fee basis or on the basis of drawing a commission based on the enhancement of the bottom line figure due to PSU's activities (or as an unsolicited bid for consideration to the municipality). PSU will place qualified and experienced teams of people on site to work with the relevant municipal officials to implement the Revenue Enhancement Strategy and Implementation Plan (relevant officials to be delegated to project to work side-by-side with PSU team). This approach will enable a meaningful on-the-job training of delegated municipal officials during the implementation of the strategy.