



SOUTH AFRICAN LOCAL
GOVERNMENT ASSOCIATION

SALGA

Inspiring service delivery

**EXPLORING SURHAGES
AS A MEANS
TO IMPROVE REVENUE COLLECTION
BY MUNICIPALITIES**

Bathandwa Vazi

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SALGA KEY FOCUS AREAS

SALGA MANDATE

Transform local government to enable it to fulfil its developmental mandate.

Lobby, Advocate & Represent

Lobby, advocate, protect and represent the interest of local government at relevant structures and platforms.

Employer Body

Act as an employer body representing all municipal members and, by agreement, associate members.

Capacity Building

Build the capacity of the municipality as an institution as well as leadership and technical capacity of both Councillors and Officials.

Support & Advice

Support and advise our members on a range of issues to assist effective execution of their mandate.

Strategic Profiling

Build the profile and image of local government within South Africa as well as outside the country.

Knowledge & Information Sharing

Serve as the main hub of LG knowledge and intelligence and to facilitate peer learning within the sector.

Inspiring Service Delivery

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OBJECTIVES

Our mission is to support the scaling up of municipal infrastructure and the provision of integrated, equitable, affordable and sustainable services.

OBJECTIVES

- Our scope of work covers **water and sanitation, electricity and energy, waste management, roads and transport, human settlements, environmental management and climate change.**
- We support the **decentralization** of services with an emphasis on **capacity building** for:
 - Governance
 - Service provision
 - Environmental management and resilience to climate change

SALGA PREVIOUS STUDY RESEARCHES

- The Municipal Infrastructure Services (MIS) unit within SALGA does frequent research work which is presented as Position papers or research studies.
 - The purpose for this is to provide the most updated means and methods of tackling electricity and energy related challenges
 - **SALGA research work will always look at policy development, Sectoral development and the impact to Local government**
 - **Also strive to improve Local Government processes by finding better and smarter ways of working**
- 



INTRODUCTION

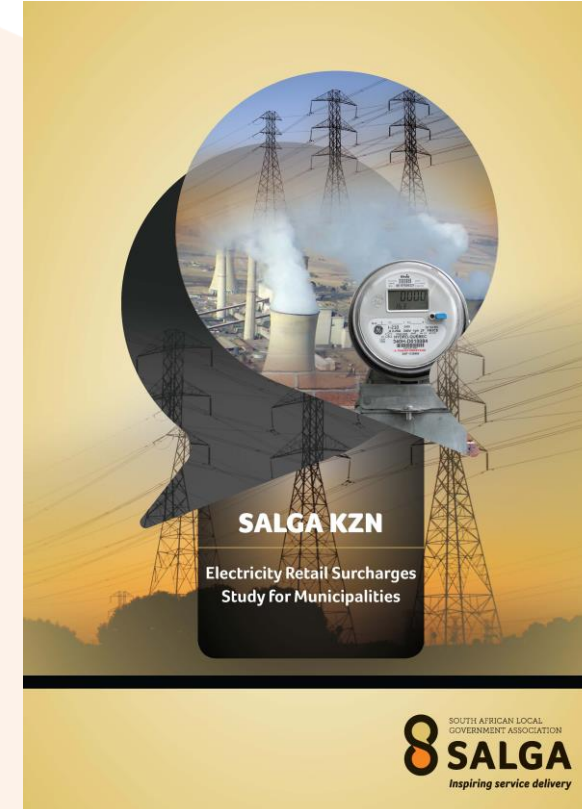
**THERE'S AN INVISIBLE LINE RUNNING
ACROSS MUNICIPALITIES**

- where the developmental role of local government is undermined
- where some communities are prejudiced relative to others

BACKGROUND

Municipal Revenue Base

For the quarter from January 2015 until March 2015, the largest contribution to total municipal revenue was made by 'grants and subsidies received', which contributed 27, 8% to municipalities' operating income. The second leading contributor to total municipal revenue was 'sales of electricity' (25, 8%), which was followed by 'property rates collected' (17, 0%), 'other income' (13, 6% – this includes fines, licenses and permits, public contributions and donations amongst others), 'sales of water' (9, 1%), 'sewerage and sanitation' (3, 9%) and 'refuse removal' (2, 8%).



EXAMPLE OF COLLECTION RATES

Municipal collection rates in areas supplied by municipality

80%

94%

94%

Municipal collection rates in areas supplied by ESKOM

11%

40%

56%

Municipalities cannot exercise credit control in Eskom supplied areas – thus collection is lower

WHY A SURCHARGE STUDY?

- SALGA recently raised that there is a growing trend of residents who are private property owners for more than one property in different regions.
- A property owner will only maintain the account of the property where they are living and based and will leave their other properties accumulating arrears in rates.
- For this reason, SALGA resolved to undertake a study on the management of Surcharges by municipalities. **The study is meant to come up with probable solutions on what municipalities can do to improve their collection through a system of surcharges for later payers and most importantly, non payers of electricity charges and rates**



WHY A SURCHARGE STUDY?

- Many **Municipalities owe ESKOM** in the whole country
- Municipal Accounts are **improperly managed**
- Municipalities are currently still faced with **challenges in collecting revenue** and part of this is an irregular and inefficient system used.
- A large portion of municipal customers fall within the **indigent bracket** receiving free basic services
- **The 2012 household survey revealed an 85.4 % of the South African population with an access to electricity, but the question is, of this percentage, who is actually paying off their electricity rates efficiently and who has their account in arrears?**
- **Private customers and the business sector owes about 108 billion rands.**
- The country's large metros were owed the most – accounting for roughly half or all outstanding debts – or R57.5-billion – according to the treasury.
- The study aims to answer the following questions... :

IMPORTANT QUESTIONS



**ARE VALUATION ROLLS SUFFICIENT MEANS OF
DATA PROVISION FOR MUNICIPAL
PROPERTIES?**

**ARE CURRENT REVENUE COLLECTION SYSTEMS
ACCURATE?**

**IS THE INFORMATION USED FOR BILLING
PURPOSES ACCURATE?**

**ARE SYSTEMS USED TO COLLECT REVENUE
PROPERLY PLACED?**

**IS THERE A WAY THAT MUNICIPALITIES CAN IMPROVE THEIR DATA
COLLECTION THAT HAS NOT YET BEEN EXPLORED?**

OR...

WHERE ARE WE MISSING THE PLOT?

SYSTEMS AND PROCESSES REQUIRED FOR IMPROVED REVENUE MANAGEMENT

1. CORRECT TARIFF SETTING

- Tariffs must reasonable **reflect the costs associated with rendering the service, including capital, operating, maintenance, administration and replacement costs, and interest charges**
- Must be **Set at levels that facilitate the financial sustainability of the service**, taking into account subsidisation from sources other than the service concerned

2. VALUATION ROLL MANAGEMENT

- **Updating of a valuation roll must be done periodically** to enable municipalities to be aware of revenue for any supplementary valuations
- A Valuation Roll becomes an important tool to assist the municipality in setting its electricity tariffs **i.e. tariffs can be set on a low to high order in accordance to the size and value of the property**

SYSTEMS AND PROCESSES REQUIRED FOR IMPROVED REVENUE MANAGEMENT

3. BILLING SYSTEMS AND PROCESSES

- The Misconstrued belief that **Smart Meters help is correcting DATA**
- **Smart Meters rely on existing customer data to work** efficiently in collecting readings
- Land Use Changes and Property Ownership changes have a direct impact to billing data

4. DATA CLEANSING

- Cleansing data requires an understanding of **Data, Demographics** that make up a municipal's customer base. The type of Customer / Collections management **Systems** in place
- Data Cleansing looks at updating Property Ownership info, Occupancy Info and Affordability Info.
- All three aspects provide a holistic view to information on a property, needed for the correct billing and collection

CAN SURCHARGES IMPROVE REVENUE COLLECTION BY MUNICIPALITIES?

“The feasibility of such a system is premised upon the Municipal Fiscal Powers and Functions Bill of 2007 which states that

“To regulate the exercise by municipalities of their power to impose surcharges on fees for services under section 229(1)(a) and to provide for the authorization of taxes, levies and duties that municipalities may impose under section 229(1)(b) of the Constitution of the Republic of South Africa, 1996; and to provide for matters connected therewith.”

CAN SURCHARGES IMPROVE REVENUE COLLECTION BY MUNICIPALITIES?

WHAT THE LAW SAYS

- The Constitution assigns municipalities executive authority and right to administer electricity reticulation within their municipal area (i.e Municipalities are service authorities by law)
- The MSA authorises municipalities to provide electricity reticulation themselves (through an internal mechanism) or through an external mechanism – such as City Power or Centlec– by entering into a service delivery agreement (SDA)

MUNICIPALITIES HAVE EXECUTIVE AUTHORITY FOR ELECTRICITY RETICULATION

Which includes:

- Adoption of bylaws
- Giving effect to their tariff policy
- **Impose surcharges on service fees where services are provided on behalf of the municipality**
- **Exercise their credit control policy (disconnect services where there are arrears)**
- This authority provides **municipalities with a firm base for generating revenue** from electricity user fees

CAN SURCHARGES IMPROVE REVENUE COLLECTION BY MUNICIPALITIES?

OBLIGATORY REQUIREMENTS FOR MUNICIPALITIES

- A municipality must, when imposing a surcharge on fees for services provided by it or on its behalf comply with any norms and standards referred to in section 8 of the Municipal Fiscal Powers and Functions Bill of 2007.
- A municipality must when complying with section 75A of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000), disclose any municipal surcharges.
- (3) A municipality must annually as part of its budget preparation process review any municipal surcharges.

OTHER IMPORTANT FACTORS CONCERNING SURCHARGES

The lack of SDA with Eskom and municipalities has resulted in municipalities losing regulatory and financial control over electricity reticulation – to the prejudice of many of their residents

Surcharges cannot be charged in Eskom supply areas - thus municipal supply areas subsidise services for residents and businesses in Eskom supply areas

There is a **lack of tariff parity** – where tariffs in the municipal supply areas include not only the costs of purchasing electricity from Eskom, but also additional costs associated with the service

Credit control policies cannot be implemented in Eskom supply areas
– and thus revenue collection in these areas is lower

RECOMMENDATIONS

SALGA recommends the following possible actions that municipalities can take in-order to impose surcharges thereby improving their revenue collection

- Municipalities can **amend their credit control policy and by-laws** in-order to allow for an open system where sharing of customer data between municipalities is permissible
- **Data cleansing**
- Taking cognizance of the **property owner, property occupation** and full details of the actual use of the property when setting tariffs and sending out billing invoices
- **The submission of an application to impose surcharges to the Minister of cooperative governance** with the assistance of organized local government
- **Setting of tariffs to be the responsibility of all the departments affected** rather than such being left onto the Financial services directorate
- Updating of the GIS system software annually
- Updating of land use changes into the land use and zoning plans by use of the GIS system Monthly with all land use changes captured

THANK YOU

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