



**THEMBISILE HANI LOCAL MUNICIPALITY**  
**FINANCIAL RECOVERY AND DEBT COLLECTION PLAN**

**2015/16**

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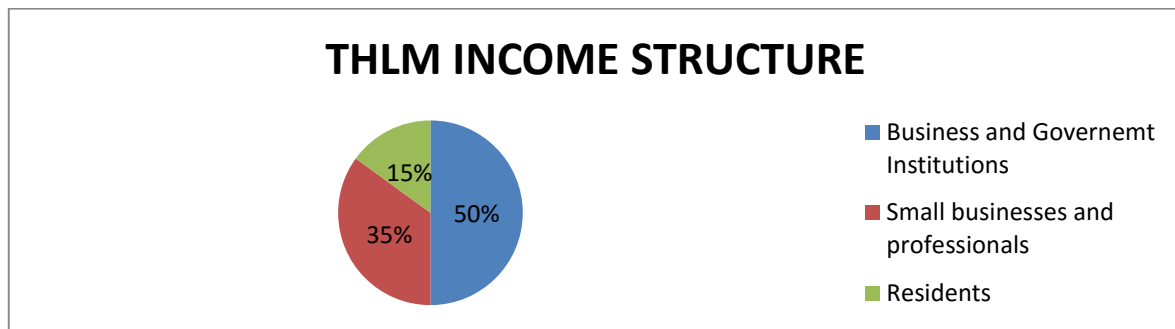
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## Introduction and background

Thembisile Hani Local Municipality has been diagnosed to have significant challenges in revenue collection and there are significant amounts of money owed to the municipality by its clients. The amount has accumulated over a period of time due to lack of effective controls in revenue collection.

The objective of this document is to undertake to address financial and institutional challenges faced by the municipality. The document focuses in the formulation and implementation of strategies to improve financial management and controls within the municipality. The objective of any successful financial recovery plan is to build or improve the current payment levels and then to recover arrear debt.

The municipality's client base can be summarised as follows:



From the above diagram, it can be seen that most of the income for the municipality comes from Business and Government Institutions, the second contributors are small businesses and professional employees. Even though other residents are a lot in number, they contribute the least percentage to municipal revenue. Most of them are also indigents which are subsidised for services rendered.

As indicated, this document seeks to identify causes for non-payment and to develop a strategy to address those challenges. In order to develop an effective system of revenue collection, it is important to understand the reasons and dynamics behind the current situation. Revenue collection problem does not only start when the client has defaulted but early in the revenue and receivables cycle when the consumers applies for services, when there are no proper controls in processing of bills and many other reasons within the process.

Upon analysing the situation in the municipality, **challenges** have been identified around the following areas:

- Application by clients for services to be rendered by the municipality.
- Service Delivery

- Maintenance of ageing income generating infrastructure
- Indigent register
- Billing, Non-compliance to the **legal framework**; municipalities not fulfilling their core mandates (billing, collection, service delivery), Measuring consumption **accurately, regularly**, Timely **distribution of statements** to correct customer addresses/emails/cell phones
- **Data integrity** (billing information & customer information), Unreliable **baseline information** as a result of poor data integrity
- Unrealistic revenue estimates during the budgeting process
- Tariffs, Unjustified tariff increases,
- Receiving and Recording of receipts, Fragmented business processes
- Credit Control
- Insufficient provision for **debt impairment**
- Customer care
- Distribution Losses
- Non- monitoring of service providers contracted for revenue generating activities, e.g.- supplementary valuation rolls

#### What needs to be done in summary?

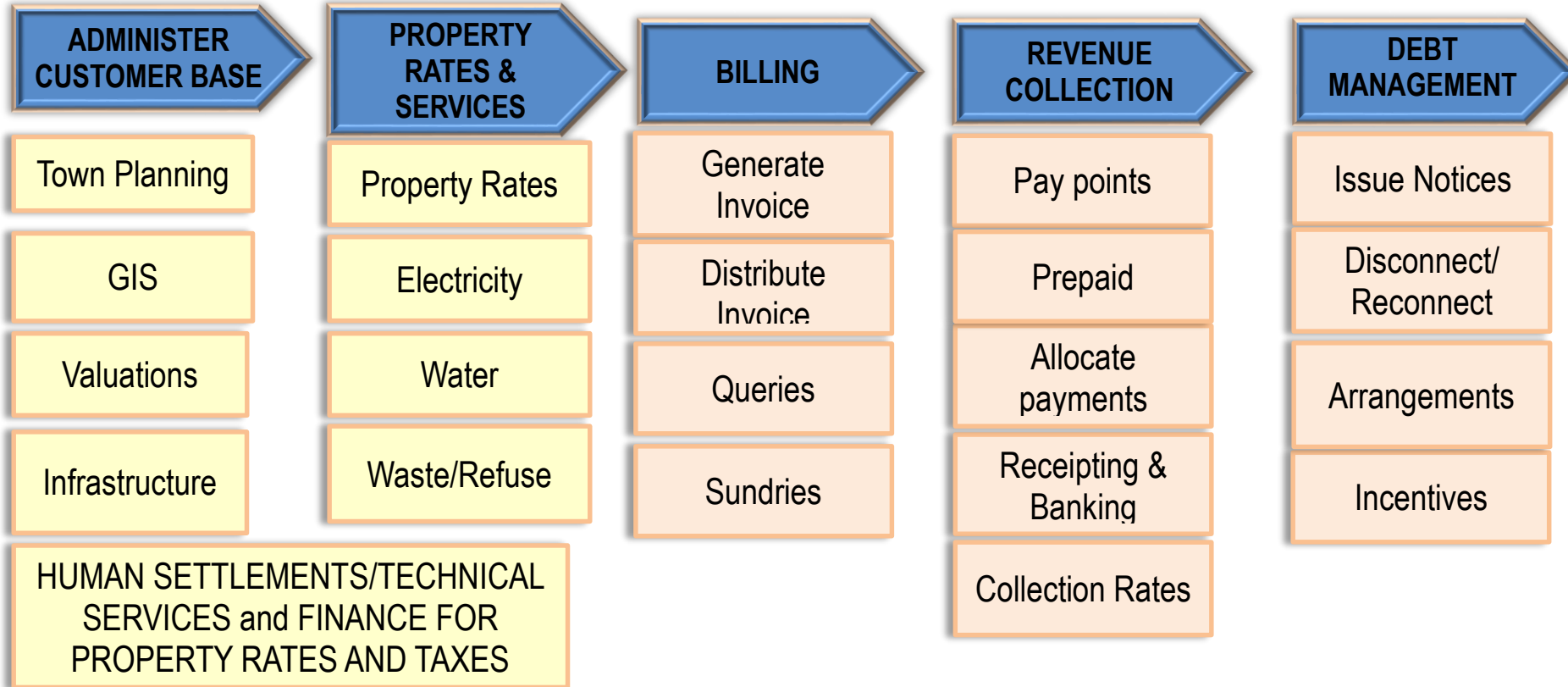
- **Improve data integrity** in the transaction processing environment
- **Effectively** implement legislation, policies and procedures (Compliance and good practice)
- Confirm the **completeness of revenue**
- Implement a **targeted approach** to debt collection
- Improve **customer service**
- **Protect and grow** the revenue base
- Improve **organizational structures** ( Increase Capacity)
- Comply with the **legislative framework** (valuation rolls, supplementary valuations, objections and so on)
- Maximize the **revenue potential** of property rates and trading services
- Implement **effective policies**; adopt by-laws

The purpose of this document is to create a conducive environment for consumers to pay services by developing strategies to mitigate the challenges as identified above. (See Proposed Action plan to address challenges in revenue section)

# BILLING & COLLECTION (POLICIES, BY-LAWS & PROCEDURES)

COMMUNICATION/PUBLIC PARTICIPATION

DATA INTEGRITY



INDIGENTS MANAGEMENT

SERVICE LEVEL STANDARDS (Municipality must do its part, service delivery)

## **Planned Approach**

The challenge in any debt collection programme is time. As stated above, there are arrears accumulated over a period of time and will take some time to recover. However it should be noted that for a sustainable service delivery to take place, service payments must be linked to the provision of services. It should also be noted that some of the activities are funded from own revenue generated, so proper collection mechanisms should be established and maintained.

The fact remains that the outstanding debt will not be recovered immediately but over a period of time. Systems, policies and procedures need to be implemented and this will take some time. However, the municipality simply cannot wait until all systems and processes are in place. It is important that revenue collection and enhancement strategy be done in phases, with the initial focus on short term gains, stabilising the financial situation, improving systems and processes and collecting what is realistic and collectable.

The revenue enhancement strategy will be divided into three phases which are short term (Collection from government and large business debtors), medium term (stabilising the billing system and processes as well as collecting from small businesses and professional people) and long term (data cleansing, installation of metering system and collection from resident debtors).

### Short term (End of September 2014)

Short term strategy should provide for quick gains. Large businesses and Government institutions contribute about 50% of the municipal revenue. These are not the clients with a high level of current and arrear debt but collection can be easy. It should be noted that not all of these accounts are correct or recoverable. This can obviously affect our receivables. An urgent reconciliation of all these accounts will result in a significant reduction in outstanding debts, through payment or correction.

While we are busy trying to address debt which has accumulated over a period of time, we should ensure that current debt is collected in the best possible way. Systems and processes must be formalised to ensure that current accounts are managed on a monthly basis. We should ensure that we don't once again react while the debtors' book has piled again.

Cogta will also be involved by sending invoices of the government debtors to assist with collection. Our Legal Department together with the outsourced service provider will also be featured into the picture to assist in recovering

### Medium term (End of December 2014)

The medium term plan will focus on the approaching of small businesses and professionals.

As already indicated above, this category contributes about 30%-35% of municipal revenue. These customers will be identified and a similar collection strategy as that in the **short term plan** will be followed.

## **Long term Plan (expected completion date-end of June 2015)**

### **Dealing with resident debtors and Data Cleansing**

Residents provide a significant share of accounts receivables, more than R250 million. These will be spared for last as most of their data is inaccurate. Data cleansing can reduce the balance of these receivables before collection can event take place. We have however completed the compilation of valuation roll in 2013/14 for usage in the next financial year.

### **Installation of metres**

Nkangala District Municipality has completed a project for installation of prepaid meters (Business and government) as well as the replacement of meters in residential areas (Kwa-Mhlanga and Tweefontein K). Extention in other areas was done by the municipality. This is important as there will be no accumulation of accounts receivables for government and businesses as collection will take place as water services is rendered.

### **Application of credit control policy and write off of uncollectable amounts**

After every customer has been approached, data cleansing conducted and there are no still no receipts, credit control policy should be applied. Consideration should also be given to granting of payment discounts (write off 50% debt if the customer pays the full debt immediately). Amounts that cannot be collectable or which will be uneconomical or which will be uneconomical to do so will have to be written off.

### **Other possible income sources**

- Mining royalties for mines around the municipal area
- Electricity distribution license
- Recovery of excessive use of telephones
- Tender documents prices to vary in relation to the value of the tender
- Billing those consumers using boreholes as they are not currently being billed
- Implementation of Traffic back office for the issued penalties to motorists.

**Proposed Action Plan to address challenges in revenue section**

<b>Challenges</b>	<b>Root Causes</b>	<b>Implementation Strategy</b>	<b>Key Performance Indicator</b>
There are no proper application forms and service level agreements.	Weakness in controls established regarding approval of service application.	Service level agreements must be filled and signed on application for services. Supporting documents must also be submitted.	All customers, new and current should have service level agreements.
People with indigent status are not receiving access to free basic services as per national policy. Equitable share is for this purpose.	Indigent register not prepared. Tariffs for indigents not prepared and sent to council for approval.	Speed up the completion of the indigent register and its verification.	Completed indigent register and implementation of the policy thereof.
Billing not prepared timely and statements not sent to consumers on time.	Late closure of the system which results in late capturing of transactions and billing (Ineffective transaction processing).	Daily capturing of transactions into the system to avoid backlogs. Setting of proper cut off dates for finalisation of the billing and the sending of statements.	Billing completed on time and accounts also distributed timeously which may result in improved receipts.

<p>Billing system does not provide accurate, complete and valid information regarding consumer and property information and thus inaccurate accounts are sent to customers. (e.g., Receivables are over-stated because of duplicate accounts)</p>	<p>Unlimited access to the financial system coupled with inadequate segregation of duties over the opening of accounts.</p> <p>Proof of residence used to open consumer accounts resulting in more than one bill per household.</p>	<p>Dedicated data cleansing project. Due to the fact that this exercise was performed before and it was fruitless, data cleansing can only be done in-house by ensuring the completeness of the valuation roll and then matching data of the valuation roll to the billing system to identify inconsistencies and follow up done.</p>	<p>Improvement in the reliability of billing information. (On-going process)</p>
<p>Consumer contact information not accurate resulting in sent accounts not reaching the consumer</p>	<p>Consumer contact information not updated in the system. No proper follow ups of returned accounts to determine the reasons.</p>	<p>Dedicated data cleansing project. Due to the fact that this exercise was performed before and it was fruitless, data cleansing can only be done in-house by ensuring the completeness of the valuation roll and then matching data of the valuation roll to the billing system to identify inconsistencies and follow up done.</p>	<p>Improvement in reliability of consumer information and improved management of non-existing accounts. (monthly exercise)-this will be more effective on completion of data cleansing.</p>

<p>Meter reading are not functioning properly for metered services resulting in loss of income</p>	<p>No replacement or maintenance plans.</p>	<p>Installation of prepaid water metres for businesses and government and replacement of conventional metres for households at Kwa-Mhlanga and Tweefontein K is a step on the right direction.</p>	<p>Improvement in revenue collected as billing will be based on actual consumption. Prepaid system will also result in less accumulation of accounts receivable. (Once meters are installed)</p>
<p>Billing and monthly reporting are always done before month end closing procedures can be completed, e.g. Reconciliations done after system closure.</p>	<p>Late closure of the system. This results in late capturing of transactions and billing.  Manual receipting of cash which results in bottlenecks as transactions can remain off the system for a long time.  No proper cut off dates set for billing deadline and no proper guidelines on what activities should happen before billing can be done.</p>	<p>Daily capturing of transactions into the system through reviews and reconciliations.  Setting of proper cut off dates for finalisation of the billing and the sending of statements. Billing date changed to 25<sup>th</sup> of March to improve month end closing procedures.</p>	<p>Timely Billing and accurate billing (Monthly)</p>
<p>Access to add and remove the client from the system with no supervisory control</p>	<p>Weakness in controls</p>	<p>Controlled access into the system Monthly review of amendments to master files.</p>	<p>Improved segregation of functions.</p>

<p>Exception reports not printed and reviewed (identification of unusual consumption, duplicating accounts and accounts with no consumption etc.) and corrective actions taken to improve accuracy and completeness</p>	<p>Weakness in controls</p>	<p>Monthly review exception reports</p>	<p>Accurate accounts sent to consumers but will be more effective when data cleansing is concluded and metres installed. (Monthly)</p>
<p>Tariff charges for trading services does not cover all cost associated with provision of such services resulting in high reliance on equitable share and other subsidies to provide such services thereby impacting service sustainability</p>	<p>Tariff structure is based on fixed charges which do not take consumption into account and not variable charges. Baseline data used for setting of tariffs is not reliable.</p>	<p>Installation of water metres and review of tariff structure to be in line with consumption. Dedicated data cleansing project.</p> <p>Due to the fact that this exercise was performed before and it was fruitless, data cleansing can only be done in-house by ensuring the completeness of the valuation roll and then matching data of the valuation roll to the billing system to identify inconsistencies and follow up done.</p>	<p>Installed meters and charging of a variable tariff that reflects consumption. (Once Meters are installed)</p>

<p>No segregation of duties over cash handling activities: cash collection, banking, recording and reconciliation resulting in errors not being detected.</p>	<p>Issues regarding delegation of work and subordinates not assuming responsibility for their duties.</p>	<p>Drafting of transaction processing manuals, reconciliation and cash handling procedures to guide employees.</p> <p>Review of job descriptions of staff members</p>	<p>Properly defined roles and responsibilities of each official.</p>
<p>Suspense accounts are not cleared timeously</p>	<p>Proper referencing of payments is not used especially for direct bank deposits.</p>	<p>The importance of using proper reference when making payments to the municipality should be emphasized.</p> <p>The bank needs to be engaged on a daily basis to follow up on any deposits which cannot be traced to a specific person.</p> <p>Customers should be asked to bring their supporting documentation when they feel accounts have not moved for a while.</p>	<p>Reduction in unallocated deposits and other suspense accounts. (Monthly)</p>
<p>Credit control policy exists just for the sake of compliance.</p>	<p>Absence of metering for imposing restrictions for non -rate payers</p>	<p>Prioritising collection of debt due by businesses around the municipal area as well as</p>	<p>Establishment of the division and subsequent reduction in accounts receivable.</p>

		<p>government since they provide a significant share of revenue.</p> <p>Ensure that municipal workers residing around THLM area of jurisdiction and councillors are billed for services and do not fall behind for more than three months with services.</p> <p>Obtaining of electricity distribution license to be used as a credit control measure for non-rate payers. Electricity sale is a source of revenue on its own.</p> <p>Ensure approval of by-laws to give effect to implementation and enforcement of its credit control policy.</p>	Improved revenue collected.
Excessive use of telephone is not detected and costs recovered.	No System in place.	Installation of monitoring system to monitor consumption.	Recovery from payroll of amounts for excessive use of resources. (can be achieved once the system is installed)
Mines around Thembisile Hani area of jurisdiction are not billed for services as well as royalties for mining.	No tariffs for boreholes No tariffs for billing of royalties	Motivation to council for approval of this tariffs for 2013/2014 financial year	Improved Revenue

<p>Lack of understanding the importance of interdepartmental reliance to ensure improved revenue.</p>	<p>No proper communication between different municipal departments to ensure efficient flow of information.</p>	<p>Ensure that different departments understand that the responsibility of ensuring improved revenue does not solely rest with finance but requires dependencies on other directorates or sub-directorates such as Technical, Human Settlements, Business Licensing, communications, Executive Mayor's office.</p>	<p>Improved Revenue</p>
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## **Conclusion**

Given the current situation at the municipality, we have to pay more attention on the causes of the problem while also addressing the collection issue. This means we will have to start at the beginning of the billing cycle with the process of applying for municipal services. Upon completion, the next step will be preparing accurate bills and ensuring that the accurate bill reaches the correct consumer on time (getting customers details in order). Data cleansing and installation of the metering system are therefore of a paramount importance for any successful revenue collection. Systems must then be in place to ensure that on the date for payment, the municipality receives the money and allocates it correctly. If not paid on due date steps must be instituted immediately.