



## Environment and Forestry

*Elixir Environ. & Forestry* 97 (2016) 42152-42159

**Elixir**  
ISSN: 2229-712X

# Municipal Consumer Debt Recovery Strategies in Thulamela Municipality: Lessons for decision makers.

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### ARTICLE INFO

#### Article history:

Received: 27 June 2016;

Received in revised form:

5 August 2016;

Accepted: 10 August 2016;

#### Keywords

Municipal consumer debt recovery,  
Municipal strategies,  
Collection of rates & taxes,  
Effective implementation,  
Service delivery.

### ABSTRACT

This paper discusses the effectiveness of strategies used by rural municipalities in recovering service consumer debts. The choice of Thulamela municipality was informed by increases in municipal service consumer debts as a result of inadequate collection of rates and taxes. Unemployment, lack of enforcement of debt and credit policy issues was among the challenges for the municipality. A municipal service consumer debt recovery survey approach was used to unpack the challenges. The municipality uses an ad hoc debt recovery process instead of a holistic approach. The study outlines lessons to be learnt from the Thulamela experience for decision makers at local municipal level.

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### Introduction

According to [1], municipal debt in many developing countries is a revenue collection problem that has reduced the financial bases of many rural municipalities. His statement is topical because provincial and local governments in developing countries like Kenya and South Africa have been struggling to meet huge budget deficits and revenue shortfalls in the last 10 years. The problem with municipal budget deficits is related to the municipalities' inability to collect revenue from property tax and cost on services and other revenue enhancement avenues. With respect to municipal debt, [2] indicated that the situation does not only affect the revenue generation for municipalities, but it affects also the local residents because quality of service delivered is compromised. Many municipalities are in similar situations today because they are struggling to keep up with the growing demand for services by consumers. They cannot create sound financial bases for providing services due to escalating volumes of municipal consumer debts, [3]

The paper assesses different perspectives on the impacts of non-payment of rates and taxes on the municipality's financial base which has resulted in debt formation thereby compromising quality and efficient municipal service delivery. In addition to this, the paper underlines the importance of appropriate revenue management, proper update of the indigent registry, encouragement payment of rates and taxes, follow ups on municipal debtors, ensuring payment remainders and evoking legal action as well as employing skilled municipal personal to enforce policies and by-laws on credit control and debt recovery.

#### Aim of the paper

The aim of this study is to explore and explain the strategies used by rural municipalities such as Thulamela LM to recover debts owed by consumers. This is because previous researches have not explored adequately why several debt collection strategies did not succeed in most rural

municipalities. The paper also discusses the lessons that could be learnt from the example in Thulamela rural municipality in South Africa. The paper examines if the level of the enforcement of debt collection strategies contributes to the problem or it is explained vice versa other reasons that are peculiar to rural municipalities. In addition to this the analysis explains the constraints and opportunities associated with debt recovery in rural municipalities. The paper discusses how unemployment contributes to municipal revenue collection challenges. The paper finally concludes by recommending policy strategies for decision makers in addition to the lessons learnt.

#### Methodology

The study uses a municipal survey approach to determine the strategies Thulamela municipality use to collect rates and taxes and enforce the strategies for debt recovery. It also examines the constraints and opportunities associated with municipal debt recovery in order to determine the challenges the municipality faces with revenue collection in general. In order to achieve this, the results of the findings were compared to the data from key informants and the municipal annual financial reports and statements as well as information from the ordinary residents in the municipality in terms of how ineffective revenue collection affects them in terms of the provision of basic services like electricity, pipe borne water supply, waste water treatment works and solid waste collection. The data analysis and deduction from municipal statements and official figures were corroborated and analysed to explore and recommend other strategies for recovering municipal service consumer debts.

#### Related Literature on strategies for recovering municipal service consumer debts

Many authors have published articles on municipal finance management and revenue generation but there is very little on municipal consumer debt recovery strategies

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[4] noted that the accumulation of debt in municipalities is due to poor institutional arrangements and strategic plans and this leads to inability of municipalities to appropriately deliver services as well as meet their primary objective of service delivery to the people. [2] described the magnitude of municipal debts around the world as worrisome to the extent that if not prudently addressed can affect other government sectors which depend highly on municipal revenue collection to provide services such as electricity and public transport.

In addition to this [1] indicated that municipal consumer debt recovery depends on municipal collection of rates and taxes as well as municipal revenue generation strategies used by local and district municipalities. [5]; proposes two contrasting arguments on the one hand, rural municipalities that have poor households in the formal urban component face revenue viability challenges. On the other hand, rural municipalities with richer households tend to have high levels of property rates and tax collection. In this regard, the question is whether urban municipalities perform better in terms of collection of rates and taxes because of economies of scale or the issue of tenure ship in urban environments [2].

Contrary to the arguments presented by the authors in the preceding paragraphs, some municipalities perform well in terms of revenue collection, revenue enhancement and the provision of basic services to the residents. In a Development Bank of South Africa (2014) report, it was argued that contrary to the fact that most municipalities in developing countries are failing to meet the provision of basic services there are many others that have been providing services because they have managed, their revenue collection strategies adequately [1].

From a Submission by the Division of Revenue Report (2014/15) titled, "A Collaborative Effort to Enhance Revenue Generation in Rural Municipalities", showed that the tax base of district municipalities in South Africa do not perform well due to revenue collection challenges. This scenario was cited as emanating from high level of poverty and low levels of economic activity in rural municipal.

According to [7], exploring debt recovery strategies of municipalities has become a very important task for most municipalities in South Africa. Several researches conducted on challenges municipalities face to collect rates and taxes for service, shows that the situation is not getting any better because the revenue base of such municipalities is poor. A study by [9], on Vhembe District Municipalities in South Africa shows that payment of services by the local residents is very poor. [9], further noted that from 2002 to 2015, municipalities were owed about R22 billion from rates and service charges.

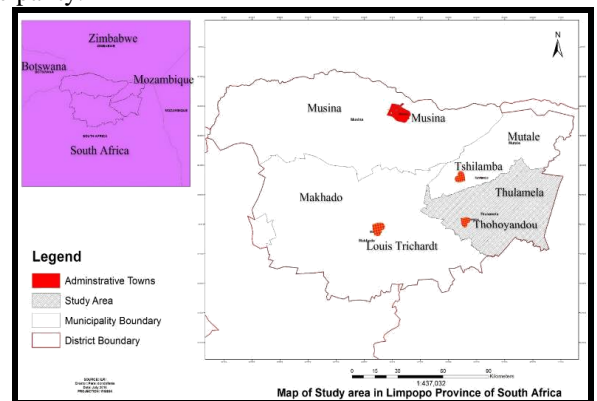
#### **Discussions on municipal consumer debt recovery in Thulamela LM**

This section of the report discusses and explains in detail Thulamela municipal service consumer debt recovery, situation with respect to the challenges, debt outlooks including budget deficits, and the current debt situation in the traffic and technical units of the municipality.

#### **Thulamela municipal consumer debt recovery challenges**

The challenges faced by Thulamela local municipality has often been ascribed to the rural nature of the economy. Indeed Thulamela local municipality is a category B municipality and is one of the four local municipalities comprising the Vhembe District Municipality. It is situated in the far north of Limpopo province. It is bounded by the Kruger National Park from the east, Mutale local municipality in the north-east and Makhado

and Giyani local municipalities in the south-east and west respectively. Figure 1 shows the location of Thulamela municipality.



**Figure 1. The geographic scope of Thulamela local municipality**

From figure 1, we can see that although the municipality is the largest of the four local municipalities in Vhembe District it is considered a rural municipality. In South Africa, the Municipal Finance Management Act, No 56 of 2003, requires that all municipalities have clear audits i.e. with no adverse negative financial burdens. However, the Auditor General Report (2013/2014) financial years shows that although there has been commendable good governance in the public sector finance, local government audits show that debt recovery is a serious challenge.

Thulamela Municipality is a Grade 4 Municipality, which in terms of population is rated as a Metropolitan municipality, in terms of revenue generation, consumer debtors on billed services owed to the municipality was very huge i.e. R184.1 million by the end of February 2013, [23]. The current council payment level of municipal services is 18% of the total. This figure excludes consideration for the newly demarcated tax paying areas [11]. Failure to address the challenges faced by the municipality in driving up the revenue base in terms of rates and taxes will have major consequences on the ability of the municipality to provide services and the maintenance of basic services like roads and storm water. In terms of the Municipal Finance Management Act, 56 of 2003 provisions, the municipality has the local economic development plan and the revenue enhancement strategy but the study revealed that payment of rates and taxes by residents is very poor.

The poor level of debt collection according to the key informants from the finance and technical unit of the municipality attributed the problem to high unemployment levels in the municipality. [12], Thulamela municipality recorded a total of 43,8% unemployment rate with 58,3% being youth unemployment. Furthermore, 372 557 people were without income and 162 764 people earn between R1 and R800. This leaves majority of the households having little income for example less than R16 a day or R480 to pay for services such as refuse collection, sewer charges and other payable services that consumers pay to the municipality.

The high rate of consumer debts in Thulamela LM is as a result of failure to bill and collect property rates and taxes because the majority of the properties fall under communal land tenure where municipalities are not supposed to collect rates and taxes. According to [12], only 14.6% of the total population under Thulamela resides in the urban neighbourhoods while 85.4% resides under the tribal or traditional authority areas.

This makes it difficult because the Municipal Revenue Act does not cover traditional authority areas. In addition to this in proclaimed township areas where municipalities collect taxes constitute only about 14% of the municipal area and 10% of the taxable residents as against a total population of 618 462 people in the municipality

According to [11], only 0, 78% of all traffic fines were paid to the municipality leaving approximately above 90% in unpaid traffic fines. Traffic fines, parking tickets and rental payments by Small Medium Enterprises (SMEs), are sources of revenue for municipalities, but the high mobility of SMEs reduced collection times. Other individuals take longer to pay for fines making it difficult to track debts and record arrears.

The budget and consumer debt situation in Thulamela Municipality

Thulamela LM collects rates, taxes and service charges from property owners for refuse removal, issuance of licenses, permits, building plans applications and building inspections done by the technical services department. However according to [13], revenue generated from property rates was R53.2 million in the 2014/2015 financial year and it increased to R53.7 million by 2015/2016 which represents an increase of 0.9% but more than 60% of service charges remain uncollected by the municipality due to non-payments. In addition to this, the municipality anticipated to collect 40 % in 2014/2015 on billed services which ultimately mean the remaining 60% of the total which the municipality was supposed to collect became municipal service consumer debt. Table 1 shows a consolidated revenue and expenditure for Thulamela LM.

The Equitable share contribution was R338 million for 2014/2015 financial year while in 2015/2016 financial year R443 million was budgeted for the same contribution. There was an increase of R105 million from the previous year. Interest earned on investments was provided for R16 million for 2014/2015 financial year while in 2015/2016 financial year it was R25 million. There was an increase of 9 million. The capital budget budgeted for in 2014/2015 was R 317 million and R 312 million in 2015/2016. It decreased by R5 million. Capital Budget for 2015/2016 financial year was 33% of total budget [13].

Other revenues from property sales taxes, selling of residential stands, tender document, building plans, clearance certificates and hawkers licence constituted the biggest component of the revenue basket of the municipality totalling R71 million for the 2014/2015 financial year but it decreased to R46 million by 2015/2016, [13]. The decrease was attributed to the decrease in the economic performance of the South African Rand in the 2015 as well as the increase in unemployment levels which caused municipal service

consumers to decrease applications for clearance certificates and licenses.

#### Revenue from water and electricity services

It is important to note that Thulamela LM is not a water and electricity service authority [11], and as such it does not generate revenue from such services. This is because the function belongs to Vhembe district municipality. The transfer of water and electricity functions to the municipality and other government parastatals was regarded as both an intelligent and sometimes bad strategy because it limits revenue generation channels for local municipalities struggling to generate revenue, [13].

According to [1], [7] and [14], who argue that municipalities should become water service authorities and providers point out that they will enabled them to collect more revenues. However, it was discovered that most rural municipalities do not have the technical and human capacities to the over such tasks. Kroukamp (1995), Fourie, M & Opperman, (2011), argue that if rural municipalities apply for such licenses and ae given, it will reduce their dependency on government grants and transfers. It was noted that Thulamela was in the process of applying for an electricity distribution license from Eskom and the bidding process was underway. This can be regarded as a clever move but there are possibilities of failure to manage the distribution because if not carefully managed can result in electricity losses and the accumulation of technical problems.

In 2010/2011, there was an increase in municipal service consumer debt. A municipal service consumer debt outlook was conducted via the information provided through the key informants from the finance department of Thulamela municipality, [10]. Figure 1.2 shows the trend in provision for doubtful debts due to low levels of payment of rates and taxes by municipal service consumers.

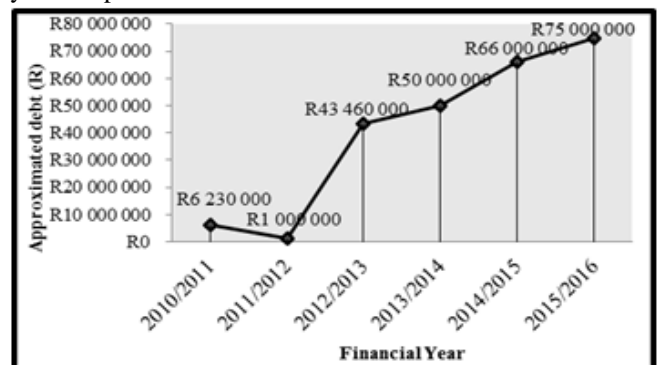


Figure 1.2. Thulamela LM provision for municipal service consumer bad debt outlook

Source: Thulamela LM Budgets and IDP, 2010-2016

Table 1. Thulamela LM Consolidated Revenue and Expenditure.

Consolidated Overview of the 2015/16 Draft Budget					
	Current Year 2014/2015		2015/2016 Medium Term Revenue & Expenditure framework		
Description	Original Budget (R)	Adjusted Budget (R)	Budget Year (R) 2015/16	Budget Year (R) +1 2016/17	Budget Year (R) +2 2017/18
Total Revenue (excluding capital transfers contributions)	742 180 424	625 685 611	737 790 822	754 018 709	774 954 384
Total Operational Expenditure	549 777 611	43 771 218	638 190 824	555 701 209	602 001 143
Surplus/ (Deficit)	192 402 813	43 771 218	99 599 998	198 317 500	172 953 241
Transfers recognized- capital	141 460 000	194 144 330	132 820 000	138 336 000	146 604 000
<b>Surplus/ (Deficit) for year</b>	<b>333 862 813</b>	<b>237 915 548</b>	<b>232 419 998</b>	<b>336 653 500</b>	<b>319 557 241</b>

Source: Thulamela municipal budgets & MTREF, 2014/15–2016/18

Figure 1.2 shows a slight decrease in the provision for doubtful debts between the 2010/2011 financial year i.e. from R6 230 000 to R1 000 000, followed by a sharp increase from R1 000 000 to R43 460 000 and an increase of R42 460 000. In 2011, 2012 and 2013 respectively, the sharp increases were attributed to low levels of payment of rates which we gathered was due to environmental circumstances (political interference) close to local government elections in 2011. From 2012/2013 to 2015/2016 financial years provision for doubtful debts in the municipality increased steadily reaching to a peak of R 75 000 000 in the 2015/2016 financial year. This was attributed to factors such as high unemployment i.e. 43.8%, [12]

#### **Debt Outlook from the Traffic Services Department**

In order to understand municipal service consumer debt recovery from the Traffic Department, documentation on the availability of strategies to recover traffic debts from traffic defaulters were required. The traffic department utilizes strategies such as the execution of a warrant of arrest on payment defaulters effected at roadblocks i.e. if a defaulter did not clear debts and payment of traffic fines within a period of 6 months. In order to encourage defaulters to pay the department also provides a discount of 40% if payment was made within the 6 months period. In the case of defaulters with traceable addresses a traffic officer can be sent to track payments and in the case of an untraceable address radio broadcasting and newspaper advertisement ensure notices of fines are served.

The officials in the traffic services department acknowledged that the payment of traffic fines were poor. This was evidenced by the 0.78% collection of traffic fines by the municipality. As per the municipal draft budget speech for 2015/16 financial years, the collection rate of traffic fines was 40% for billed services to consumers within the municipality but 60% remained as uncollected fines.

#### **Lessons from Thulamela municipal consumer debts recovery challenges**

Considering that most rural municipalities in African countries have just basic revenue base to provide services to the public, there are lessons that can learnt from Thulamela experience. The discussion on the lessons are related to the reasons why payments are not made, poor billing of service charges, inadequate indigent registry, poor debt collection strategies, IT problems and, inadequate by-laws etc.

#### **i. Lessons on unemployment and low income contributing to consumer debt**

Residents' inability to pay for rates and taxes poses a negative impact on municipal service consumer debt recovery in Thulamela municipality. The study revealed that 43% of the sampled population indicated that they could not pay because they had no stable income; a further 20% had income less than R1-R1000, and were regarded as indigents entitled for free basic services like water, sanitation and electricity. In addition to this, those who were unemployed and relied on government social grants were also not able to pay. [16]; noted that non-payment of services was as a result of inability of residents to pay due to lack gainful employment in the municipality where they can earn an income to pay for services.

In addition to this 63% of the respondents indicated that they would not pay for services because the municipality does not provide regular services to them. Residents in non-proclaimed township areas were the most affected with 49% as compared to those in proclaimed in township areas with

14% able to pay because they were provided with services. For example, 63% indicated that they were not satisfied with the services rendered by the municipality and hence were not willing to pay for rates and taxes. Poor service delivery in the municipality was due to ageing infrastructure and improper municipal infrastructure management challenges, [24]. From the above we can deduce that there is a relationship between, unemployment, low income and lack of service provision on a resident's willingness to pay. The rural characteristics of the municipality and lack of job opportunities were said to contribute to non-payment of rates and taxes payment.

#### **ii. Poor billing of services charge system on municipal consumers**

The municipal officials in Thulamela municipality alluded to the fact that inadequate data entries and processing affect the charges that municipal service consumers receive at the end of each month. In addition to this the municipality does not notify them on time and they receive bills long after the month end. The investigation revealed that this was related to billing logistics problems such as inactive addresses of residents, wrong reading typographical errors, failure to determine tenancy accuracy and a host of other reasons affect debt collection. [1]. Further to this improper registration of properties and commercial activities was among the reasons why consumers do not end up paying for services. The study showed that if a municipality does not have a proper customer database, logistics and record keeping, residents may end up not getting bills on time or they may be delivered to the addresses. The investigation showed that approximately 65% of the residents indicated as a major problem.

#### **iii. Inadequate updating of municipal consumer databases**

One of the major lessons to learn from municipal consumer debt from Thulamela municipality was the inability to update consumer database regularly. This assertion was noted by [16] and [25] who stated that it affects the accuracy of the data and that the municipality would not be able to know who is in and who is out. The reason given was that the municipality does not check regularly in their system for example who has not paid certain service charges. The reason was attributed to shortage of human capital in the municipality to undertake field verifications of consumers, [18].

#### **iv. Inadequate debt collection strategies**

The local government Municipal Systems Act, 32 of 2000; the Municipal Finance Management Act, 56 of 2003; the Municipal Structures Act, 117 of 1998 and the Municipal Property Rates Act, 6 of 2004; sets out the procedures and processes for municipal operations, planning governance and accountability in South Africa. These pieces of legislations outline clearly processes for finance management in the municipalities including debt collection strategies. The study revealed that in 2009/2010 to 2010/2011 financial years, R342 390 270 was owed to Thulamela municipality and this increased to R 399 110 168 in the 2011/2012 financial i.e. 16.56%, [10] and [23].

Sometimes the collection of debts in municipalities is given to consultants to undertake and this enhance debt collection. For example in City of Cape Town municipality the strategy worked because revenue for refuse removal rose to 95% in the 2015/2016 financial years as compared to 93% in the 2014/2015 financial years, [8]. In addition ineffective customer care, inappropriate taxes and range of tariffs, incomplete cadastral data and lack of capacity in the municipal finance services department were given as reasons why debts

were not been adequately collected. Similarly the investigation showed that when debt collection is close to local government elections there is the tendency for municipal officials to delay collection until after the elections. This is referred to as environmental or political influences, [20].

#### **v. Impact of ICT on debt recovery**

The finance service department officials indicated that lack of ICT infrastructure was one of least factors impacting municipal service consumer debt recovery. This perception was based on the notion that Thulamela municipality had the necessary infrastructure in place i.e. computers and software's critical for municipal consumer debt management. Nonetheless, the study revealed that the municipality has the ICT infrastructure, experienced personnel but the problem was irregular power supply and systems failure. However, interactions with IT officials from Thulamela local municipality showed that there was low level of ICT performance as evidenced by low level of Wifi network availability. The investigation further showed that inadequate GIS tracking systems on payment defaulters, proper recording of areas, poor road networks, poor customer complaints desk operating 24 hours and database management systems for billing purposes were inadequately managed.

Manual processes resulted in production losses as well as inaccurate data management which reduced effective and efficient municipal consumer debt recovery. From the analysis of the facts from informants and the sample consumers' inadequate skilled personnel required to conduct field surveys in specific locations were delayed because the experienced ICT experts had left for green pastures in more affluent municipalities and the private sector, [21].

#### **vi. Non adherence to enforcement of municipal by-laws**

The key informant from the municipality indicated that rehabilitation and management of a clean debtor book has been partially implemented over the previous years and this has been attributed also to several reasons such as those stipulated above. According to the key informant (2015), 'It is very difficult to attain a clean debtor book', however, the municipality has been struggling to push the level of payment of rates and taxes regardless of key strategies due to non-adherence to municipal by-laws and policies and poor coordination by different municipal departments. This argument was observed by [9], who explains the importance of coordination of various municipal departments to achieve maximum collection of rates and taxes to enhance municipal debt recovery, was premedial.

#### **vii. Inability to implement strategies despite clear policies**

Figure 1.2 shows that the credit control and debt collection policy outlined clear objectives and goals, financial integrity and accountability, appropriate in-house approaches to debt recovery processes, capacity building plan for ensuring skills transfer and training of economic profile register auditors within Thulamela LM were effectively implemented. However, according to the [13], the collection of property rates and taxes for the municipality sits at 40% with a marginal level of a debtor's roll which is increases yearly. This contradicts the responses of the key informant due to the fact that municipal consumer debts would drastically decrease if all the major components of the municipal service consumer strategies had been effectively implemented as revealed by the key informant.

#### **viii. Inability to appreciate consumer reasons for non-payment**

According to the responses of the key informants the collection of outstanding debt was moderately implemented which was in contradiction with the Thulamela Draft Budget (2015/2016), which shows an increase for the provision for doubtful debts from R66 million in the 2014/2015 financial year to R75 million in 2015/2016 financial year. This shows that Thulamela LM was failing to effectively implement its Credit control and debt collection policies due to reasons such as the unwillingness of municipal service consumers to pay for services which they regard as poor, high unemployment levels as well as lack of political support to drive the policy effectively by key strategic stakeholders such as ward representatives.

#### **Municipal Credit Control Implementation Procedure**

The Municipal Systems Act section 96 Act 32 of 2000 requires that any money owed, the municipality must implement a credit control and debt collection measure consistent with rates and tariff policies. The lesson municipal officials can learn relate to customer care and complains credit control procedures-: mechanisms, service agreements, rendering of accounts accurately, check dishonoured payments and debt control procedures and mechanisms should be closely monitored.

#### **i. Customer care and complains**

The study revealed that the mechanism in place to record and respond to customers complains were inadequate because 56% of the respondents indicated that often they would complain that they did not get bills and charges before the end of the month but the municipality was not responding accordingly to these complains. Although the MSA 32 of 2000 has provisions for creation for mechanisms to inform first time defaulters of their arrears before credit control is instituted, the study revealed that more than 60% of the municipal consumers had missed their payments for more than 6 months. Further to this the findings showed that the municipality had established several prepayment points at outlets such as, Thulamela LM offices, Spar, Shoprite Shopping Centres, Pep Stores etc. Regardless of these established payment points municipal consumers were not willing to utilize them due to poor service delivery concerns reported to the customer care and complains department not yet addressed by the municipality, [22].

#### **ii. Credit control and implementation procedures**

The implementation of procedures lies with the implementing authority and the implementing authority will institute the necessary administrative procedures and mechanisms to implement service agreements and rendering of accounts. Service agreements constitute a legal binding document between Council and owner of the property. Accounts should be rendered promptly on a monthly basis to all consumers of properties situated inside or outside the area of jurisdiction where services are rendered by Thulamela municipality. In turn property owners must be assured that accounts are accurate. Although the municipality should render an account for the amount due by the customer debtors, failure thereof would not relieve customer debtor from the obligation to pay [22].

Based on these requirements by section 96 of the Act, inconsistencies arise in the event a consumer is obliged to pay for services which they did not receive a statement stipulating the amount they ought to pay. Although the Act suggests that



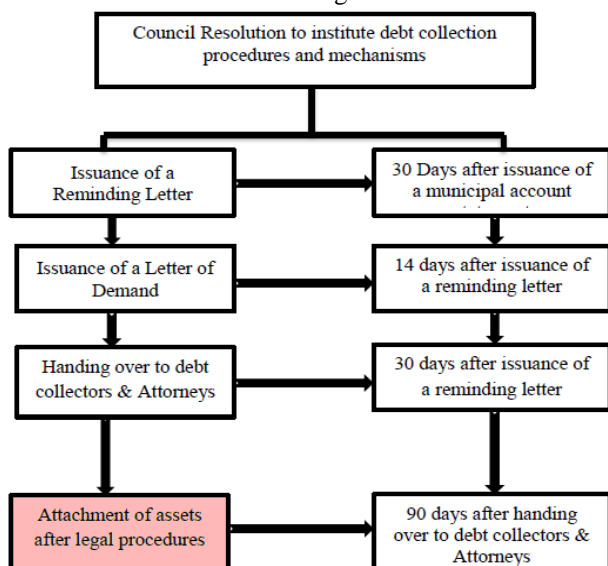
failure of a consumer to pay for an account even though they haven't received a statement for it does not make the consumer not to pay a debt once the statement is received. However consumer perceptions from the study findings revealed that they were not willing to pay debts or any service charges if accounts were not sent to them in time.

### iii. Debt collection procedures and mechanisms

The Municipal Systems Act section 96 Act 32 of 2000 requires local municipalities to follow specific administrative procedures and mechanisms in instituting debt collection. The procedure and mechanisms include but not limited to issuing a Reminding Letter to a consumer incorporating the arrears of his/her account. A Reminding Letter according to the Act should be sent to every municipal consumer 30 days after the issuing of a municipal statement. It is the failure to respond to a reminding letter by a municipal consumer that results in the issuance of a Letter of Demand. The Letter of Demand should be sent to every municipal consumer who is in arrears with his or her account 14 days after the issuing of a Reminder Letter. Further to this, if the owner of a property or municipal consumer fails to respond to the Letter of Demand results in handing over of the municipal consumer to debt Collectors and Attorneys, [22].

The handing over of defaulters means the initiation of a legal process which follows payment of outstanding debts by defaulters to appointed agents by Council. Defaulters who do not respond to the debt collection letters will be handed over to Council's Attorneys for collection. All agents should be supplied with a copy of credit control measures. The Act also requires that the liability for the costs legal action and other credit control actions should as far as is legally possible be the responsibility of the account of the debtor, [22].

The last phase of debt collection procedures and mechanism in accordance with section 96 of the Municipal Systems Act 32 of 2000 includes the attachment of assets if defaulters remain behind with their accounts and Council has followed all other avenues to collect outstanding debt. It is required that Council should the proceed with attachment of assets which may include moveable and immoveable 90 days after handing over to the debt collectors in order to collect outstanding debt, [22]. The procedures and mechanisms for debt collection can be shown in figure 1.2.



**Figure 1.3. Debt collection procedures and mechanisms**  
Source: Author, 2016, Adopted from the MSA 32 of 2000

Figure 1.3 shows the procedures and mechanism of debt collection for local municipalities as stipulated by section 96 of Municipal Systems Act, 32 of 2000. The study revealed that despite a clear procedure provided in the MSA 32 of 2000, debt accumulation within Thulamela and other rural municipalities in Vhembe District is still a persistent problem. These was found to be attributed to a number of factors for example lack of capacity to enforce the procedures and mechanisms within key financial departments such as the credit control and debt collection, the legal services department and the customer care and complains department. The study also revealed that following the entire debt collection mechanisms and procedures had several externalities which had an ultimate effect to silent parties and the costs would end up being borne by the municipalities despite the Act stipulating that they should be borne by the consumers themselves, [22].

### Relevance of municipal debt recovery strategies to Thulamela LM

Over the past years Thulamela LM financial reports reveal the high dependency of the planning authority on external third party consultancy to recover municipal service consumer debts. In this regard the municipality has failed to adequately utilize other municipal debt recovery strategies to prevent debt formation and accumulation. These strategies include staff training, formulation of efficient and effective credit control and debt collection policy, upgrading and modernising billing systems and consumer debt databases and creating and integrated institutional framework with appropriate skills to undertake debt recovery processes. In the long run Thulamela LM has to expand its strategy base to prevent further debt escalation and this can be done through implementation of strategies from the international, regional and local best practices.

**Table 1.2. A Summary of debt recovery strategies**

Full-Outsourcing Approaches	Legal Action	Pro-Active Strategies
Third party debt collectors	Application of litigation on debtors	Pre-paid water systems
Assignment of private consultants for monitoring delinquents	Application of arbitration	Pre-paid electricity systems
Creating a full & comprehensive debt report analysis system	Court orders on consumer defaulters	Installation of efficient billing systems & clean invoices
One-on-one interaction with debtors	Strict enforcement of municipal By-laws	Foreseeable employment of trained personnel
	Enforcement of penalties on defaulters	Formulation of clear & simple payment methods
		Create strong relationships with consumers

Source: Karungari, 2012

Table 1.2 shows a summary of debt recovery strategies used by different municipalities in South Africa and also other municipalities around the world. It is very important to note that utilizing various alternative strategies also can assist

Thulamela LM and other rural municipalities to deal with municipal service consumers appropriately, effectively and efficiently. Understanding the diverse municipal consumer service debt recovery strategies from pro-active, in-house approaches, legal action and full-outsourcing strategies is very critical for this study in relation with municipal consumer debt recovery.

Although some strategies are very controversial, looking at the political, socio-economic and spatiality of various nodes within Thulamela LM also becomes very important to conduct comprehensive feasibility studies on which strategies can work best for the municipality. In addition to this, if feasibility studies are conducted best alternatives can be identified and implemented which bring the best outcomes in terms of municipal consumer debt recovery.

#### **Recommendations for decision makers**

In line with discussions and lessons discussed municipalities should adopt a more friendly system of collecting the debts since it has been found that positive compliance is more sustainable than ad hoc debt recovery procedures. The following discussions include recommendations for decision makers in rural municipalities and elsewhere.

#### **i. Increase in public participation in debt recovery**

In line with the shortfalls in engaging the public about the essence of paying for rates and taxes, and clearing outstanding balances, rural municipalities should carry out interviews with consumers so that they can have appropriate knowledge and information pertaining to their outstanding debts. It was discovered that some of the municipal service consumers fail to clear municipal bill arrears due to lack of communication and knowledge of the associated implications. Municipalities should adopt a more friendly system of collecting debts since positive compliance is more sustainable than duress.

#### **ii. Improvement in provisions of municipal debt recovery policies**

Due to failure of municipal consumers to pay their outstanding debts as stipulated by section 96 of the Municipal Systems Act, 96 of 2000, municipalities must have a clear, formal and written payment and collection policy in place after debt formation and accumulation has occurred. Municipal service consumers must know what is expected of them as well as the consequences of not paying their debts in time. A collection policy must include when the payment is due and when outstanding debts are handed over to the third part for collection. The study recommends that timeframes, mechanisms and procedures be clearly laid and factored in municipal policies.

#### **iii. Proper update of indigent registries**

Municipalities develop indigent registries in order to accommodate municipal consumers who cannot pay for rates and taxes. The challenge is however associated with the frequency with which indigent registries are updated in rural municipalities. In this regard the poverty status of the consumers must be evaluated on a monthly basis as against doing the process on a yearly basis as it not static. The importance of not lying to state officials must be emphasized, and a municipal Community Development Worker (CDW) must regulate the process in the field. The importance of a holistic indigent approach to municipal service consumer debt recovery is that more often than not municipal service consumers who might have improved in terms of their income status are supposed to be upgraded out of the indigent register.

Service consumers who qualify to be on the indigent register might also be receiving monthly bills hence they cannot afford to pay for rates and taxes which ultimately results in debt formation and accumulation. Municipalities therefore have to update their indigent registers on a monthly basis to avoid assuming an overly blown debt record.

#### **iv. Improvement in municipal service delivery situation**

In line with the level of dissatisfaction by the majority of municipal service consumers within Thulamela municipality as observed during site visits and study findings, municipalities have to improve the quality of services to ensure customer's willingness to pay for rates and taxes. With regards to this the municipality is supposed to work on improving the collection rate through improvement of service delivery and clearing outstanding arrears on bill payments rather than focus on venturing in other revenue generating activities.

#### **v. Upgrading of municipal information systems and technology**

Municipalities should invest more resources in debt collection activities to ensure that the objectives and goals of the credit control and debt collection unit are met without constraints. Municipalities sometimes have competent employees but these employees are sometimes limited due to skills shortages more broadly regarding consumer motivation to pay for rates and taxes. This therefore means municipalities need to invest in efficient information systems for example GIS in order to enhance data processing, quicker and more accurate records and reports which will also improve the services being offered by the department to the clients, adequate personnel and all other resources that the employees will need to carry out their duties. Further to this, these efficient information systems can improve operational efficiencies in the identification of new connections, meter reading, bill distribution and following up revenue collections, disconnections and reconnections. This integrated systems help all municipal departments to share and integrate databases of consumers for example unemployment records, payment records, consumer household profiles, indigent registers and robust records of all properties.

#### **vi. Increase in accountability by decision makers**

Municipalities must not only focus on the customers they serve but also on those who are illegally connected to the network or people who could have been connected to the network but are currently using alternative means. An improved database can generate realistic data that can inform decision making processes of municipalities. Implementation of systems, programs, policies etc. in municipalities requires not only effective technical training but an educational component so that users can grasp the value of the system and understand their role as part of the whole. This revelation of purpose should be accompanied by behaviour change process such that prevalent culture of fraud and neglect can be transformed into honest caring by decision makers.

#### **vii. Promoting outsourcing of debt recovery functions**

Outsourcing can improve municipal billing and revenue collection by using improved technology such as spot billing which could improve billing functions thus improving collection efficiencies and even virtually revenue streams. Use of performance incentives for improving collection practices by linking remuneration directly to efficiency achieved is critical. Offering incentives and disincentives to customers so that customers pay in time through the use of discounts and

rebates for early payment of bills or offer easy payments of bills through options such as customer centers, online payment facilities ,internet banking etc. There is need for a greater improvement in recovering outstanding debts through enforcement of legislation irrespective political influence or interference by general public.

### Conclusion

The study explored municipal service consumer debt recovery strategies in Thulamela LM as a component of revenue enhancement. The paper illustrates that municipal service consumer debt results from several factors which cut across the rural municipality's structural, systematic and institutional components. It was demonstrated that to reduce debt formation and accumulation there should be improvement in service delivery, communication, improving the municipal business model such as enforcement and implementation of policies such as debt collection and credit control policies, improving the general human capital, incentives on consistent rate and tax payers, sound local economic development, handing debt collection to a third party, hiring more skilled personnel in the debt collection and credit control unit, improvement in ICT and other technological components in the finance services departments.

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