



Enhancing Revenue Regeneration in Rural Municipalities

Municipal Managers Forum

22-23 August 2013

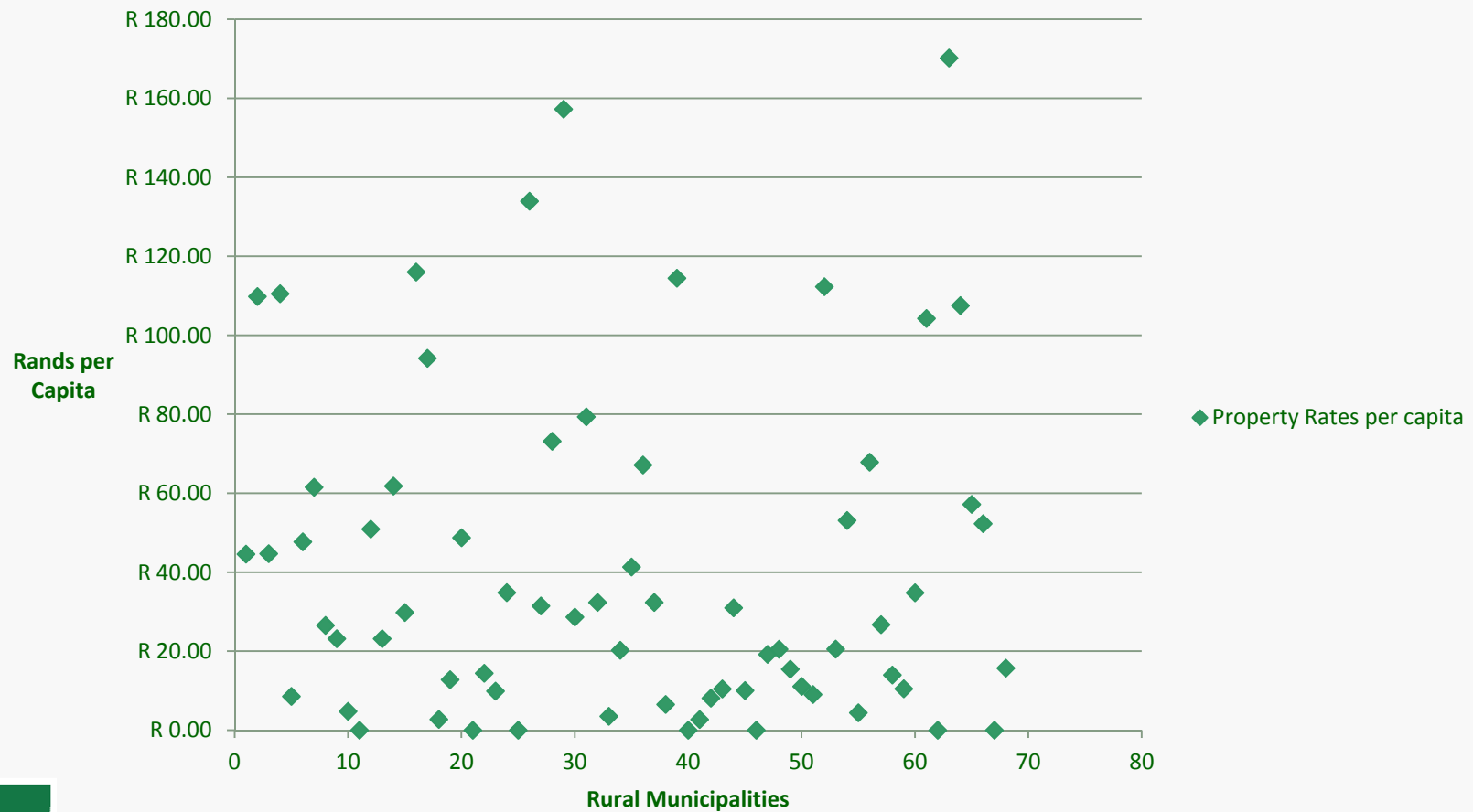
Background

- Can rural municipalities support their expenditure mandates with current revenue instruments?
 - Are the instruments adequate?
 - Does revenue capacity exist in rural areas?
 - What factors influence this capacity?
 - Is it an administration problem?
 - Do rural municipalities have the capacity to maximise their revenues
 - The impacts of historical and political dynamics?
 - What are the levers available to first maximise and then extend bases?

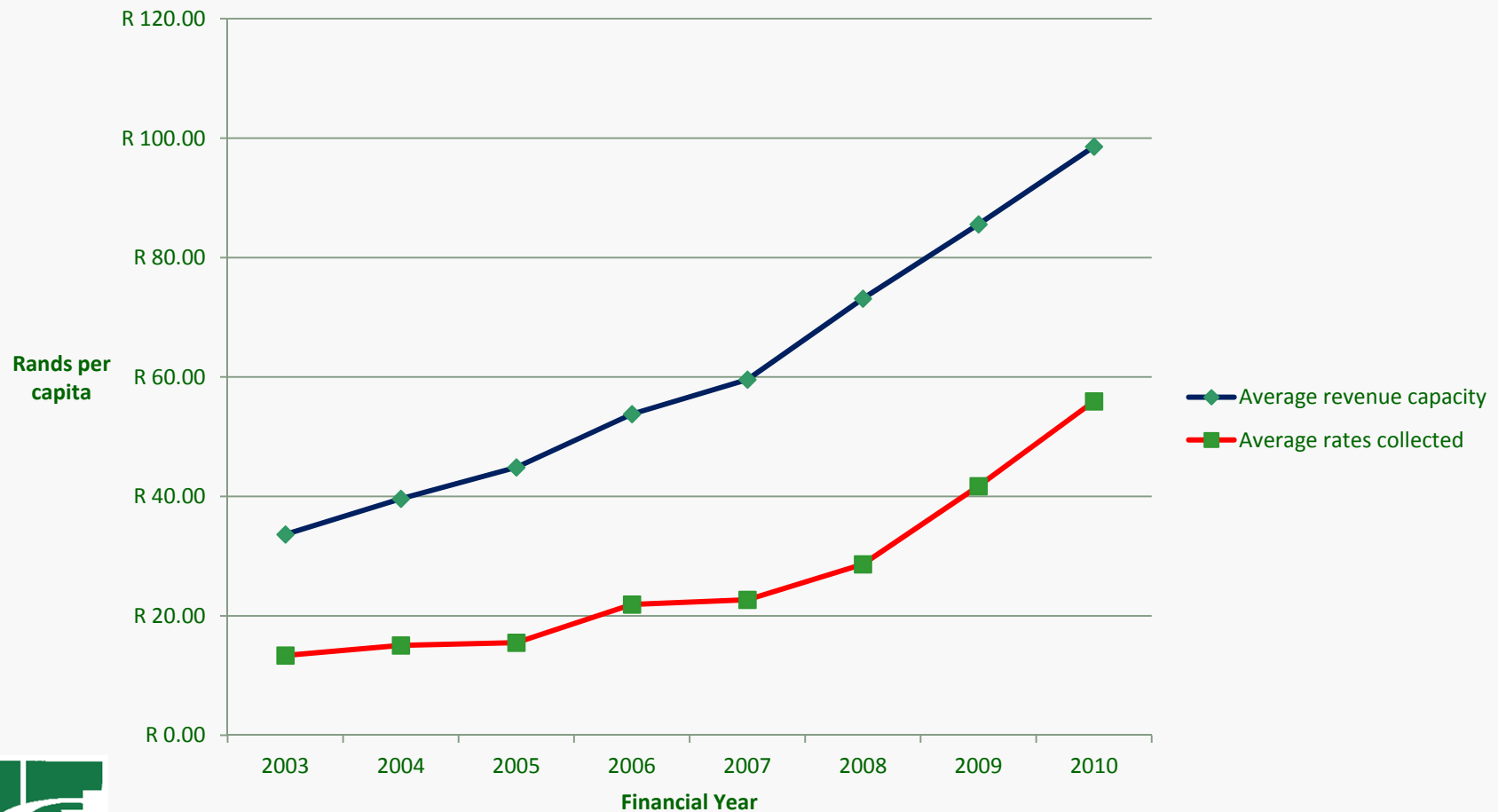
Revenue Capacity and Effort

- Revenue capacity
 - Potential to raise revenues from own sources/taxes given characteristics of local tax base
 - Poverty, economic activity and unemployment
- Revenue effort
 - Actual revenues collected
 - Degree to which local tax bases are utilised
 - Performance

Variation in Property Rates Collected in Rural Municipalities



Predicted Property Rates Capacity vs. Rates Collected (70 Rural)



Factors Impacting on Capacity and Effort

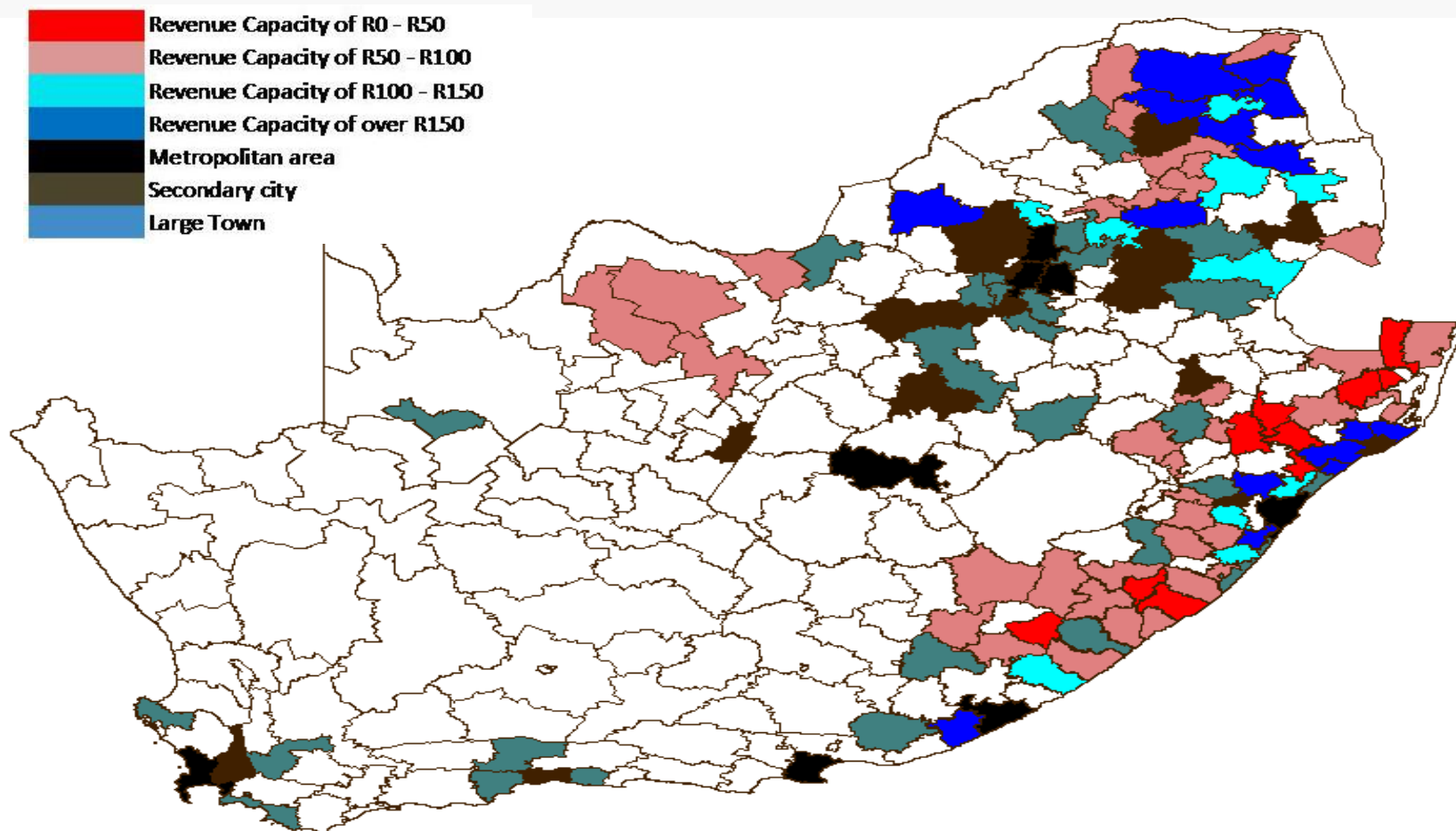
Revenue Capacity:

- Economic Activity
 - Unemployment
 - Poverty
- Local Demographics
 - High proportions of pensioners and children
- Improves with proximity to urban areas, pockets of economic activity and a coast line (Spill over effects) – large areas of country with stagnant economies (Light and dark red areas on maps)

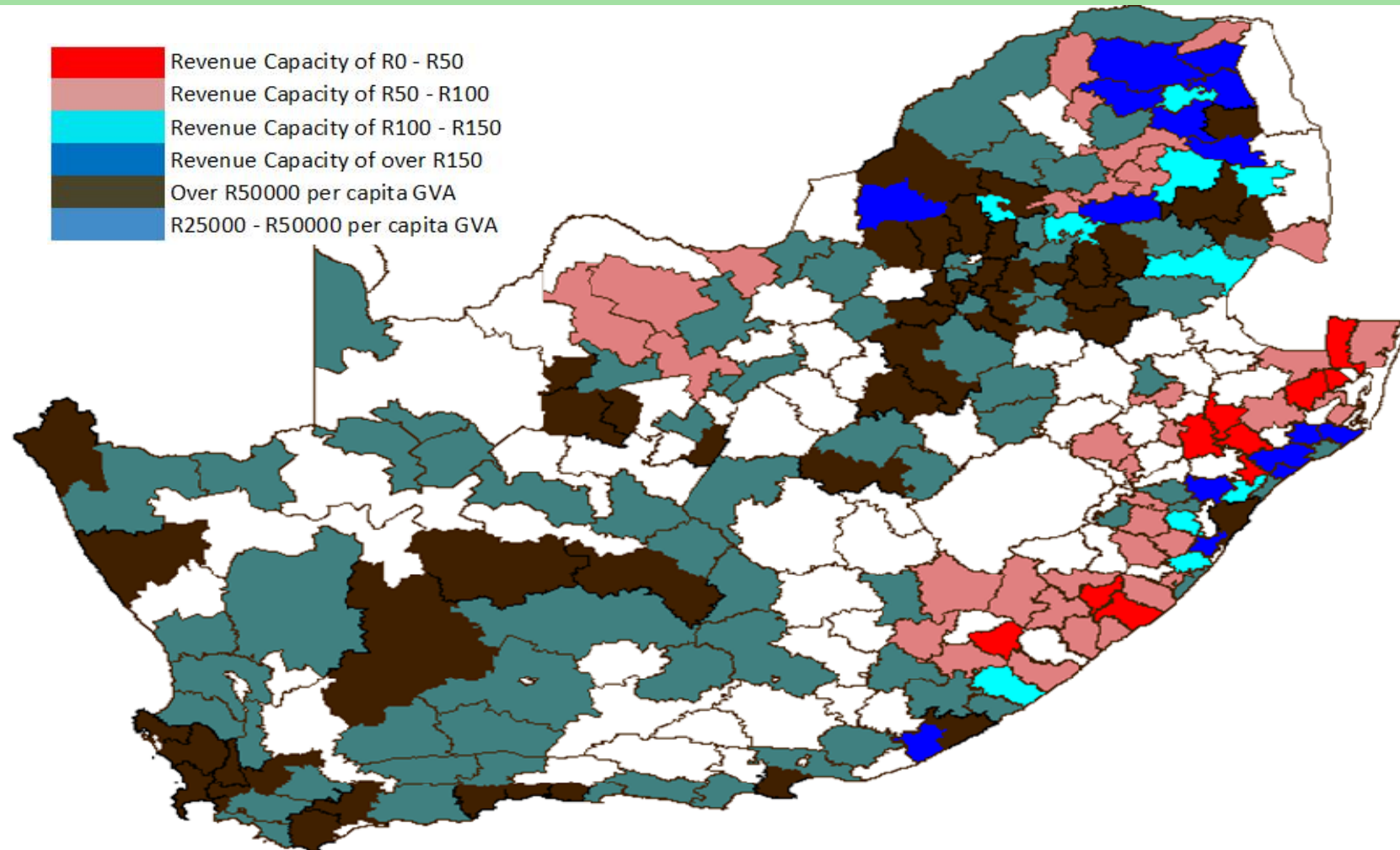
Revenue Effort:

- Local demographic and social issues – willingness to pay
- Management of debtors, accounting for indigents, affordability of basic services, billing and collection activities

Property Rates Capacity and Proximity to Urban Areas



Property Rates Capacity and Adjacent Economic Activity





Methods to Improve Revenue Generation in Rural Municipalities

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What Can be Done to Improve Rural Tax Bases?

- There should be greater investment in rural economies by local/district municipalities
 - Capital investments
 - Improving services to communities
 - Investing in human and natural resources
 - Manifests in local economic development strategies
- Rural development strategies important and needs to be implemented
 - National rural development strategy
 - Provincial Growth and Development Strategies
 - Local economic development & Comprehensive Rural Development Programme
- It is important that such strategies are linked (across spheres) and implementable
 - Capacity and skills challenges hamper implementation
 - Support from other spheres is important in rural municipalities

Recommendations on Revenue Enhancement in Rural Areas – 2014/15

- National and provincial governments should support weaker municipalities to ensure improved revenue and expenditure outcomes. This should be done through:
 - Improved assistance in formulating and implementing budgets, Integrated development plans, local economic development strategies, debtor management and credit control policies
 - More effective capacity-building initiatives, which deal holistically with governance, systems and business processes, as well as recruitment, retention and the development of requisite skills
- National and provincial governments to ensure that grant funding to rural municipalities is linked to capacity-building initiatives and structured assistance, so that systems are built to improve the municipality's ability to collect revenues due and increase the quality of spending

Recommendations on Revenue Enhancement in Rural Areas – 2014/15

- Municipalities should ensure that revenue-enhancement strategies are sensitive to broader constraints, such as inequality, unemployment, local politics and land tenure issues so that revenue effort is maximised



Previous Recommendations on Revenue Enhancement

Recommendations on Revenue Enhancement – 2011/12 DOR

- Government should support efforts to estimate the fiscal capacity and fiscal effort of municipalities to dispel/confirm the perception that certain municipalities will never be financially viable
- Where feasible, bigger municipalities, which already have financial systems, should be encouraged to share their systems and expertise with smaller ones
- The performance of revenue improvement programmes should be subjected to empirical tests that cover changes in the effective tax rates, tax burdens for all service users, the total revenue yield, economic efficiency and overall fairness

Recommendations on Revenue Enhancement – 2011/12 DOR

- Excessive levels of municipal debt from residential customers, businesses and government must be reduced through taxpayer education and incentives to improve the provision of good quality services generally
 - Government must enable local government through the MSA of 2000 to issue garnishee orders on defaulting customers
 - Judicial system should have dedicated courts to deal with outstanding municipal accounts until the debt is reduced to acceptable levels

Recommendations on Consumer Debt – 2012/13 Submission

- National and provincial government should require and assist municipalities to identify the primary cause of poor performance in billing and revenue collection functions and use the information to design appropriate remedial strategies
- As an interim measure, government should establish and publish guidelines for municipalities on management of municipal consumer debt in terms of, but not exclusive to, interest charges, debt impairment and writing off of bad debts
- S64 of MFMA (No.56 of 2003) should be amended to require regular collation and updating of information on indigent residents of a municipal area, as an integral component of municipal revenue management practices

Recommendations – LGFF Review 2013

- The Commission recommends that municipalities should explore new and innovative methods to generate revenue and collect outstanding debt, including taking advantage of new technologies
- Municipalities need to ensure that their tariffs are cost reflective and sensitive to the indigent profile of municipalities in order to minimise municipal consumer debt levels
 - This practice will ultimately result in poor households not getting billed for services they cannot afford



THANK YOU

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