

**FACTORS CONTRIBUTING TO NATIONAL AND
PROVINCIAL GOVERNMENT DEBT ACCUMULATION IN
THE EASTERN CAPE**

By

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requirements of the degree of Masters in Public
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DEDICATION

I dedicate my dissertation to my family and friends.

A special gratitude to my loving parents Nkosinathi and Virginia Dilika, whose words of encouragement and utterance that “Education is the key to success” kept me strong and pushing hard on those difficult days.

My siblings’ and niece’s generous support for looking after my kids on those hectic days made my research life easy.

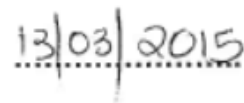
I also dedicate this research to my employer who offered me with a bursary and for the special leave days throughout my study.

DECLARATION

I, **Zanele Victress Dilika**, declare that this dissertation which I hereby submit for the of Masters in Public Administration in the Faculty of Arts at the Nelson Mandela Metropolitan University is my own work and has not been previously submitted by me for degrees purposes at this or any other institution. I also declare that all the references used in this study have been cited and acknowledged



Zanele Victress Dilika



Date

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ABSTRACT

The research took the form of a qualitative interpretative case study focusing on the study sample of 9 municipal officials responsible for monitoring the payment of government debt as the consumer type. Data was collected through face to face interviews by means of completing the questionnaire based on the responses from the respondent. The study examined the underlying and related causes of non-payment of government debt.

The study revealed that municipalities in the Eastern Cape lack support from the other spheres of government in ensuring timeous payments of outstanding debt. Growth in debtors indicated the failure by the municipalities to implement proper debt management processes and the lack of political will to collect debts.

The study recommended that municipalities need to waive interest on disputed debt and the debt in that regard be reported on the suspense account to avoid over estimation or debt that might not be recovered in the long run.

Key words: government debt, municipalities, debt collection

ABBREVIATIONS AND ACRONYMS

COGTA	Department of Co-operative Governance and Traditional Affairs
DBSA	Development Bank of Southern Africa
DoRB	Division of Revenue Bill
DPLG	Department of Provincial and Local Government
DPW	Department of Public Works
FFC	Fiscal and Financial Commission
GIAMA	Government Immovable Asset Management Act
LGTAS	Local Government Turnaround Strategy
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MPRA	Municipal Property Rates Act
MSA	Local Government Municipal Systems Act
MSIG	Municipal Systems Improvement Grant
NDPW	National Department of Public Works
PSI	Public Service infrastructure
TBVC	Transkei, Bophuthatswana, Venda, Ciskei
RSA	Republic of South Africa

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CHAPTER 1: BACKGROUND OF THE STUDY

1.1 INTRODUCTION

The primary focus of this study is to understand the factors which contribute to government debt accumulation in Eastern Cape municipalities with a focus on the Nelson Mandela Bay municipality, Makana local municipality, and Kouga local municipality. Through this study, an assessment of the possibility of eliminating increasing debt arising from the non-payment of rates and services by the government departments is undertaken. The municipal revenue envelope is made up of two broad components: transfers from nationally raised revenue in the form of equitable share and conditional grants; and revenue generated from its own revenue source that is property taxes, electricity, and water (Ajam, Josie & Khumalo, 2006). Section 29 of the Constitution (Republic of South Africa: The Constitution, Act No 92 of 1996) empowers local government with an array of resources, such as giving municipalities the legal right to impose property taxes, fees, and user charges in accordance with their assigned fiscal powers and to ensure that they recover adequate revenue to cover spending responsibilities. It also provides that the municipality may impose rates on property and surcharges on fees for the services it provides. Property rates are intended to fund economic services such as roads, storm water systems, street lighting, and street cleaning. Service charge fees include charges on water, electricity, sanitation, and refuse removal.

The Minister of Finance and the Director General (DG) describe the situation of non-payment by government departments as morally unacceptable as the departments are supposed to budget for the payment. According to the Financial and Fiscal Commission (FFC) (2011) submission to the Division of Revenue, municipal consumer debt refers to the non-payment of service charges for services provided by municipalities including, for example water, traffic fines, electricity, sanitation, and refuse removal. As at 31 December 2010, municipalities were owed a total of R62.3 billion, and this represents an increase of 10.8 per cent from the same period in 2009. In June 2008, outstanding debtors amounted to R37 billion. Households were responsible for 69 per cent or R38.3 billion of consumer debt as at December 2010; national and provincial governments owed municipalities R3.1 billion or 5.1 per cent of the total consumer debt. There is a slight decrease in terms of general government

debt when it is compared to debt recorded in December 2010 (R3.1 billion) for both national and provincial departments; it had decreased to R2.9 billion by September 2011. The main concern, however, is that the government is supposed to be up to date in respect of paying municipal debt. The fact that not only household consumers but also businesses are in arrears demonstrates that debt collection practices to recover debt are inadequate (National Treasury, 2011a). Section 96 of the Local Government Municipal Systems Act (No 32 of 2000) requires that municipalities collect all money that is due to them. Despite the fact that this Act empowers the municipalities to collect revenue from all consumers of services including government, however, government still owes exorbitant amounts to the municipalities, thus contravening this Act.

In respect of property rates, prior to 1994, the National Department of Public Works was deemed to be the custodian of most state owned properties (Parliamentary Monitoring Group, 2011a), and it, therefore, took responsibility for the payment of rates on these properties. During the year 2006, the Department of Public Works and the National Treasury devolved the budget to provinces as the grant (Department of Public Works, 2006), and the provinces have to pay for the properties devolved under the provincial custodianship. The reason for the devolution was to facilitate transfer of property rates expenditure and responsibility to the provinces. Despite the devolution, Provincial Public Works are under-spending on property rates payments which thus results in funds being surrendered to the National Department of Public Works. In some instances, however, provinces will request that funds be rolled over to the next financial year (Nkomfe, 2012) but the challenge of non-payment still persists.

The main reasons behind the debt accumulation in the municipalities, according to Kanyane (2011), are ineffective meter reading, billing and billing system, a lack of a proper register, and a lack of enforcement of credit control and debt collection policies. Other reasons are poor customer information systems and unreliable postal service (FFC, 2010).

1.2 PROBLEM STATEMENT

The failure of government departments to pay for property rates and service charge fees to municipalities is regarded as morally unacceptable as they receive allocations from the fiscus to pay these bills (Pressley, 2011).

Local authorities in South Africa face ethical, social, and political dilemmas in dealing with the reality of escalating outstanding debts payable. The culture of non-payment by consumers has increased the outstanding debt of local authorities or municipalities for service rendered (Lubbe & Rossouw, 2008). Government is among the consumers owing municipalities for service charges and property rates payments. Peters (2013) stated that the Department of Education through Section 21 schools contribute to the non-payment of the municipal debt, and that national and provincial departments of Public Works, the Department of Human Settlement and the Department of Health are also major contributors to such debt. For example, Eastern Cape provincial government debt increased from R183 million in March 2011 to R185 million in June 2011 (Auditor General South Africa, 2013) which is a clear indication that the provincial government is failing to settle outstanding debt to municipalities.

In general, both Provincial and National Public Works record the highest level of debt, followed by the Departments of Education and Health. In spite of the introduction of the devolution of property rates conditional grant fund which caters for the payment of both national and provincial department property, the departments are not paying for the properties which results in an increase in government debt, particularly on Public Works debt (Peters, 2013).

The Eastern Cape, Limpopo, and Gauteng reported under expenditure for 2010/11 financial year in respect of the devolution of property rates grant which is provided for payments of property rates (Parliamentary Monitoring Group, 2011b). The municipalities on the other hand, recorded the highest level of increase of government debtors owing due to non-payments by the Public Works Department for property rates.

The proportion of locally collected revenue to total revenue is declining over time, while the total revenue growth rate is also declining. As a result, more funds are flowing to the municipalities from the national fiscus (FFC, 2010). The cost implications are that municipalities have become dependent on transfers from national government to survive. Furthermore, they fail to meet their service delivery obligations and expenditure responsibilities due to the outstanding debtors. The increasing and proportionally high level of consumer debt owed to municipalities is a further testimony to the existence of fiscal stress (FFC, 2010).

While poverty and the non-payment culture partly explain the non-payment by residential customers, there remains a concern over what exactly causes non-payment by government departments. The persistently high debtor level indicates that most efforts of municipalities to collect billed revenues are deficient (National Treasury, 2011a). The main problem to be addressed in this study is how to develop possible intervention strategies that the municipalities in the Eastern Cape can adopt to eliminate the debt accumulating from the non-payment of rates and services fees by some spheres of government.

1.3 PURPOSE OF THE STUDY

The main purpose of the study is to understand the factors which influence government debt accumulation in Eastern Cape municipalities and to assess the possibility of eliminating the increasing government debtors arising from the non-payment for property rates and service fee charges.

1.4 OBJECTIVES OF THE STUDY

The objectives are:

- To investigate and evaluate challenges to effective collection of debt owed by both national and provincial departments to the municipalities;
- To analyse the debt collection procedures of the municipalities in terms of the credit and debt collection procedures applied to government departments which constitute a portion of the debtors;
- To investigate the possibility of over statement of recoverable outstanding debt owing to interest charged by various municipalities on outstanding debt and to investigate guidelines on interest charges;
- To investigate the underlying causes of non-payment of debt by various government departments;
- To investigate challenges relative to the reduction of government debt and measures undertaken by the municipality, and to suggest possible solutions;

1.5 RESEARCH QUESTIONS

This project will attempt to answer the following research questions:

- What are the factors contributing to the increase in government debt in Eastern Cape municipalities?
- Are there any measures in place that could assist municipalities to minimise the debts owed by the government?
- In instances where there are disputes regarding payment by debtors, do the municipalities keep on charging interest which, at a later stage, might be written off?
- Which government departments are the main contributors to government debt accumulation?
- What percentage of interest are the municipalities charging on outstanding debtors?

1.6 IMPORTANCE OF THE STUDY

The study will inform municipal managers and stakeholders about debt management within their areas of jurisdiction. This study will also be of great help to other researchers. It opens up areas for further studies, generates interest and awareness which may be used in seminars, conferences, and workshops. The recommendations of the study will assist the practitioners to be aware of the key issues regarding debts management.

1.7 RATIONALE OF THE STUDY

Even though the bulk of municipal debt emanates from the household and the business sector, government is also not immune from debt owed to municipalities. Government departments know the consequences of not paying their debt to the municipalities and the effect it has on municipal revenue. Although causes of non-payment to South African municipalities have been the focus of many studies by various researchers, including Booyesen (2001), Botes and Pelser (2001), Burger. (2001) and Fjeldstad (2004) cited in Peters (2013), most of the studies were done before the introduction of the devolution of property rates and taxes grant prior to 2008. An updated investigation of the factors that drive this kind of debt is, therefore, critical as the debt continues to mount. This research endeavours to enquire more deeply into the issue of municipal consumer debt with special emphasis on government debt.

1.8 DEFINITION OF TERMS

For the purpose of this study, the following concepts will be clarified since they form the basis of the discussion:

1.8.1 Billing

Billing means invoicing on a municipal account to an account holder of amounts payable for assessment rates, metered service, other municipal charges, levies, fees, or any other amount arising from obligation (Nelson Mandela Bay Municipality, 2003).

1.8.2 Billing system

According to the Billing Dictionary (2009), a billing system is a combination of software and hardware that receives service usage information, groups this information for a specific account or customer, produces invoices, creates reports for management and records payments made to the customer account.

1.8.3 Communal land

Communal land means land which is contemplated in Section 2 of the Commission Land Rights Act 11 of 2004 which is to be occupied by members of a community subject to the rules or customs of that community.

1.8.4 Conditional grant funding

Conditional grant funding means the conditional allocation to provinces, local government departments, or municipalities from the national government's share of revenue raised nationally which is provided for and its purpose is specified on the Annual Division of Revenue Act referred to in the Constitution of the Republic of South Africa, 1996 (National Treasury, Appropriation Bill, 2011b).

1.8.5 Debtor

A debtor is a person or entity that owes money and has a legal obligation to pay an amount to another person or entity (Averkamp, 2014).

1.8.6 Division of Revenue Act (DORA)

The Division of Revenue Act (No 2 of 2013) (National Treasury, 2013) provides for the “division of revenue raised nationally among the national, provincial and local spheres of government for the 2013/14 financial year and the responsibilities of all three spheres pursuant to such division”.

1.8.7 Immovable asset

Immovable asset means an asset that is immovable, i.e. land and any immovable improvement on that land which has an enduring value and consists of assets of residential, non-residential, or infrastructure nature and includes both state owned and leased assets (Republic of South Africa: National Department of Public Works, 2005).

1.8.8 Property

Property means an immovable property registered in the name of the person, including, in the case of a title scheme, a sectional title unit registered in the name of a person, a land tenure right registered in the name of a person in terms of legislation, or a public service infrastructure. Rate means a municipal rate on property (National Treasury, 2004).

1.8.9 Property rates

Property rates are the charges in the municipal area to people, businesses, and government for properties and is charged yearly or on a monthly basis based on the value of each property (ETU, n. d.). “Property taxes” is a term sometimes used interchangeably with rating. Property rates are rates that are intended to fund municipal services such as municipal roads, storm water systems, street lighting, and street cleaning (National Treasury, 2011a).

1.8.10 R293 townships

R293 townships: These are townships of the former homeland areas and have been established under Regulation 293 of 1962 (Republic of South Africa, 1962). They are marked by having a general plan and surveyed stands. In contrast to proclaimed towns, however, they have more basic levels of infrastructure and significantly lower levels of services. Furthermore, these townships have limited social infrastructure

such as sports facilities, schools, retail and entertainment sites and parks. Zoning restrictions are less stringently applied resulting in more interactions between industrial, commercial, residential and agricultural land uses. Residents of the R293 townships hold land in the form of Deeds of Grant or lease properties from Grant holders through formal or informal leasing arrangements. All residential sites were surveyed at the time of proclamation but extensive sub-divisions, encroachments and occupations of public open spaces have occurred within the boundaries of the township over time.

1.8.11 Revenue enhancement

Revenue enhancement means to optimise revenue sources that are legally and administratively available and to explore opportunities to diversify revenue where existing revenue is inadequate to meet the demands of change and growth. Revenue enhancement has the following benefits: it reduces the need to cut programmes and services unnecessarily, and it improves the potential for offering new or improved services (Rosenberg, 2008).

1.8.12 Section 21 Schools

Section 21 Schools are schools that are allocated finances by the Department of Education. They are responsible for ordering stationery, text books, paying lights and water accounts, and undertaking their own maintenance (Republic of South Africa: South African Schools Act, 1996b).

1.8.13 User charges

User charges are amounts of money charged for the use of specific public services. In this regard it means that the service used in the process is not exhausted but remains available for use by other users on the payment of the prescribed user charge (Gildenhuys, 1998).

1.9 DELIMITATION OF STUDY

Delimitation refers to the characteristics selected by the researcher to define the boundaries of the study. The period covered by the study was from 2010/11 and 2011/12 financial years. The researcher made conscious exclusionary and inclusionary decisions regarding the sample. The research was limited to the officials

who deal specifically with government debt and their immediate supervisors. Officials in the debtors' sections within the municipality dealing with other consumer types, such as the business debtors and the consumer debtors, were excluded for this research purpose.

1.10 CHAPTER OUTLINE

Chapter 1 is introductory in nature and provides a background to the study, the research problem and the significance of the study. A brief description and definition of concepts used in the study has been provided.

Chapter 2 presents an overview of the literature which is relevant to the research topic as well as the literature which has informed this study. Local government or municipal fiscal frameworks were discussed; the analysis of municipal debtors by customer group, and the state of intervention with regard to municipal debt are also discussed. Government debt classification and the underlying reasons for non-payment of municipal debt by government departments were analysed.

Chapter 3 presents, and discusses, the chosen research methodology in terms of the research paradigm (interpretive) and the research method. The case study method and semi-structured interviews were selected as research tools. This chapter further explains how the research was initiated and how research data was collected. A discussion about ethical issues concludes this chapter.

Chapter 4 gives a detailed report on the collected data. This data is then analysed and interpreted.

Chapter 5 presents the conclusions of the study by summarising the main findings on the themes presented in chapter 4. It further makes recommendations and discusses implications for policy and action.

1.11 CHAPTER SUMMARY

Municipalities are encountering challenges with regard to service delivery owing to the non-collection of money owed to them. Government is not immune in this aspect, and this study intends to determine the causes of non-payment of debt by government to the municipalities. Research objectives and questions were articulated in this chapter

and the terminology used in the research paper was defined. The structure of the research was also described.

CHAPTER 2: LITERATURE REVIEW

2.1 INTRODUCTION

This chapter reviews the literature related to the factors which contribute to government debt accumulation in Eastern Cape municipalities sourced from books, articles and policy documents on municipal finance, revenue generation, the components of the municipal revenue, and what causes the municipalities to be owed money in both developing and developed countries. The literature review outlines the main concepts and issues that relate to municipal finances and municipal debtors. This has been undertaken to gain an understanding of what the main causes are of increased debts owed to the municipalities, and what practices and strategies are in place for collecting government debt.

Municipalities are expected to show fiscal effort in collecting the revenues that are due to them. Different sources of revenue are intended to ensure that all municipalities have access to resources commensurate with their service delivery responsibilities. After the 1994 national election, the government in power initiated and amended a series of legislative prescripts, and the Local Government Municipal Systems Act no 32 of 2000 (Republic of South Africa: The Presidency, 2000) was passed to provide for the core principles that are necessary to enable municipalities to move progressively towards the social and economic upliftment of local communities. Although municipalities are entitled to an equitable grant of revenue raised nationally and may receive other allocations in the form of conditional or unconditional grants, municipalities are expected to raise their own revenue as mandated by Section 229 of the Constitution (Republic of South Africa, 1996a). The basic principle is that municipalities should be given the flexibility to collect revenue within the framework of the Local Government Municipal Systems Act. There are, however, many obstacles to be overcome during this process. Most notably, though, is the significant increase of municipal debt on part of government as a consumer type. Another obstacle is that while municipalities are expected to bill government departments for the properties let to them, they face challenges presented by the tedious process to be followed before the actual payment can be made. The discussion in this chapter focuses on the following aspects: local government in South Africa compared to that in Spain; the legislative framework governing municipal finance and municipal debt; the local

government fiscal framework; an analysis of the municipal debt by customer group; initiatives taken by government in assisting municipalities to recover debt from various consumer types; government debt as categorised according to various departments owing money to municipalities; the reasons, based on previous research, for non-payment by government departments; and innovative ways taken by other countries to collect outstanding debt from consumers.

2.2 LOCAL GOVERNMENT IN SOUTH AFRICA

The Local Government sector in South Africa consists of 278 municipalities; there are six metropolitan municipalities which constitute 35% of the population, while secondary cities and local municipalities account for 38% and 26.8 % respectively (FFC, 2011). According to the Municipal Structures Act, no 117 of 1998 (Republic of South Africa: The Presidency, 1998), municipalities are categorised according to category A, B and C.

- Category “A” municipalities are municipalities with a high population density. The Constitution (Republic of South Africa, 1996a) refers to these municipalities as municipalities that have exclusive and legislative authority in their area and are also regarded as metropolitan municipalities.
- Category “B” municipalities, also referred to as local municipalities, share municipal executive and legislative authority in their areas with a category “C” municipality; and
- Category “C” municipalities also known as district municipalities, execute some of the functions of local municipalities in areas that are not eligible to have metropolitan municipalities. These are made up of number of local municipalities that fall into one district and they ensure that all communities, particularly disadvantaged communities have equal access to resources and services.

In South Africa, fiscal arrangements, set out in Chapter 13, Section 227 of the Constitution (*ibid.*), provide that local government or municipalities be entitled to an equitable share of revenue raised nationally and that they may also receive additional conditional transfers from national and provincial government. The Constitution also requires that municipalities raise their own revenue from service fees, property rates, surcharges and other taxes, levies, and duties.

Municipalities provide basic services such as water, sanitation, electricity, and refuse removal, and, in terms of the community demands and expenditure patterns; these are arguably the most important of all the various powers and functions assigned to local government under Schedule 4B and 5B of the Constitution. As set out in Chapter 5 of the Municipal Structures Act (Republic of South Africa: The Presidency, 1998), in general all local and metropolitan municipalities are authorised to provide electricity and, in most instances, refuse removal. In terms of water and sanitation function, either the district municipality or local municipality is authorised to provide these services. For these services the municipalities charge a fee that helps to sustain all municipal activities.

2.3 LEGISLATIVE FRAMEWORK GOVERNING MUNICIPAL DEBT AND FINANCES

Municipal finances and debtors are regulated by various pieces of legislation.

2.3.1 Constitution of the Republic of South Africa 1996 (Republic of South Africa, 1996a)

In South Africa, fiscal arrangements, set out in Chapter 13, Section 227 of the Constitution provide that local government or the municipalities be entitled to an equitable share of revenue raised nationally. They may also receive additional conditional transfers from national and provincial government. The constitution also requires that municipalities raise their own revenue from service fees, property rates, surcharges and other taxes, levies, and duties.

2.3.2 The Local Government Municipal Systems Act, No 32 of 2000 (Republic of South Africa: The Presidency, 2000)

The Local Government Municipal Systems Act (MSA) 2000 (Act 32 of 2000) provides that a municipality must adopt, maintain, and implement a credit control and debt collection policy which is consistent with its rates and tariff policies that complies with the provision of the Act. Such policy must provide for credit control procedures and measures, debt collection procedures and mechanisms, and the termination of services or the restriction of provision of services when payments are in arrears. Chapter 9 of the MSA refers to credit and debt collection which stipulates the need for the municipalities to set up customer care management, the debt collection

responsibility of the municipality, and the content of the municipal credit control policies. It further gives the municipality an obligation to collect money that is due and payable to it, subject to this Act and any other applicable legislation.

2.3.3 The Municipal Finance Management Act, No 56 of 2004 (Republic of South Africa: The Presidency, 2004a)

The Municipal Finance Management Act (MFMA), No 56 of 2004, Section 35 (b) requires that national and provincial departments must meet their financial commitments towards municipalities promptly. Given the significant amount owed by government departments, it is clear that these financial commitments are not being honoured. Section 64 of the MFMA clearly stipulates that the full responsibility for revenue management lies with the accounting officer, who is expected to ensure that the municipality has an effective revenue collection system in place. The revenue due to the municipality is calculated on a monthly basis with interest on arrears charged, and the National Treasury is informed of any cases of non-payment by other organs of the state. Section 18 of the Municipal Finance Management Act requires the municipal budget to be funded by realistically-anticipated revenue to be collected.

2.3.4 Public Finance Management Act 1 of 1999 (National Treasury, 1999)

Section 38 (f) of the Public Finance Management Act, no 1 of 1999 stipulates that the accounting officer of the department must settle all contractual obligations and pay all money owing, including intergovernmental claims, within the agreed or prescribed period. Section 18 of the Municipal Finance Management Act (Republic of South Africa: The Presidency, 2004a) requires the municipal budget be funded by realistically-anticipated revenue that can be collected.

2.3.5 Local Government: Municipal Property Rates Act, No 6 of 2004 (National Treasury, 2004)

In terms of the Local Government: Municipal Property Rates Act (MPRA), municipalities charge rates in their jurisdiction area to households, businesses, and government departments owning properties in a respective municipality. Rates are charged either on an annual basis or monthly basis based on the value of each property. For households and businesses, property rates are charged on a monthly basis and government is charged on an annual basis. According to the Local

Government Municipal Property Rates Act (National Treasury, 2004), municipalities must draw up and maintain a register in respect of properties situated within the municipality, and such a register must be composed of Part A and Part B. Part A consists of the current valuation roll of the municipality, including the supplementary valuation roll prepared in terms of Section 78 of the Act. Part B of the register must specify which properties on the valuation roll, or any supplementary valuation roll, are subject to:

- An exemption from rates in terms of Section 15;
- A rebate on or reduction in the rates in terms of Section 15; and
- A phasing in of rates in terms of Section 15.

In South Africa, in terms of the Local Government: Municipal Property Rates Act, municipalities have the power to impose rates on properties. By way of comparison, the city of Budapest in Hungary levies tax on land or buildings (but not both) or individuals owning or leasing land (Angloinfo, 2014). According to Makhungo (2011), property taxation is sometimes used interchangeably with rating, and rating has been said to be the method by which residents of a particular area contribute their share of the burden of the cost of providing services to themselves within their area year by year. Taxes on land and buildings constitute the most common form of direct revenue for local authorities in urban areas. The greatest administrative merit of the property taxation is that liability is obvious because one cannot hide a plot or a building.

2.3.6 Intergovernmental Fiscal Relations Act No. 97 of 1997 (Republic of South Africa: The Presidency, 1997)

The Intergovernmental Fiscal Relations Act promotes co-operation between national, provincial, and local spheres of government on fiscal, budgetary, and financial matters, to prescribe processes for the determination of an equitable sharing and allocation of revenue raised nationally.

2.4 LOCAL GOVERNMENT FISCAL FRAMEWORK IN SOUTH AFRICA

The local government sphere is mandated by the Constitution of the Republic of South Africa to source its funding from various sources. Table 2.1 below presents a clear picture of sources of funding for local government in South Africa and what the legislative prescripts are that govern each.

Table 1.2 Sources of local government funding

Source of local government funding	Constitutional provisions	Governing legislation
<i>Municipal own revenue sources</i>		
Rates on property	Section 229 and 227(2)	Municipal Property Rates Act
Surcharges on fees for services provided by or on behalf of the municipality	Section 229 and 227(2)	Municipal Fiscal Powers and Functions Act
Service charges/ fees	Section 229 and 227(2)	Municipal Systems Act Municipal Finance Management Act Electricity Act and Electricity Regulation Act National Water Act Provincial land use planning ordinances
Other taxes, levies or duties	Section 229 and 227(2)	Municipal Fiscal Powers and Functions Act
Administrative fees		Municipal Systems Act
Fines		National Road Traffic Act
Borrowing	Section 230A	Municipal Finance Management Act
Credit control and debt collection		Municipal Systems Act
<i>Transfers from national and provincial government</i>		
Local government equitable share of nationally collected revenues	Section 214 and 227	Intergovernmental Fiscal Relations Act The annual Division of Revenue Act
Fuel levy sharing with metropolitan municipalities	Section 229(1)(b)	The annual Taxation Laws Amendment Act
Conditional grants from national government	Section 214(c), 226(3) and 227(1)(c)	Intergovernmental Fiscal Relations Act The annual Division of Revenue Act The annual National Appropriation Act
Conditional grants from provincial government	Section 226	The annual Division of Revenue Act The annual Appropriation Act of the relevant province

Source: National Treasury, 2011

2.4.1 Municipal own revenue

Section 229 of the Constitution provides that municipalities may impose rates on property and surcharge on fees for services provided by the municipality or on behalf of the municipality (National Treasury, 2011). Borrowing from other financial institutions, fines levied by the municipalities and other administrative fees also form part of the municipal own revenue sources.

Municipalities may borrow funds from the financial markets to finance part of the economic infrastructure portion of their capital budget. Given that national government does not guarantee the municipality's capacity to borrow is a function of sound financial management, and this encourages sound own revenue management and choice of infrastructure projects it is envisaged that metros, and the secondary cities, should borrow primarily from private capital markets on the strength of credit ratings

while the Development Bank of Southern Africa (DBSA) will increasingly play its development role by lending to the poor municipalities (National Treasury, 2011).

Section 229 of the Constitution gives municipalities the powers to impose rates and surcharge on fees for services provided by or on behalf of the municipality. Furthermore, the Local Government: Municipal Property Rates Act, 2004 (National Treasury, 2004), regulates the power of a municipality to impose rates on property, to exclude certain properties from rating in the national interest, to make provision for municipalities to implement a transparent and a fair system of exemption, reduction, and rebates through their rating policies to make provision for a fair and equitable valuation method for properties

2.4.2 Transfers from national and provincial government

Transfers from national and provincial government are mainly in the form of equitable share from the national collected revenue and the conditional grants from both national and provincial government. For the purpose of this research focus will mainly be on equitable share and transfers from national government in the form of conditional grant.

2.4.2.1 Local government equitable share

According to Ajam, *et al.* (2006), the local government sphere accounts for about a third of sub-national government expenditure and it is pivotal in the provision of essential basic services to South Africa's citizens. The design and the implementation of the formula used in allocating a share of nationally-raised revenue to municipalities is of critical importance for the delivery of essential services in South Africa. The formula comprises five major elements:

- $LES = S + B + I + T + M$
 - LES
 - A basic service grant (S) to support municipalities in the delivery of basic services;
 - A basic component (B) to fulfil the constitutional and legislative responsibilities;

- An institutional component (I) to aid municipalities in financing core administrative functions;
- A tax capacity equalisation grant (T) to encourage municipalities to take responsibility for raising their own revenue; and
- A spill over grant (M) to provide finance for services with an inter-municipal spill over effect.

2.4.2.2 Conditional grants from national government

The Municipal Infrastructure Grants (MIG) and the Municipal Systems Improvement Grant (MSIG) are among the grants that the municipalities receive from the national government. The main purpose of the MIG is to supplement municipal capital projects to eradicate backlogs in the municipal infrastructure utilised in the provision of basic services for the benefit of the poor. The key principles underpinning the design of MIG are:

- Focusing on the infrastructure required for basic level of service;
- Providing the services to the poor; and
- Maximising the local economic spill overs such as employment creation and enterprise development.

MIG is designed to ensure that municipalities have adequate resources to cater for maintenance and operation over the life cycle of the infrastructure assets (Ajam, *et al.*, 2006).

The Municipal Systems Improvement Grant (MSIG) supports municipalities in implementing systems as provided in the Local Government Municipal Systems Act and the Municipal Structures Act and other related local government policy and legislation so that they carry mandated functions effectively. The focus of MSIG varies year on year considering the strategic priorities of government with regards to the implementation of five year local strategic agenda (www.cogta.gov.za)

2.5 MUNICIPALITIES' INABILITY TO COLLECT REVENUE

One major administrative problem today for many urban types of council in Africa is their inability to collect revenue due to them in full. In many municipalities there are huge gaps between reported and projected revenue. This is due to poor administrative

capacity to assess the revenue base and to enforce the payment of taxes, resistance from the consumer types, and external pressure on the local finance department to provide optimistic revenue and external pressure to relax revenue collection especially during collection period. The municipality's capacity to administer property rates has in general proved to be inadequate. It has, therefore, been difficult for many municipalities across Africa to maintain the current property valuation registers, let alone continue the property valuation exercise (Fjeldstad, 2006).

The problem does not seem to be confined to South Africa. For example, Del Castillo and Gayoa (2010) indicate that although the municipalities in Indonesia are supposed to generate their own revenue and to manage their fiscal operations and financial management, they fail to meet this obligation. Despite these powers vested in municipalities, many still rely on internal revenue allotment from national government.

The universal complaint is that the municipalities in developing countries are in dire need of resources not only for investment but also to meet the ever-increasing demand for growing urban populations and also for the maintenance of the existing services (Samad, 2009).

Political intervention has been raised as one of the issues resulting in the low collection of revenue. Based on research done in Bangladesh, Samad (2009) states that local representation does not encourage tax collection for hospitals and clinic centres so as to please the electorate and gain support for the next election. There is also a lack of transparency on the assessments of a very large section of tax payers. Many tax payers are reluctant to pay and they adopt various means of evading tax in collusion with some of the officials concerned. Low assessment, therefore, leads to low collection of revenue. The reassessment of the general valuation of properties is not done at prevailing market rates.

According to research conducted in the municipality in Philippines, generally the rates for the various services provided by all the enterprises are artificially low, giving the impression that these enterprises are not managed as real businesses. These enterprises have a poor collection system and, as a result, many services are delivered without payment being collected (Del Castillo & Gayao, 2010).

2.6 STATE INTERVENTIONS ON MUNICIPAL DEBT OR RECOVERY OF OUTSTANDING DEBT

In South Africa, the government has implemented various initiatives in an attempt to assist municipalities in recovering debt from all consumers, and the interventions entail the following:

2.6.1 Masakhane campaign

To heighten citizens' awareness of issues associated with local government finances and service provisions, the Masakhane campaign was launched by the government in 1995 (Ahluwalia & Nursey-Bray, 1997). The overall aim of Masakhane campaign, ('masakhane' meaning 'let us build together'), was to normalise governance and the provision of basic services at the local level. The campaign has a broad set of objectives including promoting the resumption of rent, service charges, and bond payments. The Masakhane campaign, however, has been seen as a general and narrowly-focused programme to get people to pay for services. Although the campaign has had a substantial budget and administrative structure, the general view of a cross section of people at national and provincial level is that it has not been successful (Cashdan, 2000). In respect of improving payment of service charges, the results are dubious (Fjeldstad, 2004).

2.6.2 Outcome 9 - the delivery agreement for the local government sphere

The year 2014 marked twenty years of democratic local government. Despite the significant gains, research and assessment have shown that there are many municipalities that are in deep distress (Republic of South Africa: The Presidency, Department: Performance Monitoring and Evaluation, 2012). This distress refers to their faltering ability to deliver services, to manage their institutions and to engage in empowering public engagements with communities. Steps have been taken to do things differently in local government and the programme of actions or delivery agreement between the President and various Ministers in South Africa were drafted (South Africa: The Presidency, 2010). This agreement identified amongst others a progressive series of intergovernmental initiatives to turn the tide in local government in 2014.

Government has agreed on twelve outcomes as a key focus up to 2014 (Republic of South Africa: The Presidency, 2012). Outcome 9 came into effect in 2010 and aims at a responsive, accountable, effective, and efficient local government. Seven critical issues or outputs were identified in order to achieve the vision or goal of outcome 9. For the purpose of this research, focus will be mainly on output 6 which refers to administrative and financial capabilities of municipalities that must be enhanced. In terms of the refined delivery agreement it is stated that many municipalities have challenges of burgeoning outstanding debt, weak financial management and so forth. Sub output 2 of the Department of Cooperative Governance and Traditional Affairs (COGTA) delivery agreement (COGTA, 2012) refers to improved revenue management with the average monthly collection rate or a billing to a minimum of 90% excluding arrear payments. The key activities include the development of credit control and debt collection policies and sound billing so that all the properties and consumers are properly billed. Sub output 5 indicates that the percentage of municipalities with debtors owing more than 50% of their own revenue should be reduced, and the key activities include assisting municipalities to recover debt from government spheres.

2.6.3 Local government turnaround strategy (LGTAS)

The main aim of the LGTAS is to renew the vision of developmental local government. It also seeks to improve the organisational and political performance of municipalities, and, in turn, improve service delivery. It further stipulates that the approach towards managing local government must have a greater and more sustainable impact than the previous interventions, such as the project consolidate and five year strategic agenda, had. The strategy also looks at optimising revenue and debt reduction by half (Republic of South Africa: Department of Cooperative Governance and Traditional Affairs, 2009).

2.7 ANALYSIS OF EASTERN CAPE MUNICIPAL DEBTORS BY CUSTOMER GROUP

Section 71 of the MFMA states that “the Accounting Officer of a municipality must, by not later than ten working days after the end of each month, submit to the Mayor of the municipality and the relevant Provincial Treasury a statement in the prescribed format on the state of municipality’s budget” (National Treasury, 1999) The statement

must reflect the following particulars for that month and for the financial year up to the end of that month:

- I. Actual revenue and revenue source;
- II. Actual borrowing;
- III. Actual expenditure per vote;
- IV. Actual capital expenditure per vote; and
- V. The amount of any allocations received”.

Table 2.2 Analysis of Eastern Cape Debt by Customer Group

ANALYSIS OF EASTERN CAPE MUNICIPAL DEBT BY CUSTOMER GROUP: 2010/11 AND 2011/12 FINANCIAL YEARS

Debtor Age Analysis By Customer Group: 30 June 2011									
	0 - 30 Days		31 - 60 Days		61 - 90 Days		Over 90 Days		Total
Government	20 523	11.1%	19 948	10.8%	12 068	6.5%	131 876	71.5%	184 415
Business	123 916	17.1%	38 291	5.3%	24 899	3.4%	535 582	74.1%	722 687
Households	356 461	10.8%	173 206	5.3%	113 551	3.5%	2 644 525	80.4%	3 287 743
Other	29 062	9.9%	11 273	3.9%	9 271	3.2%	242 640	83.0%	292 245
Total By Customer Group	529 962	11.8%	242 718	5.4%	159 789	3.6%	3 554 623	79.2%	4 487 091
Debtor Age Analysis By Customer Group: 30 June 2012									
Government	19 903	7.7%	19 291	7.4%	10 414	4.0%	210 215	80.9%	259 824
Business	152 207	16.1%	56 246	6.0%	36 657	3.9%	697 782	74.0%	942 893
Households	221 834	5.7%	200 100	5.2%	184 602	4.8%	3 274 092	84.4%	3 880 627
Other	942	.3%	16 254	5.0%	10 170	3.2%	294 826	91.5%	322 192
Total By Customer Group	394 886	7.3%	291 892	5.4%	241 842	4.5%	4 476 916	82.8%	5 405 536

Source: National Treasury Municipal Finance Management section 71 quarterly report

When comparing municipal debt at the end of the 2010/11 financial years, the debt at the time amounted to R4.4 billion compared to R5.4 billion as at June 2011. Although the focus of this research is mainly on government debt, household debt contributes significantly to the bulk of the municipal debt, and business and other debt fluctuates as it changes positions in terms of the percentage. As regards government debt, and given the various initiatives taken by the government to try to improve the problem of municipal own revenue generation and debt collection, the government debt still shows an increase when the two financial years are compared.

Table 2.3: Eastern Cape Government Debt 2010-2012 (R'000)

2010/11 FINANCIAL YEAR GOVERNMENT DEBT					
NAME OF MUNICIPALITY	0 - 30 Days	31 - 60 Days	61 - 90 Days	Over 90 Days	Total
NMB	4 901	2 786	1 684	15 007	24 377
Makana	1 061	477	902	13 480	15 921
Kouga	304	247	286	3 969	4 805
TOTAL	6 266	3 510	2 872	32 456	45 103
2011/12 FINANCIAL YEAR GOVERNMENT DEBT					
NAME OF MUNICIPALITY	0 - 30 Days	31 - 60 Days	61 - 90 Days	Over 90 Days	Total
NMB	9 524	6 630	3 123	31 088	50 365
Makana	3 626	627	634	7 162	12 048
Kouga	160	159	106	4 555	4 980
TOTAL	13 311	7 415	3 862	42 804	67 393

National Treasury Municipal Finance Management section 71 quarterly report

The debt recorded by Nelson Mandela Bay municipality, Makana local municipality, and Kouga local municipality amounted to R67,4 million and R45,1 million respectively. The bulk of the debt emanates from the Nelson Mandela bay municipality and increased from R24 million in 2010/11 to R50, 3 million in 2011/12. Makana local municipality has recorded a slight decrease in debt, but the bulk of debt over a period of 90 days remains a challenge. The Kouga government debt has increased slightly from R4, 8 million to R4.9 million (www.treasury.gov.za).

2.8 CLASSIFICATION OF MUNICIPAL CONSUMER DEBTORS BY CUSTOMER GROUP

Municipal debtors are categorised, in terms of the Section 71 reports of the Municipal Finance Management Act (Republic of South Africa: The Presidency, 2004a) on quarterly basis. The debtors are classified according to four customer groups, namely government; businesses, households and other. Municipalities are charging government departments for services in respect of the properties or assets that the government owns and for service charges fees. Government properties are classified according to buildings, vacant land, and public service infrastructure such as dams.

2.8.1 Government debtors

In terms of the Local Government: Municipal Property Rates Act (National Treasury, 2004), the municipalities have the power to impose rates on all government properties within their jurisdiction including what is termed public service infrastructure (Division

of Revenue Bill, 2012). Government is billed for rates on properties, service charges, and electricity where the municipality is the electricity service provider. Government-owned properties are in the form of land, buildings, that is .schools, clinics, hospitals, and the Public Service infrastructure (dams), are under the ownership of government in the municipal property valuation rolls.

2.8.2 Other debtors

Municipalities also collect revenue from traffic fines, penalties resulting from law contraventions, licence fees, permits, agency payments, and interest (National Treasury, 2011). Although these sources are smaller than other sources of revenue, they are still significant and in most instances contribute to the pool of revenue that the municipality can use for redistributive and local economic development.

2.9 ANALYSIS OF MUNICIPAL DEBTORS BY INCOME TYPES

Debtors are classified in terms of the income source by means of water, electricity, sanitation, refuse removal, and property rates (National Treasury, 2011).

2.9.1 Service charges

A municipality is expected to charge for the services it provides to specific, identifiable customers who derive individual benefit from the consumption of those services. Examples include water, electricity; refuse removal (National Treasury, 2011).

Service charges are the amounts charged to the consumers of services like electricity, water, sewerage, refuse removal. The municipality must recover the cost of providing such services which are intended to cover the cost of supplying the relevant services to the consumers. These tariffs are charged for water, sewerage, and electricity (Moodley & Singh, 1996, cited in Ngxongxo, 2003)

Government departments are also consumers in this category of municipal debt. For the purpose of this research, reference will be made to the Department of Education for Section 21 schools for debt owed regarding municipal services.

2.9.2 Property rates and taxes

According to Makhungo (2011), property taxation is sometimes used interchangeably with property rating, and rating has been said to be the method by which residents of

a particular area contribute to the share of the burden of the cost of providing services to themselves within their area year by year. Taxes on land and buildings constitute the most common form of direct revenue for local authorities in urban areas. In South Africa, in terms of the Municipal Property Rates Act (National Treasury, 2004), municipalities have the power to impose rates on properties.

For properties owned by the provincial government, the devolution of property rates conditional grant came into effect in 2008 (Rustin & Nel, 2013). The purpose of this grant is to facilitate the transfer of the properties rates expenditure responsibility to the provinces. Provinces can pay for provincially-owned and deemed properties only and as per the invoice submitted by the municipality. In respect of the national properties, the national Department of Public Works is responsible for the payment of properties deemed as their responsibility in terms of government buildings (Department of Public Works, 2012). A department such as Water Affairs, however, is responsible for the payment for dams that are under the department's custodianship (National Treasury, 2011).

2.10 PROPERTY VALUATION

A municipality intending to levy a rate on property must do it in accordance with the Municipal Property Rates Act (National Treasury, 2004) and must generate a general valuation roll that is made of all properties in the municipal demarcation. The municipality can bill only for properties on its valuation roll.

There is shortage of qualified and skilled professionals to survey land, record and maintain an accurate deeds register, assess properties, prepare a proper valuation roll, and do general valuations all of which are a pre-requisite for a legitimate and efficient tax system, and this applies to some of the countries, in Southern Africa for example Zambia, Zimbabwe, and South Africa (Franzsen, 2000a).

According to McCluskey and Franzsen (2000), the monitoring of valuation quality control should be done by an independent and professional valuation agency preferably at national level. Such agencies exist in Australia, New Zealand, and Canada. In South Africa, the agency should perform the following primary tasks: provide technical advice to government on valuation issues and the regulation of

valuation sector; and certify to municipalities that the resulting valuations meet the minimum standards for a fair and consistent property tax system.

2.11 BACKGROUND ON DEBT OWED BY GOVERNMENT DEPARTMENTS TO MUNICIPALITIES

Various government departments are obliged to pay for municipal rates and services. The Department of National and Provincial Public Works is the custodian of both provincial and national immovable assets (properties) and pays the property rates and taxes for such properties (Department of Public Works, 2014). This department manages a complex property portfolio comprising *inter alia* buildings occupied by government departments for offices, ministerial and presidential residences, hospitals, clinics, schools, and government vacant land. Municipalities levy rates to both the national Department of Public Works and provincial Department of Public Works for their properties, located in the municipal areas. Properties that belong to provinces were devolved to provinces in order to facilitate the transfer and the responsibility of property rates expenditure to provinces. The budget was developed in the form of conditional grant, named the devolution of property rates conditional grant, which is administered by the National Department of Public Works (NDPW) and transferred on quarterly basis to the provincial Public Works for properties deemed to be theirs. Each province was then expected to pay the property rates for the properties devolved, and the list of properties was extracted from the national Public Works Asset register. Properties that are in the custody of the NDPW remain the expenditure responsibility of the department (Parliamentary Monitoring Group, 2011a www.pmg.org.za).

2.11.1 Government land

The national and provincial government own 24.5 million hectares of land, but the extent of the municipal ownership is not clear. According to Groenewald (2009), municipalities own about 25% of all land in South Africa. The Department of Land Affairs database, however, showed that about 1.2 million properties are owned by various municipalities.

Following integrated discussions with the various custodians, it was concluded that state land was made up of 184 011 land parcels, compared to 10 322 for parastatals, 985 782 for municipalities, and 7 423 167 for the private sector. Of the state's land

parcels, 37 703 fell under the DPW, 25 202 under the DRDLR, 85 503 under the Department of Human Settlements, and 42 693 under the provinces (PMG: 2014). The actual extent in hectares of these land parcels has yet to be determined. Even more indeterminate is the amount of municipal land in each province, including the Eastern Cape.

Government needs to have accurate information regarding the ownership of land and state properties, and that could have an impact on the accuracy of the municipal valuation roll and the billing to government by various municipalities. According to the report to the Public Works Portfolio Committee by the Eastern Cape provincial Department of Public Works, the definition of state land is very unclear as the land in the province has been registered in many different names. As at the 2010/11 financial year there were 1 500 different names registered. The province comprises 37 per cent of all state land in South Africa (www.pmg.org.za); of this, three million hectares are in the former Transkei and Ciskei and have not yet been surveyed.

2.11.2 Immovable asset register

The Government Immovable Asset Management Act (GIAMA), 2007 (Republic of South Africa: The Presidency, 2007) provides for a uniform framework for the management of an immovable asset that is held, or used, by national or provincial department to ensure the coordination of the use of an immovable asset with service delivery objectives of national and provincial departments. It also provides for the issuing of guidelines and minimum standards in respect of immovable asset management by national and provincial departments.

The National Department of Public Works was expected to develop an immovable asset register. The NDPW, in terms of the 2012-2016 strategic plan (National Department of Public Works, 2011), indicates that, despite the establishment of the Asset Register Management unit in 2009, the fast tracking of the Immovable Asset Register enhancement has been proven to be a challenge (www.pmg.org.za). This is compounded by the historic manner (no proper records, new provinces created, former TBVC states, and self-governing territories) in which state properties were managed and registered. In the 2011/12 financial year, the reconciliation of data from sources including Deeds data, the Department of Water Affairs (DWA), the Department of Rural Development and Land Reform (DRDLR), and the provincial

asset register was conducted. The NDPW also has a Portfolio Analysis Programme in which its function comprises *inter alia* the valuation of the immovable assets.

The Parliamentary Monitoring Group (2014) established that an updated and complete asset register did not exist. There is also no memorandum of understanding between the Department of Public Works and Rural Development and Land Reform on the custodianship of state properties and land.

Absence of an updated immovable asset register might also be a contributing factor to the non-payment for properties billed by municipalities where the department's register has no record of such properties. (www.pmg.org.za)

2.12 DEBT EMANATING FROM INACCURATE MUNICIPAL PROPERTY VALUATION ROLLS

Chapter 6 of the Local Government Municipal Property Rates Act, No 6 of 2004 permits municipalities to have a valuation roll that lists all properties determined in terms of Section 30(3) of the Act (Republic of South Africa, 2004b).

Government departments are claiming, according to the Parliamentary Monitoring Group (2012) that in many cases, municipalities classify some properties as government properties in their valuation rolls, while the government disputes responsibility for those properties. That results in non-payment for such properties. It is also claimed that municipalities have a tendency to bill government (provincial or national) for properties that belong to the municipality. On the presentation by the Eastern Cape Department of Public Works to the Parliamentary Monitoring Group, an indication was made of the challenges facing the Department in respect of municipal debt. These challenges relate to rates and taxes charged on properties that are unregistered, properties on un-surveyed land, and properties on municipal land. Rates and taxes are charged on provincial roads, and the municipalities cannot account for the value and how it has arrived at that rateable amount specifically for roads.

2.12.1 Debt owed to municipalities by National and Provincial Department Public Works

According to the PMG (2012), the Department of Local Government and Traditional Affairs in the Eastern Cape Province owed various municipalities in the province an

amount of R85,7 million at the end of June 2012. The debt that was owed to the Nelson Mandela bay municipality was R8.3 million, Makana R8.2 million, and Kouga municipality R4, 6 million, giving a total of R21,2 million. The province is, on the other hand, recording under-spending on the devolution of property rates grant catered for the payment of such debt.

2.12.2 Analysis of devolution of property rate fund grant expenditure: 2011/12 financial year

Devolution of property rate funds grants was for the facilitating the transfer of property rates expenditure responsibility to provinces and to enable provincial accounting officers to be fully accountable for their expenditure and payment of provincial property rates (Republic of South Africa: Division of Revenue Act, 2010).

Properties that were deemed to be provincial were transferred to the provincial departments and were supposed to pay municipalities for property rates and taxes. The table below illustrates that, although municipalities were reporting recurring levels of outstanding debtors and some relating to non-payment for property rates, the province was recording under expenditure on the funding.

Table 2.4: Devolution of property rates funds grant

DEVOLUTION OF PROPERTY RATE FUNDS GRANT

Province	Division of Revenue Act, 2011 (Act No. 6 of 2011)	Government Gazette: Other Gazettes	Provincial roll- overs	Total available	Payment Schedule: Year to date	Received by province: Year to date	Provincial actual payments	% Transferred of national allocation	% Actual payments of total available	Preliminary outcome for financial year	Preliminary (over)/under
R thousand											
Eastern Cape	192 709	-	62 890	255 599	192 709	192 709	235 674	100.0%	92.2%	235 674	19 925
Free State	219 916	20 247	-	240 163	240 163	240 163	240 147	100.0%	100.0%	240 147	16
Gauteng	270 775	-	-	270 775	270 775	270 775	270 775	100.0%	100.0%	270 775	-
KwaZulu-Natal	518 585	(55 000)	42 295	505 880	463 585	463 585	486 358	100.0%	96.1%	486 358	19 522
Limpopo	34 054	-	424	34 478	34 054	34 054	27 893	100.0%	80.9%	27 893	6 585
Mpumalanga	73 964	-	-	73 964	73 964	73 964	73 962	100.0%	100.0%	73 962	2
Northern Cape	41 754	25 000	2 381	69 135	66 754	66 754	58 034	100.0%	83.9%	58 034	11 101
North West	160 192	(27 000)	-	133 192	133 192	133 192	129 112	100.0%	96.9%	129 112	4 080
Western Cape	291 281	36 753	18 341	346 375	328 034	328 034	345 843	100.0%	99.8%	345 843	532
Total	1 803 230	-	126 331	1 929 561	1 803 230	1 803 230	1 867 798	100.0%	96.8%	1 867 798	61 763

Source: National Public Works, June 2012

In the Eastern Cape for 2010/11 financial year, the province spent 78 per cent of its devolution of property rates grant and, subsequently, in 2011/12 the province spent 92.2 per cent of its total allocation. Some of the reasons for under expenditure included incorrect invoicing, the invoicing of properties not owned by the Public Works, and unallocated payments by municipalities (PMG, 2012).

2.13 PUBLIC SERVICE INFRASTRUCTURE (DEPARTMENT OF WATER AFFAIRS)

In terms of the Local Government Municipal Property Rates Act (No 6 of 2004) (Republic of South Africa, 2004b), Public Service Infrastructure (PSI), as far as it relates to water infrastructure, is defined as publicly controlled water or sewer pipe, ducts or other conduit, dams, water supply reservoirs, water treatment plants or water pipes forming part of a water or sewer scheme serving the public. A municipality, therefore, has the authority to value and rate such PSI subject to the provisions of the Act. The Act does not permit the municipality to levy a rate on its thirty per cent (30%) of the market value of the PSI. Only 70% of the market value of PSI is, therefore, rateable. The Department of Water Affairs also contributes to non-payment of government debt for its PSIs. Proposals to exclude certain types of PSIs from rating in the national interest have, however, been included in the Municipal Property Rates Amendment Bill that was published for comments in June 2011, and dams are included in the PSI list for proposed exclusion (www.pmg.org.za).

Although most of the municipalities do not have any recorded debt in respect of dams, the proposal to exclude dams, if approved, will have an effect on the reduction of government debt to municipalities as there are certain municipalities owing in other provinces in this category. By way of comparison, in Chicago, the Illinois Constitution (Illinois General Assembly (ILGA) 1970) allows exemption for properties that belong to the State of Illinois, units of local government, and school districts, property that is used exclusively for agricultural and horticultural societies, and for schools, as compared to the rule in South Africa.

2.14 DEBT OWED BY DEPARTMENT OF EDUCATION (SECTION 20 AND SECTION 21 SCHOOLS)

The South African Schools Act identifies two kinds of schools, Section 20 and Section 21 schools. Section 21 schools have greater powers and responsibilities than Section 20 schools. For the purpose of this research, emphasis will be placed on Section 21 schools, as they mostly owe money to municipalities compared with the Section 20 schools.

From the literature reviewed in terms of the Department of Education's being amongst the departments that owe money to municipalities, it is clear that this is mainly for Section 21 schools which are experiencing problems in payment for services although a budget has been allocated. This bears testimony to the current debt owed to the eThekweni and Gauteng municipalities. The own revenue problem is also raised by Schoeman (2011) who stipulates that attention needs to be paid to addressing the problems relating to the collection of income owing to the available resources. Municipalities send invoices on a monthly basis to Section 21 schools for service charges, but they are struggling to recover the debt owed by these institutions.

According to Hansraj (2007), Section 21 schools are regarded as virtually synonymous with self-managing or self-reliant schools. School which have been granted Section 21 status by the Department of Education receive a subsidy cheque in January as a first allocation and a further cheque in April as a second allocation, and all expenditure must be accounted for. These schools have a greater financial flexibility as the lump sum is paid directly to the school. Principals have the responsibility of paying for municipal services for the school. These schools are allocated finances by the Department of Education and are responsible for the ordering of stationery and

textbooks, paying light and water accounts, and also undertaking their own maintenance.

It has become evident that the municipalities are also experiencing challenges in respect of the payment for services such as water and electricity by the Section 21 schools. The South African Schools Act prescribes how schools should manage their funds, and, from the research done by Mestry (2004), it is evident that the governing body is responsible for the financial matters of the school; there appears, however, to be an overlap as, in terms of the South African Schools Act, the principal is responsible for the finances of the school. Management of school finances is an integral part of effective school management (Mestry, 2006). The school is obliged to pay for any services over its budget in respect of amenities like water and electricity; the greatest concern is, however, whether the school governing body or the principal are trained in financial management. Training in financial management is fundamental to preparing and equipping school managers with financial skills. This training should enable the school governing body and the principal to be responsible and accountable for funds that have been received for the attainment of specific school objectives.

2.15 ADOPTION OF INNOVATIVE WAYS TO COLLECT OUTSTANDING DEBT

Gaborone City in Botswana has adopted an innovative idea of collecting debt by publishing the names of defaulters in the national press. The council subsequently recovered over one million dollars of arrears, as many companies, individuals, and government departments rushed to avoid further embarrassment (Mosha, 2010). Government needs to have accurate information regarding the ownership of land and state properties as that could have impact on the accuracy of the municipal valuation roll and the billing to government by various municipalities that will, in turn, increase payment by debtors.

The Irish Local Government has shown that revenue collection requires close monitoring to ensure that substantial arrears are not accumulated as the level of collection on revenue has deteriorated. Property taxes were previously not paid in Ireland, and the Minister of the Environment introduced an annual household charge which will be in operation for two years ahead of the introduction of a full property tax based on the valuation in 2014 (Government of Ireland, 2011; Money Guide Ireland, 2013).

2.16 MEASURES UNDERTAKEN TO INCREASE COLLECTION OF MUNICIPAL DEBT

The Local Government Municipal Systems Act, 2000 (Act 32 of 2000) provides that a municipality must adopt, maintain, and implement a credit control and debt collection policy which is consistent with its rates and tariff policies and which complies with the provision of the Act. Such a policy must provide for credit control procedures and measures, debt collection procedures and mechanisms, and termination of services, or the restriction of provision of services, when payments are in arrears.

According to Kapp (2006), in spite of the provision of the Local Government Municipal Systems Act many of the existing credit and debt collection policies are silent on the roles and responsibilities of the council, executive mayor, executive committee, municipal manager, and other officials with regard to revenue collection. Municipalities provide for potential revenue without providing for working capital or the potential for bad debts which leads to various cash flow difficulties. In most instances, services are billed on a monthly basis which leaves little time to effect credit and debt collection policies when consumers do not pay on due date. A fourteen day grace period is normally granted after accounts have been delivered. This leaves fourteen days for collection before new accounts are delivered. On average, any municipality produces approximately thirty thousand accounts per month, of which ten to thirty per cent are not paid before the due date. This means that all the outstanding consumers must be followed up within 14 days. Limited resources prohibit municipalities from employing the number of staff required to implement credit and debt collection mechanisms and procedures.

2.17 IMPLEMENTATION OF MUNICIPAL CREDIT CONTROL AND DEBT COLLECTION POLICY

Credit control and debt collection policy is established in terms of 9 of the Local Government Municipal Systems Act (No 32 of 2000) (Republic of South Africa: The Presidency, 2000) which requires that a municipality must establish and maintain this policy. This policy as approved by the council shall be passed into a municipal by law which will be binding on the public, officials and councillors of the municipality.

In most municipalities, credit control policies are reviewed on an annual basis, but the problem rest with the implementation of such policies. Shortages of staff members also affect the ability to collect revenue and implement credit control and debt collection policies and its measures (Graham, 2012).

The installation of water restriction devices into the water supply systems of bad debtors has steadily increased since 2002/3. Consumers unable to pay for their consumed water are now liable for restriction or will face punitive measures for non-payment (Smith & Green, 2006).

Debt collection procedures for the Buffalo City Municipality cater for the payment arrangements in respect of the customer consumer group and the businesses, and there are no procedures stipulated with regard to the collection of government debt (Buffalo City Municipality, 2003). The effectiveness of cost recovery when dealing with municipal debt is further questioned because of the inability of some of the municipalities to enforce credit and debt collection policies which are supposed to be enforced on monthly basis (Peters & Oldfield, 2005).

2.18 WRITING OFF OF BAD DEBT

Another critical factor that increases the number of municipal debtors is the failure of the municipalities to write off irrecoverable debt. Section 97 (1) (d) (ii) of the Local Government Municipal Systems Act (Republic of South Africa: The Presidency, 2000), as well as Section 64 of the Municipal Finance Management Act (Republic of South Africa: The Presidency, 2004), states that the municipality must adopt a policy on writing off bad debts as irrecoverable. The vision of the policy is to ensure that that the debtors of the municipal council are not overstated in the financial records and reporting to the council:

- To ensure any long outstanding debt is evaluated in order to determine the possibility of realising such income as revenue;
- To ensure that where it is evident that a particular debt cannot be turned into revenue such debt be procedurally regarded as irrecoverable;
- To make sure that the council of the municipality makes enough provision for bad debt in the budget; and

- To ensure that outstanding monies which have been outstanding for a long time after all attempts have been made in terms of recovering them should be written off.

According to the National Treasury (2012), a certain percentage of municipal debt is probably irrecoverable because municipalities do not write these debts off consistently and this results in a constantly increasing municipal debt.

2.19 REVENUE ENHANCEMENT STRATEGY

The low revenue base of the municipalities is a high risk threatening the survival of the municipalities, and the municipalities are required to develop a revenue enhancement strategy which looks within the current financial funding and seeks to increase its own revenue generation. The challenge facing municipalities is to turn around the current declining cash position successfully and to build sustainably for the future. Revenue enhancement is one of the arsenals of turnaround strategies (USAID, 2005).

In trying to balance income and expenditure several municipalities have embarked on the development and implementation of a Revenue Enhancement Strategy. A communication programme is the first part in the implementation phase. The objective of this communication programme is to address issues of non-payment for municipal services to ensure the continuation of services to the public in general (Haycock, 2005).

2.20 REASONS FOR NON-PAYMENT OF MUNICIPAL DEBT BY GOVERNMENT DEPARTMENTS AND OTHER CONSUMER TYPES IN SOUTH AFRICA

Various studies on the causes of non-payment in respect of municipal debt have been the focus of other researchers but not much research has been done in respect of non-payments by government departments. The reasons for non-payment (apart from government departments) (Booyesen, 2001) include the inability to pay as a result of poverty, but that refers only to non-payment by households. There is also an unwillingness to pay. Unwillingness can stem from dissatisfaction with services delivered by government which can lead to a cycle of non-payment (FFC, 2011).

According to Lubbe and Rossouw (2008), the culture of non-payment and other reasons has increased the number of debtors to local authorities for services rendered

by them to a disturbing level. Political interference when pressure is applied to defaulters of payment for service is an example of the dilemma in which the local authorities find themselves. In many instances, municipalities collect only part of their income which results in cash flow problems, an inability to pay their creditors on time, and a lack of funds for maintenance and expansion of infrastructure, and poor service delivery (DBSA, 2006).

Reasons given by the Financial and Fiscal Commission (FFC, 2011), for non-payment by government have been categorised, according to three departments, the Department of Public Works, Department of Health and the Department of Education, as emanating from a variety of reasons. The devolution of assets and payments from the national Department of Public Works to its provincial counterparts has created many bottlenecks in payments to municipalities. Available data, according to an extract from the FFC technical report for the submission of 2012/13 Division of Revenue (FFC, 2011), indicates that non-payment by government departments to municipalities has grown rapidly. The data used in this regard was extracted only from six metropolitan municipalities. From the FFC findings across the metropolitan municipalities, Education, Public Works and Education are responsible for the highest level of non-payment. The very specific underlying reasons that have led to non-payment from these particular government departments are:

- Education: the concern here is with the Section 21 Schools, that is, schools that have been granted the right to manage their own budgets or financial affairs through their respective governing bodies. The schools have indicated that their budget is insufficient and does not allow them funds for municipal services;
- Public Works: the devolution of assets and payments of property rates from the national department to its provincial counterparts has created many bottlenecks in payments to municipalities. A conditional grant, the devolution of property rates grant, was established to assist provinces to pay for their newly acquired function. The extent to which this translates into relief for municipalities, however, is dependent on the efficiency with which provincial departments transfer funds to municipalities; and
- Health: in this instance debt is the result of clinics and hospitals not paying for utilities. In some cases, service level agreements (SLA's) exist between provinces

and municipalities but either payment is not forthcoming or the municipalities have spent more than was agreed in the SLA.

2.21 FACTORS AFFECTING A DECLINE IN OWN REVENUE COLLECTION IN MUNICIPALITIES

There is a shortage of qualified and skilled professionals to survey land, record, and maintain an accurate deeds register, to assess properties, prepare a proper valuation roll, and to do general revaluations, all of which are pre-requisites for a legitimate and efficient tax system which applies to all of these countries for example Zambia, Zimbabwe and South Africa (Franzsen, 2000a). The lack of ability of local authorities to administer complex credit controls, to apply valid tests on indigence, and to install the required technology hinders payment for services and rates (Schlemmmer, 2005 cited in Ruiters, 2007) also affects own revenue collection.

Based on research conducted in Gauteng on non-payment by consumers, the respondents were more inclined to blame non-payment in general to poor quality of services and or incorrect billing (Fjeldstad, 2004).. Trustworthiness of the revenue enforcement mechanism and penalties imposed on defaulters affect the consumer's compliance behaviour. Some departments are willing to pay the outstanding debt provided the municipality is willing to reduce penalties or interest charged and depending on a municipality that sometimes become a long process which further delays payments and debt incurring another interest.

2.21.1 Unreliable data on Billing System

Problems with municipal billing systems across the country frustrate the objective of running municipalities that are efficient, responsive, and accountable. The billing problem results in customers receiving inflated or incorrect accounts which, in turn, results in non- payment (Tech Central, 2011). Effective billing and collection practices depend on many internal factors including a customer database, the extent of metered and unmetered service provision, tariff and billing structure, delivery of bills, and facilities for customer payments (PI Planning, 2008).

In the case study undertaken for one district municipality in the KwaZulu-Natal province, a desktop data cleansing exercise trying to improve the municipal billing system found that more than 31 000 properties were incorrectly zoned, and their

usage wrongly allocated, with domestic consumers being charged industrial tariffs as a result of which the municipality was losing revenue (USAID, 2005). Government properties numbered nine (9) due to data not being updated on the municipal billing system, but after the data cleansing initiative, later increased to 329 accounts (*ibid.*). This implies that the incorrect consumer type was being charged for the government debt. Municipalities, on the other hand, bill the provinces on properties that, in some instances, might not be captured in the departmental asset register which further complicates payment to the municipalities as it is a requirement for the departments to pay for only what is captured as theirs (PMG, 2012).

The municipalities, in some instances, are also facing the challenge of billing for their own properties as the case study reflects that the municipal properties were being charged and this has an impact on the increase on municipal debt, which no one could pay if the data cleaning exercise had not been undertaken. Very few municipalities have successfully updated their debtor database since the consolidation and demarcation of cities and towns in South Africa. Rental Stock is also exchanged without the necessary notification to municipalities or service providers. There is no correlation between consumers and the financial records (Kapp, 2006). Prior to 1994, there was no comprehensive computer-based asset register of state-owned immovable assets. Information on assets was captured in a variety of disjointed inventories most of which were on a manual paper based system. In 1995, the Department of Public Works commenced with the compilation of a comprehensive computer-based inventory of immovable assets under the both national and provincial custodianship. There were certain gaps that were identified from the project, and the department is currently finalising the data analysis. The ability to collect debt remains dependent on the accuracy of the debtor information, and inaccurate debt information results in poor debt collection. The following information is critical to the collection process: is the customer and account information correct? Have the correct tariffs been applied? Is the outstanding amount correct?

2.21.2 Previously untaxed areas and government properties on communal land

According to Bell and Bowman (2002), bringing tribal areas into the tax base represents a challenge. Firstly given the communal land tenure system existing in these traditional authority areas, how does one establish ownership? Secondly,

because there is no land market *per se*, how are the estimates of market value to be made? There are schools, health facilities, and other government infrastructure buildings situated on communal land or tribal areas, and, based on the statement of how one establishes ownership, this might have a negative impact on the increase on government debt in the municipalities.

Property taxes were levied in rural agricultural land in the past, but these lands have not been in the property tax base since the late 1980s (*ibid.*). Bringing these into the tax base now poses problems. The question of how taxes on such properties should relate to taxes levied in the urban portions of a municipality remains unanswered. Municipalities are also levying rates on rural agricultural land but the payments of rates and taxes made by such entities are not greatly in evidence.

Extending property taxation to tribal or communal land is an area of major political concern and it is fraught with practical problems. Ownership of tribal land is not uniform, and some tribal authorities are not prepared to accept any form of taxation on their land. Furthermore, identifying rate payers may be problematic (Franzsen, 2000b). Government owns properties such as schools and clinics which are located in tribal land, and, based on the statement articulated by Franzsen on challenges around raising taxes on such land, this leaves much to be desired. Municipalities continue to bill for such properties, but the issue of ownership and who pays the municipality is a vexed question.

2.22 SIGNIFICANCE OF COLLECTING OWN REVENUE OR DEBT PAYMENT TO MUNICIPALITIES

Debt collection is essential as the high level of outstanding debt in municipalities is creating serious negative consequences on the cash flow of the municipalities but also holds a greater threat. Since the bulk of payment for services provides municipal income, these are becoming increasingly depleted. This means that municipalities are becoming increasingly unable to either sustain actual service delivery or maintain the existing infrastructure. If the pattern of non-payment persists, and discipline in the form of regular payments is not restored, municipalities will be unable to deliver on national priorities (USAID, 2005).

The role envisaged for local government in South Africa is being compromised by the non-collection of consumer debt. Yorke (2002) indicates that the on-going raising of interest on long outstanding debt also contributes to the debt escalation in the municipalities. Interest is raised monthly on debts that have been outstanding for many years, thereby increasing the aggregate amount owed to municipalities. Non-payment of services continues to put severe constraints on local government finances in South Africa (Booyesen, 2001). The Republic of South Africa Constitution, Section 229, (Republic of South Africa, 1996) deals with municipal fiscal powers and functions. This further provides that the municipality may impose rates on property and surcharge on fees for services provided on behalf of the municipality.

The problem of non-payment by the consumer groups is not confined to South Africa. The Town Clerk of Nairobi City, Kenya, says that the amount owned by rates defaulters if recovered could be used to construct approximately 300 km of tarmac road in the city (Makhungo, 2011).

Measures to improve the efficiency and effectiveness of the revenue administration are crucial. Relevant measures include improvements to the billing and accounting systems, establishing more accessible and efficient payment facilities and the strengthening of the capacity to follow up cases of non-payment through fair and reasonable enforcement (Fjeldstad, 2004).

2.23 IMPLICATIONS OF NON PAYMENT OF MUNICIPAL DEBT BY CONSUMERS

According to Arimah (2005), finance is a major factor constraining the capacity of city governments in developing countries to provide adequate infrastructure. This can partly be attributed to low income levels or non-payment for services and rates by consumers and poorly developed tax systems. In developing countries, infrastructure is financed through public expenditure and user fees. At the municipal or local level, finance for infrastructure comes from internally generated revenue derived from a series of tax and non-tax sources. Available evidence indicates that the “own revenue” of local governments falls below the expenditure required to provide the most minimal level of infrastructure. Consequently, municipalities have to augment their internally generated revenue with inter-governmental transfers or revenue sharing, and, in a few cases, with borrowing from the capital market.

According to Ajam, *et al.* (2006), own revenue is used to supplement funds received from inter-governmental transfers and the decrease or non-collection of revenue by municipalities affects municipal service delivery.

2.24 CHAPTER SUMMARY

The content of the legislative framework which governs municipalities has been analysed to portray the nature of government and how municipalities are funded, how they are expected to generate their own revenue, and how are they enforce cash flow management and debt collection. It has been indicated that the Departments of Public Works, Education, and Health are the main culprits owing money to municipalities. The implementation of the credit and debt collection policies in various municipalities leaves much to be desired, as, in most municipalities, services are billed on a monthly basis which then leaves little time to effect credit and debt collection policy procedures on consumers. Analysis indicates that the credit and collection policy of some municipalities is not clearly specifying procedures to be followed on collection of government debt.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 INTRODUCTION

Methodology in research refers to the strategy or plan of action that links methods to outcomes and governs the choice and use of methods (Creswell, 2003). Dick and Swepson (1997) argue that good research is one which uses a methodology which fits the situation and the goals being pursued. Research methodology necessitates a reflection of the planning, structuring, and execution of research in order to comply with the demands of truth, objectivity, and validity. This chapter discusses all the technological aspects that guided the research process. These include the research design; population, sample and sampling techniques; data collection instruments; issues of validity / reliability / trustworthiness; data analysis; ethical considerations; and limitations of the study. Below is a brief discussion on each.

3.2 RESEARCH DESIGN

According to Denzin and Lincoln (2005), and Johnson (2008), the research design is the blue print for conducting the study. A research design is the plan or strategy which moves from the underlying philosophical assumptions to specifying the selection of respondents, the data gathering techniques to be used, and the data analysis to be done (Maree, 2007). In Yin's (2009) view, the design is the logical sequence that connects the empirical data to a study's initial research questions and, ultimately, to its conclusion. This means that this logical plan allows a researcher to navigate way from the first point of study to the end of the road when presenting the findings and making recommendations.

3.2.1 The research approach

3.2.1.1 Qualitative approach

The qualitative approach is adopted for this research as it entails discovering unanticipated findings and the possibility of altering plans in response to accidental discoveries. Qualitative approach is rooted in phenomenological foundations which view human behaviour as a product of people's interpretation of their world (Babbie & Mouton, 2009). It is based on the assumption that the researcher can obtain extensive empirical in-depth data from ordinary conversations with his or her subjects, in this

case the participants (Maree, 2007). Research methods that constitute the qualitative approach share a certain set of principles or logic. Babbie and Mouton (2009) describe the qualitative approach methods as naturalistic, anthropological, and ethnographic 'inquiries of knowledge'. The term naturalism reflects a concern with the normal course of events and how a qualitative researcher should be as far as possible in his or her study.

Qualitative methodology refers to the research which produces descriptive data, usually peoples' spoken or own written words. It allows the researcher to know people, and to experience people's daily struggle when confronted with real life situations. In qualitative research, methods such as case studies, in-depth interviewing of key informants, participant observation, questionnaires, perusal of personal documents such as life history, diaries, and autobiographies are used (Brynard & Hanekom, 2006).

The choice of using the qualitative approach is based on the desire to understand social actions in terms of specific context rather than trying to generalise some theoretical population. The debt problem requires detailed description of specifics as opposed to the quantitative. The qualitative approach also enables the researcher to investigate factors underlying debt accumulation within the municipalities. The researcher builds a complex, holistic picture, analyses words, and reports, provides a detailed view of informants, and conducts the study in a natural setting. It's an approach that involves the use and collection of a variety of empirical material, personal experience obtained through action research or participant observation, and interviews that describe meanings, procedures and challenges in the development or implementation of the case in question.

3.2.2.2 Quantitative approach

Maree (2007) describes quantitative research as a process that is systematic and objective in its ways of using numerical data from a selected subgroup of a universe (or population) only to generalize the findings to the universe that is being studied. As can be deduced from the definition, the three most important elements of quantitative research are objectivity, numerical data, and the ability to make generalisations. According to Maree (2007), in quantitative research, researchers tend to remain objectively separated from the subject matter. This is because quantitative research is

objective in its approach and it seeks only precise measurements and the analysis of target concepts to answer the inquiry.

Ryan (2006) looks at quantitative research as research that tries to link variables (features which vary from person to person); tries to test theories or hypotheses; tries to predict; and tries to isolate and define categories before research starts, and, then to determine the relationships between them. The quantitative data collected through this type of research can reveal information that can be generalised for a large group of people. Quantitative research, however, is criticized for its inability to look at individual cases in any detail and also that its highly structured nature prevents the researcher from following up unexpected outcomes or information (Ryan, 2006). In addition, quantitative data often fails to provide specific answers, reasons, explanations, or examples. Research was conducted in the form of questionnaires to all the municipal officials affiliated to the revenue section specifically dealing with government debt.

3.3 POPULATION

A population is defined as the total quantity of things or cases of the type which is the subject of a study (Walliman, 2006). A population can refer to a group of people that share one or more characteristics from which data can be gathered and analysed. The population in a research context is any target group of individuals that has one or more characteristics in common, and that is of interest to the researcher for the purpose of gaining information and drawing conclusions (Best & Kahn, 2003; Tuckman, 1999). Population is the theoretically specified aggregation of study elements (Babbie & Mouton, 2009). The local sphere of government with specific reference to the Eastern Cape municipalities served as the focus for the study. The Eastern Cape Province of South Africa is divided, for local government purposes, into two metropolitan municipalities, Nelson Mandela Bay Municipality and Buffalo City municipality, and six district municipalities. The district municipalities are, in turn, divided into thirty seven local municipalities.

For the purpose of this study, the target population was one metropolitan municipality in the province, which had the highest level of government debt, and two local municipalities: one had the highest level of government debt and the other of which had minimal government debt. In total three municipalities were the target population

for the research. Whereas the term “Eastern Cape municipalities” might be the target for the study, the delineation of the study would include the definition of the elements of Eastern Cape municipalities. The study population is the aggregation of elements from which the sample is actually selected.

Municipal revenue sections in the municipalities have officials specifically designated to work on monitoring the government debt. The function is monitored by not more than ten officials in each municipality, including the revenue manager, the programme manager, and general staff members. The reason for selecting three municipalities was that these municipalities had a trend of outstanding debt that ranged from the highest to minimal debt in the province. The selection of municipalities provided a practical measure of the debt problem and the implications for revenue generation in other municipalities given the commonality of the debt situation across the municipalities. The researcher was also based in Gauteng province and the topic was chosen while she was still working in the Eastern Cape. The following municipalities and government departments were targeted:

Nelson Mandela Bay municipality	Revenue Manager and officials affiliated to revenue dealing with government debt;
Makana Local municipality	Revenue Manager and officials affiliated to revenue dealing with government debt;
Kouga Local municipality	Revenue Manager and officials affiliated to revenue dealing with government debt.

3.4 SAMPLE AND SAMPLING METHOD

A sample is a representative of a population drawn from a large pool of cases since it is impossible to include all participants in a given population (Creswell, 2007). A sample is a part or a fraction of the whole, or subset of a large set, selected by the researcher to participate in the study. A sample consists of a selected group of elements units from a defined population (Brink, 2001). The idea of sampling is based on the premise that a limited set of observations has the potential of generating information that could as well be generated if the overall population were otherwise studied (Royce, 2004). While there are similarities in sampling strategies adopted in

quantitative and qualitative research, there are intrinsic divergences. De Vos. (2005) argued that, unlike in quantitative studies, sampling in qualitative studies is less structured. The sample in the identified municipalities consisted of the Revenue Managers and staff members affiliated to the Revenue Section of the municipalities.

Bliss and Higson in Zondani (2008) identify two sampling types in research as probability sampling and non-probability sampling. Probability sampling includes the following sampling procedures, simple random sampling, interval or systematic sampling, stratified sampling, as well as cluster or multi stage sampling. On the other hand, non-probability sampling includes the following sampling procedures, quota sampling, accidental or viability sampling, and purposive or judgemental sampling.

A non-random sampling method was used in this study as it entailed convenient and purposive sampling. The study required the purposive choice of the officials that deal specifically with government debt within the municipality and the respective government departments.

A convenience sampling method was used owing to the vastness of the distance between municipalities in the province.

3.5 DATA COLLECTION INSTRUMENTS

In choosing the appropriate instruments, the researcher was guided by the nature of the research problem and the type of questions to be addressed. In addition, the choice of the paradigm and the research design also guided the researcher into adopting the instruments that were considered relevant to collecting data that would address the key issues of the study.

3.5.1 Semi-structured questionnaires

Collecting data through questionnaires is one of the most widely-used methods of gathering information from people. Questionnaires can be used to collect both quantitative and qualitative data from large samples of people in survey designs. Maree (2007) identified at least four methods as the most commonly used methods of collecting data from respondents through questionnaires. These include group administration of questionnaires, postal survey, telephone survey, and face-to-face survey. In group administration, the researcher waits while a whole group of

respondents complete questionnaires. This has the advantage of having many respondents complete the questionnaire within a short space of time as well as reaching respondents across long distances. The researcher can, also, clarify issues which are unclear to the respondents. This method, however, has the disadvantage of getting different responses if different administrators administer the questionnaires. Furthermore, the primary researcher has limited control over what happens in the field.

In postal surveys, questionnaires are mailed to respondents who have to read instructions and answer the questions. This has the advantage of being relatively cheap and easy to do. Again the respondents fill in the questionnaire in a more relaxed atmosphere as there is no interviewer to influence their responses (Maree 2007). The respondents can go as far as checking their records, if necessary, to respond accurately to the questions. Good as it may sound, it is limited, in that the response rate may be low, and the conditions for completing the questionnaire are not controlled (Maree, 2007).

3.5.2 Interviews

An interview is a two-way conversation in which the interviewer asks the participant questions to collect data and to learn about the ideas, beliefs, views, opinions, and behaviours of the participant (Maree, 2007). Basically, interviews aim at collecting rich descriptive data that help the researcher to understand the participant's construction of knowledge and social reality. Maree (2007) categorized interviews into three groups. These are open-ended interview, semi-structured interview, and structured interview. In open-ended interviews the focus is on the participant's perceptions of an event or phenomenon being studied. To avoid bias in the data collected, it is advisable to conduct the interviews with more than just one informant.

In semi-structured interviews, the participant is required to answer a set of predetermined questions that define the line of inquiry. Probing and clarification of answers are allowed. In this type of interview, the researcher needs to be very attentive to the responses given by the interviewee so as to identify new emerging lines of inquiry that are directly related to the phenomenon being studied. In structured interviews, the questions are detailed and developed in advance just like in survey research (Maree, 2007). There is not much probing in structured interviews since the

questions are overly structured. This kind of interview is used frequently in case studies or when dealing with large sample groups to ensure consistency.

3.6 DATA COLLECTION METHOD

The choice of the data collection method such as mail questionnaires, telephone interviews, or face-to-face interviews is significant because it affects the quality and quantity of data collected (Pinsonneault & Kraemer, 1993). In qualitative research, data is generated and systematically built as successive pieces of data are gathered (Patton, 2002). Qualitative data is coded systematically according to specific concepts or themes and then analysed to address the main research question. Patton (2002) further posits that data must be reported in the natural language of the event, as the information was obtained from a natural setting.

For this research, face-to-face semi-structured interviews were conducted. The data was analysed to understand the participants' experiences as obtained from the interviews. The interviews were transcribed immediately after they were concluded.

3.7 DATA ANALYSIS

Data analysis in qualitative research is often conducted concurrently or simultaneously with data collection through an interactive, recursive, and dynamic process (Ary, Jacobs, Razavieh & Sorensen, 2006). Data analysis is a formidable task that is effected according to the different research approaches, and researchers must find their own idiosyncratic path to the meaning of the data (Gay & Airasian, 2000).

In agreement are McMillan and Schumacher (2001) who indicate that data analysis in qualitative research is primarily an inductive process of organising data into categories or trends and identifying patterns (relationships) among the categories. Most categories and trends emerge from data depending on the analytic styles among researchers that vary from structured to more emergent and intuitive ones. All qualitative research involves attempts to comprehend the phenomenon under study, synthesise information, and explain relationships, theorise about how and why the relationships appear as they do, and reconnect the new knowledge with what is already known. Qualitative data analysis is partly mechanical but mostly interpretive. In this study, quantitative data, which was collected through questionnaires, was analysed through frequencies and percentages and summarised by means of tables

of frequency distributions where percentages were allocated to frequencies of response types under different categories (Creswell, 2007; Maree, 2007).

3.8 TRUSTWORTHINESS / VALIDITY / RELIABILITY ISSUES

The validity and reliability of the instruments used in this study were tested before their administration to reduce errors. According to Kothari (2004), Maree (2007), and Mark (1996), validity refers to the degree to which an instrument measures what it is supposed to measure. Reliability has to do with the consistency or repeatability of a measure or an instrument, and high reliability is obtained when the measure or instrument gives the same results if the research is repeated on the same sample (Maree, 2007). Total reliability, however, is difficult to achieve since human beings are not static. One cannot expect to have the exact findings in subsequent data collection procedures even though the sample is the same. Nevertheless, researchers need to strive towards achieving validity and reliability in research.

Thus, in this research, the face and content validity of the data collection instruments will be ascertained by a panel of experts including the supervisor of the researcher. Their main function will be to add, edit, or eliminate irrelevant items from the initial pool of items and ensure that there is adequate coverage of the topic being studied.

3.9 ETHICAL CONSIDERATIONS

There are several ethical issues that must be considered when designing research that will utilise human subjects, like respecting their rights, dignity, privacy, and sensitivities (Cohen, Manion & Morrison, 2000). Silverman (2005) reminds researchers that they should always bear in mind that, while they are conducting research, they are in actual fact entering the private spaces of their participants. Ethics of research are generally considered to deal with beliefs about what is wrong or right, proper or improper, good or bad (McMillan & Schumacher, 2006; Babbie & Mouton, 2009). Practical ethics of research constitute a complex matter that involves much more than merely following a set of static guidelines. Creswell (2003) stresses that the researcher has an obligation to respect the rights, needs, values, and desires of the informants.

Research ethics are concerned with the protection of the rights and interests of research participants. Rules of research conduct regulate the behaviour of social

scientists and ensure the protection of the rights of participants in a research project. These rights include the right to privacy, informed consent, and confidentiality (Mouton, 2002). There are two overarching ethical requirements for researchers, and these are honesty and integrity. Honesty pertains to the manner of reporting. Researchers should at all times, and under all circumstances, report the truth and never present the truth in a biased manner (Brynard & Hanekom, 1997).

Data was coded to protect the identity and privacy of the participants. Participation in research was voluntary, and respondents were fully informed that this research is purely academic. The researcher will not disclose the contents of an interview to the public. Anonymity was considered essential for the purpose of this research where a researcher did not reveal the identity of the respondents.

3.10 CHAPTER SUMMARY

This chapter has outlined the methodology adopted by the study. The chapter has discussed the research approach and design, population, and sampling procedures. The study adopted the mixed methods design that enabled the use of various data collection instruments. Data was collected through questionnaires and face-to-face interviews on evaluating factors that cause government debt accumulation. A data analysis procedure, including the use of frequency tables and themes has been discussed. Convenience sampling procedures for sites and respondents were adopted in this study. A detailed account of how the researcher adhered to the ethical considerations was given. The focal point of the next chapter will be the actual data presentation, analysis and discussion.

CHAPTER 4: DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 INTRODUCTION

Chapter 3 described the methodology used in the collection of data during field work which was carried out in three municipalities in the Eastern Cape province of South Africa, located within the district of Cacadu. It also included the development of measuring instruments, sampling, data collection and analysis procedures. The primary purpose of this chapter is to present and discuss the data collected from participants (respondents) who are directly involved with the government debt collection aspects in various identified municipalities. Questionnaires, comprising five sections, were administered to the respondents. The researcher managed to secure interviews with 9 officials from all the municipalities identified for the research.

In each municipality, participants were selected from the amongst the revenue management officials. Empirical data from nine respondents were collected through two instruments, that is a questionnaire and interviews with officials specifically dealing with government debt

In each item data was presented, followed by a description, interpretation and discussions. Before the commencement of the research, permission was requested. The first letter was directed to the Municipal Manager of each municipality and the last letter was directed to the respondents so as to get their permission. During the research process, ethical considerations were taken into account as indicated in chapter 3 since this would channel the behaviour of the researcher during the data collection process.

The chapter consists of the following main sections:

Section A: Personal background of the respondents with the main focuses on the following aspects: age, gender, position in the sector, as well as number of years in the field.

Section B: respondent's responses on the general aspect and factors that may lead to non-payment of government debt

After data collection process was done, the researcher embarked on the following steps of analysing the data:

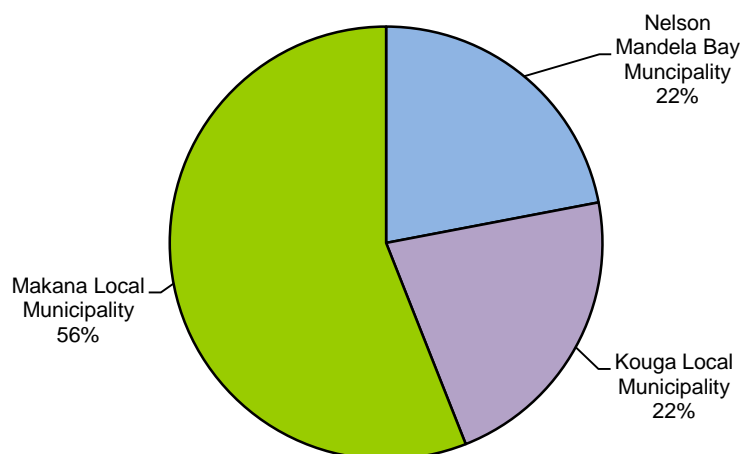
- Reading through all responses;
- Making a list of all responses;
- Whenever an answer was repeated, a mark was made next to the response eventually forming categories ;
- Coding of all responses; and
- Ranking categorised responses according to major themes and discussion followed

4.2 DEMOGRAPHIC DATA OF THE RESPONDENTS

Although demographic data might not be central to the study, it assisted the researcher to interpret findings by determining key issues regarding the level of experience of officials dealing with government debt and their exposure and management of the challenges regarding the debt. The biographic data includes age, sex, race, designation and experience of the officials dealing with government debt. Figure 4.1 shows the distribution of sample by municipality.

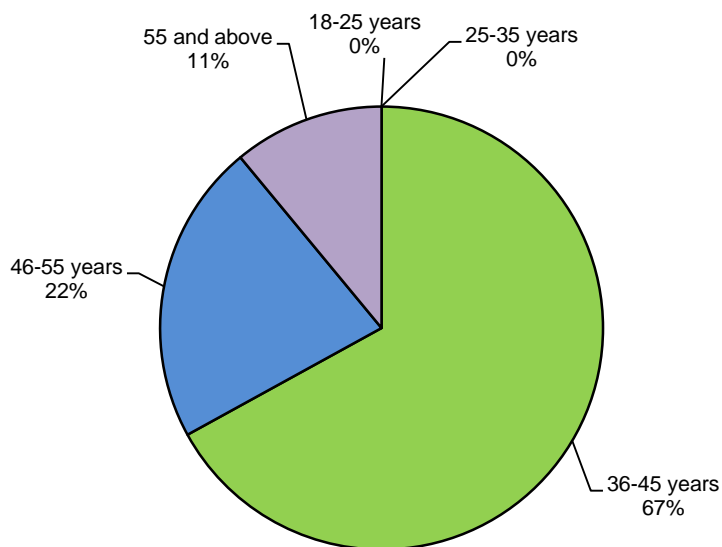
The graph below gives a percentage in terms of the number of officials interviewed in each of the three municipalities.

Figure 4.1: Geographic distribution of participants



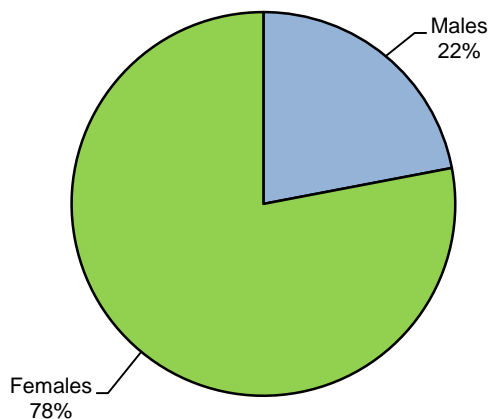
The table below indicated that the majority of the age group dealing with government debtors are within the age category of 35-45 years, followed by 45-55 years and the minority was above 55 years.

Figure 4.2: Distribution of sample by age



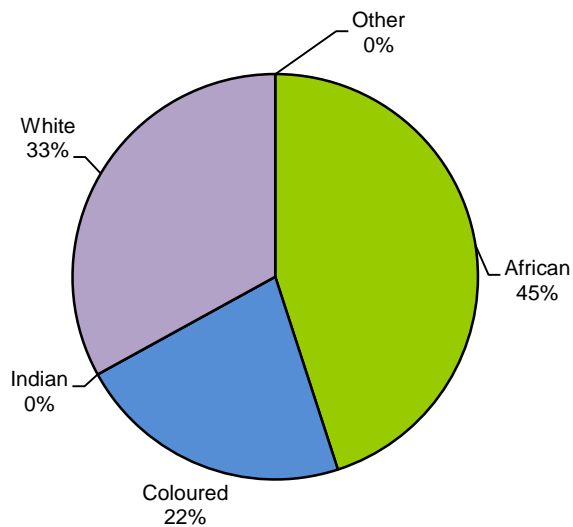
According to the graph below the majority of the respondents were females which constituted 78% of females and 22% of males.

Figure 4.3: Gender of the respondents



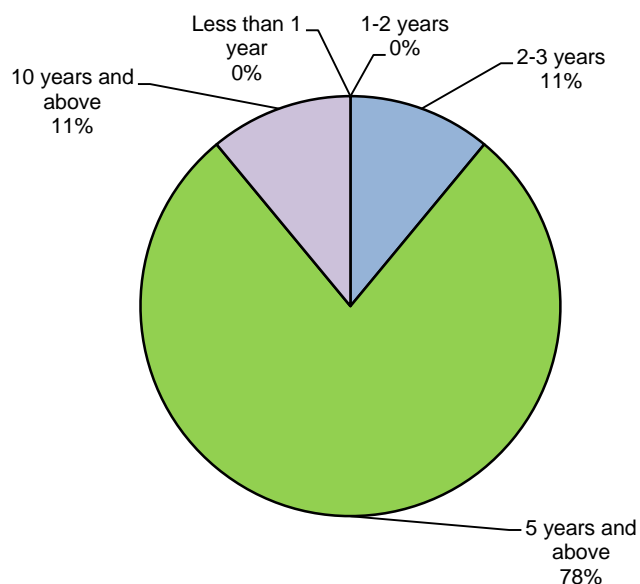
The majority of respondents were Africans which constitutes 45% of blacks followed by 33% of white and 22% of the representation were coloureds. The figure shows that more Africans participated in the research compared to their white and coloured counterparts.

Figure 4.4: Distribution of sample by race



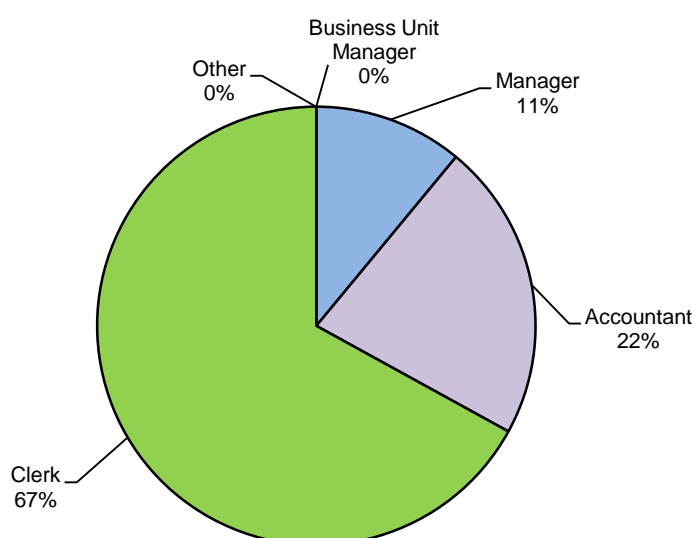
The graph below depicts that the majority of staff responsible for monitoring the payment of outstanding debt have been working for than five years. That has, however, raised concerns as it portrays that there is no institutional memory that can be resourced to help solve the problems.

Figure 4.5: Years of experience



The responses showed that 67 per cent of the officials were clerks that are accountable for the function, while 22 per cent of accountants and 11% management were responsible for overlooking the function.

Figure 4.6: Designation of municipal officials responsible for government debt



4.3 ANALYSIS OF DATA FROM SECTION B OF THE QUESTIONNAIRE

This section will give an analysis of respondent's responses from Section B of the questionnaire. The respondent's had to make a choice between "Yes" or "No" or Neutral" in responding to the questions which was substantially backed up by the explanation of the given response.

4.3.1 Procedures and disconnections or limitation of services to government departments owing municipalities

Respondents were asked whether does the municipal credit control and debt collection policy and or it's by- laws include procedures on disconnections or limitations of services in cases where departments have recurring debt.

Table 4.1: Responses to question 6

RESPONSES	FREQUENCY	PERCENTAGE
Yes	8	90%
No	1	10%
Total	9	100%

Out of the nine interviews held with municipal officials, 90% were of the opinion that the credit and debt collection policies are only focusing on disconnection of other customer groups and that excludes government departments or entities owing the

municipalities, with the exception of one that clearly indicated that their municipality sometimes took a rigorous decision to disconnect the offices accountable for schools instead of the schools themselves, as those schools are mostly previously disadvantaged schools. However, that approach is not documented in the policy. An indication was made about political involvement where disconnections or restrictions have been applied. All the respondents seemed not to have faith in disconnections as their indication was that such are not always yielding better results. The minority of the respondents indicated that all the consumer types are falling on the same disconnection procedure.

4.3.2 Involvement of other municipal sections in assisting the revenue management directorate

Respondents were asked about the active involvement of other municipal sections in assisting the revenue management directorate to recover outstanding debt. The question was thought to be of paramount important because it tries to assess whether the involvement of other units as debt collection should be a collective effort within the municipality.

Table 4.2 Responses to question 7

RESPONSES	FREQUENCY	PERCENTAGE
No	6	67%
Neutral	3	33%
Total	9	100

The respondents were in agreement (67%) with the researcher after elaborating on the fact that revenue collection is not only the responsibility of finance. For example, if parks and recreation as the department responsible for grass cutting does not perform its function, the consumers would be hesitant to pay for municipal services as there is no value for their money. When potholes are not fixed by the infrastructure directorate, it also affects the revenue generation capability of the municipality. 33% of the respondents could not articulate on the matter.

4.3.3. Enforcement measures

A question was posed to the respondents: Are the municipalities taking enforcement measures to the departments owing? The enforcement measures are critical in the credit control policy as it sometimes results in payment before disconnection or restriction has been implemented.

Table 4.3: Responses to question 8

RESPONSES	FREQUENCY	PERCENTAGE
Yes	5	55%
No	4	45%
Total	9	100%

It also transpired that, as part of the enforcement measures, the municipality first issues a notice of intention to disconnect. This notice states that failure to settle arrears will result in disconnection and services will only be reconnected after a commitment to pay has been received. This measure is only applicable to one department though, which is the Department of Education.

Some respondents indicated that there are no enforcement measures in place as the municipality is under the impression that facilities such as hospitals and police stations cannot be switched off. Other respondents indicated that the enforcement measures are in some cases enforced on the properties in which the officials responsible for essential services are accommodated, as the law does not permit to disconnect essential services like schools and clinics. Other respondents were of the opinion that basic services like electricity can be switched off especially in cases where institutions have back up measures such as generators, and water can be restricted or limited instead of being switched off at the essential services institutions.

4.3.4 Staff involvement in annual reviews of credit control and debt collection policies and by-laws

The researcher wanted to determine whether key revenue officials are involved in the process as those responsible for the implementation of such policies. Effective credit control and debt collection are key to the sustained financial viability of municipalities and the active involvement of the key personnel is crucial.

The Local Government Municipal Systems Act, 32 of 2000, together with other applicable legislation, places an obligation on a municipality to collect all money that is due and payable to it and for this purpose a municipality must adopt, maintain and implement a credit control and debt collection policy which is consistent with its rates and tariff policies and complies with the provisions of the Local Government Municipal Systems Act. To this end, property owners and consumers of municipal services are compelled to promptly pay for services rendered to them by the municipality. A credit control policy serves as an important instrument to deal with customers who are able to pay, but do not. At the same time, it should make provision for those who are unable to pay for municipal services.

Table 4.4: Responses to question 9

RESPONSES	FREQUENCY	PERCENTAGE
Yes	3	33%
No	6	67%
Total	9	100

According to the Local Government Municipal Systems Act, 32 of 2000, municipalities are required to implement the credit control and debt collection policy and by-laws that are adopted by the council. It is evident from the responses that not all staff members responsible for revenue management and debt collection are involved in the process of reviewing and amending credit control and debt collection policies. It is only the managers that are involved and report back to the officials. Some respondents indicated that, as the officials responsible for the implementation of such policies, it is crucial for management to involve them fully in the process.

4.3.5 Disputed ownership

Respondents were asked whether are the any government properties in which the municipalities cannot establish their ownership and are billed on monthly basis?

Table 4.5: Responses to question 10

RESPONSES	FREQUENCY	PERCENTAGE
Yes	3	33%
No	3	33%
Neutral	3	33%
Total	9	100

The respondents indicated that there are properties that are disputed specifically for rates and taxes and are billed to the respective departments. Some of the respondents indicated that there are properties that are registered as Republic of South Africa (RSA) properties but their ownership cannot be confirmed and the municipality does not bill for those properties not charging interest.

4.3.6. Existence of steering committee to resolve disputes

A question was posed to the respondents about the existence of the debt steering committee in the province that assist in resolving the disputed accounts between government departments and municipalities?

Table 4.6: Responses to question 11

RESPONSES	FREQUENCY	PERCENTAGE
Yes	100	100%
Total	9	100%

All respondents indicated that the spheres of government understand Section 44 of the Municipal Finance Management Act, 56 of 2003 which deal with disputes between the organs of the State. The municipalities and the departments or government entities owing municipalities have formed steering committees to discuss the aspects that results in non-payment of municipal debt and to resolve disputes where applicable.

4.3.7 Payments in terms of commitments made to the debt steering committee

A question was posed on whether are the government departments paying their outstanding debt in terms of the commitment made to the debt steering committee?

Table 4.7: Responses to question 12

RESPONSES	FREQUENCY	PERCENTAGE
Yes	4	44%
No	5	56%
Total	9	100

Although government departments through the provincial steering committee made commitments to pay outstanding debt, 56% of respondents indicated that government departments do not always pay the arrear debt timeously. This was mainly due to the fact that budgets have been depleted. The remainder of the respondents indicated that the departments owing pay as per their commitments.

4.3.8 Proposed actions

Actions that the municipalities undertake in conjunction with the debt steering committee in facilitating payment of the outstanding debt were interrogated.

Table 4.8: Responses to question 13

RESPONSES	FREQUENCY	PERCENTAGE
Yes	9	100%
Total	9	100%

All the respondents agreed that regular meetings took place between the municipalities and the respective departments and the task team members to ensure that payment arrangements and plans are tabled and agreed upon to settle the outstanding debt. Some of the respondents indicated that letters are written to the Chief Financial Officers of the departments which owed.

4.3.9 Training on legislation, council policies and procedures pertaining to debt collection and its mechanism

Respondents were asked if they were aware of legislation that impacted the implementation of their work, and if so, are they fully trained on it. The question was thought to be important because it tries to determine the bearing of the contents of such policies and legislations on their work. The respondents had a make a choice of “Yes” or “No”.

Table 4.9: Responses to question 14

RESPONSES	FREQUENCY	PERCENTAGE
Yes	2	22%
No	7	78%
Total	9	100%

Of the nine respondents, seven indicated that they were not fully trained on legislation or council policies and procedures pertaining to the debt collection and its mechanism. Two indicated that they were fully trained on most of the policies and legislation and the remainder of the respondents were fully aware and had know-how of the policies due to their extensive years of exposure on their job, but they had not received formal training. Some indicated that the training they received was on-the-job training. An emphasis on some of the critical aspects of the policy or legislation-related issues was the tariff structure which should be cost reflective. Some respondents indicated that they spend considerable time on customers trying to explain aspects that they do not fully understand. The aspect of the Municipal Property Rates Act that some of the revenue officials do not fully understand also featured very strongly.

4.3.9 The debtors

A question was posed whether which government departments contribute mostly on the outstanding government debt. The respondents articulated on that although various government departments and institutions owed municipalities, there are certain departments which are the biggest culprits. ,all the respondents unanimously indicated that the bulk of debt emanated from the Department of Public Works, Education and other municipalities owing for the bulk water supply and electricity, and the Department of Health.

The reasons given by the respondents were that

- there was insufficient budget for the departments to pay;
- there was no proper reconciliation of accounts;
- investigation of the ownership of properties was lacking; and
- Section 21 schools were the main contributors to the problem due to insufficient budget.

Reasons indicated by the respondents for non-payment of government debt and provided similar responses namely: Properties and vacant land not registered on the on the departmental assets register and identification of certain properties as RSA on the Deeds website which results in municipality billing incorrect owner. Section 21 schools have budget constraints and thus result in non-payment for services. In some instances, basic services such as water are 'stolen' from these schools by residents, which further results in high bills that schools cannot afford and exceeds the budgeted amount. Proper reconciliation of accounts due to poor billing system by municipalities and inaccurate meter reading, municipal officials failing to identify meters which then result in estimation for service charges have a bearing on the debt ,

4.3.10 Intervention strategies

A question was posed on what are the intervention strategies that are employed by the municipality to recover outstanding debt

Table 4.10: Responses to question 17 & 18

RESPONSES	FREQUENCY	PERCENTAGE
Yes	2	22%
No	7	78%
Total	9	100%

Of the number of questionnaires, 22% respondents indicated that the municipality continuously reports arrear debt to the Minister of Finance and Department of Cooperative Governance and Traditional Affairs, provincial MECs and the Premier. Others indicated that they liaise directly with the departments owing the municipality. 78% of the respondents unanimously agreed that the intervention strategies are not fully effective as the municipalities received minimal payments and that it was only disconnections that yielded better results. 22% of the respondents indicated that their intervention strategies often resulted in payment being received.

Most of the respondents indicated that the intervention strategies are not always effective and advised that:

- The National and Provincial Treasury need to take over the payment function from the defaulting government departments;

- The budget allocations should be increased especially for Section 21 schools as they always state that they are underfunded; and
- An updated provincial asset register is needed that can clarify the ownership of properties between national and provincial government.

4.3.11 Interest rate charges

In the main, municipalities stipulate on the credit control and debt collection policy that interest should be charged on all outstanding accounts and a question was asked on the interest rate in which the municipality to its debtors including government departments

Table 4.12: Responses to question 19:1

RESPONSES	FREQUENCY	PERCENTAGE
Yes	5	56%
No	4	44%
Total	9	100%

In trying to determine whether that norm was applicable to the municipalities researched, 56% of the respondents indicated that some municipalities are charging 15,5 per cent to its government debtors for arrear debt. 44% of the respondents indicated that some municipalities do not charge interest against government departments in arrears and if interest is charged, the municipalities usually write it off upon the receipt of agreement to settlement outstanding debt.

The respondents further indicated that interest charges are further fuelled by accounts that are in dispute but the municipality continues to charge interest.

4.3.12 Intervention strategies

The respondents responsible for collection and payment of government debt indicated that the following intervention strategies could assist in reduction of government debt owed to municipalities:

- Government needs to fast track the process of transferring ownership of all the unregistered properties in to the respective government names;

- Provincial department to pay directly to the municipal accounts for services charges of the Section 21 schools and or increase the budget allocation for the Section 21 schools;
- Provincial treasury to take over the payment function from the defaulting government departments; and
- Installation smart meter systems in schools and government health facilities will curb the non-payment due to inaccurate meter reading and estimations.

4.3.13 Unaccounted and unresolved properties and accounts

Unaccounted and unresolved properties and accounts also have a bearing on increase of debt as these results in non-payment of outstanding debt.

Table 4.13: Responses to question 19:2

RESPONSES	FREQUENCY	PERCENTAGE
Yes	7	78%
No	1	11%
Neutral	1	11%
Total	9	100%

In terms of the respondents these are predominantly from the department of Public Works and Farmers. The process of verification is very lengthy process and costly according to the respondents as it also involves the Deeds website search that cost a fee. Physical verification is also crucial and that must be undertaken by both parties concerned. Upon the confirmation of ownership, the registration process gets implemented by the Deeds office. Some of the respondents indicated that some departments refuse to pay for debt prior the confirmation of ownership and the municipalities are required to make provision for writing off that debt

4.13.14 Collection ratios

Collection ratios for debt owed by departments to municipalities were assessed to determine the lowest municipal collection rate. The respondents were asked about the collection ratio and of that how much was collected from government departments.

Table 4.14: Responses to question 20

RESPONSES	FREQUENCY	PERCENTAGE
Yes	5	56
No	2	22%
Neutral	2	22%
Total	9	100%

22% of the respondents could not stipulate the collection rate for the government component of debt. Some gave the municipal collection ratio which includes all other consumers like the households and business. 56% of respondents from one municipality could clearly stipulate that 8 per cent collection was for government debt of the total municipal collection of 84 per cent collection rate. The remainder of 22% couldn't articulate on the matter and were regarded as neutral.

4.3.14 Measures to reduce government debt

The respondents were asked what measures the municipalities can take to reduce government debt and ensure that payments are made by the departments.

Table 4.15: Responses to question 21

RESPONSES	FREQUENCY	PERCENTAGE
Yes	7	78%
Neutral	2	22%
Total	9	100

78% of the respondents were in agreement that there are certain measures that municipalities can undertake to reduce government debt and have stipulated that in an attempt to ensure that government departments pay the municipalities for the current and arrear debt, municipalities need to implement the following:

- Assist in curbing or reducing water leaks, theft and high consumption specifically in government schools. Municipalities are currently assisting their consumers with the management of water leaks specifically if the leak is outside the yard of the consumer, but if it is inside it is the responsibility of the owner. Government schools must appoint their own plumbers for the maintenance of such leaks;

- Ensure proper billing of accounts and timeous delivery of accounts. Some government institutions have raised the concern of timeous delivery of accounts which will enable them to process payments before an interest fee can be charged by the municipality;
- Bill the correct owner and set aside the debt in dispute due to ownership disputes until such query or dispute is resolved. The respondents indicated that the municipalities need to bill land where ownership was undisputed, and should resolve disputed debt without charging interest as in some cases it was evident that the municipality would have to waive the interest or write it off; and
- Installation of smart meter systems in schools and government properties will reduce the number of disputes emanating from estimation and meter related issues as they can be read remotely by meter readers. The smart meter systems would help the municipality with customer relations' management that would be improved through valid, accurate and complete metering, billing and revenue management information. That means fewer account queries from customers and increased user payments. It would also assist the municipality with the eradication of meter tampering and water and electricity theft.

4.4 CHAPTER SUMMARY

A sample comprising of nine officials were interviewed and those were the officials that are within the municipal revenue, debtors and creditors section who focuses on outstanding government debt. A review of literature showed that the challenges encountered by municipalities on payment of government debt are common to all municipalities and there are many hurdles to overcome in addressing the problem.

Data was collected through interviews. The biographic data or section A of the research questionnaire which represent biographic data of the research participants was presented in quantitative format while section B was both presented in qualitative and quantitative form.

Questionnaires were compiled and distributed to the municipal officials responsible for government debt. The researcher analysed the data through reading as a means of scanning and cleaning the data so as to identify incomplete, inaccurate, inconsistent and irrelevant data. Throughout the chapter analysis of the data obtained from both

municipal officials was done. The next chapter, which is the last chapter of this study, deals with the conclusions of the research study as well as its recommendations.

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This main aim of the study was to examine whether municipalities have solutions to the recurring government debt. The study also explored the challenges and factors contributing to the accumulation of government debt. The purpose of this chapter is to draw conclusions from general findings of the study presented in Chapter 4. The findings were obtained by utilising the research method and sources of data as provided in the previous chapter. There are also recommendations which came as a result of the findings obtained from the respondents who were selected from municipal officials. The chapter ends with recommendations for further research.

5.2 SUMMARY OF THE STUDY

In general the study provided an insight on factors contributing to National and provincial government debt accumulation in the Eastern Cape municipalities. It attempted to expose the extent at which an escalating rate of debts could be negatively impacted to service delivery. Having this in mind, chapter one dealt with the background, research problem and envisaged research process.

Chapter two examines the literature relevance to the study attention is paid to the following aspect: Local government in South Africa, legislative frame work, local government fiscal frame work in South Africa, municipalities inability to collect revenue, property evaluation, writing off of bad debt, revenue enhancement strategy, state intervention strategies on outstanding debt recovery and public service infrastructure.

Chapter three focuses on the research methodology. Case study method and semi-structured interviews were used as a research tools. Nine officials were used as a sample, they co-operated positively to the research questions. They gave a clear picture of what was expected of them. The findings and interpretation of data were provided in chapter four this enables the researcher to draw conclusions and recommendations in chapter five.

5.3 CONCLUSIONS

The following conclusions can be drawn from the study:

5.3.1 Departments mostly owing municipalities and reasons for non-payment

The provincial and national departments of Public Works, Education and Health are responsible for the highest levels of non-payment. The specific underlying reasons that have led to high levels of non-payment from these particular government departments are:

- **Public Works:** The devolution of assets and payment of property rates from the National Department of Public Works to its provincial counterparts has created many bottlenecks in payments to municipalities. A conditional grant, the Devolution of the Property Rates Grant to Provinces, was established to assist provinces to pay for this newly acquired function. However, the extent to which this will translate into relief for municipalities is based on the efficacy with which provincial departments transfer funds to municipalities.
- **Education.** The concern here is with Section 21 schools that have been granted the right to manage their own budgets/financial affairs through their respective governing bodies. In some instances basic services such as water are 'stolen' from these schools by residents, which further results in high bills. These schools have indicated that their budget is insufficient and does not allow them to pay for municipal services,
- **Health.** In this instance, debt is as a result of clinics and hospitals not paying for utilities. In addition, in some cases, a service level agreement (SLA) exists between provinces and municipalities covering the delivery of certain aspects of primary health care, but either payment is not forthcoming or municipalities have spent more than what was agreed to in the SLA.

5.3.2 Interest charged on outstanding debt and disputed account

Although municipalities are entitled to charge interest on arrear debt, and that this is gazetted in most municipal credit control policies and by-laws, the rates at which

municipalities are charging this rate differ. It is noted that interest charged on disputed accounts has a bearing effect on increasing the debt.

5.3.3 Unaccounted and unresolved properties

The unaccounted and unresolved properties also have a bearing in terms of increase on government debt. Some municipalities have accounts where ownership is disputed by the government departments but they continue to bill for such properties. Verification of the properties identified as RSA (Republic of South Africa) in the deeds search seems to be a lengthy and challenging process. Endorsement and transfer of ownership on land used for township establishments was also raised as a key challenge.

5.4 RECOMMENDATIONS

The recommendations arising from these conclusions are:

- National guidelines or norms should be established for the management of municipal consumer debt. Such guidelines should cover aspects such as interest charges on outstanding amounts, debt impairment and writing-off of bad debts. The imposition of these guidelines could be an interim measure that can be relaxed once the management of debt improves in the local government sphere. Funds for the payment of government debt to the municipalities have to be ring-fenced to avoid delays on payment of debt to municipalities.
- It is also recommended that there must political buy-in in order to implement and enforce disconnections in the government departments.
- It is also recommended that municipalities must disaggregate the debt owed in terms of department and interest charged when reporting in terms of the Municipal Finance Act, No 56 of 2003, and Section 71 reports.
- The officials responsible for monitoring the payment of government debt must be fully involved in the review of credit control and debt collection policies rather than simply being informed of the outcome by senior management, and they must be fully trained on all the legislation and policies relating to the effective implementation of credit control and debt collection.

- The municipal credit and debt collection policies and its by-laws need to clearly determine the procedure to be followed in disconnecting or restricting services as a result of non-payment by the other spheres of government, as these procedures are currently biased against other consumer types.
- Municipalities should waive interest on disputed accounts and debt owed in that category should be put into a suspense account to avoid the over estimation or reporting of debt that might not be recovered in the long run.
- The pronouncement taken by the government to give budgetary powers to the Section 21 schools needs to be revisited as, according to the research, this seems to be creating bottlenecks on the payment of both debtors and creditors. The provincial Department of Education should be responsible for payment of such funds or funds should be set aside in the form of a conditional grant.
- Installation of smart meter systems in schools and government properties which can be remotely read without going or inspecting the actual meters will reduce the number of disputes emanating from estimation and meter-related issues. Meter reading is another critical area within the municipalities' revenue value chain that has historically impacted negatively on municipalities' ability to collect outstanding revenue. Effective and efficient management of meter reading is influenced by the accuracy and frequency of meter reading and the number of meters read.
- If the property is not registered on the asset register of the department concerned, the debt claimed by the municipality becomes disputed. The process of verifying ownership and surveying the unknown properties would assist in resolving the disputed accounts and result in payment of outstanding municipal debt;

5.5 RECOMMENDATIONS FOR FURTHER RESEARCH

Based on the above evidence it could concede that, there are few literatures on government debt accumulation. Furthermore the study recommends that there must be a comparative study done with other municipalities which will shed light on the strategies effectively implemented in ensuring the payment of government debt to municipalities is effectively managed.

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ANNEXURE 1: INTERVIEW QUESTIONS

RESEARCH TOPIC: FACTORS INFLUENCING NATIONAL AND PROVINCIAL GOVERNMENT DEBT ACCUMULATION IN THE EASTERN CAPE IDENTIFIED MUNICIPALITIES

The main purpose of the study is to understand the factors which influence government debt accumulation in Eastern Cape municipalities and to assess the possibility of eliminating the increasing government debtors arising from the non-payment for property rates and service fee charges?

The interviewer explained to the respondent the format of the interview, duration in which the interview will take and allow the interview to clarify any doubts about the interview.

Section A: RESPONDENT PROFILE

The interviewer will tick next to the answers given by the respondents.

1. What is your age group?

18-25		25-35		35-45		45-55		55 and above	
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2. Race group		3. Gender	
African		Male	
Coloured		Female	
Indian			
White			
Other			

4. Please indicate the period of service / employment

Less than 1 year	
1- 2 years	
2-3 years	
3- 4 years	
5 years and above	
Other	

5. Please indicate your position in the municipality

Business Unit Manager	
Manager	
Accountant	
Clerk	
Other	

SECTION B

The interviewer will read each statement and put an X in the box that best indicates the respondent's opinion.

	Yes	No
6. Do the municipal credit control and debt collection policy and or its bylaws include procedures on disconnections or limitations of services in cases where government departments have recurring debt?		
7. Are the other sections in the municipality plays an active role in assisting Revenue Management Directorate with the initiatives to recover debt?		
8. Does the credit control and debt collection policy enforced to government departments owe the municipality?		
8.1 If yes what are the enforcement measures taken for the departments owing and was the debt paid?		

9. Are all the staff members at credit and debt collection section involved in the yearly review of credit and debt collection policy guidelines?		
10. Are there any government properties for which the municipalities cannot establish their ownership and are they billed for on monthly basis?		
11. Is there a debt steering committee in the province that assists to resolve the disputed accounts between government departments and the municipalities?		
12. Are the government departments paying the debt as in terms of the commitments made to the debt steering committee?		
13. What action is the committee in conjunction with the municipality undertaking in ensuring outstanding debt is recovered?		
14. Is the staff responsible for debt collection fully trained in legislation, council policies and procedures pertaining to debt collection and its mechanisms?		
14.1 Which courses are you trained in?		
Municipal Finance Management Act		
Local Government Municipal Systems Act		
Municipal Property Rates Act		
National Credit Act		
Consumer Protection Act 68 of 2008		
Insolvency Act 24 of 1993		
Customer Care Management		

Section C

15. Which government departments contribute most to the government debt accumulation in the municipality?

16. List reasons for non-payment by government departments.

17. What intervention strategies are employed by the municipality to recover government debt?

18. How effective are these strategies in assisting the municipality recover government debt?

19.1 At what rate is the municipality charging interest to its debtors including the government departments?

19.2 Are the properties unaccounted and unresolved in terms of ownership also have a bearing on the payment of outstanding debt

20. What is the own revenue collection ration of the municipality and of that how much is collected from government departments?

21. Please suggest any intervention strategies that may assist in the reduction of government debt to the municipality

ANNEXURE 2: LETTER TO REQUEST PERMISSION TO CONDUCT RESEARCH IN VARIOUS MUNICIPALITIES

I am a Master's student in Public Administration at the Nelson Mandela Metropolitan University (NMMU). As part of my study I am conducting research on **“Factors influencing national and provincial government debt (debtors) accumulation in the Eastern Cape municipalities”**. I have identified your municipality as one amongst the municipalities in the province to conduct research on.

This serves to request permission to conduct research in the municipality. Please note that participation in the study will be voluntary with the option of withdrawing at any stage of the process and there will be no negative consequences linked to non-participation. Research ethics will be adhered to in order to ensure that participants are not intentionally exposed to any harm. The outcome of the research will be made available to your organisation.

Yours Faithfully

Zanele Dilika (Researcher)

Tel: 084 610 9098/ 012 3344999

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Research Supervisor (NMMU)

041 504 2035

ANNEXURE 3: LETTER OF EDITOR



Blue Diamonds Professional Services (Pty) Ltd

Enhancing your brilliance

Cell: 084 755 3563

Fax: 086 627 7756 Email: jaybee@telkomsa.net

Website: www.jaybe9.wix.com/bluediamondsed

10 March 2015

Declaration of professional edit

FACTORS CONTRIBUTING TO NATIONAL AND PROVINCIAL GOVERNMENT DEBT ACCUMULATION IN THE EASTERN CAPE

By

Zanele Victress Dilika

I declare that I have edited and proofread this thesis. My involvement was restricted to language usage and spelling, completeness and consistency, referencing style and formatting of headings, captions and Tables of Contents. I did no structural re-writing of the content.
Sincerely,

"Electronic signature withheld for security reasons".

Dr Jacqueline Baumgardt
Member, Professional Editors Group

Professional
EDITORS
Group