REVENUE MASTERCLASS

Increasing Revenue Streams: Opportunities & Innovations
INTRODUCTION

• Whilst there are some very well run municipalities, the overall current state of local government in South Africa is precarious and is characterized by increasing debtors, financial statements not being timeously submitted to the Auditor-General, qualified audit reports, poor systems, poor long term planning, huge service delivery backlogs, increasing salary bills, unfunded mandates, government debt, concerns about sustainability, and greater demands and expectations by all stakeholders.

• In view of this, the optimum collection of revenue is essential.

• The main sources of operating and capital income for Metros in South Africa are as follows:-

“Your life is your message to the world. Make it inspiring.” - Lorrin L. Lee
MAIN SOURCES OF OPERATING INCOME IN RSA METROS

- Electricity, 34%
- Water, 14%
- Grants, 13%
- Other, 21%
- Assessment Rates, 18%

"If it is to be, it is up to me." ~Wordsworth
“You’ll have a whole eternity to think inside the box”
IMPACT OF LEGISLATION

- The Municipal Finance Management Act (MFMA) has the following impact with regard to revenue and its collection:-
  - Must have realistic income projection
  - Must have a balanced cash budget and ensure sustainability
  - 3-year budgeting must be in place
  - All funds must be cash backed
  - Adequate provision must be made for bad debts
  - Must have an effective revenue collection system consistent with the Systems Act
  - Expenditure has to be reduced when revenue is anticipated to be less than projected

- As regards the new Municipal Property Rates Act, it has caused a shift in incidence due to the change in the basis of valuation (market value), but it has not necessarily resulted in an increase in income.
REVENUE ENHANCEMENT CONSTRAINTS

- Non payment by consumers due to poverty and unemployment. The current economic climate in terms of rising fuel and electricity costs and rising interest rates that are eroding the value of household incomes will also have an adverse impact on the level of payments.

- Budget and tariff increases must be within the macro limit set by National Treasury. However, tariffs cannot be below inflation. In fact, to eradicate the inherited backlog of services, tariffs should be at least 2% above CPI. Rentals should also be at market value.

- Little or no growth in the rates base

- The absence of strong credit control, tariff and rates policies that are strictly applied

- The courts inability to handle a large number of debt collection cases

- Illegal electricity and water connections and meter tampering
REVENUE ENHANCEMENT CONSTRAINTS

• Water and electricity loss in distribution, mainly due to poor infrastructure

• The collection of business levies was stopped by National Treasury, however, to date there has been no replacement levy or tax. However, this has been partly covered in terms of the equitable share (a grant from national government)

• Outstanding accounts with regard to other spheres of government

WHAT CAN BE DONE???

“The trick to getting what you want is knowing what you can get”
ENSURE EFFECTIVE REVENUE COLLECTION

• An effective and timeous billing and cash receipting system
• Strict adherence to credit control and debt collection policies
• Accurate meter readings need to be taken
• Distribution of accurate accounts as early as possible that are simple to understand must be distributed
• Close monitoring of debt levels with timeous action being taken where debts have become overdue. Action must be taken prior to the debt getting out of control
• Expeditious resolution of queries
• Introduction of a facility that allows debtors to enter into arrangements to pay
• Consolidation of water and electricity accounts with rates accounts to provide leverage to encourage the payment of rates accounts by disconnections and implementation of a trickler system
ENSURE EFFECTIVE REVENUE COLLECTION

• Put into place a good Debt Management Strategy. This strategy should include an emphasis on the monitoring of the Top 100 debtors (based on 80-20 principle); the pursuance of government debt with possible intervention by National Treasury in terms of deducting outstanding amounts from the relevant equitable shares; addressing the issue of returned mail, using revenue clearance certificates (RCC’s) to ensure that all outstanding debt is collected; debtors are closely monitored, adequate deposits are held in respect of errant customers; and develop customer consciousness by fast action and effective communication

• Proper profiling of debtors and increasing of deposits held where the profile of the debtor is not within acceptable parameters

• Automation of legal processes, such as final demands, issuance of summonses, etc

“Life begins at the end of your comfort zone”
ENSURE EFFECTIVE REVENUE COLLECTION

• Development of mass sale-in-execution procedures to proceed through the High Court. This will void congestion in the Magistrates Court.

• Sanctions for non-payment should include, credit bureau listings, disconnections, consolidation of debt, selling of properties in the High Court (sale-in-executions), sale of movables in the Magistrates Court, and the removal of meters.

• Other world practices include the attaching of bank accounts, attaching lease or rental income, creating a bylaw to off-set debt against payments due by Council, communicating with the Receiver of Revenue to attach any tax refunds due, refusal of approval of building plans, assisting with getting bonds increased to settle arrears, creating a bylaw to attach vehicles, withholding vehicle licenses, and the most controversial being the blocking of sewerage pipes!

“We do not remember days, we remember moments”
MINIMISE LOSS IN DISTRIBUTION

• There is currently significant loss in distribution due to illegal connections, meter tampering, and water and electricity infrastructure not being properly maintained.

• Electricity distribution losses of 10% to 25% are common. Water is even more worrying with distribution losses of 10% to 40% common.

• Accordingly, losses in distribution must be reduced to acceptable levels. We should be targeting 7% for electricity and initially 25% for water with an ultimate target of 15%.

• To address this issue it is recommended that zonal meters for water should be introduced and need greater investment in water and electricity infrastructure.

• We also need to ensure that we adopt a zero-tolerance approach towards the theft of water and electricity. In this regard, the sanctions of our courts need to support us.

• Cost benefit analyses must be done before any possible solution is implemented.
TARIFFS : IN LINE OR ABOVE INFLATION

- Tariff increases should generally be in line with inflation.
- However, to meet the huge service delivery backlogs that local authorities presently face, it is recommended that tariff increases should be 1-2% above inflation.
- Any increases below inflation will result in inadequate repairs and maintenance of assets taking place which will cost the municipality more in the long term.

“In life, don’t expect anything from anyone. Because expectation when not fulfilled gives you pain...Keep doing your part and leave the rest to God”
ALTERNATE SOURCES OF FUNDING

• At the outset municipalities need to ensure that income from grants and subsidies are maximized.

• They need to ensure that they are not missing out on any grants and subsidies. In addition, to local grants, they need to look at grants from international organizations, such as the European Union, etc.

• We have various grants from national government: **USDG** (infrastructure and human settlement); **PTIS** (public transport infrastructure); **HSDG** (housing subsidy development grant); **ES** (equitable share); and **fuel levy** (replacement of business levy).

• Municipalities also need to attract new businesses and create an environment to increase the rates base.

• However, the increase in new businesses and development will also lead to an increased demand and cost on infrastructure.
USER PAYS PRINCIPLE

- Charges raised in respect of use of facilities on a user-pay basis
- Tariff must be affordable
- Accordingly cannot in some instances fully recover costs on a cost reflective basis
- Examples of services: community hall hire; cemeteries & crematoria; swimming pools; access to certain parks; use of stadia; and certain sporting facilities

“Don’t be afraid of enemies who attack you, be afraid of friends who flatter you”
ALTERNATE SOURCES OF FUNDING

• Further, municipalities need to look at new taxes and levies to increase the income that they generate.

• In this regard, Section 229(1) of the Constitution provides for the levying of a municipal taxation system by local authorities, and to enact this, the Municipal Fiscal Powers & Functions Act has been promulgated.

• The following are examples of some taxes and levies that municipalities could consider introducing.

• Please note that these are merely illustrative examples as this stage and have not been tested politically. However, they can stimulate discussion:-

“No one will give you a lock without a key. Similarly God won’t give you problems without the solutions. So defeat your problems with great confidence”
BUSINESS TAX

• To partially address a significant funding gap at Metro government level, especially in relation to economic infrastructure and services.

• To enhance Metro government accountability for funding and delivering economic infrastructure and services.

• To increase economic productivity, especially in metropolitan areas.

• Two options explored:
  
  - A local origin-based VAT - tax key costs of capital and labour to companies as a proxy for the `company footprint’ within a city. In this case a tax rate of 0.757% would generate R18.6 billion in local business tax revenues countrywide.

  - Use business turnover as the base. A tax rate of 0.323% would generate R18.6 billion in local business tax revenues countrywide.

• Timing and design issues are important
DEVELOPMENT CHARGES

• New infrastructure costs for new and upgraded developments are in the main subsidised by ratepayers. This is not in accordance with the user-pays principle.

• Accordingly, this development charge will address this situation and is applicable to developments.

• The component costs – roads, water, wastewater and electricity.

• Other metros, such as Johannesburg, Ekurhuleni, Tshwane and Cape Town are levying a development charge in some form. Hence there is a recovery of costs.

• Need to ensure that legislation and bylaws are amended to enable the introduction of this charge.

• Landowner is responsible for payment, but in practice developer pays.

• The charge is assessed upfront during the plan application stage and is payable upon the approval of the development.
TOURIST BED LEVIES

- The current annual turnover of the accommodation sector in Ethekwini is approximately R700 M p.a.
- Global practice indicates a tax of between 2% and 5% of the room rate.
- At the lower rate, this will equate to R14 M p.a in additional revenue for the City.
- This tax can be justified as the municipality provides significant funding of about R140 M p.a on tourism projects.
- The income from this tax can be used to finance Durban Africa (tourism agency) directly.
- In effect this will mean that the industry will be financing its own marketing.

“Try to make at least two people a day happy BUT make sure that one of them is you”
ENTERTAINMENT TAX

• Ethekwini currently receives 5 million domestic tourists and 700 000 international tourists every year.

• Excluding accommodation, it is estimated that these tourists spend R3.8 billion p.a. on entertainment and shopping.

• Assuming a 1% levy on all entertainment, this equates to R38 M p.a. in additional income to the City.

• Once again, this tax can be justified as the municipality provides significant funding to tourism and entertainment projects.

• The income from this tax can be used to fund the City’s overall marketing and branding, tourism information kiosks, etc.

“In the dim background of our mind, we know what we ought to be doing but somehow we cannot start.” - William James
• Based on old business levies data, Ethekwini businesses have a total turnover of about R310 billion p.a.

• Assuming a taxation rate of 0.2% this will mean R620 M in additional income for the Municipality.

• This tax can be justified as the City drives a number of sectoral programmes and provides the infrastructure and conducive environment for business to operate in.

• An advantage for the implementation of this tax is the existing SARS infrastructure for administration and collection purposes.

“There are two mistakes one can make along the road to truth... not going all the way, and not starting.” - Buddha
CBD CONGESTION TAX

• The number of vehicles entering the Ethekwini CBD is estimated to be about 137 350 per 12-hour cycle.
• Overseas they charge a rate of £1.50 per mile.
• However, for ease of administration we could charge a flat rate of R1 500 p.a. which would equate to additional income of R206 million p.a.
• This tax could be justified in terms of the environmental concerns around pollution, promoting less traffic congestion and promoting the greater use of public transport.

“Start by doing what’s necessary; then do what’s possible; and suddenly you are doing the impossible.” - Saint Francis of Assisi
BANKING TAX

• The Ethekwini banking market turnover is about R31 billion per annum.

• Global norms indicate a 3% rate for this tax.

• However, assuming a 1% tax, this will yield R310 M in additional income for the City.

• This tax can be justified in terms of the high turnover for the industry and that the profits are accruing outside of Ethekwini.

• Few barriers are anticipated with regard to this tax, except opposition from the service providers.

“Life is not a dress rehearsal. Stop practicing what you’re going to do and just go do it. In one bold stroke you can transform today.” - Marilyn Grey
• Telkom’s (telecommunications service provider) revenue in Ethekwini is R4.564 billion p.a.

• Assuming a 3% tax, this means R137 M in additional revenue for the City.

• This tax can be justified in terms of the fact that Telkom currently generates significant profits from Metros and uses municipal sewer lines to house its fibre optic cables.

• Globally, many cities have initiated a landline tax.

• There will be a low cost to implement this tax due to existing Telkom billing and IT infrastructure.

“Don’t worry about being worried. You’re heading out on an adventure and you can always change your mind along the way and try something else.” - Tracy Kidder
CELLPHONE TAX

• Cellphone revenue in the City is estimated to be R2.793 billion.

• Applying a 3% tax, this will result in an additional income of R84 M for the City.

• Globally many cities have initiated a cellphone tax.

• Few problems are anticipated in introducing this tax, except from service providers.

“Some stories don’t have a clear beginning, middle and end. Life is about not knowing, having to change, taking the moment and making the best of it, without knowing what’s going to happen next. Delicious ambiguity.” - Gilda Radner
MUNICIPAL PORT EXCISE TAX

- Estimated turnover for the Durban Port is R6.085 billion p.a.
- Applying a tax of 5% will result in additional income of R304 M for the City.
- According to legislation harbours are a municipal function.
- The income from this tax can be used to finance peripheral port infrastructure.
FUEL LEVY

- Total consumption of fuel in Ethekwini is estimated to be 800 M litres.
- Based on a petrol price of R10 per litre this equates to total sales of R8 billion.
- Assuming a levy of 10c per litre, this will result in additional income of R80 M p.a.
- The revenue from this levy can be used to finance municipal roads.

“Give your full attention to the work on hand. Yesterday has joined the hoary past, a finished product to which you need give no more attention. Tomorrow is yet a long way off; and it will bring with it time enough for its work. Forget the past; ignore the future; live in the present and make the fullest use of life.” - Sri Swami Sivananda
AIRPORT LANDING TAX

- This tax is estimated to bring R180 M in additional revenue to Ethekwini.
- There are about 5 million passengers per year. This equates to R36 per passenger (US$4.50).
- This tax could be levied on airlines based on the number of flight landings or on passengers based on the ticket sale.
- This can be seen as an environmental surcharge on noise and air pollution.
- This equates to a small charge on airline companies and will be easy to administer.

“Know that the faults you see in others are really in your own mind. Overcome this nature of fault-finding by seeing only the good in others. Rejoice in the success and prosperity of others. Serve those whom the mind dislikes, seeing God in them.”- Sri Swami Sivananda
PROPERTY TRANSFER TAX

• In 2006 R19 billion worth of land transactions occurred in the City.
• Using a tax of 1%, this will result in R190 M p.a. in additional funds for the City.
• These additional funds can be used to finance capital infrastructure projects.

“When you are about to do a bad action, at once your conscience begins to prick you. It says to you in a clear, small, shrill voice: "Do not do this wrong action, my friend. It will bring you misery and suffering." A man of pure conscience at once ceases to act further and so becomes careful and wise.” - Sri Swami Sivananda
CONCLUSION

• The bottom line is that municipalities will not be able to address their huge service delivery backlogs and meet the growing needs and expectations of its communities and other stakeholders if income is not effectively collected.

• Hence there is a burning need to be innovative, effective and efficient with regard to revenue generation and collection.

• It is also time to get tough with regard to outstanding debt and the containment of expenditure. Accordingly the following measures are strongly recommended:

“Don’t look further for answers: be the solution. You were born with everything you need to know. Make a promise to stop getting in the way of the blessing that you are. Take a deep breath, remember to have fun, and begin. – Jonathan H. Ellerby
CONCLUSION

• A strong credit control and debt collection policy is definitely required, and it must be strictly adhered to
• The above needs to be balanced with an adequate level of indigent support to contain the cost of debt collection
• To maintain or increase payment levels the underlying issues of poverty and unemployment need to be addressed
• Asset management plans need to be implemented (maintenance)
• Need to reduce water and electricity losses in distribution with defined targets
• Need to fund capital budgets from internal funds
• All expenditure and tariff increases need to be in line with inflation and be realistic in terms of providing a reasonable level of service
• Certainly need to be innovative, and identify and implement new taxes and levies
CONCLUSION

- Any new tax introduced must meet with the criteria for an efficient and effective tax system
  - easily understood and applied
  - cost of administration
  - elasticity
  - affordability
  - must not stifle growth and development

“Sometime, somewhere you take something to be the truth. But if you cling to it too strongly, then even when the truth comes in person and knocks on your door, you will not open it.” – Buddha