The perplexing problem of salvaging rural municipalities

Service delivery and debt collection go hand in hand

The Auditor-General gave only seven out of 237 municipalities clean audits for the 2010-2011 financial year. This is no wonder, says **HENDRICK KANYANE,** as municipalities in the rural areas are not financially viable because their revenue base has been depleted by a culture of nonpayment, corrupt supply-chain management and weak accountability mechanisms.

Public finance is considered the overriding factor in determining the viability of local government. Without sound financial management systems, municipalities will be forced to discontinue their operations. It is imperative that municipal stakeholders, such as municipal officials, mayors, ward councillors, traditional leaders and interest groups have a sound basic knowledge and application of the Municipal Finance Management Act, 2003 (Act 56 of 2003) and other related legislations.

Most municipalities are not self-sufficient and many require national government bail-out, but this unfortunately creates dependency syndrome and a vicious circle.

WHAT IS FINANCIAL VIABILITY?

By financial viability we mean the availability and sustainability of revenue sources, underpinned by a three-pronged concept of availability, viability and revenue base.

Funds must not only be available, but they must be viable and optimally utilised. This depends on the revenue base of the municipality in question. In most instances it is clear that if grants and subsidies were to be deducted from the revenue base, most municipalities would not survive financially.

In many instances the revenue is only collected after a long delay, if it is collected at all. This in itself is a recipe for debt accumulation, which exposes the municipality to the potential risk of collapsing service delivery.

LEGISLATIVE IMPERATIVES

The Local Government Budgets and Expenditure Review states that municipalities should be largely self-financing. This means that the bulk of their resources should be raised from their own revenue sources, such as taxes and service charges. This principle is an important factor in any democratic local government system, ensuring that municipalities are responsive to the needs of residents, and that residents take responsibility of paying for such services.

However, in South Africa there are two important dimensions to this basic principle. Firstly, there is a structural imbalance between available local revenue sources and the expenditure functions assigned to local government. Secondly, not all municipalities have the same capacity to raise revenues, as levels of poverty vary considerably and are particularly high in rural municipalities.

Section 96 of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) states that 'a municipality, be it rural or urban must collect all [monies] that [are] due and payable to it and for this purpose must adopt, maintain and implement a credit control and debt collection policy that is consistent with its rates and tariff policies'. This view is supported by the Constitution, which states that a municipality must strive, within its financial and administrative capacity, to achieve the objective of providing the services to communities in a sustainable manner.

Against the legal background, one needs to take into account that strong municipalities, especially urban municipalities, have an unfair advantage over rural municipalities.

CAUSE AND EFFECT OF REVENUE COLLECTION

One of the greatest challenges facing local government is the collection of the revenue for services rendered to various consumers. Contributing factors are inappropriate taxes and tariffs due to unreliable billing systems; water pipe leakages; illegal electricity connections; high unemployment rates; and ratepayer boycotts and riots aggravated by a culture of non-payment.

These, combined with other factors such as unreliable postal services; inaccessible pay-

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ment and enquiry facilities; problems with the justice system; political opportunism; lack of incentives and sanctions to encourage good payment; a volatile economy; and the current world economic fallouts, pose a significant challenge to smaller municipalities.

Approximately two-thirds of all municipalities are under severe financial stress, with one-third financially unviable.

The budgeting process is often not properly aligned to integrated development planning and is not always open to community participation. In some cases revenue is overstated, resulting in unrealistic budgets.

Whereas metropolitan cities may write off bad debts, this is not possible in rural municipalities. The increase in outstanding consumer debt highlights governance's problem of paying lip service to credit-control policies. Further, the amount of debt that municipalities choose to write off as uncollectable impacts on the amount of debt older than 90 days. Some municipalities appear to be resistant to writing off debt because of the belief that this will send a negative signal to communities regarding the consequences of non-payment.

On the one hand, a culture of nonpayment has increased the outstanding debts of municipalities and other public institutions to alarming proportions and has far-reaching ramifications, not only for the municipalities concerned, but also for every South African citizen. This is regarded as serious enough to collapse the most important building blocks of the municipalities, which are at the coal face of service delivery. The escalating debts of municipalities are confirmation that the Masakhane Campaign, introduced to invoke a culture of payment, has lost its steam and relevance.

On the other hand, the depleted revenue base is not only caused by the ratepayers, as municipalities are equally to blame. In most situations councillors continuously receive complaints from the ratepayers that they are presented with an amount to pay without any indication as to how the municipality has calculated that amount and for which services.

Another problem is caused by meter readers who produce data incongruent with actual usage. Ratepayers' concern creates a negative attitude about the concept of paying for services rendered by the municipality, eroding the trust ratepayers should have in their municipalities.

CONCLUSION

It is worrying that the strategies employed to salvage municipalities are not effective. The conclusion is that financial viability is directly connected to service delivery. If revenue collection is not taken seriously, the accumulating municipal debts will continue to sabotage municipalities' financial capacity.

Failing to effectively collect revenues due to municipalities will result in the ultimate collapse of small-town municipalities, forcing them into unnecessary legal trouble at the expense of the affected communities.

Until such time as municipalities are able to raise their own revenues maturely and viably, and that grants drawn from provincial and national spheres of government are understood as complementary stimuli packages, service delivery in rural municipalities will always be inadequate. This calls for a complete overhaul and reintegration of rural municipalities so they are able to come up with a sophisticated and productive revenue enhancement model. ◄◄

For further reading, go to the *Journal of Public Administration*, Volume 46 number 2, June 2011, available on www.saapam.co.za

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