



REVENUE ENHANCEMENT STRATEGY

FETAKGOMO LOCAL MUNICIPALITY

Revenue Enhancement Strategy

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1. Introduction

This is a review of the revenue and enhancement strategy developed in 2006 by PSU commissioned by Department of Local Government and Housing. The review is done internally by the Budget and Treasury Office. The purpose of the document is to provide a strategic framework of resolving the deep seated financial challenges that undermine service delivery to Fetakgomo Local Municipality community.

The document may require annual adjustment based on changing socio-economic and political environment. Adjustments may be minimal unless the current national government funding formula changes. In terms of the local government financial reforms as led by the introduction of the Municipal Financial Management Act (MFMA) (56 of 2003) introduced in 2004, the municipalities are expected to be financially sustainable in the foreseeable future. This suggests a scenario in which the equitable share is reduced and or is expected to be used solely to provide for free basic services than for operational budget.

This document does not respond to the possibility stated above, which will be catastrophic to Fetakgomo local Municipality. If the Municipality were to respond to such a scenario, fundamental changes on improving the powers and functions of the municipality would first have to be effected. The improved powers and functions will have to be followed by the improved funding for a medium term and improved capacity building on operations and maintenance for water and other services.

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This document preferred to look within the current financial funding and seeks to increase own revenue generation without suggesting additional powers and functions.

A recommendation is however made to lobby for the increase of powers and functions.

2. Background

The development of this revenue enhancement strategy is a response to strategic risk identified by the risk assessment conducted in 2008 and reviewed in 2009 financial year. The risk assessment indicated that the low revenue base of the Municipality is a high risk threatening the survival of the Municipality.

Internal audit carried in 2008/2009 financial year also singled out the currently revenue enhancement strategy as non responsive to the risk identified in the risk assessment document.

The development of the revenue enhancement strategy was then prioritised for implementation in 2009/2010 Integrated Development Plan (IDP).

Developing effective turnaround strategies generally requires the following four phased approach, this ensures that the desired revenue enhancement outcomes are achieved and sustained in the long term. The four phases are the following;

- a) Phase 1 : Status quo analysis
- b) Phase 2 : Problem identification
- c) Phase 3 : Project implementation
- d) Phase 4 : Operational phase

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The purpose of this document is to guide Management and Budget and Treasury Office in particular to improve the short, medium and long term sustainability of the Municipality. The document is developed in house and therefore has an added advantage of appreciating hard realities that may be difficult to over turn in a short space of time.

A. Status quo analysis

Current revenue base;

| | |
|-------------|-------|
| Grants | 94.9% |
| Interest | 3.27% |
| Own Revenue | 1.83% |

The Municipality currently relies almost entirely on grants (94.9%) as per 2009/2010 budget. Total revenue for the financial is projected at R52 million, of the total revenue about R8 million budget deficit is funded from investment funds. Shortfall in revenue collection or over expenditures may exacerbate the situation.

Own revenue is made of income from rental of office space (Fetakgomo Atok Thusong Service Center), rental of other council facilities (guest house, community halls), income for agency service (license & permits), selling of document (database forms and tender documents).

Management has highlighted the following to be short term revenue sources that should be implemented fully;

- Rental of Fetakgomo Atok Thusong Service Center (FATSC)
- Billing for the Municipal Property rates taxes
- Billing for billboards

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- Traffic function (this function is being devolved to the Municipality)
- Building regulations (currently limited to land use application)
- Refuse Removal

The current budget year 2009/2010 is marked as the implementation year of the Municipal Property Rates Act (MPRA) (6 of 2004), the implementation of the billboard by-law, the finalization of the devolution of the traffic function and effective management of the FATSC.

Revenue that may be collected from the two sources (billboards and rental of FATSC) will still be largely insignificant to can radically change revenue profile of the municipality.

Council has adopted various policies including Credit control and Debt management policy. The policies have not been well tested due to the fact the municipality has not been billing for services or taxes.

Municipal property valuation has been compiled though it has inaccurate data which present challenges for implementation. The valuation roll which has also been uploaded on the financial system means the municipality is almost ready to bill for the property rates taxes except for the challenge indicated above.

B.Problem identification

Revenue from traffic function and MPRA may come in handy to change the revenue profile of the Municipality. It must however be understood that revenue collected from MPRA come with it serious conditions that may be difficult to fulfill from the current budget. Residence generally starts to feel the tax burden imposed on them and now begin to realize they are entitled to services. The inability of the

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municipality to provide such services, which many will be outside the mandate of the municipality, will possibly prove disastrous.

Fetakgomo Municipality has a huge infrastructure backlog. This demand more investment at the early stages while returns may come very late. The other challenges relate to the socio-economic profile of the municipality. Unemployment is currently at 61% according to Fetakgomo IDP document 2009/2010. This suggests that large sections of the population are indigents.

Traffic function has already proven to be a real potential revenue source. Due to the fact Fetakgomo Local Municipality is largely rural municipality with no developed road infrastructure; revenue may be limited to licenses and permits.

To a very large extent, the Municipality is curtailed by the minimal powers and functions allocated.

C. Project Implementation

Noting that the Municipality was established in the year 2000, the 1.83% own revenue represent an important achievement. It is however uncomfortably very low.

As stated earlier, 2009/2010 is the inception of the MPRA. The property rates taxes may generate up to R 7.9 million in the fourth year of implementation at the current tax rate of 0.007 and R 30 000 exemption to residential properties. This revenue will enable the provision of basic ring infrastructure.

The second most source of revenue will come from refuse removal which is being piloted in the current year 2009/2010. Fetakgomo Municipality has around 26 000 properties. If a quarter of these (6 500) are provided with refuse removal service,

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which is in great demand, revenue could amount to an annual amount of R 1 560 000.00. Again this revenue may be used to consolidate the provision of the service to all residents including indigents.

The traffic function which currently is being devolved from the Provincial Government is another significant source of revenue. The first phase of the devolution was the establishment of payment center for the renewal of licenses and permits. The proceeds from the transactions are shared in a 20/80 formula wherein the 20 goes to the Municipality. The results in 2008/2009 financial year has been revenue amounting to R 85 000. The income is expected to increase by more than 40% as the service becomes widely known to Fetakgomo residents.

The sharing formula has to be altered at the end of the agreement towards 50/50 as the bias is to improve the revenue base of the Municipality.

The introduction of the learner's drivers license and testing will add substantial revenue. We may not at this stage correctly predict the total revenue figure but it may run into 1 to 2 millions.

The billboards as highlighted by management as a revenue source for implementation in the current financial year will not be substantial. This is due to the fact that Fetakgomo Municipality is an undeveloped area which has few formal businesses. The implementation of the by-law will however allow development to be in a structured way and to avoid ruining the economic potential as well settlement patterns.

The above indicates that the Municipality is well on track in generating revenue, hopefully towards financial independence. Much work needs to be done to realize the potential revenue highlighted. Revenue that will be generated may still be unsubstantial for financial independence. National government will have to

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continue in the medium to long term providing the financial grants in order to allow the Municipality to provide the basis infrastructure.

Recommendation

- We suggest that the Municipality starts the process of engaging Sekhukhune District Municipality on water provision. The District Municipality has already made household water connection at Mashung in 2006 and Mohlaletse (water provided partially) villages while bulk water runs through Nchabeleng village.
- The Municipality has not yet effect recovery plan while the debt to Lepelle northern water runs into around 10 million now. The Municipality may find difficulty in recouping the money from the residents as the bill will be too high to settle for most households.
- Given this scenario, we suggest that the Municipality assist in implementing water recovery on behalf of Sekhukhune District Municipality. The District will provide technical and financial support as part of its mandate to capacitate local Municipalities and share in the proceeds according to the service level agreement.
- Revenue from this source become very substantial while service rendered to community may improve drastically.

D.Operational phase

This phase would speak to the capacity of the Municipality to implement all the revenue enhancement projects. The budget and treasury office has over the years gone through financial reforms. The reforms have provided the basis from which the office can handle voluminous transaction emanating from consumer debtors.

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The office will have to increase its staff component with immediacy and provide ongoing training especially the revenue unit.

The current financial system in use, Munsoft has the capacity to handle the new data emanating from the revenue transactions.

The Municipality's town planning unit and technical services have long been established and they will also be able to provide the necessary support for implementation of property taxes, billboards and the water provision.

Policies and by-laws that give effect to the implementation of the identified sources of revenue have been developed and adopted by Council.

Conclusion

This proposed strategy will go a long way in contributing to Fetakgomo Local Municipality's efforts to remedy the considerable financial charges and social changes facing the Municipality and the province.

This revenue enhancement strategy will be reviewed annually as municipal and socio-economic conditions changes continuously.