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Cooperative Governance and Traditional Affairs
PROVINCE OF KWAZULU-NATAL



STATE OF REVENUE MANAGEMENT IN KZN MUNICIPALITIES

Chief Directorate: Municipal Finance

Mrs HB Krishnan

CIGFARO: REVENUE SOLUTIONS SUMMIT

29-30 November 2018

TOGETHER WE HAVE MADE KZN A BETTER PROVINCE TO LIVE IN, TOGETHER WE WILL MOVE SOUTH AFRICA FORWARD



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BACK TO BASICS PROGRAMME

Put people and
their concerns
first – listen &
communicate

Deliver
municipal
services to
the right
quality and
standard

Good
governance
and sound
administration

Sound
financial
management
and
accounting

Building
institution and
administrative
capabilities

PILLAR 4

- 10 Point Plan
 - Achievement of Clean Audits; and
 - Revenue Protection and Enhancement
- Quarterly financial assessments

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DEFINING REVENUE

- In spite of the local government legal framework which provides for principles in revenue management and enhancement as well as indicators of good performance in revenue management as well as the focus on revenue enhancement under the Back to Basics Programme which has been implemented with varying degrees of success over the past 18 months, municipalities continue to struggle with the delivery of basic services and the related billing and collection activities as well as building the local economy and the ability to generate new revenue.
- Revenue is derived from a charge against a citizen's person or property or activity for the support of local government functions and is a tax or cost of delivering a municipal service.
- The fundamental principles of costing, revenue management and revenue enhancement must be understood and applied in order to holistically address revenue issues in municipalities.
- Revenue management is associated with expenditure management and is a fundamental and routine financial management function of the municipality's revenue generating business that encompasses billing and collection activities in respect of trading services and property rates levied.
- Revenue enhancement is about improving municipal revenue through various strategies aimed at the municipality's role in generating own revenue. An [increase](#) in [revenue](#) is typically obtained by increasing the [amount](#) of [money](#) that the municipality receives by raising the amount of [taxes](#) that an individual must pay or by seeking out other local economic opportunities that will provide further revenue.
- The Municipality must have effective processes and internal controls to ensure that every property is billed for property rates and all services consumed, then it is indeed maximising the revenue generating potential of the existing revenue base. This is considered fundamental to municipal operations and, only if these basic practices have been achieved should municipalities contemplate revenue enhancement initiatives. The baseline information is critically important.



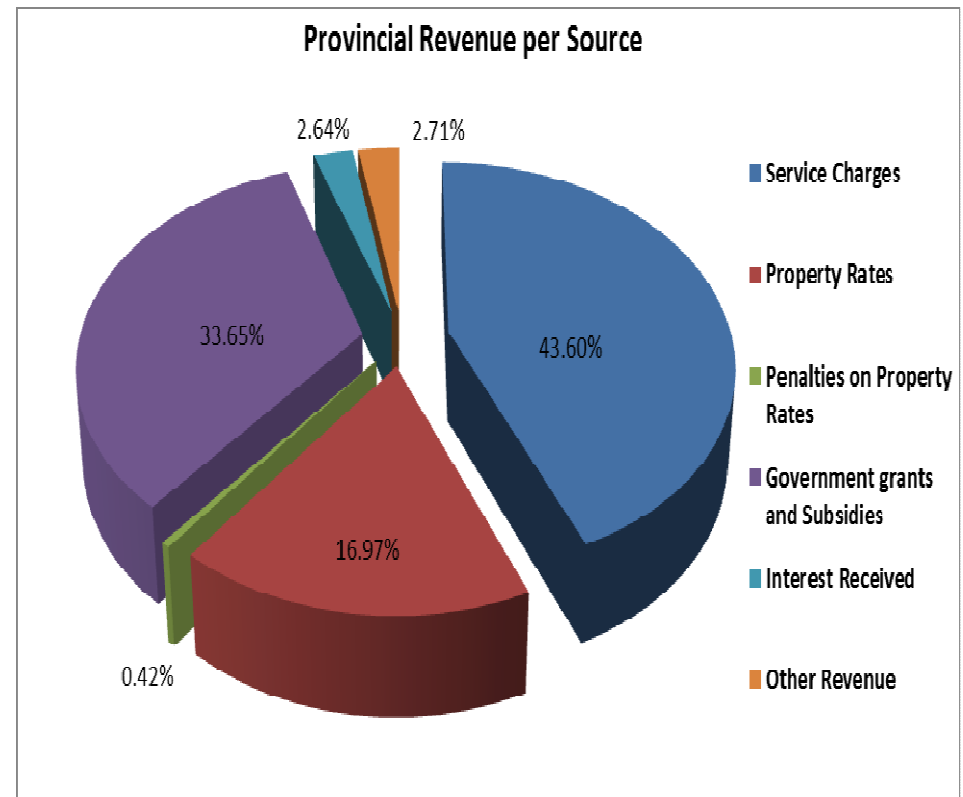
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REVENUE – AUDITED 2016/2017

- Total revenue collected across municipalities in the province for the period 2016/2017 was R58.5 billion an increase from the previous year figure of R55.1 billion and a 5.8% increase.
- Revenue by Source
 - Service Charges was the major source of revenue, at 43.60% of the total revenue of R25.5 billion (2016: R23 billion).
 - This was followed by government grants and subsidies at 33.65% (2016: 36.62%) or R19.7 billion.
 - Property Rates contributed 16.97% towards total municipal revenue. The value of the Property Rates revenue amounted to R9.9 billion. The value of the property rates revenue has decreased by R9 million compared to the previous financial year 2015/2016.
- The decrease in the percentage of revenue from government grants and subsidies is as a result of the decrease in the fiscal allocations from National Government. The decrease in property rates revenue may be attributable to increasing property rates debt as a result of economic pressures.
- The interest received at 2.64% which equates to R1.5 billion increased by 0.3% compared to the previous financial year 2015/2016 which was 2.29%. Other revenue comprises items such as rental of facilities and equipment, traffic fines, permits etc.



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KEY FINDINGS: FINANCIAL

- **Expenditure** – Eight (8) municipalities recorded expenditure deficiencies related to irregular expenditure, fruitless and wasteful expenditure and payables from exchange transactions. Invoices were not paid within the stipulated time
- **Property, Plant and Equipment (PPE)** – Nine (9) municipalities had queries raised on financial management related to PPE. Land and buildings and infrastructure assets were not always managed correctly or accounted for accurately.
- **Revenue** – Matters regarding financial management on revenue from exchange and non- exchange transactions were raised at ten (10) municipalities. Municipalities had matters raised on property rates and traffic fines or did not correctly account for revenue raised due to **debt collection, overstated revenue and system deficiencies.**
- **Irregular Expenditure** – Twenty five municipalities had matters raised on irregular expenditure due to financial management deficiencies.
- **Fruitless and wasteful Expenditure** – seventeen (17) municipalities had matters raised on fruitless and wasteful expenditure due to financial management delays on various matters..
- The number of findings reported
 - VAT Receivable (1), Investment Property (2), contractual commitments (4), unspent conditional grants (3) and inventory (3) were also raised as part of financial matters recorded incorrectly.



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KEY FINDINGS: COMPLIANCE

- Annual Financial Statements – Thirty eight (38) or 70% of municipalities are related to non-compliance of the financial statements.
- Procurement and Contract Management – Thirty four (34) or 70% of municipalities had a variety of matters raised relating procurement and contract management. This included awards, competitive bidding, and services of the state awards and regularizing of contracts.
- Expenditure Management – Thirty seven (37) or 69% of municipalities had matters raised related to expenditure management compliance including payment of creditors and unauthorized, irregular, fruitless and wasteful expenditure.
- Strategic Planning and Performance Management – Fifteen (15) or 28% of municipalities had matters of non-compliance raised on strategic planning and performance management.
- Consequence Management – The incorrect application of section 32 of the MFMA was recorded at twenty six (26) or 48% of municipalities.
- **Revenue Management – Non compliant accounting for revenue was recorded at nine (9) or 17% of municipalities.**
- Asset Management – Ten (10) or 19% of municipalities were non-compliant on asset management.
- Conditional Grants – Seven (7) municipalities or 11% recorded issues on incorrect application of conditional grants.
- Human Resource Management – Ten (10) municipalities or 19% recorded matters related to human resource management.
- Budget Management – Ten (10) municipalities or 19% recorded matters related to budget management and more specifically unauthorized expenditure.

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Ratio of gross	Cash flow (2)	Net income (3)	return (4)
	28.9	34.8	26.2
	30.5	37.5	34.1
			40.2
			41.0
			28.4

AUDIT OUTCOMES: LIQUIDITY

MUNICIPALITY	SURPLUS/ DEFICIT FOR THE YEAR	GOING CONCERN RAISED IN THE AUDIT REPORT	GRANTS NOT CASH BACKED	POOR CURRENT RATIO	POOR CASH COVERAGE RATIO
Hibiscus Coast Municipality					X
Umshwathi Municipality					X
Umngeni Municipality	X				
Mpofana Municipality	X	X	X	X	X
Impendle Municipality					X
Uthukela District Municipality					X
Inkosi Langalibalele Municipality	X	X	X	X	X
Amajuba District Municipality	X	X	X	X	X
Zululand District Municipality			X	X	X
Edumbe Municipality		X	X	X	X
Uphongolo Municipality		X	X		X
Nongoma Municipality					X
Newcastle Municipality	X				X
Dannhauser Municipality	X				
Umkhanyakude District Municipality		X			X
Ulundi Municipality		X		X	X
Hlabisa Municipality		X	X	X	X
Big Five False Bay Municipality			X		X
Abaqulusi Municipality	X	X			X
Mfolozi Municipality			X	X	X
Nkandla Municipality			X	X	X
Ilembe District Municipality				X	X
Maphumulo Municipality		X		X	X
Harry Gwala District Municipality		X	X	X	X

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MATTERS OF EMPHASIS: LOSSES

- The majority of matters of emphasis relates to **material losses related to either water or electricity or both and losses on trade debtors due to write-offs** has increased by 3% from the previous financial year.
- Twenty five (25) or **46% of municipalities reported significant losses mainly due to distribution, theft, leakages and aged infrastructure**. These are only those losses that were deemed to be material to the financial statements. The auditor general also reports on losses in different categories but for different reasons and these might not be emphasized or material, hence the total number of municipalities' with losses per category will differ. The rand value of these losses will be reported on during the financial statement analysis.
- Linked to **material losses are the reported findings on material impairments disclosed at twenty five (25) or 46% of municipalities**. The number of material impairments of either write offs or provisions for impairments has remained constant indicating poor budgeting for provisions of doubtful debt and poor debt collection.

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AFS: WATER LOSSES

NAME OF MUNICIPALITY	WATER LOSSES			
	2015/2016		2016/2017	
	WATER (R)	KILOLITRES	WATER (R)	KILOLITRES
Ethekeini Metro	710,900,000	132,510,000	645,900,000	108,825,996
Ugu District Municipality	27,160,000	10,873,536	29,588,217	Not disclosed
Umgungundlovu District Municipality	36,660,000	7,390,000	38,219,843	6,850,662
Msunduzi Municipality	119,720,000	21,000,000	109,213,215	18,063,714
Uthukela District Municipality	153,480,000	26,370,000	127,653,102	20,896,928
Umzinyathi District Municipality	40,160,000	6,160,000	53,085,783	7,044,728
Newcastle Municipality	38,940,000	5,210,000	31,998,970	12,499,598
Abaqulusi Municipality*	7,680,000	3,340,000	2,869,559	2,413,359
Ilembe District Municipality	75,000,000	7,780,000	39,631,730	11,045,775
Amajuba District Municipality	1,003,982	100,398	21,531,925	2,760,503
Umlathuze Municipality	36,986,140	9,246,535	34,006,624	8,501,656
Zululand District Municipality	Not disclosed	Not disclosed	3,933,461	Not disclosed
Umkhanyakude District Municipality	17,745,527	Not Disclosed	30,382,985	6,218,683
King Cetshwayo District Municipality	Not disclosed	Not disclosed	Not disclosed	Not disclosed
Harry Gwala District Municipality	22,403,116	8,966,620	11,912,025	5,459,092
TOTAL	1,287,838,765	48,947,089	1,179,927,439	210,580,694

• Water Losses

- Water losses incurred by municipalities in the province amounted to R1.2 billion in 2016/2017 financial year which is a decrease from R1.3 billion in 2015/2016.
- The loss is mainly due to the distribution losses as a result of the ageing infrastructure and theft through illegal connections. The amendment in the conditions of the Municipal Infrastructure Grant (MIG) to include refurbishment is likely to have resulted in the reduction in water losses.

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AFS: ELECTRICITY LOSSES

NAME OF MUNICIPALITY	ELECIRICITY LOSSES 2015/2016		2016/2017	
	ELECTRICITY (R)	KILOWATTS	ELECTRICITY (R)	KILOWATTS
Umgengi Municipality	43,570,000	37,890,000	73,436,667	59,704,608
Mpofana Municipality	12,299,097	15,257,531	6,000,796	6,430,094
Msunduzi Municipality	181,960,000	208,000,000	279,122,476	280,697,418
Inkosi Langalibalele Municipality	11,040,000	Not disclosed	Not disclosed	Not disclosed
Endumeni Municipality	26,100,000	18,120,000	25,769,332	17,673,715
Nqutu Municipality	14,600,000	13,210,000	9,991,869	8,711,307
Umvoti Municipality	7,310,000	8,450,000	7,307,817	7,240,102
Newcastle Municipality	29,240,000	53,480,000	14,506,624	24,587,499
Emadlageni Municipality	2,090,000	1,988,328	2,856,294	3,134,213
Greater Kokstad Municipality	7,012,804	7,813,709	7,588,525	7,888,280
Edumbe Municipality	9,100,000	6,700,000	4,892,185	9,059,601
Uphongolo Municipality	4,030,000	4,860,000	4,255,627	4,773,668
Abaqulusi Municipality	106,380,000	74,820,000	68,379,774	42,126,586
Ulundi Municipality	28,020,000	34,180,000	15,214,730	24,587,476
Umlalazi Municipality	6,920,000	5,090,000	8,593,972	5,926,677
Nkandla Municipality	4,230,000	3,860,000	2,493,984	5,356,520
Ray Noknyeni Municipality	-	-	10,168,720	11,052,957
Alfred Duma Municipality	-	-	15,551,942	20,735,922
Mthonjaneni Municipality	2,013,525	2,255,148	1,647,198	2,284,409
Umkhanyakude District Municipality	7,775,791	6,424,032	9,950,568	6,755,028
Umlhathuze Municipality	94,229,183	94,229,183	92,484,229	87,249,273
Kwadukuza Municipality	78,090,000	96,700,000	96,239,311	108,752,873
Ethekwini Metro	910,000,000	1,197,963,034	632,000,000	844,488,772
TOTAL	1,586,010,400	1,891,290,965	1,315,015,973	1,589,216,998

Electricity Losses

- Electricity losses decreased from R1.6 billion (1.9 billion KW) to R1.3 billion (1.6 billion KW) representing 19% decrease. The decrease may be attributable to the amendment in the conditions of the Municipal Infrastructure Grant (MIG) to include refurbishment and improved management of the electricity function.
- The losses were mainly due to electricity theft through illegal connections and distribution losses due to ageing electricity infrastructure.
- Municipalities need to improve budgeting on repairs and maintenance and implement a planned maintenance programme to further reduce losses that are due to the ageing infrastructure. Municipal councils need to promote awareness campaigns to communities to sensitize them about the importance of paying for municipal services and conservation of water and electricity.

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STUDY ON ADMINISTERED PRICES IN KZN

- Administered prices are those determined by an individual producer or seller not by market forces
- Administered prices are considered undesirable when they cause prices to be higher than a competitive standard would otherwise have dictated or when they stifle investment
- The August 2014 Cabinet Lekgotla resolved that research on a **uniform and standardized approach to administered prices and its impact on the provincial economy** should be undertaken
- Discussion paper released in September 2015 focusing on local government

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STUDY ON ADMINISTERED PRICES IN KZN

- The study objective was therefore twofold:
 - The primary objective being to provide guidance on the need for uniform and standardised approach to administered prices, and
 - The secondary objective to determine the economic impact of administered prices on provincial economy
- The study looked at **enabling legislation** and the desirable **process of administered price setting**, while noting the **uniqueness of each charging authority** in this instance municipalities
- The key areas of pricing are: **property rates, water, electricity and refuse collection**

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FINDINGS: REASONS FOR DIFFERENCES

- The contributing factors to the differences in tariffs are as a result of:
 - Not setting cost reflective tariffs or different cost recovery models being used,
 - Differing tariff structures,
 - Different consumer base,
 - Different collection rates,
 - Different levels of operational costs, and
 - Different quality of services.
- A standardised water tariff for example would be very difficult to motivate as the different municipalities have different consumer bases and have different levels of operational costs.
- If all municipalities were operating within a similar environment with similar operations and quality of water services standardisation of tariffs could be a possibility but as this is not the case it is not recommended.



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FINDINGS: TARIFF SETTING

- Basic accounting principles and costing methodologies are generally not applied to determine the 'real' cost of providing services. As a result tariff determination is not informed by accurate costing that incorporates direct, indirect and hidden costs of services.
- The traditional approach of incremental tariff increases is widely applied.
- The financial imbalance of the basic services is becoming increasingly greater with the costs exceeding the revenue generated by service charges.
- Decreased cash coverage and depleted cash backed reserves is a further concern.
- In general municipalities are becoming more and more grant dependent.
- Cost efficiency does not seem a widely applied practice.
- Inadequate allocations for asset renewal & maintenance.
- Where municipalities are attempting to cost for services, the calculations are usually limited to direct costs such as remuneration and bulk purchases, with little or no consideration for indirect costs.

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FINDINGS: TARIFF SETTING

- Municipalities must set tariffs that enable all citizens including poor households to have access to basic services. It is clear from this initial research that the current tariffs set by municipalities' are vastly different within KZN and is generally determined by an inflationary increase rather than proper tariff modelling techniques.
- This method is flawed in that in most cases the full cost of providing the service is not recovered. For example municipal water tariffs across KZN vary considerably in structure and value and therefore on the face of it are not easily comparable. It is for this reason that many municipalities' tariffs are not cost reflective resulting in an under-recovery of real costs related to a particular service.
- Basic accounting principles and costing methodologies are generally not applied to determine the 'real' cost of providing services.
- A few municipalities for example Ethekwini uses tariff modelling whereby tariffs are set based on the municipality's revenue and expenditure base together with the population dynamics within the municipal area and the budgetary requirements. Ethekwini prepares separate income and expenditure statements for the water service and provision of electricity.
- All the stages of the water value chain for example are interrelated and individually costed. The cost of one stage will form an input cost into the next stage of the pricing chain. It is therefore imperative that the costs at each stage are determined as accurately as possible to avoid overall under-pricing of water throughout the value chain.



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FINDINGS: TARIFF SETTING

- The first step would be for municipalities to adopt a proper costing model for tariff-setting and determine the true cost of providing each municipal service. In considering a balanced view, it should be borne in mind that one of the risks of standardising and having uniform prices is that it stifles competition in the distribution of the service.
- Standardising and having uniform prices could lead to price-fixing and this could invariably prejudice the end-user, particularly the poor households.
- Standardising and having uniform prices can also stifle local economic growth and development.
- Matters of this nature could also end up with the Competition Commission and Tribunal.
- Cross cutting issues with respect to free basic services in relation to the equitable share allocation, cross subsidisation of services, municipal standard chart of accounts (mSCOA), cost of doing business, incentives for investment, technological impact and issues around the Ingonyama trust land have been detailed due to its impact on the tariff-setting process.

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FINDINGS: TARIFF SETTING

- The fundamental principles of tariff setting is in generating sufficient revenue to provide the service sustainably and tariffs must reflect true costs of providing the service. Users should be charged according to their use of the service proportionate to costs incurred to provide the service. Tariffs must be linked to affordability, taking into account the indigent and the need for subsidisation. Tariffs must be:
 - Economically efficient;
 - Equitable;
 - Fair;
 - Simple and easy to understand;
 - Provide revenue stability; and
 - Practical to implement.



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TARIFFS: PROPERTY RATES

- MPRA prescribed ratio compliance continue to be monitored and those municipalities who are deemed not to be compliant, correct such non-compliance and/or provide substantive reasons with corrective actions.
- Robust and transparent public participation must be formalized by municipalities during the annual property rate policy review and property rates/relief determination during annual budget preparation cycle.
- Municipalities in KZN who intend levying a net residential property rate greater than “0.015 c/R” should substantiate such a rate, and also confirm that the result property rate payable by a property owner is affordable and sustainable. This motivation report should accompany the draft annual budget documentation tabled for comment.
- Municipalities in KZN who intend levying a net vacant land property rate greater than their commercial property rate should substantiate such a rate, and also confirm that the result property rate payable by a property owner is affordable and sustainable. This motivation report should accompany the draft annual budget documentation tabled for comment.
- Municipalities with a property rates income lower than 10% of their Gross Operating Revenue should be requested to outline steps they are taking to increase property rates revenue and decrease a disproportionate reliance other sources of income to fund operating revenue. This report should accompany the draft annual budget documentation tabled for comment.
- Municipalities with property rates income greater than 35% of their Gross Operating Revenue should be requested to provide a sustainability and affordability report to ensure that the year on year high reliance on property rates is sustainable. This report should accompany the draft annual budget documentation tabled for comment.

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TARIFFS: WATER SERVICES

- The water function at municipalities should be ring-fenced and treated as a separate cost centre.
- A standardised water tariff would be very difficult to motivate as the different municipalities have different consumer bases and have different levels of operational costs. If all municipalities were operating within a similar environment with similar operations and quality of water services standardisation of tariffs could be a possibility but as this is not the case it is not recommended.
- The first step would be for municipalities to adopt a proper costing model for tariff-setting. It would also be necessary to evaluate costing models set by Departmental tariffs for raw water and water board tariffs for bulk water.
- If a municipality's water tariffs are not fully cost reflective, the municipality should develop a pricing strategy to phase-in the necessary tariff increases in a manner that spreads the impact on consumers over a period of time.
- To mitigate the need for water tariff increases, municipalities must put in place an appropriate strategy to limit water losses to acceptable levels. In this regard municipalities must ensure that water used by its own operations is charged to the relevant service, and not simply attributed to water losses.
- The methods of costing of free basic services and allocation of equitable share to FBS by municipalities must be investigated to ensure that municipalities are utilising the grant for the correct purpose.
- The related issue of indigent management must be addressed.



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TARIFFS: ELECTRICITY

- The National Planning Commission has recommended that given the stark realities of electricity, a more pragmatic solution would be to invest in human and physical capital in the 12 largest distributors, which accounts for 80 percent of the electricity distributed by local government. The Commission goes on to mention that this is a high priority and the programme needs to be driven nationally in collaboration within these municipalities. ESKOM, together with metropolitans and cities could take over distribution on a voluntary basis from smaller, poorly performing entities. Medium size municipalities performing reasonably could continue with the delivery.
- The Commission also envisages that to improve the demand side management and future energy savings, the next twenty years would see smarter management of electricity grids through innovative control systems and smart meters. More distributed systems are likely to meet local demand and to feed back into the grid.
- The above attempted to portray municipalities' powers and abilities to set tariffs and charge residents for services. It also highlighted the influence NERSA have on municipal pricing and tariff setting and the effect it has on the end users.
- The also demonstrated that there is a challenge in the comparability of tariffs between municipalities as the variables and cost drivers of tariffs vary significantly. It was also shown that municipalities do not undertake diligent costing exercises to determine the actual costs associated with the delivery of its trading services, thereby compromising the financial sustainability of municipalities.



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TARIFFS: REFUSE REMOVAL

- In many instances waste tariffs do not cover the cost of providing the different components of the service. Where this is the case municipalities should aim to have appropriately structured, cost reflective solid waste tariffs in place.
- The tariffs for solid waste management must take into account that it is good practice to maintain a cash backed reserve to cover the future cost of rehabilitating landfill sites.
- Municipalities are encouraged to explore alternative methodologies to manage solid waste, including recycling and incineration plants that use heat energy to generate electricity.
- A project commissioned to formulate an approach to management accounting and tariff setting will assist in achieving cost reflective tariffs especially for the main trading services.



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FINDINGS: PROMOTING INVESTMENT

- The secondary objective of the analysis on Municipal administrative Prices is to look at the implications on promoting investment for municipalities.
- Competitive tariff rates are imperative as a means to attract investment into the province. Higher relative tariffs charged by municipalities may stifle investment and ultimately contribute to increased inflation. Provincial government, through the Department of Economic Development, Tourism and Environmental Affairs (EDTEA), in its quest to grow the economy and creating employment, is concerned about factors that may impede investment promotion in the province.
- In undertaking this part of the analysis two questions arise, that is, are municipalities charging fair rates that can stimulate economic development? Secondly, what are support measures and interventions required by provincial government to incentivise investment promotion through competitive tariff structures to encourage potential investment?
- Companies are constantly faced with increasing costs of doing business in the province especially at local municipalities due to many factors such as increasing municipal tariffs (particularly electricity tariffs). Recently, in Mpofana Municipality a company named Tai Yuen Textile Ltd filed a complaint to National Energy Regulator of South Africa (NERSA) not to approve the Mpofana Municipality tariff increase (KZN High Court, 2014). This came after the municipality had increased the electricity tariff for 2014/15 in June 2014. Prior to the tariff increase Tai Yuen Textile Ltd had an electricity account of R 2.68 million a month. When the municipality increased the tariff, its account increased to R4.18 million a month which is a 56% increase (KZN High Court, 2014).



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INCENTIVES PROVIDED

- Incentives are provided for in municipal policies and include Property Rates rebates and exemptions to categories of properties and owners respectively, incentives for user pay services for different user categories and based on economic contribution and reliability of supply (electricity and water) amongst others.



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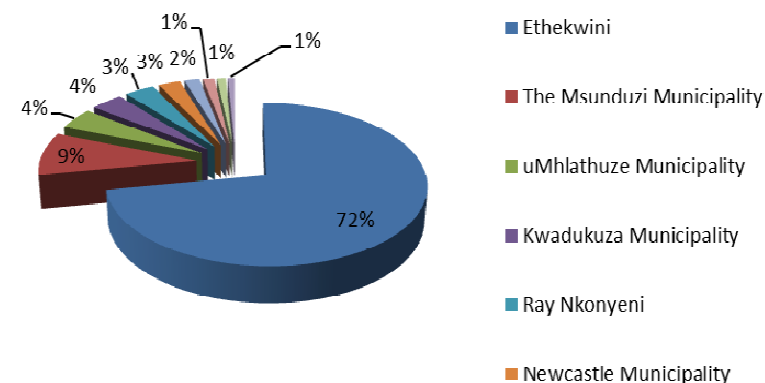
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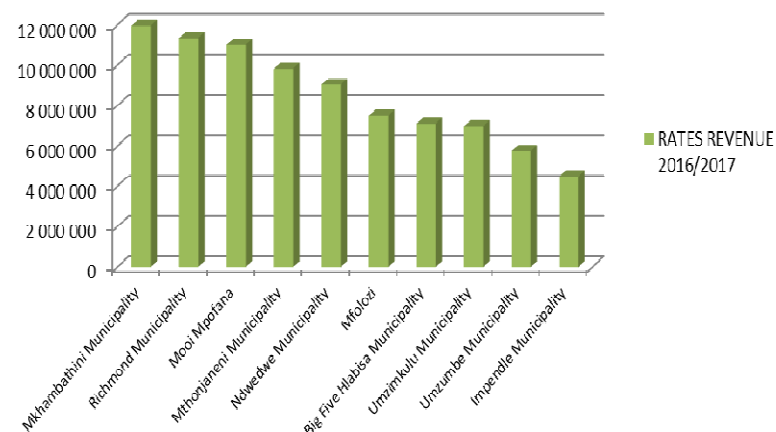
REVENUE: PROPERTY RATES

TOP TEN PROPERTY RATES REVENUE GENERATORS 2016/2017				
MUNICIPALITY	BUDGETED PROPERTY RATES REVENUE 2016/2017	ACTUAL RATES REVENUE 2016/2017	VARIANCE	VARIANCE AS A %
Ethekwini Metro	6 460 572 000	6 583 982 000	123 410 000	1.91%
The Msunduzi Municipality	798 728 000	795 878 250	-2 849 750	-0.36%
uMhlathuze Municipality	402 140 000	397 693 723	-4 446 277	-1.11%
Kwadukuza Municipality	346 236 748	346 901 602	664 854	0.19%
Ray Nkonyeni Municipality	345 274 000	316 005 575	-29 268 425	-8.48%
Newcastle Municipality	256 072 025	232 285 813	-23 786 212	-9.29%
uMngeni Municipality	176 512 298	162 511 455	-14 000 843	-7.93%
Alfred Duma Municipality	128 010 104	121 762 227	-6 247 877	-4.88%
Greater Kokstad Municipality	97 001 665	94 609 744	-2 391 921	-2.47%
Umdoni Municipality	70 681 982	73 511 975	2 829 993	4.00%
Total	9 081 228 822	9 125 142 364	43 913 542	0.48%

TOP 10 RATES REVENUE 2016/2017



BOTTOM TEN RATES REVENUE 2016/2017



16.97% of total municipal revenue (2016/2017)
Amounted to R9.9 billion



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MPRA SECTION 14 ANNUAL PROMULGATION OF RESOLUTION LEVYING RATES

All Municipalities must annually promulgate and publish in the provincial gazette a resolution in terms of section 14 of MPRA:

Promulgation of resolutions levying rates....

(1) A rate is levied by a municipality by resolution passed by the municipal council with a supporting vote of a majority of its members.

(2) (a) A resolution levying rates in a municipality must be annually promulgated within 60 days from the date of the resolution, by publishing the resolution in the Provincial Gazette.

(b) The resolution must-

(i) contain the date on which the resolution levying rates was passed;

(ii) differentiate between categories of properties; and

(iii) reflect the cent amount in the Rand rate for each category of property. (Amended by s10 of Act 29 of 2014)

MPRA COMPLIANCE MONITORING EVIDENCE 2018/2019 AS AT 21/11/2018

NAME OF MUNICIPALITY	PROPERTY RATES BYLAW	ADOPTED PROPERTY RATES TARIFFS 2018/2018	COUNCIL RESOLUTION ITO s14 PASSED	GAZETTED (YES/NO)
NEWCASTLE LOCAL MUNICIPALITY	Yes	Yes	Yes	No
IMPENDLE LOCAL MUNICIPALITY	Yes	Yes	Yes	No
THE BIG FIVE HLABISA MUNICIPALITY	Yes	Yes	Yes	No
JOZINI LOCAL MUNICIPALITY	Yes	Yes	Yes	No
MTUBATUBA LOCAL MUNICIPALITY	Yes	Yes	Yes	No
OKHAHLAMBA LOCAL MUNICIPALITY	Yes	Yes	Yes	No
MTONJANENI LOCAL MUNICIPALITY	Yes	Yes	Yes	No



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IMPLICATIONS OF NON-COMPLIANCE WITH SEC 14

Your attention is drawn to a recent case of February 2018 between Koster, Derby, Swartruggers Taxpayers Association and Kgetleng River Local Municipality (**Case No. M152/14**) in which the above non-compliance had unfortunately occurred with respect of Kgetlengrivier Local Municipality in the North West with dire financial implications for 4 financial years.

Two issues were brought by the ratepayers association against Kgetlengrivier Local Municipality:

1. Whilst the valuation roll was prepared during the 2009/10 financial year for implementation on 1 July 2010, *“the availability for inspection of the said valuation roll was only published in a local newspaper, 9 months after the implementation thereof, in march 2011.”*
2. Whilst the municipality published the resolution levying rates in a *Provincial Gazette*, dated 15 June 2010, the municipality did not promulgate resolutions levying rates for the financial years 2011/12, 2012/13 and 2013/14.

Following from the above non-compliant issues, the high court of South Africa (North West Division – Mahikeng) ***“declared that the property rates and taxes, levied by ‘Kgetlengrivier Local Municipality’ for the financial years 2010/11, 2011/12, 2012/13 and 2013/14 were levied unlawfully in that the levying thereof did not comply with the provisions of the ‘MPRA’, and that the rates and taxes so levied were therefore not due and payable to the Kgetlengrivier Local Municipality”***.

Applications for Condonation to be submitted to MEC as a matter of urgency.



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MUNICIPAL PROPERTY RATING COMMUNAL PROPERTY (ITB)

- Focus on **Ingonyama Trust Board Property** although there are also other owners of “Communal property”, such as church organisations, community property associations etc—
 - Complex category of property for rating
 - Many uses
 - Many defined “properties”
 - Many defined “owners”
 - Variable rights over parent property
 - Recognising and identifying secure defined property?
 - Recognising and identifying secure defined owners?
 - ITB Rating and Debt Status
 - Cogta Recommendations and Way Forward

BACK TO BASICS: SERVING OUR COMMUNITIES BETTER

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MANDENI VS ITB JUDGEMENT

Mandeni Municipality instituted an action against ITB in May 2015, wherein the municipality sought payment of the sum of **R 22,397,627.40** for arrear rates in respect of five named immovable properties which are situated within the Mandeni area.

Argument Advanced By ITB

- Mandeni Municipality is required to plead **the respects** in which it had complied with the requirements of the applicable legislation in order to make out a **proper case** to the effect that the steps thus taken were effective to bring about the exigibility of its claim.
- It was contended that, in the absence of any such allegations, the ITB was unable to determine the ambit of the claim advanced against it and **was embarrassed in pleading to the particulars of claim.**

Whilst this is not a final judgment and only dealt with an exception to the Plaintiff's Particulars of Claim on the basis that they are **vague and embarrassing**, alternatively fail to disclose a cause of action.

Whilst the Judge upheld the exception on a technicality, it is clear that Municipalities will have to be very careful in how they phrase their particulars of claim, and the bald allegation that they acted in compliance with section 2 of the MPRA will not suffice.

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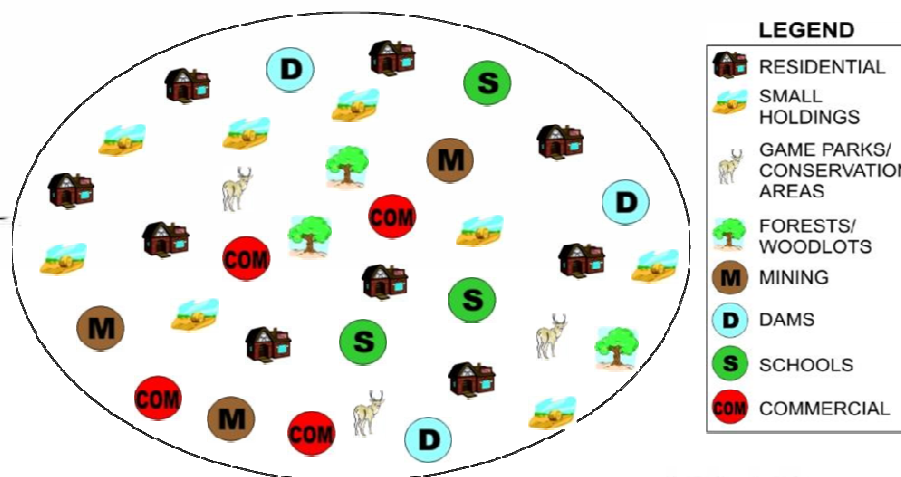
MANDENI VS ITB JUDGEMENT

[27] I accordingly make the following order:

- (a) the exception that the Plaintiff's particulars of claim are vague and embarrassing is upheld;
- (b) the Plaintiff is given leave to file an amended particulars of claim within 20 days of the date of this order;
- (c) the Plaintiff is directed to pay the Defendant's costs of this application, including the costs of both senior and junior counsel where engaged.



TOPPING AJ



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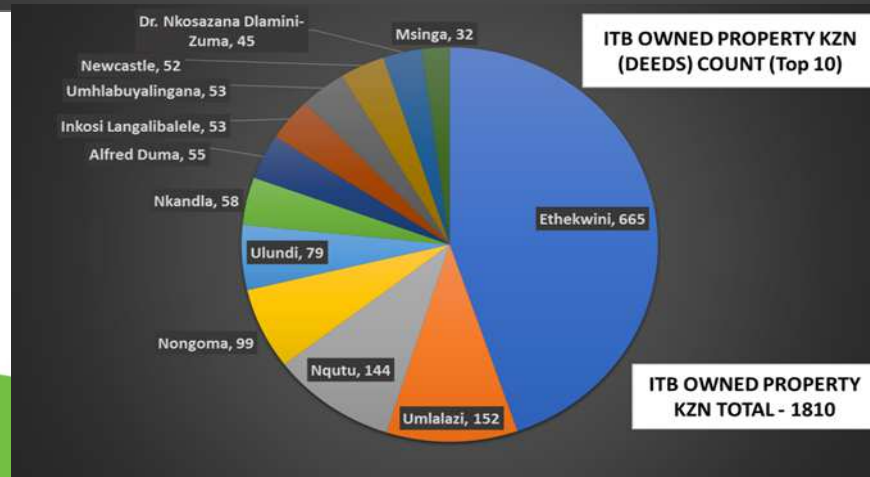
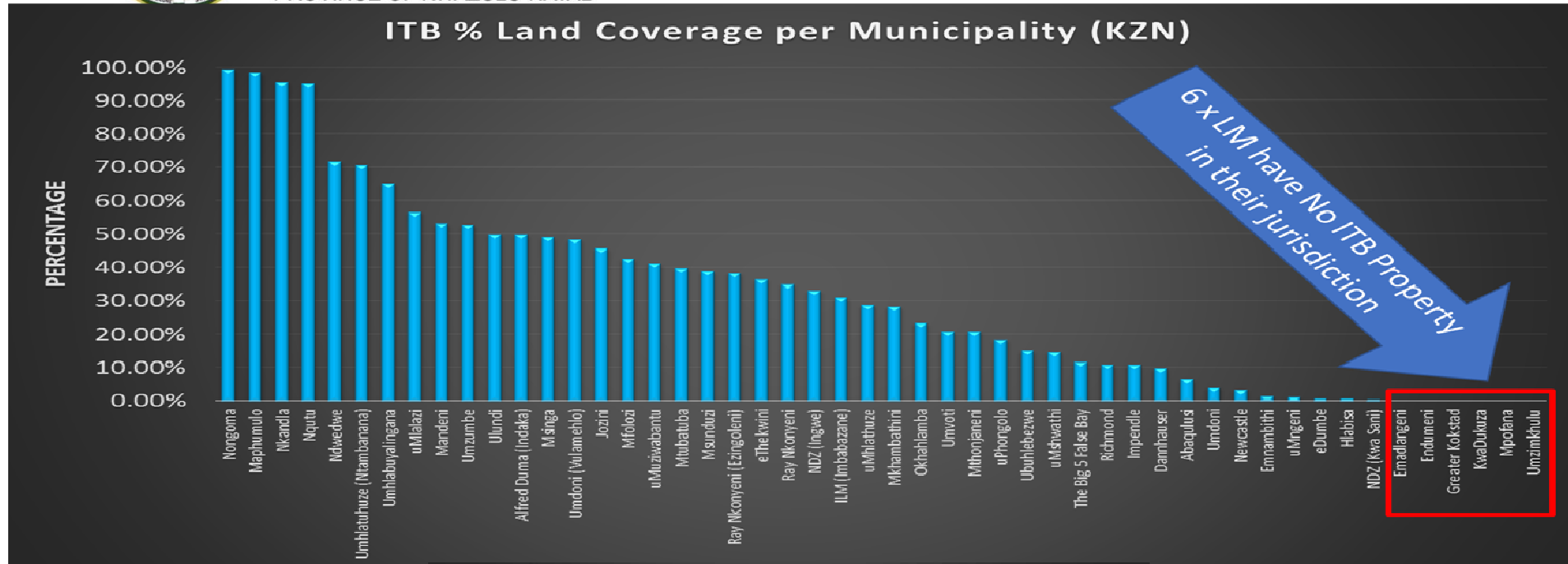
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ITB PROPERTY RATING



11

FOR COMMUNITIES BETTER

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MUNICIPAL PROPERTY RATING

COMMUNAL PROPERTY

A. WHAT CONSTITUTES SECURE PROPERTY RATES

- Property can be easily identified and verified
- Property tenure is secure and certain
- Owner (responsible ratepayer) recognition stable and can be determined accurately
- Municipality has efficient systems in levying and collecting rates



B. WHAT CONSTITUTES INSECURE PROPERTY RATES

- Property difficult or impossible to identify and uncertain
- Property tenure is insecure and uncertain
- Owner (responsible ratepayer) recognition uncertain or insecure
- Municipality does not have efficient systems

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MUNICIPAL PROPERTY RATING COMMUNAL PROPERTY

Valuation roll (property register) is based on the definition of property with reference to a register -

"property" means—

- (a) immovable property registered in the name of a person, including, in the case of a sectional title scheme, a sectional title unit registered in the name of a person;
- (b) a right registered against immovable property in the name of a person, excluding a mortgage bond registered against the property;
- (c) a land tenure right registered in the name of a person or granted to a person in terms of legislation; or
- (d) public service infrastructure;

Levying of rates over a property recorded in the valuation roll is based on the definition of owner -

"owner" means—

- (a) in relation to a property referred to in paragraph (a) of the definition of "property", means a person in whose name ownership of the property is registered;
- (b) in relation to a right referred to in paragraph (b) of the definition of "property", means a person in whose name the right is registered;
- (c) in relation to a land tenure right referred to in paragraph (c) of the definition of "property", means a person in whose name the right is registered or to whom it was granted in terms of legislation; or
- (d) in relation to public service infrastructure referred to in paragraph (d) of the definition of "property", means the organ of state which owns or controls that public service infrastructure as envisaged in the definition of "publicly controlled"



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MUNICIPAL PROPERTY RATING COMMUNAL PROPERTY

(vii) “land tenure right” means any leasehold, deed of grant, quitrent or any other right to the occupation of land created by or under any law and, in relation to tribal land, includes any right to the occupation of such land under the indigenous law or customs of the tribe in question; (ix)

7. Rates to be levied on all rateable property

(1) When levying rates, a municipality must, subject to subsection (2), levy rates on **all** rateable property in its area.

8. Differential rates

(1) Subject to section 19, a municipality may in terms of the criteria set out in its rates policy levy different rates for different categories of rateable property, determined in subsection

(2) and (3), which must be determined according to the—

- (a) use of the property;
- (b) permitted use of the property; or
- (c) a combination of (a) and (b).**

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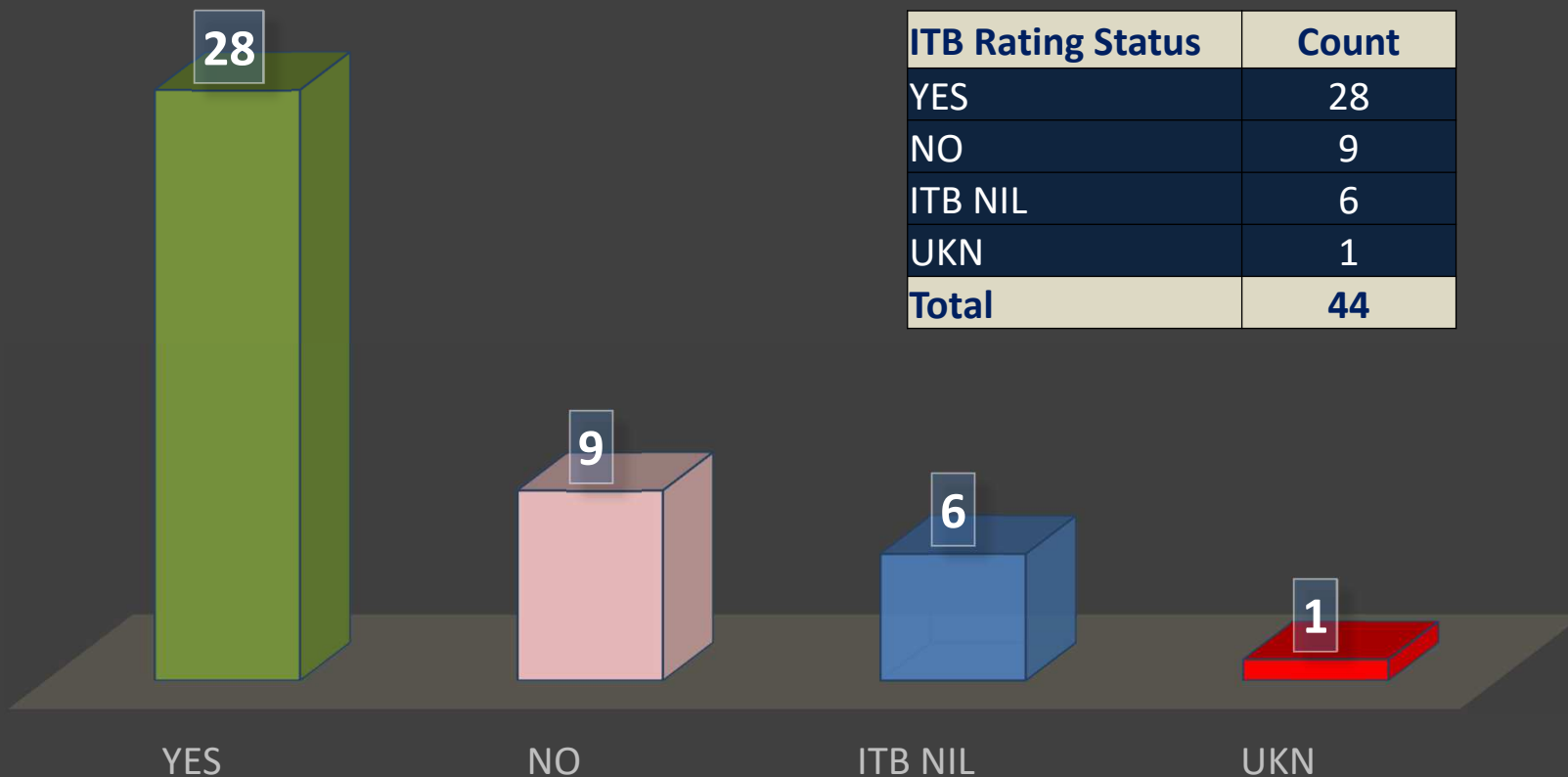
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ITB PROPERTY RATING

ITB RATING STATUS

■ YES ■ NO ■ ITB NIL ■ UKN





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ITB PROPERTY RATING (YES-28) AS AT 30 SEPTEMBER 2018

TOTAL ITB DEBT R840 383 501

MUNICIPALITY	ITB Rated	CAT_PROP	TOTAL RATES (R)
Ethekwini	YES	?	
Mandeni Municipality	YES	MULTI-PURPOSE	
Umhlabuyalingana Municipality	YES	VACANT LAND	17 977 317
Dannhauser Municipality	YES	S14 SCHOOLS	1 053 610
Dr Nkosazana Dlamini Zuma Municipality	YES	GOVERNMENT	
Nqutu Municipality	YES	STATE OWNED PROPERTY	7 504 508
Jozini Municipality	YES	RURAL COMMUNAL LAND	40 596 407
Alfred Duma Municipality	YES	?	
Msinga Municipality	YES	COMMERCIAL AND BUSINESS	689 069
Ulundi Municipality	YES	MULTI-PURPOSE	
uPhongolo Municipality	YES	COMMUNAL LAND	10 563 772
Mkhambathini Municipality	YES	STATE AND TRUST LAND	
uMhlathuze Municipality	YES	MULTI-PURPOSE	
Umzumbe Municipality	YES	COMMUNAL LAND	3 033 183
UBuhlebezwe Municipality	YES	CAT 23	
uMshwathi Municipality	YES	AGRICULTURAL	
Ray Nkonyeni Municipality	YES	COMMUNAL LAND	2 263 350
Abaqulusi Municipality	YES	AGRICULTURAL	1 570 477
Newcastle Municipality	YES	RURAL COMMUNAL LAND	
Okhahlamba Municipality	YES	COMMUNAL LAND	
Big Five Hlabisa Municipality	YES	AGRICULTURAL	1 365 760
Impendle Municipality	YES	COMMUNAL LAND	-
Maphumulo Municipality	YES	COMMUNAL LAND	-
Richmond Municipality	YES	AGRICULTURAL	-
The Msunduzi Municipality	YES	RURAL COMMUNAL LAND	-
Umlalazi Municipality	YES	SCHOOLS	-
uMngeni Municipality	YES	TO ALL PROPERTIES	-
uMuziwabantu Municipality	YES	S14 SCHOOLS	-



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ITB PROPERTY RATING (NO - 9)

MUNICIPALITY	ITB Rated	CAT_PROP	TOTAL RATES (R)
Umvoti Municipality	NO	?	0
Umdoni Municipality	NO	?	0
Nongoma Municipality	NO	?	0
Nkosi Langalibalele Municipality	NO	?	0
Nkandla Municipality	NO	?	0
eDumbe Municipality	NO	?	0
Ndwedwe Municipality	NO	?	3 616 578.00
Mthonjaneni Municipality	NO	?	0
Mfolozi Municipality	NO	COMMUNAL LAND	0

MUNICIPALITIES WITH NO ITB PROPERTY (ITB NIL)

eMadlangeni Municipality
Greater Kokstad Municipality
Umzimkulu Municipality
Kwadukuza Municipality
Mpofana Municipality
Endumeni Municipality

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MUNICIPAL INTERNAL WEAKNESS

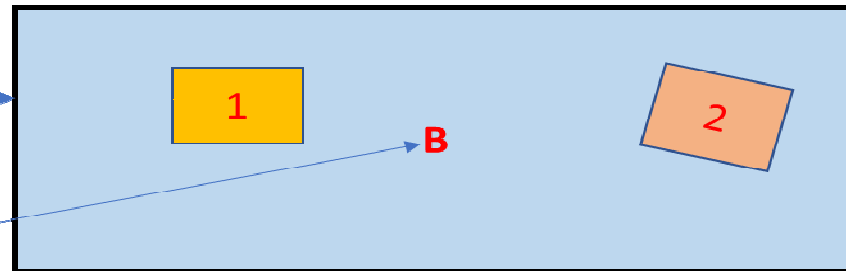
Valuation Roll presentation of ITB property –

- Lack of responsiveness towards standardisation of data format and minimum content requirements of MPRA data including the **26 digit code** and reporting to achieve uniformity across all municipalities.
- The data formats have been provided by Cogta as part of the MPRA BID Document - templates (Roll - A1 & A2), (GIS – B) and (Rates - E1 & E2)
- These are critical for MPRA reporting, data extracts, publication and display of valuation rolls.

A – Deeds
Registered
Property

B – Rateable
Remainder
A - (1 + 2)

CASE STUDY



PROP_ID
UNIQUE IDENTIFIER

1. Roll Content display to support roll and rates account
2. Roll GIS layer to be managed by Valuer

SGCode	Rate Acc	Prop Type	Suburb	REM	ERF	PTN	Farm	Name of Owner	COP (Code)	COP (Desc)	Physical Address of the Property	Extent (Land) m ²	Other Particulars	Market Value (R)
NOGU0000000015829000000	A	REG	UMLALAZI FARMS	Rem	15829	0	FARM RESERVE NO 9 No. 15829	MINISTER OF LAND AFFAIRS	0	0	FARM RESERVE NO 9 No. 15829	300000	Registered Property	R 0
NOGU0000000015829000000	B	FT	UMLALAZI FARMS	Rem	15829	0	FARM RESERVE NO 9 No. 15829	MINISTER OF LAND AFFAIRS	CP	Communal Property	Rateable remainder on FARM RESERVE NO 9 No. 15829	272424	Rateable Remainder	R 1 200 000
NOGU00000000158290000000001	1	LTR	UMLALAZI FARMS	Rem	15829	0	FARM RESERVE NO 9 No. 15829	MINISTER OF LAND AFFAIRS	PSP	Public Service Purpose	Ngqamzana P (ZN04906) on FARM RESERVE NO 9 No. 15829	16314	Ngqamzana P (ZN04906)	R 3 128 000
NOGU00000000158290000000002	2	LTR	UMLALAZI FARMS	Rem	15829	0	FARM RESERVE NO 9 No. 15829	MINISTER OF LAND AFFAIRS	PSP	Public Service Purpose	Nteneshane P (ZN05263) on FARM RESERVE NO 9 No. 15829	11262	Nteneshane P (ZN05263)	R 2 687 000



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MUNICIPAL INTERNAL WEAKNESS

Rates Policies are letting down municipalities..

- ITB Property or Communal Property Not defined under definitions
- No clarity on exemptions applicable to ITB Property of Communal Property
- ITB Property or Communal Property not allocated a category
- Contradictions on whether municipality is rating or exempting
- Misalignment of policy category to gazetted tariff and billing information

[19] Specifically, the Municipality will not levy rates on the following properties:

- Properties specifically excluded in terms of Section 17 of the Property Rates Act;
- Properties of which the Municipality is the owner;
- All public service infrastructure; or
- Properties registered in the name of or administered by the Ingonyama Trust.



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CONCLUSION

What is the current status of Revenue Management in KZN Municipalities?



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DISCUSSION...

ioey.krishnan@kzncogta.gov.za

candice.naidu@kzncogt.gov.za

Telephone: 033 3556512

Cell: 082 854 1110

Facsimile: 033 355 6289

Southern Life Plaza, Private Bag X9123, Pietermaritzburg, 3201

TOGETHER WE HAVE MADE KZN A BETTER PROVINCE TO LIVE IN, TOGETHER WE WILL MOVE SOUTH AFRICA FORWARD