Exploring Revenue Enhancement Strategies in Rural Municipalities: A Case of Mutale Municipality

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**Abstract**

On a regular annual cycle, the Auditor General – South Africa, presents South Africans a picture of his findings with regards to the financial state of municipalities, amongst other government entities. It is always a complicated situation with some municipalities consistently attaining their financial goals, whilst others failing miserably. This paper discusses revenue enhancement strategies employed by rural municipalities to enhance their revenue generation, given the challenges arising from uncertainty, fragility and insecurity. Generally, the major constraints to revenue enhancement in rural municipalities are attributed to ineffective municipal business model and structural constraints such as lack of awareness campaigns, poor enforcement and implementation of revenue enhancement policies, poor service delivery and lack of exploration of alternative revenue avenues. To unpack these challenges, the study adopted a revenue enhancement survey approach. Thus, to enhance municipal revenue generation there is need to review the key aspects the municipal business model. It was recommended that the municipality should strive to reduce the revenue collection constraints by implementing revenue efficiency measures and explore other revenue collection avenues like acquiring the services of a consultant to undertake a feasibility study and strategize on the opportunities as way forward.

**Key words: revenue enhancement, municipal business model, revenue collection, effective implementation.**

1. **Introduction**

The financial concerns for rural municipalities raised in this paper are perhaps best comprehended in the background of the state of South Africa’s municipal finances as reported via the Office of the Auditor in mid-2016 (Auditor General –South Africa, June 2016). In the above report the Auditor General asserted that `the audit outcomes of municipalities in Limpopo, North West and the Northern Cape have been disappointing at best’ (Ibid p.4). The report noted that `municipalities in North West, Mpumalanga, Eastern Cape and Limpopo were the main contributors to the significant increase in irregular expenditure over the past five years’ (ibid p.7).

In an article critical of the state of political party electioneering for the 2016 local government elections that appeared to be blind to disastrous trends in municipality finances; Justice Malala lamented that `according to the auditor-general this year, municipal irregular expenditure has more than doubled to almost R15-billion since 2010-2011’(Malala J 2016). Furthermore, ‘that unauthorised expenditure has increased threefold to more than R15-billion and fruitless and wasteful expenditure has increased by more than R1-billion to R1.34-billion in the same time?’(Ibid). Here lies the overarching challenges in revenue enhancement for rural municipalities, such as Mutale municipality, the paper’s case study.

Municipalities around the world more especially in the developing world are grappling with challenges of raising own revenue for sustainable service delivery, (Dirie, 2005, cited in Slack, 2009:13). “Despite having access to a plethora of own revenue sources, local governments in South Africa are generally perceived to be hard pressed for revenue or fiscally stressed,” (National Treasury, 2009 cited in Rakabe 2010:132). 2011 Budget Review (2011:11) states that;

*The notion that certain municipalities will never be financially viable is a misrepresentation of both the design of the local government fiscal framework and the practical reality of local economies. The fiscal framework is intended to ensure an equitable distribution of resources between the rich and poor areas of the country – but it does not absolve municipalities of the responsibility to raise property rates and services charges for the non-poor living within their municipal boundaries. Information on municipal own revenues indicates that many smaller municipalities are failing to do so.*

In South Africa, those municipalities in Category A; the top 21 municipalities and other small town municipalities in Category B contribute own revenue of greater than 60% from local revenue sources. However, rural municipalities in Category B, generate less than 20% from own revenue sources. The Fiscal Financial Commission of South Africa (FFC) 2013, shows major concern regarding the ability of rural municipalities in supporting their expenditure mandates from the current revenue instruments.

Rakabe, (2010:137) argued that, the capacity of municipalities to generate own revenue, “is not simply a function of having a strong economic base”. Rakabe, views that, despite the fact that municipalities are developing revenue enhancement strategies, “fiscal stress persists unabatedly”. Consequently, this has been attributed by implementing ineffective and inappropriate revenue enhancement strategies. Facts reveal that measures used to increase own revenue, are not comprehensive rather they are carried out on ad hoc basis without paying attention to important elements of revenue enhancement. In addition to this, municipalities undertake revenue enhancement programmes without critically assessing the challenges they are facing. This therefore results in focusing on wrong objectives thereby addressing erroneous problems. Also, it is argued frequently that there is lack of an execution plan indicating coveted aims and targets.

This paper assesses the effectiveness of the implementation of revenue enhancement strategies by rural municipalities for sustainable service delivery. It also investigates the financial outlook of Mutale municipality to assess if the municipality is able to support its expenditure mandates. In addition, the paper unpacks the various constraints to revenue generation in rural municipalities and strategies that can be employed to enhance revenue generation for sustainable service delivery. This study was undertaken prior to the dismantling of Mutale Local Municipality by the Demarcation Board. Subsequently parts of Mutale was absorbed into the neighbouring Musina, Makhado and Thulamela municipalities.

1. **Aim of the paper**

The aim of this discourse is to explore revenue enhancement strategies employed by rural municipalities with specific reference to Mutale Local Municipality (MLM) (thereafter Mutale) to determine if rural municipalities have the revenue capacity to support their expenditure mandates and to identify possible ways of increasing revenue generation in such municipalities. This is because previous studies in this area generally tended to be towards assessment of municipal fiscal stress, financial viability of local governments; fiscal decentralization and improving collection of own revenues (Slack 2009, Rakabe 2010). A research gap exists regarding revenue enhancement strategies especially in rural areas given their challenged socio-economic characteristics. This paper discusses the effectiveness of the implementation of the revenue enhance strategy of Mutale, a rural municipality in South Africa. It also analyses constraints and opportunities associated with revenue enhancement in rural municipalities. This paper concludes by recommending revenue enhancement strategies for rural municipalities.

1. **Methodology**

A revenue enhancement survey approach was adopted for this study and it was prompted by fiscal challenges faced by Mutale. This came about because despite having a revenue enhancement strategy in place Mutale was in a fiscal distress. This is one of the reasons for its disbandment and absorption as already noted above. The revenue enhancement survey set to unpack the various constraints hindering revenue enhancement of Mutale. The survey results from the key informants and municipal financial annual statements were compared with information from municipal residents. Analysed was basically on how effective the revenue enhancement strategy was being implemented. The constraints and opportunities associated with revenue generation was also considered. The survey for this paper took this approach in order to explain why rural municipalities in South Africa are grappling with fiscal challenges. Suggestions were advanced on how to maximise and extend revenue bases to enhance revenue generation in rural municipalities for sustainable service delivery.

1. **Related Literature on revenue enhancement strategies in municipalities**

The UNDP (2001) cited in Rakabe (2011:133) states that, “Traditionally, local government revenue enhancement has always been to involve effective mobilization of existing local revenue sources from various sources such as business licenses, service fees, rents and property taxes.” It is argued in this that in the contemporary world revenue enhancement is viewed as a complex approach and process. Revenue enhancement as an approach involves the identification of additional revenue sources, cutting off or cutting down on unnecessary expenditure and improving efficiency. On the other hand as a process revenue generation entails the broad improvements in management of municipal financial systems such as effective revenue management, regularly collection of revenues and enforcing policies, execution of budgets and educating ratepayers about the significance of paying for services that engender sustainable service delivery, (Rakabe, 2010:133).

The concept of revenue enhancement originates from the theory of fiscal stress, which grew in the late 1970s and 1980s, (Rakabe 2011:134 & Carr et.al 2010). Despite the fact that the studies of the period were a success in identifying the causes and strategies of addressing fiscal stress in municipalities they were limited to those particular municipalities, (Forrester and Spindler, 1990 cited in Rakabe 2011:135).

Theoretical approaches that may be utilised to explain the causes of fiscal stress in local governments can be broadly categorized into two themes namely; external (cyclical) and internal (structural) factors. Cyclical factors refer to economic fluctuations such as the great depression, which increases unemployment and affects the revenue base contributing to low revenues. On the other hand, structural factors are viewed as institutional and environmental factors i.e. government policies, increasing arrears in municipalities, low revenue base in rural municipalities, socio-economic factors, the economic base, and decreasing central governments transfers etc, (Adam, 2009:2; Rakabe 2011:135; Rakabe nd:8 & Scorsone nd:207).

Revenue enhancement strategies are not generally applicable to all municipalities as factors triggering the adoption of certain revenue enhancement programs vary from one municipality to the other. Studies that were carried in late 1970s and 1980s indicate that revenue enhancement responses can be broadly categorized into the following themes; revenue side interventions, expenditure side interventions and efficiency or market interventions, (Adams, 2009; Maher and Deller 2007; & Rakabe, 2011:149).

Municipal Infrastructure Investment Unit (MIIU), (2006:2), states that, “revenue enhancement is a process focussed on the holistic improvement of municipal business model.” Onias et.al, (2014:27), adds that the MIIU, (2006) suggests that revenues in local governments can be enhanced by adopting sound communication strategies, provision of metered services, accurate billing and revenue collection (debt and credit management). Thus to enhance revenue generation in municipalities there is need to review the key aspects of their municipal business model which are communication strategy, provision of metered services, accurate billings and revenue collection.

Rakabe, (2011:133) & Kanyane (2011:944) argue that in spite of the fact that municipalities employ revenue enhancement strategies, fiscal stress is still a major concern. This might be a result of forced development and adoption of such strategies from higher level of governments without full collaboration or ignorance by local governments to utilize revenue enhancement strategies due to lack of understanding of the importance the revenue enhancement strategy in addressing financial challenges of the responsible municipality. MIIU, 2006; Rakabe (2011) & Onias (2014), adds that this situation has been attributed to ineffective implementation of revenue enhancement strategies that are stopgap-type or ad hoc in nature. It is argued that these ad hoc measures neglect critical elements i.e. broader understanding of the status quo, and lack of implementation plan detailing the desired outcomes and objectives, hence they do not lead to any successful outcomes.

The Municipal Infrastructure Investment Unit (2006:4) insists that, for effective implementation of revenue enhancement strategies municipalities must go through a simple but detailed strategic process which consists of the following; understanding the problem, defining the desired outcome and objectives, documenting the plan on how it will be achieved, managing the implementation and managing performance.

Local Fiscal Government Budget and Review (2011:36) dismisses the notion that rural municipalities that are poor and are not viable. It indicates that Section 227 of the Constitution of South Africa states that local governments are entitled to receive an equitable share from revenue raised by the national government and may receive conditional or unconditional allocations from the national and provincial government. Section 227(2) of the Constitution indicates that the national government has no obligation of bailing out municipalities that do not raise revenue from their revenue base. In addition, the Local Government Budget and Review, (2011: 39), states that, “municipalities need to pay particular attention to revenue management. If they do not, they will not collect the cash they need to fund their expenditures.” Thus, municipalities are expected to strive within their fiscal capacity to raise own revenue through various means i.e. revenue enhancement strategies.

1. **Discussion on revenue capacity and revenue enhancement strategy in Mutale**

This section of the paper discusses in detail Mutale’s revenue capacity and revenue enhancement strategy. The aim of this section was to find out if the municipality strategy opted for had an impact on the increases of revenues in the municipality, the causes of revenue collection constraints, the opportunities of revenue enhancement and the financial outlook of Mutale.

* 1. **Mutale municipal revenue capacity and revenue enhancement challenges**

Revenue challenges facing Mutale are largely attributed to the fact that it is a rural municipality. Mutale is one of the four local municipalities in the Vhembe District Municipality. It is categorized as a Category B municipality, and it was established in year 2000 in accordance with the Local Government Municipal Structures Act no. 117 of 1998. Mutale is situated in the far north-eastern part of the Limpopo province as well as in the Vhembe District municipality. Mutale borders with Makhado Local Municipality on the west; Thulamela Local Municipality to its south; Mozambique to the east; Musina Local Municipality and Zimbabwe to its north.  Figure 1 below shows the geographical location of Mutale.



Figure 1. Geographic location of Mutale Local Municipality

Figure 1, shows that Mutale is the smallest municipality amongst the four municipalities in Vhembe District Municipality. Mutale has a revenue enhancement strategy in place but it fails to generate its own revenue. Its strategy comprises the following major components of a revenue enhancement strategies; (i) program and implementation plan, (ii) data cleansing, (iii) indigent registration, (iv) debt collection and (v) skills training and transfer. Thus, the question was whether the revenue enhancement strategy was being effectively implemented or not. Despite having a revenue enhancement strategy in place, Mutale was grappling with financial challenges and was declared to be in financial distress (State of Local Government Finances and Financial Management Report (SoLGF) 2013:56). This is evidenced by what Rakabe, (2010:137) states that despite the fact that municipalities are developing revenue enhancement strategies, “fiscal stress persists unabatedly”.

Mutale is largely rural and it consists of 13 wards. Most of the land falls under Tribal communities except the proclaimed area of Mutale which covers parts of ward 5 and 4 i.e. Tshilamba township. This has negative implication on revenue generation in Mutale as the revenue base is very low i.e. the urban area which is approximately 2.9 % of the whole area of the municipality and the tribal land consisting of approximately 96.8%, as well as the farms which consists of 0.3% of the total land within Mutale. Settlements are spread within Mutale in its farm areas, towns and former Homelands etc. Larger areas of the municipality is communal land and is occupied by approximately 150 rural settlements which are being administered by Traditional Authorities. These rural settlements of Mutale are, “dispersed in terms of size, function, services and population”, (Mutale IDP 2008/09, 2008:83; DWAF, 2007:42). Mutale has direct control over only two areas namely Tshilamba and Masisi townships. The Mutale IDP 2008/09 (2008:112), states that, Mutale generates revenue only in Masisi and Tshilamba townships.

According to Statistics South Africa (2011), the unemployment rate of Mutale was very high i.e. 48, 8%. The municipality has a high number of indigents of approximately 77% that is 18,333 households compared to the total household number of 23, 751 for the whole municipality. This constraint has a negative implication on revenue base as it is difficult for these unemployed people to pay for services. Rakabe (2010:139) supports this incapacity to pay by stating that, the “Non-payment for services emanates from the inability of residents to pay as a result of poor economic circumstances”. Stats SA (2011) indicates that there are no commercial land uses in Mutale. Similarly, Khanyane (2011:941) states that “It is difficult to expect citizens to pay for the services while they have no sources of income”. This poor economic performance in the municipality is caused by lack of key development plans that foster economic growth and job creation such as Infrastructure development plans, (Mutale IDP 2014/15:27). The National Development Plan (NDP) 2030 clearly outlines that to achieve economic activities that are conducive to growth and sustainable job creation, there is the need to invest in infrastructure. Furthermore, the Mutale budget is insignificant or does not budget at all on Local Economic Development (LED) projects that are a critical component to increased generation of own revenue. It is argued that there is need for creativity in revenue enhancement. “Although LED has been identified as a key role for local government, expenditure directed towards LED initiatives is very limited compared to other service delivery priorities of local government,” (2011 Local Government Budgets and Expenditure Review 2011:200). The Municipal Infrastructure Investment Unit (2006), adds that, municipalities must develop, budget and implement socio-economic development programmes that facilitates local economic development and job creation, thereby enhancing residents’ ability to pay for municipal rates and services.

This study reveals that given the poor economic performance of the municipality, about 63.9% of the unemployed respondents indicated that their sources of income included Old Age Grant, Disability Grant, Foster Care Grant, Care Dependency Grant; Child Support Grant. The remaining 37.1% of the unemployed indicated that they are self-employed and that was where they obtained their income from. This implied that most of the residents rely on government grants for their livelihood and they do not have the capacity to pay for municipal rates and service charges.

* 1. **Financial outlook of Mutale**

This section on the financial outlook of the municipality was intended to understand the overall revenue generation performance of Mutale.

**Table 1 Mutale municipality financial outlook (2006/7-2012/13)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Description** | **2006/07** | **2007/08** | **2008/09** | **2009/10** | **2010/11** | **2011/12** | **2012/13** |
| **Value in South African Rands** | **Audited Outcome** | **Audited Outcome** | **Audited Outcome** | **Audited Outcome** | **Audited Outcome** | **Audited Outcome** | **Audited Outcome** |
| **Financial Performance** |  |  |  |  |  |  |  |
| Property rates | 1 187 000 | 1 188 000 | 789 000 | 764 000 | 3 111 000 | 3 316 000 | 1 440 000 |
| Service charges | 95 000 | 127 000 | 743 000 | 6 488 000 | 196 000 | 225 000 | 249 000 |
| Investment revenue | 213 000 | 3 000 | 384 000 | 94 000 | 350 000 | 1 153 000 | 401 000 |
| Other own revenue | 3 762 000 | 5 406 000 | 2 939 000 | 4 724 000 | 5 407 000 | 5 259 000 | 4 474 000 |
| **Total own revenue** | **5 257 000** | **6 724 000** | **4 855 000** | **12 070 000** | **9 064 000** | **9 953 000** | **6 564 000** |
| Transfers recognised – operational | 17 783 000 | 23 830 000 | 38 805 000 | 54 456 000 | 41 126000 | 4 726 000 | 46 869000 |
| **Total Revenue (excluding capital transfers and contributions)** | **23 039 000** | **30 554 000** | **43 660 000** | **66 526 000** | **50 191 000** | **14 678 000** | **53 434 000** |
| **Total Expenditure** | 35 134 000 | 38 811 000 | 65 604 000 | 56 055 000 | 52 165 000 | 4 377 000 | 54 800 000 |
| **Surplus/(Deficit)** | **-12 095 000** | **-8 257 000** | **-21 943 000** | **10 471 000** | **-1  975 000** | **-28 799 000** | **-1 367 000** |

**Source: Mutale municipal budgets & MTREF & supporting tables’ version 2.2 (2010/11-2014/15)**

This in turn enables a determination of its financial viability to support its expenditure mandates, and effectiveness in implementation of the revenue enhancement strategy. The study analysed audited data around financial performance of Mutale for the 2006/07-2012/13 financial years as shown in the table 1 above.

Table 1. reveals that Mutale was facing revenue collection challenges and there have been inconsistencies in revenue collection in the past i.e. in 2006/07 R1 187 000 was collected, in 2008/09, 2009/10 collection dropped to R789 000 and R764 000 respectively. However, it increased to R3 111 00 and R3 316 000 in 2010/11 and 2011/12 respectively, compared to R1 140 000 collected in 2012/13 financial year. This implied that the municipality was not maximising the collection of property taxes and thus negatively impacting on municipal revenue generation. The Fiscal Financial Commission 2013 (Municipal Managers Forum) substantiates that rural municipalities are not reaching their full capacity of collecting property rates. In 2010 predicted property rates capacity ranged between an average revenue capacities of R100-R80 vs the average rates collected of R60-R40 in rural municipalities.

Rakabe (2011:147) states that there are various means that can be used to measure the effectiveness of revenue enhancement strategies, i.e. economic efficiency and fairness, tax burden for each service user, the total revenue yield etc. Figure 2 illustrates the revenue yield versus total expenditure for the municipality in relation to the aforementioned financial years.

Figure 2Mutale Own Revenue Generated vs. Total Expenditure.

 Source: Mutale Municipal Budgets & MTREF (2010/11-2014/15)

Figure 2 illustrates that there was a huge difference (cross hatched area) between own revenue generated by the municipality and its operational expenditure. In 2012/13 financial year, municipal revenue contributed to 12% or R6 564 000 of the total expenditure of R54 800 000. The above figure illustrates what Digler (2011) cited in Financial and Fiscal Commission (2013:77), referred to as `fiscal stress’. This is when a municipality as in this case, fails to generate its own revenue to meet current and future expenditure obligations. On the other hand, this also confirms the perception that “certain municipalities will never be financially viable” FFC (2013:14 Municipal Managers Forum).

The huge difference between revenue generated and expenditure requirements is attributed to a low revenue tax base in the municipality. The key informants of this study explained that the municipality is largely rural as it is characterized by Traditional Authority areas that occupies approximately 97% of the total land of the municipality. Further investigations revealed that Mutale generated revenues from property rates i.e. R1 440 000, (or 2.7% of total revenue for Mutale) in 2012/13 financial year from businesses, government departments, public service infrastructure and on households in the small towns of Tshilamba and Masisi (Mutale Municipality Mid-Year Report 2012 & Mutale IDP 2014/15). This is indicative that the municipality has a very small tax base or footprint and this has definite negative implications on revenue generation for sustainable service delivery. Manyaka (2014) adds that the low tax base in rural municipalities arises from the fact that properties such as commercial farms in most rural areas are not being taxed despite the effort of implementing Property Rates Act. The Mutale Mid-Year Report, (2012), states that, “property rates tax is not charged on households in rural areas due to unresolved issues.” Furthermore, Local Government Budgets and Expenditure Review (2011), explained that imposing property tax in rural households is difficult because government issues letters of permission to occupy (PTO) to rural households, and it is not clear whether such households are legally liable for rates on the land they occupy as they do not own the land. Property tax is regarded as the largest contributor of own revenues generation. It is argued that in rural municipalities property tax presents challenges in its administration and in valuation. Thus potential revenue generation properties are not taxed.

Additional impediments to revenue yield in Mutale is caused by poor socio-economic conditions which includes rates of high unemployment, the high reliance on social grants and low levels of income etc. Kanyane (2011:937), notes that fiscal stress is caused by the structural imbalance between revenue sources and expenditure functions that the municipality has been assigned to undertake. To the contrary Slack (2009), Rakabe (2011), Schoeman (2011) and Fiscal and Financial Commission (2013), argue that poor revenue collection (low fiscal effort) in rural municipalities is a result of increased dependency on government grants and transfers (or the soft budget syndrome).

Mutale is over reliant on government transfers. According to the Draft 2012/2013-2014/2015 Medium Term Revenue and Expenditure Framework for Mutale, grants and subsidies contributed 82% of the total revenue compared to 18% generated from own revenue sources. Hoyos & Uys, (2008:37) argue that reliance on government transfers discourages and is a disincentive for municipalities from collecting revenues. Under these circumstances Municipalities utilize unconditional transfers to cover their expenditures, and as a consequence become reluctant and neglect collecting own revenue. State of Local Government Finances and Financial Management Report (2009:60), further states that, “Transfers continue to weaken local democratic accountability.” Khanyane (2011:936) adds that, “if the grants were withdrawn, most municipalities would stumble and ultimately crumble.” On the other hand, municipalities should utilize the grants and subsidies as an opportunity for incentives to increase generation of revenue rather than a constraint to revenue generation.

Political sensitivity is a constraint to collection of revenue in Mutale. Municipal officials cannot fully enforce credit control in order to recover its revenue. This is as a result of political figures fearing the erosion of their political support. De Wet (2004:8) argues that, “In many instances the hands of the municipal officials are tied as a result of political interventions with regard to the collection of outstanding debt.” Mosha (2010:5), supports this by stating that certain instruments are politically sensitive and municipal officials are not willing to enforce them on defaulters. The challenge of poor revenue collection coupled by lack of capacity has contributed to failures of generating own revenue in Mutale. Khanyane (2011:941) notes that, “poor collection of revenue for the provision of services has made the municipalities heavily dependent on funds drawn from elsewhere…” This is true considering that approximately 80% of total revenue for Mutale is from government transfers especially from Equitable Shares.

Fiscal stress in Mutale is also attributed to unwillingness of residents to pay for rates and services provided by the municipality. To support this Rakabe (2010:139) states that revenue generation is constrained because of, “the unwillingness or explicit refusal by residents to pay, due to perceptions of poor services and corruption.” He adds that, “Tax amnesties, economic crises, low benefits derived from taxes, and lack of confidence in local officials: have created a culture of non-payment by tax payers. Tax payers are not encouraged to pay taxes when due. Instead they prefer to wait until the next tax amnesty is granted, when their taxes are waived.” (Hoyos & Uys, 2008:36).

Mutale does not generate revenue from electricity and water services. This study revealed that the municipality does not have a license for electricity distribution and it not a water service provider as that function was transferred to Vhembe District Municipality because Mutale does not have the capacity to render such a services. The Local Government Budgets and Expenditure Review (2011), Rakabe (2011) and Manyaka (2014), support that most rural municipalities are being faced with fiscal challenges because they are being deprived of their potential revenue sources as enshrined by the Constitution i.e. Schedule 4 gives responsibility of electricity distribution to municipalities but in reality this function is being carried out by Eskom in most rural municipalities. Furthermore, Manyaka (2014:36) argues that this loss of potential revenue sources for rural municipalities is a result of lack of capacity to provide such services i.e. water and electricity to its citizens.

1. **Lessons from Mutale revenue enhancement challenges**

The following section is about the lessons that the Mutale situation teaches with respect to the subject matter.

* 1. **The implications of high unemployment rate and low levels of education on Mutale revenue base**

Low revenue capacity and revenue base in Mutale is attributed to prevailing high unemployment rates. In general Mutale has an extremely high unemployment rate of 48.8% as compared to the national unemployment rate of South Africa- 25.5% in the second quarter of 2014, (Statistics South Africa). The study reveals that 70% of the sampled study population are unemployed, 21% employed and 9% are self-employed. The study revealed that of those that are employed work in various economic sectors i.e. tourism, mining, agriculture, government institutions etc. However, most people rely on subsistence agriculture for their livelihoods. On further investigations it was discovered that out of those respondents who are formally employed and that are self-employed, only 7% are able to pay for rates and taxes because they earn higher household incomes of more R1 501 per month. Mutale Indigent Policy, stipulates that, the municipality, “uses a self-targeting approach in terms of which households with a gross monthly income of R1 500.00 and below qualify to apply for an indigent status and will receive basic services charged on indigent tariff.” Given the socio-economic characteristics described above, this clearly indicates that the municipality has a low revenue base and it cannot generate revenue to support its expenditure mandates. On further investigation other respondents showed willingness to pay for rates and taxes but they could not pay because they earn incomes lower than the indigent threshold which is not self-sufficient for their livelihood. This is further made worse by the fact that most of the population in the municipality, about 60% are on government social grants i.e. 54% rely on child support grant as their source of livelihood, hence they cannot be expected or afford to pay rates and taxes, (Mutale IDP 2014/15 & Vhembe IDP 2012/13-2016/17). This implies that Mutale has a small revenue base as most people are unable or cannot afford to pay because they are essentially indigents who get free basic services. On the basis of this the municipality cannot generate revenues to undertake its constitutional obligations, hence it is fiscally distressed. Mutale is essentially not financially viable, as it relies on government grants and subsidies for its service delivery and expenditure needs that keep increasing. Most people do not have an income because they are not employed or earn an income. On further investigation it was revealed that the high proportion of people with low income within Mutale can be attributed to the wide-ranging lack of prior schooling and hence the lack of skills required for high paying jobs, therefore they opt to work in informal sectors where they earn lower incomes. This implies that most households cannot afford to pay and should access free basic services and this in turn negatively affects the revenue base of Mutale.

The study revealed that educational qualification of residents has a bearing on the ability of residents to pay for rates and taxes. Residents with primary and matric qualifications constituted 84% of the respondents as compared to 11% with non-formal education and 5% holds higher educational qualifications. Those with primary and matric qualifications forms part of the semi-skilled labour force and earn less hence they do not have the ability to pay although they indicated that they are willing to pay if services are provided by the municipality. In addition, the high unemployment rate within the municipality is attributed to low levels of education leading to lack of skilled labour force required in medium to high income jobs. The lack of Local Economic Development initiatives to create adequate employment for the local community does not help the situation. The Financial and Fiscal Commission (2013:150), notes that high unemployment in rural municipalities is a result of poor economic performance attributed to lack of sound local economic development strategies because of the lack of capacity, inadequate financial resources, poor rural development policies as well as lack of coordination and cooperation in rural municipalities.

* 1. **Implication of unwillingness of residents to pay rates and services on municipal revenue generation**

If households frequently paid for rates and taxes within the required timeframes it would enable the municipality to increase revenue generation. On the other hand the households that are unwilling to or do not pay for rates and taxes’, increases the debt owed to the municipality and thereby negatively affecting the total revenue generated by the municipality. Under the latter conditions, the municipality will inevitably become fiscally stressed and would not be able to meet its expenditure needs. The study revealed that, 16% of the respondents always pay for rates and taxes, compared to 23% that pay sometimes and 61% who reported that they are unwilling and do not pay at all. Those respondents who always pay rates and taxes indicated that they do so because they earn comparatively higher incomes and they do understand the importance and the link between paying in order for the municipality to deliver services sustainably. This lack of frequent payment and the inability and unwillingness to pay rates and taxes explains why Mutale has had an ever increasing debt owed to them i.e. collected 27% of total service billings from 2010/2011 to 2012/2013 financial years. On further investigations the study revealed that those households that do not pay for rates and taxes do so because of entitlement to services, lack of disposable income due to low income levels, high dependency ratio, lack of employment opportunities and the lack of trust in the local government. Furthermore, other households simply revealed that they do not pay because basic services are not connected at all.

* 1. **Poor service delivery**

With regards to service delivery 76% of the respondents expressed the opinion that they do not pay for rates and taxes because of the perception they held that services provided by Mutale are poor. On further investigations the study revealed that 54% of the respondents were not at all satisfied with the services provided by the municipality and 30% were not satisfied only 16% were satisfied. Thus most of the respondent’s view was that the services provided by Mutale were not satisfactory and this deterred the payment of rates and taxes as people required value for money services. Molokomme & Berry (2004:18) states that, unsatisfactory level of service delivery by municipalities is attributed to absence of municipal infrastructure maintenance plans and inadequate refuse collection. Thus if the level of service delivery is poor it is more likely that residents will not be willing to pay for services rendered, thereby affecting municipal revenue generation. Poor service delivery such as inconsistent waste collection within Mutale is a result of shortage of adequate refuse trucks. The municipality uses one truck to remove refuse, resulting in a huge backlog i.e. 90% backlog of waste collection in rural villages. Refuse collection is twice per week in Tshilamba township, (Mutale IDP 2014/15, 2014:54). On further investigations households in the rural villages of Thondani and Beleni reported that there is poor service delivery as they lack access to basic services such as health facilities, schools, water service, and transportation services. With regard to transport services households indicated that the provision of transport infrastructure would enable them to access trade markets so that they can trade their produces and earn an income which would then enable them to pay for services rendered by the municipality.

* 1. **The non-payment of services**

The key informants, i.e. municipality officials,agreed that non-payment of rates and taxes was a result of the inability of residents to pay. On further investigations it was discovered that residents were not able to pay because they had no income, and they relied on government social grants meaning that they are not able to pay for municipal services. This is further substantiated by Rakabe (2011:139), who noted that non-payment of services is a result of inability of residents to pay due to poor economic circumstances. There are contradictory views on whether unwillingness or refusal by residents to pay due to perception of poor service delivery is causing non-payment of rates and taxes or not. The municipal officials stated that the quality of services rendered by Mutale are not poor, but rather congruent to revenues collected. To the contrary households expressed concerns of poor service delivery i.e. 54% indicated that they are not at all satisfied with the services being rendered by the municipality and that was the reason why they are not willing to pay for rates and taxes. Poor service delivery in the municipality was due to ageing infrastructure and lack of service delivery and infrastructure management, (Mutale IDP 2014/15). In addition, revenue collection challenges faced by the municipality were not only as a result of non-payment of rates and taxes by households but also resulting from non-payment for services by sector departments, (Mutale Mid-Year Report 2012, 2012:3). On the basis of the above, the implications are that the debt owed to the municipality will increase in time. The low municipality budgets will also result in low service delivery level to the people.

* 1. **Contribution of poor billing to revenue enhancement**

The study assumed systems were in place to notify household of their bills since there are households that can afford to pay for services in urban areas and as well as in rural areas. However, the study learnt that households do not necessarily receive bills notifying payment. This obviously affects municipal revenue generation. Some of the respondents residing in urban wards (16%) refuted the above line of argument as they indicated that they receive accounts notifying them to pay from time to time. Other households further expressed that although they receive bills they cannot afford to pay the required amounts. This implies that the municipality is billing and sending the bills to those who cannot afford to pay and as a consequence the municipality’s debt collection is on the decline. In contradiction, 79% of the respondents who reside in urban and in rural wards state that they do not pay their bills because they do not receive accounts notifying them to pay for rates and taxes. On further verification, it was discovered that the lack of receipt of bills was attributed to incorrect customer personal data. The result is that accounts were sent to incorrect addresses and the upshot is that they were not received on time or not at all. The study revealed that those in rural wards do not receive accounts because they are in Traditional Authority areas where the municipality does not have the authority to charge for rates and services.

The study further revealed that key informants confirmed that inaccurate customer data and erroneous billing affected revenue collection of the municipality. Presenting an official view, the Mutale IDP 2014/15, contradict the above key in formants views by stating that, “complete, accurate, regular and timeously bills are dispatched to all consumers”. However as already noted above this study reveals that households were not paying for rates and taxes because they did not receive any accounts notifying them to pay. The prevalent inaccurate billing of services did not help matters. Thus inaccurate customer data as a result of lack of regular updating of customer data was one of the causes of poor revenue collection within Mutale. Molokomme & Berry, (2004:19), endorse the view that inaccurate customer data is a result of lack of regular update of property records, i.e. data cleansing as already noted above. De Wet, (2004:10), adds that the lack of field audits causes municipalities to have inaccurate customer databases. The implications are that the cash-flow of the municipality is affected as invoices are sent to incorrect addresses with the results that bills are not paid in time or not payed at all. One offshoot is that some residents end up with inflated bills, but residents generally refuse to pay inflated bills, thus resulting in low revenue generation for the municipality.

* 1. **Poor indigent registration**

The municipal officials agree that lack of regular updating of indigent register impacts on revenue enhancement in the municipality. The study revealed that the indigent register was not being updated regularly. Studies by various authors i.e. Rakabe (2011), Kanyane (2011) & De Wet (2004), show that lack of regular updating of indigent register results in municipalities billing residents who cannot pay hence increasing debt owed to the municipality as well as administrative costs associated with sending accounts to indigents. Lack of regular updating (ideally a function that should be executed on a monthly basis) of indigent register impacts on revenue generation as those who are supposed to graduate from indigent status and pay for services will keep on getting free basic services.

* 1. **Poor Debt collection**

Key informants indicated that the lack of collection of outstanding municipal debt does not impact on municipal revenue enhancement. On further investigations the study discovered that the key informant views was biased because the municipality has a credit control and debt collection policy in place to ensure that outstanding amounts owed to the municipality are recovered, (Mutale IDP 2014/15). Irrespective of the key informants views, Mutale has a poor debt collection system, as evidenced in the 2010/11 to 2012/13 financial years In that time period the municipality collected only 27% of its billings of services rendered amounting to R3 214 033.15 out of its total billed services of R11 868 019.34. The study revealed that the lack of collection of outstanding municipal debts is attributed to political interference within the municipality, lack of enforcement of credit control and the enforcement of the debt collection policy, lack of updating of indigent register, inaccurate customer data, lack of human resources capacity etc. De Wet (2004:8) & Rakabe (2011:142) supports the view that political interference affects the collection of outstanding debt. This is the result of politicians who put indirect pressure on the municipality to avoid implementation of debt collection policies and other necessary measures to recover debts such as service disconnection.

* 1. **Institutional constraints hindering revenue enhancement**

A Mutale municipal official disagreed at the suggestion that lack of ICT infrastructure is one of the institutional constraints affecting revenue enhancement of the municipality. The reasoning behind this assertion was because Mutale had the necessary ICT infrastructure in place for effective revenue management. However this was contradicted by other municipal officials who pointed out that the lack of the appropriate ICT infrastructure was an institutional constrain affecting revenue enhancement of the municipality. Mutale IDP 2014/15, confirmed the latter viewpoint by stating that the municipality has low levels of ICT service delivery in the municipality. The above IDP pointed out that most of the business processes were not supported by information systems software’s and thus it meant that the processes were largely manual. There is a lack of formal call logging systems such as the helpdesk or call centre whereby support and maintenance calls are logged, managed, administered and escalated. Furthermore, the municipality lacks policies and procedures that govern data backups. Manual processes result in production losses as well as inaccurate data management which then deters effective and efficient revenue generation. In addition, other institutional constraints affecting revenue enhancement for the municipality include the lack of municipal staff in other units i.e. the non-existence of Local Economic Development officers to address issues related to mining, agriculture and tourism, (Mutale Mid-Year Report 2012 & Mutale IDP 2014/15). Molokomme & Berry (2004:18), supports the view that institutional constraints such as inadequate ICT and lack of its integration into municipal operations system results in ineffective and inefficient operations thereby deterring revenue enhancement. Additional institutional factors such as unfilled vacant critical positions in the municipality, the lame political support and lack of property valuation software’s affects municipal revenue enhancement.

1. **Recommendation on revenue enhancement in rural municipalities**

In view of the aforementioned challenges that rural municipalities are facing, with the specific reference to Mutale in relation to revenue generation, this section of the paper seeks to propose strategies that rural municipalities can employ to enhance own revenue generation.

* 1. **Improve service delivery levels**

There are measures or actions that the municipality needs to undertake to induce households to pay rates and taxes. Mutale’s respondents indicated various factors that would convince them to pay for rates and taxes. 67% of the respondent’s view was that if Mutale’s service delivery is improved they would be willing to pay for rates and services. A clear picture is emerging that states that if households are not satisfied with the services rendered, they find it easy to boycott payment of rates and taxes. The Local Government Budgets and Expenditure Review (2011:209), supports this assertion by stating that, there is irrevocable evidence internationally, to substantiate “that poor households are willing to pay for a service that they regard as valuable.” Payments from improved service delivery would help enhance revenue generation of the municipality. The respondents from rural villages under the Traditional Authority where the municipality does not have authority to collect rates and services are nonetheless willing to pay if service delivery are improved.

Mutale IDP 2014/15 realises that ageing infrastructure and the lack of infrastructure management plan is contributing to poor service delivery, exacerbated by non-payment of rates and taxes. Furthermore, those Mutale residents in urban areas indicated that there are certain services they need to be improved to induce them to pay rates and taxes such as street lighting. Mutale IDP 2014/15 supports confirms that there is a lack of street lighting in some of the towns. Mutale concedes that the lack of street lighting places people at risk as it makes nightlife dangerous and difficult as crime is more prevalent in unlit areas.

On the basis of the `benefit received principle’, which states that payment of rates and services should be directly linked to services and benefits thereof; it is clear that households are willing to pay when they receive value for money services, (Local Government Budgets and Expenditure Review 2011, cited in Manyaka, 2014:136).

* 1. **Increased awareness campaigns and effective communication to encourage payment of rates and taxes**

The general lack of adequate awareness campaigns by the municipality affects municipal revenue collection negatively. The study reveals that 16% of the respondents, who are those that always pay for rates and services, disagree that there is a lack of adequate communication between the residents and the municipality. They refute this as the basis of the constrain towards payment of rates and taxes. Other respondents expressed the view that the non-payment of services is a result of the culture of non-payment of rates and taxes by households. This non-payment culture for services rendered found its roots in the days of Apartheid South Africa and still persists in the poorer sections of South African society. The other 80% of the respondents submitted that the lack of awareness campaign on the importance of payment of rates and taxes `deterred’ them from paying. Households in rural Traditional Authority wards indicated that they are willing to pay for rates and taxes if they are made aware about the need to do so. 70% of the respondents indicated that if they are educated around the implications of not paying municipal rates and taxes they would be willing to pay for rates and taxes. It is thus essential the councillors need to play a leading role in undertaking awareness campaigns to educate households about the essence of payment of rates and taxes. In order for the above to effectively take place in the first place, there will be the invariable need for councillors to be trained as elected leadership (UN Habitat, Training Materials Series, 1996). The study revealed that households in urban areas i.e. Tshilamba township are willing to pay if communicated with by means of sending them accounts notifying them to pay rates and taxes to their right full address.

Effective communication is regarded as an essential measure required to enhance municipal revenue generation. The Mutale is faced with communication challenges as indicated by households that do not pay because accounts are not received. The study further revealed that 51% of the households are willing to pay if accounts are received and further 70% indicated if educated / exposed about the importance of paying rates and services, they would pay. The Municipal Infrastructure Investment Unit, (2006) points out that effective communication plays an important role in educating households on the implications and essence of paying for rates and taxes to enhance municipal revenue generation.

* 1. **Use incentives to increase revenue generation**

The lack of incentives to increase Mutale’s revenue generation was confirmed by the respondents to be a constraint to revenue enhancement in the municipality. In order to surmount this problem Mutale, should undertake a feasibility study and identify the types of incentives residents need to encourage the culture of payment of rates and taxes.

This is how various parts of Mutale responded to the notion of inducements. In urban Tshilamba households revealed that they are willing to pay for rates and taxes if they were provided with incentives. Eleven percent of the respondents reported that a rebate on property tax would enable them to pay their dues because they rely on government grants, pensioners hence they need some form of rebates on property taxes. Whereas 67% of respondents required that service charges such as waste collection, be reduced for them to be affordable to enable them to pay, as they have low levels of monthly incomes. Thus if service charges are high residents will not afford to pay, there the municipal consumer debt increases. The Fiscal Financial Commission 2013 (Municipal Managers Forum), adds that, “municipalities need to ensure that their tariffs, are cost reflective and sensitive to the indigent profile of municipalities in order to minimise municipal consumer debt levels”. Furthermore 34% of the respondents considered that if tax incentives on property are put in place this would enable them to pay. This is so because they are those that may not qualify for rebates, if given tax incentives they indicated that they are willing to pay for services rendered. Incentives or rewards motivate households to pay for rates and taxes. They are opportunities that municipalities should capitalize on to enhance their revenues, (Malokomme & Berry 2004). The 2002 Municipal Revenue Enhancement Program initiated by the then Department of Provincial and Local Government (DPLG), now the Department of Cooperative Governance and Traditional Affairs (COGTA), found out that most municipalities lack incentives to encourage payment of rates and services hence they fail to enhance their revenue generation, (Kanyane 2011 & Rakabe 2011).

* 1. **Maximising revenue collection from existing revenue sources**

To enhance municipal revenue generation in rural municipalities, there is need to maximize revenue collection through mobilizing existing revenue sources. Respondents undertaking business activities, i.e. trading, informal mining, car washing and many others, were asked to indicate if they have or do not hold permits for such activities. The study revealed that 40.74% of the respondents have permits whereas 59.26% did not have permits. Mutale IDP 2014/15 points out that there are different types of businesses that are operating illegally, e.g. transport operators within the municipality. In addition, it was noted that those that are in possession of permits only 20% out of 633 registered businesses in Mutale renewed their permits. Thus the municipality is losing revenue from its existing potential sources of revenue hence it is faced with fiscal challenges. The respondents without permits indicated that they felt that there was no need to have permits or trading licences as it might affect or restrict their informal economic activities as they may not meet the required legal standards for approval of their economic activities. Examples of these include small scale informal miners, and impact on their financial viability.

* 1. **Explore other revenue collection avenues**

Failure to explore other revenue avenues has negatively impacted on the revenue generation of Mutale because the municipality has a low revenue tax base i.e. 97% of the land owned by Tradition Authorities. In order to enhance Mutale’s revenue generation there is the need to explore other revenue collection avenue such as taxing those undertaking activities in mining (Artisanal and Small-scale Mining), in Tshikondeni mine and other mining areas, (though some of the mines are declining and about to close down), agriculture, commerce, billing kiosks and rent them and to mention just a few.

There is the need for strategic planning and implementation of rural development policies i.e. National Rural Development Strategy, Provincial Growth and Development Strategies, Local Economic Development Strategies etc., not only within the identified planned Nodal points but as well as in various population concentration areas. Economic development in these various areas would attract more businesses, create employment opportunities thereby expanding the revenue base of rural municipalities.

* 1. **Other opportunities to enhance revenue generation**

Mutale municipal officials indicated that there were various opportunities for revenue enhancement that includes credit control policy, debt collection policy, indigent management policy, tariff policy, information system policy, general valuation. Municipal Infrastructure Investment Unit (MIIU, 2006:12), Kanyane (2011:939) & De Wet (2004:8), have pointed out that these policies are not only a legal requirement in accordance with Municipal Finance Management Act, Municipal Systems Act and the Municipal Services Act, but are essential for the collect revenues to enhance municipal revenue generation. On further investigations it was revealed that the enforcement of the policies i.e. credit control and debt collection policies is a challenge because of lack of political support, lack of awareness campaigns, human capacity constraints and lack of understanding of the revenue enhancement strategy by municipal staff. In addition, the key informants revealed thatother existing revenue sources i.e. collection of revenue from non-poor households are not fully utilized.

It was revealed that privatization of selected activities such as collection of debt owed to the municipality and filling vacancies and training staff are the minimum measures needed to enhance revenues for the municipality. Filling vacancies and training staff is critical to enhance municipal revenue generation. Earlier it was indicated that the Mutale lacks staff in the local economic development unit essential to address issues relating to mining, tourism and agriculture which are essential areas to improve the economy of the municipality. If implemented the above would collectively result in an increased revenue base for the municipality. Molokomme & Berry (2004:18) states that the Development Bank of Southern Africa, DBSA Workout Unit after engaging with various municipalities pointed out that lack of filling critical positions affects municipal revenue enhancement. Thus, to effectively realize the benefits of a revenue enhancement strategy there should be reforms on the revenue administration unit and processes undertaken.

The lack of capacity in Mutale, attributable to the deficiency of human resources, the general absence of skills and training is also a major constrain deterring revenue enhancement in the municipality. The study confirmed that there are critical posts essential for the implementation of revenue enhancement strategies that are vacant. *(where is the reference for this?)* In order to maximise revenue collection the municipality should seek support from other spheres of government to enhance its revenues. Furthermore, the municipality should utilize provided government grants to do the following. The first is to train its staff on a regular basis. Secondly, to improve their skills in order to be knowledgeable on how to implement the strategy. Last but not least is to endeavour to increase the performance of the municipality in terms of innovative revenue base and compliance.

There is ineffective communication between the Mutale and the community as evidenced by lack of awareness campaigns. It is enshrined in the South African Constitution that municipalities should communicate with citizens. In order to ensure that residents pay for municipal rates and services it is essential that communication be improved to educate the community about the implications and significance of paying of rates and services to enable the municipality to provide services that will benefit them. Effective communication entails communicating the right message to the right people in a manner that they will understand considering their literacy levels and at the right time. Thus the municipality must develop communication programmes, awareness campaigns, road shows and improving communication support for the CFO to implement credit control policies and get the community buy-in from the communities.

Effective implantation of the municipal business model proved to be difficult for Mutale attributed to the institutional structural constraints i.e. inaccurate customer personal data, poor debt collection, poor indigent management, lack of political support etc. This was evidenced by the increasing debt owed to the municipality for services rendered. In order to enhance revenue generation in Mutale, the municipal business processes needs to be improved i.e. the billing system must be based on an accurate and on updated customer database the municipality. The municipality should ensure that its valuation roll is regularly updated and accurately done in order to enhance its revenues. Updating of valuation roll, result in checking of actual use of property, any improvements on the property and the zoning of the property to assign correct tariffs to each customer thereby enhancing the revenue of the municipality.

1. **Conclusion**

This paper shows through the study of Mutale, that fiscal challenges faced in rural South African municipalities are attributed to several structural factors. These result in ineffective implementation of the municipal business model. Inefficiency is exemplified by poor economic factors, ineffective communication and lack of exploration of other revenue avenues. The paper demonstrated that to reduce fiscal challenges there should be improvement in service delivery, communications, improving the municipal business model i.e. enforcement and implementation of key revenue policies such as debt collection and credit control policies, improving human capital, exploring other revenue avenues e.g. in mining, agriculture and tourism; the exploration of alternative sets of incentives, sound local economic development, contracting of services such as revenue collection and operation of public transport system.

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