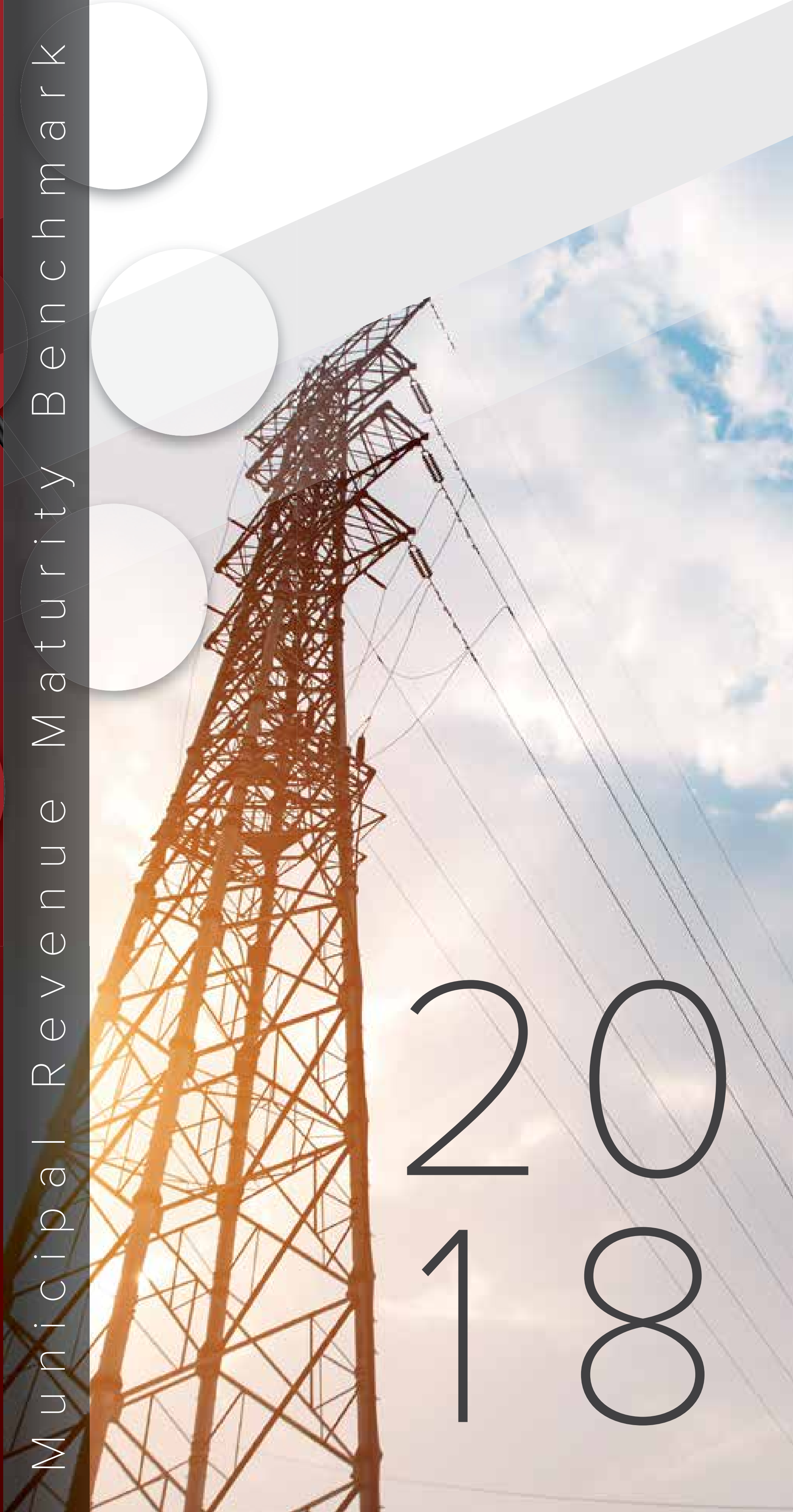
Benchmarking South African Municipalities on Revenue Maturity

Municipal Revenue Maturity Benchmark Report



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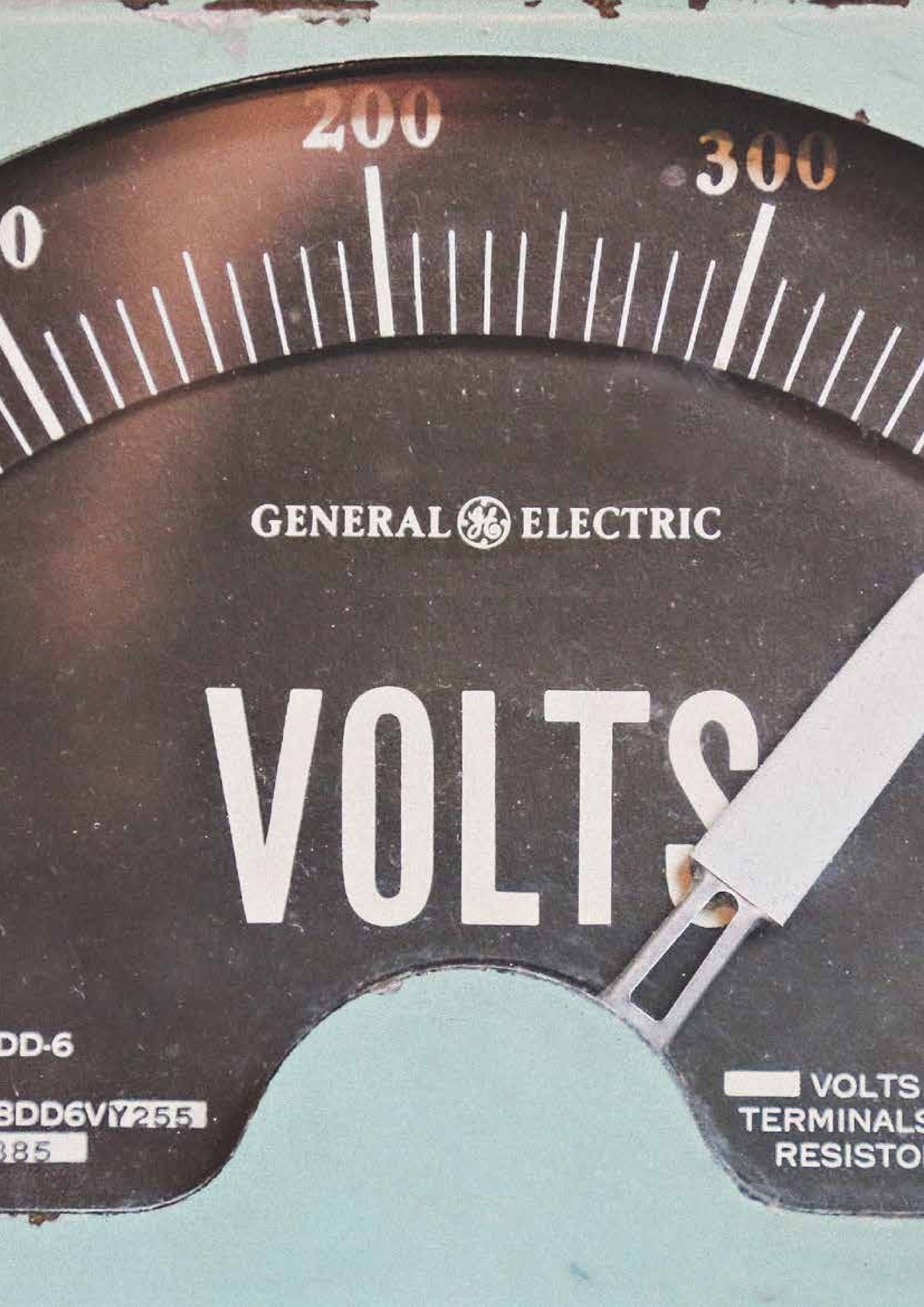
MUNICIPAL REVENUE MATURITY BENCHMARK REPORT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ABOUT NTIYISO CONSULTING

Founded in 2005, Ntiyiso Consulting is a Black-owned and managed consulting firm with expertise across all major industries. The firm uses innovation to deliver services through three practices, viz. Industrialisation and Catalytic Projects (ICA), Governance & Strategy (GOS) and Revenue Management & Enhancement (RME).

The GOS Practice renders holistic organisational improvement interventions resulting in increased productivity and sustainable profitability. The RME Practice assists organisations to realise completeness of revenue, elimination of revenue leakages and increased revenue from existing and new sources. The ICA Practice advises clients on developing and implementing large scale industrial or local economic development projects.

ABOUT NTIYISO CONSULTING'S REVENUE MANAGEMENT & ENHANCEMENT PRACTICE

Ntiyiso Consulting's Revenue Management & Enhancement has served umerous municipalities which include Cities, Districts and Local Municipalities. RME has assisted clients to achieve completeness of revenue, eliminate losses and increase revenue. RME has deployed solutions such as the Ntiyiso Field Management Platform to manage the meter reading and cretit control accuracy and completeness. Our leaders in the practice are former municipal executives with in-depth knowledge of municipal operations they gained while managing municipalities themselves.

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PREFACE

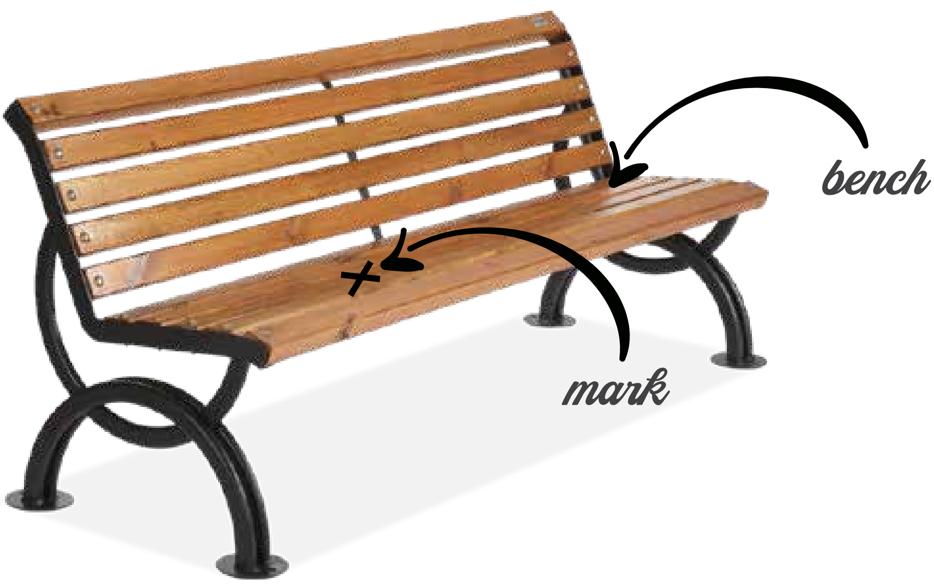
As a consulting firm that serves a client base which includes a number of municipalities, we at Ntiyiso Consulting see it as our responsibility to contribute to a body of knowledge that seeks to improve the fortunes of municipalities. It is our closely held belief that municipalities are a critical part of service delivery to citizens, and thus when they are able to efficiently deliver services, the whole nation benefits.

It was in recognition of this responsibility that we launched our inaugural annual report on municipalities in 2017. This report, titled: Municipal Revenue Conversion Strategies sought to understand how best practice municipalities were able to generate and collect revenues. A number of effective strategies were shared in that report. This report is available at www.ntiyisoconsulting.co.za.

This current benchmarking report seeks to build on from last years report, by benchmarking municipalities' revenue maturity. The term "Revenue Maturity" refers to the adequacy of any municipality's revenue management operating model, processes, policies, staff, systems and governance. Municipalities with adequate revenue management operating models and supporting resources can then be said to be more "revenue mature" than those with less adequate operating models and supporting resources.

This Revenue Maturity Benchmarking exercise then seeks to understand the adequacy of revenue management operating models and supporting resources across a number of South African municipalities. Based on the results of the benchmarking exercise, municipalities are then categorised into various archetypes, based on revenue maturity. The report details the characteristics of municipalities falling into each archetype and provides proposals for how municipalities can move from one archetype to a higher one.

It is our hope that this report begins to create transparency as to the challenges that municipalities face in their revenue collection efforts. We also intend for this report to begin a conversation about some initiatives that municipalities could implement in an attempt to improve their revenue performance. We ould like to emphasize that there is no one-size-fits-all approach to improving municipal revenues, however, there are a number of best practises that municipalities could test for fit in their local contexts, and this report articulates some of these.



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EXECUTIVE SUMMARY

The ***2018 Municipal Revenue Maturity Benchmark*** report is being launched at a pivotal time for South Africa. On the one hand, municipalities across the country are operating under challenging economic conditions and varying social pressures. On the other hand, governance at some of the municipalities has steadily declined, with less than 20% of them receiving clean audits in 2017.

A report released by the Auditor General this year reveals that general non-compliance to key governance laws is at an all-time high since 2012/13. The report also laments the fact that as much as 88% of the municipalities produced financial statements with material misstatements. It is, then, no surprise that some municipalities fail to reach their revenue targets.

An analysis of the audited financial statements of municipalities spanning the last 6 years indicates that while many municipalities want to enhance revenue performance, most have little insight into what exactly needs to be done for them to achieve the desired revenue targets. Even with robust legal prescripts such as the Constitution of the Republic and the Municipal Finance Management Act (MFMA), which sets out the administrative and fiscal powers and functions of municipalities, most municipalities still fail to maximise their revenue potential and performance. Observations suggest that the lack of alignment within internal systems such as human capacity, relevant policies and by-laws to give effect to municipal actions, further inhibits the municipalities from realising their potential. This is while existing legal frameworks compel municipalities to ensure that public goods and services are provided to communities in a sustainable manner within the respective financial and administrative capacities of municipalities.

In line with our 2017 report, Municipal Revenue Conversion Strategies, which brought to the fore the fact that Revenue Performance Management is a discipline and not just a function that must be carried out, tour 2018 Municipal Revenue Maturity Benchmark report is the second step towards deepening the revenue enhancement focus while raising awareness about the benefits of adopting an all-inclusive step-by-step revenue performance approach.

A number of critical questions underpinned the Municipal Revenue Maturity Model, including understanding what the prerequisites are for optimal revenue coverage and revenue conversion; which key performance indicators remain important as the municipality matures; how financial benefits accrue when Revenue Administration, Revenue Data Analytics and Customer Centricity are aligned with Revenue Coverage and Conversion strategies; and, what the correlation is between higher levels of Revenue Coverage and Conversion and the level of Municipal Revenue Maturity. Understanding the conceptual framework which supports the responses to the aforementioned questions is key to understanding the foundation of a resilient, innovative and dynamic municipality.

Many maturity assessments have been developed for the private and public sector, but none of them specifically speaks to the assessment of Municipal Revenue Maturity. The fact that municipalities could not determine their own level of revenue maturity using a benchmarking tool informed the development and piloting of the Municipal Maturity Model. It is within this context that the 2018 Municipal Revenue Maturity Benchmarking Report will attempt to deepen the general understanding of the interlinking layers of municipal revenue performance.

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Enhancing and sustaining Municipal Revenue Maturity requires a conceptual shift from the notion that municipalities deal with administrative functions alone, towards adopting fundamental business principles of revenue generation and management in order to remain economically sustainable and to achieve optimal service delivery. By focusing on revenue maturity, the 2018 Ntiyiso Consulting Municipal Revenue Maturity Benchmark report ignites a learning culture where strengths and weaknesses are shared so that municipalities can work in collaboration to shape South Africa's economic future.

HOW THIS REPORT IS STRUCTURED

This report has 4 chapters:

Chapter 1 looks at some of the highlights from the 2018 Ntiyiso Consulting Municipal Revenue Maturity Benchmark process. It consists of a short summary wherein some integral features of mature municipalities are discussed, including some of the limitations municipalities experience in relation to revenue performance. The highlights contained in this section are discussed in more detail in chapters 3 and 4.

Chapter 2 provides the definition of Municipal Revenue Maturity and sets out how revenue maturity is measured. Since Municipal Revenue Maturity is a relatively new concept in South Africa, the detailed Ntiyiso Municipal Revenue Maturity Model is also presented in this chapter.

Chapter 3 focuses on the 2018 Ntiyiso Consulting Municipal Revenue Maturity Benchmark results. This chapter provides a brief introduction and summary of the key drivers of optimal revenue by reviewing the emerging trends within each of five performance pillars.

Chapter 4 presents the overall concluding remarks of the report, including why revenue maturity benchmarking is important in the South African context.

1

THE 2018 NTIYISO CONSULTING MUNICIPAL REVENUE MATURITY BENCHMARK

1. THE 2018 NTIYISO CONSULTING MUNICIPAL REVENUE MATURITY BENCHMARK

The **2018 Ntiyiso Consulting Municipal Revenue Maturity Benchmark** is a successful attempt at measuring revenue performance across South African municipalities. The aim was to better understand and appreciate the local government revenue environment, and to benchmark municipalities based on revenue maturity.

1.1 METHODOLOGY

The Municipal Revenue Maturity Benchmark took on a qualitative and quantitative analysis of the revenue performance framework to test the correlation between revenue maturity, revenue conversion and revenue coverage. The first phase involved the qualitative exploration of municipal revenue performance by collecting South Africa Municipal Financial data dated 2010 to 2016 from National Treasury and Statistics South Africa, including literature on the South African and international municipal legal frameworks.

In the second phase, 50 South African municipalities were selected on the basis of stratified random sampling for a semi-structured survey. Only 35 municipalities responded with the documents and data required by the specified due date, constituting an overall response rate of 70%. The survey sample comprised 4 Metropolitan municipalities, 25 Local municipalities and 6 District municipalities. The survey consisted of 5 sections: Revenue Coverage, Revenue Conversion, Revenue Administration, Revenue Data Analytics and Customer Relationship Management. Each section had an average of 7 questions and the responses provided were weighted on a scale from 1 – 5, where 1 = absent and 5 =fully implemented.

Table 1: Annotation of maturity level scores

Maturity level	Score	Representation
1	1 – 1.9	Absent to very little implementation
2	2 – 2.9	Minor attempts towards implementation
3	3 – 3.9	Moderate implementation
4	4 – 4.9	Considerable implementation
5	5	Performance pillar fully implemented

The majority of the questions were shaped quantitatively, while the qualitative questions were designed to understand the depth of the revenue collection and management challenges. Based on the results of the survey each municipality was allocated to one of five revenue maturity levels as depicted in figure 1 below. Through this process we identified critical areas that municipalities could focus on to improve their overall revenyue performance.

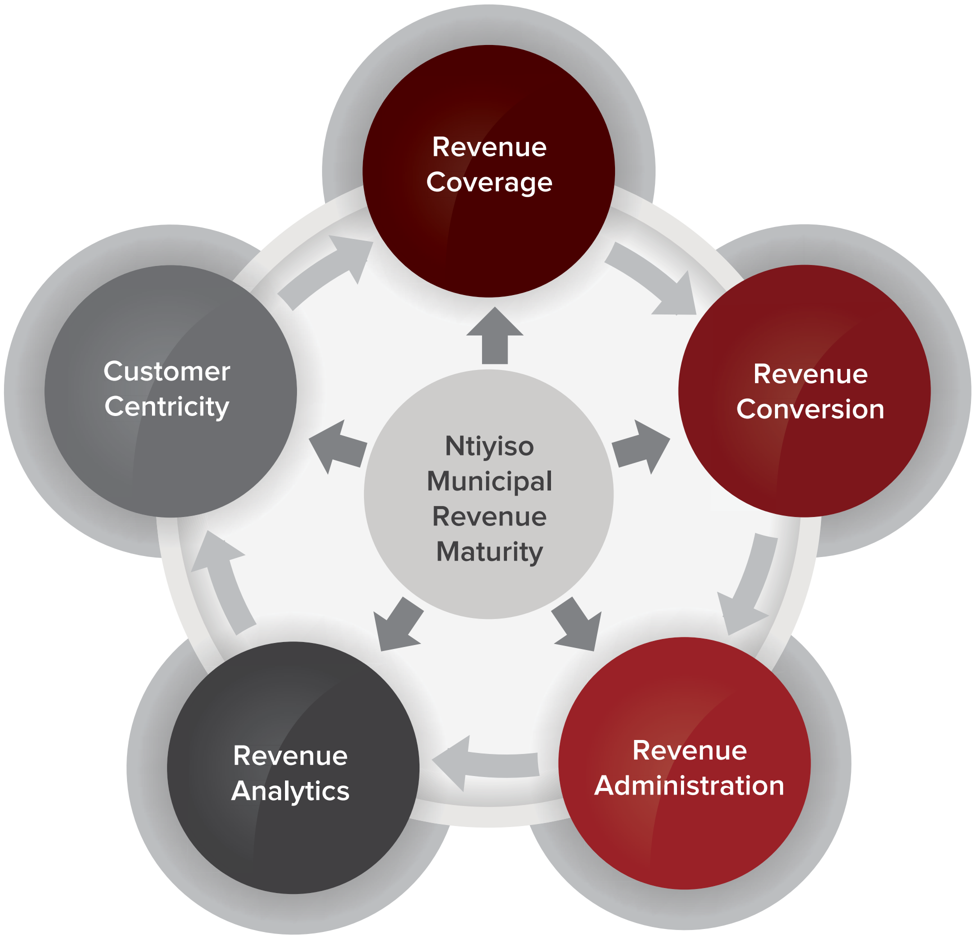
Figure 1: Five levels of Municipal Revenue Maturity

Some of the highlights discussed in the next section affirm the critical need for a continuous benchmarking process.

1.2. HIGHLIGHTS FROM THE 2018 MUNICIPAL REVENUE MATURITY BENCHMARK

In order to excel in their service delivery mandate, municipalities need a well-defined, reflective benchmark model. The Ntiyiso Municipal Revenue Maturity Model is based on five Revenue Pillars namely: Revenue Coverage, Revenue Conversion, Revenue Administration, Revenue Analytics and Customer Centricity.

Figure 2: Ntiyiso Municipal Maturity Model performance pillars

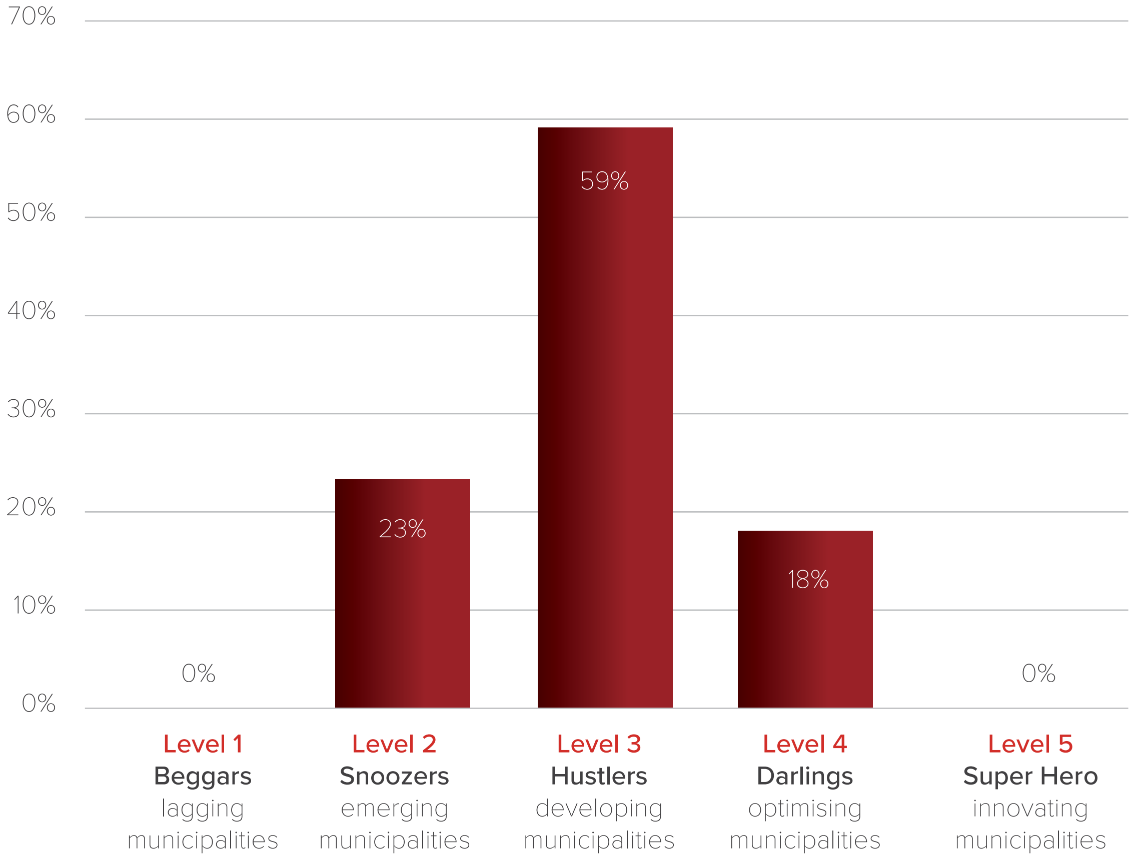


Accordingly, the model depicts a conducive environment wherein municipalities would thrive in terms of revenue collection and management. Using the Municipal Revenue Maturity Model, revenue performance of the municipalities was assessed. Below are the key highlights from the 2018 Municipal Revenue Maturity Benchmark:

MATURITY OF REVENUE PERFORMANCE AT SOUTH AFRICAN MUNICIPALITIES

The results of the assessment were aggregated to form the overall revenue maturity of the municipality. Figure 2, below, shows the overall maturity distribution of the municipal participants. While none of the participants made it to the ideal position of "Super hero" or Level 5. 59% of the participants, which comprised of a blend of municipal types, are currently at the level of "Hustlers" or maturity level 3. True to the definition of maturity level 3, "Developing Municipalities", all municipalities at level 3 have deployed stable and repetitive revenue collection techniques. They have, however, still not fully mastered the art of converting their high revenue sources to high conversion rates.

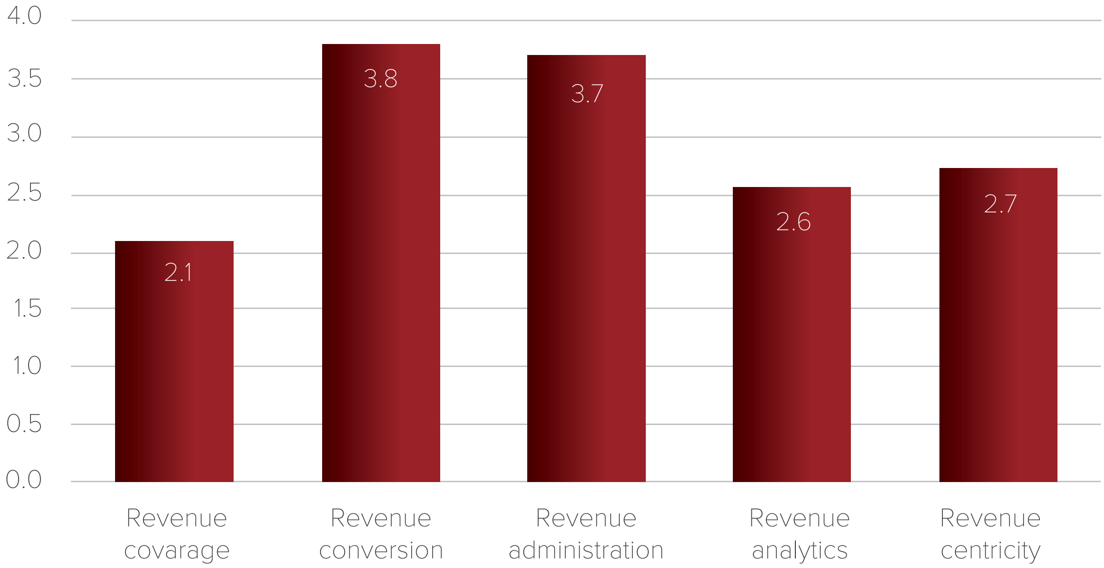
Figure 3: Distribution of the overall 2018 Municipal Revenue Maturity Benchmarking results (by percentage)



Municipalities fulfil a vital requirement in the South African developmental agenda since they create economic hubs that fuel growth and innovation. This is in line with the Constitutional mandate of ensuring social and economic development. If municipalities are to sustain and indeed increase their contribution to the development of South Africa, then it is crucial to uphold key factors like the daring decision to consider new revenue sources; the stability of revenue conversion; the innovation that is driven by revenue data analytics; and the constant prioritisation of the customer, since they all contribute to the maturity of municipal revenue performance.

Figure 4 presents the aggregated maturity results by performance pillar, for the participating municipalities. Once the benchmarking process was complete, the overall aggregated scores were computed to establish if any trends emerged. It was discovered that compared to Revenue Coverage, Revenue Conversion and Revenue Administration had higher averages.

Figure 4: Aggregate distribution of the participating municipal scores per performance pillar



Benchmarking municipalities is not an easy task, especially if the focus is on Municipal Administration. The 2018 MRMB illustrates that although municipalities operate within different regions and face different operational challenges, they generally focus on their administrative capacities and capabilities. The highest aggregate maturity levels received for the 2018 Municipal Revenue Maturity Benchmark were 3.8 for Revenue Administration, followed by 3.7 for Revenue Conversion and then 2.7 for Customer Centricity. This illustrates that municipalities continue to prioritise Revenue Administration. The aggregate Revenue Coverage score of 2.1 illustrates that participating municipalities are still using largely traditional revenue sources. Where the aggregate score is 2.6 for Revenue Analytics and 2.7 for Customer Centricity, indicates that minor attempts at implementation have been made.

REVENUE COLLECTION INSTRUMENTS ARE STILL LARGELY TRADITIONAL

The municipal environment has not advanced in this category. According to the benchmark results, revenue collection instruments are still predominantly traditional, with less than 10% of municipalities having opted to make use of various discretionary tax tools or revenue sources outside of the traditional municipal finance framework. This is particularly true for rural municipalities which are mostly dependent on inter-governmental transfers in the form of grants, as they have low revenue generating and collection capacity.

A NEW CULTURE OF CUSTOMER CENTRICITY IS EMERGING

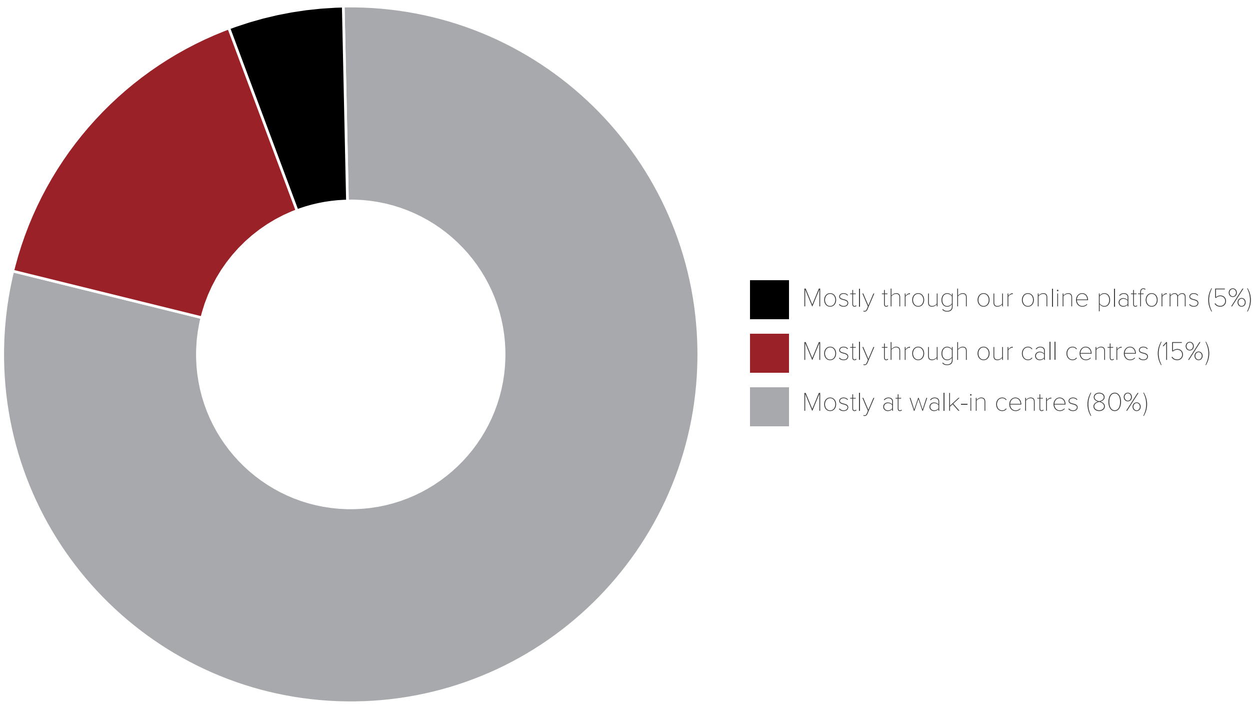
Chapter 9 of the Local Government Municipal Systems Act 32 of 2000 (MSA) places a responsibility on municipalities to ensure sound customer care and management systems aimed at establishing a reciprocal relationship between the municipality and its customers. The Act further requires municipalities to have in place credit control and debt collection policies which may differentiate between the various categories of customers, provided the differentiation is not tantamount to unfair discrimination. It is therefore concerning to note that only about 60% of the participating municipalities have egislation that govern how the municipality is to manage specific customer segments.

Legislation of this nature are, in fact, necessary, and could even be enhanced by specifically addressing how customers should be segmented as well as whether or not a customer relationship manager should be assigned to each customer segment. Also concerning is the finding that only 22% of municipalities provide customers with early payment incentives. Municipalities may incentivise, provided a Municipal Council resolves to encourage prompt payment of municipal accounts and to reward those customers who pay their accounts regularly and timeously.

CUSTOMERS STILL GENERALLY UPDATE PERSONAL INFORMATION AT WALK-IN CENTRES

Despite the global movement towards self-service or e-government, most South African municipality customers still update their personal information at municipal walk-in centres. A question in the survey asked, “On which platforms do customers generally update their personal information?”. Figure 5, below, illustrates that almost 80% of the respondents indicated that customers still generally update their personal information at walk-in centres. About 15% update their personal information using call centres and only 5% use online platforms.

Figure 5: Distribution of platforms used by customers to update personal information

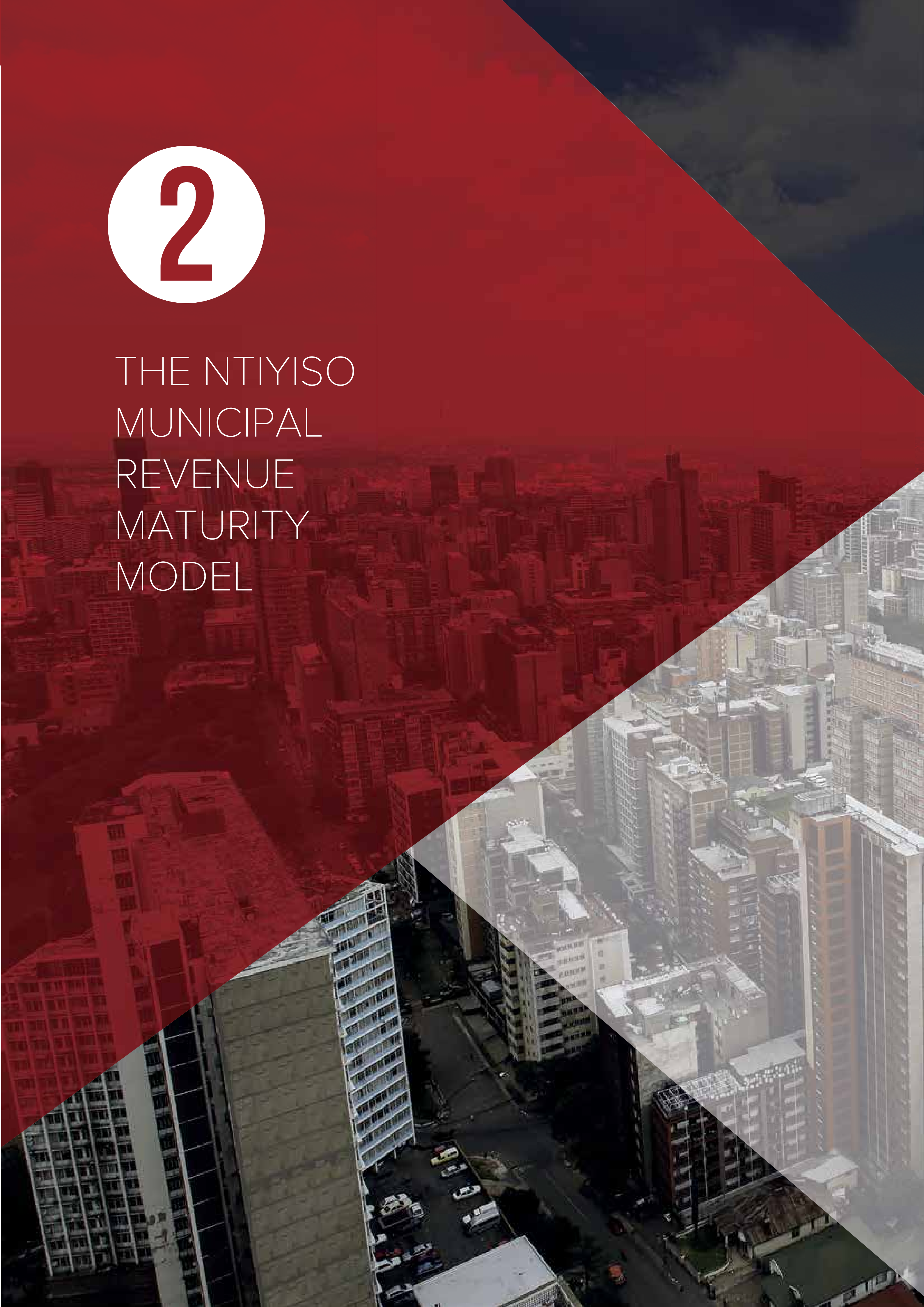


POOR DATA CLEANSING COMPROMISING DEBT COLLECTION

The poor status of customer records has a cross-cutting and far reaching impact on billing and debt collection. The survey illustrated that only 57% of participating municipalities update their customer records at least once a month. Up-to-date customer records are a key component of effective revenue and debt collection. Some municipalities have alluded to several internal weaknesses regarding customer records, including the lack of up-to-date contact numbers, postal addresses and e-mail addresses. This contravenes the obligation set out by the MSA, which requires municipalities to ensure that persons liable for payments receive regular and accurate accounts. The same applies to any disincentives the municipality may use in the case of non-paying customers.

LACK OF PROPER COMMUNICATION LEADS TO HIGH DEBT LEVELS

Any municipal credit control and debt management policy and by-laws must make provision for indigent debtors in a manner that is consistent with its rates and tariff policies, and any national policy on indigents (MSA). However, on average, 40% of the respondents cited that poor communication regarding indigent and social programmes contributes to the high levels of debt currently facing municipalities. Municipalities have not adopted a proactive approach in reaching out to customers who meet the indigent criteria (Bands 1 – 3), with only 18% of respondents having registered over 75% of indigent beneficiaries. As a result, some indigent customers are not aware that they qualify for specific programmes or rebates, and so default on payment, leading to the accumulation of high levels of unpaid rates, taxes and user fees.



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THE NTIYISO MUNICIPAL REVENUE MATURITY MODEL

2. THE NTIYISO MUNICIPAL REVENUE MATURITY MODEL

The differences in overall revenue performance and management practices across municipalities in South Africa begs the question: why do some municipalities perform better than others? What are some of the factors that contribute to better performance? What are the prerequisites of optimal revenue performance? Is revenue maturity understood and being measured? In order to understand the answers to these questions, it is important to articulate the magnitude of municipal performance or progression. It is also important to assess performance relative to other municipalities with similar revenue goals and constraints. Unfortunately, in the South African context, municipal revenue performance is often viewed as a mere compliance event, rather than as an evolving process that can be streamlined and continuously optimized.

Therefore, measuring Municipal Revenue Maturity should have several benefits. Firstly, assessing maturity assists in understanding the level of progression made during the measurement period and what corrective action is required in order to move to the next level of maturity. Secondly, understanding Municipal Revenue Maturity enables municipalities to accurately determine which potential revenue sources they are capacitated to pursue immediately. Thirdly, revenue performance is the cornerstone of any well-functioning municipality, therefore understanding existing limitations is the first step towards achieving optimal revenue maturity.

However, before the benefits of measuring Municipal Revenue Maturity may be realised, the level of maturity must first be determined. Once each municipality understands their current level of maturity, a plan of action may be drawn up to advance to the next level.

2.1. THE IMPORTANCE OF BENCHMARKING MUNICIPAL REVENUE MATURITY

Municipal Revenue Maturity benchmarking is an important initiative as it provides municipalities with the tools to overcome performance challenges while establishing performance comparisons between municipalities. Municipal Revenue Maturity Benchmarking is a holistic process that includes assessing municipal revenue maturity by understanding its current capabilities and capacities and identifying revenue opportunities.

The Ntiyiso Municipal Revenue Maturity Model seeks to enhance initiatives by the National Treasury, Department of Corporate Governance and Traditional Affairs and the Department of Monitoring and Evaluation (DPME). The Model proposes a shift from measuring traditional capabilities in different spheres of government towards benchmarking revenue performance at Local Government level from an innovative and futuristic perspective.

2.2. WHAT ARE THE PILLARS OF MUNICIPAL REVENUE MATURITY?

Ntiyiso Consulting has spent the last year researching and developing the Municipal Revenue Maturity Model which measures the overall revenue maturity of South African municipalities, by performance pillar. The Municipal Revenue Maturity Model is underpinned by five intrinsically interlinked revenue performance pillars:

1. Revenue Coverage (RC),
2. Revenue Conversion (RX),
3. Revenue Administration (RA),
4. Revenue Data Analytics (RD), and
5. Customer Centricity (CC).

Each pillar was informed by extensive research around factors that contribute to optimal revenue performance at local government level. Overall, each component of revenue performance is premised on the revenue strategies put in place to support the advancement of revenue maturity. Key performance guidelines were carefully created to measure each level of maturity using the spectrum of 1 to 5, with 1 indicating absence and 5 indicating the completeness of implementation.

- **Revenue Coverage** is the municipalities' ability to efficiently generate income from a diverse pool of both available and innovative revenue sources. In essence revenue coverage entails a breakdown of the composition of municipal revenue relative to the total portfolio of possible or available revenue sources to municipalities. When a municipality levies or collects additional revenue from non-traditional or new revenue sources, it can be highlighted as a good case study for routes that other municipalities could undertake to enhance their revenues.
- **Revenue Conversion** refers to the municipalities' ability to realise cash flows from billing customers. This is evaluated by the municipality's collection rate year on year. It can be measured by the existing billing support structures and systems, debt collection processes, bill presentment and payment as well as electricity vending practices. Once the total available portfolio of municipal revenue (level of revenue completeness) has been identified and quantified, the next measure of maturity is to identify existing revenue leakages and to identify whether municipalities have adopted any active steps towards remedying such leakages.
- **Revenue Administration** is supported by a clear and compelling human resource strategy. The human resource strategy has to include a proactive human capital strategy that encourages training, motivation of staff and quick turnaround time in filling of vacancies. Municipalities that have developed such strategies could be considered relatively more mature compared to those municipalities that have not undertaken such an exercise.
- **Revenue Data Analytics** measures the extent to which the municipality has integrated data analytics with all the phases of revenue collection and management. Using revenue data analytics as a measurement of revenue performance assists municipalities to ensure that they are able to dissect revenue and debt by customer segment, geographical location and by revenue source type. Equally important is to be able to monitor customer payment trends so that municipalities are able to accurately pre-empt if revenue conversion will meet previously set objectives.
- **Customer Centricity** refers to the extent to which distinct action has been taken towards customer engagement and management. Customer Centricity considers several factors including an assessment of effective communication platforms, clear customer segmentation and customer relationship management.

2.3. THE 5 LEVELS OF MATURITY

To assist municipalities develop an in-depth understanding of their current revenue maturity level and to build actionable steps towards obtaining the desired maturity level, Ntiyiso Consulting has developed a **Municipal Revenue Maturity Model** which allocates municipalities in one of five levels of revenue maturity.

According to figure 6, below, Level 1, which is the lowest level of maturity, it represents ***Lagging*** municipalities, which have undesirably low revenue coverage and conversion rates, level 2 represents ***Emerging*** municipalities that have limited revenue sources and low collection rates; level 3 represents ***Developing*** municipalities that have a number of revenue sources and moderate conversion rates; level 4 represents ***Optimising*** municipalities that have a high number of revenue sources and high conversion rates; level 5, which is the highest level of maturity represents ***Innovative*** municipalities which break the traditional boundaries of revenue coverage by exploring and harnessing optimal revenue from diverse revenue sources.

Figure 6: Levels of Municipal Revenue Maturity

Optimal revenue coverage and revenue conversion is the ultimate goal for the MRMM. The question remains as to how municipalities can take action to improve from one level to the next. To initiate and sustain meaningful revenue performance, municipalities must understand where they are versus where they want to be. However, each journey will be vastly different, but there are distinct commonalities and key focus areas to facilitate movement between each maturity level.

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Table 2: The Ntiyiso Municipal Revenue Maturity Model

Revenue pillars	Essential enablers	Lagging municipalities "Beggars" 1	Emerging municipalities "Snoozers" 2	Developing municipalities "Hustlers" 3	Optimising municipalities "Darlings" 4	Innovating municipalities "Super heroes" 5
Revenue Coverage	Revenue sources	Generates revenue from 4 or less revenue sources	Generates revenue from 5 to 8 revenue sources	Generates revenue from 9 to 12 revenue sources Utilises one new revenue source	Generates revenue from 13 to 16 revenue sources, and new revenue sources not considered traditional like advertising, or cleaning levies	Maximising revenue collected from all the traditional revenue sources, and generates revenue from innovative revenue sources
Revenue Conversion	Revenue completeness	> 40% annual collection rate from own source revenue. Excl. grants and transfers < 40% of customers pay on time and in full	> 60% annual collection rate from own source revenue. Excl. grants and transfers < 60% of customers pay on time and in full	> 80% annual collection rate from own source revenue. Excl. grants and transfers 80% of customers pay on time and in full	> 95% annual collection rate from own source revenue. Excl. grants and transfers > 95% of customers pay on time and in full	> 100% annual collection rate from own source revenue. Excl. grants and transfers 100% of customers pay on time and in full No infrequent payers, grudging payers, or non-payers
Revenue Administration	Elimination of Revenue leakages	High revenue leakages, with no clear view of the source of the leakage and no action plan in place to address the leakage	Relatively high revenue leakages and basic understanding of the revenue leakages. Lacks coherent planning to resolve the leakages	Moderate to high revenue leakages. The municipality has a plan but lacks the capability to resolve the leakages	Moderate revenue leakages within national norms. Comprehensive plan in place and has the capability to implement and monitor the plan	Leakages are accurately quantified and are below the national norms. Comprehensive and continuous improvement plan to address the leakages. Tariffs are cost reflective. No cross subsidisation. Development contribution policy, quantification of contributions and collection
	Credit control and debt collection	Undeveloped credit control and debt collection strategy. The majority of customer debt is older than 90 days and is generally over 60 months (5 years)	Basic credit control and debt collection strategy. The majority of customer debt is older than 90 days and is generally within 60 months (5 years)	Ineffective poorly coordinated credit control and debt collection methodology used to recover. This is illustrated by high debtors' book, with customer debt older than 90 days greater than 40% less than 48 months (4 years)	Coherent and effective credit control and debt collection methodology used to recover outstanding debt. Less than 40% of customer debt is not older than 90 days but less than 36 months (3 years)	Innovative credit control and debt collection methodology used to recover outstanding debt. Less than 20% of customer debt is older than 90 days but less than 24 months (2 years)
	Revenue enhancement strategy	No revenue enhancement strategy in place	Very basic revenue enhancement strategy exists but very poorly defined	Revenue enhancement strategy is very ambitious with poorly defined performance indicators. This is illustrated by the low conversion rates	Revenue enhancement strategies have been defined, aligned, and implemented, reflected by the municipalities current growth path	Long term revenue enhancing strategy has been defined, implemented, reflected by municipality's agility and revenue collection innovation

Revenue pillars	Essential enablers	Lagging municipalities "Beggars" 1	Emerging municipalities "Snoozers" 2	Developing municipalities "Hustlers" 3	Optimising municipalities "Darlings" 4	Innovating municipalities "Super heroes" 5
Revenue Administration	Revenue target setting	There are no common planning and target setting tools used. Current revenue targets are misaligned to current revenue collection and conversion rates. Low to negative revenue performance	Basic planning and revenue target setting process. This is reflected by very low revenue performance	Fairly comprehensive planning and target setting process, reflected by moderate revenue performance. The benefits of setting budgets are acknowledged by the leadership and senior management	Comprehensive planning and target setting process, reflected by high revenue and service performance. Detailed planning process with robust control and target tracking initiatives	Comprehensive planning and target setting process, which is aligned with revenue enhancement strategy and the credit control and debt management strategy
	Human capital capacity	Less than 10% managerial staff with a degree or diploma, with little to no revenue collection staff adequately qualified and trained	Less than 25% of managerial staff either have a degree or diploma. Only 25% of revenue collection staff not adequately qualified and trained	Only 50% of managerial staff either have a degree or diploma, and 50% of revenue collection staff are adequately trained and qualified	Nearly 75% of managerial staff either have a degree or diploma, with 75% of revenue collection support staff adequately qualified and trained	Nearly all managerial staff either have a degree or a diploma, and the revenue collection staff are constantly trained to meet future needs. Characterised by a highly skilled and motivated workforce
	Vacancy rate	Less than 25% of key personnel roles in the revenue department have been filled. Ad-hoc recruitment approach, with no work load forecasting very high attrition rates	Only 25% of key personnel roles in the revenue department are filled for effective revenue and debt collection. Rudimentary recruitment approach with very little work load forecasting, with attrition rates at > 25%	Only 50% key personnel roles in the revenue department are not filled for effective revenue and debt collection, basic skills management, attrition rates at < 15%	Only 75% of personnel roles in the revenue department are filled for effective debt revenue and debt collection, low attrition rates at <5%	More than 75% of all key personnel roles in the revenue department are filled for effective revenue and debt collection, very low attrition rates, comprehensive plan to outsource non-core functionalities e.g. Debt Collection
Revenue Data Analytics	Revenue data analytics	No revenue data analytics currently conducted	The knowledge and understanding of data analytics exists but no capabilities exists to pursue this function	Process to design and develop a customer database has begun. There is an understanding of what needs to be done in order to leverage on data	Efforts have begun to build a single data warehouse	Advanced data modelling & prescriptive analytics exists at every level of our revenue department. Data analytics is aligned with revenue enhancement, planning and budgeting, and debt collection
	Frequency of data clean up	Has not updated customer data in the last 5 years	Has updated customer data, but only 3 years ago	Updated customer data within the last year	Updates customer data every quarter	Updates data at least once a month

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Revenue pillars	Essential enablers	Lagging municipalities “Beggars” 1	Emerging municipalities “Snoozers” 2	Developing municipalities “Hustlers” 3	Optimising municipalities “Darlings” 4	Innovating municipalities "Super heroes" 5
Revenue Data Analytics	Current status of customer records	Has not attempted to clean up customer data, no resources to fulfil this function	We have attempted to partially clean up our customer database with at least 25% of records up to date	We are in the process of cleaning up our customer database with at least 50% of records up to date	We are in the process of cleaning up our customer database with at least 75% of records up to date	We are in the process of cleaning up our customer database with more than 80% of records up to date
	Customer platforms	Customers are not encouraged to update personal information	Customers mostly update their personal information at walk-in centres	Customers mostly update their information through call centres	Customer mostly updates their data through online platforms, although the current system is not user friendly	Customers mostly updates their data through online platform, that is user friendly and has user authentication
Customer Centricity	Customer relationship management policy	There is no customer relationship management policy and systems	A customer relationship management policy has been implemented, but customers are still not effectively engaged. Customer segments are poorly defined	A customer relationship management policy has been developed and implemented. Customers are understood and this is reflected by a strong narrative of customer centricity Customer segments are adequately defined	A customer relationship management policy has been developed and is constantly reviewed. Customers are constantly engaged with a strong focus on customer experience. Customer segments are adequately defined and a move towards customer relationship building exists	A customer relationship management policy exists. well-articulated customer segments, priority customer segments have been assigned a relationship manager. A move towards value creation for each customer segment exists. Customers are actively engaged with an absolute focus on customer experience at all levels of revenue collection and management. Ability to predict customer behavioural trends
	Customer payment incentives	Does not offer customer incentives	Sporadically offers customer incentives for payment of arrears to reduce the debtors’ book, but, no defined policy exists	Offers incentives for payment of arrears i.e. Discounts	Offers incentives for early payment and arrears i.e. Discounts	Offers incentives for early payment i.e. Discounts and has a rewards-based model that is linked to payment patterns

Revenue pillars	Essential enablers	Lagging municipalities "Beggars" 1	Emerging municipalities "Snoozers" 2	Developing municipalities "Hustlers" 3	Optimising municipalities "Darlings" 4	Innovating municipalities "Super heroes" 5
Customer Centricity	Speed at which customer queries are resolved	Longer than 6 months	Between 3 and 6 months	Between 2 and 3 months	Between 1 and 2 months	Within a month or less
	Communication platforms used	Uses a single communication platform	Uses less than 3 customer communication platforms	Uses 4 communication platforms	Uses 6 communication platforms	Uses more than 8 communication platforms, and is actively engaged on social media platforms

TOWARDS MUNICIPAL REVENUE MATURITY

The journey towards improving revenue performance from one level to the next requires that municipalities take a holistic approach towards improving each of the revenue maturity pillars. Municipalities that excel in revenue performance are those that take an integrated approach towards improving all the revenue maturity pillars. Such a programmatic approach needs to address challenges in both the revenue value chain as well as challenges in functions that support the revenue value chain. The Revenue Assurance Delivery Model below depicts the most salient functions that any revenue improvement programme needs to address.

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REVENUE COVERAGE AND CONVERSION

Improving revenue coverage and conversion requires a programmatic approach that ensures improvement across the revenue value chain. The exhibit below defines a typical revenue coverage and conversion programme. Of course such a programme needs to be refined and tailored for each municipality

Figure 7: Ntiyiso Consulting interventions across the revenue chain

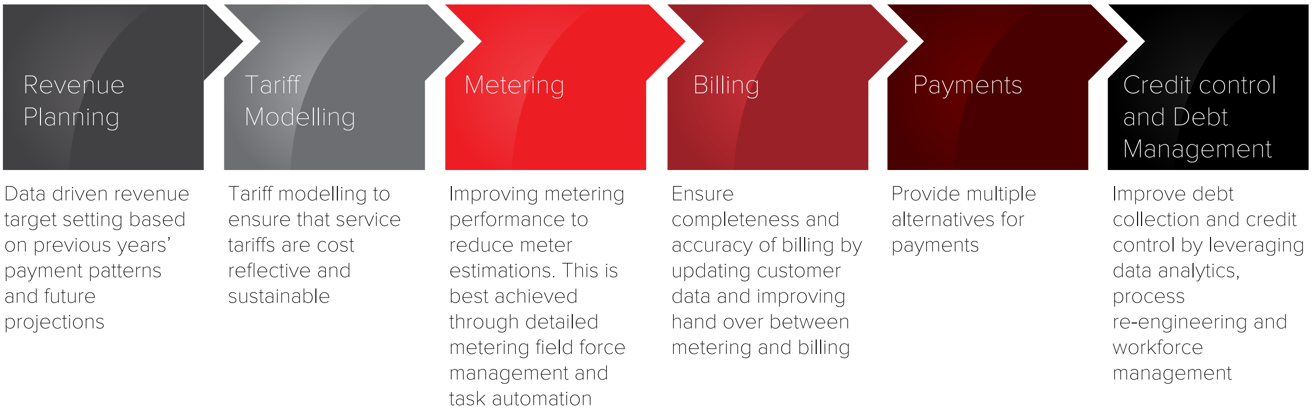


Figure 8: Ntiyiso Consulting Revenue Assurance Delivery Model

2.4. SO WHAT IS THE FIRST STEP?

The first step towards setting up a successful revenue enhancement programme that moves a municipality from one revenue maturity level to the next is to take the decision to set up such a programme in the first place. Setting up a revenue improvement programme entails diverting financial and human resources from normal day-to-day revenue management activities towards a well-defined and time-bound revenue improvement programme. Such a programme would need to define and implement impactful revenue improvement initiatives. Once implemented, such initiatives would have to be handed over to the Revenue Management department so as to ensure the sustainability of the impact of such efforts.

The Municipal Revenue Maturity Benchmarking process is less about singularly identifying which block or which activities best describes the municipalities, and more about reflecting on the status quo and the key enablers required to make progress to the next level of maturity. First, municipalities need to undertake a Cost Benefit Analysis (CBA) of the potential revenue sources based on the Strengths, Weaknesses, Opportunities and Threat (SWOT) framework. Second, continuously re-evaluate the revenue collection rate and map a way in with the Municipality could improve upon its revenue collection rate. Third, keep a clear focus on the customer, and take deliberate steps towards creating value for each customer segment. Lastly, a great deal of review and consideration should be directed towards assessing which areas require the most work and what resources are required to facilitate movement to the next level of maturity.

CUSTOMER CENTRICITY

The basis for any municipality's operations is service delivery to customers. Thus, customers must be top-of-mind in endeavours to improve revenue performance. In the first instance, customer segmentation is required to ensure targeted service delivery for all customers. Customer segmentation also helps with developing targeted service offerings to high revenue customers. Customer segmentation rules must go beyond segmenting customers by business partner type and delve into segmentation that drives revenue. Customer segmentation is not an end to itself. The outcome of customer segmentation should be targeted service design based on customer needs and revenue potential. Different customer segments tend to have different customer journeys and municipalities must ensure that each segment's customer journey is optimized. Customer journeys can best be described as the set of activities and interactions a customer is involved in as they interact with a municipality.

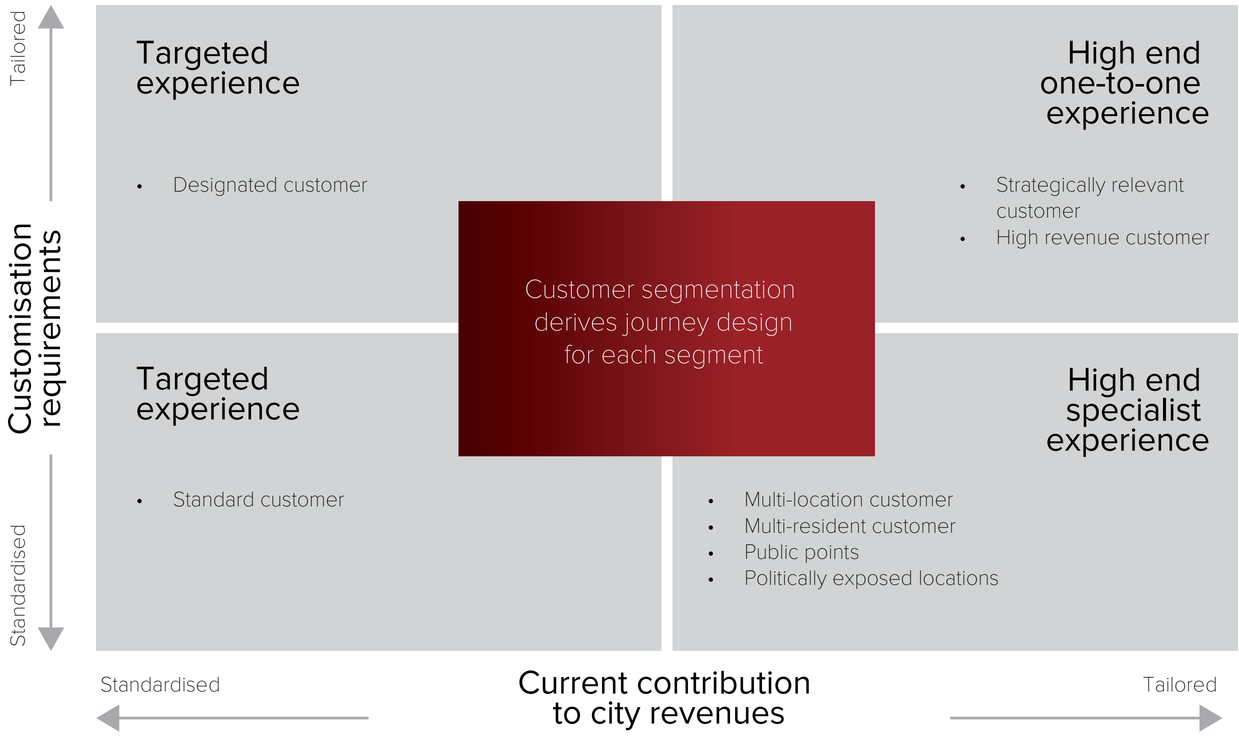
Typically, municipalities tend to underinvest in some customer journeys and over invest in others, due to applying a one-size-fits-all approach to service delivery. The worst position that municipalities can find themselves in, is not to invest in servicing their customers better and to have a set of well orchestrated guidelines for anticipating customer needs and fulfilling them. Using a selection of the segmentation variables indicated in the table below will enable municipalities to define customer segments that are meaningful for revenue enhancement.

Table 3: Customer segmentation rules

	Score	Representation
Customer Characteristics	Geographic	Divides the market into different geographical units
	Demographic	Divides the market based on demographic values
	Filmographic	Divides the market on the basis of organisation specific variables
	Psychographic	Divides the market on the basis of lifestyle/personality
Customer Characteristics	Usage	Divides the market based on levels of usage of services
	Benefits sought	Divides the market on the basis of benefits that customers seek and desired outcome
	Situational	Divides the market based n the situation to use of services
	Interactioin medium	Divides the market based n their preffered method of interacting with the organisation

Examples of customer journeys could include “High-end one to one experience”, “Mass experience” etc., The customer segments and journeys depicted in the exhibit below are merely examples and would be refined based on each municipality’s unique customer base.

Figure 9: Customer segmentation and journey matrix



Upon definition of customer segments, municipalities need to define customer journeys for each segment, as well as the resources and the customer service operating model required to deliver effectively on each customer journey. The exhibit below provides an example of what components of a single customer journey could look like. These components, when put together, comprise all the service elements that must be made available to customers of the relevant segment.

Figure 10: Components of high revenue business customer journey

DATA ANALYTICS

A big driver of revenue for municipalities is data. Ensuring that municipalities have a complete set of customer data is essential in ensuring that all accounts are billed and that statements are sent to customers on time. Moreover, data around meter location and operations helps with asset management and ensuring ongoing meter operations. Geographic Information Systems (GIS) specialists need to leverage GIS data from various sources to triangulate property data. This triangulation in essential for ensuring the completeness of account data for billing purposes.

TECHNOLOGY VALUE DELIVERY

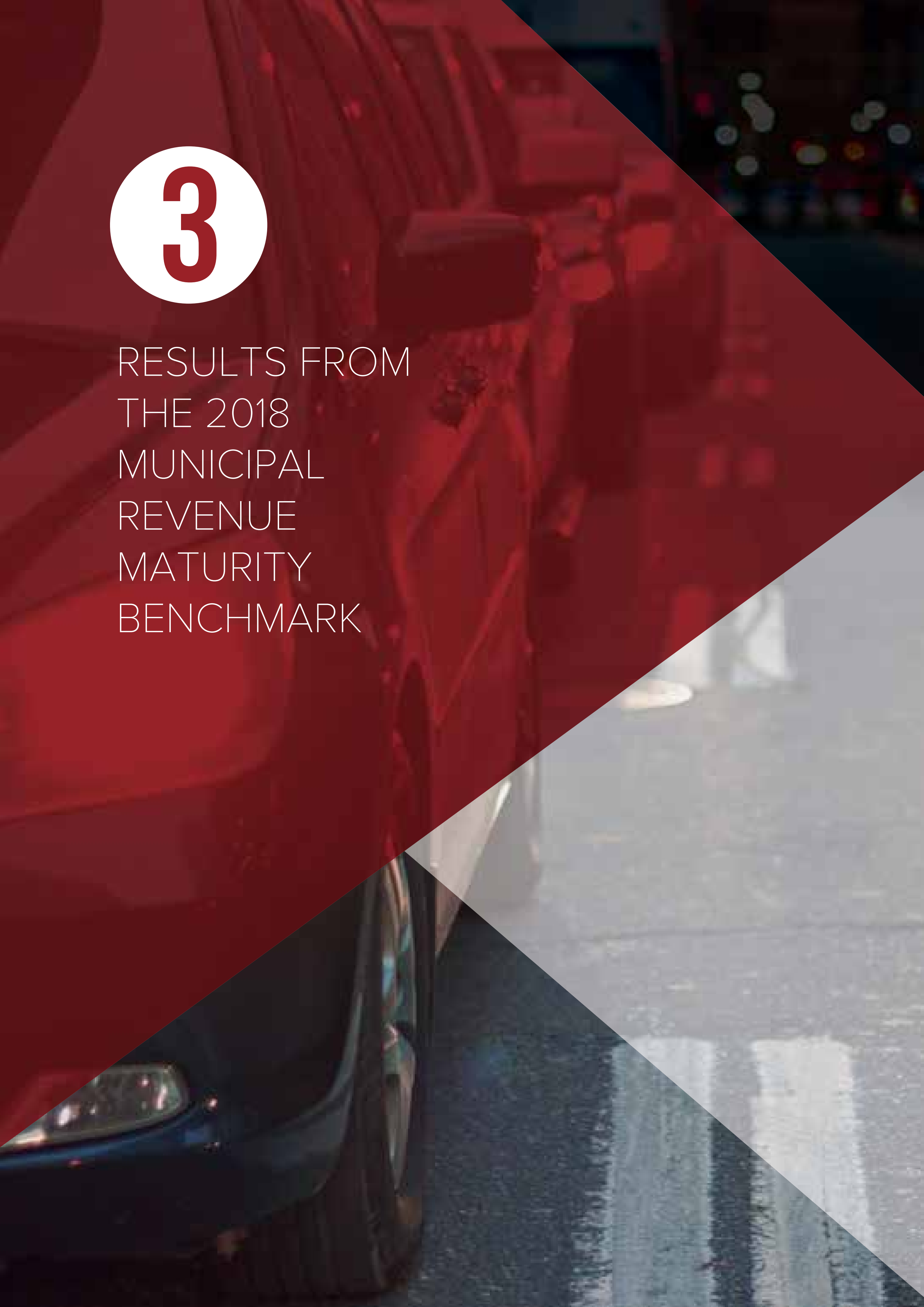
There are a number of opportunities for municipalities to leverage technology in order to move from one revenue maturity level to the next. As a base, municipalities need to deploy technologies that deliver the revenue functionality indicated in the table below.

Table 4: Aspects of technology value delivery

Component	Functionality
Data management	Deliver functionality that enables a consolidated view of the customer and ensures data completeness and accuracy
Debt management	Deliver functionality that enables end to end debt collections management, including the management of internal debt collections efforts as well as the management of external debt collectors
Field and Asset Management	Deliver functionality that enables the management of field workforces in metering, credit control and losses management Deliver functionality that enables the geolocation of all meters
Indigent Management	Deliver functionality that enables the checking of beneficiary salary status on credit bureau systems to ensure that they remain within indigent policy salary levels
Query Management	Deliver functionality that enables end to end query tracking, management and reporting

REVENUE ADMINISTRATION

Municipalities need to ensure that their revenue management operating models are updated to ensure peak revenue performance. In our experience, the operating model of a municipality's revenue management must be outwardly focused in nature. This outward focus should be towards customers and relevant stakeholders such as NERSA, SALGA, water boards, Residents Association etc., to refine the revenue management organisation, the thought process depicted in the exhibit below must be followed.



3

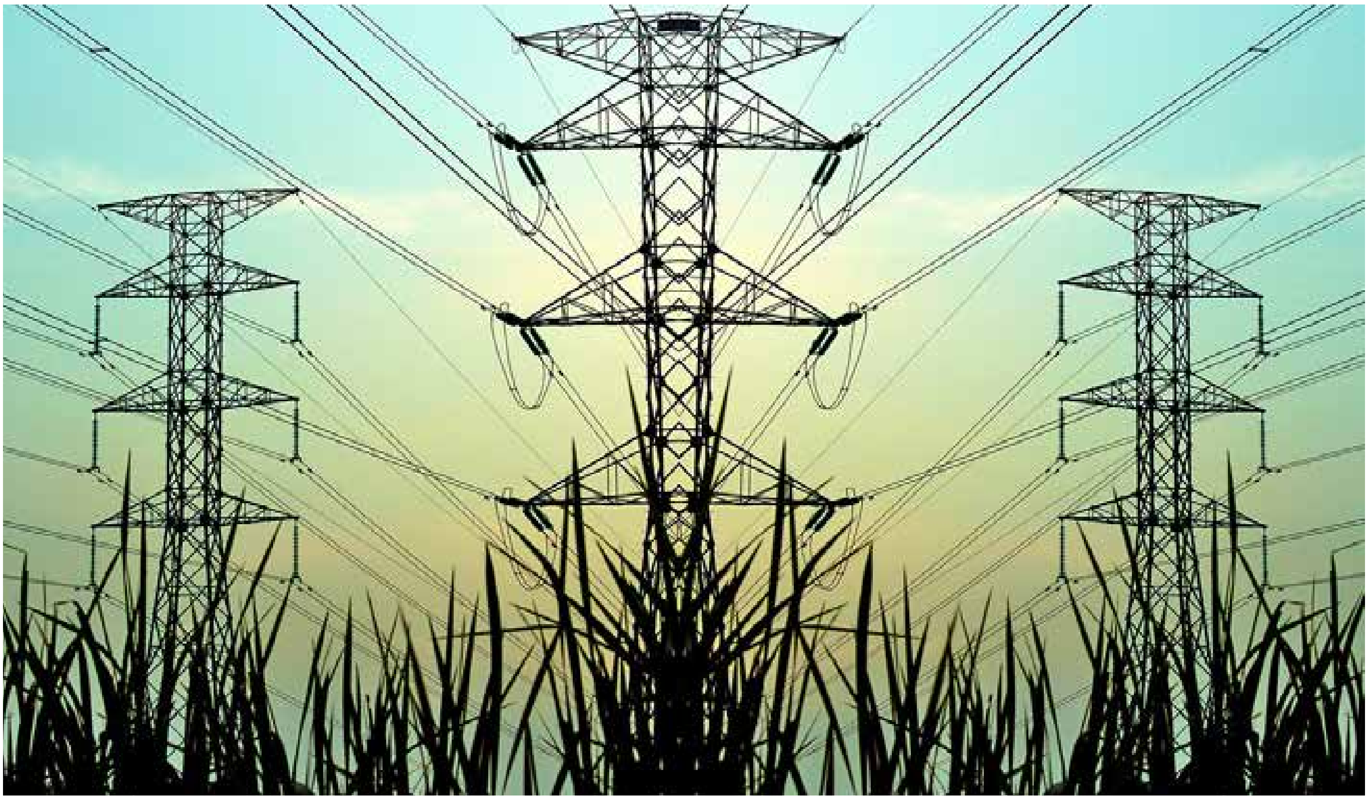
RESULTS FROM THE 2018 MUNICIPAL REVENUE MATURITY BENCHMARK

3. RESULTS FROM THE 2018 MUNICIPAL REVENUE MATURITY BENCHMARK

The Ntiyiso Consulting Municipal Revenue Maturity Benchmark measured the revenue maturity of 35 participating municipalities. Given the fact this is the first Municipal Revenue Maturity Benchmark, the depth of the responses exceeded expectations. The benchmarking process scored municipalities across five performance pillars: Revenue Conversion, Revenue Coverage, Revenue Administration, Revenue Data Analytics, and Customer Centricity. The five performance pillars are composed of 16 enablers (See Table 2, above, pages 24-27, for an in-depth view of the Ntiyiso Municipal Revenue Maturity Model). This chapter reviews the benchmarking results in relation to each of the performance pillars.

3.1. REVENUE COVERAGE

Revenue Coverage focuses on the municipalities' ability to efficiently source income from a diverse pool of both available and innovative revenue sources. In essence, Revenue Coverage entails the composition of municipal revenue sources relative to the total portfolio of possible or available revenue sources to municipalities.



Box 1: General types of local government taxes and revenue sources

It is generally argued that the services that local governments provide should be clearly linked to the revenue sources needed to finance them. Broadly, there are four revenue components identified for local governments including user fees, property taxes, income tax and transfers. Figure 6 below, illustrates the different tools that are generally used for different services.

Property taxes

Property taxes are considered appropriate for financing local services for a number of reasons. A property tax is an ad valorem tax and is levied on the value of the house.

Service charges

Service charges are paid by consumers to the local government for private goods and services, such as water, electricity, waste collection or public transport. User fees are widely used because recovery tariffs are well accepted.

Fines, fees, permits and licenses

Fines are any fees assessed as a result of a by-law infringement, a recorded violation of several Acts within the municipality. Permits are specific fees that provide business licenses, inspections, zoning changes, land development applications, and hazardous material permits. Fees includes revenue derived from registering marriages and births, fees for providing a copy of a marriage or birth certificate, building permits, and pet registration, and are aimed at reimbursing the cost of the local administration incurred to provide that service/ document.

Rental of facilities and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period. Income derived from the rental of facilities and equipment flows directly to the municipality, and can be used as an economic catalyst to attract new growth and development.

Local business tax

Local business taxes or taxes on economic activity take various forms and range from corporate income tax, tax on capital or labour, to license fees or other charges on commerce or industry. In the European Union, 10 countries use a business tax which contributes between 15% and 30% of local government revenues. Countries with long experience of using local business taxes include Brazil, Canada, Germany, Hungary, Japan, Kenya, Ukraine, the USA and most West African countries.

Figure 11. Different financing tools for different services (Source: UN-Habitat, 2009)

A question in the survey asked, "Which of the following revenue streams does your municipality currently derive income from?". A selection of answers was provided and it included:

- Property taxes;
- Service charges on water, electricity, refuse removal, sanitation;
- Fines, permits and penalties;
- Licence fees;
- Rental of facilities and equipment;
- Special levies;
- Grants and transfers; and
- Sundry (e.g. fire-fighting, ambulance service, etc.).

Figure 12: Type of revenue sources in use by the participating municipalities

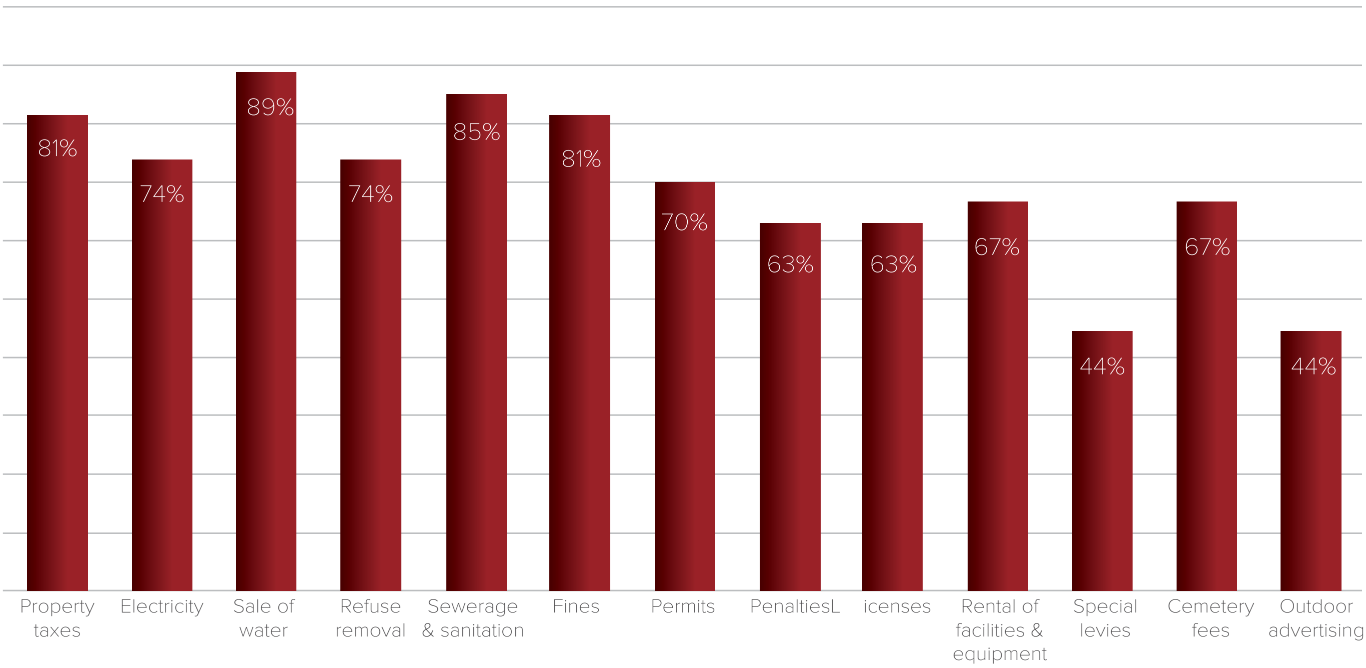
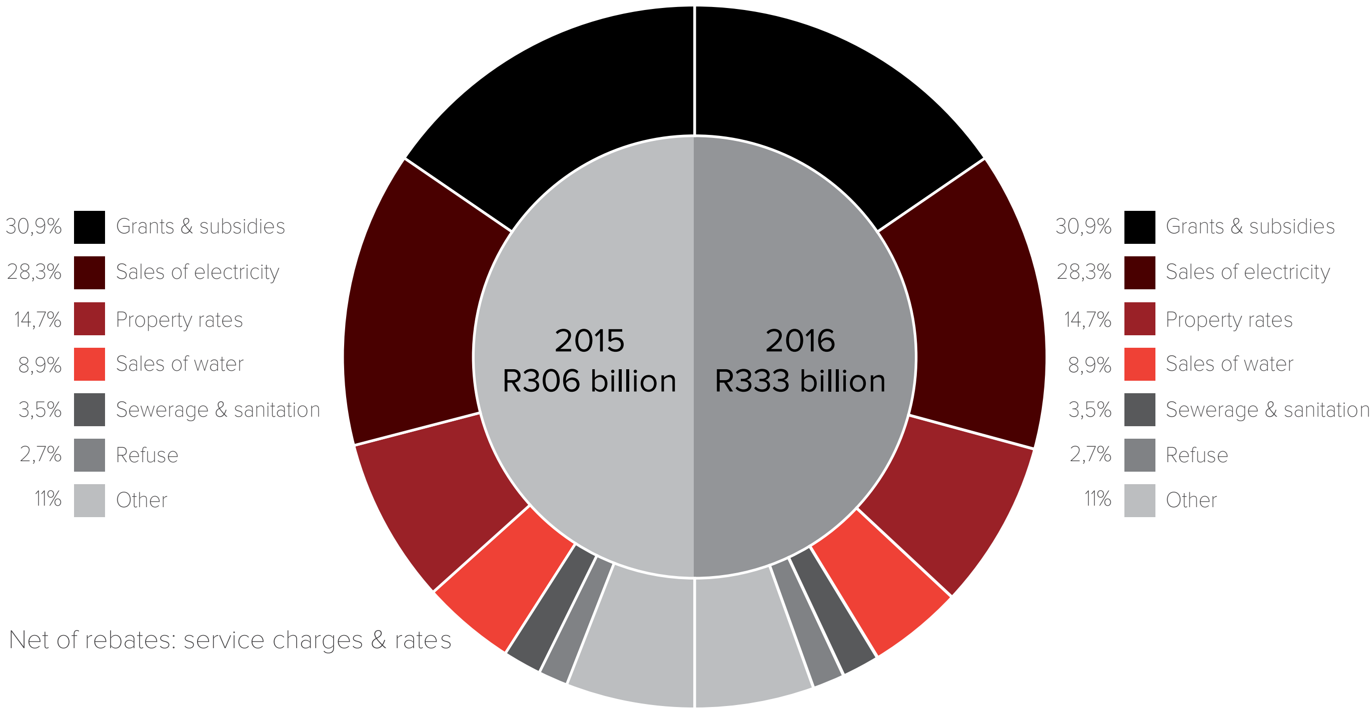


Figure 12 illustrates the type of revenue source in use by the participating municipalities. The results contained in this representation of revenue sources are a confirmation of figure 13, below, from the ***Financial census of Municipalities for the year ended 30 June 2016*** by Statistics South Africa, which confirms the top three revenue contributors in South Africa as electricity, property rates and the sale of water and electricity.

Figure 13: Municipal revenue sources as a percentage of total revenue for the year 2015 and 2016 (Source: Stats SA, 2016)



Excluding grants and transfers, "electricity sales" contributed 28,3%, "property rates received" contributed 14,7% and "other revenue" contributed 11,0%. The composition of "other revenue" includes revenue derived from rental of facilities and equipment, interest earned from external investments, interest earned from outstanding debtors, fines, licenses and permits, this also includes other income not specified. This illustrates that key focus needs to be placed by municipalities on "other revenue" as it is the third largest revenue source, this revenue line is often known as minor revenue.

SERVICE CHARGES

The most commonly reported service charges include those for water and electricity. The purchases of water and electricity for the 2016 financial year are R17, 25 billion and R70, 29 billion respectively. The revenue derived from the sale of water and electricity is R29, 57 billion and R94 billion respectively (Statistics South Africa, 2016). However, very little analysis is undertaken to understand whether the municipalities have realised their revenue objectives in relation to the services that have been consumed for that particular period. This exclusion introduces 2 critical limitations. First, municipalities are not able to understand the average revenue loss due to technical and non-technical losses. Second, benchmarking technical and non-technical losses at a local level becomes challenging.

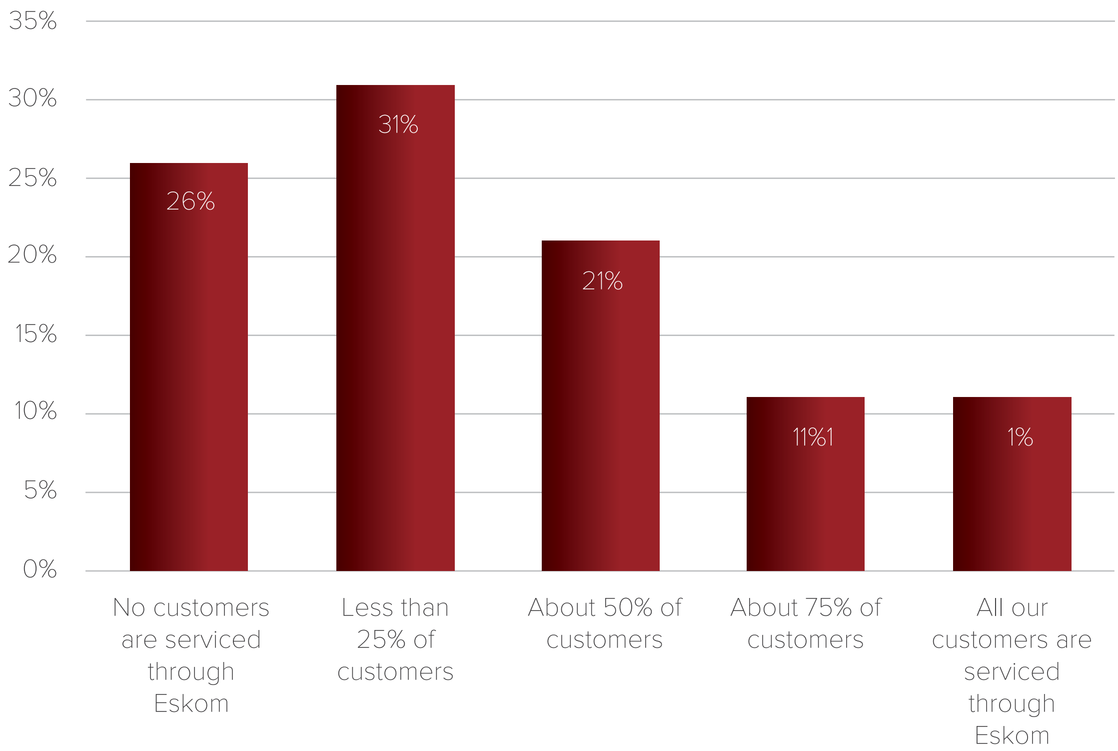
Sale of electricity and water

Municipalities play an important role in the electricity industry in South Africa. Schedule 4B of the Constitution lists electricity and gas reticulation as a local government responsibility. In addition, Section 153 of the Constitution places the responsibility on municipalities to ensure the provision of services (which includes electricity reticulation) to communities in a sustainable manner as well as promote economic and social development. As such, electricity plays a pivotal role in the advancement of economic and human development.

Not only is electricity a critical factor of economic production, but the revenues generated from the supply of electricity are an important source of municipal revenue. Revenue generated from the sale of electricity was R70, 29 billion for the 2015/16 financial year (Statistics South Africa, 2016). Based on the significant revenue generated from the sale of electricity, it is unfortunate that in some municipalities, Eskom supplies electricity directly, partially or fully, to households, which limits the potential revenue that these municipalities could generate from the sale of electricity. Respondents of the survey were asked several questions in relation to the sale of electricity as a source of revenue. The questions were shaped around the electricity revenue cycle. This included understanding the extent of revenue sharing between Municipalities and Eskom, the operational level of pre-paid and post-paid meters, and the extent to which meters were believed to be illegally by-passed.

First, in order to understand the distrubution of electricity revenue sharing, the respondents were asked "what percentage of customers are serviced through eskom?" varying responses were noted, with only 28% of the participants stating that no customers were serviced directly through eskom, while about 22% of the respondents confirmed that nearly all of their customers were servcied through Eskom (see figure 14).

Figure 14: Percentage of customers from participating municipalities serviced through Eskom



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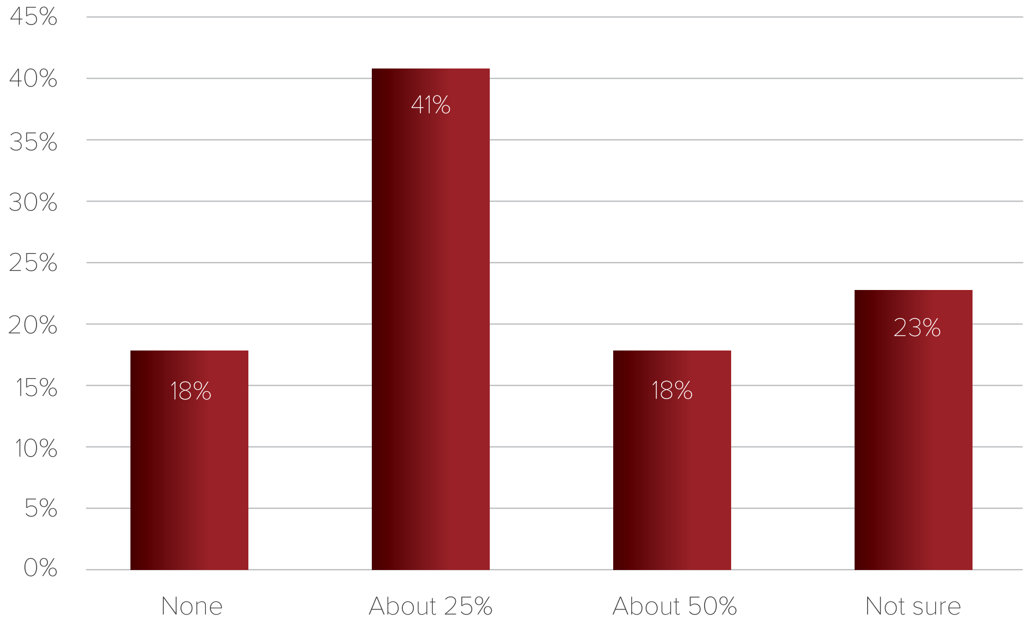
In light of this, an attempt was made to understand, first, what is the percentage of customers using pre-paid water and electricity meters. Second, whether or not these meters are functioning optimally. Lastly, understanding the percentage of customers municipalities believe have illegally by-passed their meters. Figures 15 and 16, below, illustrate the percentage of households believed to have illegally by-passed electricity meters.

Figure 15: Percentage of electricity meters believed to be illegally by-passed



23% of respondents believe that there are some illegally by-passed meters, however, they are not able to quantify the percentage. Only 18% of respondents indicate that there is no illegal by-passing, followed by 41% who believe that 25% or less households have illegally by-passed electricity.

Figure 16: Percentage of water meters believed to be illegally by-passed

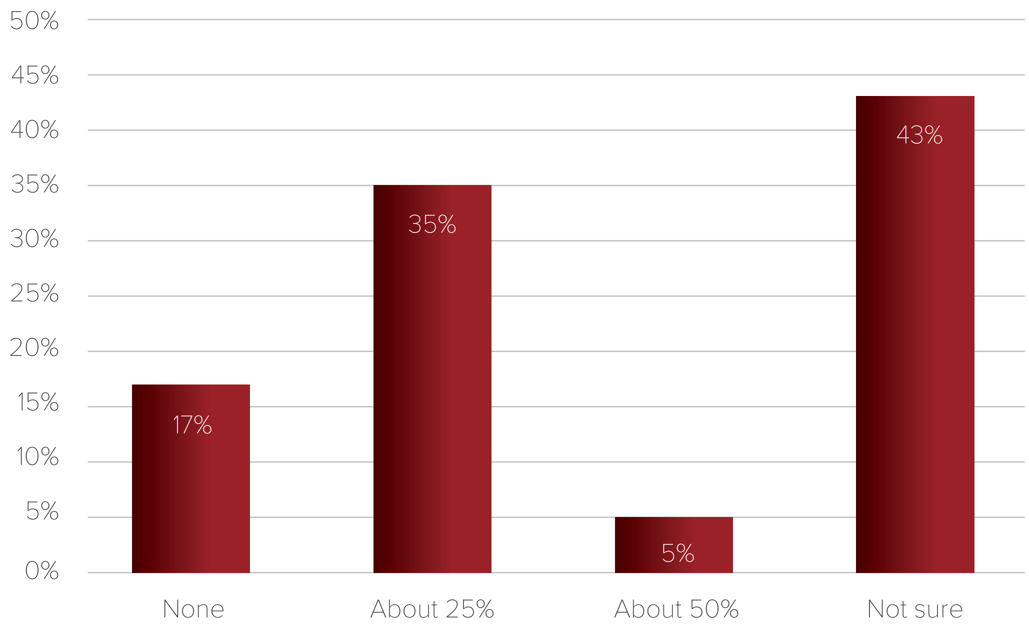


Figure 16, above, shows that 17% of respondents believe that no meters have been by-passed, followed by 35% who believe that about 25% or less households have illegally by-passed meters. 43% of respondents are aware of water meters being by-passed but are not able to quantify the exact extent to which meters have been by-passed. We consider illegal by-passing exceeding 5% as substantial, and the fact that some municipalities suspect that more than 5% of meters have been by-passed illustrates the lack of comprehensive Revenue Data Analytics deployed by participating municipalities. The benefit of Revenue Data Analytics extends to being able to assess service consumption and revenue derived from individual households. Further discussion of this is presented under section 3.4 later in the report.

Challenges of billing electricity and water

In 2016, revenue derived from water and electricity contributed a total of 37.2% to the annual municipal revenue (Statistics South Africa, 2016), however, this came with its own share of challenges. With most meters still read manually in South Africa, finding the meters is always a challenge. Some meters are located inside the properties, and some meters are not read because of inaccessibility. The fact that some readings are captured incorrectly, plus the fact that the process of capturing into the system takes a fair amount of time, makes matters worse. The low levels of deploying technology in the billing of water and electricity means that municipalities are not able to understand customer trends in cases where leaks or technical losses have occurred.

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Box 2: Revenue sharing conundrum - a case between Eskom and Municipalities

Based on the legislative and economic analysis outlined in this report, it is clear that municipalities have a mandate and right to be the providers of electricity to end consumers resided within their borders. This mandate and right is infringed upon in the instances where Eskom provides electricity directly to end consumers. In this case, municipalities are left holding the short end of the stick as Eskom largely provides electricity to Large Power Users (LPUs), who have a higher propensity to pay their bills than residential consumers. These users are also easier to serve as their consumption is concentrated to within one location as opposed to residential customers.

Eskom has in the past complained of municipalities not remitting monies owed to them for electricity even in instances where end consumers have paid municipalities. Over the past year, Eskom has issued a number of notices to cut off power supply to municipalities that owed the entity billions of Rands.

A possible solution to ensure security of income for Eskom, while also enabling municipalities to benefit from much needed revenues from the sale of electricity, would be to establish trust accounts between Eskom and municipalities. Under such arrangements, the responsibility to sell electricity to consumers would rest with municipalities, but consumers would pay for their electricity into a trust account controlled by both Eskom and each municipality. Monies from these trust accounts would be remitted to the two parties at an allocation rate that would be agreed upon upfront. This proposed solution would have the impact of sharing profit from electricity sales between Eskom and the municipality.

PROPERTY RATES

The Municipal Property Rates Act regulates the powers of municipalities to impose rates on property, therefore the municipality is required to adopt a Rates policy and pass by-laws to enable the municipality to levy rates on all rate-able properties in its area as required. This is consistent with Section 229 of the Constitution of the Republic of South Africa, 1996. The collection of property taxes is of utmost importance for generating local revenues for local governments. The immovable and relatively stable nature of properties presents a somewhat stable source of revenues. This revenue source does however, require extensive investments in generating and maintaining complete and up-to-date valuation rolls which require extensive financial and personnel/technical resources.

To ensure revenue derived from property rates is maximised, the Property General Valuation Roll needs to be updated every five years. Figure 17 shows the response to the question, ‘when last was the Property General Valuation Roll updated?’

Figure 17: Results of whether the property valuation roll is up to date

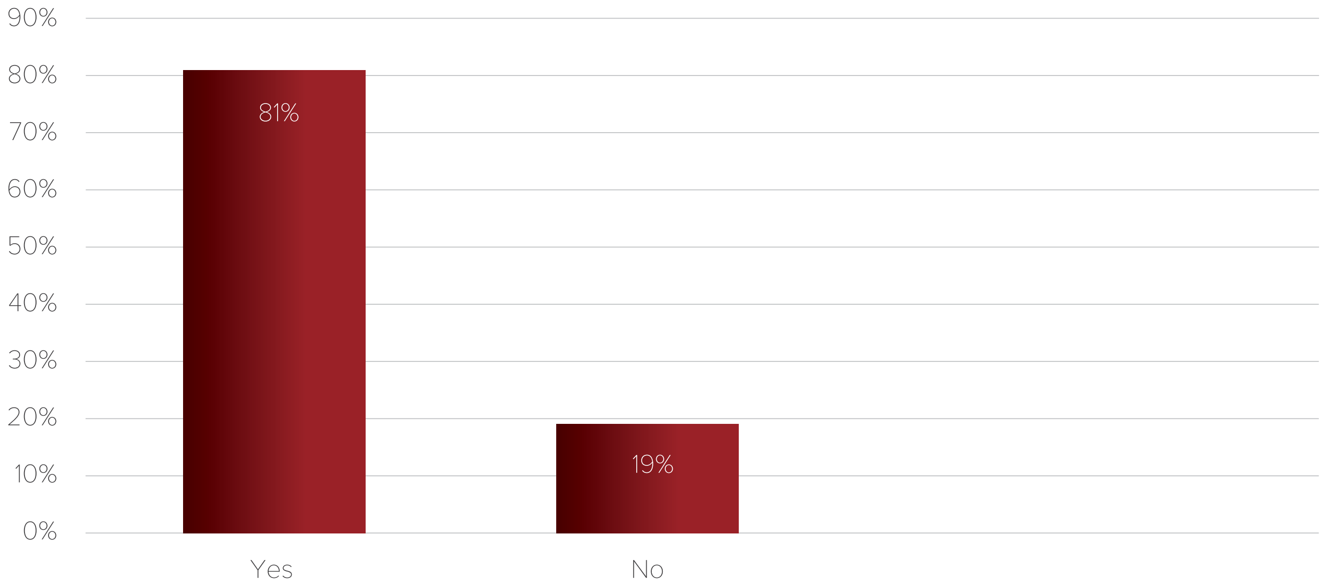
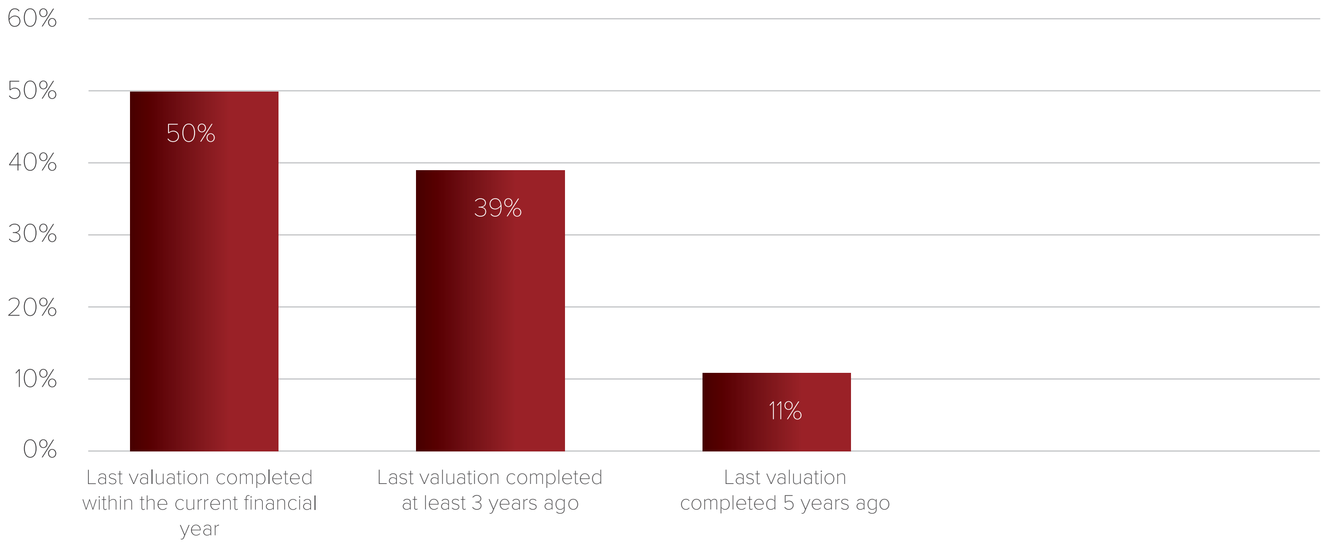


Figure 18: When the Property General Valuation Roll was last updated



Four options were provided from which respondents could choose. However, two clear segments emerged. Respondents had either completed the valuation roll within the current financial year or within the last three financial years. A detailed analysis shows that although the Property General Valuation Roll is generally up to date, some participating municipalities mention the fact that for them, the process had inherent challenges most of which are beyond their reach.

Municipalities experience high levels of appeals and due to the shortage in Property Valuation staff, the appeals processes are often drawn out. Municipalities also cite non-payment of property taxes as an aspect that hampers property valuation. South Africa is not the only country that experiences non-payment of property taxes, Botswana has similar challenges. Botswana resorted to publishing the names of defaulters in the national press. It is reported that the local government was able to recoup over one million dollars of arrears within a week, as defaulters rushed to avoid embarrassment[1].

Challenges with property valuation

The respondents note that several issues affect the property valuation process. This includes the high rate of appeals, shortage of scarce skills and the often overwhelming processes of updating and managing information. Another challenge with property rates is that the status of properties changes between valuation roll updates, and customers do not inform the municipality. Customers simply turn their houses into businesses, or they sub-divide their plots and do not inform the municipality. Both instances have the impact of reducing income from property rates.

Another challenge is that data in the valuation roll is not always reflected in billing schedules, such that municipalities sometimes lose out on property rates income from accounts that appear on the valuation roll but are not on the billing schedule. It is important to note that the aforementioned challenges are exacerbated by the current rate of non-payment.

REVENUE RECEIVED FROM OTHER SOURCES NOT SPECIFIED

To illustrate the municipalities' revenue maturity, revenue diversification into innovative revenue sources is vital. Different examples exist of municipalities that have decided to leverage innovative revenue sources. For example, the City of Edmonton in Canada derives revenue from various discretionary tax tools and development-related levies, this is according to their Annual Report for the year ended December 2017. Among those that contribute the most to the total municipal revenue are: (1) a franchise fee that is payable by utility companies and other service providers who want to run gas lines, fibre-optic cable or electrical transmission wiring through City-owned land. This contributes an average of 6% to annual revenue; (2) a neighbourhood renewal levy that is payable by all property owners in addition to the property tax. The 1.4% levied contributes an average of 5.6% to annual revenue; (3) the City of Edmonton, instead of charging a fee for refuse removal and then directing the waste to landfill sites, charges a set fee that contributes to "Waste-to-Biofuels", the city's waste management programme, which in turn recycles and converts the waste to biofuel - a reusable by-product.

In the South African context, Saldanha Bay Local Municipality owns 6 resorts, and income derived from these facilities has contributed R9 million, of which about 60% is revenue from the rental of facilities and equipment. Similarly, Umzimvubu Local Municipality, increased its revenue from advertising. According to the 30 June 2016 Audited Financial Statements, Umzimvubu earned R95 879.00 in 2015 from advertising as compared to R669 370.00 in 2016. This proves that shifting focus to other revenue streams is vital for the survival of small municipalities.

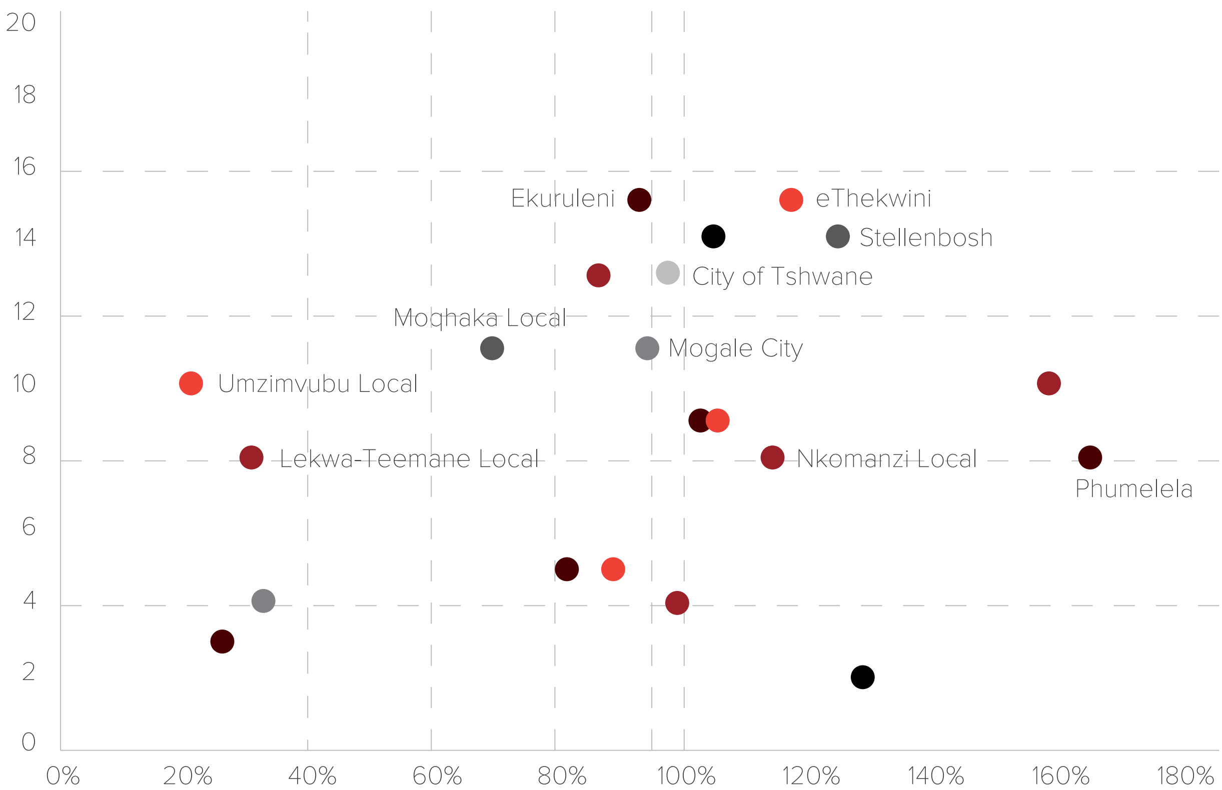
[1] Mosha, A. 2004. Challenges of Municipal Finance in Africa - Gaborone City, Botswana

3.2. REVENUE CONVERSION

The Municipal Revenue Benchmarking results for the revenue conversion strategies reveal that the collection rate for participating municipalities is on average more than 85%. A review of revenue performance through the lens of Revenue Conversion enables municipalities to realise cash flows from billing customers.

Traditionally, it would be expected to measure revenue performance based on the annual revenue generated by each municipality. However, there are some limitations when using generated revenue as the sole measurement of revenue performance. Not only does that method provide a one-dimensional view of revenue performance, it also limits the municipalities' ability to provide reliable data on aspects that contributed to either positive or negative revenue performance for national comparison. The Municipal Revenue Maturity model was developed in order to measure the five aspects of revenue performance which are Revenue Coverage, Revenue Conversion, Revenue Administration, Revenue Analytics, and Customer Centricity. What figure 19 illustrates is that optimal Municipal Revenue Maturity is not a measure of revenue size. Optimal Municipal Revenue Maturity is attributed to several factors within the performance pillars.

Figure 19: Revenue conversion according to revenue coverage and the Current Debtors Collection Rate using 2016 AFS figures (Data source: National Treasury, 2018)



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Representation of Municipal Revenue Maturity utilising the scatter plot provides a new revenue performance perspective. The National Treasury views a collection rate exceeding 95% as ideal. The median or half-way mark for the diagram above is marked at 90%. This is due to the majority of municipalities having collection rates of 180%. The top right quadrant represents municipalities that are well on their way to achieving “Super Hero” status, as their collection rates are in excess of 90%.

A portion of quadrant 1 represents lagging or “Beggar” municipalities. These are municipalities that have very low revenue sources and very low debtor collection rates. Analysing the results according to the Ntiyiso Municipal Revenue Maturity (NMRM) Model, municipalities found in this area may be characterised by a non-systemic, reactive revenue collection approach. The remaining portions of quadrants 1 and 2 represent the emerging or “Snoozer” municipalities. As with “Beggar” municipalities, “Snoozer” municipalities also have high revenue sources and low debtors collection rates. Several participants cited that some of their management staff in the revenue department were not adequately qualified for their positions and that most of the key posts where not filled for effective revenue and debt collection. The participants that fell under this quadrant cited the absence of both a comprehensive revenue enhancement strategy and a credit control and debt management policy as what contributed to the low collection rates. One of the participants even went further to state that the appointment of different debt collection agencies reduced their ability to manage and monitor the collection rates.

Quadrant 3 represents the developing or “Hustler” municipalities. Although these municipalities have introduced a relatively stable and repetitive revenue collection approach, their low revenue sources are yielding higher debtor collection rates. This is based on the high emphasis placed on the revenue Administration and Revenue Conversion pillars.

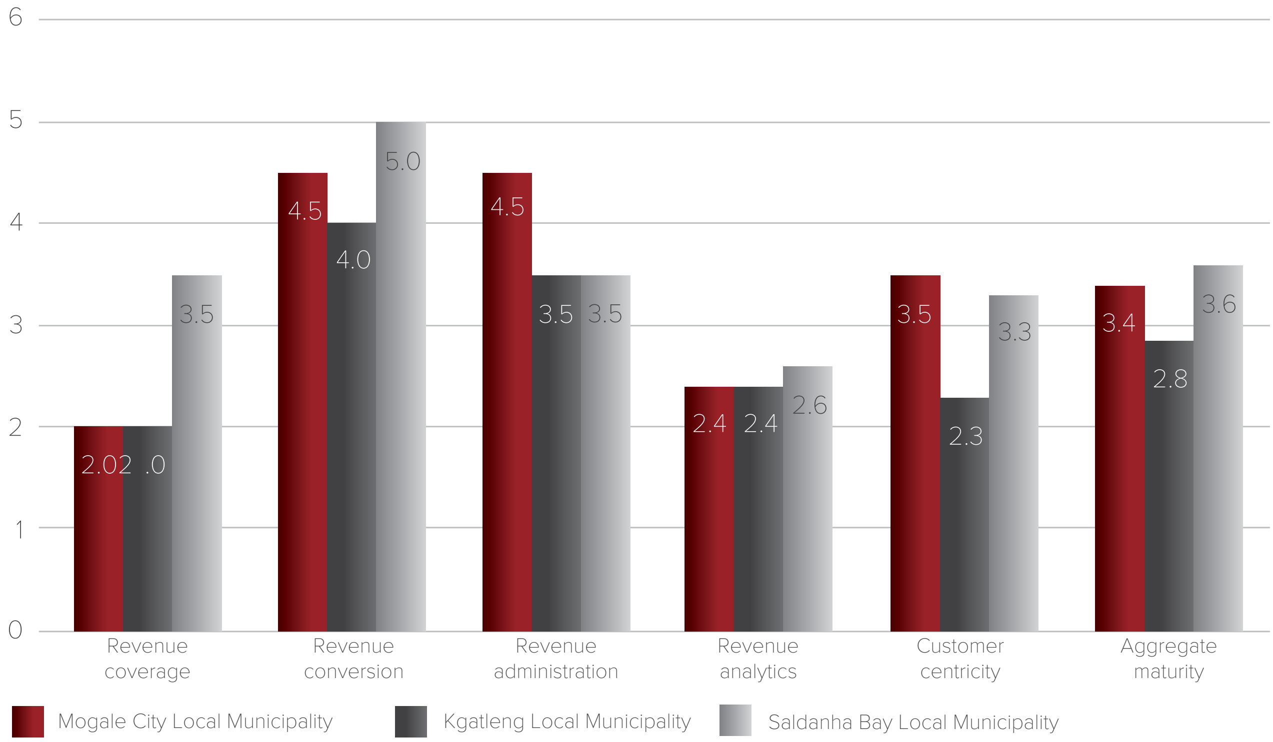
Quadrant 4 is the most ideal position, as it illustrates that municipalities not only have a higher collection rate but also a higher quantity of revenue sources. A blend of municipalities falls under quadrant 4, including optimising or “Darling” municipalities, and innovating or “Superhero” municipalities. Based on the data analysis and the results of the survey, no municipalities had reached the “Super Hero” status, though municipalities such as eThekwini Metro and Stellenbosch Local Municipality are really close. Optimising or “Darling” municipalities have an interactive revenue collection approach that is continuously assessed and improved. They also enjoy high revenue sources and high conversion rates.

One could argue that measuring revenue maturity based on the collection rate is not the most efficient way to illustrate maturity since, to a large extent, the collection rate depends on the customers’ ability and willingness to pay. On face value, this argument would come across as credible, however, the Municipal Revenue Maturity Model puts forward that collection rates are sustained by municipalities that have put in place mechanisms to ensure that payment is made by customers in full and on time.

Municipalities face several challenges in converting revenue from their current revenue sources into actual cash-flow. This is due to several factors. Firstly, customers’ willingness to pay and ability to pay is influenced by the inaccurate billing of service charges, high levels of customer dissatisfaction with the progress of municipal service delivery, and the low levels of Customer Centricity. Secondly, the municipalities’ ability to ensure payment and their willingness to ensure payment are influenced by the challenges of inadequate customer segmentation and service differentiation, poor metering speed and accuracy, a fluctuating customer service culture, and subdued levels of advanced Data Analytics deployment.

An analysis of the factors that hamper optimal revenue conversion shows that municipalities that are likely to have a higher conversion rate are more likely to score higher under Revenue Administration. Figure 20, below, represents the aggregated maturity results of a sample of three, randomly selected municipalities. These are Mogale City Local Municipality (1), Kgatleng Local Municipality (2), and Saldanha Bay Local Municipality (3).

Figure 20: Municipal Revenue Maturity Results of Ekurhuleni Metro and Nkangala District Municipality



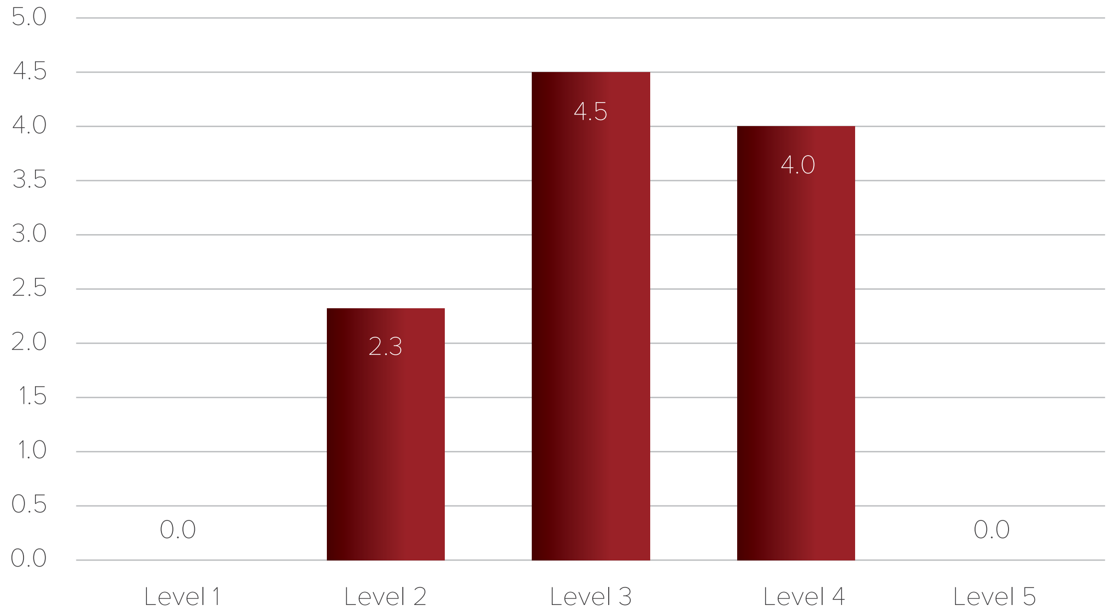
A comparison between three sample municipalities illustrated that a correlation between revenue conversion and revenue administration exists. Both municipalities 2 and 3 scored 4.0 and 5 respectively for Revenue Conversion, and they both scored 3.5 respectively for revenue data administration.

CREDIT CONTROL AND DEBT MANAGEMENT POLICY

Due to the importance of the credit control and debt management policy, all of the respondents confirmed having it in place. However, further analysis of the details of the policy revealed that much still be done to ensure that a comprehensive policy is put in place. Respondents were asked to describe the quality of the policy that was put in place. Four responses were provided.

The results did not differ vastly, with 28% of the respondents confirming that they had a basic credit control and debt management policy. This was, however, not communicated with their customers, nor was it consistently enforced. 39% of respondents who had a policy in place said they were actively engaging in ensuring that the policy defined basic payment terms and debt collection procedures. 33% of the respondents did not focus only on defining standard payment terms, they also actively worked on a culture of managing disputes, in line with the current High Court or SCA judgement procedure.

Figure 21: Aggregate maturity level scores under the Credit Control and Debt Management Policy segment



Based on the aggregate maturity levels presented in figure 21, above, the municipalities on maturity level 2 have a basic credit control and debt management policy. The respondents on maturity level 3 have a comprehensive debt management and credit control policy, while respondents on level 4 make substantial provision to communicate their policy with their customers through grass-root programmes. None of the participants made it to maturity level 5. This level describes municipalities that have the character of "Super Heroes". To make it to level 5, these municipalities must have a comprehensive debt collection policy in place, one that defines standard payment terms, client communication processes, debt collection process and dispute management processes. It would require that efficient controls be put in place, to ensure consistent policy enforcement.

Challenges with debt collection

Several factors that reduce the impact of debt collection have been highlighted by the respondents. Firstly, they attribute their inability to trace debtors to the fact that some records are not updated. Secondly, the respondents highlight the need to provide more training to debt collection officials as very few programmes have been able to yield results. Some internal factors, including poorly designed systems, poorly implemented strategies and insufficient use of data analytics could derail internal alignment.

3.3 REVENUE ADMINISTRATION

Revenue administration practices must be underpinned by a comprehensive understanding of the legislative and legal mandates of local government.

Box 3: The South African Municipal Legal Framework

The legal framework central to the functioning and powers of municipalities as it relates to its fiscal matters is contained in the following legislation; the Constitution of the Republic; Municipal Fiscal Powers and Functions Act as well as respective municipal by-laws and policies. These constitutional, legislative and fiscal frameworks provide guidance to municipalities on how they can efficiently and effectively deliver public goods and services to communities.

Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996)
The Constitution of the Republic of South Africa, 1996 (No. 108 of 1996), is the supreme law of the Republic, thus any law or conduct that is inconsistent with it is invalid. Therefore, there is a responsibility on all to ensure that the obligations imposed by it are fulfilled. Section 151(3) of the Constitution empowers municipalities with the right to govern the local government affairs of its community, subject to national and provincial legislation. The fiscal powers and functions of municipalities are contained in Section 229 of the Constitution, which confers to municipalities the powers to impose rates on property and surcharges on fees for services provided by or on behalf of the municipality; and other taxes, levies and duties appropriate to local government or to the category of local government into which that municipality falls, subject to authorization by national legislation.

Municipal Finance Management Act, 2003 (56 of 2003
The Municipal Finance Management Act (56 of 2000) prescribes the manner in which municipalities should manage their financial affairs to ensure the sound and sustainable management thereof, including those of other institutions such as municipal owned entities. This includes establishing treasury norms and standards, including for those matters connected to treasury issues. The Municipal Manager, who is the accounting officer, is responsible for the management of the revenue of the municipality and is under obligation to take all reasonable steps to ensure that the municipality has effective revenue collection systems.

Municipal Structures Amendment Act, 2000 (33 of 2000)
The Municipal Structures Act 117 of 1998 provided for the establishment of municipalities in accordance with the requirements relating to categories and types of municipality as well as to establish criteria for determining the categories of municipalities in an area. Further to define the appropriate division of functions and powers between categories of municipalities. With this Act the District Municipalities where responsible for the supply of portable water, bulk electricity, sewerage and waste disposal.

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Electricity Regulation Act, 2006 (No. 4 of 2006)

The Electricity Regulation Act provides for the establishment of a national regulatory framework for the electricity supply industry and places the responsibility for the custodianship and enforcement of the national electricity regulatory framework on the National Energy Regulator. The Act prohibits a municipality (licensee) from reducing or terminating the supply of electricity unless it satisfies certain conditions;

- The customer is insolvent
- The customer has failed to honour, or refuses to enter into, an agreement for the supply of electricity; or
- The customer has contravened the payment conditions of that licensee.

Water Services Act, 1997 (Act No. 108 of 1997)

The main objective of this Act is to provide for the right of access to "basic water supply" and "basic sanitation" necessary to ensure sufficient water and an environment not harmful to health or well-being. The responsibility lies on the municipality as a water services authority to make reasonable measures to realize these rights. The right to sufficient water and appropriate assistance where one is unable to support them, and their dependents is enshrined in the Constitution. In this instance the state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of these rights.

Municipal Property Rates Act, 2004 (6 of 2004)

The Act regulates the powers of municipalities to impose rates on property, therefore the municipality is required to adopt a rates policy and pass bylaws to enable the municipality to levy rates on all rate-able properties in its area as required. This is consistent with Section 229 of the Constitution.

Local Government: Municipal Systems Act (32 of 2000)

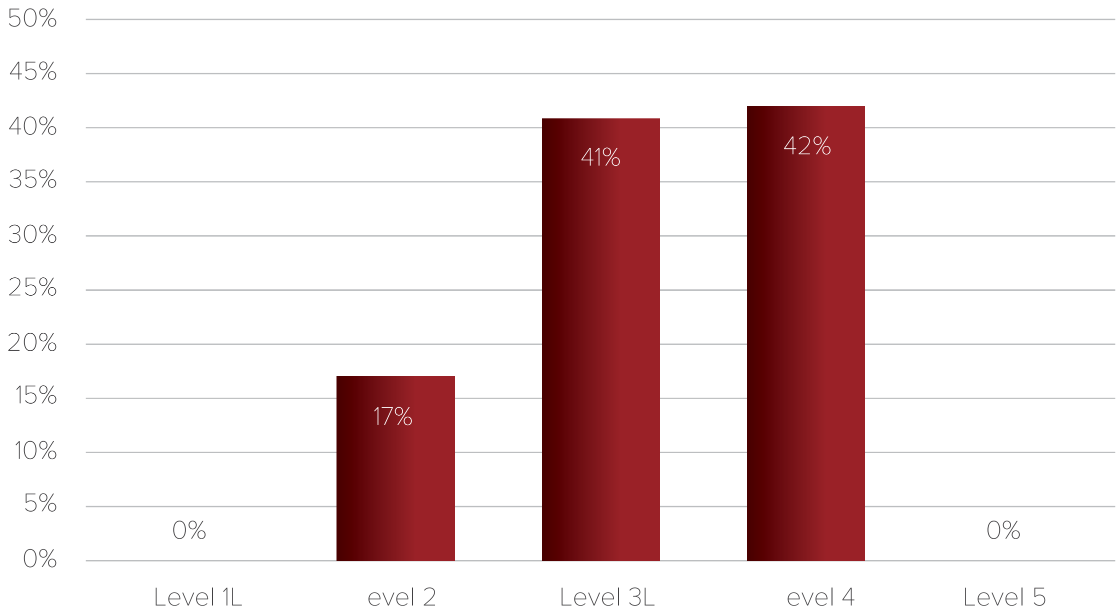
The Municipal Systems Act confers on the municipalities the rights and duties to charge fees for services and impose surcharges on fees, rates on property and other taxes, levies and duties authorized by national legislation. The Act therefore requires a municipality to collect all money due and payable to it, and in so doing a municipality must adopt, maintain and implement a credit control and debt collection policy.

The identification of skills and technical gaps in the local government context is a core (and often the initial) component of any revenue enhancement programme. Poor understanding of the current revenue administration context will result in failure to identify both opportunities to ensure broader revenue completeness, and risks associated with the status quo. In light of this, it is important that municipalities develop and implement a human resource strategy that is intertwined with the Customer Relationship Management strategy.

Revenue Administration strategies have become increasingly useful tools in assisting municipalities in planning and capacitating themselves for improved revenue performance. Because such strategies are guided by an analysis of existing processes, systems, departmental structures and human capital as well as issues of governance; they can greatly assist municipalities in gaining a deeper understanding of what is not going right and inform the necessary corrective action steps. Equally important is the definition of roles and responsibilities that drive optimal revenue performance: every member of staff in the Revenue and Customer Relationship Management department should comprehend their role and contribution towards achieving set goals and objectives. Municipalities that have developed Revenue Administration strategies are actively managing the implementation, monitoring and evaluation of specified targets / KPI's. These municipalities could be considered relatively more mature than those municipalities that have not undertaken such an exercise.

The maturity levels achieved under Revenue Administration varies among participants. According to figure 22, below, 82% of the participants have scored a revenue maturity of level of either 3 or 4, under the Revenue Administration pillar. Based on the key performance indicators under Revenue Administration, the benchmark process sought to understand the level of capabilities and capacities within each participating municipality.

Figure 22: Aggregate maturity level scores under the Revenue Administration pillar



Municipal revenue performance requires a substantial focus on revenue administration which is underpinned by human resource strategies. Municipalities that devote effort towards developing such strategies are considered more mature when they constantly implement, monitor and evaluate staff key performance indicators. The first area under consideration was whether staff members who occupied senior positions met the minimum qualification requirement. This was followed with questions that sought to understand the level of revenue department vacancies that were not filled at the time of the 2018 MRMB.

Figure 23: Current level of revenue managerial staff qualification from participating municipalities

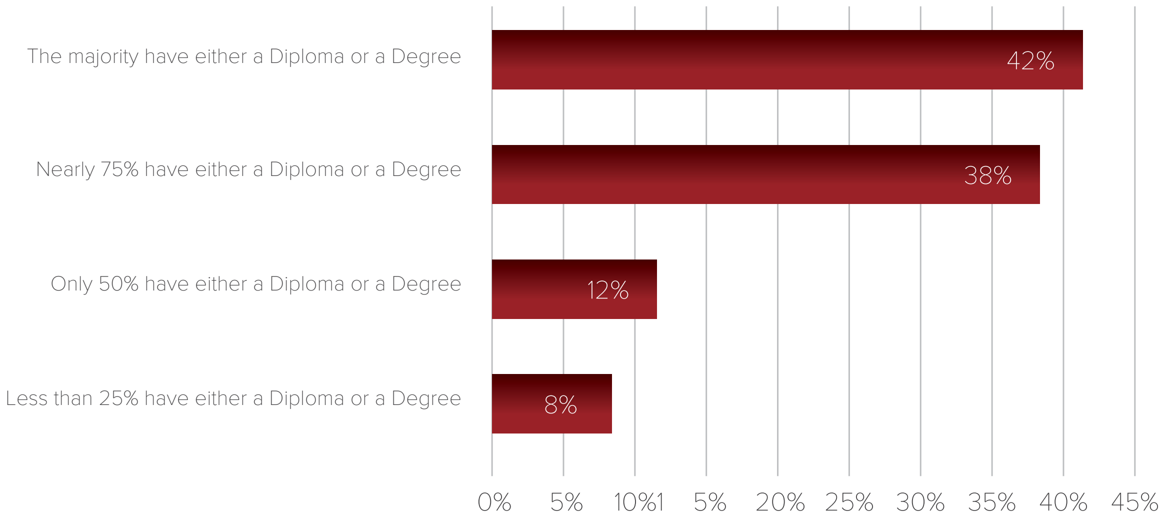
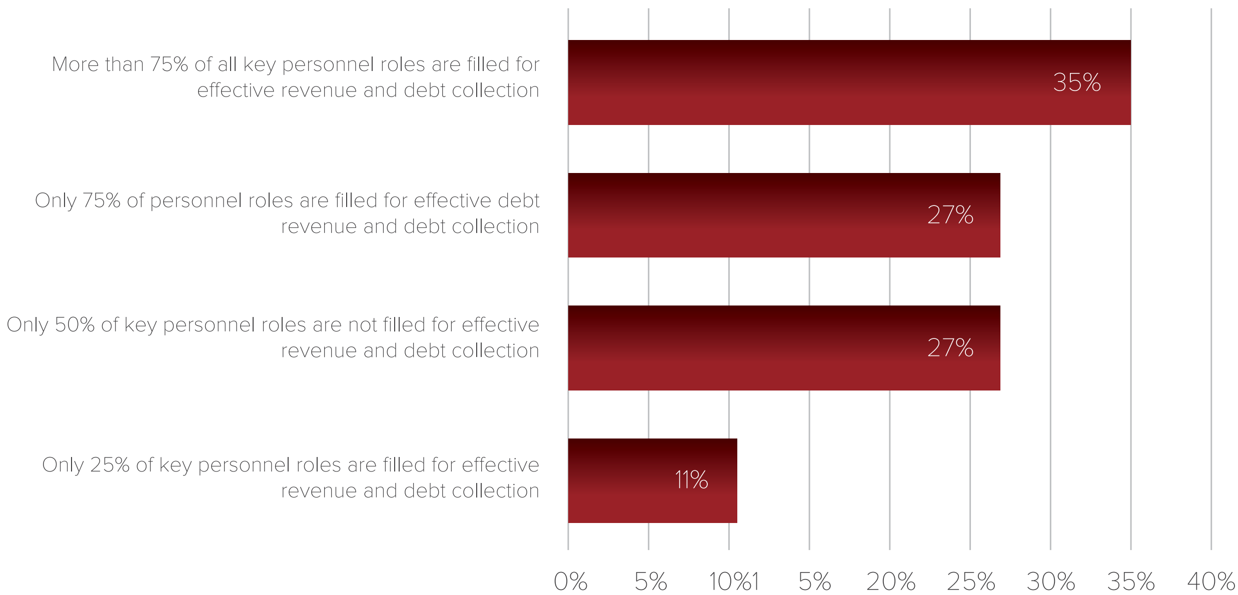


Figure 23, above, represents a vital question in the South African context. Several respondents briefly highlighted how lack of adequately trained and qualified senior management had contributed to the low outlook levels of revenue performance. As depicted, only 42% of the respondents have a majority of adequately qualified senior managers. They are followed by the 38% of respondents who have nearly 75% of adequately qualified senior managers, then the 12% who have about 50% of adequately qualified senior managers, and finally, the 8% who have less than 25% adequately qualified senior managers.

Figure 24: Vacancy rate within the revenue and debt collection department



In addition to establishing the level of qualifications amongst Senior Managers, the vacancy rate within the revenue and debt collection department was assessed as indicated by figure 24, above. 11% of the respondents mentioned that only

25% of their key personnel roles are filled, 27% of the respondents mentioned that only 50% of their key roles are filled, 27% of the respondents mentioned that at least 75% of their positions are filled, while only 34% of the respondents said that more than 75% of all their key personnel roles are filled for effective revenue and debt collection. This means that, on average, revenue departments are operating with a staff capacity of less than 75%. The survey results are concerning, because revenue and debt collection are essentially the life-blood of the entire municipality,

3.4 REVENUE DATA ANALYTICS

Revenue Data Analytics as a measurement of revenue performance helps municipalities ensure that they are able to gain meaningful insights from their customer data. Equally important is being able to monitor customer payment trends so that municipalities can accurately pre-empt whether revenue conversion will meet previously set targets. The extent to which municipalities deploy Revenue Data Analytics reflects the revenue maturity level of the municipality. Revenue Data Analytics considers several factors, including where data is located, how well it is stored, how often it is cleansed and updated as well as how well municipalities can identify trends and leakages.

The fact that maturity levels under “Revenue Analytics” are very low, presents two critical challenges. First, it means municipalities are not able to pre-emptively monitor the flow of revenue in relation to the services that have been consumed. Second, it means data modelling and trend analysis between financial years is hampered.

Figure 25: Revenue data analytics results with the aggregate maturity level per municipality

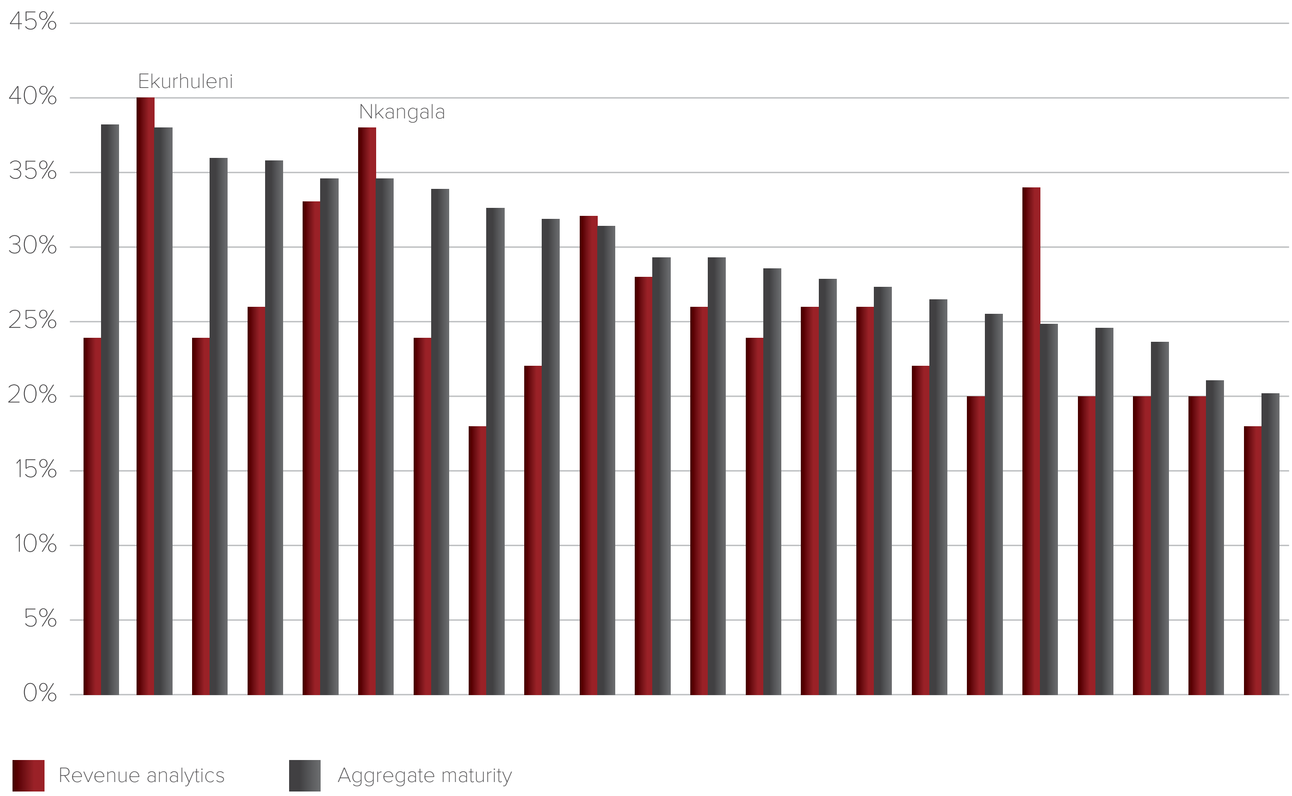


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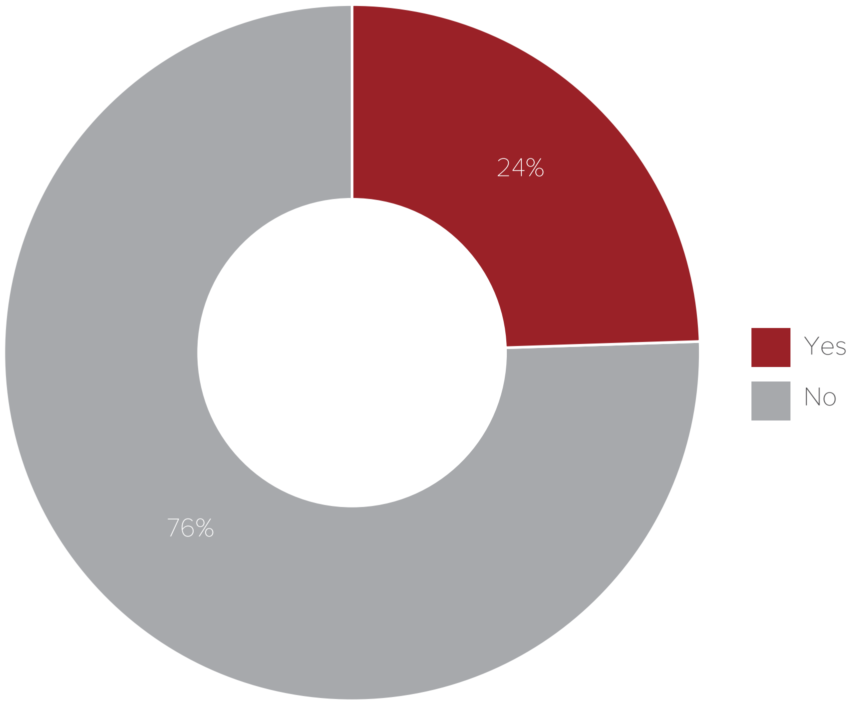
Figure 25 shows the disparity between revenue analytics and aggregate revenue maturity. The aggregate maturity level per municipality is relatively higher compared to the level achieved in Revenue Analytics. The survey assessed revenue analytics utilising 3 key categories. First, the respondents had to indicate whether they understood what Revenue Analytics was and the extent to which this had been implemented by the municipality. Second, the frequency of data cleaning was assessed. Last, the survey assessed the platforms made available to customers to update their data and how this has been interlinked with the revenue analytics process. Figure 26, below, illustrates the responses derived from the question: "Does your municipality currently employ Data Analytics to better understand customer trends?".

Figure 26: Extent to which municipalities use data analytics to understand customer trends



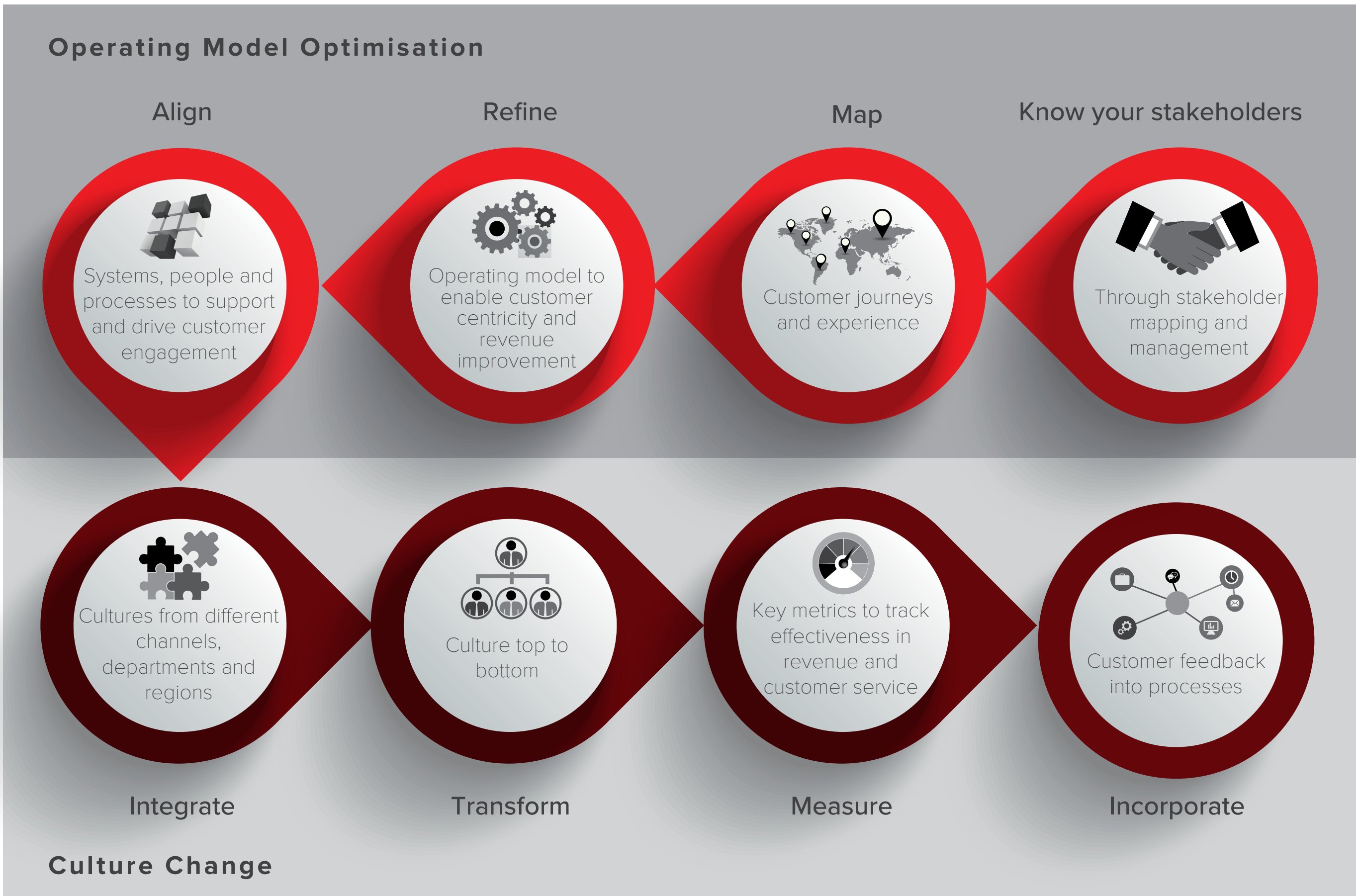
Although only 24% of respondents conduct Data Analytics, 76% of participants do not conduct Revenue Data Analytics. This includes; the ability to run reports on past performance, predicting revenue in different areas of revenue billing and collection, and proactively identifying revenue leakages and threats. The participants who conduct Revenue Analytics were asked how they utilise the functionality. 28% run baseline reports on past revenue performance, 43% actively use advanced data modelling & predictive analytics in multiple areas of revenue billing and collection, the remainder use Data Analytics to frequently identify potential revenue leakages & threats.

3.5. CUSTOMER CENTRICITY

Customer Centricity assessed the measures that municipalities have put in place to ensure a positive customer experience. By adopting a customer centric approach, municipalities encourage a culture shift towards placing customers at the core of operations and service delivery. In the South African context, Customer Centricity is informed by municipalities' Customer Relationship Management strategies, which in turn are shaped by several factors including the Mission, Vision and the Service Delivery Charter of each municipality's Customer Relationship Management department. Customer centricity is about more than just the delivery of basic services: it is about taking distinct action towards proactive customer engagement and management. Several layers are considered when assessing the level of customer centricity.

1. A clearly articulated Customer Relationship Management Policy that defines the customer segments, which customers have been assigned customer relationship managers, discounts and early payment incentives as well as the customer dispute management process.
2. Customer incentive framework that is continuously communicated and well defined.
3. An absolute focus on customer experience by resolving customer concerns or queries within the shortest period, this includes minimising customer efforts to report such queries and maximising customer value.
4. Maximisation of communication and engagement platforms to ensure the maximum amount of customers are reached.
5. Mechanisms that are put in place to measure customer satisfaction on an ongoing basis.

Figure 27: Operating model culture definition principles



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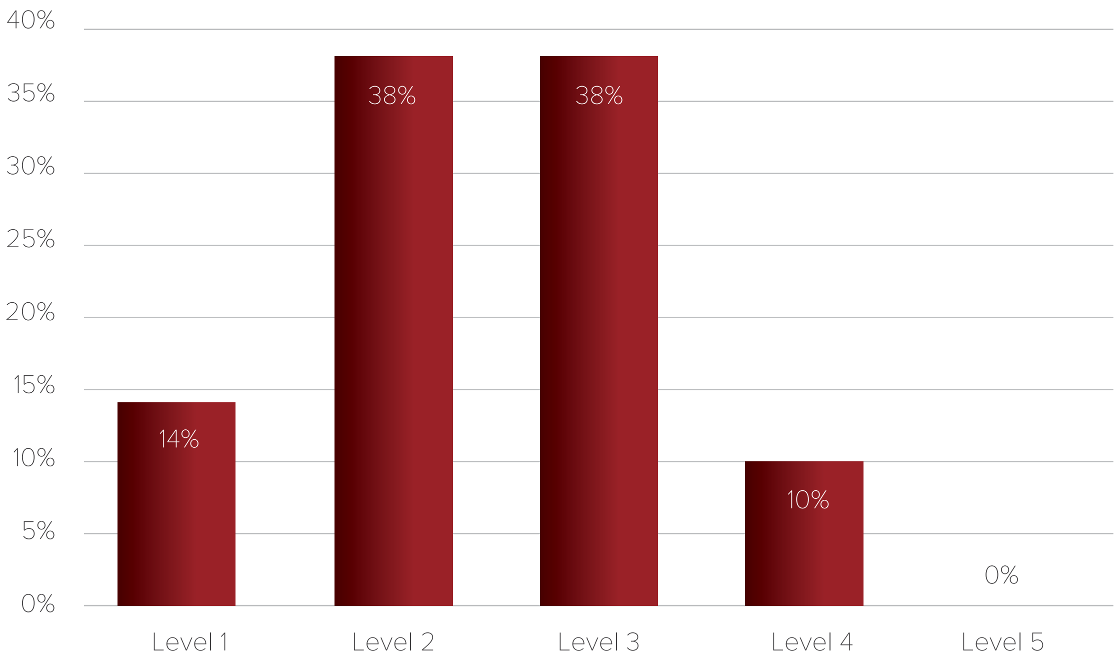
From figure 28, below, even though Customer Centricity was not the lowest scored revenue performance pillar, the aggregate maturity score for Customer Centricity is 2.7. Only 10% of the participants achieved level 4 maturity in the Customer Centricity performance pillar.

Figure 28: Customer centricity results by maturity level



The percentage of municipalities that have a Customer Relationship Management policy in place, according to figure 25, below, is 60%. Of the 60% of municipalities that have a clear policy, only 31% of participants have not defined their customer segments. Defining who forms parts of your customer segment is critical for customer value creation. Customer value is underpinned by two aspects: the desired customer value, and the perceived customer value. To understand both aspects, it is critical to ensure that customer feedback is harnessed through every possible interaction.

Figure 29: Assessment of the Customer Relationship Management Policy

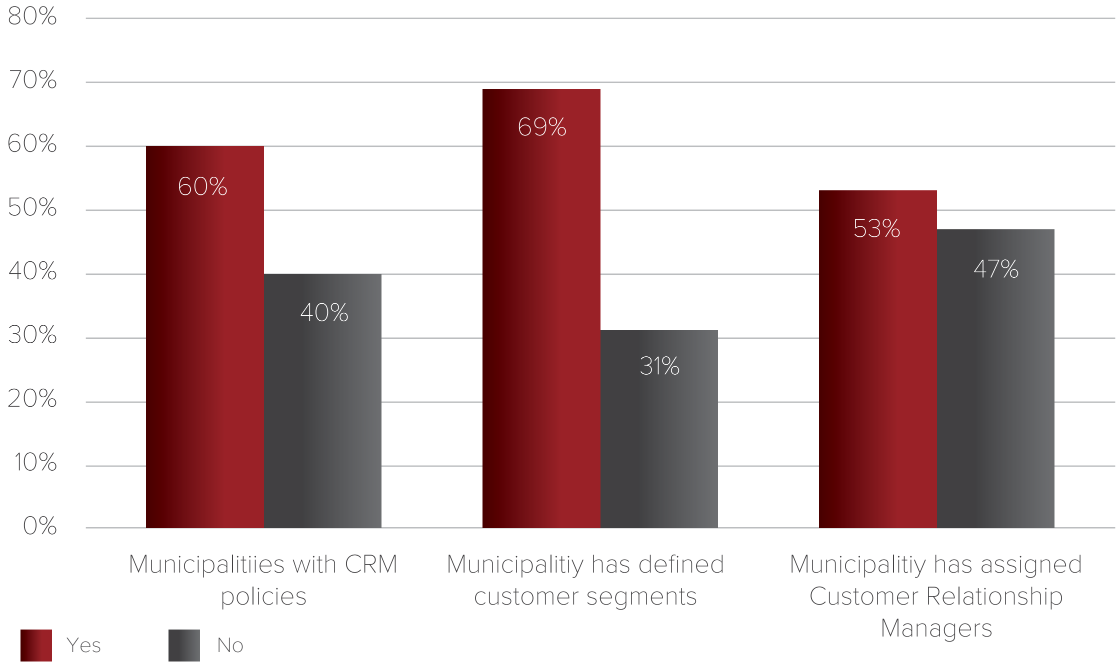
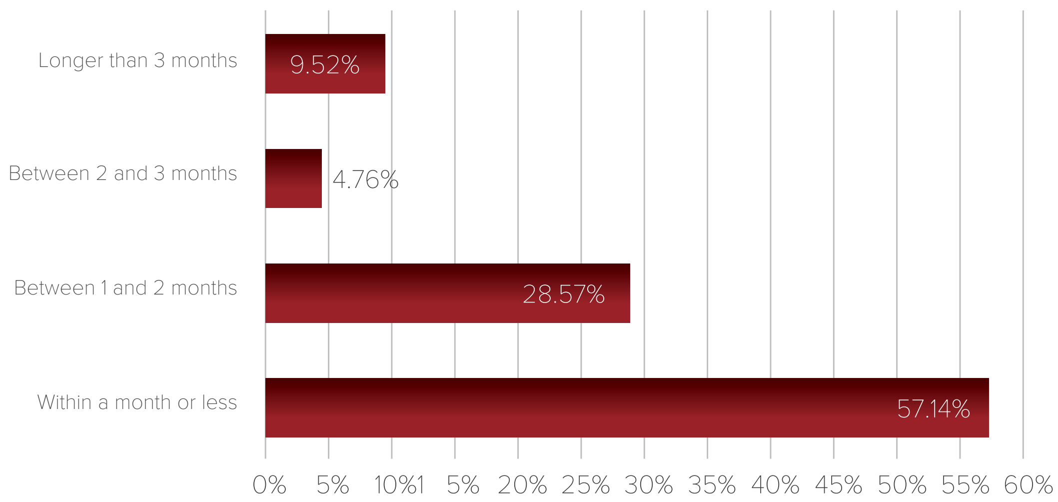


Figure 30: Assessment of the time take to resolve customer invoice queries



It was gratifying to note from figure 30 above, that most municipalities resolved customer invoice queries within a month or less. Only 9,52% took longer than an average of 3 months to resolve customer invoice queries.

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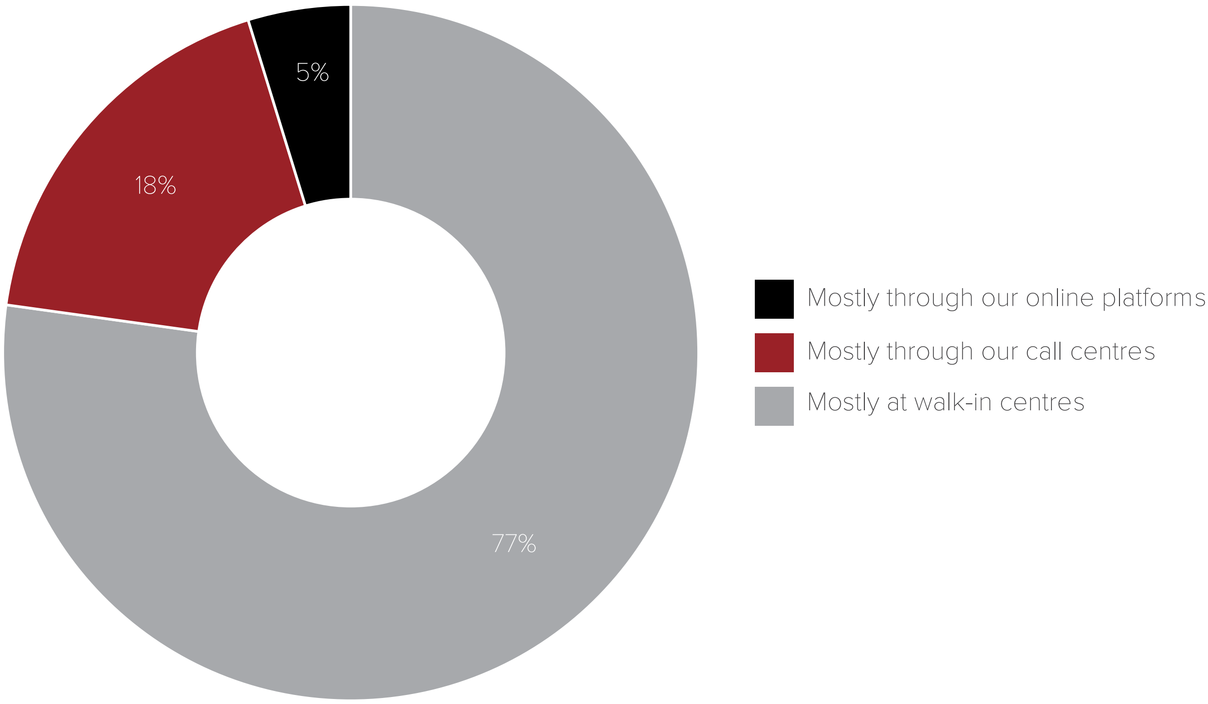
Figure 31: Platforms on which customers update their personal information



The benchmark survey has shown that the vast majority of customers still largely update their personal information at municipal walk-in centres as depicted by figure 31, above. It is not clear if this was due to customer preference or the fact that municipalities lack the necessary resources and infrastructure to move customers towards updating information online, in line with international trends.

4

MUNICIPAL REVENUE MATURITY VITAL FOR GROWTH AND DEVELOPMENT IN SOUTH AFRICA

4. MUNICIPAL REVENUE MATURITY VITAL FOR GROWTH AND DEVELOPMENT IN SOUTH AFRICA

Municipalities are operating in micro and macro environments that are evolving at a relatively swift pace. The municipal environment is certainly different to what it was 20 years ago. It was only in the year 2000, 18 years ago, that the Local Government: Municipal Systems Act (32 of 2000) was passed. The Municipal Systems Act conferred on municipalities the rights and duties to charge fees for services and impose surcharges on fees, rates on property and other taxes, levies and duties authorized by national legislation. At the same time the Municipal Structures Act 117 of 1998 (Municipal Structures Amendment Act, 2000 (No. 33 of 2000) was amended to ensure that the supply of potable water, bulk electricity, sewerage and waste disposal was vested at both district and local government levels. Fast forward to 2018, several Acts now shape the South African municipal finance legal framework, including, inter alia, Municipal Finance Management Act, 2003 (56 of 2003, Electricity Regulation Act, 2006 (No. 4 of 2006), and Municipal Property Rates Act, 2004 (6 of 2004).

Even though navigating this robust legal framework for municipalities is important, it is, however, not enough. Customers expect more value from their municipalities, which will require from the municipalities a distinct shift towards revenue performance reviews. To help achieve this, the Ntiyiso Municipal Revenue Maturity Model pushes municipalities to evaluate the extent to which their revenue performance creates customer value and compares to other municipalities with similar goals and objectives. The 2018 Municipal Revenue Maturity Benchmarking survey assessed municipal performance by performance pillar in support of this strategic shift. The survey helped municipalities establish their level of revenue maturity, which is a critical point before any turn-around strategy can be developed. Results contained in this report have highlighted the importance of enhancing every area of Revenue Performance over and above Revenue Administration and Revenue Conversion. In addition, what became clear through this process is that the benefits of benchmarking can only be realised with consistent and holistic Revenue Performance reviews. A comprehensive review process like the Revenue Maturity Benchmark, ensures that revenue performance is not focused on the traditional measurement of revenue generated, but on the fundamental revenue performance pillars discussed earlier in this report.

Although this was a first attempt for Ntiyiso Consulting, our goal to deepen the revenue enhancement focus has been achieved.

We would like to thank all the participants and stakeholders that made the 2018 Municipal Revenue Maturity Benchmark possible.

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5

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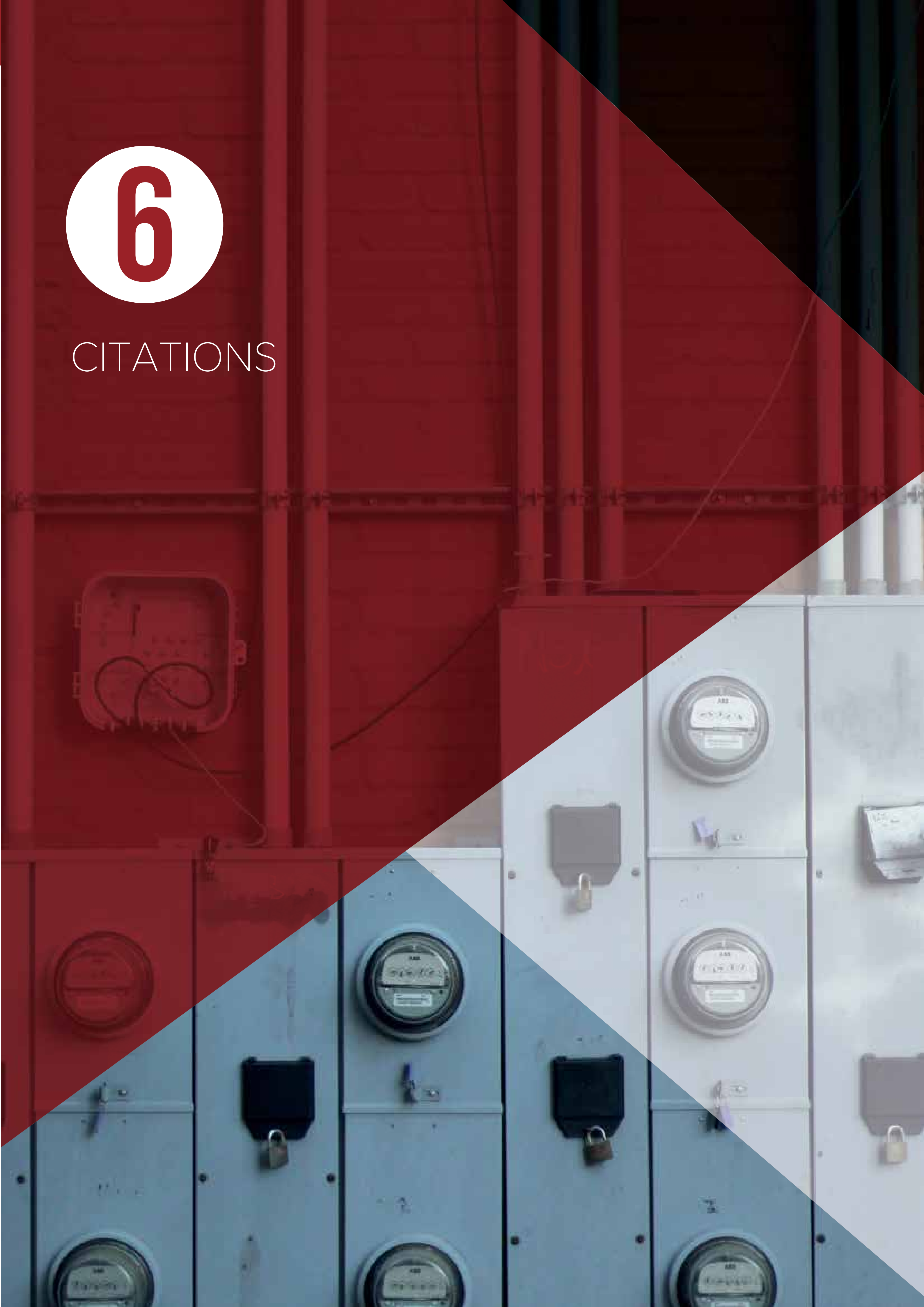

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NTIYISO OVERVIEW

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COMPANY OVERVIEW

Founded in 2005, Ntiyiso Consulting is a black-owned management consulting firm with expertise across all major industries. The firm uses innovation to deliver services through three practices, viz. Governance & Strategy Practice, Revenue Management & Enhancement Practice and Industrialisation and Catalytic Projects Practice.

Ntiyiso' means 'TRUTH' in Xitsonga language. Ntiyiso Consulting is therefore naturally inclined to deliver the most trusted of solutions to its clients. Ntiyiso Consulting's underlying operating philosophy is to offer its client products and services as a means to derive value.

Ntiyiso Consulting believes in partnering with its clients and developing relationships where clients can comfortably listen to constructive advice. Ntiyiso Consulting's core value is to tell the TRUTH about the status quo, so as to create a platform for change and assist its clients in developing the leadership capacity necessary to lead the change.

The firm's consultants have exceptional experience that can be benchmarked against international standards. Furthermore, Ntiyiso Consulting has contributed significantly towards Thought Leadership, research, analysis, reporting and designing of solutions.

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NTIYISO CONSULTING IS AN INNOVATOR IN STRATEGIC AND ORGANISATIONAL EFFICIENCY CONSULTING. WE ASSIST PUBLIC AND PRIVATE SECTOR ORGANISATIONS IN:

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- Development of water master plans
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- Conducting of pre-feasibility and feasibility studies for large scale industrial projects
- Fundraising for capital/industrial projects
- Project implementation
- Monitoring & evaluation

GOVERNANCE & STRATEGY PRACTICE

- Organisation development:
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    - › Governance design
    - › Corporate & business unit strategy development facilitation
    - › Organisational redesign
    - › Business process re-engineering
    - › Programme management office
    - › Performance management design
    - › Change management
  - » Special projects
    - › Cost containment strategy development
    - › Capital productivity
    - › Transaction advisory
- Business turnaround/transformation
- Market insights & business intelligence
- Human capital development

REVENUE MANAGEMENT & ENHANCEMENT PRACTICE

- Metering & billing advisory & support
- Credit control & debt collection advisory & support
- Cash management & payment strategies
- Mapping of revenue data on GIS
- Cost reflective tariff modeling & determination
- Water & electricity loss reduction strategies
- Data cleansing & reconciliation
- Policy & by-law review
- Development of alternative sources of revenue e.g. outdoor advertising, VAT recovery etc.
- Development of organisational wide revenue strategies

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NTIYISO EXECUTIVE TEAM

The partners at Ntiyiso Consulting are recognized leaders and visionaries in their areas of expertise. Ntiyiso Consulting has more than 50 senior consulting professionals, subject matter experts on Governance, Strategy & Organisational Turnaround, Revenue Management, Business Process Reengineering and Project Management among other areas.

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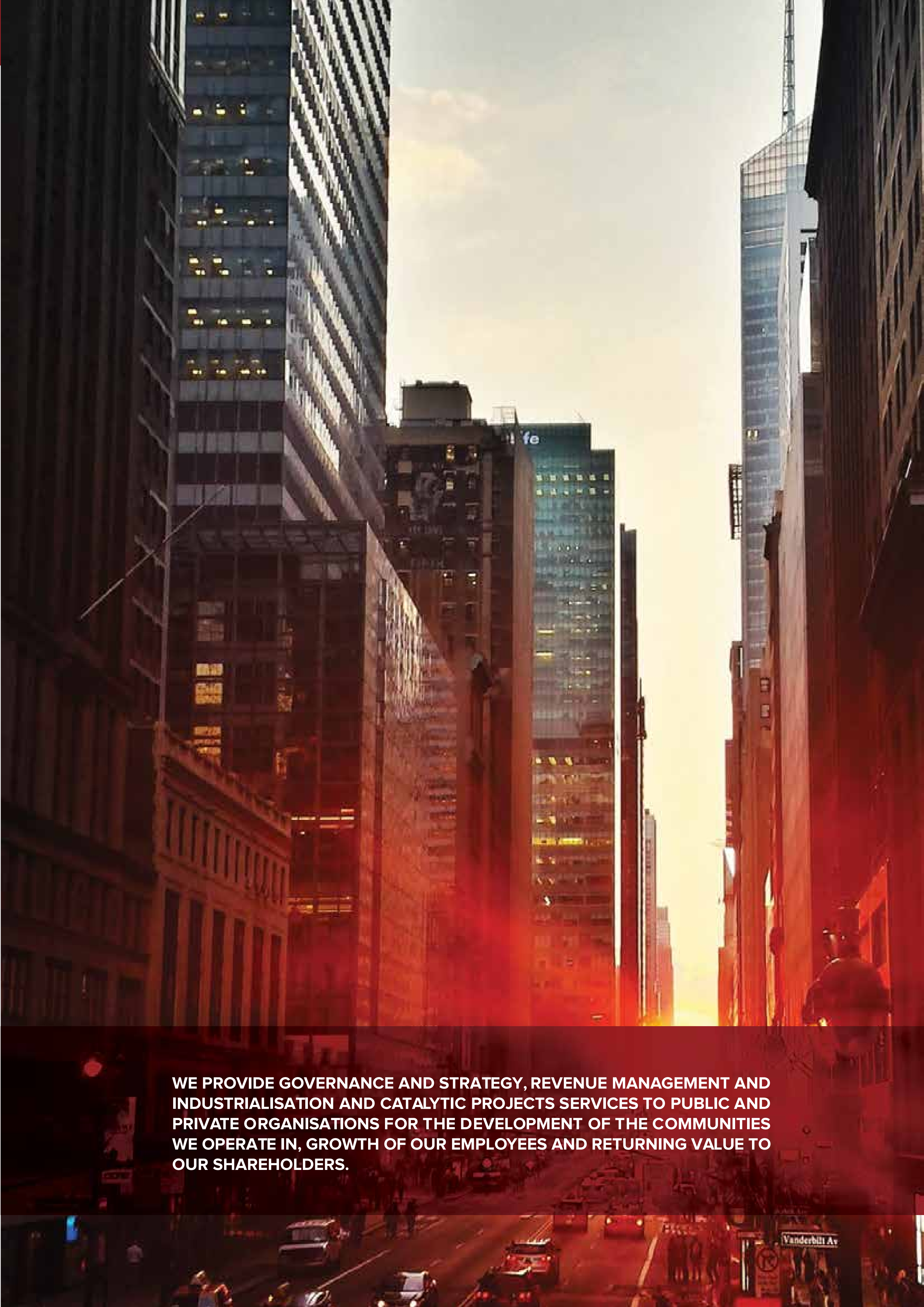

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